

EXECUTIVE SUMMARY

THE POTENTIAL EFFECT OF THE NATIONAL CREDIT ACT OF 2006 ON THE FUTURE OF SELECTED, SPECIALISED MICRO-LENDING INSTITUTIONS IN SOUTH AFRICA

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Purpose of the Study:

The micro lending industry in South Africa has been affected in various ways by the introduction of the National Credit Act (NCA). The protection of customers within this industry is no doubt the focus of the Act and it is primarily aimed at increasing the protection they have from dubious lending activities very often used by lenders within the industry.

The Act imposes significantly increased conduct regulation on lenders that has seen them having to rethink strategies including, distribution, pricing and affordability criteria in ways never done before. The majority of these strategies have had to be formulated mainly as a consequence of the pricing regulation that has been introduced by the Act. A combination of these price reductions, as well as more restrictive approval criteria on advances made, have made the entire industry a far more challenging one for lenders at large.

The purpose of this report is to qualitatively assess the impact of these changes in regulation on various lenders within the micro lending industry. The lack of reliable quantitative data, coupled with the recent nature of the Act made a thorough quantitative analysis very difficult. Such a report in the future would hopefully provide credence to the information gained through the qualitative methods used in this research report.

Interviews were held with a range of lenders who were mainly chosen for their difference in size. It was assumed that as efficiency forms a key consideration, especially in light of the constraints placed on the income of lenders, that the relative size of a company and in turn the ability to create sustainable economies of scale would be crucial to their ongoing survival. It was therefore decided to choose a cross-section of large, medium and small sized companies to shed light on the effects that the NCA was to have on their specific businesses.

Finding of the Report:

The findings of the research report can be summarised as follows:

- That there would be a possible increase in the level of pricing competition between micro lenders in the industry.

- The Act would drive efficiency within the micro lending market, which would eventually lead to a sustained decrease in the cost of credit to consumers.
- Many small and medium sized lenders would close down due to the constraints caused on their incomes. As a result, this would force consolidation within the industry, with many large companies acquiring small and medium businesses. However, these closures would lead to job losses in the sector.
- The closures would lead to a decrease in the overall number of individual service providers.
- The closures may possibly lead to the emergence of a parallel “blackmarket” industry which is very difficult to regulate.
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