INFORMAL LENDING REPORT

Understanding the role of mashonisas in the South African credit market.

A report on research commissioned by Wonga Finance SA (Pty) Ltd and conducted by Eighty20.

THE ISIZULU WORD **MASHONISA** RELATES TO VERB STEMS (ENDINGS) - SHONA (TO SINK, TO BECOME POOR) AND SHONISA (TO IMPOVERISH, CAUSE TO BECOME POOR).

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EXECUTIVE SUMMARY

Wonga Finance SA (Pty) Ltd commissioned research into the extent and characteristics of informal lending in South Africa in 2017.

The research, conducted by research and analytics consultancy Eighty20, focussed on mashonisas, a term often translated as "loan sharks", and their activities, which are common in townships and informal settlements around the country.

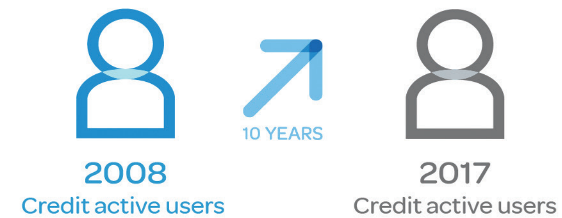
The research was prompted by a contraction in the consumer credit market in South Africa, especially the short-term unsecured category, in recent years. This has happened approximately in parallel with the implementation of tighter lending criteria following amendments to the National Credit Act in 2015. The purpose of the research was to explore what happens to consumers who are not able to access credit from formal providers and the possibility of a link between more restrictive regulation and a growth in informality. Mashonisas are illegal and unregulated which means their operating models are not impacted on by regulations and they incur no compliance costs in terms of the National Credit Act. The research highlighted that informal lenders meet a fairly specific need that is, in general, not well catered for by formal lenders. In some cases, it is entirely plausible that consumers who are unable to access credit in the formal sector would access informal sources of credit.

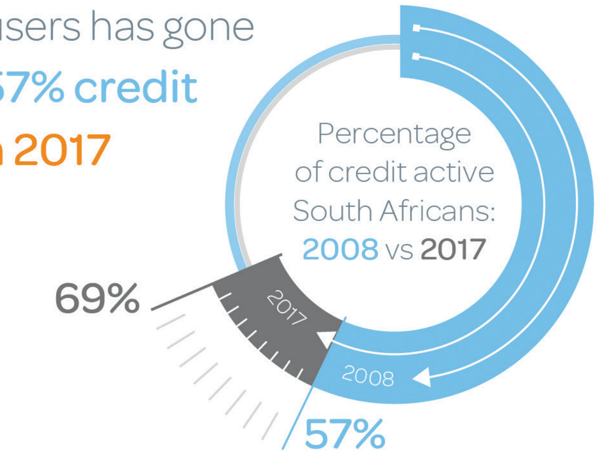
The study also revealed a series of surprising insights which lay the foundation for a new understanding of the informal credit market, differing somewhat from conventional wisdoms. It suggests that mashonisas are a far more widespread phenomenon than is often thought. Based on a physical count conducted in the streets of Enkanini, an informal settlement outside Khayelitsha, researchers conservatively estimated that there could be at least 40 000 mashonisas operating in South Africa. In fact, the qualitative evidence collected suggest this is likely to be a low estimate. The interviews with mashonisas and the focus groups conducted with their customers demonstrated that the mashonisa market is separate from, but complimentary to the formal market. Mashonisas offer quick and easy access to small, short-term (less than one month) cash loans that are utilised by borrowers to manage their monthly cash flows. They are typically used to finance immediate needs such as food, transport, cell phone airtime and pre-paid electricity, and less commonly used to finance unexpected once-off expenses such as funerals. The research suggests that informal credit is not always a substitute for formal credit and indeed that consumers access both at the same time, for different purposes.

The interviews and focus groups illustrated a known but often ignored fact about mashonisas – that they are a socially embedded phenomenon. Informal lending has negligible entry barriers and can be undertaken by anyone with capital available. In this research project, some of the mashonisa interviewees started their businesses with one-off pay-outs (pensions, redundancy packages, etc.) in order to make their money go further. Contrary to the

The percentage of credit active users has gone up over the past ten years from **57% credit active users in 2008** to **69% in 2017**

Source: NCR, Stats SA LFS 2008 Q3, 2017 Q1





media image of mashonisas as a sub-set of the criminal class, they are ordinary people drawn from all walks of life. Some see themselves as owners of successful and entirely sustainable businesses while others operate on a more survivalist basis.

The term "socially embedded" implies a widespread acceptance of the phenomenon. The research indicates that mashonisas are not only widespread but that they are also widely accepted as part of the social fabric. While unregulated, the phenomenon can perhaps even be seen as "legitimate" in the communities in which they operate. This may serve to soften the extreme practices, especially in collections, so often associated with the sector. Nevertheless, the social nature of the phenomenon is demonstrated by the fact that most mashonisas succeed using no tools of redress other than persuasion, verbal harassment and social shaming. However, while reckless lending and ruthless debt collection do occur, it would be misleading to see this as all there is to the mashonisa phenomenon. Without excusing the excesses which make headlines, the research demonstrates a more nuanced reality than many media reports would suggest.

The research confirmed that informal loans are expensive; mashonisas charge notoriously high interest rates, of up to 50 percent per loan, regardless of the term of the loan. But there are no other charges and the research indicates that many customers prefer this simplicity to what they perceive to be a more complex fee structure in the formal sector. Customers also value the convenience and accessibility of mashonisas. But it is unlikely that these are the sole reason for their turning to the mashonisas. Many of the borrowers who were interviewed had impaired credit records and some were undergoing debt counselling, factors which excluded them from the formal market. At the same time the good (social) qualities of mashonisas should not be exaggerated. In the focus groups borrowers repeatedly said they found the power dynamic humiliating and the highly transparent (public) nature of default management processes employed by mashonisas impacted negatively on their social standing and self-esteem. In contrast with the formal sector where privacy is paramount, "everyone knows" when someone cannot repay a mashonisa and it is "impossible to hide in the community".

On average, credit active South Africans have 2.8 open credit products.

Finally, there are marked differences in scale, focus and (aspects of) operational models used by various mashonisas. Some mashonisas tend to offer smaller loans to the blue-collar market (taxi driver, cashiers) while others focus on a more upmarket, white collar segment. A critical distinction between mashonisas may be the capacity and willingness to seize collateral, by force if necessary. The mashonisa phenomenon turns out to be deeply socially embedded, meets a niche demand and is almost certainly ineradicable. It has been around for a long time and is not likely to disappear soon. Anecdotal evidence from both mashonisas and borrowers suggest the practice has grown significantly in recent years. It is almost by definition regulation-proof although further research is still needed on its relationship with regulation and the regulated (formal) credit sector.

INTRODUCTION

In 2017 Wonga Finance SA (Pty) Ltd commissioned research into the informal (and illegal) credit market in South Africa. The specific focus was on the informal enterprises known as mashonisas, a term which is often loosely used as a synonym for "loan sharks". The research, conducted in Khayelitsha, in August 2017, by research and analytics consultancy Eighty20, produced results which are both surprising and potentially significant for the South African market.

Mashonisas have an unsavoury reputation. They are widely understood to be ruthless operators playing hard in a brutal market. In December 2017, for example, an article published in The Sowetan suggested in a headline that "consumers borrow from mashonisas at the risk of losing life or limb".[1]

By definition, their customers do not enjoy legal protection and mashonisas are reputed to employ sometimes excessively robust collection methods. Furthermore, they are known to charge far higher rates of interest than formal lenders and are widely viewed as a "last resort" for borrowers who cannot obtain finance from any other source.

1 https://www.sowetanlive.co.za/business/money/2017-12-07-consumers-borrow-from-mashonisa-at-the-risk-of-losing-life-or-limb/

PURPOSE OF THE RESEARCH

The purpose of the research is to understand what happens to consumers who find themselves in a position where they cannot be serviced in the formal credit market.

Although further down the line this must lead to questions about the configuration of the regulatory framework, the top priority was to achieve a more nuanced understanding of how the informal market works and how it interacts with the formal market.

To address these issues, the research team set out to establish the size of the informal lending market and to document the operating models and practices of informal lenders. Mashonisas were defined as neighbourhood money lenders who are not registered with the National Credit Regulator as required by the basic legislation (the National Credit Act of 2005).[2] The term "neighbourhood" in the definition is used to distinguish home-based informal lenders – the subject of the study – from more mobile operators who do business in such public spaces as taxi ranks and shebeens. These are also distinct from other informal operators, such as non-registered brick-and-mortar credit providers ("Mom and Pop stores") as well as other informal entities such as stokvels, funeral and other savings groups who might grant loans to members.

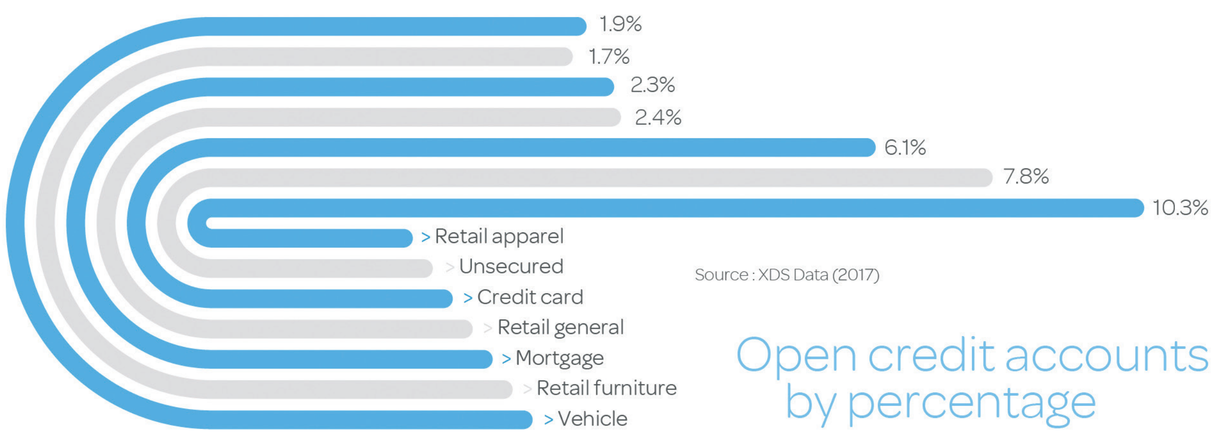
Two new sets of regulations were issued in 2015, following an Amendment to the National Credit Act, requiring stricter application of both Income and Affordability Assessments.[3] The application of these regulations has been paralleled by a tightening of credit extension especially in the unsecured credit category.

But tougher regulations apply to the formal sector only. It is therefore natural to suspect that regulation in this instance has done what regulation, generally, so often does: drive a phenomenon underground without restraining it. Has regulation forced more borrowers to turn to the informal credit (mashonisa) market?

This question required the researchers to dig deeper into the mashonisa phenomenon in order to understand the practices and models used by these informal moneylenders as well as the motives and experiences of their clients. It also required a physical count of known mashonisas in a specific area to assess how widespread the phenomenon is. As the research was conducted only in Khayelitsha in Cape Town, caution is required when scaling-up or generalising the findings across the whole country.

Nevertheless, we believe the findings are significant not only for formal microlenders and policymakers operating in this space but also provide a richer basis to understand an important and poorly researched aspect of how finance and credit works in South Africa.

2 http://www.justice.gov.za/mc/vnbp/act2005-034.pdf u
3 http://www.creditombud.org.za/wp-content/uploads/2015/11/NATIONAL-CREDIT-REGULATIONS-INCLUDING-AFFORDALITY.pdf



Open credit accounts by percentage

THE STATE OF UNSECURED CREDIT IN SOUTH AFRICA

South Africa has arguably some of the most progressive and comprehensive credit legislation in the world.

In order to prevent and protect customers from over indebtedness, new amendments to the National Credit Act were promulgated in 2015 that clearly defined the means by which credit providers need to conduct and assess affordability for every credit agreement they enter into.

Any credit agreement where the customer cannot reasonably afford to repay their monthly obligation is deemed to be reckless. Since 2014, the number of unsecured credit agreements opened per annum has reduced by CAGR -12,7% (Graph 1).

However over the same period the value of unsecured credit granted has grown by CAGR 5,2% (Graph 2) to R87,5bn in 2017.

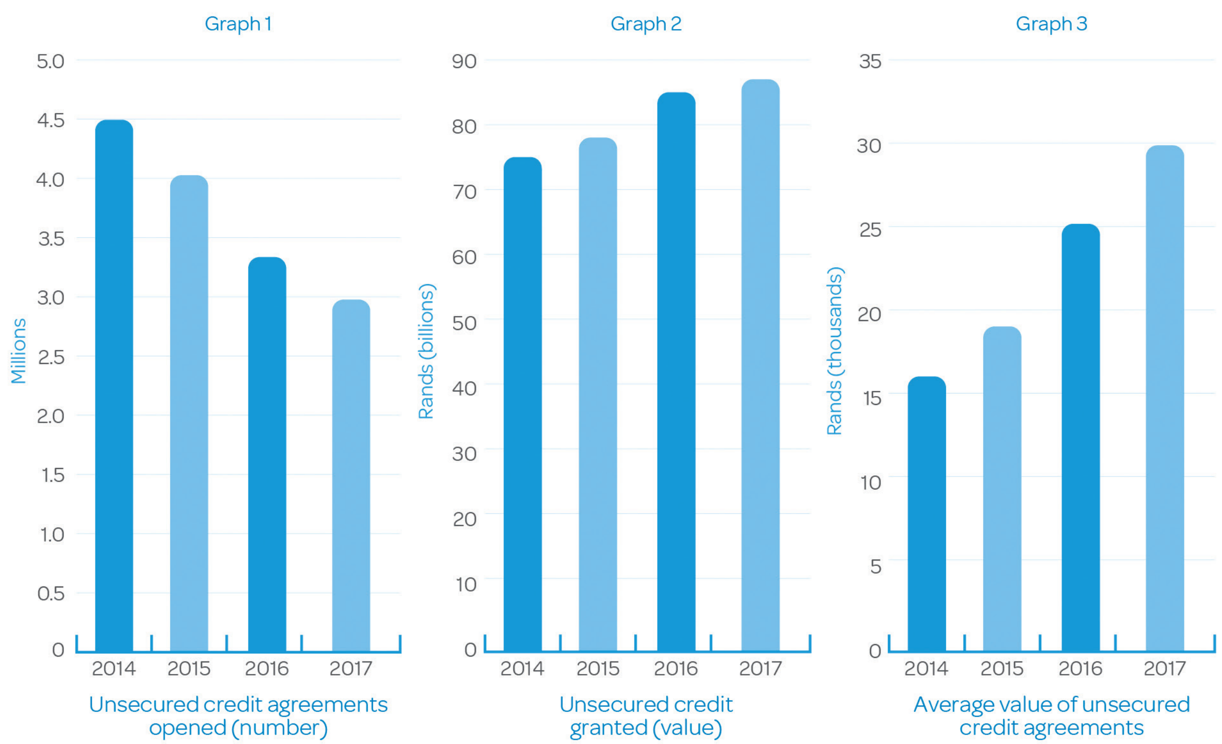
In order to achieve this growth, there has been a shift towards longer term and higher value loans, resulting in the average unsecured loan value increasing by CAGR 20,7% (Graph 3) to R29,540.

While extending repayment terms is an effective way of improving affordability for a customer, the danger lies in creating a mismatch between the repayment term and the utility for which the loan was used.

It is in this mismatch that customers are more likely to become caught in a debt trap. It is unclear from the data if the reduction in the number of loans is demand or supply driven, as such it would be speculative to claim causality between the amended regulations and this shift in lending.

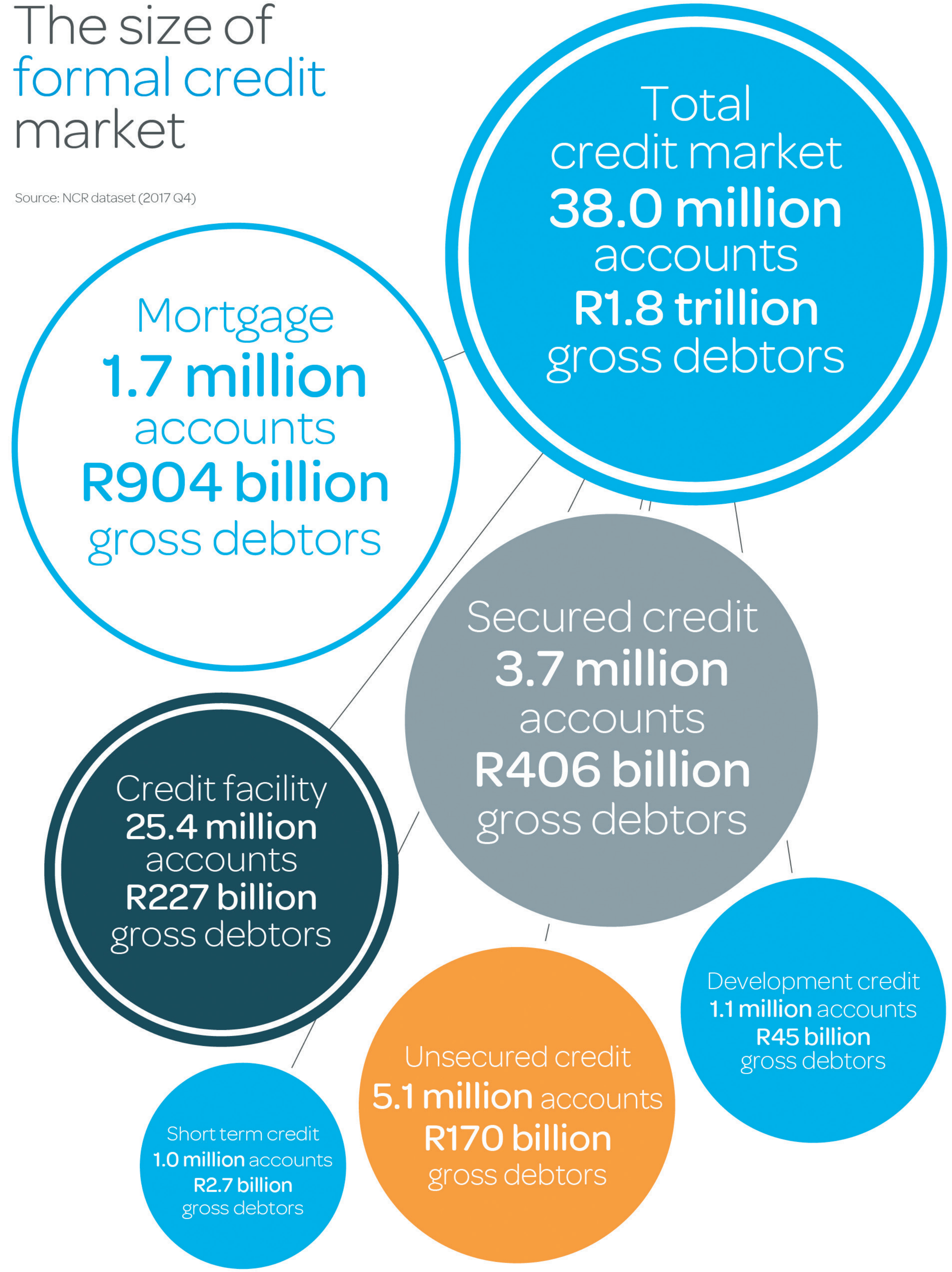
However, if this shift is supply driven and demand for lending is unchanged, where do customers go if they cannot access credit from the formal credit market?

Source : NCR (2007 - 2017)



The size of formal credit market

Source: NCR dataset (2017 Q4)



THE RESEARCH PROCESS

In terms of methodology, the research started with a literature and data review.

The main sources found and their limitations are mentioned in the next section What is known about mashonisas? and listed in the biography at the end of this document.

A census or count of mashonisas was conducted in a defined residential area of an informal settlement in Khayelitsha. The study area was divided into ten blocks using aerial imagery.

Over a period of seven days, twelve community members walked around their assigned block to identify, both visually and through conversation, the mashonisas known to be operating in the area. The results are reported later in the section How many mashonisas are there?

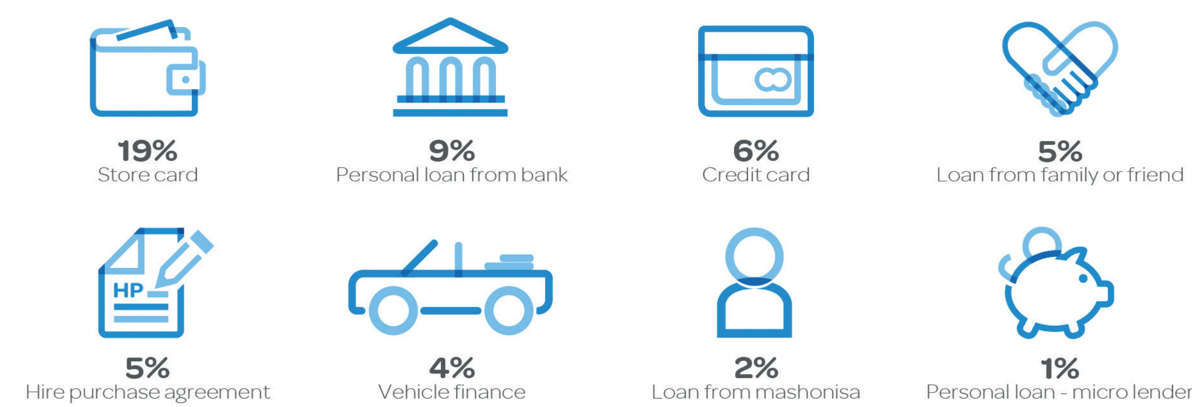
The qualitative aspects of the research comprised two parts. First, six mashonisa operators were interviewed in depth in order to understand their customers, business practices and perceptions of their operating environment including regulatory risk.

These interviews were complimented by two focus groups of borrowers.

The thirteen individuals who participated in these discussions were divided by income with the (poorer) group falling into the R5 000-R15 000 household income bracket and the second (better off) falling into the R10 000-R30 000 bracket. All focus group participants were formally employed, had bank accounts and had utilised the services of a mashonisa in the previous 12 months. All participants had also borrowed from a formal lender (including credit at retail stores) in the previous five years.

Credit products by percentage

Source: Southern African Labour and Development Research Unit. National Income Dynamics Study 2014 - 2015



WHAT IS KNOWN ABOUT MASHONISAS?

Informal lending is a market which is both controversial and poorly understood.

Informal lenders usually make the news in cases of extreme predatory behaviour. Indebtedness and informal lending have been associated with social unrest and violence,[4] particularly in circumstances of relative underdevelopment.

Formal studies, including surveys by the Southern African Labour and Development Research Unit (SALDRU)[5] and the Finmark Trust,[6] may understate the significance of mashonisas. SALDRU's 2014-15 National Income Dynamics Study (NIDS) found that only two percent of adult South Africans (approximately 560 000 individuals) have a loan with a mashonisa. Three quarters of borrowers owed less than R1 000. The Finmark Trust's Finscope study suggests that while 52% of South African adults make use of one or more informal financial mechanism, including burial societies and stokvels, only four percent of credit seekers were "informally served" in 2015. However, Finscope indicates that the extent of informality was decreasing and concluded, that year, that "more people are tapping into credit mostly via formal products".

While these two studies provide the best data available in South Africa they are however limited in two respects. First, both these studies illustrate the pre-2015 growth in credit extension but do not reflect the subsequent tightening of the market. Second, it has to be suggested, the very informality of the mashonisa phenomenon renders it secretive, perhaps shameful, and poses a major barrier to data collection. Not only is the quantitative information limited but there has also been very little qualitative research into mashonisas in South Africa. The most significant study so far is that conducted by London School of Economics anthropologist Deborah James, between 2007 and 2009. She concluded that "illegal moneylending is pervasive in South Africa" and that it parallels the over-indebtedness of salary- and wage-earning consumers.[7] Most significantly, James found that mashonisas are "embedded in community arrangements". People become informal lenders because they live in social circumstance where lending offers a viable business opportunity. She tentatively concludes that "This is best seen as a relational category, in that one becomes a moneylender in relation to a borrower who is in need of money. [It is a] mistake ... to see these as constituting a distinct category of individuals rather than recognising that the practice is pervasive in society". She adds that informal moneylending "is undertaken by different people – sometimes even groups of people – at different times." The idea that mashonisas are socially embedded and cannot be properly understood in pure economic or business terms also emerged through the research and is reported below.

4 See Marinovich, G. (2016) Murder at Small Koppie: The Real Story of the Marikana Massacre, Penguin Books Cape Town pp. 203-208
5 http://www.nids.uct.ac.za/about/what-is-nids
6 ttp://www.finmark.org.za/wp-content/uploads/2016/03/Broch_FinScopeSA2015_Consumersurvey_FNL.pdf
7 http://scholar.sun.ac.za/handle/10019.1/98947

HOW MANY MASHONISAS ARE THERE?

Eighty20 conducted a count of mashonisas operating in one of the informal settlements in Khayelitsha, Cape Town.

The area covers approximately 1.47 km^2 and contains between 9 000 and 10 000 households.[8] The project team divided the area into ten blocks. Over a period of seven days, twelve community-based enumerators walked through their assigned blocks and identified the mashonisas operating in the area. Each enumerator marked the location of identified mashonisas on a map.

Some 87 known mashonisas were identified operating from their houses in the study area. This is likely to be an underestimate for at least two reasons: First, it would be unsurprising if some mashonisas actively avoid being identified; they are engaged in an illegal activity and there was no doubt some suspicion of the motives of the researchers. Second, the count excluded mashonisas operating outside the home setting, at taxi ranks, in shebeens and spaza shops, as well as part-time or "fly-by-night" mashonisas who engage in money-lending only when they have extra cash. The result of the count reveals an extraordinarily dense proliferation of mashonisa operations. Conservatively estimated, it was found that there was one mashonisa for every one hundred households in the area. Scaled-up and applied to the whole of Khayelitsha with its 135 000 households[9] this ratio can be applied to suggest that more than 1 350 mashonisas may be active in the township. In the focus groups, participants emphasised the wide prevalence of the phenomenon. Some asserted that there were "five or six" mashonisas operating in the street in which they lived. One person in the borrower group stated, perhaps with exaggeration, that "every second person you meet on the road is a mashonisa".

Mashonisa to household ratio 1:100

Applied nationally, a ratio of 1 mashonisa per 100 households would suggest that there is something of the order of 14 000 mashonisas operating in South Africa's informal settlements alone (1.4 million households according to StatsSA in 2016).[10] It is not unreasonable to suggest a figure of at least 40 000 mashonisas for the country as a whole taking into account the more formal townships as well as those mashonisas who operate out of shebeens, taxi ranks, and workplaces. While the caveat about scaling-up from such a small research base applies, this is a significant quantum.

8 9 200 according to StatsSA Census 2011
9 Census 2011 figures (118 810 households) inflated by the population growth rate of 2,57%
10 StatsSA (2016) GHS Series Volume VII: Housing from a human settlement perspective, 20 April http://www.statssa.gov.za/?p=6429

WHO ARE MASHONISAS?

Contrary to the image of mashonisas as a specific segment of the criminal class, interviewees and focus group participants were clear that mashonisas could be all sorts of people, men and women, formally employed and unemployed, across a range of education and of any age.

Three of the six mashonisas interviewed had histories in formal employment. One had been a bus driver and another had worked at the post office, while a third, a man who ran a mashonisa in partnership with his wife, is currently employed at a hotel. Of the other three, one said she had never been employed, another had a history in informal business (selling vetkoek and fried fish on the road) and the third has previously sold Avon and Tupperware products. The youngest interviewee was 27 and the oldest 48. As the qualitative research proceeded, it reinforced and illustrated the fact that informal lending is socially embedded.

The mashonisas interviewed as part of this study did not make a specific career choice but responded to events around them. Informal lending has negligible barriers to entry and exit. People appear to engage in it when and if they have extra cash. Indeed, for the most part, being a mashonisa appears to be as much as survivalist activity as borrowing from one. Interviewees said their “start-up capital” could come from a payment like a redundancy package or pension payment from which loans would be extended to make the sum go further.

One interviewee described the generic process of entering the market: “If I have R10 000 that I am not going to make use of (spend), then I will go around telling everyone that if someone needs money they can come to me. I will charge you an extra R30 for every hundred rand you borrow. Then I am a mashonisa”. This takes us back to Deborah James’ description of the mashonisa phenomenon as “socially embedded”. Both the market and the agents within it are very directly connected to their social environment and need to be understood in that context.

A further under-researched category of informal lender emerged during the course of the research. The borrowers interviewed repeatedly referred to “workplace mashonisas” a term which covered not only those who lend money in the workplace but also those who sell food or clothing on credit.

One focus group participant said ”... and the small ones, that weren’t mentioned [by the interviewer], for instance at work. If you are overindebted and your salary won’t meet your needs, you have those that sell chicken and meats ... those are the mashonisas that no one has mentioned”.

In some cases, workplace lending can amplify power dynamics between workers and managers. To quote one focus group participant: “the director at work sells biltong ... and even though you don’t want it you must take it because it is the director”. In some workplaces mashonisas appear to be at the very least permitted, if not approved. One interviewee commented: “There is always someone trying to sell and then you end up owing a lot of people money in the company. And they know when you get paid.” One mashonisa even received marketing assistance from management in the workplace. She commented that “I did it all on my own (established an informal lending business) at work and then (later) I announced it to the management and they would tell the staff”.

What is a **mashonisa?**

Mashonisas are defined as neighbourhood money lenders who are not registered with the National Credit Regulator as required by the basic legislation (the National Credit Act of 2005)

WHAT IS THE SIZE OF THE MASHONISA MARKET?

The count conducted in Khayelitsha and the testimonies of interviewees and focus group participants suggest that the informal lending market in Khayelitsha is extensive.

Clearly, where there is demand for credit, informal lenders emerge to meet it. However, loans are small with the biggest being R5 000 and the smallest R50. This implies that while the practice is widespread, the total market quantum, measured in Rands, is small. However, the research also shows that the informal lending market is fluid and that operators come and go according to both their business success and their access to spare (lending) capital, which is another difficulty in sizing the market.

Mashonisas interviewed during this research believe that the informal lending sector is expanding.

However, interviewees were unable to clearly indicate whether this is evidenced by an increase in the number of mashonisas, the number of clients or the total quantum of loans extended.

They typically described their businesses as having been 'up and down' since 2015. Some said they had more customers today than they did previously 'due to the (increased) cost of living'. One described being a mashonisa as a 'growing area of business'.

Approximately 1 350 active mashonisas in Khayelitsha Total number of households in Khayelitsha: approximately 135 000

Some borrowers with formal debt have little intention of paying it back

What kind of formal debt do you have?

R21 000

Mine was **R27 000** two years ago

Mine was with FNB, three years ago. It was **R5 000**

It is too much, the last time I checked it was **R30 000** something

How will you pay it back?

I am praying

I want to get amnesty for their accounts

I will never be able to afford that kind of money

I think that if you have **R3 000** or less debt they will delete your profile

Source: Wonga focus groups

WHY DO PEOPLE USE MASHONISAS?

Mashonisa interviewees and the respondents in the two focus groups were asked what borrowers use the loans for.

They noted that loans are typically used for everyday expenses such as food and transport, for children's schooling expenses and for unplanned events such as funerals. Focus group participants provided a list of the items they had borrowed for. This included: "small things like beer sometimes", "lunch, just pocket money", "(pre-paid) electricity", "transport money for the kids to get to school", "my DStv account", "petrol", and "cell phone data". This suggests a pattern of borrowing from mashonisas to manage cash flows between payment cycles.

Customers are "making ends meet" in a time of general economic stress. Mashonisas may well best be seen as one of the props that keeps everyday life afloat. One participant said: "I am able to pay all my commitments but then a week before the next pay check, now my petrol tank is on reserve, now I have to look around who I can lend from. I (either) go to a mashonisa or a friend. I get paid on the 27th and have a friend that gets paid of the 15th and one that gets paid on the 20th, so we play rounds".

Another respondent comments that "it (running out of money) happens every month but you don't know when you are going to go to a mashonisa to ask for money". Loan sizes mentioned were R500, R700 and "R1 000, the most would be R1 500 a month". The high rates of interest charged on loans was discussed in an accepting and matter of fact way: "towards month end you borrow R500 and when you pay it back it is R750".

The question remains: why do customers choose mashonisas rather than formal lenders? While borrowers value the convenience and accessibility of community-based lenders, in some cases, borrowers don't specifically make a choice to use mashonisas but do so because they are barred from the formal credit market.

Most of the poorer focus group were heavily indebted in the formal market and were, in the words of one participant, actively "running away from debt".

One admitted to changing banks and cell phone number to "disappear" while another said, in reference to formal institutions, "if someone calls and they speak English then I am not at home". Some considered their formal debt to be so intractable that they describe themselves as "dead" in the eyes of the formal market.

The second focus group was somewhat more financially "savvy". However, most were either currently blacklisted or under debt review and could thus not access formal credit. The group was generally aware of concepts like credit amnesty and some admitted that they were waiting for the next amnesty to "sort out" their debt situation.

Others had been through a debt review process and were actively avoiding taking on more credit. However, all found themselves financially stressed towards the end of the month and use small loans from mashonisas to get by.

> "I am able to pay all my commitments but then a week before the next pay check, now my petrol tank is on reserve, now I have to look around who I can lend from. I (either) go to a mashonisa or a friend. I get paid on the 27th and have a friend that gets paid of the 15th and one that gets paid on the 20th, so we play rounds"

A small minority in the poorer focus group were not in debt but had been previously. They had made conscious decisions and lifestyle changes to clear their debt. But most had a sense of helplessness and desperation. The higher income group was not much more positive.

Those who were not under debt review admitted to formal liabilities varying between R21 000 and R 30 000 plus, but had no real plan to escape. One was "praying ... for the minister to wipe our debt". Another said she "will never be able to afford that kind of money" while a third hoped for a repeat of the previous (2014) credit amnesty: "... if you have R3 000 or less debt they will delete your profile".

HOW DO MASHONISAS WORK?

As social phenomena, mashonisas are not set up to consistently conduct business in a regulatory compliant manner.

By definition, none of them has to account to a regulator, a formal business partner or, as far as this study could establish, a creditor. Record keeping seems to be sketchy with a simple loan book being the main record of transactions.

Interest rates

Mashonisas make their entire profit from interest margins. They do not charge administration fees or pay commissions. The most striking feature of the industry is the high interest rate charged. The interviewees mentioned predominantly two interest rates, fifty percent and thirty percent, charged over the duration of the loan. It would seem that most loan terms are measured in days or weeks rather than months. This accords with other evidence uncovered in the literature survey. A 2011 study of informal lenders in Mamelodi, for instance, found interest that charged on loans was 30 to 40 percent[11] .

The interest rate does not vary according to the loan term or amount, nor, according to interviewees, does it change in response to customers" track records. There was no evidence in the research that good customers – who pay on time – get a discounted rate. Some of the mashonisas interviewed during the research project regard the 30 percent lower limit as a bait rate but say they do not consider going lower as they are afraid this would undercut other mashonisas. The social rather than competitive nature of the practice could not be more clearly illustrated. It is not that a ruthless and competitive consolidation of the informal lending market (by particularly hard-nosed operators) is impossible but rather it would seem that the social embeddedness of the phenomenon makes it difficult and probably unlikely.

11 Mashigo. P. (2012) The lending practices of township micro-lenders and their impact on the low-income households in South Africa: A case study for Mamelodi township. New Contree, No. 65, December http://dspace.nwu.ac.za/bitstream/handle/10394/8260/No_65%282012%29_Mashigo_P.pdf?sequence=1&isAllowed=y

Mashonisas vs formal lenders

Mashonisas

<<< Pros	Cons >>>
Local (no travel)	Holding personal documents / cards
Quick loan payout	High interest rates
Not on credit record	Power dynamics
Easy to understand	Seizure of personal belongings
No documents	Feel "watched"
	Humiliating
	Limited recourse

Formal lenders

<<< Pros	Cons >>>
Discreteness	Tempted by bigger loan offers
Bound by rules	Long repayment
Low interest rates	Complicated fee structure
Payment arrangements	Need documents
Respect	Takes a long time
	Travel often required

"In our community, you have a brother or a son that is using drugs. And it is not right but you would have them having things that you don't know where it came from.

But you will still say that he is my brother or my son, as long as it is not happening to me.

If I had a friend who is an informal lender, I have accepted it even though it is wrong, but it is good that he takes that TV because he needs his money back.

To you it might be confusing because I have told you that he takes things from other people and why would I want to invite him into my home? But in our society, it is different..."

Starting their businesses

Interviewees said that most started their businesses as a way to supplement their income or because they could not find another job. Four of the six interviewees had been lending money for at least five years. The other two had started more recently. One interviewee had recently stopped lending because she "does not have enough money to keep her business going". Most started by lending out small amounts of money and gradually increasing their customer base and local amounts over time. For five of the six interviewees, the lending business is their primary source of income.

Mashonisas were asked how they felt about their profession. Not surprisingly, considerable ambiguity emerged. On the one hand the mashonisas said they feel that they are "helping people" (meet immediate needs, putting food on the table).

On the other however, they admitted to "feeling bad about contributing to the problems in the community", including the personal and family burden of debt, and misuse of credit for things like alcohol consumption and gambling.

Although in the interviews mashonisas claimed that alcoholics and gamblers were excluded in terms of their customer selection criteria, other anecdotes from the research suggest this informal rule may be somewhat carelessly applied.

Mashonisas felt positive about their ability "to make a good profit" but tended to be negative about risk. They emphasised two elements of this. First, there is the risk to personal safety including the chances of their houses being robbed because they are associated with money. One mashonisa said "I can't keep money here ... the tsotsis will come ...". Second, there is the risk of clients defaulting. Some mashonisas pointed to the "stress" of having to "fight" and "beg" to get their money back from borrowers.

Asked how she would feel about her child announcing that she intended becoming a mashonisa, one interviewee summed up the ambiguity perfectly: "It's happy but it's not happy", she said. "If someone is going to borrow money like a husband, he's going to borrow that money and go to the shebeen. Ya, I don't like that one! ... because his wife maybe don't have food at home, the children are hungry, but me – I still keep on giving him money".

Mashonisa product offering

Interest rates

> Charging 30% considered a competitive advantage, going lower undercuts others in the market

> Interest rate does not vary according to the loan amount or type of customer

> Interest rates either 30% or 50% per loan

Product offering

> Small, instant cash loans to meet immediate needs (transport, food, etc.)

> Only the amount requested

> No hidden costs; "T&Cs" well-known

> Can also be a digital transaction

Loan size and limits

> Loans typically between R500 and R1 000

> Limits normally align with the income of borrower

> Mashonisas monitor trends in their client's borrowing behaviour

Marketing, sales and vetting

Informal lending processes are extremely localised. Almost all the mashonisas interviewed said that they only lent to people located in their immediate area and known to them, personally or by reputation. They rely heavily on a local referral system which, in combination with their social network, enables them to assess new customers and manage risk. "We don't just give (to) anybody... gaining trust, it's not a one-off thing", said a mashonisa. New clients are typically given only small loans – R50 was mentioned – with a view to accessing bigger sums after they have established a track-record.

The intimate and social nature of the lender-client relationship is captured by the assertion on the part of mashonisas that people who refer clients to mashonisas are "held personally liable for the behaviour of the person they refer". This is more likely to be a social co-responsibility, related to the role of social shaming (see **Collections and dispute resolution** below) in getting recalcitrant borrowers to pay up, than the sort of financial liability incurred by someone standing surety in the formal market.

Some of the mashonisas interviewed have clearly preferred client groups. Some will only lend to pensioners and others only to employed people. In both cases, knowledge of a secure and predictable income is critical. The mashonisa interviewees claim to apply strict rules – not lending to drunk people for instance – and rigid operating hours (8 am to 6 pm). There is a predictable relationship between loan size and the profile of the target market. Those who offer smaller loans tend to lend to a blue-collar market (taxi drivers, builders, cashiers) while those who provide larger loans (up to R5 000) lend to white collar workers (nurses, teachers and civil servants).

Interaction between mashonisas was common among those operating in the area of study. Information about clients is often shared. Interviewees describe an informal network through which this happens as an informal "mashonisa society" and say that it meets about once a month to discuss problems and how to deal with defaulting clients.

Among other things it appears to set limits to what actions, regarding defaulters, are acceptable and what isn't. Interviewees say the "mashonisa society" sometimes works with local community leaders, drawing them in to resolve disputes.

Mashonisa marketing and vetting processes

Marketing

> Word of mouth

> Referrals

> Community knowledge

Vetting process

> Lend to people they know, or get others to act as guarantors

> Lend to people with a regular income

> Visit homes of new clients – "informal KYC process"

> Rely on information from other mashonisas – "informal credit bureau"

Risk management

Each mashonisa interviewed has an upper limit on loan size. The highest mentioned in this research was a ceiling of R5 000. Limits normally align with the income of the target market. Those interviewees who loan to pensioners know that they earn R1 600 a month. Therefore, they will not extend loans of more than R500 to R1 000 because, as an interviewee put it, "they still need to survive". The interviewees indicate they try to align business prudence with social responsibility although it would be incorrect to over-idealise the practice. Mashonisas monitor trends in their clients borrowing behaviour. A big increase in the amount requested is one obvious red flag. One mashonisa said: "Sometimes I look, maybe if I know you usually take R500, then you come for R2 000, then I, you see, then I disagree".

Requesting collateral appears to be standard practice among mashonisas. Some mashonisas interviewed said they asked for and held the borrower's identity card/document (ID) or bank card, or both, as security against the loan. However, others said they do not ask for documents as they are concerned about the responsibility of keeping them safe. One argued that there is a risk of such documents being destroyed in a shack fire. Others were concerned that if they kept an ID or especially a bank card they would be exposed to the possibility of borrowers complaining to the police. None of the interviewees admitted to taking social security (SASSA) cards.

For the most part, the borrower's household assets are the main source of security for the loan. During the process of assessing new clients, some mashonisas visit clients houses to inspect these assets. Fridges, DVD players and TVs were common collateral. It was also clear that there is only a loose relationship between the value of the household asset offered as collateral and the size of the loan. Furthermore, additional value in the collateral over the loan value is not returned to the client.

Collections and dispute resolution

Although the mashonisas interviewed all said that it was at times hard to get their money back from clients, they were not clear about the extent of default.

The interviewees visit or call defaulting clients, sometimes many times, "to understand" the reasons for non-payment. In the interviews, mashonisas claimed to be flexible and understanding. However, it was clear that they take non-payment very seriously and don't like "being pushed too far".

While some mashonisas are willing to seize household assets and either retain them until they are paid or sell them to recover the debt, a minority do not have the capacity (or will) to do this. These "weaker" mashonisas, dependant as they are on persuasion and a sense of obligation on the client's part, have recourse only to public verbal harassment (shaming).

Mashonisa dispute resolution and delinquency management

Payment collections

> Payment due on agreed date

> Payment made in person or direct withdrawal

> Part payments allowed, but additional interest can be incurred

Delinquency management

> IDs, or bank cards often taken as security

> Additional interest charge on outstanding loans

> Seize household assets / belongings

> Use physical intimidation / threat

Dispute resolution

> Physical loan book is often the only record of the transaction

> Disputes are sometimes mediated by community leaders, mashonisa "societies"

> Police may be involved causing certain ramifications for the borrower

This may be more effective given the importance of reputation, not least because it determines future creditworthiness. Nevertheless, it is likely that mashonisas who do not seize assets are less profitable than the "stronger ones" and may find it difficult to stay in business.

None of the mashonisas interviewed openly mentioned physical intimidation even though violence is a fundamental aspect of the media image of the sector.

However, intimidation was intimated. One "strong" mashonisa spoke of how, when her clients default, "I knock on the door like a policeman" while another stated that, in these cases, "I make like a lion". However, it does seem that there are a range of actions varying across a scale from verbal harassment to physical violence. While it is not clear how often asset seizure – and beyond that actual violence – actually happens, the research does suggest that these are last resorts and may be much less common than media reports often imply.

Regulation

Almost all mashonisas mentioned at some point in the interviews that they know that what they are doing is illegal. However, none expressed any real concern that they might be "shut down" and none of the participants were aware of this happening in their community. Some were of the opinion that laws and regulations apply only to formal lenders "like banks". "The law does not (work) for us – that law work(s) only for big guys, for big business people", said one.

In the interviews mashonisas were more concerned about being shut down for taking people's assets. One respondent recalled seeing a news channel report of mashonisas being shut down in Khayelitsha because they were (illegally) seizing borrower's assets. There appears to be a perception, on the part of both mashonisas and their customers, that if they treat each other fairly and "work together", they are not at risk of being shut down.

MASHONISAS COMPARED TO FORMAL LENDERS

Accessibility, transparency and convenience

Borrowers value the accessibility and convenience of informal loans as well as their “off the record” nature. As one interviewee said: “even if you are blacklisted, they still give to you ... they don’t scan your fingers to check if you are blacklisted”. Others pointed to the immediacy and convenience of mashonisas: “I don’t want to go through all the hassle, I want the money now”, and “there is no paperwork and no questions, it is just “how much do you want”. Borrowing in the formal sector is, by contrast, perceived to be slow and inconvenient. “It is a bit of a process because I need the money tomorrow morning ... the time is almost eight pm and I can’t go to the bank. They are closed”, said one participant.

Mashonisas and the law

“Ya but does that law work to us – that law does not work to the community people, this work only for big guys for big business people. There’s no worry.”

Focus group participants also pointed out that they go to mashonisas to borrow for extremely short periods, usually less than a month. One argued: “I could get it from the bank but I didn’t want something that was going to affect my status over a long term. I wanted something I could pay back within a month and it is done”. Another borrower comments that the formal sector “takes too long for me”. She adds that “if you go to a mashonisa, at the end of the month they want their money back and then you are done”. A notable finding is that borrowers tend to find mashonisas more transparent than formal lenders, something no doubt related to the simplicity of their fee structure. By contrast, one participant complained, with formal institutions, ”when they advertise they will tell you that it is three percent or something, but when you count it, it is more than that”.

Hiding and surveillance

Aside from the high interest charged, focus group participants did describe some negative aspects of dealing with mashonisas. One of the primary drawbacks was a feeling of loss of autonomy as the mashonisa is able to keep the borrower under surveillance. “You cannot carry a Shoprite bag into your house if you owe them”, said one. “You are not free”, said another. It is not possible to escape a mashonisa by “hiding in the community”, which is an option with formal lenders. One participant commented: “There is a saying that” (the formal lender) doesn’t knock on your door”. The formal will send you letters before someone eventually knocks at your door”.

Fear and respect

Using mashonisas has an element of humiliation about it. Among the comments made by participants were: “they embarrass you in front of people” and “it lowers your dignity”. Others says: “you have to bow. That is the first thing” and “when you go to a mashonisa you must even greet the dog because you are begging for money”. Another contrasted the confidentially of a formal lender with the mashonisas: “It’s a matter of me being respected in the community. They won’t know (with a formal lender) that I am deep in debt if I don’t tell them my story. But with the mashonisas, everybody knows”.

“When you owe them, you don’t sleep if you know you can’t pay them. With the bank they treat you more professionally and with respect”

The tough collection methods employed by some mashonisas were unfavourably compared to the formal sector. “When you owe them, you don’t sleep if you know you can’t pay them. With the bank they treat you more professionally and with respect”, said one. Another commented that “It (the formal sector) is regulated. The mashonisas takes your furniture and speaks to you how they want. The formal has rules”, while a third pointed out that with formal lenders “you can also make arrangement to pay it off”.

Financial services in South Africa and the law

	Formal	Informal
Legal	Registered credit providers	Saving unions
Ilegal	Non registered credit providers	Mashonisas

INFORMAL LENDING OVERVIEW

1. Who and what are mashonisas?

Mashonisas are a socially embedded, widespread and deeply ingrained aspect of community life in South Africa

40 000 mashonisas in South Africa

1 : 100 mashonisas to household ratio

- Any range education
- Any age
- Male / female
- Employed/unemployed

	Formal	Informal
Legal	Registered credit providers	Saving unions
Illegal	Non registered credit providers	Mashonisas

Mashonisa loans

- 30%-50% per loan (regardless of term)
- No other fees
- 1 week - 30 days
- R50 – R500 – R1 000 – R2 500 – R5 000
- <40 loans open at any given time

2. Why do people use mashonisas?

Loans used for

- Food
- Transport
- School expenses
- Unplanned events
- Day to day expenses

Why do they choose mashonisas?

- Close proximity
- No documents required
- No bureau record
- Simple cost of credit
- Quick pay out

3. How credit is granted

Marketing

- Word of mouth
- Referrals
- Community knowledge

Vetting process

- I know you
- Referred by a friend
- Visit your home
- Low value starter loan
- Mashonisa society

4. Collection process

Payment collections

- Due on agreed date
- Made in person/ direct withdrawal
- Part payments allowed
- Interest only payment

Delinquency management

- ID's or bank cards taken as security
- Additional interest on outstanding loans
- Assets seizure
- Physical intimidation/ threats

Dispute resolution

- Community leaders
- Mashonisa societies

CONCLUSIONS

Mashonisas appear to be more widespread than anticipated and deeply socially rooted.

Given the limited scale of the research base, the conclusion that there may be 40 000 mashonisas operating in South Africa should be regarded as suggestive only. Nevertheless this is a significant figure.

Mashonisas operate in a high-risk market and meet this challenge by charging interest rates above the maximum rate (up to 50 percent per loan with terms of up to, and often less than, one month) allowed under regulation. In other words, it is their illegality which makes their existence possible. They are extremely accessible, with no paperwork or formal vetting procedures. Formal affordability and income assessments are not conducted, but loan values are linked to income. But while a cynic would observe that this enables mashonisas to operate without any boundaries, the evidence seems to indicate that social factors restrain predatory lending. They need a social licence to operate and are embedded in circumstances where communities, especially local leaders are well positioned (and known) to mediate disputes.

It would be inappropriate to make excessive claims for the social licence that mashonisas enjoy. They are not simply "nice guys" helping out people in need. But most are not the monsters that some media reports make them out to be. This is not to suggest that being in debt to a mashonisa is necessarily a happy experience. Participants in the study, with experience of being unable to service informal loans, spoke mostly about the humiliation and social shame associated with the issue. The participants clearly thought that there was something to be said for the impartiality and discretion of the formal lending sector. It is most realistic to see mashonisas as business entities that leverage social mechanisms to meet demand in a market.

People use mashonisas because they offer quick and easy access to small, short-term loans which enable borrowers to manage their cash flow needs. On the evidence of this study, it does not seem that customers are using mashonisa loans as a substitute for formal credit. They access formal and informal credit for very different reasons and often use both at the same time.

Mashonisas have been around for a long time but it is plausible to suggest that the phenomenon has grown in the last couple of years. However, the study has not managed to demonstrate that stricter affordability regulations have pushed more customers into the informal market any more than it has shown that impaired credit records or a sluggish economy have done so. Those questions still remain to be answered.

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