EXTENDING CREDIT TO THE LOW-INCOME AND POOR HOUSEHOLDS IN SOUTH AFRICA: A SYSTEM OF PRINCIPLES

by

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PROMOTER: DR C. H SCHOEMAN

MAY 2007
DECLARATION

“I hereby declare that the thesis

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submitted for the D Litt et Phil Economics degree to the University of

Johannesburg, apart from the help recognised, is my own work and has not previously been submitted to another university or institution of higher education for a Degree”.

MARIANN POLLY MASHIGO
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ABSTRACT

In this study, extending credit to the low-income and poor households in South Africa: a system of principles is analysed. Access to credit plays a major role in improving the living standards of the households that are plagued by financial shocks. Access to credit enables the low-income and poor households to bridge the effects of financial shocks and/or emergencies such as illness, funerals, fire and theft and to improve household conditions in general. Currently, the low-income and poor households in South Africa find it difficult to access credit from the formal financial sector. The fundamental problem underlying inaccessibility of credit is ascribed to uncertainty, which presents complications in the delivery of such credit to the households. Different theoretical aspects like fundamental uncertainty, incomplete (asymmetric) information, limits to perfect arbitrage, bounded rationality, and market microstructures, for example, give rise to the uncertainty problem which then makes it difficult for formal financial institutions (as lenders) and borrowers to conduct financial transactions and, therefore, limits the provision of credit, especially to the low-income and poor households. The uncertainty problem implies that the low-income and poor households remain deprived of need-based credit and are further marginalised.

The main objective of the study is to derive a system of principles that can act as a first point of reference in dealing with the uncertainty problem, thereby assisting in improving access to credit by the low-income and poor households in South Africa. The study adopts both qualitative and quantitative methods of research which are clearly expressed and substantiated to validate the study. To overcome the problem of uncertainty, the study recommends the development of a system of principles as a strategic instrument of dealing with the problem and to improve access to credit by the low-income and poor households in South Africa. Such a system is based on the
seven principles, namely, socialisation, collateral substitution, decentralisation, localisation, customisation, training and government/judicial policies as an important benchmark to initiate the transformation of the uncertainty problem associated with extending credit to the low-income and poor households. The importance of such a system is based on the fact that the principles are interrelated, for example, they use peer pressure and monitoring as substitutes for collateral in securing credit and also minimises the transaction and administrative costs of financial contracts. Lending and borrowing activities take place under perfect and certain environment.
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