

Financial Inclusion and Socio-Economic Transformation in Post-apartheid South Africa

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I have been staying in South Africa as a naturalized citizen from Uganda. I have been in the United States since March and I have been to Oklahoma, Texas, Arizona, Hawaii, North Carolina, Massachusetts, and New York. But I have found that not many people know about South Africa. You too probably hear about it but you do not know much about it. Similarly, many of you probably know much about Penn State and less about what is happening in Florida. So I will give you an overview of South Africa, then take a look at the reconstruction process there, and lastly examine financial inclusion and social economic transformation in the post-apartheid period. The reason why I am so happy to be discussing South Africa is that, staying in the United States, I have come to see a lot of similarities between South Africa and the United States. It is my hope that, at the end of this, you too will find the similarities or be able to compare and contrast the two countries.

AN OVERVIEW OF APARTHEID IN SOUTH AFRICA

South Africa is neighbored by Namibia, Botswana, Zimbabwe, and Lesotho in the middle. Apartheid South Africa had only a few dimensions: the Cape area, the Orange Free State, the Transvaal, Bophuthatswana, and Natal. These divisions were made by the colonizers of the country, and they have huge implications in what we will discuss today. The major colonizers of South Africa included the Dutch, who gave us the Afrikaans language (a mixture of Dutch and the Boer language), the British, the Portuguese, the Germans, and the Italians. They divided up the country. So what do we see in apartheid South Africa? Apartheid itself refers to the segregation of services on the basis of race and color. Does that sound familiar? In apartheid South Africa “black” was the term for anyone who was not white, so if you were non-white you fell in the black category. Blacks represented three groups of people: the black African, the Indian, and the Asian. A hybrid between a white person and a black person or a white person and an Asian was called a “colored person.” Not a “person of color” as here in the United States, but a “colored person,” so you would find four groups of people. I would like you to go on Google and search “apartheid signs in South Africa.” You will see all sorts of them. Some are so ugly that I cry when I see

them and I do not want to put them up.

Apartheid was a form of institutionalized division. The education system was blacks-only, whites-only. There was certainly a curriculum for blacks who also attended black-only schools, and you most probably studied carpentry. You did not study science; you did not study math. These are key subjects and that is why each one of you was taught “one plus one” at an early age, because you would need that knowledge now.

“Blacks” had no land ownership. Land becomes very important, especially in the financial sector. It is a means of production. If you do not have land, then you only have your labor. If all I have is myself, then in the absence of owning land I had better have the appropriate skills to be productive. Blacks were evacuated from everywhere that government wanted. This meant massive forced evacuations. In Cape Town, which had predominantly “white” and “colored” people, they evacuated all the “coloreds” from the city center (District Six) and pushed them to the Cape Flats, which is just a block of flats as filthy as can be. The apartheid government then built their posh residences and skyscrapers there. Today there is a District Six museum. Similar confinements for blacks existed elsewhere. These were the homelands of South Africa—away from cities, and unproductive places.

South Africa had a good and sophisticated financial sector. Up to today it is one of the best in the world. However, it served just a few elites, mainly whites. Non-whites did not have access to formal financial services, period. They did not have bank accounts, could not get loans easily, could not even save formally, and could not be insured. What that translates into, as many of my friends and colleagues from Africa and the developing world will tell you, is that people look for informal financial mechanisms as alternatives of financial management. That is what happened in South Africa, and it is still going on. And it can be difficult to break such habits.

Nelson Mandela did not just sit back. He made it his mission to end this segregation, but it landed him in jail. If you ever get a chance to go to South Africa, go to Robben Island, where he was jailed for over twenty years. You will see Mandela’s cell and hear the narration of being an apartheid prisoner. His cell is still intact. On his release from prison, Mandela, who had thought about how to get rid of this injustice, this discrimination, something this horrible, sought its end. In 1994 South Africa gained independence and the people elected him as president. In his inaugural speech, he pledged: “Never, never and never again shall it be that this beautiful land will again experience the oppression of one by another. . . .”¹

He knew what had happened and what his people had been deprived of. Poverty was everywhere. If you look at our inequality at that time it was at just about fifty-nine percent, but the population was also skewed. Many blacks were not counted, so that we would have a good image for the world. But the population of blacks was so high, that if we put it into today’s figures, the inequality was huge. In a

different context Mandela said, “This poverty is not an accident. Like slavery and apartheid, it is man-made and it can be removed by the actions of human beings.” The other thing he identified was education. In one speech he said, “Education is the most powerful weapon we can use to change the world” You are not here in college by accident, and there is a reason why your government indeed wants you to be educated. So he looked at those two issues: how to get out of poverty and how to increase education.

What does the post-apartheid South Africa do? We get into what we call the transformation phase. What do we have in the reconstruction and development plan for the country? Firstly, we see a geographical realignment to try and bring people closer to production and so reduce the inequality that came as a result thereof. From the three or four gigantic regions in apartheid South Africa we end up with nine provinces: Northern Cape, Western Cape, Eastern Cape, Free State, Kwa-Zulu Natal, Mpumalanga, Limpopo, North West, and Gauteng.

The new South Africa is called the “rainbow nation” because we are trying to embrace everybody. In that new rainbow nation we have a new flag, a new anthem, and eleven official languages. How many official languages do you have here? None? The other day I saw an old flag of yours being pulled down. When did you guys have democracy? Somebody said 1776 and I thought, “Oh, my goodness, centuries of democracy and you still have more than one flag.” At least we have just one flag after democracy. We have a new national anthem. That served to bring a sense of unity. Listen to our anthem and you will find that it tries to bring in all the official languages. Is that not beautiful? That is a sense of unity, at least for us, for the South African people. Nobody is thrown out.

We have a new education system. We have removed the boundaries of white-only and black-only schools. At the tertiary education level, technikons were merged with universities. For instance, think of the Cape area as similar to the eastern part of the United States. You have so many states there, and in that huge area you have numerous universities, some of which are predominantly white and others which are black. What the new South African government did was to combine some into one university but with several campuses. That way we can transfer skills from a well-to-do group to a previously marginalized group. Students learn a lot from their peers, including social skills. That is in the education system.

In the employment sector, two policies were introduced: Affirmative Action (AA) and the Broad Based Black Economic Empowerment (BBBEE). You probably have a similar terminology to AA here, but what our AA does is mandate that the first three levels in any institution, administrative or otherwise, be occupied by the previously marginalized, especially if they are equally qualified. Skills can also be transferred across groups as well, say between the previously favored and the previously marginalized, if they work together. From the BBBEE perspective, if you are “black” and you have a business idea, you should get access to finances if funding is your constraint. The reconstruction program was supposed to help reflect South Africa’s diversity at the time, or the diversity that was supposed to exist in the business

sector according to South Africa's general population.

To close the inequality gap further the government instituted welfare programs, although they are not very old. I recently went to some welfare houses in Tulsa, Oklahoma and I cried. I wondered, "Is this the United States?" They are worse than some of the places I see back home. We have welfare programs now where people are given child support grants, foster care grants, or some form of financial support. These are unconditional grants that come in the form of cash to enable those at the lower end of the income spectrum to have access to basic services. We all know Maslow's hierarchy of needs—the base of that pyramid was lacking, especially for the previously marginalized. We know what is at the base: food, shelter, and clothing. Besides the mainstream cash grants we have housing projects. The government has been building houses for the previously disadvantaged and making rural electrification, water, and healthcare available. And the financial sector was reformed to embrace everybody who was desirous of engaging with it. In a nutshell, there are visible changes in the new South Africa.

In terms of income inequality, in 1995 (immediately after independence), thirty-nine percent of income was earned by black people, whereas forty-eight percent of income was earned by whites, with twelve percent by the rest of the groups. So there was some form of disparity there. In 2000, the share of income for the blacks increased to forty-three percent while that of the whites declined to forty-four percent. But let's look closely at what was happening when we break it down by racial group. For blacks the average income was not really increasing that much and was still below average. Remember, it was two decades ago and we cannot expect things to be moving much in such a short time.

The problems that were created in apartheid have a lasting impact. You have to deal with issues of trauma. When you are studying issues of social injustice, people are traumatized. Before I can even take advantage of any opportunity that presents itself, I have to be psychologically ready. I am saying this at a very basic level, but think about it in terms of productivity in a country and what that means for one's welfare. How fast am I going to change my mindset to take advantage of things that are going to help me improve my wellbeing?

We can see that in South Africa, even though we are trying to move away from it, the inequality persists despite our efforts. The top decile, the top ten percent of the population, accounts for almost fifty-eight percent of the country's income. The bottom fifty percent accounts for just eight percent of income. The inequality that we have is still huge, despite what has been done. Under the circumstances, we should not be expecting miracles twenty years down the road, when it took ages to really get the people to that mode of disorientation and disorganization. I remember those houses that I saw in Oklahoma, and the occupants told me that they get the houses at the low cost of a few dollars, and they get some form of assistance from government. Even after years of independence, you too still have inequality.

Type of Grant	2007/8	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Old Age	2219	2344	2490	2647	2729	2786	2844
Child Support	8196	8765	9381	10338	10977	11303	11589
Disability	1413	1372	1299	1233	1266	1290	1315
Foster Care	443	476	489	554	613	709	820
Care Dependency	102	107	119	121	128	135	141
War Veterans	2	2	1	1	1	1	1
Total	12 375	13 066	13 779	14 892	15 713	16 223	16 709

Table 1: Number of Social Welfare Recipients in South Africa (2007-2014)

There are some people, especially the old, for whom progress is hard. You are not going to teach them anything new. They did not plan for retirement because they were not allowed to, so they could not save, they could not work productively enough to save for their old age. For these people, the Old Age Social Grants are given, to enable them to feed reasonably and survive through the winters. We have child support grants, support that goes to single parents. The danger with this type of grant is that many of our girls with low education choose to get pregnant so they can get that free money. I do not know whether that happens here. The lady whose house I went to made me cry. She had three kids less than four years old. One was going on four, the other was about two, and then there was a baby lying on the bed, less than a year old. The woman was pregnant.

I asked, “What are you doing? Where’s the father?”

“Oh, I don’t know.”

“You don’t know? Isn’t he the father of the baby?”

“No, just the pregnancy.”

She had two babies less than two years old, a toddler, and another pregnancy, and was very proud of it, maybe because of the social support she was getting. We have that in South Africa, as well. It is a negative aspect; obviously every policy has its pros and cons.

Disability aid is for people who probably were in mines, because we do have a lot of mining activity. The people who were disabled as a result of being on the job are given some allowance. Foster care is largely a result of HIV and AIDS. We have a lot of orphans, and the people who take them on have a heavy burden so government tries to give them some money as well. Likewise with war veterans. Care dependence is similar to foster care. There has been an increase in our social support—it takes up about ten percent of government’s GDP. And why do we do this? To try and reduce that inequality, try and get

people out of poverty, to try and do everything we can to salvage a situation that was created over a long period of time.

What does South Africa look like in 2015? South Africa also has a little bit of digital know-how. When you look at South Africa's population according to the recent census, we are fifty-four million. Twenty-four million South Africans are active Internet users so, yes, we access and utilize the Internet. We have social media activity, we use WhatsApp, we tweet, we use all the social media, too. I am sure those of you who have friends in South Africa know this because you communicate with them.

Have we changed in terms of inequality? I believe what is driving inequality in South Africa, and in every other place, is employment or unemployment. The transition mechanism to employment is through education. If you do not have the right skills you are not going to be competitive and you will not get the right job. The people who still get jobs are those who are prepared. We still have this problem because it is very difficult to build education, to build skills. I am not sure whether in the early days of the United States education was also skewed, and how that plays out now. If it is still playing out badly, it is a long-term problem. You really have to work hard, and most of the time poor or unequal education manifests itself in employment. The recent analysis done by Statistics South Africa shows that the majority of the unemployed turn out to be youths. I do not know who the unemployed are in the United States. In South Africa it is difficult to have entrepreneurship. People do not know that entrepreneurship is a skill. People do not know how to do it, so they end up not going for it. Agriculture still has a lot of people working on farms. We have domestic workers—this is somebody's career, for instance—but domestic workers are mainly black. We do not pay them a lot, but they are contributing much to the economy. You cannot pay them below a certain income so they, too, have a minimum wage. Our unemployment rate is still at fifteen percent, and if I have to include the discouraged workers it goes to a higher figure. This still persists, even in 2015. Why? The population is growing; people are migrating to South Africa (I myself am a migrant worker there), so even though employment has increased, many South Africans are not employed. If I am employed because I have the skills but ten others do not, the unemployment rate still persists. And there are many migrants going to South Africa, skilled and unskilled.

In terms of shelter, we have moved from houses made of iron sheets of some sort to more decent shelter. This is what Mandela wanted for his people. Think about someone staying there in the winter. Our winter is very bad; it actually kills a lot of our people. Some people still lack good shelter; they are still not out of poverty. Why? It is a huge job for the government. They try. You might say, "Oh, no, they're corrupt." Who is not corrupt? I am sure the United States is corrupt, too. I watched a film called *Inside Job* about how the financial crisis happened. It all started in the United States, but like a deck of cards, it spilled over to the rest of the world. Watching that documentary, any economist or even a

layperson would cry. Corruption exists everywhere. The government houses are built by the government and then handed over to families. Each house has a bedroom, living room, kitchen, and bathroom. Sometimes the bathroom is outside, but this is much better than a shack.

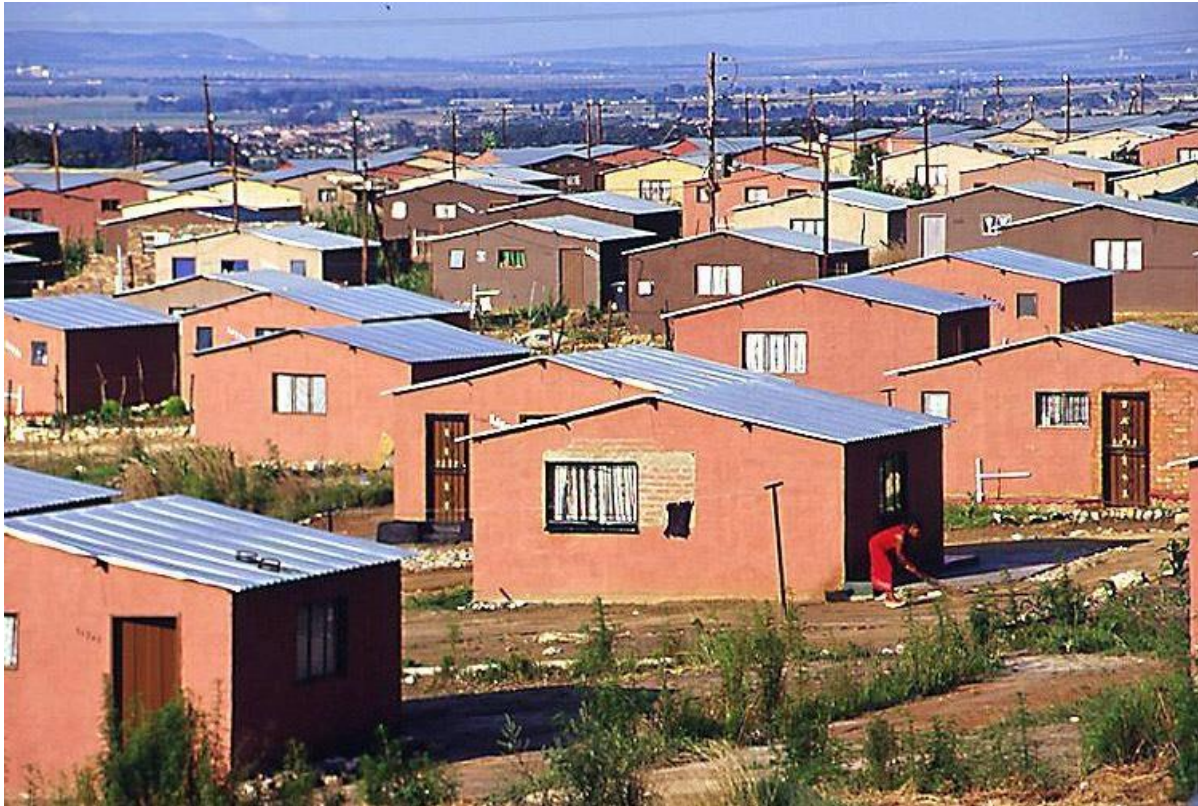


Figure 1: Government-Built Housing in South Africa

This is more decent for life, but we still have not managed to get all the people into something like this. The economic aftermath of injustice lasts a long time. You want to deal with it, you try as much as you can, but it lasts a long time. What has the government done under the transformation processes? We have tried to address the education inequalities, employment inequalities, and the health system, too. We have tried to address the social welfare by trying to boost people's income at the moment, on the spot, and then seeing what they can do, or if they can get better in the meantime.

EVALUATING PROGRESS

For an overview of evaluation studies on poverty and inequality you can look at the work of the South African Labor and Development Research Unit (SALDRU) headed by Professor Murray Leibbrandt. They have done prominent work in poverty and inequality and have evaluated how far we have come. We had a lot of inequality between the provinces. How do your states rank in poverty? Which state is the poorest in the United States? We have a lot of intrastate poverty, interstate poverty, and national poverty. The country cannot address everything at a go. The poorest province in South Africa is

Eastern Cape. That is where the majority of the homelands were concentrated. It is actually bordered by two prominent provinces, KwaZulu-Natal (where you have Durban, a major entry port) and Cape Town. Eastern Cape is where Mandela comes from, and it is the poorest because it has rocky and unproductive land.

More policy-relevant work has been conducted by the Development Policy Research Unit (DPRU), headed by Professor Haroon Borat, also at the University of Cape Town. More recently, we have also started getting evaluations on social welfare programs. The problem with some of these welfare programs is how to graduate people off of a program. You cannot feed a person forever. That money has to come from somewhere. You often hear people asking, “The money that is going to these people—where does it come from?” Obviously, from our taxes. So if we have to continue providing for them, they will tax me more, they will tax businesses more, somehow, somewhere. Some mechanisms are under review. For instance, they are introducing conditions such as, if you take your child to school, the government will continue giving you support until the child is eighteen years old and going to university or college, because the benefits of education are greater at the primary level than they are at higher levels.

FINANCIAL SECTOR TRANSFORMATION AND WELFARE IN SOUTH AFRICA

I chose to evaluate the financial access policy as part of my doctorate because there have been a lot of evaluations of all the programs that I have spoken about, but there was no empirical work done on this relationship. I have found interesting results too. The Financial Sector Charter of 2003 mandated that all our banks (there are only four major ones) provide a low-cost account for the lower-income end of the population, with no fees at all. We called that the Mzansi Account. “Mzansi” means “South Africa,” so it is for us, for everybody. The main requirement for that account was a national identity card. Unfortunately, you cannot dictate a lot to the private sector, and that account has been transformed by the banks to differentiate themselves and their products. This policy was similar to the credit access policy in the United States in the 1970s. Just like in the United States, there was a lot of discrimination as to who was getting the credit. If you were previously marginalized, they would give you the credit but it would come at a high cost, such that it would be difficult for you to pay. Yes, they gave you credit, but because you did not have a credit history, you did not have a credit record with any credit bureau, their money was at a risk if they gave it to you. The solution was exorbitant administration charges. They could charge you the same interest rate as someone else, but the administration fees would be much higher. In the end, you would not pay the same monthly installments or repayments even though you were charged the same interest rate. It is very difficult to prove the discrimination in there. The repealing of the Usury Act in South Africa removed interest rate caps to allow easy access to credit. But what we have is a high level of indebtedness.

I picked a survey done after the time of the 2003 Financial Sector Charter, showing the number of people that had bank accounts within the four major banks.

(%)	2003	2006*	2009	2011	2013**
Currently Banked	49	53	62	65	75
Previously Banked	14	12	9	4	4
Never Banked	37	35	28	31	21
Gini Coefficient	57.7	67.4	70.0	65.4	67.8

Note: Uptake boosted by: * Mzansi Account **SASSA Accounts. Informal sector: 12 million registered stokvel members pooling up to R44 billion per year

Table 2: The Trend of Formal Financial Sector Participation and Inequality in South Africa.
Source: Finscope Surveys South Africa (2003-2013) and www.worldbank.org/PovcalNet/index.html.

Figure 3 shows that about seventy-five percent of people had bank accounts by 2013, up from less than fifty percent at the time of the financial sector transformation. About the same time, almost twenty million South Africans were getting social grants. The government mandated that these individuals should receive their payments through the bank as a way of fast-tracking inclusion. Is that a good policy or a bad policy? Previously, banks were not just anywhere. Now, banks are pretty much everywhere, ATMs are everywhere, but opening a bank account still has costs. However, there are places where the rural poor will not have easy access to a bank account. The implications of the financial access policy were to tell individuals in such areas to go to the bank, to incur costs in terms of transport back and forth. By the time social welfare recipients got their money through the banks, they would have incurred an extra cost they did not want.

The Mzansi Account has since been abandoned because no one was making a profit. Even though masses of people used them, there was no associated profit. People would open an account and only bring in about twenty dollars per month, and that was not profitable business for the private sector. Private companies own these banks, so they have abandoned Mzansi Accounts in favor of their own brand of a low-cost account. We do not have any national banks in South Africa.

The other challenge for broad based financial access was education. The elderly did not get good educations. Do you have student loans? What do we know about loans? There is a cost to them—interest rates. Does my grandmother understand interest rates? Does she understand inflation? These are all financial terminologies that all consumers must understand, but people from certain backgrounds do not. The moment you sign up for an account, you are just a consumer. The laws that apply to a financially fluent person will also apply to you. Our parents did not understand what it meant to be in a formal financial system. Are we improving their welfare, or are we taking them back to square one with these policies?

Thus, over the same period of time, from way back up until 1988, indebtedness is going up and savings are going down. In Figure 4 below, the X axis on the left is the debt-to-disposable income percentage, while the X axis on the right is the savings rate in terms of a percentage.

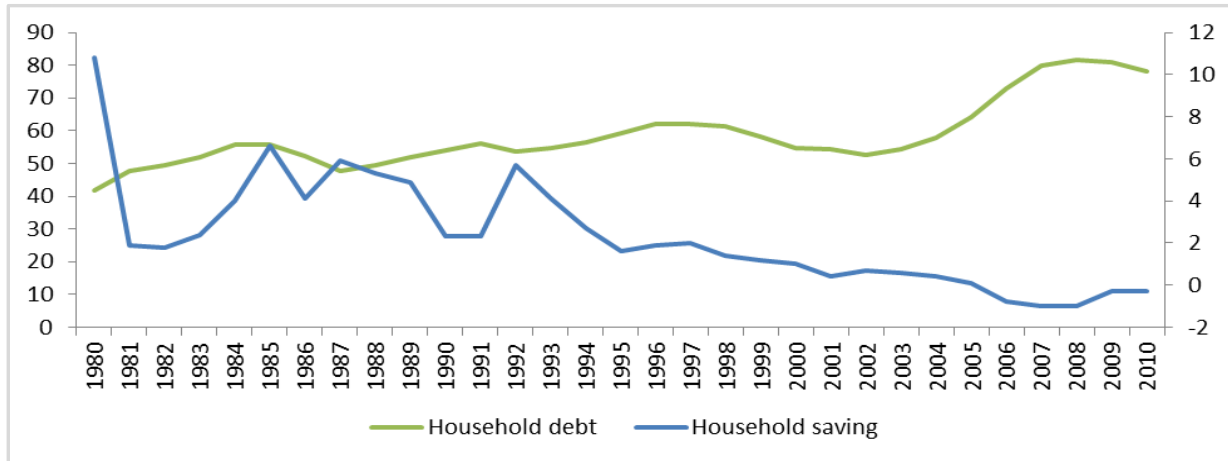


Figure 2: The Trend of Household Savings and Household Debt-to-Disposable Income.
Source: South Africa Reserve Bank publications.

Why should I save if I have access to credit? And access to credit without proper knowledge as a consumer will lead to indebtedness. It is a cycle: when you do not save, you borrow; when you borrow you are enslaved by debt and you cannot save. This happens at a household level. In 2009, when America had its financial crisis, it came to us. There was what they call a contagion effect, a ripple effect. The big giants cough, we catch the cold. Things happened in the United States, but the United States is pretty much everywhere—it is in China, it is in Africa—so the effects spilled over. Many people lost their jobs, in the United States and in South Africa. As they lost their jobs they could no longer service their debts. Banks started repossessing assets: property, cars, and if they could have undressed us, they would have. A few years ago people in South Africa did not have anything, so they learned to live with what they had. They bought their own food, saved a little bit through informal mechanisms, rented a house or bought a small one. Now they have access to credit. They can get mortgages. They can get vehicle financing. They can buy the best lounge suites, bedroom suites, and the clothes that go along with the big cars. People drive big cars, dress posh, sleep in nice beds in beautiful houses, all on credit. When the crisis hit, people came down to nothing. That was when the reality hit. “Oh, I didn’t know that I had to pay it all back!” they argued in defense, a sign of low financial literacy. Was that person getting better through financial inclusion and financial access? Or was the policy harmful? No, the policy was good and well intended. You find people have been financially included for a long time, but they are not doing any better. Why? There is something lacking. It is like sending someone to school and not giving them a teacher. They included people in the financial sector, but there was something lacking, something to do with the skills

of the individual. Those consumer skills had not been built up. It is easy for citizens of a country to criticize policies. Think about it. Is it the policy that is bad, or is it the implementation of the policy that is bad?

In South Africa we have pretty much every financial instrument you can think of. For those who are not familiar with the financial sector, probably all you know of is an ATM card. On the transaction side there are ATM cards, debit cards, checking accounts, gas cards, the Mzansi Account, or any other account. On the credit side there are credit cards, overdrafts, and personal and home loans from banks and some other lenders. We have micro-lenders, like African Bank, but micro-lenders that are just giving out credit. Then you get into insurance.

We have funeral policies, but I do not know if the United States has those. In Africa it is very important to give the deceased a good send-off. We respect them. Their remains are very important to us. In South Africa there is a very big ceremony because, during apartheid, people would die and be buried like trash, so many of them in one pit. This is somebody's culture. Conflict and oppression have a way of getting into culture. The funeral policy is a huge deal in South Africa.

Beyond funeral policies, we have household content policies, life insurance, policies for disabilities and medical insurance, and so on and so forth. In South Africa we have free public healthcare. We have medical insurance, if you want it. If you do not want to go and line up in the public hospitals, you can get medical insurance. We have a whole fleet of products for saving and investment, money market, stock exchange and shares, derivatives. That is a sophisticated financial system.

Woolworths' sells mainly clothes, but now they have added food. They have also started offering funeral policies and saving accounts for children's education. Think about it. You go and buy a dress, a shirt, or whatever, you add food, and you go home having paid for it all on credit. If you are buying everything at once, you do not realize what you are doing. You can easily end up being indebted. These stores are doing a very good job of playing on the psyches of people. Then obviously we have the informal sector. Informal saving and lending is common in Africa and I have found it in Peru, Costa Rica, and Ecuador. What an informal lender will do is give you the money if you leave your identity card with them. Without your identity card you cannot do much, so if somebody is holding onto it, you are dead until you pay that person back. You also have saving among groups. If a consumer does not understand the formal financial sector, they can use the informal sector.

Recently one of our banks, a micro-lender, crashed and the majority of its customers were poor people. You have to think carefully when you say, "Oh, this is a policy to include everybody in the financial sector." Let us look at the composition of consumers actually using those products, in terms of population or race. Up to eighty-eight percent of the previously advantaged, the whites, are saving. They also have a transactional account; they do not use a lot of credit, they have insurance, and they do a lot of

saving. They have a lot of assets compared to the rest of the population groups, even though the latter are the majority. Sixty percent of blacks have a transactional account, driven by social welfare recipients. About eighteen percent use credit, but compared to informal users the number is quite small. This figure also reflects the formal working class. Why? In the formal sector of South Africa, if you have a job you definitely get your salary through the bank. While you are there, you are supposed to take up an insurance policy, so in a way that reflects the number of people who are working. If you want a car on credit, you must have a line of credit. The number of employed people will be visible in the credit and insurance sector, but it does not play out in the savings a lot. Whatever savings are here are forced savings, again, for those who are working. If you compare the figures to the other two sectors that I mentioned, informal and semi-formal, the informal and semi-formal savers are far more than the formal savers, except for the whites. The policy of inclusive financial access was to increase use of formal products and less of especially informal products, and ultimately to overcome poverty. But is that what is happening?

Let us use one measure of welfare to find out. If you have an account, just one bank account, I will say you are included. I want to compare you with a person who does not have a bank account, or who does not use a bank for any form of saving whatsoever. Such a person is excluded. I want to compare these two people, and see who is doing better. I use data that stretch between 2006 and 2011 (see Appendix). I use objective measures and ask how many durable items or assets an individual has.

The red dots trace out the welfare of a person who is using formal financial products. The blue dots trace out the welfare of people who are not included, who do not use formal accounts. Consider, for example, two high school-educated people: one is using formal financial products, the other is not using them. The question I am asking is, “Is the welfare of the formal user better than that of the informal user?” Because that is what the government wanted to do—improve the financial wellbeing of the previously excluded. Even though two people may have the same level of education, they might not be equal. By the time you graduate from college, you are not all coming from the same background. You each have other characteristics over and above this degree. Those other characteristics will determine where you lay on the welfare spectrum. We see good welfare outcomes for post high school or graduate users, compared to non-formal users.

Let us now consider the previously disadvantaged, the “blacks,” the “coloreds,” and the group that is missing, the “Asians.” A black who is using formal financial products is actually doing worse and has lower welfare than a black person who does not use those products. The policy was meant to help the previously marginalized, but the blacks have not benefitted from financial access in the period that I am looking at. Do you know why? The answer might lay in education. What do you see in primary schooling? How much of the financial sector do you learn about in elementary school? Do your brothers and sisters in primary school understand interest rates? All they know is that mummy swipes the credit

card and I get money. We asked kids on television, “What does a recession mean?” The answer: “That mummy cannot swipe the credit card.” That is all. In high school some will understand, others will not understand, and their understanding will depend on their background. If the parents have been in the banking system, the kids will pick it up and they will understand. If black people were better able to acquire college-level education, they would be doing better. Why? Because as they get to university it is competitive and they would be forced to learn some financial basics. There are lots of shortfalls in our education system. It is still compromising a lot.

We all know that the more money you have, the more likely you are to end up in the formal financial sector. I did another study on financial literacy and I saw that people who get a lot of money, maybe through an inheritance or earnings, want to learn more about how to manage their money. They will go and acquire financial literacy. They will go and hire a consultant, a financial planner, or a financial advisor so that they are able to manage their wealth. This is telling me that welfare will get better if individuals have more money because then they will use formal financial mechanisms too. Another characteristic is dwelling area. When policies try to improve financial welfare in the rural areas they consider taking banks closer to the rural dwellers. But these people do not understand formal structures in their rural setting. You give them formal financial access, with all the confusion and the cocktail of products and a financial jungle that changes every other day, and this is what you get. You are confusing them. As soon as they try to understand interest rates, you come up with something one week later called “annualized interest rates.” One did not understand what interest rates were, and now they are annualized. The result is individuals being worse off.

When looking at individual products, which products are helping people improve their welfare? Blacks are still doing poorly with formal credit products. The results are worse for people with lower earnings. What does that say? People who are earning less probably should not go for some of these products. They should wait until they are earning more. Insurance is another confusing financial product. Have you tried getting your claim from an insurance company? The representative will go on talking, using terminologies that even the elite struggle to understand. These results show that people, especially the previously disadvantaged, become worse off, financially, by using insurance products. With incomes, the same thing happens—it gets worse with lower earning. Higher income and better education help people understand formal insurance concepts more easily.

What is happening from a gender perspective? Are women doing better than men when they are financially included? In South Africa, I do not see a difference. At some point the women do better, and at another point the men do better. In South Africa, as opposed to many other economies, race is probably still playing a stronger role than gender. In many economies and in many analyses that I have been a part of, there is a lot of discrimination in the financial sector on the basis of gender. At this point the women

are doing better in the semi-formal sector, but when you look at the formal sector there is not much difference.

Another thing financial access does is to encourage people to become enterprising as this has the potential of making someone better off. I use the World Bank Enterprise Surveys. These are surveys that collect data on businesses. Businesses that have about fifty employees are called small enterprises. On average, these businesses have been around for fifteen years so they are well established. We are talking about the proportion of businesses that are domestically owned. Quite a number of them are, so there is no foreign ownership in this group that I am studying. If they want loans, do they need collateral? Do we remember where collateral usually comes from? Probably land. In many countries that is the biggest collateral you can have; it is a valuable asset. In other countries, people trade in financial markets or buy shares in companies. If we ask how many individuals want to borrow from banks for business, about seven percent. The reason why this number is low is partly because the collateral requirements are unattainable.

I break down the statistics further to distinguish between African females, white females, and females in any other racial category. In comparing the females with the males for instance, I have 112 business enterprises owned by black females, versus sixty owned by white females. What this is telling me is that white females in South Africa are not as likely to end up in the business sector. They are probably employed in white-collar jobs, so their proportion will be small compared to the black females in the country. Then I compare black and white male entrepreneurs. They are a little bit comparable because men are usually enterprising. African males have fewer firms than white males. The idea is that during apartheid and the affirmative action that I spoke about, many whites were chased out of positions of management. What they did, because they knew more about the companies and the departments they were working in, was set up consultancy firms. They ended up creating smaller companies as consultants for the government and for state-owned enterprises because they had the technical know-how. If we look at managers' education, because it is the skills that we need, we notice that females probably have less education than males and blacks have less education than whites. At the vocational level, we have individuals who have not achieved the highest level of high school and who end up in a vocational institution to learn a major skill of their choice. If you lump everybody together, you have females doing less, but it becomes an even smaller number when we split it by race.

You can look at a number of variables. I like to think about the number of loan applications (see Appendix). Remember what we said? A previously marginalized person is high risk, so that person is likely to put in more applications before even one is accepted, as opposed to a previously advantaged person. Does that play out in here? It does when I bring in the racial disaggregation. You will find that the majority of the white males say, "I don't need a loan." They have enough of an asset base to start their

businesses. The Africans do need loans. The number of them who are saying, “I don’t need a loan” is very small.

If you look at the fixed assets, more whites will say, “Yes, we do have assets.” We look at the males compared to the females and break it down further. There is a statistically significant difference. While these numbers here are descriptive, when you do the empirical analysis the differences are really statistically significant. How many men do not have assets? In the black population it does play out a lot. Even though many blacks say they have checking accounts, that is probably driven more by the Mzansi Accounts than any other form of accounts. I like to zero in on the males because there is more activity going on there. When you compare black-male owned firms to white-male owned firms with a checking or savings account, the difference is one hundred firms in favor of whites. There are only three white-male owned firms without a bank account, while all white-female owned firms have a bank account. Looking at the broader data, you still find race playing a strong role, over and above any other variable that we have in the South African population.

CONCLUSION

The apartheid regime, just like any discriminatory system, had long-lasting effects. There is no doubt. You will agree with me that you still talk about minority issues in the United States, yet you have had democracy longer than we have, so these issues are deep-rooted and they take time to actually get rid of. Have the social economic transformation policies been successful? Think about where we started from before or at the time of independence. I would say yes, from a comparative perspective. Where did we come from, and where are we now? Some of the issues you are likely to point out are effects of the policies we have implemented. So is the policy wrong? No, it is probably its implementation or the unintended consequences of these policies. For instance, the policy of financial inclusion was okay, but it was probably implemented blindly. Right now we are looking at a financial education strategy for the country. I think in the United States you have the Jumpstart Coalition in high schools. There are financial education strategies in New Zealand, Britain, India, and several other countries. Our people are falling back because they lacked the relevant financial knowledge. We probably needed to complement financial access with financial education. Mandela was right: with education you can do pretty much everything. Informal financial mechanisms are still strong. People are running away from the formal mechanisms to the informal mechanisms because they understand them better. I went to Peru and met ladies living in the mountains of Cusco. They were given an opportunity to save formally and their savings would be topped-up or matched. They saved formally alright, but they also maintained their informal savings. I asked them why and they said, “You know what, my neighbor is open any time. If I have a problem he’ll understand why I can’t pay my contribution for this month, but the bank doesn’t. If I want some money because of

this and that, I can't easily get it because the ATM is in a bank and bank is closed at certain times." These informal mechanisms are still there and they compromise financial access policies when the two exist concurrently.

Finally, we are saying that the racial differences remain strong, far stronger than we actually think. Does that play out here in the United States? Think about it when you go to apply for a job—is it easy for everyone to get a job, even if they all graduate out of the same class with the first degree? Will they have equal access to employment, without somebody thinking about their race? We can all think about the class or the school they went to because of policy issues. Do you still have discriminations on the basis of race? I think some of these things are far more deep-rooted than we like to think, and we should therefore think carefully when we criticize governments and the policies they are implementing.

NOTES

1. Nelson Mandela Inauguration Speech, 1994. https://www.youtube.com/watch?v=pJiXu4q_VU.

APPENDIX

Figure 3: Welfare Differences Between the Users and Non-Users of Financial Services by Personal Characteristics

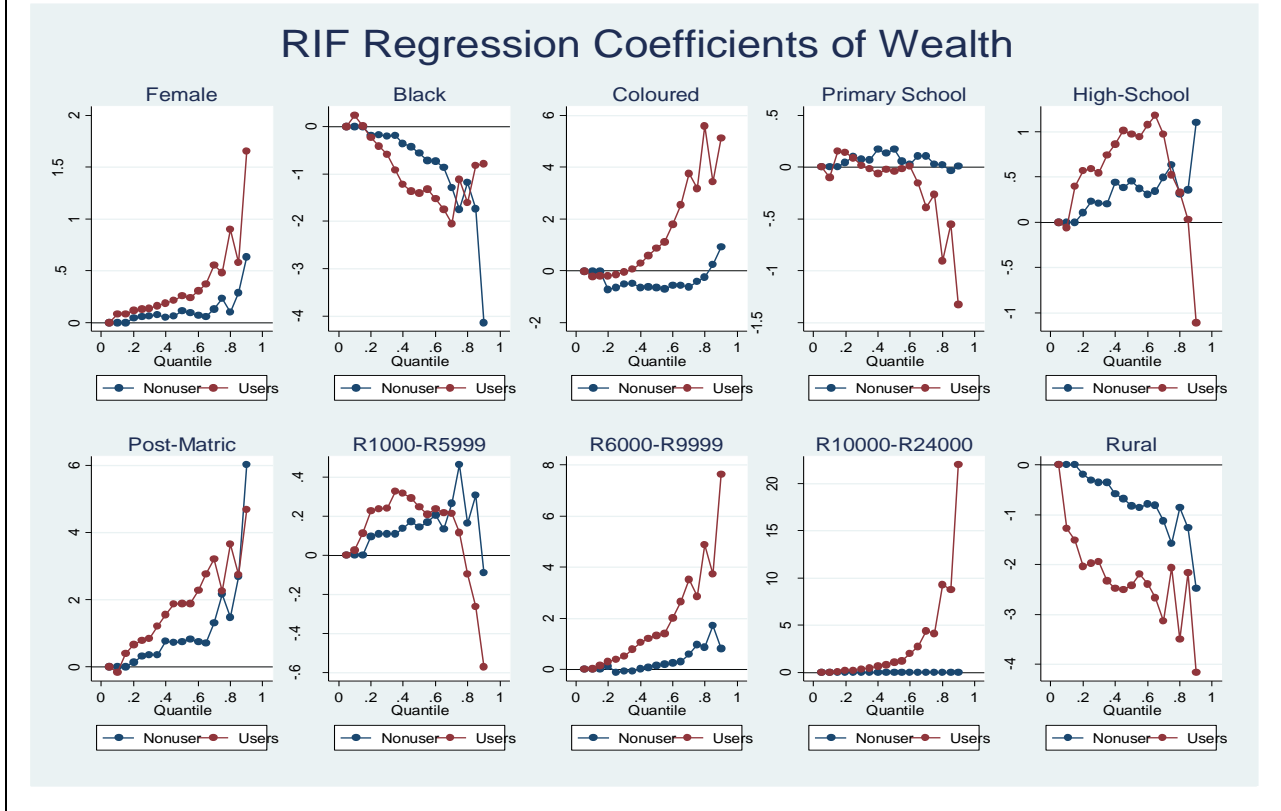
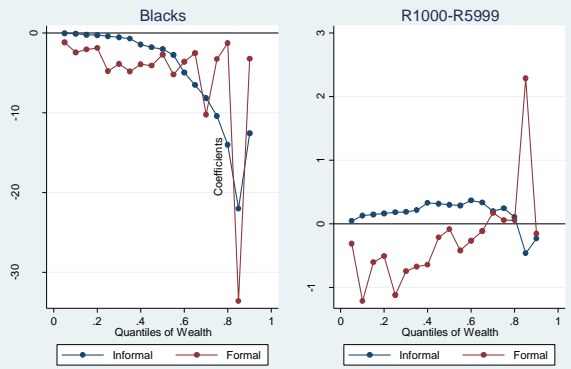


Figure 4: Financial Inclusion by Product Categories

Panel A: RIF Regression Coefficients of Wealth for Credit Use



Panel B: RIF Regression Coefficients of Wealth for Insurance Use

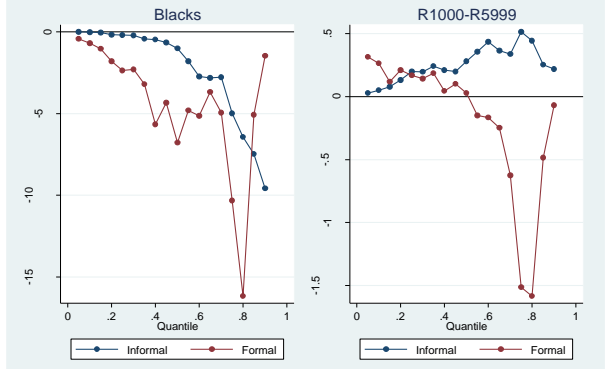


Figure 5: Financial Inclusion and Welfare by Gender

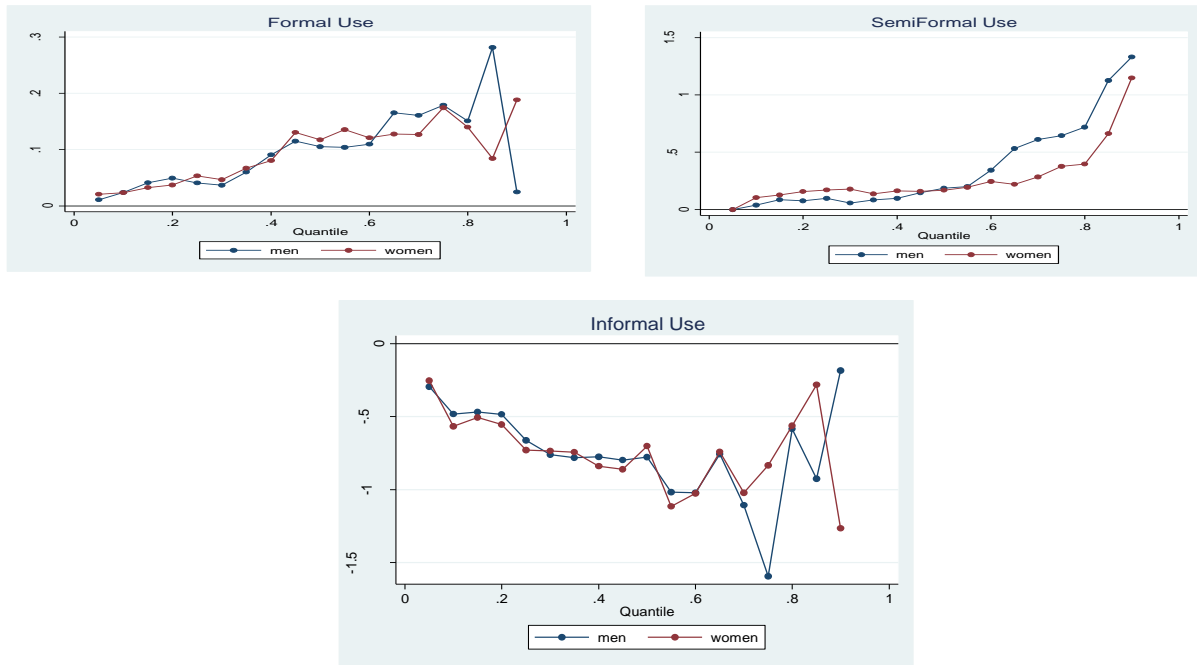


Table 3: Financial Access for Firms

Business Characteristics	Female-African	Female-White	Female-Other	Male-African	Male-White	Male-Other
Ownership	112	61	67	244	353	208
Manager's Education						
Vocation	29	21	9	70	80	41
Some Varsity	9	8	12	35	33	36
Graduate	19	9	18	35	108	51
MBA						
Access to finance 1 st obstacle	15	2	7	27	9	16
Registered at start						
Yes	89	54	67	173	344	192
No	23	7	0	71	9	16
Number of loan applications						
1	15	10	15	29	51	33
2	6	1	3	14	7	7
3	3	1	2	7	4	2
Reason for no loan application						
No need for a loan	44	39	34	79	238	102
Application procedures complex	16	0	5	36	12	13
Interest rates are not favourable	9	3	3	30	23	22
Collateral requirements unattainable	7	1	0	13	1	4
checking/saving account						
Yes	100	61	67	223	350	197
No	12	0	0	21	3	11
Overdraft						
Yes	43	36	39	99	213	125
No	69	25	28	145	140	83
Fixed assets						
Yes	48	32	29	102	154	79
No	64	29	38	142	199	129
Total	112	61	67	244	353	208