How access to financial and social assets can contribute to helping the youth to make their own economic decisions and escape poverty.

Office of the Executive Mayor

Economic Intelligence and City Sustainability

1st Floor | TEDA Offices | Eco Office Park | 349 Witch-Hazel Avenue | Centurion | Pretoria | 0002

PO Box 440 | Pretoria | 0001 | Tel: 012 358 3642

Email: shaakirak@tshwane.gov.za | www.tshwane.gov.za | www.facebook.com/CityOf Tshwane

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IGNITING EXCELLENCE

The economic transformation agenda

Since the advent of democracy in South Africa in 1994, economic transformation has remained a key part of the government's domestic economic social development policy. Very broadly, economic transformation in the South African context has been described as a process by which the government seeks to foster the distribution of the country's wealth and to ensure that all South Africans benefit from the country's natural riches and economic growth (Adelzadeh: 1996). In this endeavour, the government has implemented several projects and programmes, including the extended public works programmes, and adopted policies such as black economic empowerment, in an attempt to correct the wrongs of the past (National Development Plan 2030: 2011). While the government has indeed made strides in creating a more egalitarian economy, as evidenced by the emergence of South Africa's new black middle class, this economy is vulnerable to internal and external shocks (Ndletyana: 2014). Nonetheless, youths across the country in both rural and urban areas remain disproportionately affected by high unemployment rates, poverty, and lack of access to the formal economy. In 2014, the rate of unemployment among black African youths was 4,1% higher than that of youths in the coloured population group, and as much as 23,7% and 29,8% higher than that of the Indian/Asian and white groups respectively (Stats SA Mid-year population estimate: 2014). The failure to acquire marketable skills or capabilities for lifelong learning leaves young people vulnerable to persistent, deepening poverty. As such, new approaches that support vulnerable youths to proactively realise their full economic potential should be central in youth-targeted development policies and programmes.

Understanding the dynamics of financial exclusion

Access to financial and social assets is a key contributing factor to help youths make their own economic decisions and escape poverty (The Global Financial Inclusion, Global Findex Database: 2013). South Africa's sophisticated financial sector offers highly developed financial infrastructure and well-developed mobile technology financial services that make the country a regional leader and significant international player in the banking and financial services sectors. According to Global Findex, aggregate data suggest that South Africa's financial sector is fairly inclusive, with about 54% of adults reporting possession of a formal account enabling both deposits and withdrawals at a bank, credit union, cooperative, post office, or microfinance institution. However, while this aggregate picture shows progress in South Africa's drive towards a more inclusive economy, it also obscures the massive socio-economic inequalities that continue to persist across the country and masks important nuances about financial exclusion in South Africa's social context. For instance, in a study using household survey data from 1995 to 2000, Okurut (2006: 33) found that at the national level, access to bank credit is positively and significantly influenced by age, being male, household size, education level, household per capita expenditure and race. Despite the gains with regard to the proportion of the adult population with bank accounts, there are millions of South Africans who are unbanked or underbanked and variously financially excluded, the majority being those from previously disadvantaged population groups (National Treasury: 2011). The underbanked are a distinct group from the unbanked, which represents people or businesses that have poor access to mainstream financial services normally offered by retail banks. The underbanked can be characterised by a strong reliance on non-traditional forms of finance and microfinance often associated with either poorly regulated or unregulated services such as cheque cashers, loan sharks and, in South Africa, stokvels. The unbanked are basically adults who do not have their own bank accounts (Seidman, Hababou and Kramer: 2005).

The structure of South Africa's financial sector is dominated by large and complex financial institutions with a historical bias towards extending access to financial products to high- and middle-income earners. The Centre for Financial Inclusion (CFI) defines financial inclusion as a state in which all people have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. There are two types of financial exclusion: exclusion from the payment system and exclusion from formal credit markets. Financial inclusion is said to be inextricably linked to financial literacy. Gardeva and Rhyne (2011) at the CFI expand the definition of financial inclusion to note that full inclusion requires the clients of these services to be financially literate. In this view, financial literacy is thought to enable the unlocking of other dimensions of financial inclusion, for instance to enable prevention of over-indebtedness. While youth financial exclusion has not been traced well in literature and policy, general literacy rates are available. Literacy levels vary geographically in South Africa, across and within provinces (Mishi, Vacu and Chipote: 2012).

The proportion of GDP dedicated to education in public institutions has increased significantly since the country's democratic transition, placing South Africa next to Western countries in terms of public expenditure in basic and higher learning. As a case in point, the City of Tshwane's current year-on-year growth rate for education in terms of people with higher-learning qualifications ranks as the highest in Gauteng and is also above the national average growth rate. However, the number of post-matric qualifications accumulated has been declining across all the regions in recent years. This decline has been attributed to the growing youthful population across South Africa, migration and in-migration, and the consequent increased pressure on the schooling system that is negatively affecting matric outcomes. In 2013, the World Bank reported that 94% of adults with a tertiary education have a formal bank account while only 43% of those with a primary education or less do.

Youth on the margins of local economies

For the youth, this is between the ages of 15 to 24, according to the National Youth Policy. The lack of access to a wage income is the main driver of economic and financial exclusion, which has been compounded by income differentials within and between racial groups. Two key aspects of exclusion from the labour market can be observed, particularly in an urban area such as the City of Tshwane. The first is low participation rates, which are largely the consequence of poverty and spatial exclusion hampering job searching, and the second is high unemployment rates, or exclusion from the formal labour market. The latter is concentrated among young people exiting their education and training with aspirations of entering the labour market. Despite the fact that those young people seeking to enter the labour market with post-matric qualifications and training are more likely to have access to a bank account, lack of access to appropriate financial services can have a significant impact on young people seeking to navigate the challenges and opportunities facing them, regardless of their employment or educational status.

According to a 2012 study by Economic Research Southern Africa, most organisations now resort to paying salaries and wages through banks for a range of reasons that include the convenience offered by banks, the reduction of cash-handling, and the avoidance of anomalies on the side of the employer (Mishi, Vacu and Chipote: 2012). It therefore follows that the demand for bank services can depend upon one’s employment status. In South Africa around 61% of those who are employed have bank accounts, compared to only about 22% of those who are unemployed. (World Bank: 2013) The difference remarkably supports the argument that employment status determines access to banks by individuals. In this view, exclusion from the formal economy begins in the labour market, due to low participation rates and high unemployment rates. Consequently, a very small proportion of the potentially economically active population is employed (Hausmann, 2008: 3).

The disproportionately high unemployment figures for the youth highlight the importance of finding ways to increase youth participation in the economy. While the low prevalence of entrepreneurial activity in the 18 to 24 age group in South Africa is in line with general global trends of entrepreneurial activity, it is of concern in the South African context. According to the United Nations Capital Development Fund (2012), youths are disproportionately affected by limitations related to access to capital. Although access to finance is a perennial problem for all small businesses, since young people often have no credit history or assets to serve as collateral in order to secure loans from financial institutions, accessing funds can be an insurmountable challenge. They are also less likely to have accumulated sufficient capital to be able to use their own savings to finance a business enterprise (UNCDF: 2012). Ojah (Wits Business School Journal: 2013) argued that South Africa's financing gap in this respect is the highest among strong-growth emerging economies because South African banks are said to be sitting on close to R1 trillion worth of investable funds from which the exclusion of the formal and semi-formal lending norm has been variously attributed to an overly conservative lending model and the ownership concentration of South African banks. South Africa's financial market lacks institutions that cater appropriately to the lower end of the SME market. According to the World Bank (2013), this is linked to the high administrative costs of small-scale lending, the perception that risk is high in lending to smaller enterprises, and small enterprises' lack of collateral and financial records.

To address inherent biases and inequities in the financial sector, the government has introduced several market-regulating measures such as the Financial Services Charter and Code, the Broad-based Black Economic Empowerment Act, 2003 (Act 53 of 2003) and the Codes of Good Practice (South African Reserve Bank: 2014). The targets of this legislation relate to ownership, management support, employment equity, skills development, preferential procurement, socio-economic development, empowerment financing, enterprise development, and access to financial services.

Mishi, Vacu and Chipote (2012: 2) assert that "a well-functioning financial system is the one that is inclusive". However, account penetration varies according to the individual characteristics of account holders. At household level, access to financial services enables the family to invest, save, insure their property or borrow, while at small business level it contributes to job creation.

The impact of youth financial exclusion

To cope with poor economic conditions and lack of employment and educational opportunities, many youths turn to the informal sector for work and financial services, despite the insecurity and unsustainable nature of this market. A better solution would be to provide more formal financial service opportunities for youths by including them in inclusive finance strategies. In developed and emerging market economies, financial exclusion is deeply interrelated with social exclusion, since social exclusion is likely to lead to financial exclusion, thus financial exclusion is considered as belonging to a process that reinforces the risk of social exclusion (Lämmermann: 2010). Therefore, the impact of financial exclusion on the individual and society must not be underestimated. Those unable to access finance for enterprise development or personal consumption have greater difficulties in integrating socially and economically. Moreover, no access to financial services may bar young people from accessing vital services and activities, including employment and business opportunities, and it may ultimately condemn the youth to the periphery of society.

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