

THE EXPLOITATION OF OLD-AGE PENSIONERS BY MICRO-LENDERS

IN RURAL AREAS OF THE GREATER GIYANI MUNICIPALITY,

LIMPOPO PROVINCE

BY

SAMSON MADALA NDLOVU

Mini-dissertation submitted in fulfilment of the requirements

For the degree Masters of Development, in the Graduate

School of Leadership,

Faculty of Management and Law,

University of Limpopo, South Africa

SUPERVISOR:

PROF. D.G. KIROV

SEPTEMBER 2007

DECLARATION

I, Samson Madala Ndlovu, hereby declare that this dissertation submitted to the University of Limpopo for the degree of Masters of Development, in the Turfloop Graduate School of Leadership, Faculty of Management and Law, has not previously been submitted by me for a degree at this or other university. I further declare that this is my work and all material contained therein has been duly acknowledged.

SAMSON MADALA NDLOVU

DATE

ABSTRACT

Micro-lending has long been a controversial issue. Although old-age pensioners are excited about the opportunity of accessing credit from micro-lenders, some are exploited. The aim of the study was to investigate how old-age pensioners fall prey for micro-lenders, who charge them high interest on small short-term loans.

The exploratory design was used for this investigation because it would provide the researcher with an in-depth understanding of old-age pensioners' experiences when dealing with micro-lenders. The study is based on a case study of the three villages, Mphagani, Zava, and Khashane (MZK), in the rural areas of Greater Giyani Municipality, Limpopo province.

Most old persons are reliant on social grants to support themselves and their extended families. Sometimes they need to supplement their income because of the responsibilities that they have in their families. Micro-finance institutions are targeting women because they are likely to be more reliable as borrowers and increased income is more likely to accrue to the family and especially children.

The results of the study show that majority of old-age pensioners take loans from micro-lenders. The reasons for borrowing micro loans are categorized into four major needs for money: purchase of food, payment for health-care services, funerals, and education. These micro-lenders are not compliant with the rules and procedures of the National Credit Act.

Poverty is a serious challenge of people living in the rural areas. The purpose of the study is to give suggestions and recommendations to government for interventions and educational programmes in order to improve the socio-economic status of the old-age pensioners.

ACKNOWLEDGEMENT

I would like to express my deepest gratitude and appreciation to the supervisor, Prof. Kirov and his wife, for giving me special attention and guidance in the development of this study.

Special thanks to my wonderful wife, Daphney for her love, support, encouragement and her gentle way of advising me.

I express thanks to my children, three sons, Reggy, Lenny and Tiysisani as well as my beloved daughter, Voningani. You are really my inspiration and the reason to work tirelessly.

My sincere gratitude goes to the parents, my late father, Elias Mgayigayi and mother, Mthavini N'wa-Magezi who continue to inspire, encourage and support me to study.

Thanks to my late brother, Solomon and sisters, Lisbeth and Lilly for their unwavering support and motivation.

My inspiration and motivation to study come from my late grandparents, Folichi and N'wa-Jim Ndlovu as well as Magezi and N'wa-Gwazele Mongwe.

I am thrilled and overwhelmed by the support and encouragement shown by all my relatives, friends and colleagues. You do have a special place in my heart.

LIST OF ABBREVIATIONS AND ACRONYMS	
AIDS	Acquired Immune Deficiency Syndrome
APL	Absolute Poverty Line
CGAP	Consultative Group to Assist the Poorest
EBRD	European Bank for Reconstruction and Development
FW	Field Worker
GNI	Gross National Income
HIV	Human Immuno-deficiency Virus
IPD	Initiative for Policy Dialogue
MFI	Microfinance Institutions
MFRC	Micro Finance Regulatory Council
MFSA	Micro Finance South Africa
MZK	Mphagani, Zava and Khashane
NCA	National Credit Act
NCR	National Credit Regulator
NGOs	Non-Governmental Organizations
RFF	Rural Financial Facility
RFIs	Retail Financing Institutions
ROSCAs	Rotating Savings and Credit Associations
SACP	South African Communist Party
SEF	Small Enterprise Foundation
SEWA	Self-Employed Women's Association
SHGs	Self-Help Groups
SMMEs	Small, Medium and Micro-Enterprises
SUF	Start-Up Fund
TB	Tuberculosis
UNDP	United Nations Development Programme

LIST OF TABLES		PAGE
Table 4.1	Involvement of old-age pensioners in micro-lending	38
Table 4.2	Gender of the borrowers	39
Table 4.3	Age distribution of the participants	41
Table 4.4	Illiteracy rate of the participants	43
Table 4.5	Employment status in the participants' household	44
Table 4.6	Gender of the micro-lenders	45
Table 4.7	Reasons for taking loans	47
Table 4.8	Beneficiaries from the loans	50
Table 4.9	Loan amount	51
Table 4.10	Repayment period of the loan	52
Table 4.11	Interest rate paid by the participants	54
Table 4.12	Providing a copy of the contract to the borrowers	56
Table 4.13	Need to be educated about micro-lending	57
Table 4.14	Facilitators of the participants' education	58
Table 4.15	Exploitation of the borrowers	59

FIGURE		PAGE
Figure 4.1	Gender of the borrowers	40
Figure 4.2	Age distribution of the male participants	41
Figure 4.3	Age distribution of the females' participants	42
Figure 4.4	Gender of the micro-lenders	46
Figure 4.5	Reasons for taking loans	48
Figure 4.6	Interest rate paid by the participants	54

TABLE OF CONTENTS	
Declaration	i
Abstract	ii
Acknowledgement	iii
List of abbreviations and acronyms	iv
List of tables	v
List of figures	v

CHAPTER 1	
Background of the study	
1.1. Introduction	1
1.2. Statement of the problem	2
1.3. Motivation for the study	3
1.4. Aim of the study	4
1.5. Objectives of the study	4
1.6. Research questions	5
1.7. Significance of the study	5
1.8. Definition of concepts	6

CHAPTER 2	
Literature review on micro-lending in rural areas	
2.1. Introduction	9
2.2. Socio-economic profile of old-age pensioners in rural areas of South Africa	9
2.3. The role of microfinance and micro-lending for poverty alleviation	11
2.3.1. Theoretical understanding of micro-credit	12

2.3.2. Group lending schemes	14
2.3.3. Women- the most reliable borrowers	15
2.4. International regulations and practices in micro-lending	17
2.4.1. Micro-lending regulations in different countries of the world	17
2.4.2. Grameen Bank model	18
2.5. Policy regulations and practices in South Africa's micro-lending industry	20
2.5.1. The influence of Usury Act on micro-lending	20
2.5.2. Microfinance institutions in South Africa	22
2.5.3. Informal micro-lending in South Africa	25
2.5.4. The National Credit Act	26

CHAPTER 3	
Research methodology	
3.1. Introduction	30
3.2. Research design	30
3.3. Area of study	31
3.4. Population	33
3.5. Sampling methods	33
3.6. Data collection methods	34
3.7. Data collection procedures	35
3.8. Methods of data analysis	36
3.9. Ethical considerations	36
3.10. Limitations of the study	37

CHAPTER 4	
Data presentation, analysis and interpretation	
4.1. Introduction	38
4.2. Involvement of old-age pensioners in micro-lending	38
4.3. Gender of the borrowers	39
4.4. Age distribution of the participants	40
4.5. Illiteracy rate of the participants	43
4.6. Employment status in the participants' household	43
4.7. Micro-lenders as providers of the loans	45
4.8. Gender of the micro-lenders	45
4.9. The reasons for taking loans	47
4.10. The beneficiaries from the loans	49
4.11. The loan amount	51
4.12. The repayment period of the loan	52
4.13. The rate of interest	53
4.14. Providing a copy of the contract to the borrowers	56
4.15. Awareness of the participants about the conditions of borrowing	57
4.16. Facilitators of the participants' education about micro-lending	58
4.17. Exploitation of the borrowers	59

CHAPTER 5	
Conclusions and Recommendations	
5.1. Conclusions	61
5.2. Recommendations	63

BIBLIOGRAPHY	68
---------------------	----

APPENDICES		
Appendix 1	Map of the study area (Mphagani, Zava and Khashane)	75
Appendix 2	Questionnaire for all old-age pensioners	77
Appendix 3	Questionnaire for old-age pensioners who are borrowers	81
Appendix 4	Questionnaire for micro-lenders	84