SOCIAL GRANTS: Challenging Reckless Lending in South Africa

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BLACK SASH
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List of abbreviations

ATM	Automatic Transmission Machine
BIG	Basic Income Grant
CPS	Cash Paymaster Services
CSP	Child Support Grant
EFT	Electronic File Transfer
EPE	EasyPay Everywhere
EPWP	Expanded Public Works Programme
FCG	Foster Carer's Grant
FNB	First National Bank
NCA	National Credit Act
NCR	National Credit Regulator
NSFAS	National Student Financial Aid Scheme
OPG	Older Person's Grant
SAPO	South African Post Office
SASSA	South African Social Security Agency
SDA	Special Disbursement Account
SLA	Service Level Agreement
UEPS	Universal Electronic Payment System
USSD	Unstructured Supplementary Service Data

List of non-English words

stokvel	savings club (from Irish "stock fair")
mashonisa	informal lender/loan shark
umcalelo	(isiXhosa) savings club

Note: The names of all our social grant recipient interlocutors have been changed.

Figure 1: CPS technical equipment to make social grant payments and create debit orders for subsidiary financial products.

Photo: Leopold Podlashuc

Figure 2: Timeline of formal credit or "financial inclusion"

1 Background

Due to colonialism and apartheid, South Africa has long been characterised by structural poverty and racialised inequality. A large majority of black South Africans have not experienced substantial economic benefit from the democratic transition (Fine et al 2019).

In fact, South Africa's economy, and employment rates, have slowed since the 1970s, and its entry into the world market resulted in declining industrialization and employment (Marais 2011). The official unemployment rate is around 30,1%, but for youth it is 43,2% (StatsSA 2020).

To stave off the worst effects of economic decline, the state gives 18 million people social grants, including children under 18, adults over 60 and people with disabilities. This is almost twice as many people as access incomes from waged work (10 million). Whilst South Africa has a a relatively good social welfare system including social assistance, the system still has a significant gap, excluding those aged 18 to 59 with no or little income. Many unemployed working-age adults must survive on casual and precarious work in the informal economy. They congregate around their mothers or grandmothers, who receive grants, to have access to a more reliable income. This is particularly prevalent in rural areas, where large numbers of people rely on social grants. Given this context, many social grant recipients, supporting unemployed extended family members, use credit to get through the month.

Additionally, as the United Nations Committee on the International Covenant on Economic, Social and Cultural Rights (ICESCR) has stated, South Africa's monthly grant amounts are insufficient to meet recipients' basic needs.[1] The Committee's report on South Africa noted that social assistance benefits are too low to ensure an adequate standard of living for recipients and their families.

Previously, under apartheid, most black South Africans were excluded from formal credit. After the transition to democracy, and the passage of the National Credit Act, formal creditors rushed to offer loans to the emerging black middle class (James 2015). Yet, until 2012, the poorest South Africans, particularly those receiving social grants, were still effectively excluded from the formal credit market. They mainly borrowed money from *mashonisas,* including loan sharks, community lenders, and savings clubs. They also borrowed from

1 Concluding observations on the initial report of South Africa by the United Nations Economic and Social Council E/C.12/ZAF/CO/1 12 October 2018 p.9

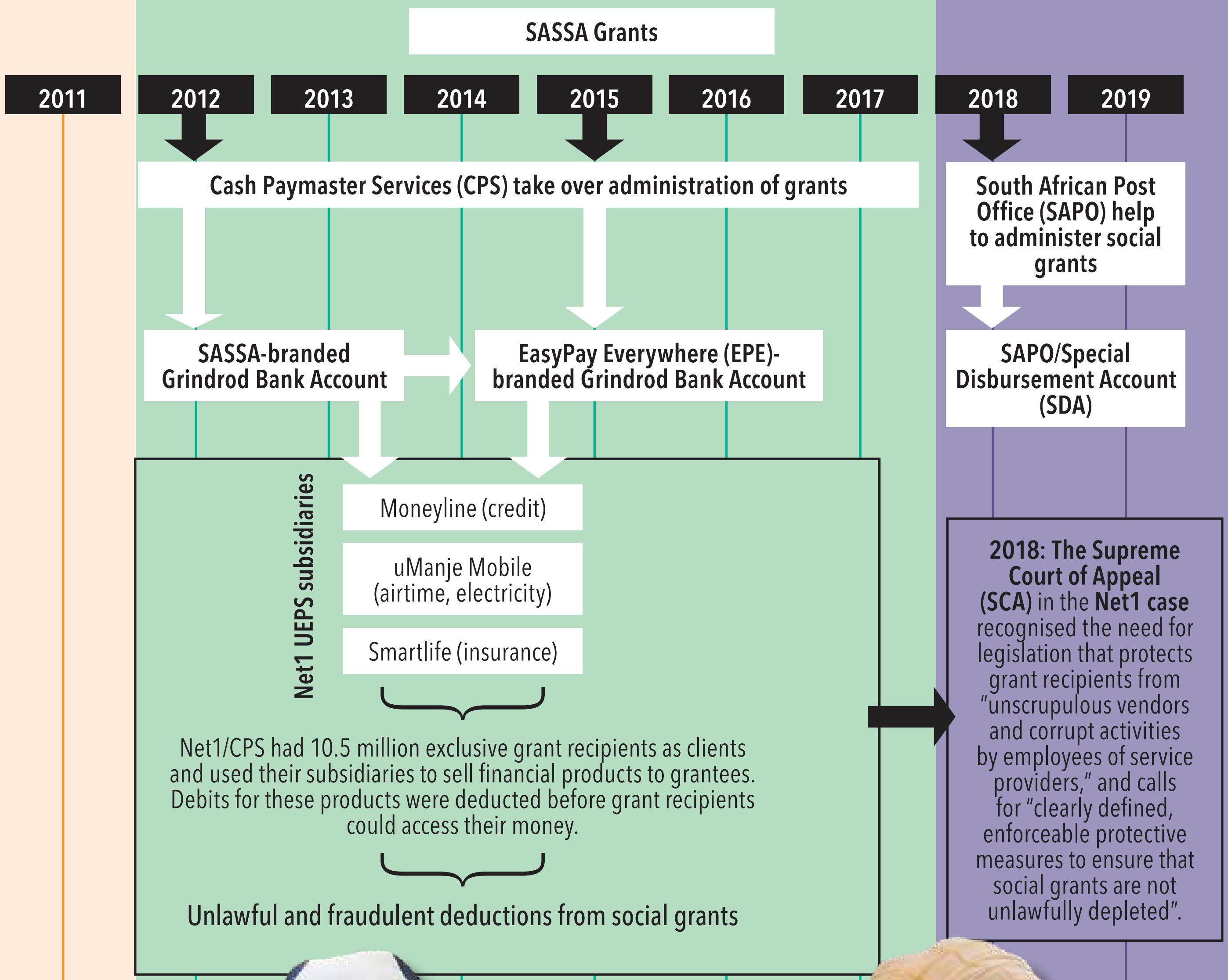


Figure 3: Indebtedness matrix

businesses which sold loans or insurance policies at paypoints and recouped repayments in cash on subsequent paydays (James 2015).

This all changed in 2012, when the South African Social Security Agency (SASSA) signed a contract with Cash Paymaster Services (CPS) to disburse social grants. Under this contract, CPS registered all grant beneficiaries and recipients,[2] collected their biometric information, and opened nearly 10.5 million SASSA-branded Grindrod Bank accounts. By default, SASSA gave CPS the power to "bank the unbanked" *en masse*, and build a massive, monopolistic client base of social grant recipients.

Once CPS had 10.5 million exclusive grant recipients as clients, their parent company, Net1 UEPS Technologies (Net1), used their subsidiaries to sell financial products to grantees. From early 2013, uManje Mobile (then known as P-Bell), Smartlife, and Moneyline sold airtime, electricity, insurance and credit to social grant recipients. Net1's control over paying grants – including biometric information, bank accounts and financial data – allowed these entities aggressively to market their products. Debits for these products were deducted from SASSA-branded Grindrod accounts *before* grant recipients could access their money.

In 2015, Net1 feared their unrestricted access to grant recipients would end with the SASSA contract. As a result, they added another product to their portfolio in the form of an EasyPay Everywhere (EPE) bank account with Grindrod Bank. Moneyline, a subsidiary of Net1, made it compulsory for grant recipients seeking credit to open a new EPE bank account, which would continue beyond the end of the CPS contract with SASSA. Net1 was able to migrate grant recipients to these new accounts by using the biometric and personal data collected by CPS during registration. This meant that, unlike all other banks, Moneyline and Grindrod Bank assumed that grant recipients were not required to submit the prescribed Annexure C form[3] to SASSA to authorise a change of bank account from the SASSA-branded Grindrod account to the EPE account also held by Grindrod Bank.[4] The EPE bank account was entirely beyond the purview of SASSA. As one staff member in Port Elizabeth remarked: "With EPE, they disappear from our computer" (Torkelson 2020).

But it was not only CPS and their parent company, Net1, that provided credit to social grantees. The CPS/Net1 payment system – which was separated from the National Payment System – transformed the social grant into collateral for credit for *all* money lenders with a debit order facility. Across the country, small lenders in every town put up signs saying "pension loan" or "SASSA loan," specifically marketing their products to social grant recipients. Lenders wanted to offer credit to grant recipients because social grants are secure, regular monthly payments from the government.

2 The term "beneficiaries" refers to the people who benefit from the grant money (i.e. children). The term "recipients" refers to the people who are paid the grant money (i.e. parents, caregivers, procurators). All recipients are over 18 years.

3 The Annexure C form is a prescribed form in terms of the amended Regulation 21. This form enables grantees to authorise SASSA to pay their money into any commercial bank account of their choosing.

4 The issue of completed Annexure C forms was later deliberated in the Pretoria High Court in the matter of *Zalisa &14 others v South African Social Security Agency &4 Others (82073/2018)* which ruled that EPE's biometric verification did not satisfy the requirements of regulation 21(1) of the Social Assistance Regulations. Grant recipients can only migrate to other commercial banks by submitting Annexure C forms to SASSA (including EasyPay Everywhere).

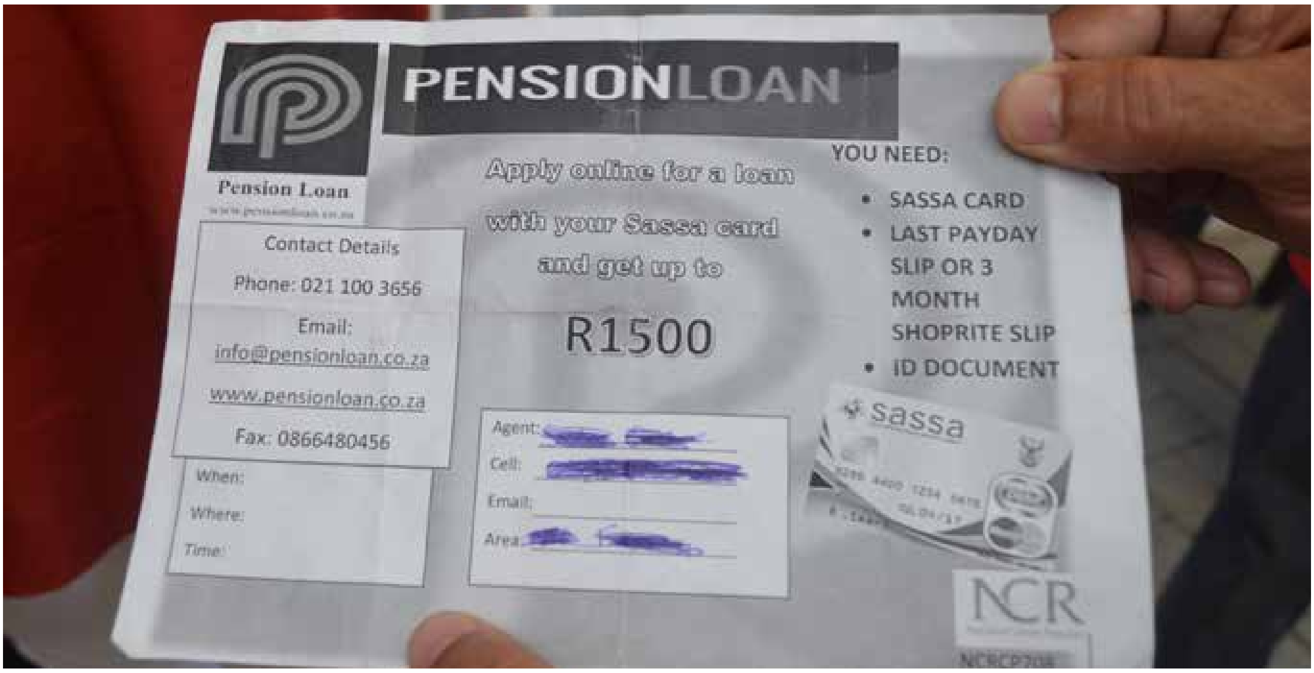


Figure 4: PensionLoan, Ceres, 2017

Until September 2018, the CPS/Net1/Grindrod payment system enabled all debit orders to be paid early and automatically, particularly for Net1 subsidiaries, before grant recipients could withdraw their money. The security and regularity of grant payments, alongside the technologies of the CPS/Net1/Grindrod payment system, generated a form of surety for the lenders. The lenders knew that they would always be paid because the CPS/Net1/Grindrod payment system did not allow grant recipients to default on their debts (Torkelson 2020).

As such, the CPS/Net1/Grindrod payment system facilitated the growth of microlenders, payday lenders and cash lenders, particularly near grant paypoints and other distribution channels. The map (Figure 5) offers one example of how lenders congregate around SASSA paypoints in Uitenhage, Eastern Cape. Even the *mashonisas* previously operating in cash began to take advantage of the debit order mechanism. While social grants had long been used as collateral for loans by *mashonisas* who confiscated and detained borrowers' bank cards, this new technological and financial system enabled the grant to also become collateral for formal lenders using debit orders. Because financial service providers now had access to debit order facilities, they no longer had to wait in person at paypoints to collect their money in cash. Using these facilities, they were able to deduct repayments from grant recipients' accounts each month with little or no risk of default.

The lending environment for social grant recipients was transformed from relatively high-risk, cash-based, administratively-intensive, face-to-face collection to low-risk, debit-order, technologically-sophisticated collection underpinned by Net1/CPS/Grindrod's systems.

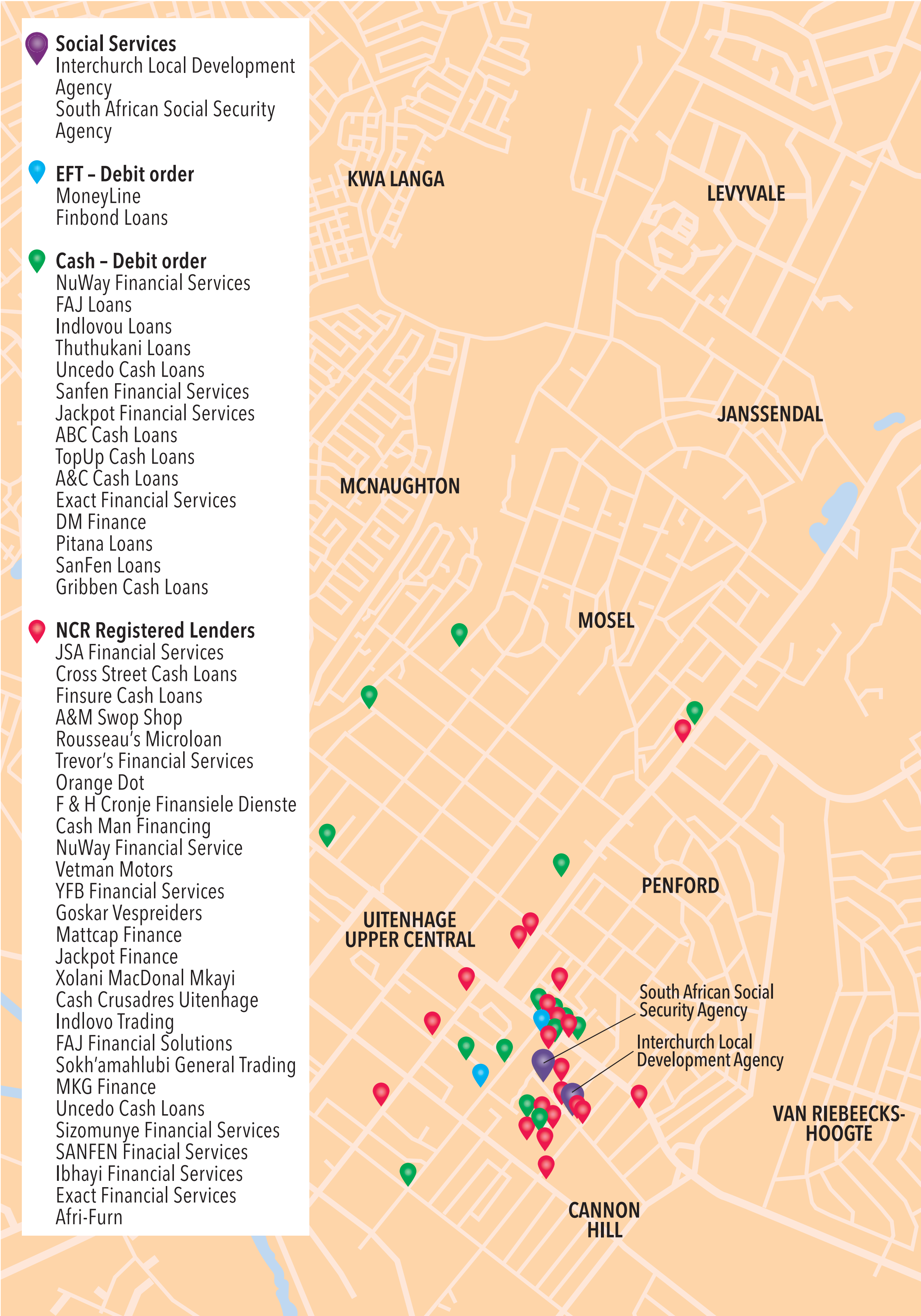
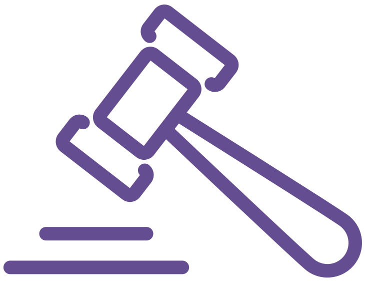


Figure 5: Moneylenders around SASSA paypoint, Uitenhage, 2017

This transformed the lending environment for social grant recipients from relatively high-risk, cash-based, administratively-intensive, face-to-face collection to low-risk, debit-order, technologically-sophisticated collection underpinned by Net1/CPS/Grindrod's systems.

Such practices are illegal. The Social Assistance Act (2004) states that social grants may not be "transferred, ceded, pledged or in any other way encumbered or disposed of". Likewise, the Minister of Social Development passed regulations in 2016 to the Social Assistance Act to prevent children's and temporary grants from being subject to deductions.[5] These also ensured that adults' grants were subject to only one funeral policy deduction, which was not permitted to exceed 10% of the value of the grant. Net1 and other lenders legally challenged these regulations, saying that grantees had to be free to transact on their bank accounts and that the Minister had no authority to intervene in the financial sector.

Figure 6: What the law says



Social Assistance Act, 2004

Grants may not be "transferred, ceded, pledged or in any other way encumbered or disposed of".

Social Assistance Act Regulations, 21

(1): SASSA can pay a grant into a bank account of a beneficiary; or by a payment method determined by SASSA; (4): The method of payment shall not allow for deduction.

Social Assistance Act Regulations, 26(a)

Stopped deductions on children's and temporary grants. Allowed funeral deductions on permanent adult grants up to 10% of the grant value.

Net1 Case, 2018

The Supreme Court of Appeal recognised the need to protect grant recipients from "unscrupulous vendors and corrupt activities by employees of service providers".

5 Changes to Section 21 of the Social Assistance Act included: 21(1): SASSA can pay a grant into a bank account of a beneficiary; or by a payment method determined by SASSA; 21(2): Social grants must be paid monthly by SASSA; 21(4): The method of payment shall not allow for deduction. Likewise, changes to Regulation 26A included: Only *one* deduction is allowed: a funeral policy deduction that is no more than 10% of the grant; Funeral policies cannot be deducted from children's grants or temporary disability grants.

Eventually, in 2018, the Supreme Court of Appeal (SCA) ruled that predatory practices that reduce or diminish social grants must be contained. The SCA recognised the need for legislation that protects grant recipients from “unscrupulous vendors and corrupt activities by employees of service providers,” and calls for “clearly defined, enforceable protective measures to ensure that social grants are not unlawfully depleted”.[6] Since 2014, the National Credit Regulator (NCR) has been pursuing a case against Moneyline to ensure children’s grants cannot be used as income in affordability assessments for loans (Sefali 2015).

When CPS’s unlawful contract ended, SASSA implemented a change in service providers, from CPS to the South African Post Office (SAPO). As a result of the contract and Service Level Agreement (SLA) between SASSA and SAPO in 2018, a new SAPO bank account, called the Special Disbursement Account (SDA), was introduced to protect grant recipients against the worst abuses in this technology and banking space. It was also introduced to protect grant beneficiaries’ confidential data. The SDA does not allow for automatic debit orders or USSD platform deductions from grant recipients. This account has gone a long way towards ending the worst abuses of unlawful, illegal and immoral deductions from grants recipients’ accounts, but has not fully addressed or resolved them.

9.5%
of all grant recipients (just under one million) still use their EasyPay accounts which allow for automatic debit orders.

19.5%
of grant recipients have other bank accounts with commercial banks (like Capitec or FNB) some of which also allow for automatic debit orders.

71%
of grant recipients have SAPO SDA accounts.
Many still borrow from *mashonisas* in cash.

Despite the termination of the CPS contract, aspects of the lending environment it established remain in place. As of March 2019, just under one million or 9.5% of all grant recipients still use their EasyPay accounts, which allow for automatic debit orders. Around 19.5% of grant recipients have other bank accounts with commercial banks (like Capitec or FNB), some of which also allow for automatic debit orders. Many microlenders and payday lenders force grant recipients to open accounts with EasyPay or one of the other banks in order to continue borrowing money as usual. As for the 71% of grant recipients with SAPO/SDA accounts, many still borrow from *mashonisas* in cash. The SDA account has not changed the fact that the grant does not always adequately provide for citizens’ needs, and grant recipients still seek credit because of enduring poverty and inequality.

Alongside the 2018 transition from CPS to the SAPO grant payment system, SASSA decommissioned the existing paypoint infrastructure, reducing payment sites from 10 000 to 1 740 across the country. Urban populations are not too badly affected. They can access grant payments from a variety of places, including Post Offices, retailers and ATMs. Rural and remote populations, however, have borne the burden of decommissioning. Many rural grant

6 https://www.wits.ac.za/news/sources/cals-news/2018/supreme-court-of-appeal-rules-social-grants-must-be-protected.html

recipients live far from grant distribution points (Black Sash 2019). EasyPay has continued to pay grants at some decommissioned sites for their clients. Grant recipients in places like Limehill were advised by CPS consultants to keep their EasyPay cards (i.e. not transition to the new SAPO/SDA account). Some were even told this was their *only* option. For example, those with EasyPay cards receive their pay at the Limehill Community Hall, rather than travelling at least 40km to the Ladysmith or Dundee Post Office. In Taaiboschgroet, the vast majority of grant recipients kept their EasyPay cards in order to get paid at a local community office.

Given this history, the Black Sash conducted research into social grant recipients' practices of borrowing and lending following the end of the CPS/SASSA contract. The findings of our research project should be understood against the backdrop of these swift changes in the lending landscape. At the heart of this matter is a paradox: South Africa has a large social grant system meant to provide resources to poor people, but these grants have become collateral for debt. Grantees need extra money to smooth consumption and cope with shocks, but the credit available to them often has exploitative terms and conditions. The senarios we've documented will likely be subject to equally rapid changes, as lenders seek out new opportunities and as borrowers adapt and strategise around these.

2 Our main findings

2.1 CPS/Net1 enabled debit order-based lending to grant recipients

Advocates of “financial inclusion” often cite the formalisation of lending and borrowing as protection against the worst abuses of informal moneylenders or “loan sharks.” Loan sharks are said to abuse clients with stand-over tactics and high interest rates, or by controlling and retaining bank cards and PIN numbers. The formal sector, in contrast, is said to be more benign, transparent and offer technological fixes for such practices.

People celebrate this as “financial inclusion”: a transition from exploitative informal lending practices available to poor people (*mashonisas*) to formal, allegedly less exploitative, lending practices. In such a binary, it is easy to view lenders like EasyPay as better alternatives to abusive practices, and many of our interlocutors did prefer EasyPay under certain conditions, viewing it as the least-bad option. But to say that formal lenders like EasyPay are better or worse than informal ones is to miss the fact that their preferential access to this vast market was handed to them “on a plate” when CPS was given the SASSA contract in 2012. Such a

Figure 7: EasyPay office, Botshabelo 2019

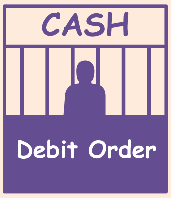
claim also obscures the fact that the two other main types of lending outlined below – by "cash lenders" and even *mashonisas* – depend on the highly technological and biometrically-facilitated banking platform enabled by Net1/CPS in the first place. All lenders also benefit from the fact that grant recipients had no access to recourse mechanisms through the EasyPay account.

2.2 Though declared unlawful, there is considerable lending to recipients of children's grants and temporary grants

Across the country, we found that people borrow money for all the usual reasons: consumption, emergencies, investment, cultural ceremonies, and the failure of state systems. The burden of borrowing money for all of these things tends to fall on social grantees, many of whom have the only stable income in the household. Of particular concern is the fact that children's grants often form collateral for loans for the household. We found that despite the Social Assistance Act regulations and the National Credit Act (which says that credit should not be given to minors), children's grants were often used as collateral for loans. This comes from the confusion regarding the fact that grants are paid to adult "recipients" on behalf of minor "beneficiaries." Regardless of whether children's grants are paid to adults, the Social Assistance Act is clear that this money belongs to the child. Children's grants should never be used as collateral for credit.

Photo: Eric Miller

2.3 Grant recipients borrow from three lender types: EFT/debit order, cash/debit order, cash/cash



We found the binary categories of formal and informal lending inexact and inconsistent. The formal is typically regarded as less exploitative and the informal more so. But the range of lending options currently available to grant recipients are never so clear cut. Many "formal" lenders do not abide by the National Credit Act and charge high rates of interest commonly associated with *mashonisas* and loan sharks. Many "informal" lenders or *mashonisas* engage in a range of lending practices from familiar, relationally-based lending on relatively favourable terms to exploitative lending on abusive ones. As a result, we have decided to describe lenders by their practices, specifically the technologies by which they transfer loans and collect repayments. Some lenders give money by EFT and take repayments by debit order; other lenders give money by cash and take repayments by debit order; and other lenders give money by cash and take repayments by cash. This gives a more accurate account of the various kinds of lending and systems of repayment in our cases, and the ways they intersect in the lives of borrowers who often take loans from two or more of these.

Figure 8: Hands Off Our Grants (HOOG) campaign demonstation highlighting "No EFT, stop orders and debit deductions from ring-fenced SASSA bank accounts".

2.4 Cash/debit microlenders, even those registered with the NCR, engage in illegal practices with social grant recipients

Among the range of lenders laid out in our typology, particular attention needs to be paid to the cash/debit order lenders. These are often referred to locally as microlenders, cash lenders, payday lenders, Chinese lenders, and *mashonisas*. Many cash/debit order lenders are NCR-registered or, at least, claim to be NCR-registered, yet break the law in numerous ways. They tend to pay loans in cash and recoup repayments through debit orders. It is not clear where these lenders get their cash from, and if they could be facilitating money-laundering. The trouble with this is that grantees do not have an independent record from their bank with the amount they received as an initial loan. This makes accounting for the loan and the repayments very difficult. Additionally, cash/debit order lenders fail to do adequate affordability assessments, provide limited loan documentation, charge unlawfully high interest, make illegal deductions, and fail to observe "cooling-off" periods, among other abuses (Torkelson 2017a, 2017b). We realized that many of these lenders seem as though they are local businesses but are in fact franchises, with "head offices" elsewhere. We interviewed many grant recipients who were trapped in cycles of debt, using a loan from one of these to pay off another. The end result, in many cases, was that the very social grant meant to provide support for vulnerable people was eaten up in high interest rates, fraudulent repayments, and bank charges.

2.5 Debit order-based lending to grant recipients is not "unsecured"

Net1 effectively reduced the number of defaulting borrowers on short-term credit to zero. Net1 recognized that social grants are reliable monthly entitlements, regularly and securely transferred by the state. They designed the SASSA-branded and EasyPay-branded Grindrod Bank accounts to allow loan repayments to be processed before grant recipients could access their money. There was no way for grant recipients to skip a payment or to choose not to pay. While the numbers of people subjected to the CPS/Net1 monopoly has vastly diminished with the introduction of the SDA account, grantees using EasyPay and other bank accounts are still low-credit risks for lenders. Yet, grantees can only access credit in the most punitive category specified by the National Credit Act, i.e. short-term credit. Social grant-based lending should not be considered "unsecured" or "short-term" credit because the risks of default and the transaction costs are so low. Grouped as part of "short-term, unsecured loans," interest rates currently being charged are excessive and disadvantage these borrowers. This does not apply to grant recipients using the SAPO Special Disbursement Account because they do not have a debit order facility.

Figure 9: Green Card (EPE) recourse community meeting in Ceres.

2.6 Better systems of debt regulation, advice and relief are urgently needed

South Africa's financial and legal system has, for a century, been marked by its "advantage to creditor" bias, and by the fact that poor and black people's finances have been viewed as legitimately under the control of others rather than themselves (James 2015). "Debt review," as established by the National Credit Act, has historically only been applicable to those owing amounts of more than R50,000 (James 2015). Although a 2019 amendment to the National Credit Act makes provision for debt relief for those earning less than R7,500 per month, it is still uncertain how this will be implemented. There is currently no system of free debt counselling and no advice available to low-income people such as grant recipients. We found a few cases where debtors were able to resist the abuses of lenders, but this was often on a very individualized basis. Strategies of resistance did not deal with the entire grantee credit market, and often involved grantees getting deeper in debt.

3 Research approach and methodology

We chose research sites that offered a diversity of spatial settings in South Africa, including urban and rural, which were closer to and more remote from facilities and key services (see Figure 11).

In all of these settings, Black Sash regional offices worked with local partner organisations to identify grant recipients as research participants (see Figure 10). The apartheid history of each of these areas, as well as their proximity to or distance from urban centres, has shaped the local credit market.

All research participants were social grant recipients who were indebted to at least one lender. In each area, between five and ten people were interviewed over the course of one or two weeks. We conducted interviews using a qualitative survey instrument designed, trialled and refined over two years of use. We also used local knowledge to survey the community and map various types of lenders. We then compared the local knowledge maps with data about registered lenders on the NCR website. We found significant discrepancies between those two archives of information.

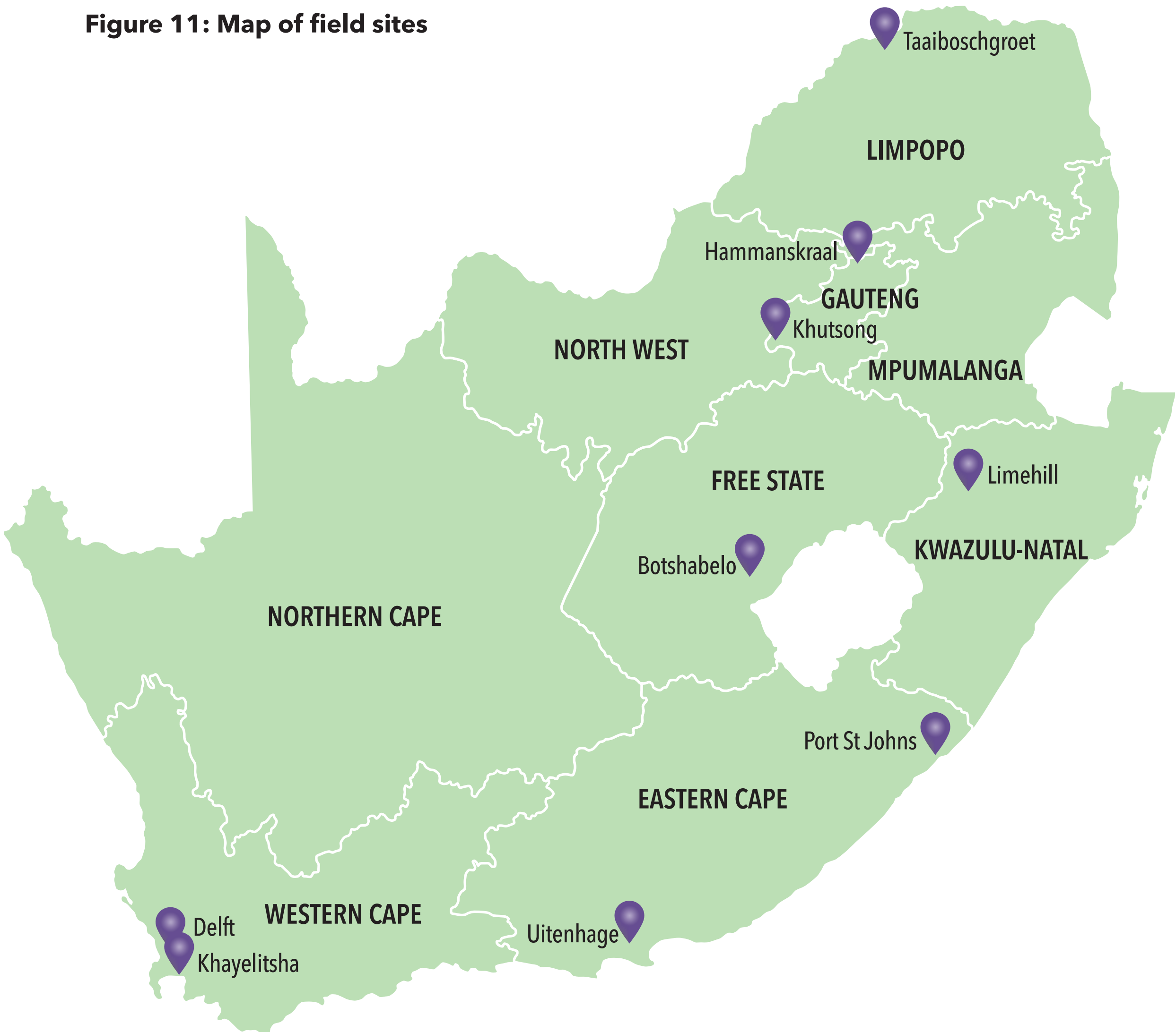
This research used the Black Sash's established case study methodology. Researchers spent time with each interview participant, understanding their responsibilities and obligations to their household, strategies for budgeting throughout the month and year, and decision-making processes around resources, money and borrowing. From the interviews, we were able to understand the practices associated with indebtedness not only for individuals but also their households. Our sample covers a wide range of spatial contexts, and foregrounds similarities and differences in lending practices that affect social grant recipients in South Africa.

While the sample is not representative in a narrow statistical sense, we focused on compiling general principles from our specific observations. Once we had all of our interview material, we looked for themes appearing across the case studies to understand the wider lending environment (Burawoy 1991). We found that there were significant overlaps within and between research sites. This is what formed the basis of our Typology of Lenders (Figure 12). All-in-all, our study offers an in-depth understanding of the operation of the local and national lending environment from the perspective of grant recipients.

Figure 10: Field sites in which the research was conducted

Field Site	Province	Apartheid legacy
Uitenhage	Eastern Cape	Large industrial town
Khayelitsha	Western Cape	Newer township, established 1983
Khutsong	Gauteng	Older (apartheid-era) township
Delft	Western Cape	Newer township, established in the 1990s
Port St Johns	Eastern Cape	Rural town in former homeland
Limehill	KwaZulu Natal	Former "resettlement" area in former homeland
Botshabelo	Free State	Former "resettlement" area in former homeland
Hammanskraal	Gauteng	Former "resettlement" area in former homeland
Taaiboschgroet	Limpopo	Former "resettlement" or "closer settlement" area for farm labour tenants

Figure 11: Map of field sites



4 Why people borrow

4.1 Poverty and unemployment

The first and most obvious reason why a grant recipient borrows is that he or (more commonly) she is poor. This is because not only she, but also her wider circle of kin, are affected by unemployment. We found that grant recipients often support between 5 and 12 people in multi-generational households. Grant recipients receiving pensions often buy food and cook for all unemployed or under-employed working-age kin. In some cases, the lack of any grant (such as a basic income grant) for the working aged, unemployed cohort means the Older Person's Grant (OPG) has to stretch to sustain many people. The OPG not only supports family members living in the same house, but also those living elsewhere. In other cases, households subsist solely on Child Support Grants (CSGs). In all cases, in the absence of paid work, money is mostly borrowed for basic consumption expenditure.

Case study 4.1: Precarious employment

Lindiwe, an unemployed woman of 31 who is educated to matric level, lives in Hammanskraal with her sister-in-law, fiancé, and two primary school-age children.

She previously had a job at Spar, and then got a job at Refentse Health Care Project from 2017. The initiative she worked for at Refentse, combatting stigma for people with HIV/AIDS, ran out of funds in 2019 and she is now an unpaid volunteer there. Her fiancé previously worked as a driver for a construction company in Midrand, but following an accident for which he was hospitalized, he lost his job. Her father-in-law receives a pension from Transnet but lives elsewhere and does not contribute to the household's budget. There are thus no formally employed people in the household.

The CSGs Lindiwe receives for the two boys, totalling R840, is the household's only income. To cover their monthly expenses and other extras, Lindiwe regularly borrowed from EPE/Moneyline. Feeling that the repayments were "too much", she then switched to the SDA account. Still finding herself short of money, she started borrowing from the lender, Wen Loans, at a rate of 30% interest.

This case shows how social grants make up the entire income for Lindiwe's household. Two child support grants, along with a small, irregular stipend from Refentse, supports five household members. The only way to make two Child Support Grants cover a household of five is by using those grants as collateral for credit. Even though children's grants should not be used for loans, Lindiwe uses this grant income to borrow money from Moneyline and Wen Loans. This is a short-term strategy and she is plunged further and further into debt.

Poverty and unemployment

This reason encompasses most of the others. Grantees are poor, and many support large numbers of people in their households.

Photo: Elsabe Gelderblom

Photo: Shutterstock

Smoothing consumption

This includes expenses for food, electricity, water, transport, school and university fees, school trips, school uniforms, additional school expenses.

4.2 Smoothing consumption and coping with shocks

Beyond the stark facts of unemployment, credit is often analysed as "smoothing consumption" and "coping with shocks" (Ardington et al. 2004, 607). Smoothing consumption refers to the plans people make for basic subsistence, saving when they have a surplus and spending it until the money runs out. Coping with shocks refers to how people plan for crises beyond the usual monthly budget. Grant recipients were mostly compelled to sustain large households of dependents with a small grant income, in a setting where wages were scarce or non-existent. Household sizes varied, but dependency ratios among grant recipients were generally high.

Case study 4.2(a): Borrowing to eat

Rose Majoro of Limehill has a big household of nine people in total, and social grants are their only income. She lives with her daughter (20 years) and seven grandchildren (approximately 2, 6, 10, 13, 15, 16 and 17 years of age). She receives her OPG and CSGs for five of the grandchildren.

The grants for her remaining two grandchildren are collected by their mothers, who reside elsewhere. Sometimes her adult daughters will bring small things to the house, like clothes or toys. But generally they think they are not obliged to provide for day-to-day expenses like groceries. They assume that Rose's pension and the five Child Support Grants will be enough to feed them all. Their retaining the grants in this way amounts to fraud, since children's grants are specified as being tied "to the child".

Although Rose gets almost R4,000 per month from SASSA, it is not always enough to feed and clothe nine people. She sometimes borrows R1,000 from EPE/Moneyline, repaying R220 per month for six months. She also borrows smaller amounts from a friend.

This case offers a classic story of a female pensioner taking care of her grandchildren in a rural area, while her children struggle to find low-paid temporary work in cities around South Africa. In a context of pervasive unemployment, children are being cared for by a grandmother, while working-age adults engage in urban migration. Rose collects CSGs on behalf of her grandchildren, combining this with her OPG. She has to borrow money because there is, by design, no work in Limehill. Families were forcibly removed from surrounding farms in the late 1960s, without any plans for employment. While there was an industrial decentralisation zone nearby, the factories recruited their workers very locally (from Ezakheni), and few Limehill residents benefitted. Now, post-apartheid, the only remaining industrial employer in the region is the Dunlop Tyre factory in Ladysmith, about 60 kms away, which continues to draw its workforce from the surrounding townships like Steadville. Rose's children cannot find work in the area and must migrate to find employment. She and her household, like most people in Limehill, survive on a combination of grants, remittances, small enterprises, and government-subsidised work programs. Households are big, often with six or seven young children living with their grandmother, while their parents are working in a larger city elsewhere. Most adults who do have work, however, are only casually employed, and spend the year intermittently migrating and then returning.

Coping with emergencies

This includes the illness, injury, disability or death of a family member; as well as job loss or retirement.

Photo: Shutterstock


Photo: Rodger Bosch

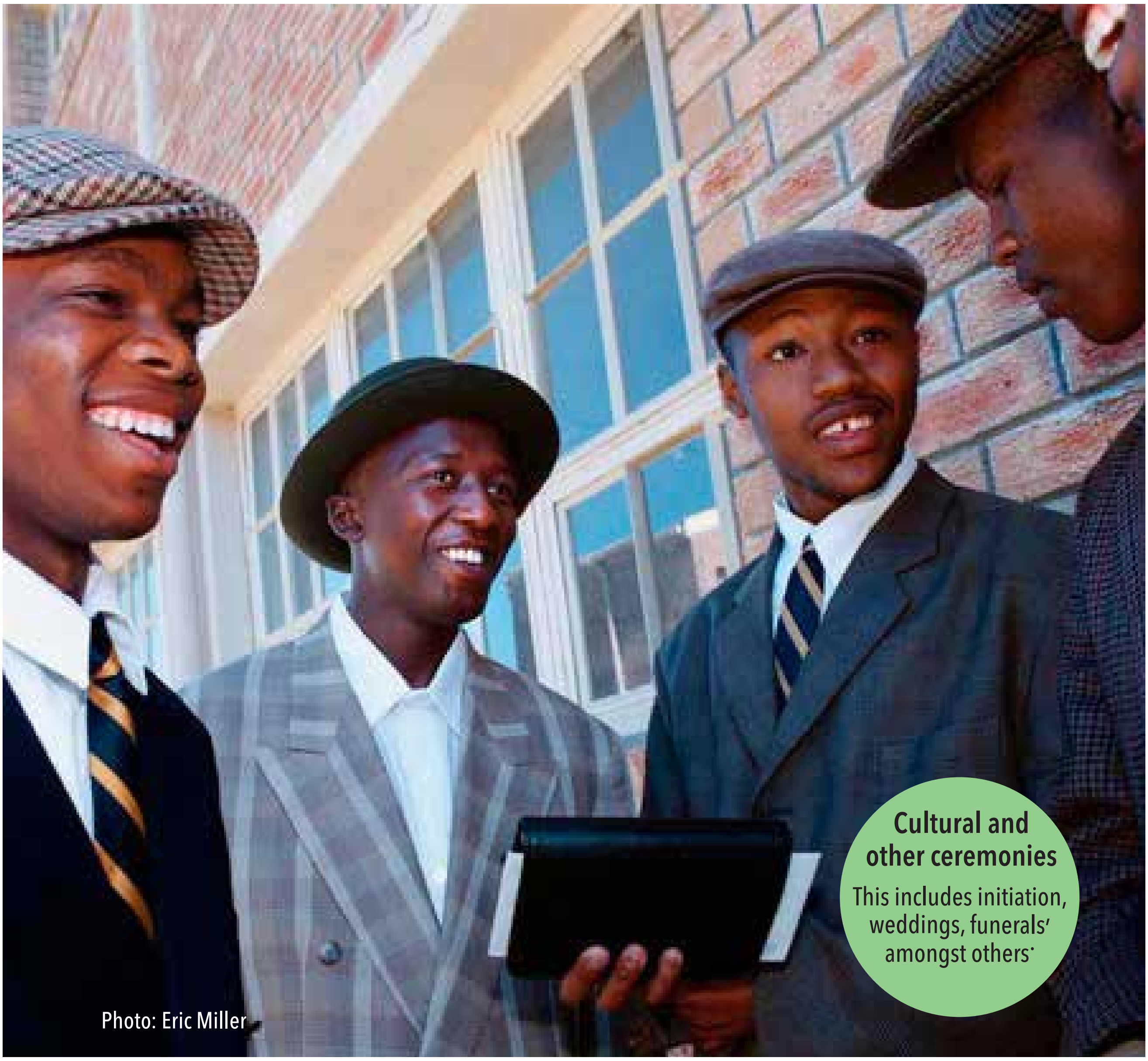
Case study 4.2(b): Death of a breadwinner

Sixolise lives in an isolated village outside the town of Port St Johns in the rural Eastern Cape, with her six dependent children. She receives five Child Support Grants.

She explains how her inescapable "debt spiral" began, precisely, in 2016. The unexpected death of her husband tipped her into a continuous cycle of borrowing. Although he only remitted a small amount of R500 monthly from his low-wage urban job, he reliably contributed to household expenses (covering unpredictable shocks, illness, repairs, Christmas expenses etc.). The period immediately following his death was financially manageable, Sixolise explained, with his funeral costs being covered by the funeral insurance, and her inheritance of his modest Postbank account savings.

It was in the months thereafter that the household's position deteriorated, with a small baby (two months old when he died), and education-related expenses (including rent) for the older children schooling away from home.

In the case of poor families, unexpected events like disease, sudden loss of a job, or death can have much greater effects than for better-off ones. Although Sixolise was able to cope with the immediate effects of her husband's death, this had adverse longer-term effects which only became evident over time. This case offers an example of how the livelihood "shock" of the death of a working family member can send a family into debt.



4.3 Investment in the future

Many people think of credit as a developmental tool. The NCR makes provision for developmental credit (small business loans, house construction funds, etc.). Throughout the development literature, scholars promote borrowing to invest in small businesses to lift people out of poverty. In our research, we found a few examples of people who sold *vetkoek*, sweets and other food, or rented out houses or flats for small amounts, as a way to supplement their income. There were no cases of people borrowing to fund investment in small enterprises, and no one we met was able to repay their loans from a successful business. This demonstrated that almost all grantees were using credit merely for immediate consumption needs or emergencies.

Case study 4.3: "Investing" through borrowing

Yandisa is a frail pensioner, resident in a village far outside Port St Johns. She receives an Older Person's Grant and three Child Support Grants for her co-resident grandsons, in addition to small and irregular remittances from her seldom-employed, urban-based adult daughters.

Yandisa has regularly borrowed from a local village-based *mashonisa* since 2015. When interviewed in early 2019, she had borrowed R2,000, and was repaying R400 over seven months (a cumulative R2,800, effectively totalling 40% interest over seven months). This was used to fund the solid, concrete-block rondavel "reception room" that she was building. She listed the precise quantity and prices of the roofing materials purchased.

Once the loan was repaid, she anticipated borrowing another R2,000, for plaster, windows and doors. The researcher asked: Why, if interest was being charged on the loans, did she not simply save the money for the building? Yandisa understood the arithmetic, but explained that with three grandsons, there are always (legitimate) demands on the household's cash.

It was better to borrow, she reasoned, to secure the resources to invest in the new building. Even with the cost of interest, steady repayment of debt to a *mashonisa* outside of her kin network was likely to be more successful than trying to save.

Yandisa's case shows how some people are able to debt-finance the building of an asset base. This was rare among our case studies. More commonly, future-oriented savings or investments occurred via *stokvel* memberships. These were often oriented towards life-cycle or annual rituals like Christmas. People also borrowed in order to keep up their funeral policies, which aimed at coping with large ritual/customary expenses.

Investment and savings

Investment includes university education and house-building. Savings includes stokvels and savings club memberships.

Photo: Eric Miller

Failure of state systems

This includes the inability to access the right grant or any grant; inadequate health care; hidden educational costs; and the late payment of university bursaries.

Photo: Rodger Bosch

4.4 Failure of state systems

Another key reason people borrowed related to the failure of state systems. We found that not only did people have to borrow for emergencies – many of those emergencies were related to things the state was meant to provide. Some people had to borrow to see private doctors and to support health-related expenses (medicine, diet, transportation). Other people had to borrow for school-related expenses even though there is free basic education. School children were asked to bring money for all sorts of additional items (including school trips and teachers' birthday presents). The idea is that the social grant should complement other state social assistance systems, but since many of these state systems are failing, people must use their grants or seek credit to pay for things that should be provided.

Case study 4.4(a): Investment in education – NSFAS

Elizabeth Ngoepe, who lives in Limehill, is caring for three grandchildren in her household, as well as her son who is away attending university. Elizabeth's only income is her old age pension. She does not receive any grants for the grandchildren in her care.

She is very proud of her son at university and hopes that with his degree he will one day take care of the family. His schooling, however, is putting huge financial stress on Elizabeth and the household. The payment of the NSFAS bursary is delayed, and in order for him to attend university, she is forced to take loans to pay for his fees, which she is doing through instalments. She worries that her son is starving at university because she does not have any pocket money to send him.

While NSFAS should help alleviate the burden of trans-generational poverty by educating the younger generation, in this instance it is leading to the further impoverishment and indebtedness of pensioners. At the time of this interview, in June, NSFAS had not yet provided the bursary for the 2019 academic year.

Elizabeth Ngoepe's case – like many others we came across – shows how households' plans for future-oriented investment can be scuppered by state failure, whether this is occasioned by public service inadequacies or by incapable or poorly-trained civil servants. Here, delays or inefficiencies in the NSFAS bursary system force a pensioner to take loans to support her child attending a tertiary educational institution. The costs of this student's education ought to have been met by the provision of a NSFAS loan/bursary. It was the failure of a key state system – charged with providing student loans – that forced the household into borrowing.

Case study 4.4(b): Public servant inadequacies

Elizabeth Ngoepe has asked the state social worker to help her get child support or foster care grants for her grandchildren. But she says the social worker is not very helpful, and continually gives her incorrect information.

To help support her grandchildren and pay her son's university fees, Elizabeth borrows money both from EPE/Moneyline and from a *mashonisa* called Mashabalala, who plies his trade outside the EasyPay paypoint in Ladysmith, though the main office is in Glencoe. She prefers to borrow from Moneyline because the instalments are cheaper and the repayment period is shorter. But she needs both.

At Mashabalala, she was required to bring her EasyPay card, identity documents, and the previous month's EasyPay till-slip. They do not do an affordability test beyond looking at the account information on the receipt. There is no contract, everything is done verbally. She consented to the loan with a fingerprint (paper and ink) and signature.

They give her cash directly and then deduct repayments from her account automatically as soon as her pension is paid. Mashabalala only lends money to SASSA beneficiaries with EasyPay cards, and she borrows from them regularly; often as soon as (or even before) her previous loan is completed.

Besides pointing to the inadequacy of the state's bursary system for higher education, Elizabeth's case points to other flaws in state provision. The absence of adequately equipped social workers – and ancillary problems such as difficulties accessing identity documents or, in the case of the Foster Care Grant (FCG), the necessary judicial sanction – made it difficult for individuals to access any grant, or to receive the social grant to which they are entitled. To become a foster parent, the Magistrates Court must sanction guardianship, hence it is easier to access a (smaller) CSG than a (much larger) foster-carer grant.

5 Types of lenders and lending

This section discusses the variety of lenders and their lending practices and actions that social grant recipients encounter. There is a wide variety of lenders, and lending practices.

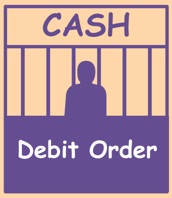
The table (see Figure 12) explains the credit ecology of lending to social grant recipients. The table has three vertical (up-down) columns, which refer to the different practices by which money is both transferred to grant recipients and repaid to the lenders. We found that focusing on the practices of money transfer is more useful than relying on typical binary categories of formal/informal or cash loans/*mashonisas*. Interest rates vary widely, with *mashonisas* charging between 30% and 80% per month. Many formal businesses engage in practices normally associated with informal businesses, and many apparent *mashonisas* rely on debit orders and banking infrastructure. Likewise, NCR registration seemed to have little bearing on practices. As there is so little oversight, registration does not appear to shape whether or not those businesses follow the NCA.

From the left to right hand side, the columns describe how money is transferred to the grant recipient borrower and then repaid. The first type of lending (1) involves transfer to the borrower via EFT (Electronic Funds Transfers) and repayment by debit order. The second type of lending (2) involves transactions where cash is transferred to the borrower and repayment made by debit order. The third type of lending (3) involves cash being transferred to the borrower and repayment in cash (though this is usually done via the intermediary of the bank card which *mashonisas* confiscate and keep).

(1) EFT/Debit Order refers to lenders that rely on large, formal financial systems used for transactions. These include Moneyline and Finbond, both of which use the functionality of the EasyPay Everywhere card. These businesses are large firms with multiple branches nationwide. Moneyline is registered as a Financial Services Company, Finbond a Mutual Bank.

(2) Cash/Debit Order refers to lenders that grant loans in cash but collect loan repayments using debit orders on borrower's bank accounts. This includes businesses lending to social grant recipients, known as cash loans, microlenders, and payday loan enterprises. These may have several branches but are much smaller business than the large financial services company or mutual bank described earlier. They typically grant loans that are repaid over 3 to 6 months. Another category of cash lender in this column is the "one-time" lenders, who collect the total repayment in one go i.e. in the next month.

Figure 12: Typology of lenders and lending

Transfer to Borrower/Lender	(1) **EFT/debit order** 	(2) **Cash/debit order** 	
Lender Examples	EPE/Moneyline (facilitated by CPS/Net1), Finbond	ABC, Top-up, Mashabalala	Payday/Chinese lenders (e.g. Wen, Zhang)
Numbers	9% - about 1m	29% - about 3m	
System	hi-tech, biometric, printed contracts	hybrid, merges hi-tech bank system with cash delivery, handwritten or verbal contracts	
Terms	3-6 month loans, about 5% interest per month	3-6 month loans; about 30-60% interest per month	1 month loans, given in cash; about 30-60% interest per month
Risk to Borrower	money disappears, stop debit order, black-listed	money disappears, fraud, stop debit order, black-listed, contracting discrepancies, little proof or paper trail	

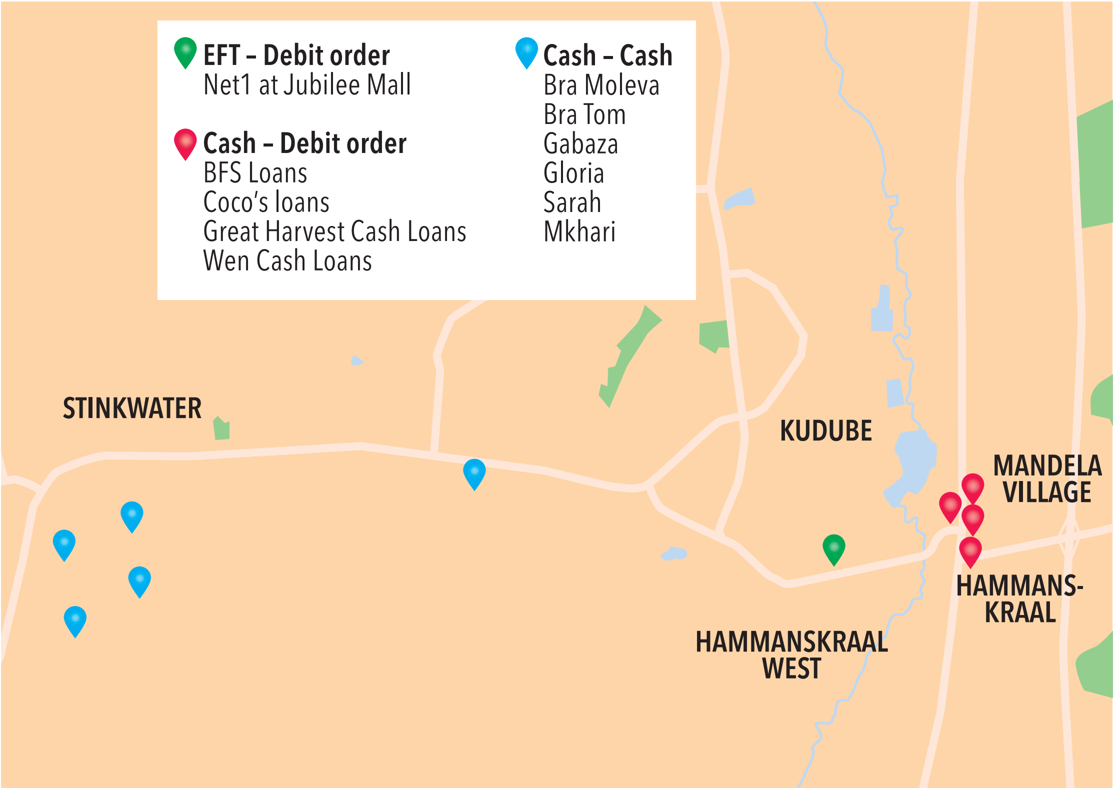
Some of these appear to be run by Chinese nationals. All of the above lenders rely on the "formal" financial systems to both check the creditworthiness of borrowers and to collect repayments (via a debit order).

(3) Cash/Cash give money to borrowers in cash, and collect loan repayments in cash. These can include family, friends or neighbours who charge (often relatively low) interest rates, but they mostly consist of *mashonisas* (sometimes termed "loan sharks"). The research shows there are important differences between *mashonisa*-type lenders and their practices. *Mashonisas* differ depending on their size and the nature of their relationship with borrowers. Within this column, on the left are friends, family or neighbours that "help out" with a loan but still charge interest. Next are local "neighbourhood" or "village" *mashonisas* who often live close to the people who borrow from them. They are sometimes members of a *stokvel* (an informal savings association, or *umcalelo* in isiXhosa), lending money out to make more for the club's members. They typically charge between 25% to 50% interest monthly, but are sometimes flexible about the repayments. On the right are the most socially and spatially distant *mashonisas*. They may live further away, and do not have close connections to those who borrow from them. In some cases, they may well be wealthier (or at least, less poor) than their clients, and they tend to charge higher monthly interest rates (50%-100%).

	(3) **Cash/cash** 		
	Mashonisa kin, neighbours	*Mashonisa* *stokvels*, slightly larger, more distant from borrower	*Mashonisa* largest, most socially distant
	Unknown		
	personalized, relies on ATM banking/cards to claim repayment, sometimes or often retains the grant recipients bank card to draw funds at ATMs, informal handwritten or verbal contracts or ATM statements		
	30% interest per month, doesn't retain card, negotiable terms and time-frame	30–50% interest per month, may retain card but not PIN, less negotiable terms and time-frame	50–100% interest per month, retains card and PIN, little negotiation
	violence, retain card/PIN, withdraw all money, repossess belongings and sell them		

In our study sites, depending partly on their proximity to large urban centres and related facilities, there was wide variation in types of lending on offer. Given that most of South Africa's "big five" retail banks (viz. ABSA, FNB, Standard Bank, Nedbank, Capitec) do not lend money to grant recipients because their income is less than the requisite threshold (approximately R3,500 per month), grant recipients were borrowing from a range of other lenders. For example, Uitenhage (see Figure 5) had an extensive range of types of borrowers, including most of those identified in the table above but with a predominance of those in columns 1 (EFT/Debit Order) and 2 (Cash/Debit Order). In Hammanskraal, Khutsong and especially Taaiboschgroet, which are relatively more remote, we were made aware of a greater number of those in column 3 (Cash/Cash) or *mashonisas* (see Figure 13). Although this typology appears rigid, the boundaries can be blurred, with practices sometimes shading into one another. Similarly fudging the sharp distinctions is the fact that borrowers are frequently borrowing from two or even three of these different types.

Figure 13: Hammanskraal lenders



5.1 What the National Credit Act says

Before moving into our discussion of each of these lenders, it is useful to know what the law stipulates about lending practices in the National Credit Act. All of the social grant recipients were borrowing money under the guidelines for "Short Term" credit. Because Short Term credit is unsecured, and presumably risky, the NCR allows for the highest interest rates and fees. In each of our case studies, we point to how the NCR rules disadvantage grant recipients, as well as how many of the lenders engage in practices that violate these rules.

Within the short term credit category, people could borrow very small amounts like R1000 or larger amounts like R8,000. Most grantees borrow R1,500 or less. Short term credit is far more expensive at the lower end of this loan market than the higher end. This is because the initiation and monthly fees make up a higher percentage of the total loan amount. Compare the costs of credit for a R1,000 loan versus an R8,000 loan in Figure 14.

Figure 14: Short-term credit allowable costs

Short-term (under six months and R8,000) credit:	R1,000 x 6 months	R8,000 x 6 months
Maximum initiation fee (R150 + 10% of any amount >R1,000)	R150 (15%)	R850 (10.6%)
Maximum monthly fee (R50 per month for 6 months)	R300 (30%)	R300 (3.7%)
Maximum monthly interest (5% per month for 6 months)	R300 (30%)	R2,400 (30%)
Total costs	**R750 (75%)**	**R3.550 (44%)**

Figure 15: What the National Credit Act says

Important National Credit Act Provisions:

Contracts: Credit applicants have the right to receive documents (including the credit agreement, quotations, and statements) in any official language. This is subject to some factors like usage, practicality, and expense. (Sections 63–65, and 92–93)

Confidentiality: Information about credit applicants can only be used for the purpose for which the consumer gave consent. (Section 68)

Affordability: The Act requires a credit provider to ensure that a consumer can afford the credit he/she applies for before granting him/her the loan or selling the goods on credit. If the credit provider fails to ensure this, then the agreement can be regarded as reckless.

Marketing: Agreements are unlawful if the consumer is a minor (and not assisted by a guardian), has been declared mentally unfit, or is subject to an administration order. Additionally, negative option marketing[7] is not allowed and all providers must be registered with the NCR.

7 Negative option marketing occurs where a supplier offers to enter into an agreement with the consumer, and the agreement "will automatically come into existence unless the consumer declines the offer". (Section 74(1) of the National Credit Act 34 of 2005)

5.2 Debit order-based transfer and repayment e.g. EasyPay/Finbond

BANK

EFT/Debit Order

Under the new system, borrowing practices from EasyPay remain largely unchanged. From any EasyPay paypoint, office, or mobile vehicle, EasyPay card holders can borrow money from Moneyline. Finbond Mutual Bank was also, in two of our sites, reportedly used by grant recipients, but there is evidence it is starting to lose money in this market.[8] Due to the change in profitability, Net1 and Finbond created a new joint product. As this is a recent development, we have little information on how it functions, but there are reports that clients with complaints or recourse issues have to register these via a call centre often staffed by persons who predominantly communicate in English.

Case study 5.2: Borrowing from Net1/EasyPay/Moneyline

In our Hammanskraal case study, EasyPay formerly operated from a site close to the village of GaMokone. Since the changeover, certain grant recipients – though they were now obliged to travel to the Net1 offices at Jubilee Mall – stuck with their "green card" (i.e. EasyPay account) in order to continue borrowing.

Pensioner couple Abraham and Josephine, each receiving OPGs of R1,800, had been regularly borrowing. Each had taken out six loans in the last four years, issued by Moneyline. Starting with smaller amounts of R500, they soon started borrowing as much as R1,560 at a time, for which the total repayment was R1,980.

The loan officers had not done an affordability check – they just asked what size of loan they wanted. Instead, a generic/approximate assessment of household costs was recorded on a mini-statement (see Figure 16). To get the loan they had to bring an ID card and EasyPay "green" card, and then they were asked to "put their thumb on the machine". A bank statement was not required, but proof of residence was.

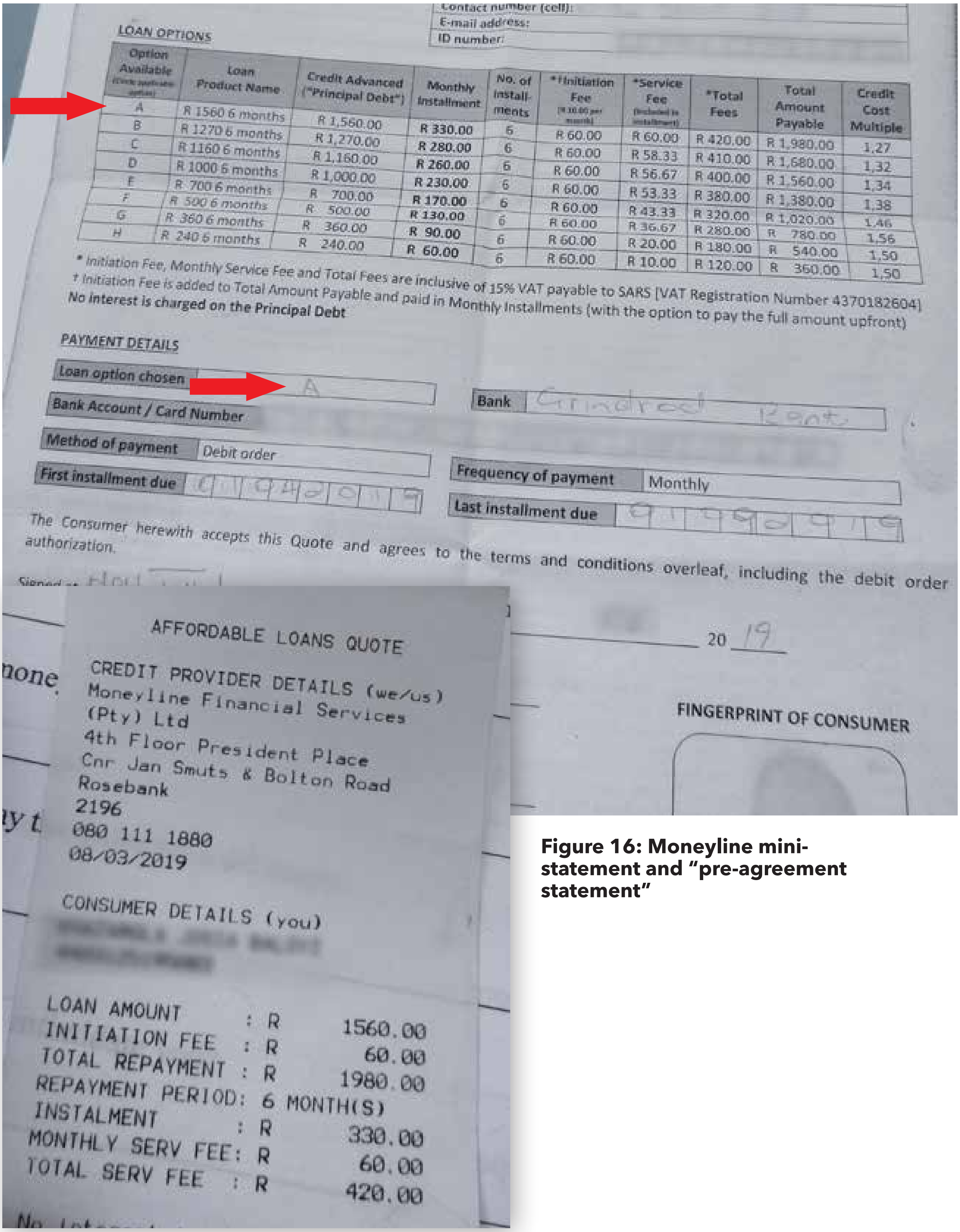
Both of them were asked to state their details so that the loan officer could fill them in on a pre-printed form stating the "loan options" (see Figure 16). They took Option A.

As this case shows, borrowers need their EasyPay card and biometric fingerprint, with which EasyPay can access their banking information and make lending decisions. There is a possibility of an affordability test, but individual questions are rarely asked of the borrower. Most are just estimates. Social grant recipients are typically given a pre-printed sheet of paper (see Figure 16) with their loan structure. There is supposedly no interest, only service fees and an initiation fee. However, depending on the loan size, these fees amount to an effective interest of 54% to 112% per year. If this were interest, it would be above the allowable 60% per year. But, these high fees are also technically legal within the regulations for "short term" credit.

The issue is not only the high effective interest rate, but that EasyPay is subject to almost no risk when lending to social grant beneficiaries. They receive the grant payments from the state and deduct loan repayments before beneficiaries can get access to their own money. EasyPay knows whether or not grants are temporary (e.g. some Disability Grants), and when children will turn 18 and grants will end. The only uncertainty arises from the death of a grant recipient

8 https://www.iol.co.za/business-report/companies/finbond-drops-more-than-8-after-flagging-earnings-decline-24336982

(which will see the grant terminate) (Torkelson 2020). Given the certainty and security of social grant based loans, these loans (and their costs) should not fall under the same category as other unsecured credit as per the NCR.



Contact number (cell):
E-mail address:
ID number:

LOAN OPTIONS

Option Available	Loan Product Name	Credit Advanced ("Principal Debt")	Monthly Installment	No. of install-ments	*†Initiation Fee	*Service Fee	*Total Fees	Total Amount Payable	Credit Cost Multiple
A	R 1560 6 months	R 1,560.00	R 330.00	6	R 60.00	R 60.00	R 420.00	R 1,980.00	1,27
B	R 1270 6 months	R 1,270.00	R 280.00	6	R 60.00	R 58.33	R 410.00	R 1,680.00	1,32
C	R 1160 6 months	R 1,160.00	R 260.00	6	R 60.00	R 56.67	R 400.00	R 1,560.00	1,34
D	R 1000 6 months	R 1,000.00	R 230.00	6	R 60.00	R 53.33	R 380.00	R 1,380.00	1,38
E	R 700 6 months	R 700.00	R 170.00	6	R 60.00	R 43.33	R 320.00	R 1,020.00	1,46
F	R 500 6 months	R 500.00	R 130.00	6	R 60.00	R 36.67	R 280.00	R 780.00	1,56
G	R 360 6 months	R 360.00	R 90.00	6	R 60.00	R 20.00	R 180.00	R 540.00	1,50
H	R 240 6 months	R 240.00	R 60.00	6	R 60.00	R 10.00	R 120.00	R 360.00	1,50

* Initiation Fee, Monthly Service Fee and Total Fees are inclusive of 15% VAT payable to SARS [VAT Registration Number 4370182604]
† Initiation Fee is added to Total Amount Payable and paid in Monthly Installments (with the option to pay the full amount upfront)
No interest is charged on the Principal Debt

PAYMENT DETAILS

Loan option chosen: A
Bank: Grindrod Bank
Bank Account / Card Number:
Method of payment: Debit order
Frequency of payment: Monthly
First installment due
Last installment due

The Consumer herewith accepts this Quote and agrees to the terms and conditions overleaf, including the debit order authorization.

20 19

FINGERPRINT OF CONSUMER

AFFORDABLE LOANS QUOTE

CREDIT PROVIDER DETAILS (we/us)
Moneyline Financial Services (Pty) Ltd
4th Floor President Place
Cnr Jan Smuts & Bolton Road
Rosebank
2196
080 111 1880
08/03/2019

CONSUMER DETAILS (you)

LOAN AMOUNT : R 1560.00
INITIATION FEE : R 60.00
TOTAL REPAYMENT : R 1980.00
REPAYMENT PERIOD: 6 MONTH(S)
INSTALMENT : R 330.00
MONTHLY SERV FEE: R 60.00
TOTAL SERV FEE : R 420.00

Figure 16: Moneyline mini-statement and "pre-agreement statement"

5.3 Debit order-based transfer, cash-based repayment

Beyond EasyPay, from which grant recipients in all but one of our nine sites were routinely borrowing, other debit order-based loans include a range of businesses in fixed premises and mobile lenders (in vehicles). Those that are willing to extend loans, and that use debit orders to collect repayment, include businesses that are both registered and unregistered with the NCR. Since these lenders give money in cash and collect via debit order, there is no digital paper trail to follow. We found a lot of clients claiming they did not receive the amount of money that the lender said they did, and having no way of proving that since it was a cash transaction. In using the debit order facility for repayment, these lenders have similarly low risk of default by the borrowers. These cases demonstrate that the costs of credit are far too high, and many debit-order lenders do not even adhere to their own stated conditions.

Case study 5.3: ABC Cash Loans aka Fanie

Phumza is a pensioner with loans from three different lenders. One of her loans is from ABC Cash Loans in Uitenhage. ABC Cash Loans is located on the third floor of the Old Mutual Building, 77–78 Caledon Street, Uitenhage. There is one registered lender on the first floor of this building under the name Mattcap Finance (NCRCP6068). Mattcap Finance does not seem to have any relation to ABC loans. ABC loans might possibly be unregistered with the NCR or registered in a different jurisdiction. This lender is locally referred to as "Fanie", after Fanie Stander, who is either the manager or the owner of the business.

When we arrived at ABC loans, we stood crammed with other people into a tiny, 2 m^2 space in front of a floor-to-ceiling wrought-iron gate. The gate has a small handwritten sign, stating the opening hours. Three metres beyond the gate is a desk where one of the employees screens clients. If a client appears at the gate, the employee throws a set of keys from her desk through the gate. The client must then let him or herself in and lock the gate behind, leaving others standing on the landing. If an angry client is at the gate, all business takes place through the gate, and he or she is not allowed in.

There is a long hallway, extending to the right of this desk. At the end of the hallway is a room divided into three smaller offices. Fanie operates from one of these offices bisected by burglar bars. A client enters the office at ground level, and Fanie stands on a raised platform looking down from behind the burglar bars for security. One of the other offices belongs to Joseph, who works for Fanie and also runs his own lending business from the premises. We have heard reports that Fanie will not lend to people receiving Child Support Grants, but Joseph will; and that when Fanie thinks a client is too risky, he sends that client to Joseph. While it appears that Fanie abides by NCR rules, it may be that a second set of books, run by Joseph, is where the more non-compliant lending occurs.

Phumza has had several consecutive loans with Fanie. He gave her the money in cash, and then deducted the repayments via debit order. She says that her first loan was for R1,000 in late 2017, perhaps December. Her bank statements reflect that she paid R334 per month for six months. This is equal to 100% interest over a 6-month period and 200% interest over a 12-month period. Her second loan was for R1,500 in April 2018. She paid

Figure 17: The premises of ABC Cash Loans in Uitenhage

R428 in May 2018, and she is meant to pay R428 per month for 6 months. This is equal to 71% interest over a 6-month period or 142% interest over a 12-month period.

Both of these loans violate the National Credit Act, which stipulates that, for short term loans, lenders may charge no more than 5% interest per month (up to 60% per year). And yet, the initiation and monthly fees are wrapped into what is presented just as "interest" to the client. If these are broken up, then the R1,000 loan repayment with interest is R1,500 over 6 months or 50% interest – not as far off of the NCR's requirements. The second loan goes down to 30% interest over six months which is in synch with the NCR requirements, although not for second loans (which should only be 3% per month or 18% for six months).

They also assigned her a reference number to remember: 3625. Every time she visits ABC Cash Loans, she must shout this number through the gate in order to be let in. This number corresponds to a hand-written page in a book. Fanie's staff writes the loans and repayments in this book. If you come for a second loan, while still repaying the first, Fanie will give more cash and roll the two loan repayments together. This is written in the book and the client must sign. However, many clients think that Fanie's staff write loan amounts on people's accounts and pocket the money themselves. Phumza told us that "Fanie makes a lot of mistakes." She has met people standing at the outer gate for hours, expressing their anger at being overcharged by ABC Cash Loans. She has seen Fanie shout at his employees, "why are you so careless with people's money?"

We found some businesses that use more obviously illicit and unethical practices, including Top Up and ABC Cash Loans (Uitenhage) and African Brothers (Botshabelo). Some allow repayment over 3-6 months, often encouraging grant recipients to take out a further loan before the date of full repayment. Borrowers spoke of becoming "clients" of such lenders, without a "cooling-off period". Phumza in Uitenhage, for example, outraged by the steep repayments demanded by ABC, nevertheless acknowledges "I am a client there. When you finish to pay, then they give you again." The word "client", in this context, implies an enduring relationship of indebtedness. She, like other grant recipients, uses this word to describe her long-term relationship with such lenders. The cash loans businesses want to accrue as many "clients" as possible – people who are so indebted that they have no option but to return for additional loans.

5.3.1 One-time lenders

Lenders in the debit-order repayment category also include "one-time" lenders. These include businesses like Zhang Cash (Uitenhage), XY (Ceres), Wen, Coco and Great Harvest Cash Loans (Hammanskraal), Good Friends and Champion Cash Loans (Carletonville, near Khutsong), and Super Dragon Finance Cash Loans (Port St Johns). The lending practices of such businesses are remarkably similar regardless of where in the country they are located. In Delft and Hammanskraal, it became evident from statements by our partners and informants that these individual lenders may be part of larger conglomerates with "head offices" located in major cities. These were consulted by branch employees about terms and conditions. (Further research and investigation is needed on this issue.)

These lenders use the EasyPay ATM mini-statement from the previous month to assess grant recipients' income and expenses, and to check whether the potential borrower already has other loans. They give money in cash and deduct the principal and interest the following month through debit orders. Unlike other debit order-based lenders with 3–6-month payment schedules, the total repayment happens, in full, in the following month, hence their description as "one-time lenders". Around the country, the interest they charge is 25% per month (or 300% annually). For example, if a borrower takes a R500 loan, a one-time lender would deduct R625 the following month. This vastly outstrips the interest rate allowable by the NCR at 5% per month or 60% per year (see Figure 18).

Figure 18: Cash/Debit: One-time loans

25% interest... seems illegal...

Loan R500 loan, Repay R625 next month

But, the NCR actually allows these rates. Here they are broken down into interest, initiation fees, and service fees:

	Original loan amount	R	500
+	5% interest per month	R	25
+	initiation fee	R	150
+	sevice fee	R	50
=	**Could be up to**	**R**	**725**

Figure 19: Coco's Cash Loans, Hammanskraal, acts as a "one-time" lender.

Figure 20: Super Dragon Finance, Port St Johns

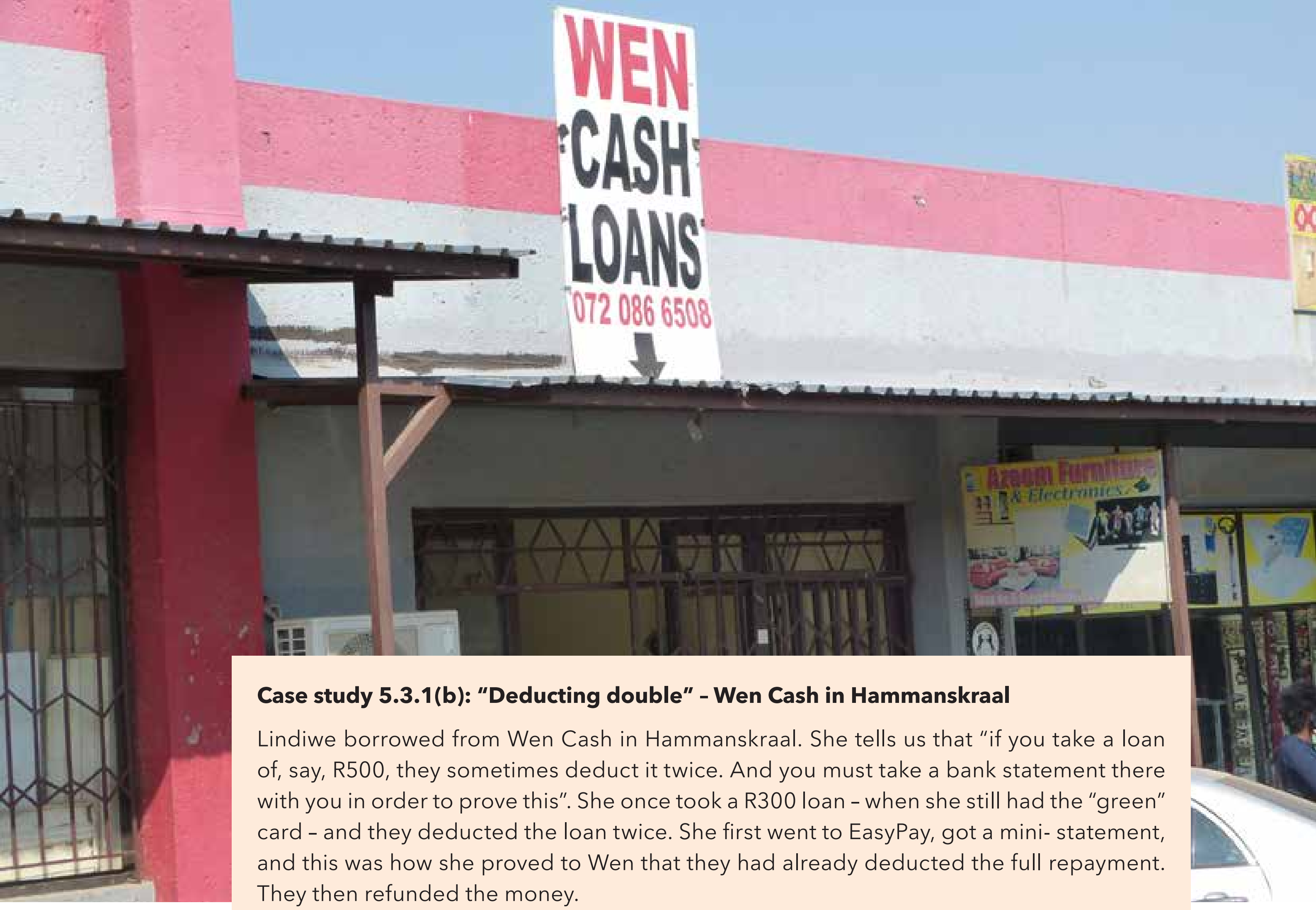
Case study 5.3.1(a): Zhang Cash in Uitenhage

Phumza also had a loan from Zhang Cash at the Uitenhage taxi rank. She claims that there "is no order there. You can sit there the whole day." There are only four benches set up in the centre of a large room, but there can be over 100 people waiting for service. There are burglar bars in front of a service counter and 2 or 3 people work behind those bars. "Zhang" works in a back office that no one can see. The front office staff run back and forth to Zhang's office shuffling paperwork and money. Everyone assumes the person at the back office is named Zhang, but no one knows for sure.

Zhang Cash Loans is registered with the National Credit Regulator (NCRCP9415). They did not give Phumza a contract or any formal documentation. The only documentation is in the window of the shop. Phumza told me, "you see it written there. He writes instructions for SASSA people [grant recipients] and for people who are working." The sign is faded and difficult to read in highly reflective glass. Phumza borrowed R500 from Zhang Cash. The sign says that Zhang would deduct R650 from her account the following month (the principal plus 30% interest). The sign on Zhang's window confirms that a R500 loan would result in a R625 deduction (principal plus 25% interest).

Phumza's bank statement reveals that Zhang did not stick to these terms. In January 2018, Zhang deducted R390; and in February 2018, Zhang deducted R264 and R390. Altogether Zhang deducted R1,044. This is a 108% interest rate over two months, or 648% interest per annum. Phumza explained Zhang's way of working: "Zhang is the worst. uZhang gave you this amount, and then he takes it all, the whole amount the next month. After that you must borrow again." When Phumza noticed that her money was still short, she brought her till slips to Zhang to complain. The staff at Zhang assumed she was there to take another loan. She told the staff, "No, I don't want it. I'm finished now. I want a letter saying I'm finished here." Zhang gave her a letter saying that she was finished paying, but did not refund her money.

In the above case, there was no correlation between the amount stated and the actual amount deducted. Despite complaining, Phumza was unable to get her money back. One-time lenders in Uitenhage in particular seemed to use this system of "charging double" as a strategy to get their clients to return to them. Once they were there, even if it was to complain, lenders suggested that they take another loan to get through the month.



Case study 5.3.1(b): "Deducting double" – Wen Cash in Hammanskraal

Lindiwe borrowed from Wen Cash in Hammanskraal. She tells us that "if you take a loan of, say, R500, they sometimes deduct it twice. And you must take a bank statement there with you in order to prove this". She once took a R300 loan – when she still had the "green" card – and they deducted the loan twice. She first went to EasyPay, got a mini- statement, and this was how she proved to Wen that they had already deducted the full repayment. They then refunded the money.

This was a characteristic form of illegal practice by one-time lenders. In Hammanskraal (noted above), as well as in Delft and Uitenhage, there were cases in which one-time lenders took the same amount (principal plus interest) for two consecutive months. Grant recipients were able to put this right only by returning to the lender, with their slip, to prove they had overpaid. Sometimes this resulted in a refund, and other times – as with Zhang Cash above – in another loan.

5.3.2 Mobile Lenders

Lenders in this category also often use mobile premises parked outside of paypoints. The line between these (semi-) formal businesses and *mashonisas*/loan sharks is a blurred one. The following case shows how the latter may also use debit orders. This business, like many we encountered, operates from vehicles. They are driven into the area on payday and park at the paypoint to extend loans to and collect repayments from grant recipients, before moving to the next paypoint.

Case study 5.3.2: "Formal" loan-sharking

Nelisiwe, a Limehill widow, receives R2,040 per month in grants. Mashabalala – a business that operates from a car that gives out cash and uses debit orders to extract repayment – deducts a total of R680 on two loans, in two separate instalments (R355 and R325). For her first loan, she borrowed R1,000 and repays R355 per month for six months. Before she finished paying, Mashabalala encouraged her to take a second loan of R600 repayable in three monthly instalments of R325. Mashabalala uses this practice with all long-term customers. The size of the total repayment makes the loans more difficult to pay back.

EasyPay also takes around R48 in fees for processing these debit orders. Nelisiwe began borrowing money before her partner died, but she has been doing so more frequently since his death. She has rarely been out of debt since 2012.

Without facilitation by EasyPay, borrowers like her would be unable to borrow from a Cash/Debit Order lender, like Mashabalala. Although Mashabalala is her current lender, she sees CPS and EasyPay as having originally laid the grounds for her indebtedness. "Mashabalala is also needing people who have the EasyPay card. If you have the SASSA [SAPO/SDA] card, it doesn't work." The EPE card originally established by a Net1 subsidiary Moneyline and Grindrod Bank is biometrically enabled to facilitate automatic debit orders. It is possible to contract debit orders on other bank accounts as well (like Capitec or Standard), but the beneficiary has more access to recourse with those banks. Using the SDA account from SAPO, however, would require a lender to do physical withdrawals at a payment channel including an ATM.

5.4 Cash loans and cash repayments

The term *mashonisas* is used to refer – in general – to lending "at home" (i.e. in the neighbourhood). In terms of the categorisation in Figure 12, this translates as lenders who both lend and get repayments in cash. Since the 1990s, *mashonisas* have typically charged monthly interest of 50%. They soon learned to take advantage of efforts that had been made to "bank the unbanked". Many ensured repayment by using the crude, technique of confiscating borrowers' bank cards and using them to withdraw cash from the ATM as soon as their grant or wage is paid into the account. This tactic had earlier been used by a vast range of micro-lending businesses, before the NCR started its drive to register and regulate them (James 2015:7). Since that time it has become common, as we found in our field sites, for *mashonisas* to retain borrowers' bank cards from banks, as well as those from EPE/Grindrod, and SASSA/SAPO (known as "green" and "gold" respectively).

In variations on this practice, some insist on learning a borrower's PIN, and others keep a borrower's ID cards to prevent their opening new bank accounts. Yet others retain the card but "allow" borrowers to "keep" their PIN secret, perhaps as a means of reassuring them while also necessitating their co-operation in order to make a withdrawal. They predominantly offer loans in cash but other lenders have latched on to the debit order system. Seen from the lenders' point of view, these tactics counteract the risks of unsecured lending. Part of this risk is that those with debit orders will get access to the account and withdraw the cash *before* the *mashonisa* can.

A recent report states that Wonga (itself an unsecured lender) estimates that there are more than 40,000 *mashonisas* in South Africa – one for every 100 households (Wonga Finance SA (Pty) Ltd, 2017, cited in Differential Thoughtlab (2019:19)). Yet this claim fails to distinguish the very different lending practices and interest rates that are common within this sector.

5.4.1 "Neighbourhood"/*stokvel*-based lenders

At the end of the scale where lenders seem more community-minded (or have closer interpersonal relationships with the borrower), they are often attempting to earn interest as stipulated by their *stokvel.* They seldom appear to charge more than 30% (again, the rate is stipulated by the *stokvel*), and may offer reasonable, renegotiated repayment terms, where asked to do so.

Case study 5.4.1(a): "She trusts me"

Patricia, herself a member of a *stokvel* that recently disbanded, was advised by her fellow members to approach a woman, known to offer loans, who belonged to another such society. "I didn't want to leave my ID with her, or even my card. I told her 'I don't want my things to stay with other people'. So she gave it back."

In January Patricia asked to borrow R3,000. "I called her to come to my house, it was too far for me to walk". The normal practice would have been to have her repay R3,900 the following month (30% interest). Instead she negotiated, asking whether she could stretch the payment over three months – R1,300 each month – but without extra interest "on top". "I told her that I don't want to suffer". They agreed verbally on these terms and conditions. Instead of keeping Patricia's card, this lender came to fetch the card at month end. "She trusts me, she knows where I live".

She withdrew what was owed to her, then gave Patricia a mini-statement, so Patricia could see what had been taken. "That one was very good, she didn't cheat you". This lender had her own cash-flow problems: on this occasion she only had enough cash to give Patricia R1,200 of the total R3,000 in the first instance, and gave her the rest later on.

Here, the degree of trust established was of particular importance. Knowing a borrower, and knowing where that borrower lives, made it unnecessary to keep the card.

This case of a *stokvel* lender also illustrates the unexpected ways in which investment and indebtedness are connected. Belonging to a *stokvel* is viewed (including by grant recipients) as a valuable way of anticipating and saving for future expenditure that typically occurs at Christmas time or on the occasion of a death. It thus features as a form of "saving". But it also requires grant recipient/members to borrow from other sources of various kinds in order to keep up their subscriptions (payments to the *stokvel*). Membership of these savings clubs thus increases the pressure on already-stretched budgets and can drive people further into debt. Social factors affect a person's judgement on which debt is more pressing. Is it the one to the *stokvel* or the one to the lender from whom one borrowed in order to maintain one's *stokvel* payments? Women might feel pressure from group members not to interrupt the payment cycle, which in turn compels them to borrow. To add to the complexity, some neighbourhood *mashonisas* – as in the case above – are actually doing so because they belong to the type of *stokvel* that requires its members to lend out money and collect interest.

Case study 5.4.1(b): *Stokvel* social pressure

Hannah, in Limehill, has borrowed from EasyPay on several occasions to pay contributions to the three *stokvels* to which she belongs.

The first requires R120 per month and is for Christmas clothes and groceries at the end of the year; the payment to the second is R30 per month and is for food and drinks and little things to support the neighbours; the third is R150 whenever someone is holding an event or ceremony "at home" (there have been as many as five funerals in one month). After five years, if you have never drawn on this fund, you get R4,000 as a one-time payout. She has received this payout once, and says it really helped her.

Stokvels do not always operate as an alternative to formal loans, but may be a facilitator of them. Hannah feels pressure to meet these financial commitments for her neighbours. She explains that some *stokvels* have monthly meetings with a roll call. When your name is called, you must go up to the front to make your payment. If you cannot, everyone sees that you cannot. The next time you might have to pay twice or three times – as every payment is carefully recorded in a ledger book. After a series of missed payments, you could be asked to leave the group.

Whether or not a person being asked to leave a group would forfeit her contributions would depend on the forcefulness of its other members and its system of administration (Bähre 2007).

Another form of community savings club is that which collects funds to cover the costs of funerals for members or their dependents. We found evidence of burial society members similarly borrowing money in order to honour their commitment to make these monthly contributions. These savings clubs, in general, serve as savings (even investment) mechanisms in one way but act as causes of indebtedness in another.

5.4.2 "Distant"/high-interest *mashonisas*

Further towards the exploitative end of the continuum, *mashonisas* are viewed with much more ambivalence. Although they keep records of their loans in books, and sometimes provide borrowers with ATM mini-statements, they need (and demand) less security than the EFT/debit order lenders. This is because of their (often forcible) retention of the bank card. They will offer loans to those with less secure incomes and where others might refuse them, hence borrowers often describe them, at least initially, as being "helpful".

Case study 5.4.2: "Helping us"

"The money is helping us a lot – if the child is sick and its mid-month you can get money, and even though the interest is high it is still helpful", says Kate in Taaiboschgroet. Her lender painted himself in a similar light. "The demand is so great, most people need money and I cannot supplement all of them", he says. But the flipside of this is that he keeps Kate in the dark as to the precise amount she owes. He provided no contract, and although he keeps a record in his book she has not been shown this. He tells her she owes R5,000.

This *mashonisa*, who claimed to charge only 30%, lent her R1,000 in cash and told her she would have to repay R1,500 in total. But she is frequently able to pay only R300 per month and sometimes not even that. Although the *mashonisa* (unlike the "one-time lenders" above) does not insist on her repaying the full amount the following month, his terms are that she ought to at least pay the interest – R500. Since she fails to do so, he recalculates the interest twice a month and it escalates exponentially. She tried to "escape" him by swopping the EasyPay card for a new SAPO card. But he came to the paypoint and forcibly took her new card. She feels trapped.

The *mashonisa*'s use of the word "supplement" here gives a misleading impression; it emphasises the "helpful" aspect but downplays the exploitative one. However "helpful" a lender might appear, the amount of interest paid becomes increasingly problematic over time, as seen in this case.

We found one key reason why someone like Kate borrows from a *mashonisa*. Where both EasyPay and *mashonisa* lenders are present, borrowers often prefer the former, but feel pressed to borrow from the latter in mid-month when "there is no money left", since EasyPay/Moneyline loans are available only on payday. (For more detail see Section 6, below).

5.5 Other predatory lending practices

In describing the terrain of lenders, it is useful to point out the "sharp" practices, or petty corruption or profiteering often involving small intermediaries, that exist on the ground. They benefit from this lending environment, getting kick-backs from a loan company as touts.

Case study 5.5(a): Local touts

Sarah first heard about Moneyline from a neighbour, Yolanda, who took her by taxi to their office. Yolanda was staying in Delft in a "big house," but has since moved to a smaller home. Yolanda would gather together all the people from Delft who wanted to go to Parow or Kraaifontein for a loan. She would pay for the taxi on behalf of her neighbours, who did not have R10 to spare. Once her neighbours got cash from Moneyline, Yolanda would take a R150 cut. Sarah said, "We must pay her R150. All the people there. But it's only R10 to Parow. You would get your R1,000 loan, and R150 would be gone." Sarah suspects Yolanda was also paid a commission by Moneyline.

Figure 21: Resident from Ceres explaining to his neighbours how EasyPay coerced him into borrowing money with his grant as collateral.

Case study 5.5(b): Mama Street, KwaNobuhle/Uitenhage

In 2016, MaDlamini visited Moneyline on Mama Street in KwaNobuhle, near Uitenhage. There, she was given the "green" EasyPay card and took a loan from Moneyline. But this is not an ordinary Moneyline office in a shopping centre, rather it is built as an extra room at someone's house. In order to get a loan from Moneyline, you must pay the owner of the house R15 or R20. She says this is to "polish her stoep."

Small-scale brokers of this type are not limited to the lending practices noted in this report. Rather they emerge in many situations where people on the ground experience themselves as remote from the authorities. Intermediaries commonly insert themselves into the interstices of the system and make money by adding interest at every point in the value chain (James 2018). Although not of central importance, they do point to the general lack of regulation in South Africa's credit landscape.

6 Borrowing practices

6.1 Multiple loans

The majority of our grant recipients we interviewed, either currently or in the past, had taken out multiple loans. This was usually for an emergency or simply because they had no more money mid-month. How and from whom grant recipients borrowed depended often on (a) proximity to urban areas and to formal lending options; and the cost of transport to access these (b) the forms of documentation demanded by different lenders with varying levels of formality/registration. Many cash/debit-order lenders specified the need to bring extensive documentation, and said they would lend only to Older Person Grant (OPG) recipients, although few did the kind of "affordability check" that is legally required. In light of this, grant recipients said that they preferred formal lenders like EPE because the *mashonisas* did not require bank statements/proof of residence, etc. Grant recipients thus borrowed from both. In one case from Uitenhage, cash/debit order lenders had virtually saturated the market and were competing with each other. They persuaded vulnerable and needy clients by offering them subsequent loans before previous ones had been paid off. Those attempting to stop borrowing were threatened with never being able to borrow again (see case study 5.3: ABC Loans aka Fanie).

6.1.1 Concurrent loans

In areas with highly concentrated financial services, such as Uitenhage, people had multiple loans from multiple lenders at the same time. In others, they combined an EPE loan repayable over six months with one or more loans from multiple *mashonisas*. In yet others, such as Khutsong, a grant recipient was concurrently borrowing from two or more *mashonisas*.

The above studies, and more we encountered in our research, show that many borrowers were taking out loans from across the range of lenders. Having been "banked" and exposed to the prospects of "reckless borrowing" during the time of Net1's original contract, some had heeded the advice to move from EPE's "green" card to SASSA/SAPO's Special Disbursement Account.

Case study 6.1.1: Quandary of the loan-taker

Kate of Taaiboschgroet (Case study 5.4.2 above) attempted to "escape" from the *mashonisa,* to whom she had been repaying in perpetuity, by abandoning her "green" card with him and transitioning to an SDA (with SAPO) and a new "gold" card. However, she had also taken a loan from one of the "white guys in cars" that gives cash loans on payday.

The *mashonisa* assured himself of repayment by accosting her on the SASSA payday and taking away the SAPO gold card "by force". He then kept the card, but released it back to her every payday, requiring her immediately to hand over the R500 he claimed she owed him, and then confiscating it once again. Meanwhile, her only way of evading the "white guy in the car" was to hide behind the office until he had left, hoping that he wouldn't pursue her to her house.

In Kate's case, it was mainly the wish to evade the long-term loan arrangement with the *mashonisa* that had prompted her to switch. Although Kate is nominally the holder of the bank account to which the green card is linked, she is the owner and keeper of the card itself in name only. In her case as in many others, it is in fact held by the *mashonisa* who gave her the loan. This withholding of cards makes it doubly difficult for a grant recipient/borrower to calculate what she owes to whom, since she is unable to get a mini-statement from the ATM. To enable such borrowers to fetch the grant, *mashonisas* often "lend" them their cards and then take them back again. The *mashonisa*'s withholding of the card makes it difficult to keep various kinds of borrowings in separate parcelled-off savings segments, which was formerly a common practice in rural South Africa (James 2015; 109, 146). Hi-tech biometric data and electronic banking systems, seemingly underpinned by totally different digital and tech features and offering different terms and conditions from cash-based transactions, here converge in ways that produce confusion and hardship for the multiple borrower.

6.1.2 Loans as levies on grants

We also found that some social grant recipients were committed to very regular borrowing practices. The regularity converts the grant into a valuable resource for lenders, who take a levy each month from the borrower.

Case study 6.1.2(a): Regular "levy" on a social grant

Zwelethu Leballo, in Botshabelo, had for years been borrowing money from Imali loans, a one-time lender. Each month, he would repay R1,000 and borrow R800 again. Imali loans was thus taking an effective monthly R200 levy from Zwelethu's grant.

As the following case study shows, in a few especially exploitative cases, lenders had worked out a business model that allowed them to take full advantage of vulnerable people in extremely coercive ways.

Case study 6.1.2(b): Exploiting the vulnerable

Figure 22: Slip given to client by *mashonisa*

A Khutsong *mashonisa* had turned to moneylending after a spell in a gang of violent illegal/artisanal miners. He had prevailed upon an elderly and vulnerable pensioner to borrow an initial sum of R1,000, and was recouping virtually the full OPG of R1,800 from the ATM on payday, leaving Elijah nothing to live on. Thereafter he lent him R1,000 the following month, and so the cycle went on.

In this way Elijah always owed (and automatically paid) R800 to the *mashonisa*. The *mashonisa* kept his UBank card in perpetuity, and gave him a signed and annotated slip every month (see Figure 22). Ranking as one of the *mashonisas* in the socially distant category, he was charging an effective 80% per month and offered no flexibility in repaying.

6.1.3 Seasonal loans

Case study 6.1.3: Borrowing for Christmas

Mpho of Taaiboschgroet has three children and receives three CSGs (totalling R1,260pm) as well as the money she gets for her work in an NGO, Home Based Care (R3,500pm). She claims that this is not "a proper job" since it is not permanent. Her fiancé has never worked.

She took out a "green" EPE card in 2014, and has borrowing twice a year from Moneyline for about three years. She borrows R1,000 in December to buy Christmas clothes for the children and has R220 per month deducted for six months. She then takes out a further loan of R1,000 in July to buy winter clothes for them. The following December she borrows R1,000 once again.

Grant recipients like Mpho calculated their EPE/Moneyline borrowing in a bi-annual sequence: once in December, for Christmas clothes, and a second time in July, for winter clothes. Although this sounds more planned than the situation with other borrowers, it amounted to a direct sequencing of loans with no cooling-off period. For some, especially those with regular and (relatively) higher grant income (e.g. households with two OPGs or several CSGs) this had become a habit. In case study 5.2, above, two pensioners had been borrowing the same amount from EPE in Hammanskraal every six months for the past four years.

6.2 Financial decision making and calculating interest

Complex practices of "calculative reason" are evident on the part of grant recipients. For example, when questioned on variations in interest charged between a high-cost *mashonisa* loan (50% or more monthly) and a lower-cost EasyPay/Moneyline product, some people described the former (*mashonisa*) loan as cheaper. While this answer might be arithmetically incorrect, it does not simply reflect low levels of financial literacy. In many cases, grant recipients' assessments of affordability are shaped by their understanding of the degree of flexibility in the terms of the repayment. In the diverse range of potential relationships between borrowers and *mashonisas*, repayment can sometimes be renegotiated, deferred or (sometimes) even evaded. Unlike the inflexible contractual regime of a formal lender and the ironclad certainty of their repayment, less formal (and more relational) forms of indebtedness often have less rigid terms. This is not to romanticise the informal or deny exploitative practices that exist, but rather to note the wide variations. This reality calls into question the absolute certainty by which some loans might be judged "less expensive" or "less attractive" than others.

The larger point is that care must be taken in simply ascribing ignorance or financial illiteracy to grant recipients. Instead, computations of interest or terms or repayment are subject to complex, variable and often opaque forms of calculative reason.

6.3 Violations of "fair" practice

Asked about the effect of debt on their lives, grant recipient/borrowers gave responses that expressed emotions ranging from anger through frustration to resignation. It was not necessarily simply exploitative practices or high interest rates that elicited distress. Informants were often upset by violations of accepted customs and agreements. It was less a *mashonisa*'s interest rate of 50% that upset grant recipients, than when he inexplicably exceeded this. It was less the exploitative terms offered by "one-time" lenders than the fact that they tried to sneak past a second repayment in a single month. Grantees knew that their poverty made them susceptible to all sorts of financial exploitation. No loan they could possibly apply for had truly favorable terms. But, people were really angry and frustrated when "normal" forms of exploitation were exceeded, and they found unexpected costs to their loans.

6.4 Grant recipients' agency

Are the grant recipient borrowers in this study able to do anything, and is there anywhere to turn for help? Formal debt counselling for grant beneficiaries was not available in any of our field sites. In the few cases where someone claimed to be able to "help", they are either a *stokvel* member recommending the services of a *mashonisa*, or a tout for a cash loans company. The proposed solution, in other words, invariably entails getting deeper into debt. South Africa's financial and legal system has, for a century, been marked by its "advantage to creditor" bias, and by the fact that poor/black people's finances have been viewed as legitimately under the control of others rather than themselves (James 2015: 72). The lender practices outlined above demonstrate this clearly.

The recent passage of the Debt Intervention Bill (2019), as an amendment to the National Credit Act, enables anyone earning below R7,500 to qualify for debt counselling. This will hopefully provide a formal avenue for grant recipients to seek recourse for over-indebtedness. In most cases we encountered, such formal avenues for recourse had not yet been implemented. Even so, debtors found creative ways of resisting their debts and creditors.

Case study 6.4(a): Austerity in Khutsong

Khutsong grant recipient Patricia says "I just advise myself. I told my kids 'I'm getting out here'. Because every time I borrow money, month-end I'm supposed to pay back. The more I go there, the more I'm going deeper and deeper. I told my kids 'this month you'll stay hungry because there's no money'. I haven't gone back there, till now."

For Patricia, the only way to get out of debt was to restrict consumption, the very necessary calories being consumed by her family each month. She and her family had to wait out the loan until they started getting the total value of their grants again.

Case study 6.4(b): Repayment and to not "lead my children into poverty"

Resident in the large Cape Town township of Khayelitsha, Catherine seems unperturbed by her consumer debt, especially compared to many other research grant recipients. She has long practised a strategy of paying a nominal R100 monthly, and readily cast the moral justification for her paltry payments in terms of her low income and inability to service the debt. She explains how she answers the phone but pretends to be someone else, reporting that "Catherine" is unavailable. She asserts that it is wrong to "lead my children into poverty" by making larger payments, arguing instead it was the shops and others (corporate creditors) that ought to "suffer".

Like Patricia, Catherine was mostly on her own when it came to negotiating her debts. Catherine's strategy was to assert a moral claim about the untenable nature of debt for those in extreme poverty. She paid only what she could each month and no more. This was possible because most of her debt was with a microfinance NGO, that was amenable to this technique.

For others, the ability to evade lenders or fight back against them depends largely on where they are situated in South Africa's post-apartheid geographical dispensation. Those living in former homelands (including resettlement or closer settlement areas), seem easier prey for *mashonisas*, from whom they have little option but to borrow (alongside the near-ubiquitous EasyPay/Moneyline) and from whom it is very difficult to "escape". But even here, there are cases in which borrowers try to establish solidarity.

Case study 6.4(c): "Fighting back" in Taaiboschgroet

"We at Gamamadi wanted to assist", Phineas Kopa says, "but it is very difficult. We previously tried to hold these *mashonisas* accountable, particularly those who come on payday. They stand at the gate and disturb those in the queue, waiting for people to come out so that they can grab them. There are some grant recipients who are stronger than the *mashonisas*, who said 'if you take our money we will fight'. That happened several times. Others who cannot pay back will hide here just behind the office until all those lenders are gone. We talked to the tribal council, asking the security guard at the gate to make sure that these lenders do not stand right at the gate. They are not pensioners, and they are not allowed to come into this enclosure. It has improved a bit. But when you go out, if they see you, they will follow you until you are at your home – and try to take your money by force, sometimes. And that is not acceptable …"

Those in large towns or townships can find a wider range of borrowing options and many have availed themselves of the help of Black Sash partner organisations or other civil society organisations and law clinics. These include small NGOs such as Gamamadi in Taaiboschgroet (Case study 6.4(b) above) or Hope 4 Destiny in Delft. In some cases, officers have managed to get fraudulent debit orders reversed and overcharged amounts returned. But even here it can be an uphill battle.

Case study 6.4(d): Disputed refund in Uitenhage

Ntombi approached Nolitha at the Interchurch Local Development Agency. After many years of borrowing from Fanie at ABC Loans, she decided she wanted to "get out" from under this debt.

She met with Nolitha in September 2017, having last borrowed in December 2016. For a loan of R1,000, Fanie had deducted R3,600. Nolitha visited and called Fanie's offices. Eventually, Joseph, Fanie's opposite number, produced documents, none of which Ntombi had ever seen. She disputed having been present on the dates in question. Nolitha told Joseph that she would ask for the CCTV footage of Caledon Street in search of proof.

Joseph agreed to refund some money and write off the rest of her debt. He gave Ntombi R1,750 that he said he had drawn from his own personal bank account. Joseph wanted Nolitha to sign something in reference to the money, but she refused. Joseph told Ntombi never to come back for a loan. Nolitha thought this was the end of this case.

But it subsequently transpired that Fanie had deducted R450 per month from her account, to which he still had electronic access, for the following three months – to reclaim his R1,750 refund.

The transition from the CPS system to the SAPO/SDA account provided a good opportunity for grant recipients to exercise agency and get out of debt. Over three million people previously had EasyPay cards, and fewer than one million people currently do (with this figure decreasing). Many people closed their EasyPay card so as not to allow for debit orders to come off their accounts. But, even so, some people have reopened those cards because they felt they needed credit for consumption or emergencies.

Case study 6.4(e): Ending EasyPay

Jasmine, from Hope for Destiny in Delft, was able to assist five neighbours to end their EasyPay accounts. It took five hours to close five cards that day. Jasmine asked EasyPay to close all five during one call, but each time the consultant hung up. She had to call back five different times and wait for the consultant to pick up. Jasmine explains that, "EasyPay is rude and difficult." But, she has a strategy: to ask for the consultant's name. Once she has the name, she says they are more amenable.

Of the people Jasmine helped, four of the five went back to the EasyPay account. Only one person, Abigail, has held firm. Jasmine says "Everyone was 'thank you, thank you'. But then the next month they got their money on the SASSA card. And it was still short." EasyPay transferred their loans onto their SASSA cards. Jasmine describes it this way: "People was still not getting money…and they needed money. EasyPay knows this, they come to their houses again and bring the machine. They went to those houses and people took the card again. I'm the only one still standing with Jasmine."

7 Conclusion: Policy implications and recommendations

In order to combat reckless lending to social grant recipients, the Black Sash offers the following recommendations.

7.1 Legislative recommendations

Some of the abuses described above could be best combated with policy changes.

- **Legislative alignment**: Align provisions in the Social Assistance Act, SASSA Act and National Credit Act. Better legislation, policies to ensure social grants are not "depleted," as ruled by the Supreme Court of Appeal in the Net1 Case.
- **SASSA service providers**: Ban all lending by third parties who are contracted by SASSA to assist in the payment of social grants (i.e. Net1 or the Post Office) to avoid systemic abuses.
- **Childrens and Temporary grants**: Uphold ban on lending on children's and temporary grants, including Child Support Grant, Foster Care Grant and the care dependency grant. The Social Assistance Act as well as the National Credit Act contain provisions for excluding children's and temporary grants from credit arrangements.
- **Permanent adult grants**: Re-assess risk and re-evaluate the short-term credit legislation for this category of social grantees. Since some lenders are able to effectively use state-provided welfare transfers as collateral, the risk of default to lenders is almost entirely related to the potential mortality of borrowers (and cessation of their grant). These low risks and fair prices for credit, are amenable to basic actuarial analysis. Therefore, social grant-based credit ought not to be treated as "unsecured" credit with high interest rates.

7.2 Enforcement and implementation

Much of the lending outlined above is already illegal and unlawful. Stricter enforcement – or simply making sure the law is adhered to – could be advocated for registered lenders.

- **Fund debt counselling**: Create a fund to provide free debt counselling with contributions from lenders. Fines levied must also be put toward this fund.
- **NCR capacity**: NCR must be staffed and funded to be able to carry out its mandate, keep registration lists up to date, and investigate reports of illegal behavior.
- **Enforcement of legislation**: Existing legislation related to affordability tests, cooling off periods, contracts, interest and fees must be enforced.
- **Hotline**: Free hotline for reporting lending crimes.
- **Police unit**: Establish special police unit for investigations of credit-related crimes.
- **Cash/Debit order lenders**: Find ways of tackling the biggest cash/debit lenders, particularly the worst offenders who do not adhere to legislation and use violence and intimidation tactics.
- **Cash/Cash lenders**: Find ways of tackling the biggest *mashonisas*, particularly those who use violence and detain the bank cards of grant recipients.

7.3 Education

Across the board, South African borrowers could benefit from greater financial education.

- **Educational materials**: Develop simple educational materials in the appropriate languages and formats, and make these available through NGOs and CBOs.
- **Capacity building**: Build capacity of NGOs and CBOs to better take up cases in terms of the National Credit Act and the new Debt Relief Act including gather case details and register such financial crimes with the NCR.
- **School curriculum**: Devise and implement a financial literacy strategy, including some “life skills” teaching, in collaboration with the Department of Education and the DTI. Pair up with School Governing Bodies (SGBs) to empower learners to teach their caregivers, guardians and parents.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HANDS OFF
OUR GRANTS!

Photo: Eric Miller

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Appendix: Reckless lending questionnaire

A. Personal information

Name and Surname			
Bank/SAPO Name			
Phone Number		Home Language	
Full Address			
Gender		Age	

B. Household makeup

Relation	Gender	Age	Marriage	School	Jobs or grants

C. Grants

Type	
Child Support	
Foster Care	
Care Dependency	
Disability	
Old Age	

War Veteran	
Grant in Aid	

Do you get money from anything else besides grants?
What about the following activities?
(Circle) Factory, harbor, domestic, gardener, security guard, neighbourhood watch, taxi guard, driver, painter, builder, plumber, soup kitchen assistant, refuse collector, home-based crèche, recycling, NGO / CBO worker, childminder, selling food or clothing, own business, rent.
If yes, how much?
(Circle) per day/ week/month?

D. Expenses

Money to family:	Day/week/month	
Transportation:	Day/week/month	
Rent:	Day/week/month	
Funeral scheme:	Month	
Other insurance:	Month	
Savings:	Month	
Moneylender:	Month	
Storecard/HP:	Month	
Food:	Day/week/month	
Water:	Day/week/month	
Electricity:	Day/week/month	
School fees/transport:	Day/week/month/year	
Telephone:	Day/week/month	
Data:	Day/week/month	
DSTV subscription:	Month	
Other:	Day/week/month	

E. Bank account

What bank accounts do you have now?	
What bank accounts did you have previously?	
Please explain how/when/why you have changed from one account to another?	
Did your loans follow you between accounts?	Yes / No
Did you tell your loan company that you were transferring accounts?	Yes / No
Did you give them your new bank card?	Yes / No
Do you have bank statements?	Yes / No
Can we try to get you your statements?	Yes / No

F. Questions about each loan company
(Try to figure out how many different loans they have from the statements and from what's been said so far… Then for each loan, ask the following questions)

Name of Loan/Storecard/ HP Company	Name on Bank Statement	Location
1		
2		
3		
4		
5		

Terms of loan

Loan Company	Amount of Loan	Monthly Repayment *(what the person remembers being told)*	Monthly Repayment *(what the person thinks is being taken)*	Number of months	Initiation fee/ Service fees	Number of loans with company
1						
2						
3						
4						

(All this will be later compared to the bank statement)

When did you go for this loan? Why did you need this loan?	
Can you walk me through the process of getting this loan?	
How did you hear about this loan office?	
Word of mouth? / Near your home? / Did someone come to your house? Did you know that person? Did they earn money for doing so? Other?	
Where is this lender?	
What does the building look like?	
What is the security like?	
Is it busy?	Yes / No
Are there certain times of the month that it's more busy?	
What information/documents did they require the first time?	
What about the other times?	Did they take your card to an ATM? Or a back room? Did they need proof of address? Bank statements? SASSA certificate?
How did the people treat you?	
Did you know them? Are they friendly, respectful? Do they make you feel bad?	
Do they lend to SASSA customers only, or everyone?	SASSA customers / Everyone
Did you notice any signs, what did they say?	
Did they ask you about your income and expenses?	Yes / No
Did they ask if you already have loans?	Yes / No
Do they give you cash or do they deposit loans in your account?	Cash / Deposit into account

Do other companies give you cards like the green card? Do they use biometric/fingerprint machines? Are they the same machines as EasyPay?	
Did they use your information for what they said they would?	Yes / No
Did they lure you with other things? Food parcels?	Yes / No
Did you get any sms messages afterward?	Yes / No
Do you have a contract?	Yes / No
What did it look like? What language was it in?	
How much are you being charged (see from statement)?	
How much did they tell you you'd be charged?	
Over what period?	
Are they taking more money than they said they would?	Yes / No
Could you choose what day the deductions are made?	Yes / No
Have they ever sent anyone to intimidate you?	Yes / No
How many loans have you had with this place?	
When can you take a second loan?	
Do you have to wait till the first is paid off?	Yes / No
Or can you get a loan the month before it's paid off?	Yes / No
With loans that have ended, did you get a paper saying it has ended?	Yes / No
Was it hard to get that paper?	Yes / No
Were you ever turned down for a loan by this company?	Yes / No

G. Questions of comparison

Do you stick with one cash loans place or many?
Are some better than others? Which ones are better? Why?
Are these loans better or worse than going to *mashonisas*?
What about *stokvels* or iclub?

H. Recourse

Have you tried to seek help about your loans? *(Circle)* Yes/No	
Where did you go? Yes/No	What happened?
The loan agent? Yes/No	
SASSA? Yes/No	
Your bank? Yes/No	

I. Personal effects

How does it feel to have the money coming off your account?
What effect has it had on your life? Your health?
How has it affected your household?
Has this changed the way that you can take care of your family?
Has it changed your ways of budgeting and sharing out your grant?
Were there people depending on you and things you can no longer provide for?
Can you survive on the money you are getting now?
If not, what else do you do then? (friends, family, accounts, *mashonisa*)?
Are there people you have needed to ask for support? What did you have to do in return?
If your normal sources of support can't help, then what do you do?

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