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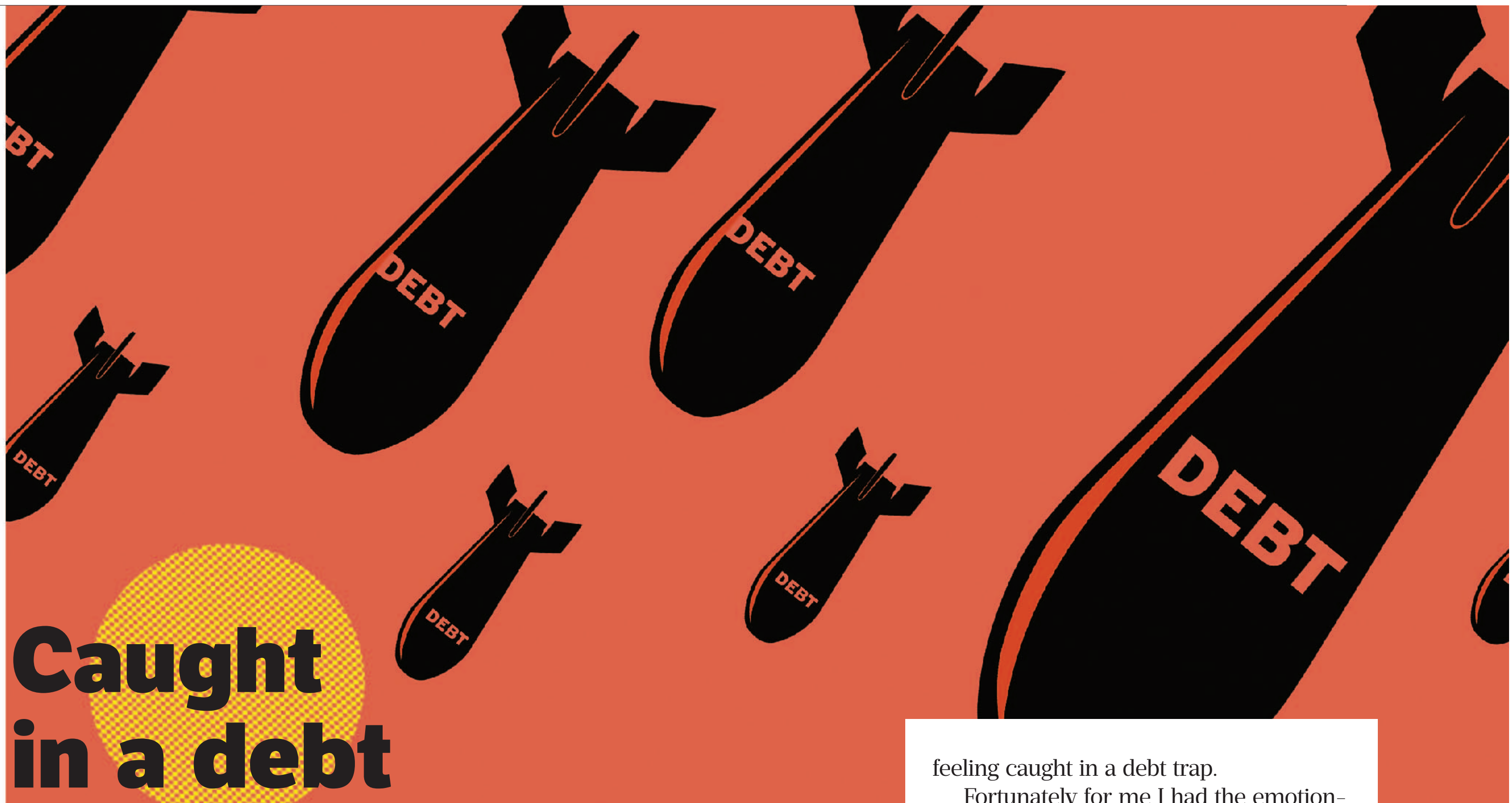

Caught in a debt

Debt levels lead to greater poverty and do enormous damage to families, communities and productivity

For finance minister Pravin Gordhan, debt management is a huge problem. National debt servicing costs are R169bn for 2017 and they're swallowing up an alarming amount of his budget.

So he knows how most South Africans feel because, as individuals, we're also drowning in debt.

Only one in four of us have any money left at the end of the month.

And 86% of adults borrow money (the highest level anywhere, according to a 2015 World Bank report).

This level of indebtedness has a back story which is important to understand.

Prior to 1994, the majority of the nation never had access to formal lines of credit and lacked education regarding their use.

After we achieved democracy, access to credit was opened across the board, with positive and negative consequences.

Access to lines of credit beyond the limitations of stokvels and the harsh interest rates of the *mashonisas* (loan sharks) fuelled the extraordinary rise of the middle class.

It drove the growth which reached its peak around 2008.

But much of that money was borrowed on an unsustainable basis.

Or it was used for unproductive purposes with a lack of understanding of the core divide between good debt, which enables the building of an asset base, and bad debt, which usually meets a want, which may not contribute to building wealth.

No widespread savings culture was ever developed so the boom dividend was largely spent on debt servicing, with 75% of net disposable income currently devoted to that purpose.

This meant that when the macroeconomic tide turned against us, very few had anything to fall back on.

The obvious physical consequences of our debt levels are widespread impoverishment and an inability to improve circumstances.

But the psychological damage is also enormous and has a huge impact on families, entire communities and on national productivity.

The MMI Unisa Effective Employee Index demonstrates that stress about debt usually affects worker productivity significantly.

At the start of my working life I briefly experienced the particularly acute sense of vulnerability which comes from feeling caught in a debt trap.

Fortunately for me I had the emotional and practical tools to successfully manage the burden.

I was able to come out on the other side.

But too few have those tools. They need to be given them – urgently.

Many positive things have been done by government, the National Credit Regulator, the Financial Services Board and the courts to rein in irresponsible and usurious lending practices.

But no amount of regulatory measures can enforce responsible behaviour on the part of individuals.

Somehow we have to broadly entrench the concepts of basic budgeting and planning which lead to personal financial wellness.

We also need to have the ability to exercise patience in executing our needs instead of reaching for instant gratification.

Financial services companies have a responsibility here, as do employers, who must assist their workforces in tackling the burden of debt.

At government level the solution lies not with the finance minister but with his counterparts at basic and higher education.

Financial wellness must be taught effectively at schools and varsities. There's simply no excuse for the next generation failing to understand how to use money wisely. ✖