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The debt spiral in the poor households in South Africa

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Abstract

This paper focuses on the debt spiral in South Africa. There are concerns and indications of extreme and spiraling debts in the poor segments of the population. This paper reports on a qualitative method into factors contributing to the debt spiral in the poor communities in South Africa. The objective of this paper is to evaluate the levels of indebtedness at the household level and the effectiveness of the regulation of micro lending. Literature review analysed the socio-economic aspects of the poor households as well as their access to financial services. The research was conducted in Mamelodi informal settlement known as Mandela village in the Gauteng Province where the majority of the households survive below the minimum poverty level. Unstructured personal interviews were conducted with fifteen families that were randomly selected. Only one member, a parent in particular, in each family was interviewed. Interviews were also recorded on audio tape. Key findings show that the poor income households witnessed the greatest increase in the number of loans and percentages of indebtedness. Based on these findings, this research recommends that urgent measures be put in place to deal with explosive debt crisis and to track moneylenders who exploit the poor households and to revise and improve the current regulation of the micro lending market.

1. Introduction

The poor households in South Africa represent the largest segment of the population. A household is understood to be in poverty when its or her condition of poverty endures over a period of time, that is, a household's inability or lack of opportunity to better its circumstances over time, or to sustain itself through difficult times (Aliber 2001:2). Poor people are described in the Report prepared by Ebony Consulting International Africa for Micro Finance Regulatory Council (2003,9) as those in and below the Living Standard Measure (LSM) 5, that is, an estimated average monthly income of between R748 and R2289 and survive below the minimum or poverty level which is usually the equivalent of US $1 per day (Whiteford and McGrath 2000:59, Johnson and Rogaly 1997:10). There is an increasing need for financial services to cater for a wide variety of applications such as food, education and clothes as well as shocks like illnesses, theft, fire and deaths but the formal financial sector is not appropriately structured to satisfy the rapid growth in the need for financial services by the poor communities. They are, therefore, pushed farther away from accessing these services and are marginalised. This, according to Baumann (2001,2), resulted in the heavy dependence of most households on the formal micro-lenders and informal local moneylenders for the provision of credit. They regard these as responsive to their financial needs and act as lenders of last resort for them as people who could not get credit elsewhere (The World Bank 2002:133). However, the households are exploited by the lenders who lend them more than they can afford. The socio-economic factors such as unemployment, low levels of education, income and asset inequality contribute to poverty. This implies that many poor households do not have any choice but to incur multiple debts and are exposed to over-indebtedness. Debt spiral or over-indebtedness means using loans to pay off other loans and by allocating more than fifty percent of monthly net income to loan repayments (Ebony Consulting International (ECI) and Development Policy Research Unit (DPRU) of the University of Cape Town 2001:59). It is a financial state that imposes restrictions on the household's ability to repay their total outstanding debt.

2. Research objective

The objective of the paper is to evaluate the levels of the debt spiral in the poor households and to inform the regulators about the exploitative nature of moneylenders who place the poor households in a debt spiral. Most importantly, regulators need to keep track of overall supply of financial services, and more especially credit and to get more detailed information on the financal situation of the poor borrowers. The underlying research question is

-What is the level of the debt spiral in the poor households and what are the causes thereof?

3. Research methodology and study site

Literature review on the debt spiral was done. Extensive research work on levels of debt was conducted jointly by Ebony Consulting International and the Development Policy Research Unit at the University of Cape Town in April 2001. In June 2003, the Human Science Research Council released a report for the MFRC on household indebtedness in South Africa for the period 1995 and 2000. The comparison on income and expenditure surveys were compared in respect of trends in indebtedness, nature of debts and vulnerability. The MFRC, further mandated the Human Science Research Council to conduct research on HIV/AIDS and micro finance sector, focusing on indebtedness. The report was made available in July 2003. A detailed insight has also been gained into the levels of indebtedness caused by some weaknesses in the regulatory framework governing micro-lenders.

Against the background of the research, the qualitative method was used in order for the research to attempt to discover how the poor households in Mandela village which is situated in Mamelodi township in Pretoria, Gauteng Province, spend their money and what causes the debt spiral. Although Mamelodi township is well established with a large permanent residential component, there exists a substantial informal residential component, the Mandela village, which has several areas or extentions comprising mostly of the poor households surviving below the poverty level. The study was based only in

Mandela village, extention 5. A trust relationship with the households was established by visiting them on several occasions. The researcher is priviledged to have grown up in Mamelodi township and this made it easier to relate or communicate with the households. The findings were based on unstructured personal interviews which were conducted with fifteen families, comprised of six to seven members in each. Since the population is mostly homogeneous, the families were randomly selected. The interviews were also recorded on the audio tape to ease the task of writing lengthy responses and that the researcher is also not likely to recall every response as given. Data was then transcribed for more formal analysis. Data was analysed during and at the end of the interview. A detailed analysis of the information gathered from the respondents was done. This offered an accurate interpretation of the levels of the debt spiral and the regulatory framework of micro lending.

4. Literature review

4.1 Socio-economic factors

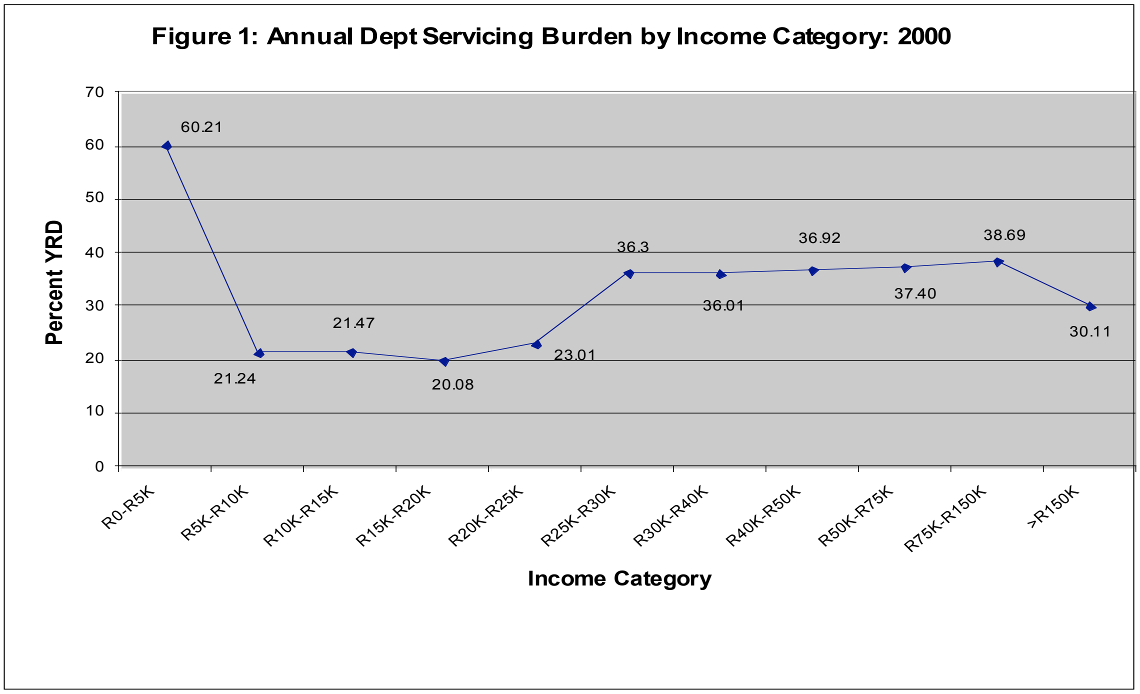
4.1.1 Income

According to Chao-Beroff (2003,16), the growing need to secure money or income has been more prevalent in places where there is increasing insecurity and dairly social pressures. This has been the case mostly for poor households who consider banking services as inaccessible. The availability of income or money determines the spending behaviour of the poor households or how such income is utilised to provide for themselves and their families. The overall usage of banking or financial services in the informal settlements and rural areas is very small, estimated at less than 1 percent (Van de Ruit 2001:12). This is the most unbankable area of micro finance. Mostly have never had access to formal financial institutions and their main sources of finance to survive are families, state transfer payments such as disability and child-care grants, and pensions.

Whatever there is an urgent need for money, they first turn to those they are closest to for help, a relative, friend or neighbour because they would expect them to return the favour some time in the future (Moyo *et al* 2002:9). This is a reciprocal obligation, which, according to Johnson and Rogaly (1997,18), in other countries such as Southern India may be extended to involve even all the members of a community.

These groups of households, according to Aliber (2001,3, Bosch 2002,15) are usually very low paid, low status and have little income security, and have been socially excluded. The income that they generate usually falls far short of even a minimum standard and, as a result, they have continual borrowing needs and run the risk of an excessive dependence upon financial institutions that are outside the formal financial sector or informal local moneylenders. The income that the poor households acquire is spent on consumption or ceremonial sprees (Adams 1978:547). When credit is received, it creates an addition to the resources available during that time, and can be allocated to any one or all of the household activities. If the resources of the household are low in a given period of time, then credit may be used to smooth consumption (Wilson 2001,33) and the flow of income is not expected to increase, thus, causing them to be in a debt spiral or over-indebted.

It is evident that the debt spirals in the South African poor households were increasing. The extensive research was conducted by various institutions for the Micro Finance Regulatory Council. These include, among others, the Human Sciences Research Council (2003), which showed that although the majority of people appear to have improved their ability to manage their debts, the opposite can be said for the poor households. This is indicated in Figure 1 below, which shows the debt servicing obligations of households per income category.



Source: Human Science Research Council, 2003.

It is clear from the figure that the poorest income group (denoted by R0-R5k) carries the heaviest debt servicing burden of 60.21 percent. The progression then steeply falls to a level more in line with the expected trends in the next income category. It is interesting to see that the debt servicing for the wealthier income category is below the levels of the previous five income groups. Among the causes of the debt spirals are the higher risk products such as hire purchase loans from furniture stores and financed procured from retail stores.

4.1.2 Unemployment

Poverty can also be a function of the environment such as sustained periods of high unemployment. The level of unemployment in South Africa was 26.7 percent in September 2005 and continues to increase, and is considerably greater and more severe among the poor, and especially women in informal settlements and rural areas (Fourie 2001:374, Statistics South Africa, 2005: on-line). The creation of jobs has become one of the important concerns facing the country. In addition to the shortage of jobs, one is concerned that the quality of jobs may fall short of what would be needed to allow the poorer sections of the population to better their lives. A large fraction of the work force is discouraged, that is, people who have actively sought work have ceased actively searching out of frustration and lack of resources (Qua-Enoo, undated). Most poor groups lack the necessary skills to perform certain jobs and are engaged in poor quality jobs with low productivity and incomes, and poor working conditions. This forces them to look for other sources of income. The most vulnerable are women who work in the informal economy such as domestic work and are caught up in the daily struggle for survival.

International Labour Organisation (2003,16) points out that domestic work is characterised by excessive hours of work with no extra pay, overwork, lack of benefits or social security, unfair termination of employment and employer abuse. They are marginalised and excluded from the mainstream economy, and are vulnerable as most have no networks or organisational basis for bargaining or comparing the current wage rates. In many cases, the unemployed turn to self-employment such as hawking and vending, shoe reparing, crèche, spaza shops, tailor and hairdressing. They are normally referred to as survivalist households or enterprises with no paid employees and minimal asset value or activities by people unable to find a paid job or get into an economic sector of their choice (Qua-Enoo, undated, Department of Trade and Industry, A Draft discussion document, April 1998). They generate income below the poverty line and their main aim is to provide minimal subsistence means for their families. Deutscher Genossenschafts – und Raiffeisenverband e.V. (DGRV) (2003,5) emphasised that the major constraints associated with the development of the survivalist enterprises in the informal settlements and or rural areas are the high incidence of poverty and unemployment among population groups. De Carvalho (1997,175) points out that the question of employment is at the heart of extreme poverty and social exclusion. The government is faced with the challenge of creating jobs due to the deterioration of the situation of the poor people.

4.1.3 Formal education

Many households come from the very poor areas of the economy and have very little educational background and as a result, they cannot understand or comprehend the legislation or documents placed before them. The majority are illiterate and often intimidated by reading and writing skills (Wright and Mutesasira 2001:11). Lack of education also condemns them to very low-skill jobs, where remuneration is insufficient to survive, forcing the families to send their children to the labour market at an early age. This is much prevalent essentially in the informal settlements and rural areas. These households are often forced to seek relative expensive amounts of credit from alternative financial intermediaries, sometimes illegally.

4.1.4 Other factors (demographic variables)

In addition to income insecurity, the level of unemployment and very little educational background, age, gender and dependend children also determine the levels of debts in the poor communities. Age is a critical demographic variable that predicts the levels of debts. Age reduces a person's future income generating lifespan. Most of the older people do not have accurate information that would enable them to make informed decisions about the danger or implications of debts. According to Fiebig *et al.* (1998,4), these people are more likely to be illiterate and are vulnerable to debt spirals. Their families also experience increases in the costs for their burial when they die. The debt spirals also have gender implications. In the poor communities, especially those with high unemployment rate, women are the primary care givers and Buijs (2002,4) points out that they are forced to be more financially responsible and it is more difficult to escape their debt obligations.

Additionally, the number of dependend children is a good indicator of debts because a large number of children is a rational adaptation to the lack of social security. Thus, households with a large number of children will have a higher level of debts because of the high household expenses associated with the children.

4.2 Access to formal financial services by the poor households

Financial services entail a broad range of financial products. The term financial services, according to Johnson and Rogaly (1997,1), are about enabling people to amass usefully large sums of cash. Financial services include, among others, savings, credit, transmission of cash from one place to the other as well as other relevant financial products. The extension of access to financial (or banking) services is one of the major objectives in South Africa. Access, according to Enterprise Magazine (February 2005, 35), is defined as providing banking services within 20 kilometers of 80 percent of people in the LSM 1-5 categories, including, notably, the rural population. Although improving access to financial services has been considered as an important market reform that can assist to improve the living standards of the poor groups in South Africa, the research found that very little has been done in this regard.

The formal financial sector in South Africa is well developed and highly concentrated in urban areas in terms of services available and the volume of transactions. Banks are the main providers of financial services, especially credit facilities. Banks compete for clients with ownership of mortgageable property of relatively high values. They target people who possess pay slips as proof of employment and collateral as security for loans, which many poor households do not have. For the banking sector, collateral plays an important role because it insures repayment if the borrower's income is insufficient. This carries with it the transaction and administrative costs, interest rates, and the costs of acquiring information about the borrower. These households are regarded as the unbankable who cannot be profitably served and are marginalised (Baydas *et al.* 1997:2). Electronic banking further places the poor households at an even greater disadvantage since they hardly have any access to the necessary technology. Staschen (1999:20) points out that the areas in which these households live are without high net worth demographics, electricity and communication channels, and therefore, are not part of these new ways of banking.

In addition, as a result of the inaccessibility of finance by the poor households, the micro finance or lending industry steadily grows on the basis of focusing on consumer credit and is regarded as a central poverty alleviation and a means of deriving economic growth (Van de Ruit 2001:4). Micro finance or credit involves the distribution of small-scale loans to the poor households (Smit *et al.* 1996:591). The industry, like the banks, also targets clients with proof of employment and is characterised by large disparities in access, cost and types of credit provided based on income levels. The operation and regulation of the industry, which is aimed at protecting both borrowers and lenders from exploitation, allowed lenders to charge interest rates that exploited the poor households who end up not having access under a controlled interest rate and being marginalised. Aggressive or reckless lending by micro-lenders also placed vulnerable borrrowers in a debt spiral by lending them more than they can afford. The micro lending industry is, therefore, also not an appropriate alternative for providing finance to most marginalised households. These households reside in informal settlements in remote areas and mostly are unemployed and lack documentation such as pay slips as well as security needed as prerequisites for loans.

Furthermore, lack of access to financial services by the poor households makes them to look for alternative sources of finance and heavily depend on the financial services of their local informal moneylenders who are regarded as responsive to their financial needs. Lindholm (1958,150) refers to this moneylenders as “loan sharks” who provide lending of an emergency type and are usually operating outside the legal provision for lending. Greene and Berroth (2002,2) point out that these loan sharks offer vulnerable clients loans of various amounts at exorbitant interest rates. Moneylenders are required to lend within the Usury Act’s interest rate limits which are between 29 and 33 percent per year (Press Release 1999: on-line). However, such loan sharks are not registered with the Micro Finance Regulatory Council and exploit the households by charging them interest rates of between 40 and 60 percent. Micro Lenders Association (MLA) (2002,2) refers to them as unpleasant and shady characters who exploit the poor communities who are uninformed and choose to remain faceless. They do not have offices or fixed addresses and show no mercy in their dealings with their clients.

4.2.1 Informal finance and financial literacy

In view of the problems of inaccessibility of financial services and their vulnerability of not knowing or understanding how the micro-lenders operate or the rules and regulation governing such micro-lenders, the poor households resort to the informal means of finance in order to survive. The households access finance through various forms of informal savings and lending which are mostly used in the poor black communities. These include, among others, rotating credit and savings associations known as stokvels. A stokvel is a credit association made up of a group of people usually numbering less than 30 or even 10, depending on the stokvel type, to give each other certain amount of money on a rotational basis. According to Verhoef (2001:520), a stokvel is the umbrella term used for informal savings organisations in the African community in South Africa for survival. In most cases, the contributed amounts are saved and also made available as loans to the stokvel members. These stokvels assist the households to provide for their basic needs, that is, they provide financial services for entertainment, household utensils and groceries, education, and funding for predictable expensive events such as marriages and most importantly, unpredictable ones like illnesses and funerals. The households themselves decide on how the stokvels should operate by stipulating own rules and regulations in the form of the constitution. The households manage the finances themselves and exert peer pressure on one another to repay the loans for the purpose of sustaining the stokvels.

4.3 Regulation of micro lending in South Africa

According to the Press Release (2001, on-line), 1992 marked the exemption of small loans from the interest rate limitation. An Exemption to the Usury Act of 1992 that removed interest rate ceilings on small loans under R6000 with a repayment period of less than 36 months. The purpose was to place limitations and responsibilities on micro-lenders to protect consumers from usurious exploitation by lenders. However, the continuous exploitation of borrowers by micro-lenders necessitated specific legislation with the primary objective of protecting the borrowers. The micro lending industry in South Africa was, therefore, reviewed in 1999 and the regulation of the industry was undertaken in terms of the provision of the rules of the Micro Finance Regulatory Council (MFRC). The main purpose of the MFRC was to promote sustainable growth of the micro lending industry, serve the unserved credit needs, while ensuring that consumer rights are protected. The MFRC implemented a number of mechanisms which are intended to modify micro-lender behaviour and reckless lending. A new Exemption to the Usury Act in 1999 revised amounts of small loans and were increased from R6000 to R10 000. It is stipulated in the rules of the MFRC that the moneylenders will only be permitted to operate after registration with the Council on 15 September 1999 (Rule 3 of the Micro Finance Regulatory Council). All micro-lenders or accredited institutions were monitored by the Council to ensure that they comply with the regulations. Registered moneylenders were required to lend within the Usury Act's interest rate limits which were between 29 and 33 percent per year (as indicated in the previous section) (Press Release 1999, on-line). Failing to comply with the Act, they will be contravening the rules and will be subject to the penalties of the Act.

In addition, micro-lenders are prohibited from making use of any illegal collection methods such as retaining the borrowers' banking cards and personal identification number (PIN) (Rule 5 (5.4)), and the capping of interest rates to effect payment. Furthermore, a database of micro loans was created through the National Loans Register (NLR) which was responsible for providing the micro-lenders with information with which to assess the borrower's level of debt and also to provide mechnisms through reckless lending in order to take appropriate disciplinary action (Press Release 2004: on-line).

5. Research findings

On the basis of the above discussion, it is evident that the poor households are and continue to be in the debt spiral. This is as a result of inaccessibility of financial services by the formal financial institutions that regard the households as unbanked. Socio-economic factors such as low levels of income, education and unemployment contribute to their poverty. The research found that a number of vulnerable families were identified, mostly women-headed families. As primary care givers, women are forced to financially take responsibility for themselves and their children. Table 1 below shows that 26.6 % are domestic workers in the private homes who survive through piece jobs and earn between R200 and R250. Very few, 13.3 %, are professionals or teachers in local primary schools earning R2200. The 6.6 % are employed as casual workers earning R780 whereas the permanent 6.6 % earn R1800 at the retail sector. Some of them, i.e., 13.3 % are unemployed. It was found that some of the families, 33.2 % turned to self-employment. They mentioned that the most substantial cash contribution is obtained by selling foodstuffs, mostly fruits and vegetables. They generate income of less than R580 per month. The 13.3 % are hairdressers and barbers who indicated that they earn R600 per month but that also depending on the availability of clients, and 6.6 % operate crèches which pay them an average of R600 per month. Lack of finance is the key obstacle in their businesses. Many indicated that due to financial problems, they do not always operate their small businesses until they have accumulated loans to buy stock. These households are normally referred to as survivalist households or enterprises with no paid employees and minimal asset value (Department of Trade and Industry, A Draft discussion document April 1998), or activities by people unable to find a paid job or get into an economic sector of their choice (Qua-Enoo, undated). They generate income below the poverty line and their main aim is to provide minimal subsistence means for their families.

Most of the households have very little educational background or no formal training. Among these households are the 53.3 % who have primary education and only 26.6 % of the respondents have secondary education. It was found that 20 % have no education at all. And none have the university qualification.

The research provides a broad indication of debt utilisation by the households. The regulation of micro lending in South Africa is coupled with some weaknesses which contribute to the debt spiral. Although there is regulation governing micro-lenders (discussed in section 4.3 above), there are still increasing indications of reckless lending by most micro-lenders. Lending beyond the borrower's ability to repay contributes to the debt spiral. It is expected of lenders to undertake denying and reducing the size of loans to those who are already in debt to another source. It was found that most of the househols have more than one loan from both moneylenders and banks, mostly credit banks. The level of indebtedness is evident as 19.9 % of the domestic households have more than one loan, i.e., 13.3 % from one moneylender and 6.6 % from the other. The other 13.2 % of the hairdressers, and further 13.2 of those owning crèches obtain loans from both formal banks and moneylenders. They mentioned that they use the loans to buy stock and repay the loans after generating income which they mentioned is sometimes inefficient to repay the loans. They pointed out that they obtain further loans from credit banks to repay the moneylenders. They have easy access to the moneylenders because they know each other very well and money is easily available. However, the moneylenders use illegal methods of collection on loan defaults. The moneylenders confiscate the goods and other household items if the loans are not repaid. The interest charged on such loans were said to be ranking between 40 and 50 percent. Most households did not even know the amount of interest charged by moneylenders and pointed out that this is because of their desperate need for money.

The moneylenders further retained the households' bank cards, PIN, an identification numbers until the loan has been fully repaid. Although all micro-lenders must register with the MFRC, a large number of unregistered lenders still prevail in both larger cities and towns and in townships and rural areas. Tracking and regulating the moneylenders in South Africa appears to be difficult or ineffective. This is evident from continuous court cases in South Africa pertaining to reckless lending and other exploitative behaviour of micro-lenders.

The households indicated that their very low income has to be used on day-to-day expenses such as food, education, and clothes as well as emergencies or shocks like funerals and sicknesses. Most of them fall within the lowest LSM1 category, i.e., between R250 and R600 whereas very few falls within LSM2, 4 and 5 (see

Table1below). Over-indebtedness is also evident from the Micro Finance Regulatory Council which revealed that the most vulnerable groups to over-indebtedness are households of either gender who are in the R0-R15000 income range per annum (i.e., R1250). The research found that the households are characterised by fairly high and inelastic expenditure patterns on consumable goods, particularly food and beverages, and have a majority share of their total outstanding debt owed to retail institutions. They are thus involuntary consumers of debt and have a high propensity to become permanently indebted. This implies that poor households are the most likely to continue to fall into a debt trap due to their poor asset base and their constraints with respect to the income expenditure deficit. Their over-indebtedness is also caused by sudden changes or income shocks experienced after committing to loan repayments, for example, retrenchments and illnesses, inadequate analysis and knowledge of the client's ability to repay the loan, and exploitative lending practices, as indicated in the research, that disregard the fact that some clients may be inexperienced in managing debt, leading to borrowing more than they need.

Table 1. Households' socio-economic factors, income and debts

Socio-economic factors		%	Income per LSM: Average monthly income					Loans/debts			
			LSM1	LSM2	LSM3	LSM4	LSM5	Moneylenders 1	2	3	Banks
Employment	Unemployed	13.3									
	Domestic	26.6	R250					13.3	6.6		-
	Self-employed -foodstuffs	13.3	R580								
	-hairdressers	13.3	R600					6.6			6.6

	-crèche	6.6	R600					6.6			6.6
	Professional	13.3					R2200	6.6			6.6
	Retail sector -casual	6.6		R780				6.6			
	-permanent	6.6				R1800		6.6	6.6		6.6
Education	Primary Secondary University None	53.3 26.6 0 20									

The research also provides a broad indication of debt utilisation. Although micro-lenders make up the largest part of the amount of people getting into trouble, it was found that other factors add to financial distress. The findings were that the families comprised mostly of six to seven members in each and very few had three to four members. A high percentage of spending is from consumables. Groceries (mostly food), clothing, water and electricity and education for children together represent 80% of total debt levels. The provision of food in many poor communities is a problem as most of the people are umemployed or if employed, earn very little income. The relative importance of food expenditure is to counter food insecurity. Access to retail credit also atributes to the debt spirals. Retail credit is becoming more freely available and some stores are ignoring the buyer's credit record. The households who had clothing accounts with retail stores amount to 48%. With regard to municipal services, The households mentioned that the other contributing factor to their debts is the ever-increasing amount of municipal services (water and electricity), which sometimes makes it difficult to pay for such services. Duncan (2000,2) highlights that the most unpaid debt is municipality debt. Non-payment of municipal services in the informal settlement like Mandela village is more an issue of absolute poverty levels.

Education related expensesnfor the children constitute 55%, and within the education expenses are the school fees, books and stationary. Although some schools in their community are a walking distance, others are far away from their homes and transport expenses to those schools are incurred by the households themselves.

6. Conclusion

It is has been clear from the research that poor households face multiple debts. The evidence suggests that the poorest income categories witnessed the greatest increase in the numbers and percentages of indebtedness. This research provided information on the socio-economic factors and the levels of indebtedness at the household level in Mandela village. Their low levels of income, education and the types of jobs they do make them to be more vulnerable and to accumulate multiple debts to cater for their needs. Additionally, some demographic variables such as age, gender and dependend children also predict the levels of debt.

The marginalisation of the poor households by the formal financial institutions also pushes the households farther away from accessing finance to utilising financial service of the abusive moneylenders who place the households in the debt spirals. Unscrupulous lending practices of most moneylenders contribute to the debt spiral of the poor households. It has been seen that other causes of debt spirals include retail credit, which is also a cause for concern, municipal services as well as groceries to cater for themselves and the number of their depended children. This means that consumption expenditure for the most basic household goods is an extremely significant constraint on the poor households in South Africa. This sheds light on the constraints facing households. The households, therefore, have no option but to incur debts in order to survive.

Therefore, the government is faced with a challenge of reducing poverty and unemployment, especially among the poor communities. To reduce poverty to levels acceptable in a civilized society, new and productive jobs that will pay enough to sustain families decently and to bring them up from below the absolute poverty line have to be created.

It is, therefore, recommended that to overcome the problem of the debt spiral and inaccessibility of finance, the specialised financial system has to be developed that requires the transfer of resources into communities where they are located in a non-threatening environment. To do this first need the monetary authorities or financial institutions to understand what financial activities already exist in the poor communities and how these services can be improved. A good example in this regard is the informal rotating credit and savings associations (stokvels) that poor households already operate for survival. These stokvels provide the households with some form of financial management skills.

Additionally, although the Micro Finance Regulatory Council has initiated some solutions to the debt spirals, it is, however, important that regulators learn from the successes and failures of the previous regulatory framework and ensure that a sustainable and effective regulatory framework is structured, and not the one that repeats failures of the past. The framework should effectively minimise or reduce aggressive lending by moneylenders. A more detailed disclosures in the loan applications have to be thoroughly considered in order to protect the consumers from being over-indebted. This calls for the improvement of the role of the National Loans Register in providing the micro-lenders with information with which to assess the borrower's level of debt. This incudes improving the database of micro loans. This research strongly recommends that all other debts of the borrower shoulds be included in the database to determine affordability and this will reduce the debt spirals.

Furthermore, measures to track the formal micro-lenders who exploit the poor households and contravene the rules have to be improve as well as unregistered and informal moneylenders who operate outside the regulations and rules of lending have to be put in place. The current regulation needs to be revised and reformed in order to increase consumer protection and also address the weaknesses in the micro lending market. The revised regulation should prohibit unfair lending practices and combat rising levels of the debt spirals. Finally, borrowers have to be educated about the implications of the cost of credit that impacts negativily on them. An effective response to the debt spirals would require an improved disclosure of or more extensive credit information sharing between borrowers and lenders. The questions for further research are whether the revised legislation will be able to effectively deal with reckless lending in order to reduce the debt spirals?, and whether such legislation will be able to make it possible to effectively track unregistered lenders in order to improve the operation of the micro lending sector?

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