Debt relief a double-edged sword for South Africans living on loans

REUTERS, *Johannesburg*

Solani Rivele, a single mother of four, earns about 800 rand ($55) a week but owes 100 times that amount in loans. Millions of South Africans like her rely on credit to feed their families.

Rivele has borrowed around 80,000 rand since losing her job as a security guard due to injury in 2016. Now she owes around 3,500 rand in monthly installments, more than her monthly income.

"I can't afford to pay because I'm a single parent, I'm the one who is providing food on the table," the 44-year-old said in a shopping center on the outskirts of her home township of Alexandra in Johannesburg.

"I can't sleep."

The situation of people like Rivele shows both the potential benefits - and unintended consequences - of a new law signed by President Cyril Ramaphosa in August, aimed at protecting vulnerable borrowers.

The National Credit Amendment (NCA) comes as some lenders make healthy profits on loans while many of the country's poorest people spend huge chunks of their income on repayments. It could see some South Africans have their debts suspended or wiped entirely, and force more responsible lending.

This could be good news for many who, like Rivele, are stuck in debt traps. However, a number of big banks told Reuters that the new rules, and the potential risks entailed for lenders, meant they had or would cut back on lending to those low-income customers who might qualify for relief in future.

"You are asking yourself, do you want to play in that particular market, or do you move away?" said Gerrie Fourie, CEO of Capitec, South Africa's fifth-largest bank.

This could cause serious difficulties for some families in a country where the unemployment rate is almost 30 percent amid sluggish economic growth, living costs are rising, and millions of people cannot make ends meet.

Around a third of the population rely on loans for necessities like food, according to financial inclusion organization FinMark Trust.

African Bank, a smaller lender that targets low-income consumers, said it already had and would further reduce its lending to qualifying borrowers in response to the NCA.

Arrie Rautenbach, the retail bank CEO of Absa, told Reuters it would cut back on new lending to the riskiest borrowers among those who qualify for NCA relief, while Jacques Celliers, his counterpart at another of South Africa's big four lenders FirstRand, said it had already gradually trimmed new lending to the group in anticipation of the law.

Capitec said in August it had, over the past two years, reduced the proportion of borrowers who would qualify for NCA relief in its lending book to less than 5 percent.

Fourie told Reuters the figure has previously stood at 12-15 percent, with the reduction mostly driven by a deteriorating economy, but with the upcoming credit law also a factor.

The other two members of South Africa's big four - Standard Bank and Nedbank - said they were watching how the situation developed.

Short-term credit, the type of credit most commonly held by the poorest borrowers, has been squeezed since lawmakers began looking at debt forgiveness in 2016.

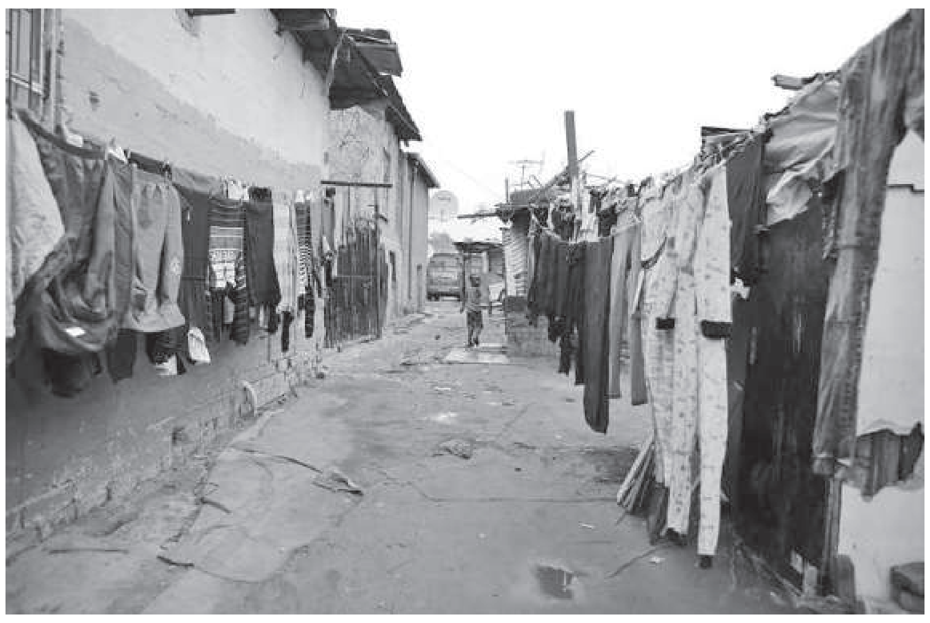
It dropped from 3.64 billion rand in the final quarter of 2015 to 2.27 billion rand in the second quarter of this year, data from South Africa's National Credit Regulator (NCR) shows. Cas Coovadia, who heads the Banking Association of South Africa, said the law would either raise the cost of credit for some of the most vulnerable borrowers or stop banks lending to them.

This risks some being pushed back into the informal sector, dominated by a large network of illegal loan sharks known as mashonisas, Coovadia, bank executives and some debt counselors say.

"You don't want people to end up in the informal sector, that is never good," said Absa's Rautenbach. "It's a very bad unintended outcome."

This was echoed by Brett van Aswegen, South Africa CEO of payday lender Wonga. He said his company's research showed mashonisas were already widely used, adding it would be "naive" to think consumers in need of cash would not go there. Mashonisas like 31-year-old Dani, who operates in and around Northam, a mining town in the northern province of Limpopo, commonly charge interest rates as high as 50 percent, and sometimes use violence to get their money back, according to debt campaigners.

Dani, who declined to give her surname as she is breaking the law, takes identity documents and bank cards as security, and if clients don't pay on time, hikes the interest to 100 percent.



REUTERS/FILE

A child walks past washing in Alexandra township in Johannesburg.

It boosts her business when people can't go to the bank for loans, she told Reuters.

"If the economy is bad, it is good for me, like if there is a strike at the bank, (customers) have to come to me," she said.

The NCR, and Clark Gardner, CEO of consumer advice firm Summit Financial Partners, disputed that borrowers would be pushed into the hands of loan sharks and said it would not be a bad thing if they had less access to credit.

Lesiba Mashapa, NCR company secretary, said big lenders granted loan sizes he viewed as excessive.

Gardner provided Reuters with loan agreements from two big banks in 2016 and 2017 respectively, with repayment periods of three and four years, where the cost of credit - interest rate plus charges - was 60 percent and almost 100 percent.

Differential Capital, an asset manager, agreed in a report published in August that irresponsible unsecured lending was far from the preserve of mashonisas, with formal providers "preying on financial illiteracy".

The NCR moved to protect borrowers in the wake of a leap of almost 290 percent in unsecured lending between 2007 and 2012 following measures to tackle racial discrimination in the credit market.

Differential Capital's report said two-thirds of the 7.8 million, usually low-income, consumers with unsecured loans spent more than a quarter of their net income on servicing their debt, while around half are in default.

The new law will see the credit regulator take over debt counselling for indebted consumers earning less than 7,500 rand per month - who are largely unable to afford private fees - and with unsecured loans of less than 50,000 rand.

It will allow all or part of their debt to be suspended for up to 24 months and wiped entirely in some circumstances, for instance if they lose their job.

Estimates vary, but the National Treasury projected in October 2017 that up to 20 billion rand ($1.3 billion) of consumer debt could qualify for forgiveness. That's small in an overall consumer debt stock of 1.9 trillion rand.

Chartered Accountants Worldwide unveils new logo for members

STAR BUSINESS DESK

Global accountancy body Chartered Accountants Worldwide (CAW) yesterday launched a new network member logo to recognise and promote a global family of CAs.

More than 750,000 qualified CAs of 14 professional institutes who are members of the CAW will be able to use the logo in their email signatures, letterheads, stationery as well as on websites and social media.

AF Nesaruddin, president of the Institute of Chartered Accountants of Bangladesh, said members are now connected and recognised by the global family of CAs.

The CAW plays an important role in protecting, promoting and developing the chartered accountancy brand and profession, according to a statement.

The logo will create international recognition of the quality of the chartered accountancy profession, ensuring that chartered accountants' qualifications stand out in an increasingly competitive market, it added.

IndiGo says systems back to normal after outage hits flyers

REUTERS, *Bengaluru*

India's largest airline IndiGo said on Monday its flights and check-in systems were running normally, after an hours-long outage hit operations at airports, leading to long queues and hassling passengers.

IndiGo said earlier its systems had been down across the network since Monday morning.

"Our system is up now but has disrupted operations across the network," IndiGo said in a Twitter post, adding that it was working to bring operations back to normal.

The outage added to passenger woes as dozens of Indian flights already faced delays or cancellations on Monday, according to reports, due to a decline in visibility because of air pollution shrouding New Delhi, home to the country's busiest airport.

Hassled travellers affected by IndiGo's outage posted pictures on Twitter of long lines at check-in counters at major airports.

"IndiGo says systems down and huge queues till outside the main entrance gates in Mumbai T2. Chaos," one user with the handle @Sathyantweets said in a tweet, referring to Terminal 2 at Mumbai's airport.

IndiGo, owned by Interglobe Aviation Ltd, is the country's largest carrier with a nearly 50 percent share of the domestic market.

Interglobe Aviation's shares had fallen 0.3 percent by 1505 local time (0935 GMT) in Mumbai, while shares in rival airline SpiceJet Ltd were down 2.4 percent.

Women's unpaid work equivalent to 40pc of GDP: Sanem

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To enhance women's participation in the labour force, Rahman, who is also the chairperson of Unnayan Shamannay, recommends setting up day care centres at every workplace and in urban areas.

"Women should have the facility to work digitally sitting from their home," he added.

Female labour force participation rate is 36 percent in the government's labour force survey and it has been stagnant since 2010, said Selim Raihan, executive director of Sanem.

Awareness is necessary to acknowledge women's unpaid work and to create a mindset in the society that encourages men to share household chores.

"Otherwise, women would not reach expected levels of the labour market."

To boost their participation, effective gender budgeting is required, he added.

Shaheen Anam, executive director of Manusher Jonno Foundation, said the reason why they came up with the idea was to uphold women's dignity in the family and in the society in order to eradicate discrimination and violence against women.

"Women's works are mostly reproductive and productive. We hardly recognise their productive works," she said, adding that these works should be formally recognised through calculating its monetary value and comparison with the GDP.

She said they analysed six ministries' gender responsive budget and found a huge lack of monitoring on how the allocation was being spent. Women's participation in the labour force remains low for the responsibility of caring for children and family imposed upon them, said Sayema Haque Bidisha, research director of Sanem.

So the government needs to establish daycare centres of high quality, she said, adding that the private sector also should establish such facilities for their employees.

"Gender budget should not be only a budget of number and words -- it should be for truly creating opportunities for women," she added.

The gender budget should pave the way for women to enter the labour force, said Nazneen Ahmed, senior research fellow of the Bangladesh Institute of Development Studies. Md Iqbal Hussain, joint secretary to women and children affairs ministry, said the government has established 121 daycare centres.

However, the private sector should also come forward, he said, adding that many garment factories have established such centres giving in to pressure from buyers.

Banglalink's user numbers raise questions

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The gap was 14.01 lakh in the January-March quarter and 13.70 lakh at the end of 2018.

Banglalink's revenue fell about 1 percent year-on-year to Tk 1,143.51 crore in the July to September period this year, the Veon report said.

However, the revenue growth was 3.84 percent year-on-year.

During the period, data usage and data revenue rose but the usage for voice call and earnings per customer declined in every month in the third quarter for the once spirited player.

Rahman said several changes brought to the tax regime in the second quarter caused the quarter-on-quarter revenue fall.

In the budget for the current fiscal year, supplementary duty rose from 5 percent to 10 percent on any telecom service.

SIM tax increased from Tk 100 to Tk 200 and custom duties on smartphones were up from 10 percent to 25 percent.

Banglalink earned 20.54 percent of its total revenue from the mobile data segment, up from 16.88 percent a year ago.

Rahman said Banglalink's data revenue went up on the back of its continuous efforts on reinforcing its position as a digital player.

The operator invested Tk 226.76 crore in the third quarter to continue 4G rollout and improve service quality.

Govt to help PLFS depositors: Kamal

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There has been a regulatory failure in monitoring of the NBFI, he said. "I wonder how such a weak organisation had gone on for this long."

The aggrieved depositors, led by Md Atikur Rahman Atik, also submitted a memorandum to the finance minister, requesting him to take prompt measures to get back their stuck fund.

On June 27, the finance ministry instructed the central bank to liquidate PLFS due to deterioration of its financial health in the last several years. The ministry arrived at the decision after going through a detailed central bank report on the NBFI.

The NBFI has failed to repay the depositors' money despite maturity of the funds, found the Bangladesh Bank report.

Default loans and net losses have recently escalated as well, which forced the central bank to liquidate the NBFI.

The High Court gave the go-ahead to the central bank to appoint a liquidator for PLFS on July 14. Md Asaduzzaman Khan, deputy general manager of the BB's financial institutions department, has been appointed as the liquidator.

GrubHub, Uber Eats get pushback from restaurants on fees

REUTERS, *New York*

In a letter to investors before its share price plunged last week, online food delivery service GrubHub Inc cited its profitable ties with small and medium-sized restaurants, saying they generate 80 percent of the orders on its platform.

"This is a highly lucrative relationship for both parties," the letter said.

But some restaurants think otherwise and have begun pushing back against what they see as the relationship's unfair distribution of profits.

A growing number of small and mid-sized food chains want to reduce ordering and delivery commissions as high as 30 percent charged by the big four third-party platforms - GrubHub, Uber Technologies Inc's Uber Eats, DoorDash Inc and Postmates Inc, industry sources say.

"They hate the relationship and they are getting raked over the coals," said Ben Gaddis, president of T3, a digital marketing and tech consultant to restaurants such as Pizza Hut and Schlotzsky's. "The smaller they are, the more it impacts their margins."

The delivery platforms charge restaurants for having their menus listed on their sites, which customers can use to place orders - similar to the way consumers book hotel rooms through third-party online marketplaces like Priceline, Kayak or Expedia. Restaurants pay higher fees if they want to be listed more prominently, or if they use the services to deliver the orders placed through them.

"They've become this necessary evil," said Bareburger Group Chief Executive Euripides Pelekanos, referring to the delivery platforms. The organic burger chain with 46 stores mostly in the northeast hopes to be rid of all third-party platforms by 2020.

In 2017, Bareburger booked $20 million in revenue from orders placed through third-party platforms, Pelekanos said, but it also spent about $2.5 million to $3 million in related fees. For the restaurant industry, that roughly 15 percent rate "is our whole margin," Pelekanos said.

Thanks to intense competition among third-party services, restaurants with just 25 to 50 locations recently have found they have more leverage to negotiate better terms, according to Gaddis, the tech consultant.

Last week, GrubHub shares tanked, closing the week down more than 40 percent after the company reported weak sales and lowered forward guidance, citing hyper competition from rivals.

When Uber reports earnings on Monday investors were expecting to see that price-competition in its core ride-hailing business has eased - even as it heats up for the food delivery business.

Uber may be spreading itself too thin with Uber Eats, particularly in a market where no US company has shown sustained profitability, some analysts say.

REUTERS/FILE

An Uber Eats food delivery courier pulls a bicycle in central Kiev, Ukraine.

Remittance soars 32pc

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Between the months of July and October, remittance also increased 20.39 percent year-on-year to $6.15 billion.

The exchange rate of the taka against the US dollar is also favourable for remitters, which has encouraged them to send their hard-earned money through the banking channel, said a banker.

Yesterday, the interbank exchange rate was Tk 84.75 per USD, up from Tk 83.85 a year earlier, according to the website of the BB.

RR-IMPERIAL ELECTRICALS

Tribhuvan Prasad Kabra, chairman of RR-Imperial Electricals Ltd; M Harees Ahmed, managing director, and Mahbub Hossain Mirdah, CEO, pose at the company's "Partner Conference-2018-19" in the capital's Ashulia recently.

Denim expo begins today

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This year, the BDE will organise four seminar sessions to be participated by leading industry experts, who will highlight advances in responsible, sustainable finishing technology, machinery and chemicals.

There will be two separate masterclass sessions to be conducted by Piero Turk, a renowned denim designer, according to the statement.

The organisers expect over 10,000 visitors this time.

Arrears worsen leather sector's woes

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The merchants are selling salt-applied cowhides at prices as low as Tk 600-700 per piece, he said.

"The quality of the rawhide is deteriorating every day as they have remained unsold for a long time."

According to Hossain, the whole chain of rawhide and leather and leather goods business is facing troubles now.

For instance, the tanners can't pay the merchants and the merchants can't buy the rawhides at fair prices from grassroot traders and farmers.

"As a result, nobody is getting better prices," Hossain said. He said tanners also can't sell tanned leather at better prices because of poor compliance at the Savar Tannery Industrial Estate.

Tanners have to sell tanned leather at 40 percent lower prices to Chinese non-compliant buyers as European and American buyers are not interested to buy the leather from Bangladesh as the country has not obtained the vital Leather Working Group certification.