AN ASSET-BASED APPROACH TO ADDRESSING POVERTY AND INEQUALITY IN SOUTH AFRICA: TENTATIVE RECOMMENDATIONS

Ilan Strauss[1]
Keith Weeks[2]

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ABSTRACT

This paper uses an asset-based approach in considering policies for reducing poverty and inequality in South Africa. This approach places assets and ownership at the centre of thinking about development. Asset ownership and property rights are the central mechanisms determining who gets what from the market system. Income inequalities in society reflect, but are also compounded by, the unequal distribution of, and access to, public and private assets. Given the stark (and growing) inequalities in South Africa, we explore what asset accumulation policies might be appropriate. We focus on the role of the financial system in helping to facilitate saving and asset accumulation by the poor. The common theme among the asset-based policies discussed is financial and spatial exclusion. A suit of policies built to improve financial inclusion and increase savings and accumulation are recommended. These policies serve more as facilitations tools, enabling income to be transformed more efficiently into assets. Policies must take account of increased 'financialization' and provide for greater inclusivity through financial literacy and access to banking and related financial services. Providing incentives to save, through Independent Development Accounts (IDAs), should be studied further.

[1] Economics researcher, Wits University, CSID. Ilan.strauss@wits.ac.za

[2] Contact the authors on: keithp.weeks@gmail.com

Table of Contents

1. Introduction

In this paper we examine an asset-based approach to reducing poverty and inequality. This is defined broadly as any policy whose central aim and theoretical approach is to increase the accumulation of assets by the poor. Asset ownership and property rights are the central mechanisms determining who gets what from the market system. Income inequalities in society reflect, but are also compounded by, the unequal distribution of, and access to, public and private assets. In market economies unequal starting points with respect to endowments means that those that have more get more and those that have less end up with less (Myrdal, 1973). The provision of poor quality public goods and services (especially health care and education), perniciously undermine equality of opportunity in South Africa.

The highly unequal and exclusionary nature of South Africa's labour market means that reductions in poverty and inequality on the scale needed will not occur under the current growth path.

First best policies to facilitate the accumulation of assets by the poor are: (1) raising the human capital endowment of the black majority; and (2) raising the rate of capital accumulation through investment (both private and public). Productive investment will generate far more savings and income than any other policy.

The paper explores second best policies to quicken asset accumulation by the poor. We focus on the role that the financial system might play. The common theme among the asset-based policies discussed in this paper is financial exclusion. The policies suggested are useful even in the absence of a more robust labour market though are clearly not a substitute for it.

Section 2 provides an overview of an asset-based approach to development and policy. Section 3 makes brief mention of the three primary channels through which assets have been accumulated, or redistributed, post-apartheid. These are the labour market, state transfers, and BEE. Section 4 takes stock of progress made by South Africans in accumulating assets. Section 5 is our policy section. This is divided into 3 subsections. Subsection 1 looks at asset based welfare, which includes conditional grants and IDAs. Subsection 2 looks at financial inclusion, which includes financial literacy, access and microfinance. Section 6 concludes and summarises the core policy recommendations.

2. An asset approach

What distinguishes an asset-based approach to development? Simply put, it is a focus on accumulation and ownership as a means to ensure financial security and prosperity. This can be advanced from several different perspectives:

Asset egalitarianism emphasises social justice and an expanded notion of citizenship (Rawls, 1999); information-theoretic economics emphasizes the efficiency benefits which can arise from redistribution owing to market imperfections (Bourginon, 2000); and the capabilities approach of Amartya Sen (2001) emphasises the capabilities of individuals and households to convert assets into desired outcomes. Capabilities are determined by a wide variety of contingent and conditional factors. For example, a lack of nutrition and basic shelter implies absolute poverty through absolute capability deprivation. However even if these basic needs are met (say through social welfare programs) a poor education can create a relative capability deprivation in that insufficient skills and knowledge can now be the barrier to finding productive employment. A political-economy approach might emphasise the impact of unequal entitlements on the ability of the poor to benefit from, and participate in, the social product. Lastly a behavioural approach, centred on incentivising savings emphasises the positive psychological and cultural effects of asset ownership (Sherredan, 1991).

The OECD (2001) defines economic assets as:

> "entities functioning as stores of value and over which ownership rights are enforced by institutional units, individually or collectively, and from which economic benefits may be derived from their owners by holding them, or using them, over a period of time (the economic benefits consist of primary incomes derived from the use of the asset and the value, including possible holding gains/losses, that could be realised by disposing of the asset or terminating it)."

A number of other subsets of assets have been constructed – physical, financial, human – and even social (for critique see Fine, 2010).

Asset ownership, and the associated property rights, is the central mechanism determining who gets what from the market system. As the above definition implies, this can occur merely from holding an asset (a share in a company); from using an asset (loaning out your car or having a telephone to use to find a job); or from the capabilities which assets can provide you with, such as access to credit and quality healthcare and education. Asset ownership is therefore central in creating, and/or conferring on its owner, the right to a share of the profits from production. Public assets, while not privately owned, increase the return to private ownership and investment, as well as facilitating a more equitable distribution of those returns.

Some assets are more effective than others in producing wealth or facilitating greater participation in it. Assets which are scarcer relative to demand, assets which allow the owner to put to work other assets (and hence command some of the return from those assets); assets which enable an individual to more productively utilize other assets; and assets which entitle the owner to a share of profits are the most important in accumulating wealth.

Many of those who are classified as income poor do own some assets, though at levels well below those of the general population (OECD, 2008). Moreover these assets usually serve consumption directly, whose benefits may be marginal. Under conditions of greater inequality in asset ownership it is difficult to convert assets into desirable outcomes. This further increases the importance of private assets in accessing quality healthcare and education.

Wealth unfortunately is ‘sticky’: it tends to stick to its owner and is carried across generations. The OECD (2008) finds that household wealth, as well as the influence of schooling, are the two key factors affecting inter-generational income transmission. This can occur through a number of channels (Shanks, 2007; Bynner and Paxton, 2001; Palmer, 2002; Hertz, 2006; Bowles and Gintis, 2002). The influence of wealth in the intergenerational transmission of inequalities increases when quality public goods and services are not available to everyone and credit markets are imperfect. Econometric studies (Birdsell and Londoño, 1997; Deininger and Olinto, 2000) have attempted to isolate the particular statistical significance of the distribution of asset ownership on economic growth rather than income.

In the final analysis, escaping poverty depends on private (and public) asset accumulation. It is the ability to draw on savings, or convert assets into cash, in order to deal with unexpected shocks which determine whether or not an individual, or household, can be said to have escaped poverty permanently (Robert Chambers, 1992; 1994).

a. Asset policies

Asset based policies involve either a redistribution of preexisting assets or promote the accumulation of new assets on a more equitable basis. While our policy prescriptions will focus on the latter we consider the policy implications of both of these approaches below.

Firstly, in South Africa, asset redistribution is limited by the constitution. The constitution allows for expropriation (of both land and property) when in the public interest or for a public purpose, but with compensation. Compensation must be agreed upon by both parties or approved by a court. Compensation must strike “an equitable balance between the public interest and the interests of those affected” taking into account a list of criteria (Section 25 (3)). This leaves considerable room for expropriation though at a cost which is likely to reflect a market value.

Secondly, under globalization the mobility of assets and elites means that the long term loss of assets, capital, and output can be significant if existing property relations are threatened. This means that although asset redistribution may be a superficially expedient strategy for reducing inequality (as opposed to more conservative income or investment policies) the likely flight of capital and disinvestment would be ruinous for the economy.

Thirdly, asset redistribution can involve trade-offs in the short-run and possibly the long run. Short-run trade-offs occur because financing asset redistribution requires some transfer of current income (i.e. potential future assets). Bourginon (2000) frames this as a trade-off between a loss "coming from more taxes being levied and less assets being accumulated by some part of the population" against a gain being realized "from more assets being accumulated in less favoured groups of society". Ideally the gain should outweigh the loss so that the economy can grow faster and become more equitable over time. Nevertheless, leakages are likely to occur because not all of what is taken inthe form of taxes will be accumulated as assets by the poor.

In the long-run no trade-off need occur if the gain more than compensates the loss: the economy grows faster and becomes more equitable at the same time. (Bourguignon, 2000).This would be the case if growth is being held back by a lack of redistribution *and* if direct redistribution of assets, or claims, within one county does not see capital flight which makes the loss outweigh any gain. In practice, the efficiency of government, the specific policy under consideration and its perceived legitimacy, the quality of the enabling economic environment, and the behavior and mobility of the elite, are the four key determinants of any such trade-off.

Fourthly, redistribution of assets (and any asset-centered approach) can only be successful over the long-term if the functioning of the market mechanism does not quickly 'reset' property positions to the *ex ante* situation, in the process 'alleviating' the asset, or entitlement, from its new owner. The implication of this is that 'enabling factors' really matter. Without access to financing on fair terms, capital, education and training, and quality infrastructure, asset-based policies within a market economy will not be effective.

A related point is that 'sustained' asset accumulation relies on factors that limit the appropriation of rents by any party in society. These factors include a robust competition policy, sufficient regulatory oversight of government and the private sector, and a set of rights that entitle workers to pay in accordance with their contribution to production and other associated rights.

Lastly, policies to speed up asset accumulation by the poor will not inherently be pro-poor. If the poor do not sufficiently participate (maybe due to high regulatory burden) or the redistribution operates through a regressive source of funding or allocation, then the poor will not be the net beneficiaries of such a policy.

3. Asset accumulation and redistribution post-Apartheid

Three primary channels have determined the changing distribution of assets and income post-apartheid: the labour market, state transfers, and BEE. These channels reflect outcomes of, or reactions to, the potent interaction of inherited domestic inequalities and trends in the world market.

No other capitalist state structured income inequalities so systematically as the apartheid state (Nattrass and Seekings, 2005). Apartheid served as a cheap-labour system for the gold mines. The means for Blacks to accumulate wealth – such as access to credit and collateral, decent work, skills, access to land, quality public infrastructure, and spatial integrity – were all severed.

Worst of all, apartheid quickened the exclusion of labour from the economy. In the context of a more sophisticated, urban (and global) economy, labour that was 'cheap', proscribed and distant during apartheid eventually became unproductive and relatively expensive.

The market system ensured these inequalities deepened. "As Apartheid evolved", Seekings and Nattrass (2005, pg.34) find that "white people were able to maintain their economic privileges by using the advantages which they inherited and ceased to depend on active racial discrimination". Key among these privileges was a vastly superior education. This allowed the apartheid state to "retreat" from more overt racial discrimination while leaving it to the market to perpetuate the inequitable wealth of Whites. Post-apartheid, the market system has played a key role in continuing to serve the privileged owners of property, reinforcing the divide between 'the haves' and the 'have-nots'. Meanwhile, a new politically connected, black elite has emerged. They have hastened to climb onto the wagon of privilege, using business and state connections to enrich themselves, exacerbating inequality.

Post-apartheid, developments arising in the world market have played a significant role in exacerbating, rather than alleviating, the tendency of the market system to distribute returns from production unequally. This has occurred through three channels:

The first is through wages received in the labour market. Wage inequality has grown in South Africa. Income received from the labour market is the dominant means through which unequal outcomes are reproduced. In the top three income deciles, income from wages accounts for over 80% of total income (Leibbrandt et al., 2010). The international dimension to this trend is significant. In OECD countries, from the mid-1980s to the mid-2000s, inequality grew in two-thirds of all countries (OECD, 2008). Growing wage inequality in these countries was due to both a growing earnings' shares at the top and declining shares at the bottom, although top earners saw their incomes rise particularly rapidly (OECD, 2011). Similarly, since at least 1997, real earnings for all but the top deciles has declined in South Africa (Leibbrandt et al., 2010).This is due to rising wage inequality among the various income-deciles. This was caused by increasing unemployment among the least-skilled (as demand for least-skilled work shrank relative to skilled); growing part-time work among the working-classes; and lower returns to least-skilled work.

Globalization, skill-biased technical change, and labour market institutions and policies have all been contributors to this outcome in OECD countries and South Africa (OECD, 2008; Leibbrandt et al., 2010b).

The second important channel for redistributing income (and potentially assets) is through government transfers. For the bottom five income deciles, income from government accounts for anywhere between 20-37% of total income of an average household. South Africa has a relatively significant welfare system in place (Leibbrandt, Wegner, and Finn, 2011). Non-contributory social assistance grants *directly* benefit more than one-quarter of South Africans, and far more indirectly. In terms of households, in 1993 about one fifth of households received income from this source whereas in 2008 the figure was almost one half (Finn et al, 2010). These transfer do not however reduce inequality.[3] In OECD countries, the extent of redistribution - driven by benefits systems – increased overall in the two decades to 2005 although it did not prevent inequality from rising. In fact, market-income inequality grew by twice as much as redistribution (OECD, 2011).

In 2006 the Gini coefficient for income in South Africa, before receiving social transfers, was 0.69. For income after social transfers it was 0.52, and for income after taxes was 0.47 (Van der Berg, 2009 in Woolard et al., 2010)). However differences in the quality of provision of public services (especially health and education) conceals the inability of these substantial transfers to dampen inequality of opportunity, and therefore, intergenerational transfers of inequality.

Social grants have been the key reason why poverty has declined, however marginally, since 1993 (Leibbrandt et al., 2010). With the introduction and expansion of the Child Support Grant the lower deciles now have access to an important source of income; but the current system is more an artifact of history, than a coherent system providing support during the entire life-cycle of a person. Notes Woolard and Leibbrandt (2010): “In the absence of comprehensive social insurance, prime-age adults can only benefit from social assistance grants if they are disabled or are co-resident with a child or elderly person; severely limiting its ability to provide welfare for all South Africans”, especially the long-term unemployed or the never employed.

The third channel influencing asset ownership and capital income is Black Economic Empowerment (BEE). BEE is of great significance, not merely for contributing to the growing predominance of intra-racial inequality in SA, but for shaping policy discussions on what ‘distribution’ means post-apartheid. BEE seems to have overshadowed most redistribution policies (such as land reform), preoccupying discussions by the ANC on redistribution up until now.

No significant asset owning class existed among Black people during apartheid. BEE and Broad-Based Black Economic empowerment (B-BBEE) has increased the share of assets owned by Blacks through the creation of a Black elite. Black-owned businesses’ share on JSE was 5.15% in 2006 (Competition Commission, 2008).

BEE involves the transfer of equity ownership in major companies and slants government and parastatals procurement policy in favour of BEE compliant companies (Seekings and Nattrass, 2005). In this respect it promotes the ownership of secondary claims to wealth (shares) and direct asset ownership (through directing state contracts and finance) by Black owned companies. BEE has benefited

[3] “This is because they are poorly correlated with total income and the distribution of transfer income for those who receive it is not wide.”

the ruling party, the ANC, reinforcing its financial and political standing, with substantial numbers of the ANC NEC benefiting from BEE deals.

From a developmental perspective BEE has been compared to a Malaysian-style strategy of transferring large amounts of wealth from one group to another using a number of state levers (Nattrass and Seekings, 2005). However, its impact on redistribution has largely been limited, especially during its first phase, to equity transfers. Given that wage-income makes up the majority of total income, its affect on distribution would be limited unless it made companies more productive.

BEE and affirmative action were touted by its advocates as tools which could deraciliase ownership in the wider economy -- and not just a top layer -- including SMEs, worker-owned cooperatives, and rural trusts (Nattrass and Seekings, 2005). The Employment Equity Act of 1998 intended to complement this process by developing the human capital of non-whites.

The first phase of BEE was widely seen as unsuccessful. Low levels of initial capital endowment of the black business community, highly geared financing structures, and global volatility of financial and equity markets (especially in 1997) led to their financing structures becoming fragile (Chabane, Goldstein, and Roberts, 2006). As a result, during this period BEE control of the JSE by black-owned groups fell from 9.6% in 1998 to just 4.3% in 1999. Policy makers argued that BEE needed to have an effect on more people, on more of the economy, and sooner. This would be facilitated by having a broader number of quantifiable targets that were enforceable through legislation. The B-BBEE Act of 2003 was the central document in bringing in the second phase of BEE. The B-BBEE Act came about in the aftermath of the BEE commission of 1999, which released its report in 2001.

Among the objectives of the Act is to extend access to finance for black economic empowerment and “empowering rural and local communities by enabling access to economic activities” including “land, infrastructure, ownership and skills”, as well as “increasing the extent *to* which communities, workers, cooperatives and other collective enterprises own and manage existing and new enterprises and increasing their access to economic activities, infrastructure and skills training” (Section 2(f)).

B-BBEE had a considerable impact on business through several pieces of related legislation. Core among these was the industry charters, most notably the Mining Charter of June 2002 and the Financial Services Charter (FSC) of January 2004. Neither charter met their goals.

The, now old, Mining Charter aimed for 15% black ownership of the industry by 2009. It reached 8.9% by this time. A new mining charter (an amendment to the previous) was launched in 2010. The new target is for 26% black ownership of the country's mining assets by 2014. BEE ownership compliance can be offset against the value of beneficiation, up to 11%. Finance for the transfers of ownership would in part be raised by the mining industry (Acemoglu, Gelb, and Robinson, 2007). Procurement by mining companies is also regulated. A minimum of 40% of capital goods, 50% of consumer goods, and 70% of services, must be sourced from BEE compliant entities by 2014. Under the new charter, companies found not complying could face penalties which could include the revoking of a mining company's license.

The FSC has not met most of its targets either. Targets of the Charter included 25% black ownership by 2010, at least 25% black representation at all levels of employment by 2008, and 50% procurement spending on BEE companies by 2008, increasing access to financial services to people in the lowest income bracket, and financing empowerment initiatives to the value of R75 billion (Chabane, Goldstein, and Roberts, 2006). The FSC scorecard places most of its emphasis on broad-based empowerment and employment equity rather than ownership (Chabane, Goldstein, and Roberts, 2006). The FSC was notable in introducing indirect ownership of firms as part of BEE (Acemoglu, Gelb, and Robinson, 2007). This indirect ownership included black people investing in pension funds, and other institutional investors, who in turn invest in the equity.[4]

One of the charter's earliest positive outcomes was the Mzansi account, offered by all major banks to low-income earners. The Charter however has not been active since 2008 due mostly to a dispute over black ownership levels and the so-called once empowered, always empowered principle.[5] No yearly report has been filed to the FSC Council since 2008.

Lastly, the Preferential Procurement Act was passed in 2000 as a framework to assess the procurement policy of all organs of state. In terms of the Act, a preference point system must be used. Public institutions allocate points for specific goals that they aim to achieve in giving out a tender; contracting historically disadvantaged person is one option. White-owned firms now have a commercial interest in increasing black ownership, especially in the service sector.

But the role of government in BEE goes far deeper. The government has committed itself to using its purchasing and licensing power to force companies to comply with B-BBEE (Acemoglu, Gelb, and Robinson, 2007). Failure to meet BEE compliance can lead to the state excluding a company from other government services such as providing certifications and research grants (Williams, 2005). State provision of finance has played an important role in furthering this agenda. The state owned development finance corporation, the Industrial Development Corporation (IDC) spent 61% of its budget on companies with more than 51% black ownership (IDC, 2010). In the ten years to June 2004, the IDC approved 878 BEE deals worth R9.8 billion (Chabane, Goldstein, and Roberts, 2006).

BEE's impact on distributional issues will be limited by its ability to transform the dynamics of the labour market; which ultimately rests on industrial policy to improve the level and type of investment.

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[4] Though BEE initially opposed this, the FSC committed the industry to be 10% directly black owned by 2010. If this target were achieved an additional 15% indirect ownership would also qualify as proper ownership (Acemoglu, Gelb, and Robinson, 2007).

[5] If a black shareholder willingly sells out of an empowerment partnership, the company in question would continue to be regarded as empowered in perpetuity, supported by the banks. This means that even if black investors sell their shares in a white-owned company, the company does not lose its BEE status.

4. Escaping poverty: an examination of assets and liabilities

Have the poor been able to accumulate assets post-apartheid and escape poverty?

Though the poor in South Africa do not necessarily remain poor forever, poverty remains a permanent reality for many (Woolard and Kalsen, 2004; Cichello,Leibbrandt, and Wooolard, 2012; Finn, Leibbrandt, and Levinsohn, 2012 NIDS). 68% of the broadly unemployed currently searching for work have been searching for work for a year or longer (StatsSA, 2012).

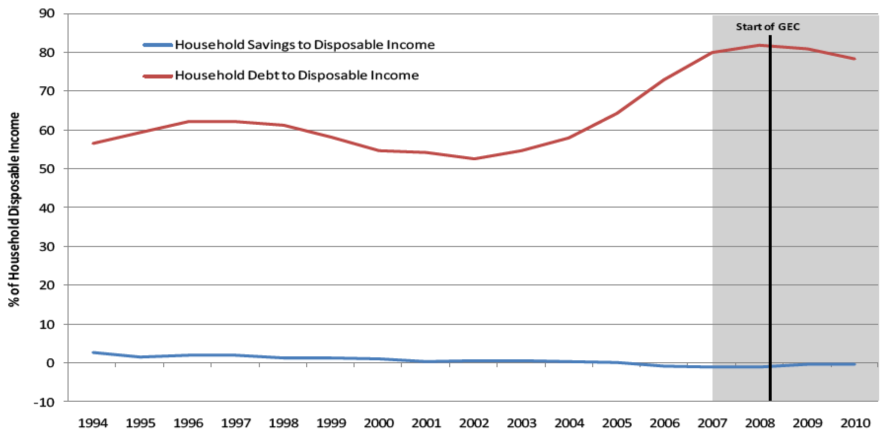
In simple (and simplistic) terms, escaping from poverty means accumulating assets quicker than liabilities. South Africans are increasingly indebted and unable to save. The assets which are increasingly being produced by the South African economy are financial and do not seem to be benefiting the poor and low-skilled workers.

The *ownership* of physical assets (such as motorcars, dvd players, etc.[6]) by individuals in South Africa has, overall, been increasing since 2009 (Finscope, 2011). Of these motorcars and computers are noticeable for being productive assets, which have increased since 2009 (but not since 2010). In the absence of a regular income stream, assets purchased on borrowed money are only sustainable if they allow the owner to accumulate additional income to pay off the asset. This does not appear to have been the case for South African households.

Total debt per household has risen from R20 495 in 1995 to more than R84 000 in 2010 (Feasibility, 2011).This reflects a rising propensity for South African households to acquire debt and a declining propensity to save (Feasibility, 2011). Savings to disposable income for an average household fell from 2.7% savings in 1994 to a 'dis-saving' of around 0.3% of disposable income (Graph 1).

[6] This includes: Deep freezer, M-Net and/or DSTV, Dishwashing machine, Sewing machine, DVD player, House/cluster/townhouse, 1 or more motor, vehicles, Two cellular phones in household, Three or more cell-phones in household, TV set(s), Electric stove, Fridge with/without freezer, Flush toilet in house/on plot, Microwave oven, Built-in kitchen sink, Hi-fi/music centre, Hot running water, Washing machine, Home theatre system, Computer/laptop at home, Vacuum cleaner/floor polisher, Home security service, VCR in household, Telkom telephone, and Tumble dryer.

Graph 1: household savings and debt to disposable income, 1994-2010



Source: Feasibility (2011).

Graph 1 illustrates the marked rise in household debt relative to income since 2002. It has not declined substantially since the crisis period.

Financial assets and liabilities are particularly evident in the portfolios of households' but seem to have had little positive effect on facilitating the poor to accumulate assets. Unusual for a developing country, household wealth in South Africa largely comprises of financial assets,[7]which contributes to around 70 of a household portfolio (Kuhn, 2010). In 2001 only four countries in the world other than South Africa (all high-income countries) had institutional investors with more assets in relation to GDP than South Africa (Vitas, 2003). This trend, sometimes called 'financialization', seems to be growing apace. The total assets of the financial sector have seen nominal compound average growth of 12.3% between 2000 and 2010. Financial sector assets now stand at 252% of gross domestic product (GDP), (National Treasury, 2011).

Households financial assets are split between interest in pension funds and long-term insurers (31%),[8] and other financial assets (30.8%);[9] and residential buildings account for 24.9% of assets (Kuhn, 2010). Household debt is comprised largely of mortgage advances (63,5%), followed by installment sales, leasing finance (14.3%), and personal loans (14.7%), (Kuhn, 2010).

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[7] Includes assets with monetary institutions; interest in pension funds and long-term insurers; equities, bonds and other domestic financial assets; as well as financial assets abroad.

[8] Households' interest in pension funds includes investment in official and private self administered pension and provident funds. Data were obtained from relevant institutions submitting information on a quarterly basis to the Bank.

[9] The household sector's investment in this group of assets comprises investment in government and public enterprise stock, deposits in participation mortgage-bond schemes, corporate bonds and equities and other, mainly longer-term, deposits. Information is primarily sourced from data submitted to the Bank. The stock of shares owned by the household sector was estimated by using the flow of- funds data of ordinary shares held by households. The conversion from book to market value of stocks was done by using the JSE All-Share Price Index, adjusted for trading or management costs. The market value of the household sector's investment in collective investment schemes was classified as part of equity investment. Investment in such schemes was, however, kept tracked separately to avoid double counting. In addition, deposits with non-bank financial institutions such as the Public Investment Corporation and with buy-aid associations were incorporated.

NIDS data for the first time breaks down asset ownership by decile. Evidence from NIDS (Daniels, Finn, and Musundwa, 2012)[10]show that financial debts dominate household liabilities for the first seven income deciles. Financial constraints are therefore particularly important. Real estate debt dominates the composition of debt by the time we reach the top two deciles. This highlights the skewed distribution of total debt in South Africa towards those with full-time employment. In terms of assets, financial assets account for the vast proportion of household assets held for the bottom (i.e. poorest) two deciles, as well as the majority of assets for decile three. From decile four onwards (as we move into richer deciles), real estate assets dominate household portfolios due partly to easier access to housing mortgages. These portfolios also become far more diversified.

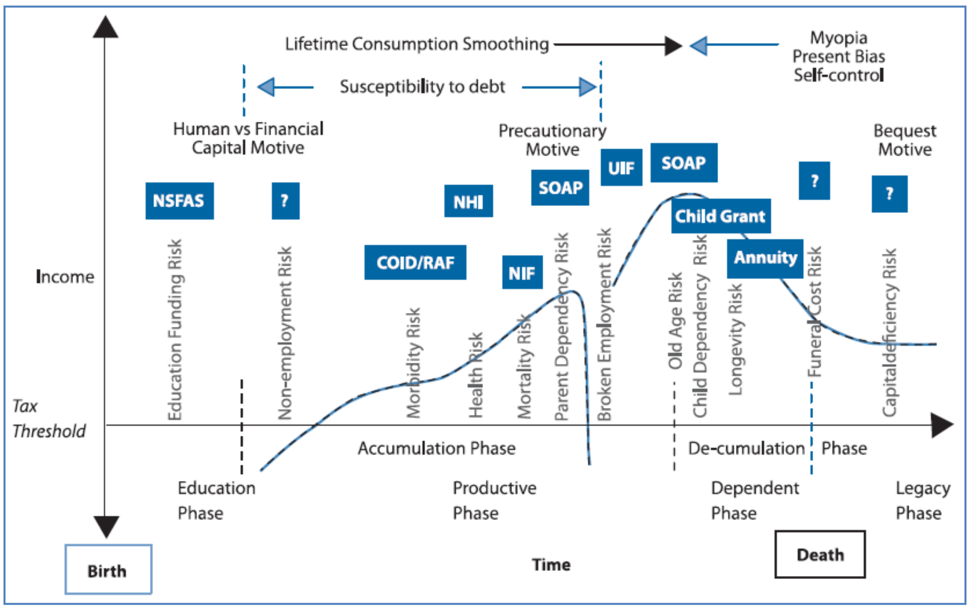
A core conclusion we draw from this data is that the poorest have not been able to translate liquid assets into physical assets on any relevant scale. This only happens later (in higher income brackets) with the ability to purchase a house.

[10] Compared to NIDS, SARB tend to overstate the importance of financial assets and understate the importance of real estate assets, particularly among the poor.

5. Asset based policies to reduce poverty and inequality

As noted previously, without government grants, poverty in South Africa would probably have worsened since 1993 (Leibbrandt et al., 2010). Grants have not been to the benefit of all age groups and types. While social grants appear to have reduced incidences of poverty among the elderly, poverty levels have *increased* among those without children (Leibbrandt et al., 2010). The main reason for this is that social welfare has mostly targeted groups who are not able to work. A 'social protection gap' (NDP, 2011), has arisen for those who are willing and able to work, do not qualify for any of the social grants, but are in the phase of their lives where they should be accumulating. In a normal economic lifecycle the "accumulation phase" overlaps with the production phase (Graph 2).

Graph 2: Lifecycle risks and state coverage



Source: Smith (2011) in NDP (2011).

Addressing the "protection gap" cannot be done through the Unemployment Insurance Fund (UIF); either because the individuals haven't worked, or have been looking for work for a year or longer, thereby exhausting there benefits if they were eligible in the first place (Leibbrandt et al., 2010). Public works may be an effective measure in reducing poverty temporarily but, for a number of reasons, will not necessarily facilitate asset accumulation and the permanent escape from poverty.

Assisting those who are in the productive phase of their lives to begin saving and owning productive assets is an important step in alleviating poverty for a significant portion of the South African population.

This section reviews three groups of policies to increase asset accumulation by the poor: asset based welfare, which includes conditional grants and incentivized saving mechanisms and accounts; financial inclusion, which includes financial literacy and microfinance; and land reform, which includes both tenurial reform and land redistribution. These policies serve more as facilitations tools, enabling income to be transformed more efficiently into assets.

a. Asset based welfare: conditional grants

Should social grants be made conditional on accumulating certain types of capital, such as attending school? This is known as a 'conditional cash transfers' (CCTs). CCTs have been used in a number of developing countries. Prominent examples include the Food-for-Education program in Bangladesh and the *Progresa* program (now called *Oportunidades*) in Mexico. Brazil is most well known for the apparent success of its CCT. Its programs are both contributory unconditional transfers, as well as Conditional Cash Transfers (CCTs), targeted to poor families. They have played a crucial role in reducing poverty in Brazil from the late 1990s onwards. According to the World Bank (Fiszbein and Norbert, 2009):

> 'CCTs were targeted to poor families conditional on their children staying in school and obtaining basic health care. This was done under a series of programs, which were later consolidated (and extended to include conditions on child health care) under *Bolsa Família*, which grew to cover 11 million families, or about one quarter of the population—rising to about 60% of the poorest decile in terms of income net of transfers…The targeting to poor families used a proxy-means test, based on readily observed covariates of poverty (including location).'

The World Bank highlights the importance of conditionalities in Brazil's program; not necessarily in contributing to its success,but in making the grants more politically acceptable.

In considering whether to implement similar conditional transfers in South Africa a number of considerations need to be taken into account. One, the World Bank (Fiszbein and Norbert, 2009) notes the limited efficacy of CCTs on health and education final outcomes when quality of provision available to the poor is low. Conditionalities will not have much affect without (widespread) quality provision of the service (or good) which the grant is being made conditional on. And if the service is not widely available, then unfair demands will be made on the grant recipients. Two, conditionalities may be at odds with the constitutional rights based framework used to govern South Africa's democracy (Woolard and Leibbrandt, 2010). Three, unless sufficient infrastructure is in place to monitor and implement the scheme, the conditions will not be able to be used as 'sticks' to incentivize take-up.

When South Africa experimented with conditional grants these limitations were made apparent. The conditionality ended up limiting take-up of the grant. The Child Support Grant was initially a transfer conditional on proof of child immunization, participation in a 'development program', not refusing employment without fair reason, and showing that private maintenance had been attempted to be received for child from the other parent in instances of separation or divorce. Woolard and Leibbrandt (2010, pg.24) discuss the reasons for the dropping of the various conditionalities:

> "The requirement in respect of development programs was dropped after it became obvious that such programs simply did not exist in many areas. The requirement in respect of immunisation was dropped out of recognition that it often discriminated against children who were already disadvantaged in terms of access to health services."

More recentlythe Child Support Grant was again made conditional at the time of it being extended to children 18 years of age. Caregivers of child support grant beneficiaries must now ensure that children who receive a grant are enrolled and attending school. Proof of school enrolment must be submitted on a regular basis to the Department of Social Development, along with reports from the school (Woolard and Leibbrandt, 2010). Capacity and infrastructural limitations in the Department of Education make such an intervention more difficult to properly assess or enforce.

Conditions might be useful to incentivize mass enrollment in a temporary or permanent program when sufficient monitoring is available. Within the context of this paper, conditions based on attending financial literacy workshops or 1-on-1 sessions at approved locations could be worthwhile, but would first require the mass provision of this infrastructure across South Africa, among other things.

b. Asset based welfare 2: IDAs

Individual Development Accounts (IDAs) are a more general form of asset-orientated savings scheme. They were developed and implemented in the United States to enable poor American families to save and build assets (American Dream Demonstration Report, 2002). IDAs are subsidized savings accounts that try and encourage low income households to save towards an asset-based financial goal such as buying or making improvements to a home, getting an education or skills based qualification, or establishing or growing a business. The subsidy is provided through funds that match any withdrawals made by the account holders for permissible asset purchases. 'Matches' often come in the form of matching savings to asset purchases, which savers can then accrue as they save towards long-term goals like home ownership or investment in human capital. Allocation of IDAs have usually been associated with some form of compulsory financial literacy training.

The American Dream Demonstration (ADD) was the first systematic implementation and study of IDAs. The ADD is an IDA implemented around the United States organized by CFED and the Centre for Social Development. It ran from 1997 to 2003, involved 2,400 individuals over two-year periods at 13 sites, and produced two major reports:

- Saving Performance in the American Dream Demonstration (2002); and
- Evaluation of the American Dream Demonstration (2004).

The 2002 Saving Performance Report examined 2364 participants from 13 IDA programs over a 24 month period. The report sought to address whether the poor actually contribute to and accumulate assets in IDAs. The overall finding was positive: the poor did contribute to and accumulate assets through IDAs. According to Boshara (2005) this result is confirmed by similar IDA experiences in the United States; 3626 learn$ave cases in Canada; 1478 account Savings-Gateway pilots in the United

Kingdom; and approximately 200 Family Development Accounts in Taiwan. All-in-all the contributions of the poor were found to be modest: ranging from $18 to $38 per month in net contributions.[11]

The report highlights the following findings with respect to deposits, withdrawals, and savings outcomes:

- Average monthly net deposits per participant were $19, and average gross deposits were $40;
- Net deposits for the average participant was $528, and net deposits plus match per participant were $1543;
- With an average match rate of about 2:1, participants accumulated about $700 a year;
- 32% made a matched withdrawal at the time of data collection (more did so later), with an average of $878 and $2586 with matches;
- Matched withdrawals were used for home purchase (28%), micro-enterprise (23%), higher education (21%), and home repair (18%);
- About 64% of participants made unmatched withdrawals, and the average amount removed was $451; and
- The contribution rate was, on average, 1.6% of monthly income.

It is important to note that twice as many participants made unmatched withdrawals compared to matched withdrawals. There are a number of possible reasons for this. Twenty-four months is a short time period to allow for accumulation. It is conceivable that more matched withdrawals would take place over a longer time period simply because it would take longer for balances to grow large enough to cover the cost of major assets. To combat unmatched withdrawals, most programs require unmatched withdrawals to be repaid (in order to maintain a certain level of savings) or participants face expulsion -- with most participants repaying. Importantly, the higher number of unmatched withdrawals is also explained by the fact that many participants used the IDAs as transaction accounts – not their intended purpose. Still, the IDAs showed that the poor do save and often relatively more than their wealthier counterparts.

The 2004 Evaluation report addressed the question of the IDAs net effect on the overall accumulation of wealth of the poor household participants. The 2004 Evaluation report examined data from 412 participant households in Tulsa Oklahoma over a 48 month follow up period and compared the results with 428 randomly assigned control cases. Although there were positive results, particularly in relation to increased home ownership and retirement savings among disadvantaged minorities, overall there was no evidence that IDAs raised the net worth (assets minus debts) of participants relative to the control group. Another noteworthy finding is that IDAs are costly to administer. According to Boshara (2005) this amounts to approximately $64 per participant per month.

Several practical lessons have been drawn from the ADD experience by Boshara (2010-2011, pg.54) of the Federal Reserve Bank of St. Louis. These are useful if considering the implementation of any IDA type policy in the future:

[11] Defined as gross deposits less unmatched withdrawals plus contributions in excess of allowable caps.

1. Low-income families want short-term, unrestricted savings, not just savings restricted to long-term productive assets. 64 percent of participants in ADD made an unmatched withdrawal (i.e., they sacrificed a 2-1 match to get through a crisis). Clearly low-income families need short *and* long-term savings, and that IDAs cannot meet both (unless intended to).

2. Match caps (the maximum amount of savings that would be matched), not rates, might matter the most. A $1 increase in the match cap was associated with a 57 cent increase in savings. "In contrast, higher match *rates* (e.g., a 2-1 match instead of 1-1) tended to encourage people to start saving, but higher matches also resulted in less monthly savings since participants could reach their goal with less of their own savings… If the goal is to increase saving, then higher match *caps* are likely to be more effective than higher match *rates*. However, higher match rates might result in faster and increased asset accumulation."

3. Financial literacy has limits. Structure matters. In the ADD, every hour of financial education was correlated with greater saving, but only up to 10 hours. Program design mattered more.

The evidence shows that although saving and asset accumulation is difficult for the poor, small incremental gains are possible. This might facilitate in building the poor's asset base. It is precisely because it is so much harder for the poor to save and build assets that assistance must be provided. This is especially the case in South Africa where, despite the existence of an incredibly sophisticated financial sector, financial exclusion remains high and financial literacy low.

In South Africa there is a significant gap in social welfare policy thinking around the importance of the financial system in addressing poverty and inequality. However under their present orientation, leveraging the considerable institutional capacity and skills base of commercial banks might require legislation that combines incentives and subsidies, with obligations and contributions, towards the sectot.

Finally, the cost to the state of funding a comprehensive IDA program (for the full population) is likely to be substantial, perhaps prohibitive, given current fiscal constraints. A comprehensive program that would cover the whole population cannot be considered until evidence exists as to their potential efficacy as in South Africa. Pilot projects along the lines of an IDA should be explored if further research supports its implementation. Such pilot programs should target low-income groups (rural and urban), with a view to effective impact evaluation techniques.

c. Financial inclusion: fair access, literacy

Financial exclusion from formal services is pervasive in South Africa. The number of bank branches per 100 000 adults is among the lowest in the world (National Treasury, 2011). In terms of the number of ATMs per 100 000 people, South Africa has around half that of Brazil's. The low averages hide the highly unequal provision of these services. 59 bank branches service 130,000 people in Sandton as opposed to one formal bank branch serving 175,000 people in Alexandra (Banking Enquiry, 2008).This is especially pertinent given that most 'developmental' loans for 'developmental housing', education and SMEs happen at branch level (Feasibility, 2009).

Financial exclusion is becoming of greater importance as credit, savings and investment opportunities grow and the moneyless economy expands (Feasiblity, 2011). Already, most of the assets and liabilities of the poor are financial. Mechanisms used to manage these are of great potential significance. As noted in the previous section, the *average* household is highly indebted in SA, to the tune of R84 1000 in 2010; and hasa dis-savings of 0.3% of disposable income (Feasibility, 2011).The lack of a buffer means the need for access to credit, especially in the face of an unforeseen shock to the income or expenditure, has increased markedly for the average South African since 1994.

This section looks at the possible benefits of improving financial inclusion in South Africa. We do not discuss the short- and long-term insurance markets, which are the cause of the majority of complaints received by the financial services ombuds (Treasury, 2011). According to the National Treasury (2011): "financial inclusion is about ensuring that all South Africans have access to financial services that encourage them to manage their money, save for the future, obtain credit and insure against unforeseen events". This includes 'financial literacy', which is about improving consumer understanding of financial products and concepts in order to become "more aware of financial risks and opportunities, to make informed choices, to know where to go for help", etc. (OECD, 2005, pg.13). Financial education/literacy overlaps significantly with consumer protection.

Financial inclusion rests on several factors (National Treasury, 2010): one is proximity or distance to a service which is quantified by cost and time; two is affordability; three is providing products which meet the needs of the client; four is ensuring contracts do not exclude the poor through unreasonably onerous requirements; five is providing fair services which are understandable and reasonably priced; and six is ensuring the legislative environment is sufficiently flexible and interventionist to ensure the needs of the poor are met given the lower levels of profitability from servicing them.

Given the above, competition policy, regulatory policy, and financial literacy all play a key role in increasing financial inclusion. As opposed to an IDA, which incentivizes saving, financial inclusion in South Africa is about providing people with responsible and fairly pricedaccess to saving, credit and money management facilities.This is important because the poor make extensive use of informal and formal financial services. Evidence shows that working class consumers save quite significantly and they want to save; but this is not always done through a bank, or is often mismanaged due to a lack of financial literacy or irregular income streams (Collins and Murdoch, 2008).

Despite South Africa's financial sector being unusually large, 27% of adults (16 years and older) were excluded from financial products in 2011 (Finscope, 2011).The percentage of banked adults was 62.8% in 2010 (Finscope, 2010) up from 46% in 2004. Black individuals borrow mostly from friends or family (20%), followed by store cards (14%), and then personal loans from big banks (4%). Whereas white individuals borrow mostly from store cards (27%), home loans/bonds/mortgages (22%), credit cards (22%), vehicle finance (22%), and overdraft facility (15%) (Finscope, 2011).

When looked at by living standards measures using 2002 data, only the poorest (LSM1) do not make use of formal financial sector products, informal services also have an extremely low take-up (DGRV,2003). This gradually changes. Only at LSM6 do we see a significant change. Substantial use of formal sector products is made for the first time but not the full-range of instruments. Given the extreme concentration of wealth in LSM8, a substantial jump occurs in usage of non-core financial products such as credit cards, petrol cards, short-term insurance, medical aid, stock market investment, etc.

The expansion of access has been attributed to the success of the Mzansi bank account (AFI, 2011). The Banking Enquiry (2008) acknowledges the progressive role it has played in extending banking services to the previously unbanked but notes that the structure of its bundling and pricing is not always truly pro-poor. Penetration of insurance products has also been increasing (Finscope, 2010).

Despite this the use of savings and transaction accounts has been in decline since at least 2007 (Finscope, 2011). 11 million adults have, or used, savings products but of these 3.4 million of them save their money at home (Finscope, 2011). These individuals said the main reasons why they saved were to have money for food, provide for the family in event of death, or for an emergency. Similarly the main drivers of borrowing by individuals are linked to essential purchases such as food, transport, school fees and electricity (Finscope, 2011).

Although most individuals recognize the importance of saving, 66% of the adult population indicated that they were not currently saving. (Finscope, 2011).Poor financial literacy and lack of funds/no regular income were noted by respondents as the key drivers of this (Finscope, 2011).Long-term savings products are the mostly widely used in South Africa. According to the Old Mutual Savings Monitor (2010 in Treasury, 2011), pension funds are the second most widely used savings vehicle after funeral policies.

Households in SA have a variety of financing needs. Discussions of financial inclusion sometimes focus on finance for housing or business often to the exclusion of the daily, yearly, and long-term savings needs of South Africans. Self-identified financial needs differ by rural/urban, age group, and previously and currently banked/never banked (Genesis, 2008). Both rural and urban respondents to a survey listed how to effectively use savings products and understanding interest rates work as theirpriorityfinancial issues. This only changed in older cohorts. The 35-49 year old cohort wanted to know how to manage a budget as their second priority issue after 'effective use of savings products'. Similarly for 50+ the second most pressing issue was how to select the best investment products. If respondents have an overly myopic view, as the responses seem to suggest, then longer-term product information should be provided in earlier age groupings, even if not requested. Those who had never banked focused on savings products followed by how to manage a budget and how interest rates work as their key issues.

This was remarkably similar for the previously and currently banked with only slight variation, pointing to the insufficient education given to those who do bank on these issues.

A robust panel study (Berg, 2010) shows that consumers in South Africa are credit constrained. This is consistent with the fairly conservative and oligopolistic practises of the retail banking sector (Banking Commission, 2008). Mortgages are by far the most important type of credit extended to households – accounting for in excess of 80% of the total (Feasibility, 2009). Access to credit is one of the key constraints facing SMEs (Finscope, 2010). SME loan guarantee funds have been set up by government, such as the EnablisKhula Loan Fund (Feasibility, 2011), and their consolidation has been recommended by the New Growth Path, which National Treasury (2011) seems to be in agreement with. Commercial providers often prefer to advance loans to entrepreneurs and partners in small businesses in their personal capacity – rather than to entities with limited liability (Feasibility, 2011). However the SMEsector as a whole at present serves, first and foremost, as a means for people who cannot find employment to escape poverty through 'self-employment', often very informally,rather than as a mechanism to fundamentally improve the employment elasticity of growth. This is supported by the fact that most SME owners have low levels of education -- 'some high school' or less (Finscope, 2010).

The cost of banking in South Africa is not cheap by international standards owing to the highly concentrated nature of our sector and insufficient regulatory oversight (Competition Commission, 2011). Nor, based on anecdotal evidence, are our banks sufficiently geared to meet the needs of the lower- and middle-classes.

Financial inclusion can provide enhanced security and flexibility to households, through learning how to manage and better utilize household cash flows (Feasibility, 2011). An inability to accesscredit from regulated sources on fair terms means that excessive prices are paid with high penalty fees.

Financial inclusion is no guarantee that savings will increase given the peculiarities of informal products (and the lack of alternative options available). Interviews with SA households show that informal savings can predominate over formal savings methods even when both are available (Collins & Murdoch, 2008). This may be due to the positive social pressure which informal savings methods generate,owing to their group-nature (Collins & Murdoch, 2008). Informal saving instruments are not therefore always substitutes for formal saving products. Most informal saving instruments popular in South Africa are used for short-term savings of less than a year. They are not as useful for short-term cash management or for facilitating household savings over a longer period of time (Collins & Murdoch, 2008). Costs, security and returns are generally improved by using formal sector products and should be promoted.

Financial literacy

Financial literacy is becoming more important as participation in the formal economy becomes more dependent onknowledge of financial matters. The highly concentrated nature of retail banking in South Africa, coupled with conservative regulation, has seen insufficient attention being paidto issues of financial inclusion and literacy.

Financial literacy has many potential benefits (OECD, 2005). This includes learning how to budget and save, avoiding high costs, protecting consumer rights and giving effect to legislation through education, and empowering consumers in their savings and investment decisions.

Evidence shows that low levels of financial literacy is an important contributor to indebtedness and poor financial planning in South Africa (Feasibility, 2011; Finmark trust, 2010). In 2006 Finscope(quoted in Poteous, 2009) found that around two thirds of all adults (and slightly more among poorer consumers) did not understand the concept of interest.

International evidence on the benefits of financial literacy is mixed. The OECD (2005) finds distinctly positive benefits from financial literacy, including reducing mortgage and other types of delinquency, lower debt, and increased participation in, and contributions to, retirement funds. Lusadari (2007) reviewing the evidence finds its affects to be varied. International experience with 'money advice programs' is an important guide to what an appropriate program might be in the South African context. These are summarized in Table 1.

Table 1: Summary of international financial education.

Country	Singapore	Malaysia	Malaysia	Australia	Australia	Australia	United Kingdom	United Kingdom	United Kingdom	United States	United States	Canada
Program name	MoneySENSE (2003)	BankingInfo (2003)	Insurance Info (2003)	Understanding Money (2005)	Consumer Education Strategy (1999-2006)	ABA Broadening Financial Understanding	Building Financial Capability (2004)	National Debtline (1987)	Citizens Advice Bureau	MYMONEY.GOV (2003)	Citi Financial Education Programme	Financial Education Institute of Canada
Scope	National	National	National	National	National 3-4 year strategy	National	National (Till 2011)	National (Includes, Wales, Scotland)	National (Includes, Wales, Scotland)	National	International	N/A
Target audience	Adults/schoolchildren	Young adults, women, working adults, rural communities	Young adults, women, working adults, rural communities	General public	General public	Individuals, indigenous communities, small businesss	General public	Adults in debt	Adults (particularly immigrants, minorities, low-income)	Adults	Students, vulnerable groups, consumers, general public (K – 12 and Mature Teens – Sr. Adulthood 15 yrs and up)	Employees
Services	Targeted financial education: Tier 1 - basic financial concepts and skills Tier 2 - planning for long-term goals Tier 3 - investment tips, options and management skills.	1. Product-based targeted education: loans, Islamic banking, microfinance, business plans, credit, investment and SME finance needs. 2. Advisory services and free courses	'Life Stages' targeted education: starting young, starting work, starting a family, starting retirement.	1. Basic financial education 2. Policy research 3. Resource center for trainers, teachers and educators	Targeted financial education: Retirement planning and investing, Superannuation, E-commerce, Insurance, Dispute resolution, Financial literacy and financial exclusion, Consumer rights, Credit	Decoding financial jargon Information on consumer protection	Life stages targeted education program: (Children)*Learning money matters,* (Young adults)*Helping Young Adults Make Sense of Money,* (Employees) *Making the most of your money,* (New Parents) *Money Box,* (General Public) *Consumer website and online tools.*	Free debt counselling, information packs and budgeting tools	Advisory services on debt, benefits, housing, legal, discrimination, employment, immigration, consumer and other problems	Information on Financial Planning, Retirement Planning, Education and Kids, Starting a Small Business, Home ownership, Investing, Detecting fraud, Rights, Recourse mechanisms, Taxes	Basic and targeted financial education: small business guides, homeowners/buyers guides, generic advice on budgeting, saving for retirement. Basic financial literacy curriculum for adults and children	Targeted education on retirement, benefits, pension plans,cash/debt management, tax/estate planning, investing
Delivery model	Seminars, workshops, community dialogues, skits, financial literacy in curriculum, educational brochures. A "For the Consumer" informational website.	Free courses, consumer guides, informational and interactive website. One-stop customer service centers: SME exhibitions, information and internet kiosks, advisory services.	Free courses, consumer guides, informational and interactive website.	Website and Publications	Fido website, Infoline (call center), Investor forums and community talks, Consumer tips in print and radio media, publications	Online Financial Literacy Info Centre, Online informational booklets	Online resources, toolkits and training modules. Free seminars in the workplace by a trained presenter.	Telephone	Face-to-face and telephone	Free telephone service Online publications and toolkits	Websites, online guides and tools, publications	Employee seminars, workshops
Governance Structure	MoneySENSE Industry Working Group (MIWG)	Bank Negara Malaysia (central bank) and Association of Banks in Malaysia	Bank Negara Malaysia (central bank) and insurance and takaful operators or association	Partnerships with government, industry and community sector organisations.	Australia Securities and Investment Commission (Consumer Advisory Panel within ASIC).	Australia Bankers' Association Member banks	Financial Services Authority, in partnership with public and private organizations (Financial Capability Steering Group)	Money Advice Trust (NGO)	Citizens' Advice (national body)	Financial Literacy and Education Commission	N/A	N/A
Funding model	Monetary Authority of Singapore (MAS)	Bank Negara Malaysia (central bank) and Association of Banks in Malaysia	Bank Negara Malaysia	Australia Financial Literacy Foundation (Functions now being handled by ASIC)	Financial services and ASIC	Member banks	Levies on Financial Services Providers (FSPs)	A mix of private sector donations and government grants.	Private and public donations	U.S. government (Treasury)	Citigroup Bank	Employer fees

Source: Genesis (2008)

Legislation exists to facilitate financial inclusion and protection. Key among these is the Financial Services Charter (currently under revision), the Financial Advisory and Intermediary Services Act (FAIS) of 2002, the National Credit Act of 2005, and the Consumer Protection Act of 2008. In addition a new regulatory framework for the financial sector, described briefly by the National Treasury (2011), includes financial inclusion as a priority. Financial inclusion will attempt to be strengthened through "creating a retail banking services market conduct regulator in the Financial Services Board". "This new regulator will focus on issues of market structure and bank costs and work closely with the National Credit Regulator, which has a complementary role in regulating the extension of credit (National Treasury, 2011)."

In theory the National Credit Regulator oversees the credit business of banks, but no entity exists to regulate the entire banking sector, despite calls for the latter.

The Banking Enquiry (2008) found that the costs that retail banks imposed on the consumers, such as penalty fees on dishonored debit and other transaction charges, were unreasonable, having no clear relation to costs. Such ‘costs’ often hurt poor consumers the most, and severely harm the ability of consumers to accumulate assets, despite financial inclusion. Providing no-standardised interest rates means that consumers are unable to improve their choice of savingsand term deposit products, since comparison of accounts is not possible (National Treasury, 2011).

Interest rate ceilings have been set under the NCA, to the consumers benefit in many respects, however “the ability to charge fees and the addition of credit life insurance as a requirement of loans effectively renders the interest cap somewhat redundant” (Feasibility, 2011, p.142).The NCA also works to improve standards of consumer information and prohibits certain unfair credit and credit marketing practices such as negative option marketing. Even with the introduction of the NCA, which tries to ensure contracts are fair, short, and understandable, the regulatory framework does not adequately deal with consumer protection. National Credit Regulator (NCR) has been established under the Act as the primary administrative regulator under the National Credit Act “to promote public awareness of consumer credit matters”. The NCR is the body responsible for promoting access to the credit market for low-income and previously disadvantaged persons.

The Financial Sector Charter made a number of commitments to financial inclusion, most of which haven’t been met or are disputed.

Policy recommendations

Widening the reach of the financial system and making people more financially literate are in practice interrelated. Our first three recommendations focus on financial literacy more directly though.

i. Widespread provision of financial literacy and advisory offices. Advice should be free to ensure high take-up. Given the lack of formal banking facilities in rural areas, this policy can only be effective if banks are legislated to expand into these areas over a specified time period. One third of South Africans live in rural areas.

    a. Advice should be in the form of face-to face consultations and phone services. Centers are preferred to mobile units according to focus groups (Genesis, 2008). Different levels of ‘money advisors’ with different level of expertise will be needed.

    b. So-called “partnership” models have great logistical benefits given the relatively expansive infrastructure already available. Private sector should assist by housing these centers or units. This could be paid for, in part, by the 0.2% of post-tax operating profits, which banks are supposed to spend on consumer education each year according to the FSC.

    c. At the moment larger banks and insurance companies provide in-house financial education. However these are branded and used to market services to the customer (Genesis, 2008). Ideally ‘money advice’ should be impartial -- having no affiliation or sales agenda (Genesis, 2008). That would not preclude the private sector from providing volunteers who would serve as impartial advisors outside of their work capacity. This was done in the UK in Money Guidance centers (Genesis, 2008).

d. Different types of people will need different advice. Marketing should be driven to these different market segments. For more detailed implementation advice see Genesis (2008).

e. In terms of legislation, the provisions must be consistent with FAIS and the NCA. FAIS compliance is only required (roughly) if the advice is being given with a view to recommend the purchase of a financial product. Financial advisors therefore would not need to be FAIS compliant if their duties are limited (Genesis, 2008). Debt counseling services are regulated and provided for by the NCA and therefore would need to be provided in financial advice centres.

ii. A nation-wide campaign to ensure greater financial literacy could include promoting 'financial licenses' (Lusaradi, 2007), which one receives after attending at minimum 1 discussion with a financial literacy advisor, and on their approval. No written test would be needed. The benefit of having this card is that low-cost savings products would be offered at more competitive rates.

iii. One focus group run by Feasibility (2011) supported the idea of building financial literacy into the school syllabus. While numeracy and literacy skills are the foundation of financial literacy, specific issues can be taught and discussed in life-skills class. This would include: interest rates, the benefits of compound interest and early savings, what retail banks do, key legislation affecting how you are treated as a consumer, etc. Content might also focuson broadly familiarizing students with financial products which could benefit them in life, including savings, cheque, and credit accounts; home loan and SME loans; pension products; and insurance products. When Postbank is up and running government should also consider implementing field trips for students to these branches. The option of opening a savings account should be made available. Taking students to a private bank runs the risks of creating a conflict of interest between government and a specific bank.

iv. Trusted, and centralized, sources of financial information should be made easily accessible, while actively minimizing duplication. Ideas to explore are an official website for financial literacy and advisory matters (on specified topics); having a free and centralized national financial advisory number which would deal with issues relating to advise on savings, credit, insurance, retirement, investment funds, proximity of formal financial institutions, comparison of products, and real-time human advise.

v. Reducing costs through competition policy. We support the recommendations by the Banking Enquiry for (2008, pg. 42):

i. A centralised banking fee calculator service should be established. This should provide an accessible facility for consumers to input their own product requirements – with assistance if necessary – and obtain (without cost) an automatic, objective indication of where they could obtain those services and at what prices. It would be up to the banks to make available reliable product and pricing data if they wished their services to be included in the answers supplied by the calculator service. The data should be open to public inspection and to audit in the event of dispute.

b. In an effort to aid the ability of consumers to shop around and make comparisons, the commission also recommend: (1) drawing up customer profiles which should be publicised to facilitate comparative shopping; (2)permitting comparative advertising that would allow banks to compare their own prices and product offerings directly and explicitly with those of their rivals (though this was not a definite recommendation); (3) getting banks to provide more basic banking products, with similar content, capable of being simply and directly compared.

c. Increasing competition also means accommodating banks within the national payment system, being more open to granting banking licenses, and introducing Dedicated banks. The current Dedicated Banks Bill places no emphasis on the poor or financial literacy. Establishing 'dedicated banks' and the creation of a 'tiered' banking system cannot be a substitute for more activist regulation of the main retail banks in South Africa.

vi. NCA regulation should be extended to ensure that non-interest rates fees are more tightly regulated, including insurance, service, and penalty costs.

vii. Regulation needs to remain flexible in order to accommodate low-risk segments of the population. In the past this involved allowing for exceptions to the requirement of having proof/verification of residential addressand the use of asylum permits by refugees to identify clients (AFI, 2011).

viii. Innovation has an important role to play in expanding access to services, especially through cell-phone mobile-banking. A sub-committee should be established, possibly consisting of the Minister of Science and Technology, the Banking Registrar, the NCR, a representative from the FSC, and the Minister of Economic Development, to investigate pro-poor banking technologies around the world and how they might be integrated into the South African banking sector. Major banks should sit on this committee along with academics, analysts and DGs (if necessary).

ix. Proper data systems need to be put in place to monitor financial inclusion/exclusion and literacy. At present regulators do not collect (supply side) data on financial inclusion and demand side sources are limited to Finscope.

x. Tying informal savings networks into formal banking structures should cautiously be explored. Informal savings products are in wide use, especially informal savings club (Collins and Murdoch, 2008), and burial societies. Theseinformal networks could be targeted directly and offered specific services in formal retails banks such as Postbank (in the future). Services offered might highlight the benefits of improved safety of funds, ease of access, and interest benefits. The service should be free, at least initially. To compensate for the cost to the banks of providing the service, a lower than normal interest rate could be provided, if necessary.

xi. We support the creation of a retail banking services market conduct regulator. Critically it must have sufficient support from Treasury and the Registrar of banks so that it can have enough teeth to properly fulfill its mandate. As it will work in tandem with the NCR, it is important that the latter is sufficiently resources.

d. Microfinance

Why include microfinance, which is an instrument for lending and potentially a source of debt, in a discussion on asset building? This is surely contrary to the objectives of saving and accumulation. There are three main reasons for this: firstly, where there has been success, microfinance has created a vehicle, through microcredits, for savings used to acquire assets for small business development. Secondly, microfinance facilitates greater financial inclusion and financial literacy potentially reversing historically determined financial deprivation. Thirdly, the experience with microfinance in developed countries has generated useful learning about the saving behavior of the poor.

According to the World Bank (2002)

> "Microfinance refers to small-scale financial services — primarily credit and savings — provided to people who farm or fish or herd, who operate small enterprises or microenterprises where goods are produced, recycled, repaired or sold, who provide services, who work for wages or commissions, who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools, and to other individuals and groups at the local levels of developing countries, both rural and urban....Microfinance services can help low-income peoplereduce risk, improve management, raise productivity, obtain higher returns on investments, increase their incomes, and improve the quality of their lives and those of their dependents....Such services are rarely available through the formal financial sector....The microfinance revolution refers to the large-scale, profitable provision of microfinance services — small savings and loans — to economically active poor people by sustainable financial institutions."

The Grameen Bank in Bangladesh is the most famous example of a microfinance institution that claims to have had a positive impact on the lives of the poor. The model of the Grameen Bank is one of group lending, in which small amounts are loaned to groups of 5 to 20 people and repaid through the group. Groups have largely consisted of woman. The Grameen Bank has claimed high repayment rates of around 95%. This success has been attributed to the social pressure exerted by the group, the close relationship between bank officials and the communities, and the fact that the primarily female participants carry a disproportionate burden of the responsibility of household expenses.

Microfinance has also has some success in Bolivia (BancoSol, Caja Los Andes, PRODEM FIE and Sartawi), Columbia (Caja Social), ADEMI in the Dominican Republic (ADEMI), FinancieraCalpia in El Salvador, Compartamos in Mexico and ACP/MiBanco in Peru (Navajas et al., 2000). In Indonesia the Bank Rakyat Indonesia Unit Desa (BRI-UD) has had success, and in Africa the AECA and CECAM in Madagascar, ACEP in Senegal, Centenary Rural Development Bank Limited (CERUDEB) in Uganda and CRG in Guinea-Conakry.

Of the many microfinance institutions it appears that only a few (approximately 200 worldwide [OECD 2002]) have managed to be profitable and self-sustaining. Many are supported by subsidies, funded NGOs, or World Bank initiatives. Frequent failures have been attributed to a lack of discipline in ensuring repayment or poor lending policies.

Although there are a small number of large microfinance institutions worldwide most MFIs are relatively small and geographically focused on small locations. The most important lesson from the microfinance experience in developing countries appears to be that when it comes to financial matters success in poor communities is highly dependent on a strong local base with the involvement of local people to ensure client contact and account maintenance. Moreover, without these schemes being subsidized and clearly regulated by government, exploitative lending relationships often emerge.

In South Africa it appears that microfinance has played a very small role in addressing poverty and inequality. Although the financial sector is well developed it has been historically disconnected from low-income Black communities. Microfinance institutions in South Africa have been largely commercially driven, with the policy debate being focused on appropriate regulation to protect consumers against exploitative lending practices rather than on microfinance as a positive tool for poverty alleviation (see for example the Microfinance Regulatory Counsel: The evolution of microfinance in South Africa from 1994 to 2004).

There are some exceptions. Banks like Capitec, who specialize in microfinance, have incorporated low cost transaction and savings accounts into their service offerings with considerable take-up in the last few years (Banking Enquiry, 2008). The extension of similar lending practices, tightly regulated (which the NCA does in part by doing away with the Usury Act), is to the benefit of the poor.

6. Conclusion & summary of key policy advice

In this paper we introduced an asset-based approach to addressing poverty and inequality in South Africa. Asset based policies involve either the redistribution of preexisting assets or aiding the accumulation of new assets on a more equitable basis, especially for the poor. In this paper we have focused on the latter.

An approach based on the redistribution of assets (and any asset-centered approach) can only be successful over the long-term if the functioning of the market mechanism does not quickly 'reset' property positions to the *ex ante* situation, thereby 'alleviating' the asset or entitlement from its new owner. The implication of this is that 'enabling factors' really matter. Without access to financing on fair terms, capital, education and training, and quality infrastructure asset-based policies within a market economy will not be effective.

In South Africa, despite the existence of an incredibly sophisticated financial sector, financial exclusion remains high and financial literacy low. We recommend that the key to implementing asset building policies in South Africa is leveraging the considerable institutional capacity and skills base of commercial banks and other private sector financial institutions. Legislation that combines incentives and subsidies, with obligations and contributions, may be necessary given the present orientation of most of the financial sector.

A suit of policies built to improve financial inclusion and increase savings and accumulation are recommended. These policies serve more as facilitations tools, enabling income to be transformed more efficiently into assets. Policies must take account of increased 'financialization' and provide for greater inclusivity through financial literacy and access to banking and related financial services. Providing incentives to save, through Independent Development Accounts (IDAs), should be explored further. Evidence from IDA programs in the USA show that small incremental gains are possible in developing the asset base of the poor in the short run. Its long-term impact remains unassessed. Financial inclusion is integrally linked to the capacity of households to benefit from such policies. In South African financial inclusion has been hampered by low levels of financial literacy and highly unequal access to basic banking and financial services. In this regard we recommend, among other things:

i. Widespread provision of financial literacy and advisory offices.

ii. A nation-wide campaign to ensure greater financial literacy could include promoting 'financial licenses' which one receives after attending at minimum of financial literacy training.

iii. Building financial literacy into the school syllabus. While numeracy and literacy skills are the foundation of financial literacy, specific issues can be taught and discussed in life-skills class.

iv. Trusted and centralized sources of financial information should be made easily accessible, while actively minimizing duplication. An official website for financial literacy and advisory matters (on specified topics) and having a free and centralized national financial advisory number are feasible options.

v. Reducing costs through competition policy. In this regard we support the recommendations made by the Banking Enquiry (2008).

vi. NCA regulation should be extended to ensure that non-interest rates fees are more tightly regulated, including insurance, service, and penalty costs.

vii. Regulation needs to remain flexible in order to accommodate low-risk segments of the population. In the past this involved allowing for exceptions to the requirement of having proof/verification of residential address and the use of asylum permits by refugees to identify clients.

viii. Innovation has an important role to play in expanding access to services, especially through cell-phone mobile-banking. Partnerships between the public sector, network providers and banks should be set up to investigate pro-poor banking technologies around the world and how they might be integrated into the South African banking sector.

ix. Proper data systems need to be put in place to monitor financial inclusion/exclusion and literacy. At present regulators do not collect (supply side) data on financial inclusion and demand side sources are limited to Finscope.

x. Tying informal savings networks into formal banking structures should cautiously be explored.

xi. Finally, we support the creation of a retail banking services market conduct regulator.

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