Financial inclusion and the effects of credit expansion on lower income groups in South Africa

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ABSTRACT

The purpose of this research was to evaluate the effects of expanding access to credit for lower income groups in South Africa between the periods of 2007-2013.

Achieving access to finance at the bottom of the pyramid, or financial inclusion, has been difficult for many developing countries. Credit has been used as a financial developmental strategy to increase financial inclusion in many economies and South Africa applied this strategy too.

Using various national quantitative data sources this report used descriptive statistics to explain the effects of the financial developmental strategy on the lower income groups in South Africa earning between R0 and R7, 499 per month.

Through the research findings it was realized that there was poor financial capability despite there being an understanding of financial literacy concepts. It was also found that non-credit related inclusion has decreased the unbanked population whilst credit related inclusion generally led to high levels of debt, less disposable income and an increase in consumptive behaviour.

The types of credit that are being granted to the lower income groups are not conducive to the creation of wealth, and therefore credit as a financial developmental tool is not a suitable strategy for the South African lower income groups that are not financially capable.

DECLARATION

I, GERTRUDE THOMPSON, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

GERTRUDE THOMPSON

Signed at WARWICK BUSINESS SCHOOL, UK

On the 31st day of MARCH 2015

DEDICATION

Mwari ngarumbidzwe kudenga denga.

To my aunt, Olivia Thompson, may your soul rest in peace.

To my loving family and fiancé, in appreciation of their great support for my ambition and dreams.

ACKNOWLEDGEMENTS

I would like to thank my family and friends for their support during this time.

To my supervisor, Prof Terri Carmichael thank you for being extremely patient and guiding me along the way.

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To my loving fiancé, thank you for the support, hot meals, wise counsel, patience and strong shoulder this would not have happened without you.

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CHAPTER 1. INTRODUCTION

1.1. Purpose of the report

The purpose of this research is to evaluate the effects of expanding access to credit to lower income groups in South Africa. It will give insight as to whether credit as a financial development tool can achieve financial inclusion. This will be done through a literature review and data analysis in relation to the positive or adverse impact of access to credit for lower incomes groups in South Africa during the period of 2007 to 2013 and the impact thereof in the following year 2014.

1.2. Context of the report

Key terms include ‘financial inclusion’, ‘credit in South Africa’ and ‘lower income groups’.

Access to finance at the bottom of the pyramid, or financial inclusion, has been difficult to achieve for many developing countries. At the same time, financial inclusion is widely regarded as an integral part of achieving lasting poverty reduction (Sebudubudu, 2010). This has made financial inclusion a policy target in many countries, including South Africa, as the related benefits help a wider part of the population to participate more actively in the economy (Blair, 2000).

According to Gardeva and Rhyne (2011, p.6), financial inclusion is defined as “a state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients”. The authors added that these services would be provided by a range mostly private institutions and that full financial inclusion requires the clients of these services to be financially literate.

Financially inclusive services include, but are not limited to, payments and savings accounts, credit, insurance and pensions. If the relevant policies are not providing the right context for these services to work well, there may be a number of possible negative effects for both individuals and firms (World Bank, 2014).

As poverty and exclusion continue to persist around the world, developmental and social policies have increasingly been geared to create financial development strategies that drive financial inclusion (Chakrabarty, 2013). Barriers to entry which hamper financial inclusion include costs, poor or lack of financial literacy and distance.

Credit is believed to play a pivotal role in financial developmental strategies and is also believed to be one way of increasing economic participation at all levels of the economy. The lending market in South Africa has evolved over the last 20 years in response to the call from government to expand the access to financial services to include people who were excluded under the apartheid regime (Theobald, 2013).

Under the governance of the Department of Trade and Industry, the National Credit Regulator has been mandated with monitoring the credit market in South Africa. "Its policy objectives are the promotion of a stable, efficient and competitive credit market in which consumers' rights are adequately protected, and in which access to finance [i.e. credit] is improved, particularly for developmental purposes" (Goodwin-Groen, 2006 p.12). There is, however, little consensus on whether the expansion of credit actually has a positive or negative impact on development (Karlan & Zinman, 2009).

Credit plays an important role in the lives of South Africans across all levels of the economy. This report will focus on the low income groups and the effects of access to this financial development tool in light of the post-apartheid realities, which include lasting barriers to entry and a large informal financial sector.

In South Africa 85% of the population is served by a multi-faceted financial sector that consists of both a highly developed and a large informal financial sector (Goodwin-Groen, 2006).

The expansion of access to credit has been highlighted by Karlan and Zinman (2009) as being of vital importance to financial development strategies worldwide, yet there is less consensus on whether the expansion of credit actually leads to development, or rather has an adverse impact on individuals by creating over-indebtedness.

1.3. Problem statement

This report seeks to elaborate on the effects of expanding access to credit to lower income groups in South Africa as a way of achieving financial inclusion (Karlan and Zinman, 2009).

The concept of improving access to credit as a financial development strategy has been used in developing countries across the world (Karlan & Zinman, 2009). This report thus seeks to examine how South Africa could apply this strategy for its own development. The findings may provide insights for policy makers and financial institutions into how to mitigate the risks associated with increasing access to credit in developing countries and South Africa in particular.

1.3.1. Sub-problem one

The first sub-problem is to determine the extent of financial inclusion as a financial development strategy.

1.3.2. Sub-problem two

The second sub-problem is to determine the most crucial factors that impact financial inclusion.

1.3.3. Sub-problem three

The third sub-problem evaluates the impact of expansion of the credit sector in South Africa as a financial inclusion tool for lower income groups.

1.4. Significance of the report

Credit as a financial inclusion tool for lower income groups has been encouraged across the world (Laitfee, 2003), yet while policy makers, financial institutions and other stakeholders have been quick to embrace the concept of financial inclusion through credit expansion, it has not been implemented without precautions.

This report seeks to identify the effects of financial inclusion through the expansion of access to credit and to ascertain whether it leaves the recipients empowered or indebted. The outcome may be useful for future policy-making as well as for lenders in the credit market. It may further assist financial institutions to reduce over-indebtedness through collateral registries, credit bureaus and better risk management, specifically related to non-performing loans. The report will also examine lessons and shortcomings from other markets and assess how these can be applied to the South African context.

1.5. Delimitations of the report

The research topic will cover the general credit types that are provided in the consumer credit market in South Africa, as opposed to any specific type. This report will also not look at all the registered individuals in the credit bureau data, but will rather focus on the lower income individuals who are registered with the credit bureau. Finally, the informal lending sector will not be considered in this report, as the individuals that borrow informally are not registered with the aggregated credit bureau data.

1.6. Definition of terms

Administration order

An administration order is a court order granted by a Magistrates Court at the request of a debtor or a credit provider, provided that the debt does not exceed R50, 000. The order examines the debtor's financial position and appoints an administrator to which regular payments are made. These payments are divided proportionately amongst the debtor's creditors as listed on the order (Credit Ombud, 2014).

Adverse listing

When a debtor has not honoured an agreement with a credit provider, the provider adds a default (adverse) listing to the debtor's credit bureau report. Each credit provider has its own debt collection policies and may proceed with the adverse listing at different stages (Credit Ombud, 2014).

Arrears

An account is marked as being in arrears if the account holder is three months or more behind in their scheduled payments (NCR, 2014).

Credit facility

A credit facility is an agreement that meets all the criteria as set out in section 8 (3) of the National Credit Act. Credit facilities mainly consist of credit cards, store cards and bank overdrafts (NCR, 2014).

Debt review

A debt review is the process whereby a debt counsellor assesses an individual's outstanding debts, consults with credit providers on the individual's behalf and assists the client to establish an affordable monthly payment plan that incorporates both earning and living expenses. Individuals are required to make one monthly payment, which is then divided and distributed to all their credit providers. If an individual feels over-indebted they can choose to apply for debt review. Once under debt review they no longer have access to additional credit (Zero Debt, 2014).

Garnishee orders

A garnishee order is an attachment of money against a third party - the garnishee - who owes money to a judgment debtor (LegalWise, 2015).

Financial other

The 'financial other' category relates to any non-standard credit facilities such as revolving credit or pension-backed loans (NCR, 2014).

Financial literacy

Financial literacy occurs when one possesses sufficient skills and knowledge regarding financial matters to confidently take effective action that best fulfils their personal, family and global community goals (NFEC, 2015).

Impaired

A record on which a consumer and/or any of their accounts are either classified as three or more payments or months in arrears, or which has an "adverse listing", or that reflects a judgment or administration order (NCR, 2014).

Judgement

A judgment is a court order requested by a credit provider when a debtor has not paid his or her debt (Credit Ombud, 2014).

Microloan

An unsecured loan issued by a member of Microfinance South Africa (NCR, 2014).

Personal loan

An unsecured loan issued by a member of the Credit Providers Association (NCR, 2014).

Retail general

An account from any retailer such as jewellery stores, women's cosmetic stores excluding clothing and furniture retailers (NCR, 2014).

Secured (other) credit

A secured credit agreement, excluding mortgages and credit facilities, such as vehicle, finance, furniture accounts and pension-backed loans (NCR, 2014).

Sequestration

The action of taking legal possession of assets until a debt has been paid or other claims have been met (NCR, 2014).

Short-term credit

An agreement that meets all the criteria as set out in section 39 (2) of the National Credit Regulations. This includes amounts not exceeding R8, 000 which are repayable within six months (NCR, 2014).

Stokvel

Stokvels are group savings schemes providing for mutual financial assistance as well as social and entertainment needs(Slade, 2014).The Stokvel is centred around a collective where decision-making falls on the shoulders of the group and not on one individual (Kotelo, 2012).

Unsecured credit

This includes all transactions in respect of which the lender does not have any security, other than credit facilities or short-term credit (NCR, 2014).

1.7. Assumptions

This research report includes four main assumptions as stated below.

The key assumption is that the foundation of financial literacy has two facets which are conceptual and operative. If the basics of the conceptual facet are not well developed this will affect the operational aspect which will hinder the outcome being financial capability. The conceptual definition of financial literacy stems from the basic ability to read, write and speak (Hung, Parker, & Yoong, 2009). In the case of the lower income group this assumption is of importance because for an individual in this group the operational facet is rarely reached to its optimum as a result of the poor educational foundation in the primary and secondary school levels in South Africa (Nhlapo, 2013).

Whilst South Africa is known to spend US$ 1,225 which is more than most African countries on primary education per pupil it still has poor performance despite this expenditure (Wilkinson, 2013).

According to UNICEF (2015) there are many challenges that hinder the development of education in South Africa including irregular attendance, absent teachers, teenage pregnancy, and school-related abuse and violence. Approximately 27 per cent of public schools do not have running water, 78 per cent do not have libraries and computers and there is poor provision for special education. In an assessment conducted in 2011 which involved numeracy and literacy tests among 6 million learners at government schools it was revealed that the quality of teaching poor leading to performance (UNICEF, 2015). As a result of that for a student to reach the ‘achieved’ status they need as little as 30 per cent to pass. Those who had performance from 12 per cent to 31 per cent accomplished a ‘partially achieved’ level (UNICEF, 2015).

Based on the above mentioned, in the report, financial literacy for the lower income groups will be based on the different levels of exposure to formal education.

The following assumptions will also apply:

1. The National Credit Bureau has released the correct figures and that there have not been any cases of double counting of individuals.

2. All credit-worthy and thin-file applicants are registered with the National Credit Bureau.
3. All other datasets such as Finscope, AMPS and credit bureau data have been collected and released in line with the South African survey standards.

CHAPTER 2. LITERATURE REVIEW

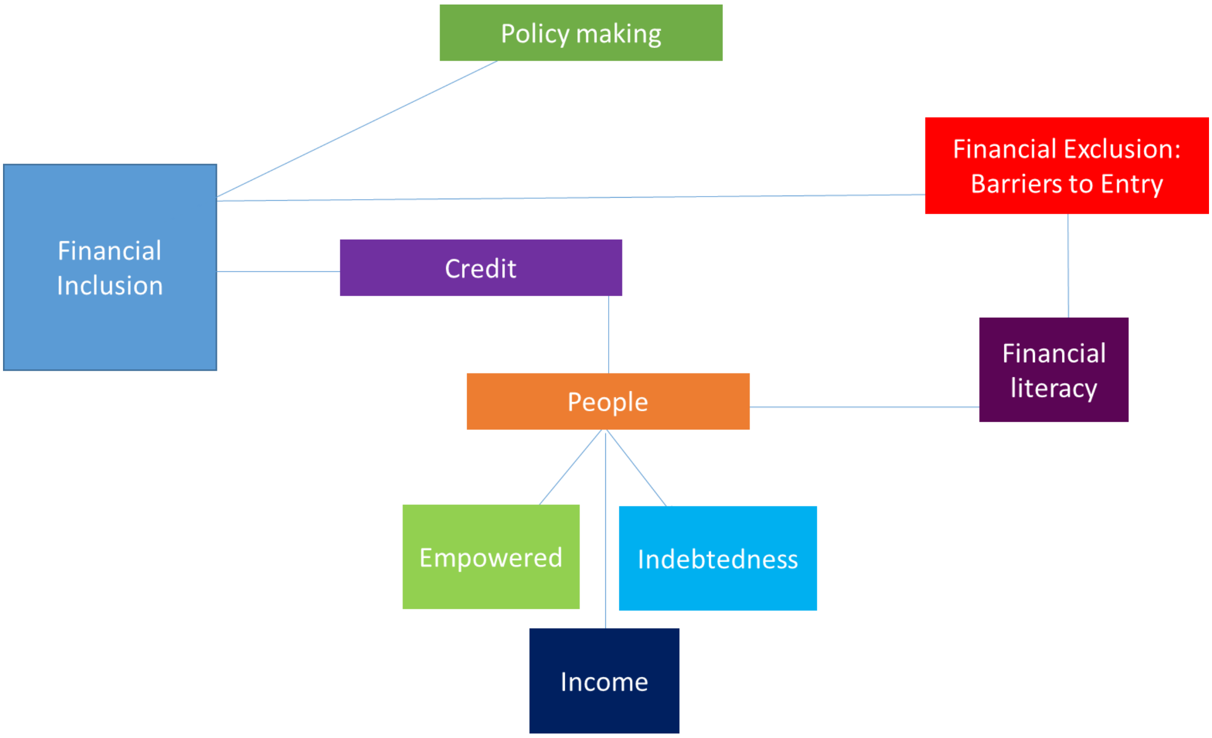
Access to finance at the bottom of the pyramid, or financial inclusion, has been difficult to achieve for many developing countries. At the same time, financial inclusion is widely regarded as an integral part of achieving lasting poverty reduction (Sebudubudu, 2010).

This has made financial inclusion a policy target in many countries, including South Africa, as the related benefits help a wider part of the population to participate more actively in the economy (Blair, 2000). Accordingly, the financial industry has developed a range of instruments to cater for a wider selection of people and their needs. In fact, increasing access to finance and credit is an integral part of the development strategies of many developing countries (Peachey & Roe, 2004).

This literature review defines and describes the concept of financial inclusion and assesses how it has become a focus area for policy makers and the financial services industry in their efforts to increase access to finance and reduce poverty as seen in Figure1. The review discusses the expansion of credit as part of financial inclusion strategies, including the attempt to encourage the economic participation of lower income groups.

Expanding access to credit at the bottom of the pyramid is often hampered by low levels of financial literacy and the limited tools and capacity to assess credit worthiness. Overcoming these challenges is an important part of expanding access to credit in any financial development strategy.

Figure 1. Financial inclusion literature review outline



2.1. The concept of financial inclusion

Financial inclusion has become an increasingly discussed concept over recent years thanks to Prahalad's notion of the 'fortune at the bottom of the pyramid' (Prahalad & Hart, 2002). The central idea of the concept revolves around growing economies by increasing economic participation at all levels, particularly within the lower income segment. The latter is often ignored as financial institutions generally associate the financial status of this segment with high transaction costs and low profitability.

Leeldhar (2006) defined financial inclusion as the provision of financial services to low income groups, while Demirguc-Kunt, Beck, & Honohan (2008), described it as the distribution of banking services at an affordable cost to many disadvantaged and low income groups (Leeladhar, 2006). Adding that it leads to an open and efficient society based on formal financial services that allow individuals to rely on formal regulated systems for financial needs (Demirguc-Kunt, Beck, & Honohan, 2008).

In a report prepared for the World Bank the authors, Beck, Demirguc-Kunt and Honohan (2009, p.8), argued that "access to financial services implies an absence of obstacles to the use of these services, whether the obstacles are price or non-price barriers to finance". They further stated that is important to distinguish between access to – the possibility to use – and actual use of financial services, with the latter being financial inclusion (Beck, Demirgüç-Kunt, & Honohan, 2009).

According to Gardeva and Rhyne (2011, p.6), financial inclusion is “a state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients”. They added that these services should be provided by a range of, mostly private, institutions, and that full financial inclusion requires the clients of these services to be financially literate.

Chakrabaty (2013, p.1) suggested that financial inclusion is the “process of ensuring access to appropriate financial products and services needed by all sections of the society in general but more so vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated, mainstream institutional players”.

The World Bank (2014), meanwhile, defined financial inclusion as the proportion of individuals and firms that use financial services.

All of these definitions of financial inclusion include the following key concepts:

i. Provision of financial services to lower income groups;
ii. Provision of appropriate financial products at an affordable cost;
iii. Encouragement of financial literacy;
iv. Creation of an open and efficient society;
v. Reliance on formal, regulated systems; and
vi. Creating and improving access to financial services.

The definition of financial inclusion used in this report includes all of these elements and was synthesised as follows:

Financial inclusion is a process that seeks to increase economic participation of a wider range of people, particularly lower income groups, through access to finance and credit. This is achieved by improving supply and demand through targeted financial products and increased consumer education.

2.2. Financial inclusion through policymaking

Financially inclusive services include, but are not limited to, payments and savings accounts, credit, insurance, mortgages and pensions. If relevant government policies are not providing the right context to allow these services to work optimally, there could be a number of negative effects for both individuals and firms (World Bank, 2014). As poverty and exclusion continue to persist around the world, developmental and social policies have increasingly been aimed at creating financial development strategies that drive financial inclusion (Chakrabarty, 2013).

Significant parts of the population in many countries are financially excluded, which goes beyond individuals to include small businesses (Demirguc-Kunt et al., 2008). It is for this reason that there is a clear need to address exclusion through policy action; as long as there are individuals who do not yet have access to financial services, there is a need to effect change (Allen, Demirguc-Kunt, Klapper, & Pería, 2012).

Financial sector reforms that broaden access to financial services should be at the heart of all solutions driven by financial development (Omarova, 2010). Government policies should focus on creating comprehensive financial institutions, promoting competition and establishing sensible regulation to provide the private sector with suitable incentive structures that encourage broadening access (Demirguc-Kunt, 2008,).

A study conducted in over 123 countries with over 124,000 participants found that policies targeted to promote inclusion, such as government requirements to offer certain types of products with lower requirements for entry, lead to the increased use of formal services (Allen et al., 2012)**.** Through policy making action, the South African government enforced the Financial Services Sector Code which was prepared in terms of the Broad-Based Black Economic Empowerment (B-BBEE) Act, subsequently referred to as the Act (FSCC, 2012). This was based on a harmonisation of Generic Codes and the Financial Sector Charter gazetted under Section 12 of the Act. Under Code Series FS800 of the Financial Sector Charter which relates to The Measurement of the Access to Financial Services element of Broad-Based Economic Empowerment created for the members of the Banking Association of South Africa which are required to expand financial services to the portion of the South African population who were previously excluded from participating in the financial services sector. Allen et al.,

(2012) and Chakrabarty (2013) identified some of the positive effects of financial inclusion as being an expansion in savings and investments, and ultimately increased economic growth.

In turn this releases the lower income groups from the potential problems associated with an absence of a proper savings structure. This is also the case in terms of credit, where through the process of involuntary exclusion, individuals are driven into the hands of unregulated providers that not only provide loans at unreasonable rates, but also use unscrupulous measures to collect outstanding loans.

Rutledge (2010) reported that in Slovakia, for example, consumers were borrowing from unregistered consumer credit providers at effective interest rates of 120% to 229% per annum, as opposed to borrowing from banks at 14% or less. In the event that a payment on these loans had been missed their wages had garnishee orders against them and they could eventually lose their homes with or without a court order.

Unregistered moneylenders, commonly known as loan sharks, are used in times of emergencies and operate outside the legal provision for lending, offering exorbitant interest rates that are over 33% (Mashigo, 2006).

Yet some banks have also been labelled loan sharks as they tend to give lower income earners who do not have collateral loans at high interest rates, which make it impossible for the borrower to pay back the loan (Bonochris, 2014; Cameron, 2007).

One of these banks, African Bank, had to bear the brunt of their reckless lending practices when they were reprimanded in March 2014 for reckless lending by the National Credit Regulator (BusinessReport, 2014). Despite having been audited by Deloitte in 2013, the bank made losses of over 100% (News24, 2014). The group’s income statement told a story of a company that was making losses to the tune of R3.5 billion as seen below in Figure 2 (ABIL, 2013).

This demonstrates how, in the absence of financial inclusion, individuals are forced to rely on their own resources to meet their needs, such as getting further education and training, pursuing a business opportunity, or confronting systemic or idiosyncratic shocks. Which can lead them into impoverishment if their financial inclusion is not supported by the right policy framework (Allen et al., 2012).

2.3. Financial exclusion and barriers to entry

In an ideal scenario, financial institutions and markets would provide opportunities for anyone who wished to participate in the market and wanted to actively contribute to economic growth, thereby reducing poverty and improving income distribution. Without this income inequalities may persist and South Africa's financial system may be prone to financial instability (Allen et al., 2012).

Financial exclusion, the opposite of financial inclusion, is considered to be an involuntary lack of financial freedom. Freedom, according to Sen (1999, p.17), involves both the "processes that allow freedom of actions and actual opportunities that people have, given their personal and social circumstances". A lack of freedom, or 'unfreedom', can come about through inadequate processes or inadequate freedoms.

Financial inclusion as a financial development strategy strives to eliminate other "unfreedoms such as a lack of access to basic opportunities, healthcare, education, clean water, sanitary arrangements, gainful employment economic and social security, political liberty and basic civil rights" (Sen, 1999, p.25). By enabling economic participation, which is a constitutive element of human freedom that can contribute towards economic growth, an individual gains freedom. This in turn may result in gaining other freedoms (Sen, 1999).

Involuntary exclusion mainly affects low income individuals and the unbanked population, who are forced into using various informal and costly financial instruments. As previously stated, this leaves these individuals vulnerable and prone to being trapped into costly cycles of credit repayments or becoming victims of crimes, especially when it comes to the distribution of government benefits and subsidies (Chakrabarty, 2013).

The issue of involuntary exclusion is usually due to a particular set of market failures, such as high account fees, large distances to branches, a lack of suitable products and financial illiteracy. These market failures can be due to a host of factors, including limited information for customers, non-competitive markets, shortcomings in the contractual environment, and a lack of physical infrastructure (Demirguc-Kunt & Klapper, 2012). This research report will primarily focus on financial literacy as a barrier to entry, but will also briefly examine other obstacles.

2.3.1. Financial literacy

Remund (2010) defined financial literacy as the competency that is needed for the management of money by an individual. Financial literacy is also viewed as the core platform for financial inclusion and the foundation for unbiased and sustainable socio-economic development (BASA, 2015).

The conceptual definitions of financial literacy focus on five aspects:

(i) Knowledge of financial concepts;
(ii) Ability to communicate about financial concepts;
(iii) Aptitude in managing personal finances;
(iv) Skill in making appropriate financial decisions; and
(v) Confidence in planning effectively for future financial needs (Remund, 2010, p.279).

Similarly, financial education, as defined by the Presidents' Advisory Council on Financial Literacy in Hung, Parker and Yoong (2009), is the process through which individuals are given an opportunity to improve their understanding of financial products, services and concepts, so they are empowered to make informed choices, avoid pitfalls, know where to go for help and take other actions to improve their present and long-term financial well-being (Hung et al., 2009). These main aspects of the conceptual perspective are all based on the notion that the individuals need to have the basic ability to speak read and write.

The notion of the operational definition of financial literacy, on the other hand, focuses on four categories: budgeting, saving, borrowing and investing. This conceptual definition measures tangible outcomes against these categories (Remund, 2010).

Even with these conceptual and operational definitions, there is still a gap between the concepts, measurement and actual participation. Johnson and Sherradon (2007) pointed this out when they stated that it is not enough to merely make people financially literate, and introduced a third dimension - financial capability.

It is through economic participation that one's opportunities are maximised, which requires not only the knowledge but also the ability to act should the opportunity present itself (Johnson & Sherraden, 2007). This involves bringing together individuals with institutions and requires the use of informative methods that enable people to practice and gain competency in this functioning (Johnson & Sherradon, 2007).

The reasons why people are unable to manage their finances, according to Remund (2010, p.278), fall into four broad categories: “the deregulation of banks in a complex global economy, the demise of financial education in secondary schools, a pervasive culture of instant gratification stoked by aggressive consumer marketing and a proliferation of readily available credit”.

The National Credit Regulator in South Africa was created for a number of reasons, including the explicit exploitation of borrowers by lenders due to the poor regulation of the industry, as well as the low levels of financial literacy, which has been identified as a key constraint to financial inclusion in South Africa (UN, 2006).

To create a healthy credit industry and sustainable financial inclusion, it is therefore important that consumers are not only able to receive credit, but that they can also comprehend various consumer disclosures in order to make informed decisions that are taken in their own best interests (Rutledge, 2010b).

The problem, despite being identified by the regulatory body, has not been clearly addressed by the National Credit Act, as it does not explicitly state how lending institutions should operate, especially with regard to the full disclosure and explanation of all possible charges related to a loan to the customer. Such charges can include, but are not limited to, administration charges, levies, initiation fees and insurance.

Theobald (2013) pointed out that such undisclosed additional fees can often increase the overall loan repayments to a total amount above the recommended interest rate of 31%. It is believed that this will continue to be a key limitation in pursuit of promoting developmental access to credit because of the lack of understanding and a poor flow of information about lending practices. This is not just limited to how these loans must be used, but is also about the fact that the differences between the loan products available are not clear to borrowers(NCR, 2012).

In a report prepared for the World Bank, Rutledge (2010) claimed that whilst financial literacy is important, a long-term effort is required to fully achieve this goal. In his report Rutledge found that none of the nine countries he reviewed in the European Union had national financial education strategies, despite the clear recognition of financial literacy being an important part of a sustainable credit culture.

In a survey designed to gauge financial literacy in the USA,(Poll, 2014) found that "nearly three in four adults (73%) agree – and one in five (20%) strongly agree – that they could benefit from advice and answers to everyday financial questions from a professional" (p.3). The survey also reported that adults in the USA tend to reach out to their family and friends when they are in need of help when it comes to debt-related issues, and approximately 63 million adults said they would turn to a debt counsellor for help.

There is currently a lag effect between the actual growth of available investment resources or access to credit and the growth of financial literacy, which is being further widened by the complexity of the products and the consumers' ability, or lack thereof, to understand these products (Rutledge, 2010b). In addition, financial literacy is not sufficient by itself and needs to be complemented by financial capabilities to achieve empowerment as opposed to indebtedness.

Financial inclusion and financial literacy therefore need to go hand-in-hand, with financial inclusion creating access on the supply side and financial literacy creating a demand for the financial products and services (Chakrabarty, 2013). In order to increase demand it is thus not sufficient to simply increase the number of available products and services.

Proposition One

Financial inclusion as a financial developmental strategy improves the livelihoods of low income adults in South Africa.

Proposition Two

Financial inclusion is made possible through improving financial literacy.

2.4. Credit as a poverty reduction tool for lower income groups

Credit is believed to play a pivotal role in financial developmental strategies and is also thought to be an important way of increasing economic participation at all levels of the economy.

Latifee (2003) stated that micro-credit programmes are poverty focused and aim to deliver financial and business services to extremely underprivileged people for the generation of self-employment and income. Credit is a powerful instrument to fight poverty; it is now well known that micro-credit plays a role in reducing poverty throughout the world (Latifee, 2003). Rutledge (2010) concurred with Latifee stating that the growth in the credit market has provided consumers with access to resources to invest in either themselves or businesses.

Latifee (2003) further reported that through the Grameen Trust initiatives the lives of an estimated 26.8 million impoverished individuals were improved, as they were able to create self-employment and were removed from the constraints of poverty.

Yet Chowdhury (2009) argued that contrary to popular belief, increasing access to credit is not a sufficient poverty reduction strategy, as it does not really improve the livelihoods of poor individuals but rather only makes a difference for non-poor borrowers. He added that the majority of individuals with incomes below the poverty line actually end up with less incremental income after receiving micro-loans in comparison to a control group that did not receive loans(Chowdhury, 2009a)

Evidence from a report conducted by the World Bank involving 1,800 households in Bangladesh found that there were marginal improvements of about a $0.03 increase in borrowers' daily incomes for people living on $2 a day. This marginal increase of approximately 1.5% in income hardly makes an impact on poverty (Chowdhury, 2009a)

The Global Financial Development Report on Financial Inclusion also pointed out that while financial inclusion is the desired outcome in any country, not all financial services are appropriate for everyone, and credit especially bears the risk of over extension(World Bank, 2014).

In a report done in the UK in 2003 it was found that despite the increase in access to credit, the number of people struggling with debt problems had risen by 47% over a period of five years. Serious problems with defaults and arrears recoveries among low income families were common, mainly due to excessive interest rates on loans, incomplete understandings of loan conditions and reckless lending practices (Bridges & Disney, 2003).

The report of these low income families found that most utilised several credit arrangements, that they were not often excluded from the credit market, that those without mortgages were more likely to be in arrears than homeowners, and that the sources of substantial arrears were low incomes and economic inactivity rather than excess lending to those with collateral in the sample, such as homeowners (Bridges & Disney, 2003).

Following the recent collapse of African Bank Investments Limited, the largest unsecured lending bank in South Africa, Neeves (2014) stated that unsustainable credit practices and widespread consumer indebtedness among the poor are manifestations of “adverse financial inclusion”. He believed that the mantra of financial inclusion is an article of faith in a society with 12 million unbanked adults, yet it ignores how South Africa’s poor have long been incorporated into markets, including financial markets, and typically on disadvantageous terms (Neeves, 2014).

2.4.1. The credit market in South Africa

The lending market in South Africa has evolved over the last 20 years in response to the call from government to expand access to financial services to all people, including those who were excluded under the apartheid regime (Theobald, 2013). This report will focus on the South African credit sector and its complexity based on a highly developed formal sector and an informal financial sector that serves about 50% of the population (Goodwin-Groen & Kelly-Louw, 2006).

Many policy makers such as the National Credit Regulator regard expansion of access to credit as an integral part of their strategy to reduce poverty and inequality by achieving greater financial inclusion (Karlan & Zinman, 2009).

Under the governance of the Department of Trade and Industry in South Africa, the National Credit Regulator has been mandated with monitoring the credit market in South Africa. Its policy objectives are the encouragement of an unwavering, well-organised and competitive credit market in which consumers’ rights are effectively protected, and in which access to finance (i.e., credit) is developed, particularly for developmental purposes (Goodwin-Groen, 2006, p.12). There is less consensus on whether the expansion of credit actually leads to development as opposed to harm

(Karlan & Zinman, 2009), but there are still many South Africans who make use of credit for their day-to-day activities.

The Credit Bureau Monitor reported that there were over 45.71 million individuals on their database as at the end of March 2014, however only 21.71 million of these were credit active, with the remainder of the records lying dormant (NCR, 2014).

The consumer credit categories that are monitored by the NCR (2014) include mortgages, secured credit, credit facilities, unsecured credit, developmental credit and short-term credit. These credit categories are further classified into two umbrella categories: productive credit and consumption-related credit (NCR, 2012). Productive credit includes mortgages, vehicles if they are being used to create income, and unsecured credit if used for educational purposes. Consumption credit is mainly related to credit facilities such as credit cards, retail apparel and furniture financing, unsecured credit and short-term credit.

The value of the outstanding gross debtors' book as reported by the National Credit Regulator (2014) was an astonishing R1.55 trillion for the quarter ended March 2014 for the total of all the categories above. This excluded all credit providers who were not registered with the NCR thus this number is understated. This shows what an important role credit plays in the lives of South Africans at all levels of the economy, however this report will only focus on lower income groups.

Proposition Three

Credit is one of the key tools for financial inclusion for lower income groups in South Africa.

2.5. Summary of findings

Financial inclusion is a process that seeks to increase the economic participation of a wider range of people, particularly lower income groups, through access to finance and credit. This is achieved by improving supply and demand through targeted financial products and increased consumer education.

Because financial inclusion is believed to grow economies it has become a priority for policy makers. At the same time, the key pillars of financial inclusion in this report are deemed to be financial policies and financial literacy, from which the desired outcome is financial capability.

Credit is one of the tools of financial inclusion as it is believed to empower lower income adults. The expansion of credit is believed to help create self-employment and/or increase access to basic opportunities such as education, which could lead to the emancipation of these individuals. There are various types of credit which are divided into two broad categories – wealth creation and consumptive credit, and the type of credit the individual applies for and receives largely impacts whether there will be empowerment or indebtedness in their life.

This report seeks to understand this phenomenon by using data to gain insights to support the three propositions.

CHAPTER 3. RESEARCH METHODOLOGY

The research methodology used for this report was a quantitative paradigm, and the nature of the quantitative research and the various methods used are discussed below. The reasons for the choice of each method will be elaborated upon, as will the shortcomings of each of these methods.

3.1. Quantitative research paradigm

Using a quantitative paradigm was most appropriate as this research report was based on the analyses of data collected by the National Credit Regulator, XDS credit bureau as well as other survey data.

This research report sought to confirm or deny the claims that were made in the literature review by various authors. These claims can be further explained through this research to gain a better understanding of how this financial developmental strategy might change indifferent credit markets.

Quantitative research is the process of explaining phenomena by collecting numerical data that is analysed using mathematically based methods (Miller, 2001). Another definition describes quantitative research as an educational procedure for the researcher, where he or she decides to report, ask specific narrow questions and collect quantifiable data from participants or data harvesters (Gilner, 2000). Thereafter the researcher analyses these numbers using statistics and conducts the inquiry in an unbiased, objective manner.

Within a quantitative research paradigm, objectivity is achieved through numerical analysis and is seen as a regulatory ideal. In other words, the quantitative researcher strives to be as unbiased as possible and attempts to be aware of any values that might compromise neutrality (Miller, 2001).

Achieving objectivity and neutrality is important in relation to the topic at hand. Rosenberg and Gleit (1994) argued that for the analysis of credit management systems and their borrowers, quantitative analysis is preferable as subjective data may not be suitable to analyse borrower behaviour well. Further to that quantitative data is said to be objective which indicates that behaviours are easily classified or quantified either by the participants or by the researcher(Gilner, 2000).

Quantitative research methods, as Rosenberg and Gleit (2004) pointed out, are better suited for analysing credit customers and their behaviours in relation to the uptake of types of credit. These credit types include mortgages, retail instalment credit, commercial loans and consumer loans.

This type of research paradigm is suitable for this report as an unbiased view is in the best interest of the intended audience, namely policy makers and lenders. Quantitative research is best and “many advantages accrue through the use of quantitative methods for credit management” (Rosenberg & Gleit, 1994, p.590).

3.2. Research design

The chosen methodological approach for this report was the cross-sectional analysis, as this allowed for the analysis of data from 2007 (when the National Credit Act came into effect) through to 2014. This period allowed for a reasonable analysis of the credit life cycle from the uptake of a loan to the commencement of repayments.

It also allowed for an analysis of the behaviour of these individuals and their credit management behaviour. Survey data collected over this period of time was also analysed to provide an additional dimension, however some findings may be limited due to the lack of available qualitative data as well as the changes that may have accrued in the different surveys that were used to analyse the data.

3.3. Population and dataset sample

3.3.1. Population

The population for this research was the 45.71 million individuals that were registered with the South African Credit Bureau as at the end of March 2014. Only 21.71 million were credit active, with the remainder of the records lying dormant with no credit activity (NCR, 2014).

3.3.2. Sample and sampling method

The sampling method used for this report was the census sampling method. This type of research is used when the entire population is sufficiently small and the researcher can analyse data gathered on every member of the population (Purcell et al., 2007).

The advantage of this approach is a certainty that specific groups are represented (Black, 1999).

From the whole data set of 21.71 million credit active individuals, only low income individuals earning up to R7, 499 per month were considered in this report. The total sample size was thus 10.91 million individuals.

3.4. The research instrument

The research instrument was the Eighty20 Xtract Portal, which gave the researcher access to the below mentioned datasets which were used to investigate other phenomena related to the propositions at hand.

- NCR consumer market data
- XDS Credit Bureau data
- AMPS 2014
- Finscope 2014
- Income and Expenditure 2011

3.5. Data collection method

The data sets were analysed using the Eighty20 Xtract portal, after which it was further manipulated in Excel. The portal hosts nine datasets and allowed the researcher to aggregate datasets which had not previously been aggregated, such as credit bureau data. This tool was ideal as it has functions which allow for fast cross tabulation of data and the ability to look at several variables at once. For this research report no primary data sets were harvested as that would have cost millions of Rand, but the use of Eighty20 only cost R30, 000 per annum.

3.6. Data analysis and interpretation

The data in this research report were analysed using descriptive statistics.

Descriptive statistics are procedures used to summarise, organise, and make sense of a set of scores or observations (Reid, 2014). They are generally presented in a graphic or table format and they describe the data that are present. This means that they do not inform the researcher about data that has not been collected, for instance if one is informed about a certain type of phenomenon for lower income groups through descriptive statistics, the same cannot be done for higher income groups if the data is not present to compare the two.

3.7. Limitations of the report

The limitation of this research is that some datasets have a lot of changes on a year-by-year basis, which affects the ability to trend the data. Eighty20 pays for its data from various sources there were some datasets that did not have up to date surveys which meant more than one survey on the portal had to be used in the report.

3.8. Validity, reliability and triangulation

Given that the used data belongs to national governing bodies, the matter of validity had already been addressed by them. Triangulation was achieved by checking for levels of consistency in the responses from the other datasets measured, such as Finscope, AMPS and the income and expenditure surveys. Financial reports from banks were also analysed to support the findings of the data that had been analysed.

3.9. Demographic profile of respondents

The key demographics of the individuals that were studied in this research report were South African adults over the age of 16 that earned between R0 and R7, 499. In some cases these respondents were compared to higher income earners who were also over the age of 16 but earned a minimum of R10, 000. Due to the nature of credit bureau data no other demographics such as race, gender, occupation etc. were available. For this reason the Finscope and AMPS data were used which resulted in the lower income group reaching a population of 17 million, as this was no longer limited to low income adults who had borrowed from a registered financial institution. This data were important for the report to allow the reader to gain a better understanding of the respondents' financial behaviour in general. The research report's core sample therefore consists of 10, 912, 409 individuals. These individuals are the number of individuals are the number of people that have borrowed with an institution that is registered with the National Credit Bureau.

CHAPTER 4. PRESENTATION OF RESULTS

The results are presented in the form of tables and diagrams and are briefly discussed to provide context for the discussion of the results in the following chapter.

4.1. Proposition one: Results pertaining to financial inclusivity

Proposition one: Financial inclusivity as a financial developmental strategy improves the livelihoods of low income adults in South Africa.

Table 1. Overview of South African adults' financial services uptake

Type of financial service	2007	2011	2014
ATM card	14 581 640		
Cheque	2 568 750	3 416 927	3 666 300
Credit card	1 775 752	1 597 193	1 630 769
Debit card	2 314 799	6 663 625	6 986 543
Home loan/mortgage bond	669 786	474 794	388 668
Investments/sub/paid-up shares	475 778	384 768	486 410
Main bank account		22 209 324	25 761 173
Micro loan	80 968		
Mzansi accounts	955 827	1 366 932	955 111
Other personal loan	216 396		
Other personal loan or overdraft			
Over-draft facility			420 603
Overdraft facility	554 185	529 488	
Personal loan		264 441	257 765
Petrol/garage card	678 590	489 384	378 017
Savings		19 187 374	22 602 730
Savings/transmission	14 084 505		
Student loan	91 760	74 980	91 665
Transmission			
Vehicle finance with a financial institution	523 285	410 878	375 128
None of these	14 767 260	12 724 485	11 903 363

Source: (Eighty20, 2014)

The AMPS 2014 survey reported that the overall uptake of South African adults of financial services increased over the 2007- 2014 period (Eighty20, 2014). In 2007 39, 572, 020 financial services were sold to clients, with the key financial instruments being ATM cards, savings accounts and cheque cards, as seen in Table 1.

In 2011 ATM cards were not reported which may have been a result of the category being broken down according to different offerings such as cheques, credit cards, debit cards etc.

An increase in the main bank variable was reported in 2011, with 22 million individuals being main banked. Some of the key services that were taken up by the South African adult population were debit cards, which had tripled since 2007. Credit card uptake remained stable, as did the savings instrument with 19 million using one. The number of people who had none of these financial services dropped from 14,767,260 to 12,724,485.

In 2014 an additional 30 million financial services were taken up by the South African population. This may have been due to the relevant survey being aligned with the census, as well as an increase in population as a result of more immigrants coming into South Africa.

There was an uptake of financial services, with 64,000,820 being utilised. The main banked variable reported 25,761,173, while the key category of financial services used was savings at 22,602,730 individuals. Cheque cards and credit cards experienced subtle growth whilst debit cards maintained steady growth, reaching approximately six million cards.

The number of people with no financial services declined to 11, 903,363.

Table 2. Provision of financial services to lower income groups at affordable prices

Banks	Cheapest account	Monthly service fee	Total transaction cost per month
FNB	Smart Account	R4,95	R40,50
Standard Bank SA	Acces Account	R0,00	R45,00
Capitec	Global One	R5,00	R48,55
Absa	Absa Transact Account	R4,50	R59,55
Nedbank	Ke Yona	R5,00	R69,00

Source: (ABSA, 2015; Capitec Bank, 2015; FNB, 2014; Nedbank, 2015; Standard Bank, 2015).

Each of the 'Big 5' banks (the largest banks in South Africa) offers a low cost financial service to the lower income market. Each of the accounts has a monthly service fee of up to R5 but some have higher transaction costs, such as Nedbank which has a monthly transaction cost of up to R69. The most affordable account across the board is the FNB Smart Account as seen in Table 2.

Table 3. Effects of financial inclusion on lower income groups

AMPS 2014 Individual (Jul '13 - Jun '14)		Financial / Financial Institutions										TOTALS
		Main bank for all banking transactions										
		ABSA	Capitec Bank	First National Bank (FNB)	Nedbank	Postbank	Standard Bank	Ubank	Other banks	Other	Do not have a main bank	
		Individuals	Individuals	Individuals	Individuals	Individuals	Individuals	Individuals	Individuals	Individuals	Individuals	Individuals
Financial /Financial products and services/ Financial services - personally have	Cheque	190 285	7 019	245 289	113 169	0	196 143	0	633	2 061	2 616	**757 214**
	Credit card	86 335	13 666	73 663	44 931	332	80 228	0	2 495	1 337	987	**303 974**
	Debit card	888 928	753 801	878 155	394 379	61 967	984 238	5 059	63 354	19 970	20 984	**4 070 835**
	Home loan/ Mortgage/Bond	12 804	1 437	9 990	2 017	0	4 221	0	0	0	0	**30 469**
	Investments/sub/paid-up shares	28 887	2 940	30 095	34 935	1 574	23 199	0	0	0	0	**121 630**
	Main bank	3 940 551	2 517 363	3 113 649	1 188 505	304 715	3 195 113	29 016	107 815	90 004	73 342	**14 560 073**
	Mzansi	176 659	4 461	179 556	108 184	61 858	122 616	0	0	11 342	10 070	**674 746**
	None of these	0	0	0	0	0	0	0	0	0	0	**5 965 258**
	Overdraft facility	10 847	2 112	23 499	6 340	0	18 324	0	0	0	0	**61 123**
	Personal loan	29 802	16 565	23 286	11 938	0	12 786	0	0	0	0	**94 378**
	Petrol/Garage card	9 197	559	8 423	4 291	0	4 606	0	0	0	0	**27 075**
	Savings	3 664 286	2 517 363	2 796 074	1 018 013	245 238	2 949 853	29 016	106 403	80 588	61 011	**13 467 845**
	Student loan	3 969	3 430	4 503	8 605	0	5 670	0	0	0	0	**26 178**
	Vehicle finance with a financial institution	3 580	559	3 368	1 207	0	7 603	0	0	0	0	**16 318**
TOTALS		**3 940 551**	**2 517 363**	**3 113 649**	**1 188 505**	**304 715**	**3 195 113**	**29 016**	**107 815**	**90 004**	**73 342**	**20 525 330**

4.1.1. Effects of financial inclusion on lower income groups

The lower income group, which earned an income of R0 to R7, 999 according to AMPS 2014, was reported to have 14,560,073 individuals that were main banked as seen in Table 3. This was 56.51% of the total banked population in 2014 amongst all South African adults aged 16 and above. There were 5,965,258 adults in the lower income group who were not financially included, as they utilised none of the financial services that were on offer.

The key products that the lower income groups had taken up were savings with a total of 13,467,845, whilst 4,070,835 debit cards were issued. In terms of the banks that were mainly used by this cohort, ABSA, FNB, Standard Bank, Nedbank and Capitec were the main choices.

4.1.2. Limitations to financial inclusion for lower income groups

The key reasons for not borrowing money were linked to unemployment and income. Over 7.6 million individuals stated that they did not have a job and hence did not borrow money, whilst 4.4 million people said they could not afford it and 2.5 million said that they did not have a regular income, as seen in Table 4. Other key factors that stopped individuals from borrowing and being financially included through credit were that affordability was an issue as the interest rates were too high, some people did not have the right documentation and other people did not have enough knowledge on how to get a loan.

Table 4. Reasons for not borrowing (credit and loans)

Finscope South Africa 2014		TOTALS INDIVIDUALS
Borrowing (Credit/Loans) / G2.Reasons for not borrowing	Can't afford it	4 462 958
	Don't believe in it	2 263 605
	Don't know	111 348
	Don't know about loans or borrowing	228 923
	Don't know how to go about getting a loan or borrowing	81 642
	I am scared to approach a bank or place where I can borrow money	236 928
	I don't have a job	7 612 567
	I don't have a regular income	2 520 189
	I don't have an ID	195 641
	I don't want to have debt	5 800 817
	I earn too little to make it worthwhile	1 472 326
	I had it in the past but had a negative experience	82 503
	I have been blacklisted at the credit bureau	33 647
	I have too much debt	128 915
	I was declined or did not qualify	351 044
	My salary is not high enough to qualify for a loan	495 596
	Never thought about it	1 772 174
	Other	476 333
	The interest is too high	2 131 266

Source:(Eighty20, 2014)

4.2. Proposition two: Financial inclusivity through improving financial literacy

4.2.1. Basic ability to read, write and speak gained through formal education

In terms of literacy, Finscope reported that 45% of the lower income cohort had some education, 14% had primary school education, 4% had no education at all, 29% had matriculated, and less than 5% had a diploma, university degree or apprenticeship.

Of this lower income group the segment with the least exposure to formal education was the not less than R1, 000 to R2, 000 segment, at 80%. The group with the highest exposure to a Matric level of education was the more than R6, 000 to R7, 000 segment. The lower segments of less than R1, 000 and more than R1, 000 to R2, 000 had the highest exposure to high school education, with 58% and 45% of these cohorts having attended high school respectively as seen in Table 5.

Table 5. Adults in the lower income group that are literate (basic ability to read, write or speak)

Finscope South Africa 2014		Demographics							TOTALS
		Total monthly personal income							
		> 0 to 1,000	> 1,000 to 2,000	> 2,000 to 3,000	> 3,000 to 4,000	> 4,000 to 5,000	> 5,000 to 6,000	> 6,000 to 7,000	
		Individuals	Individuals	Individuals	Individuals	Individuals	Individuals	Individuals	Individuals
Level of education	No schooling	120 134	565 223	18 806	4 672	0	0	0	708 835
	Primary school	712 855	1 563 641	89 159	85 007	12 162	12 782	4 675	2 480 282
	Some high school	4 076 815	2 708 503	771 180	331 755	247 639	105 686	113 936	8 355 515
	Matric	1 959 272	1 114 309	736 345	415 688	322 621	270 264	246 059	5 064 557
	Apprenticeship	47 676	22 475	22 878	0	17 277	23 044	0	133 349
	Diploma	90 956	98 484	90 467	50 141	36 646	43 837	41 490	452 020
	University degree	24 523	5 846	18 751	3 643	11 386	47 359	20 472	131 981
	Other	20 067	3 506	11 622	1 353	0	1 600	0	38 147
TOTALS		7 052 296	6 081 987	1 759 208	892 260	647 731	504 573	426 631	17 364 686

Source: (Eighty20, 2014)

Table 6. Correlation between literacy and borrowing behaviour

Finscope South Africa 2014		Demographics								TOTALS
		Level of education								
		No schooling	Primary school	Some high school	Matric	Apprenticeship	Diploma	University degree	Other	
		Index	Index	Index	Index	Index	Index	Index	Index	Index
Borrowing (Credit/Loans) / G1.Borrowing status	Have borrowed in the past 12 months	101%	99%	97%	105%	100%	96%	116%	116%	**100%**
		95%	108%	117%	70%	101%	127%	5%	0%	**100%**
	Have taken goods on credit in the past 12 months	103%	101%	101%	98%	103%	96%	103%	103%	**100%**
		0%	49%	76%	171%	0%	250%	0%	0%	**100%**
	I am currently borrowing	102%	100%	100%	100%	91%	102%	87%	102%	**100%**
		0%	97%	101%	92%	563%	19%	772%	0%	**100%**
	Owe money and still need to pay it back	103%	101%	100%	99%	100%	100%	103%	103%	**100%**
		0%	68%	99%	136%	92%	89%	0%	0%	**100%**
TOTALS		**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: (Eighty20, 2014)

4.2.2. Correlation between literacy and borrowing behaviour

Of the lower income groups that were asked about their borrowing status, the individuals who had the highest propensity to borrow were the people who had an apprenticeship or a university degree, with an index of 563% and 772% respectively as per Table 6. (An index of 100% is deemed normal and anything over 100% represents a stronger relationship between two variables). Another set of highly correlated variables was between the 'no schooling' variable and the 'don't know' borrowing status, indicating that people who had no exposure to formal education have a higher propensity to not know what their borrowing status is.

In terms of different borrowing statuses, the individuals with diplomas and some high school education indicated that they had borrowed in the last 12 months from 2014, whilst people who had a university degree (99%) and other forms of education (100%) had not borrowed in the last 12 months. Of the people with no schooling, 85% claimed to not ascribe to any of the borrowing statuses.

Table 7. Savings or investment plan usage in the lower income group

Finscope South Africa 2014			Demographics							TOTALS
			L10a.Total monthly personal income							
			> 0 to 1,000	> 1,000 to 2,000	> 2,000 to 3,000	> 3,000 to 4,000	> 4,000 to 5,000	> 5,000 to 6,000	> 7,000 to 8,000	
			Individuals	Individuals	Individuals	Individuals	Individuals	Individuals	Individuals	Individuals
Savings/Investments/K1. Investments/savings product usage	Call account	Never had	7 027 833	6 077 307	1 739 217	892 260	625 675	470 700	352 406	17 185 399
		Used to have	17 237	4 126	19 991	0	5 562	31 991	56 778	135 685
		Have now	7 225	0	0	0	0	1 881	0	9 106
		Don't know	0	554	0	0	16 494	0	0	17 048
	Co-operative or village bank savings	Never had	7 052 296	6 081 987	1 728 948	892 260	647 731	504 573	409 184	17 316 979
		Don't know	0	0	30 260	0	0	0	0	30 260
	Deposit account - fixed or notice deposit e.g. 32 day	Never had	6 949 976	5 955 627	1 683 780	810 710	577 345	409 561	234 939	16 621 939
		Used to have	91 701	62 824	15 528	24 427	0	29 677	48 329	272 485
		Have now	10 619	63 536	59 900	57 123	70 386	65 335	125 916	452 815
	Education policy or plan	Never had	7 035 058	6 050 392	1 742 226	890 661	629 745	468 045	337 357	17 153 485
		Used to have	0	18 054	0	0	0	0	2 381	20 435
		Have now	17 237	13 540	16 982	1 600	17 986	36 528	69 447	173 319
	Endowment policy	Never had	7 052 296	6 051 797	1 759 208	877 244	632 174	495 499	382 481	17 250 699
		Used to have	0	0	0	0	7 787	1 881	18 908	28 576
		Have now	0	30 190	0	15 017	7 770	7 192	7 795	67 963
	Giving money to family or any of your household members who will guard it for you	Never had	6 956 997	5 884 548	1 701 001	873 682	585 199	495 972	359 373	16 856 771
		Used to have	25 183	128 825	20 137	0	62 532	0	17 496	254 173
		Have now	70 115	68 614	38 070	18 579	0	8 601	32 315	236 294
	Government bonds	Never had	7 052 296	6 077 861	1 759 208	892 260	647 731	504 573	401 390	17 335 319
		Used to have	0	4 126	0	0	0	0	7 795	11 920
	Investment or savings club	Never had	6 858 186	5 890 743	1 736 896	876 493	597 520	486 710	375 311	16 821 858
		Used to have	0	12 126	8 634	9 713	0	0	0	30 473
		Have now	194 110	179 118	13 679	6 055	50 211	17 863	33 873	494 908

Finscope South Africa 2014			Demographics							TOTALS
			L10a.Total monthly personal income							
			> 0 to 1,000	> 1,000 to 2,000	> 2,000 to 3,000	> 3,000 to 4,000	> 4,000 to 5,000	> 5,000 to 6,000	> 7,000 to 8,000	
			Individuals	Individuals	Individuals	Individuals	Individuals	Individuals	Individuals	Individuals
	Investment or savings policy	Never had	7 035 058	5 976 920	1 751 354	865 846	619 512	460 774	345 911	17 055 377
		Used to have	17 237	48 621	4 031	17 659	3 912	19 510	45 864	156 835
		Have now	0	56 445	3 823	8 756	24 306	24 288	17 409	135 027
	Keep cash or savings at home - kept aside for a specific purpose and not forever	Never had	6 445 861	4 910 838	1 487 537	759 199	502 185	437 229	249 889	14 792 738
		Used to have	231 837	323 362	60 062	31 145	30 893	30 441	41 590	749 330
		Have now	374 598	847 787	211 609	101 917	114 653	36 903	117 705	1 805 170
	Off-shore investments	Never had	7 052 296	6 081 987	1 728 948	892 260	647 731	504 573	409 184	17 316 979
		Don’t know	0	0	30 260	0	0	0	0	30 260
	Other shares such as Sasol shares (Inzalo), MTN or Post Office shares	Never had	7 052 296	6 081 987	1 759 208	892 260	647 731	504 573	399 482	17 337 537
		Have now	0	0	0	0	0	0	9 702	9 702
	Savings bank account or money market account	Never had	7 046 970	6 048 259	1 697 662	879 533	606 324	504 573	393 051	17 176 371
		Used to have	0	33 012	0	12 727	16 494	0	16 133	78 366
		Have now	5 326	716	61 546	0	24 913	0	0	92 501
	Savings book at a bank	Never had	6 982 709	5 796 520	1 696 837	879 533	624 339	475 946	402 753	16 858 636
		Used to have	55 241	284 375	42 892	12 727	0	28 627	6 432	430 294
		Have now	14 346	1 092	19 478	0	23 392	0	0	58 309
	Shares on the stock exchange	Never had	7 052 296	6 081 987	1 759 208	892 260	647 731	497 043	409 184	17 339 709
		Have now	0	0	0	0	0	7 530	0	7 530
	Stokvel account at a bank	Never had	7 025 447	6 053 830	1 745 425	866 416	629 909	490 408	386 661	17 198 097
		Used to have	16 230	0	13 783	0	1 328	0	0	31 340
		Have now	10 619	28 156	0	25 845	16 494	0	9 702	90 815
		Don’t know	0	0	0	0	0	14 164	12 822	26 986
	Stokvel or umgalelo	Never had	6 839 068	5 595 988	1 655 547	830 634	525 165	430 802	366 566	16 243 769
		Used to have	42 563	153 063	27 931	0	4 454	0	0	228 011

Finscope South Africa 2014			Demographics							TOTALS
			L10a.Total monthly personal income							
			> 0 to 1,000	> 1,000 to 2,000	> 2,000 to 3,000	> 3,000 to 4,000	> 4,000 to 5,000	> 5,000 to 6,000	> 7,000 to 8,000	
			Individuals	Individuals	Individuals	Individuals	Individuals	Individuals	Individuals	Individuals
		Have now	170 665	332 936	75 730	61 627	118 111	73 771	42 619	**875 458**
	Unit trusts	Never had	7 052 296	6 042 714	1 759 208	890 828	645 502	502 692	388 568	**17 281 808**
		Used to have	0	39 272	0	1 432	2 229	1 881	0	**44 815**
		Have now	0	0	0	0	0	0	20 616	**20 616**
		TOTALS	**7 052 296**	**6 081 987**	**1 759 208**	**892 260**	**647 731**	**504 573**	**409 184**	**17 347 239**

Source: (Eighty20, 2014)

4.2.3. Savings or investment plans used by the lower income groups

In terms of savings and investments, 4,529,535 individuals in the low income group (see Table 7) mentioned that they had a savings plan of some type from the 15 that were listed.

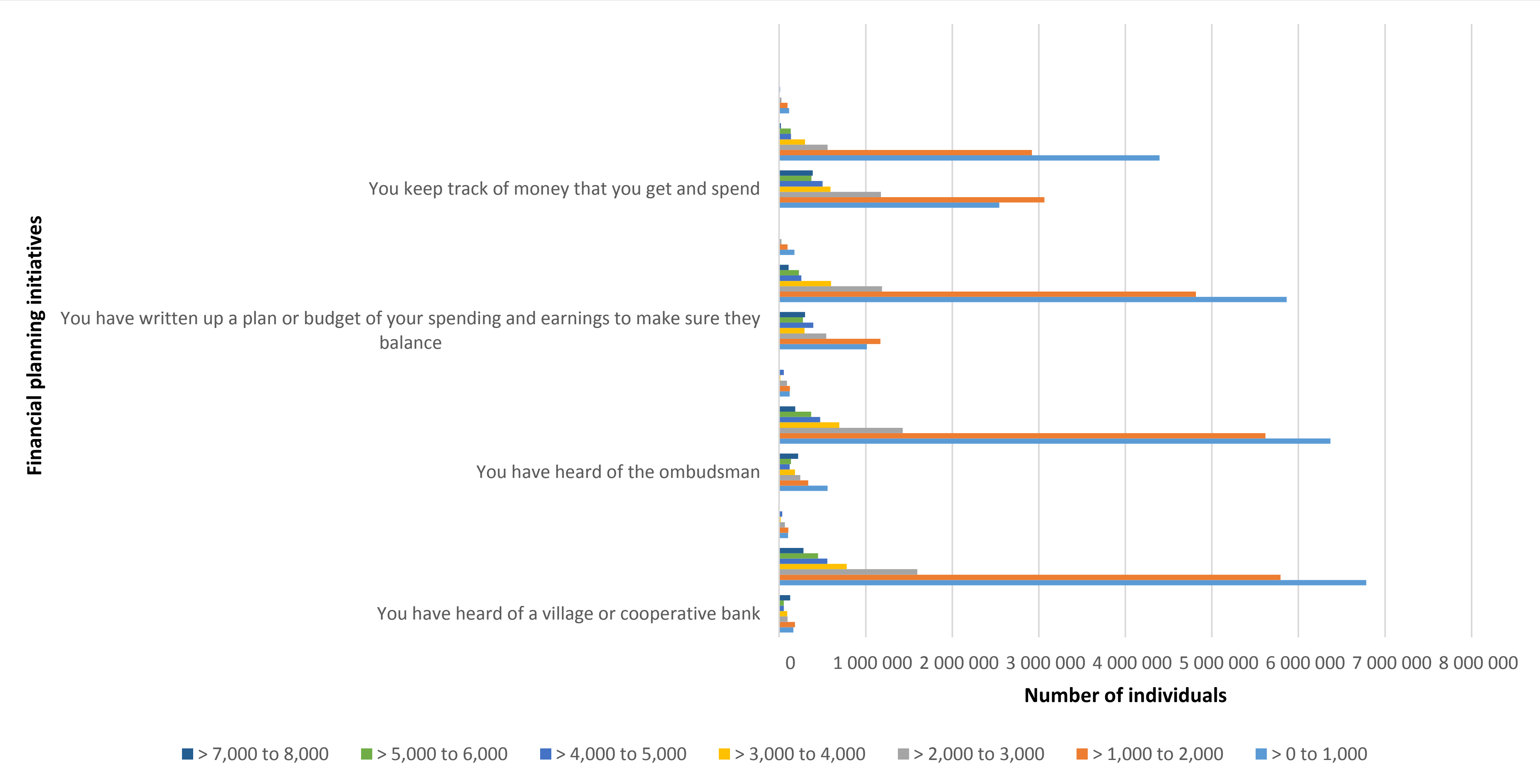
There were 1,805,170 people who mentioned that they saved cash by keeping it at home, which is kept aside for a specific purpose and not forever, which means it is a short term informal savings method. Informal savings and investments include a plan that does not involve a bank or a registered institution.

The Stokvel was the second most popular type of savings plan, followed by an investment or savings club, with 494,908 people taking part in latter. Within the formal options the highest uptake was of deposit accounts – either fixed or notice. The share options and stock exchange had the least number of people engaging with these savings or investment types in the lower income group.

Remittances as a form of investment into the family or any member of the household was 30% in the below R1,000 segments, while R1,000 to R2, 000 segment had a drop off rate of 51%, where this segment used to give money to their family but at present only 29% were doing so.

The number of people using the remittances of savings plan reduced as their incomes increased. In the case of education the opposite was the case in the lower income group, with the upper end of the low income groups agreeing to have an education policy or plan and the lower end not having many people using this product.

Figure 2. Financial planning in the lower income groups



4.2.4. Financial planning initiatives used in the lower income groups

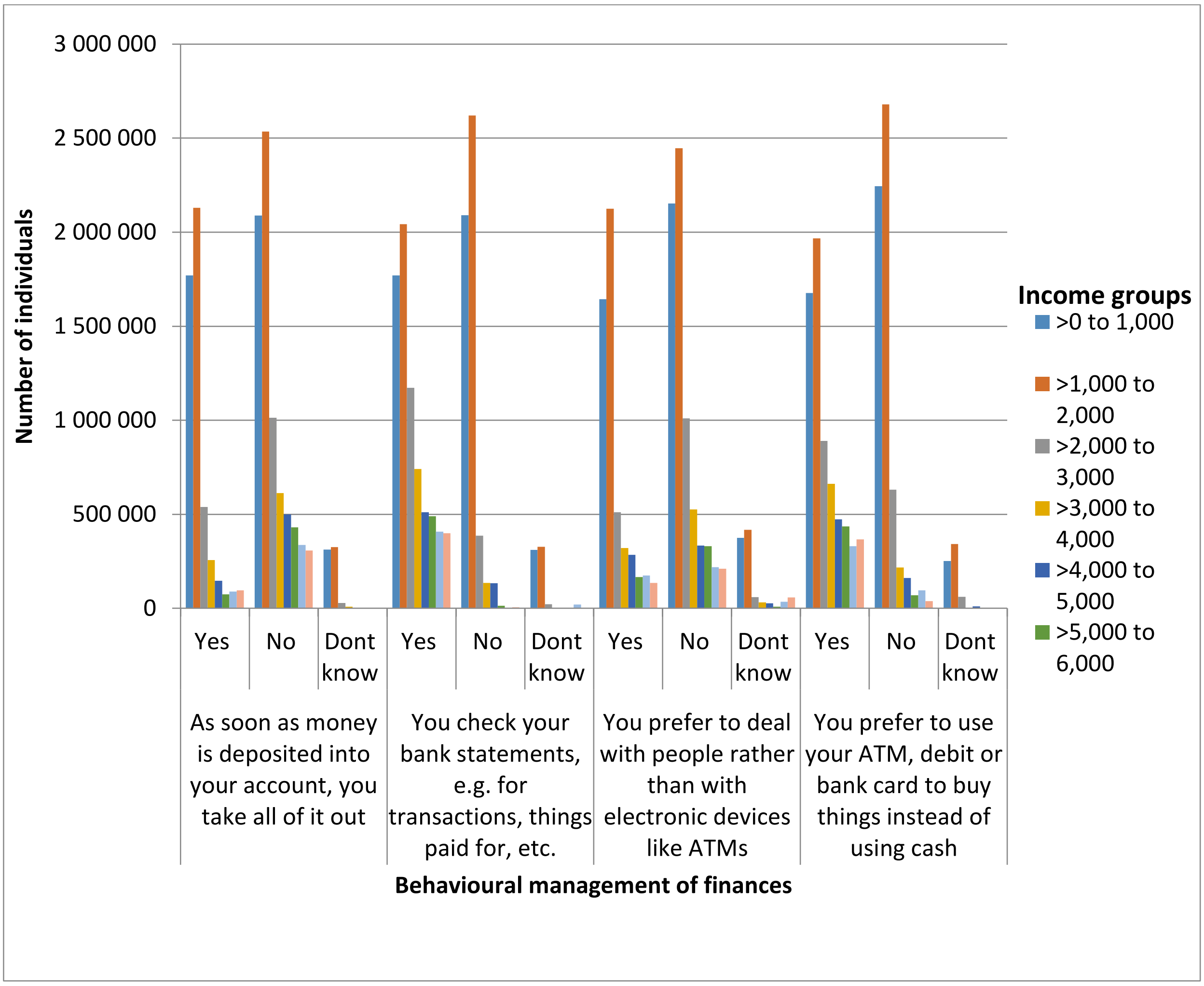
When it comes to financial planning there was poor awareness among the respondents when asked if they used village cooperatives and ombudsmen, with only 4% and 10% of the lower income groups having any knowledge of these respectively, as seen in Figure 3. The little awareness that was there was present in the lower end of the spectrum.

In relation to other financial planning activities such as budgeting and expenditure tracking, 23% of the lower income groups said they had written a plan of their spending and earnings; yet again the bulk of the respondents that agreed were in the lower end of the spectrum in terms of income.

Half (50%) of the lower income groups agreed that they kept track of money they got and spent, with 6,781,571 of the respondents coming from the less than R5,000 groups and the remainder being from the middle to upper end of the spectrum.

4.2.5. Financial management in lower income groups

Figure 3. Key behavioural traits of financial management in lower income groups



The key behavioural traits of the low income segment illustrate that of the people who take their money as soon as it is deposited, 42% earn more than R1, 000 but no more than R2, 000, whilst 35% belonged to the less than R1, 000 income group.

The income group with less than R1, 000 reported that 39% of them do not check their bank statements, whilst 49% of the group between R1, 000 and R2, 000 said no to the same question. Of the seven lower income groups both these groups had the largest percentage of individuals that read their statements, at 23% and 27% for the less than R1000 and the R1, 000 to R2, 000 categories respectively. The rest of the segments from R2, 000 to R8, 000 had less than 20% uptake for this banking behaviour.

Figure 4 shows that there is more need to deal with people than with electronic channels in the lowest segments of the lower income groups, with 31% of the less than R1,000 groups agreeing with the statement and 40% agreeing to the same in the R1,000 to R2,000 segment. There was 10% or less agreement from each of the R2, 000 to R 8,000 groups. This shows that people are not financially capable and confident enough to do their own banking without the help of a consultant who will walk them through concepts they may not understand. The more an individual is financially literate and capable the more electronic channels they are prone to use.

4.3. Proposition Three: Results pertaining to credit

Proposition Three: Credit is one of the key tools for financial inclusion for lower income groups in South Africa.

The credit industry in South Africa over the last number of years has displayed interesting trends in the different industry types of categories of credit offered. The secured category as a whole grew slightly in the period in question by approximately R3 billion, whilst mortgages experienced a sharp decline of R20 billion, as seen in Table 8.

Figure 4 shows how unsecured credit grew by 141% over the 2007-2014 period and how credit facilities grew by 97.6%. Developmental credit, which was only introduced in 2012, experienced a steady uptake, with the value as at 2014 being a little over R1 billion.

Table 8. Overview of South Africa total credit granted per credit type

Credit type	2007	2014	Difference
Secured credit	32 013 864 783	35 756 845 963	+3 742 981 180
Mortgages	53 139 516 992	33 183 161 450	**-19 956 355 542**
Unsecured credit	7 997 570 946	19 319 743 787	**+11 322 172 841**
Credit facilities	8 396 030 142	16 592 981 289	**+8 196 951 147**
Developmental		1 051 815 800	+1 051 815 800
Short-term credit	883 196 977	1 287 104 919	+403 907 942
TOTAL	102 430 179 840	107 191 653 208	+4 761 473 368

4.3.1. Credit types and level of uptake in the lower income groups

Figure 4. Total credit granted in South Africa

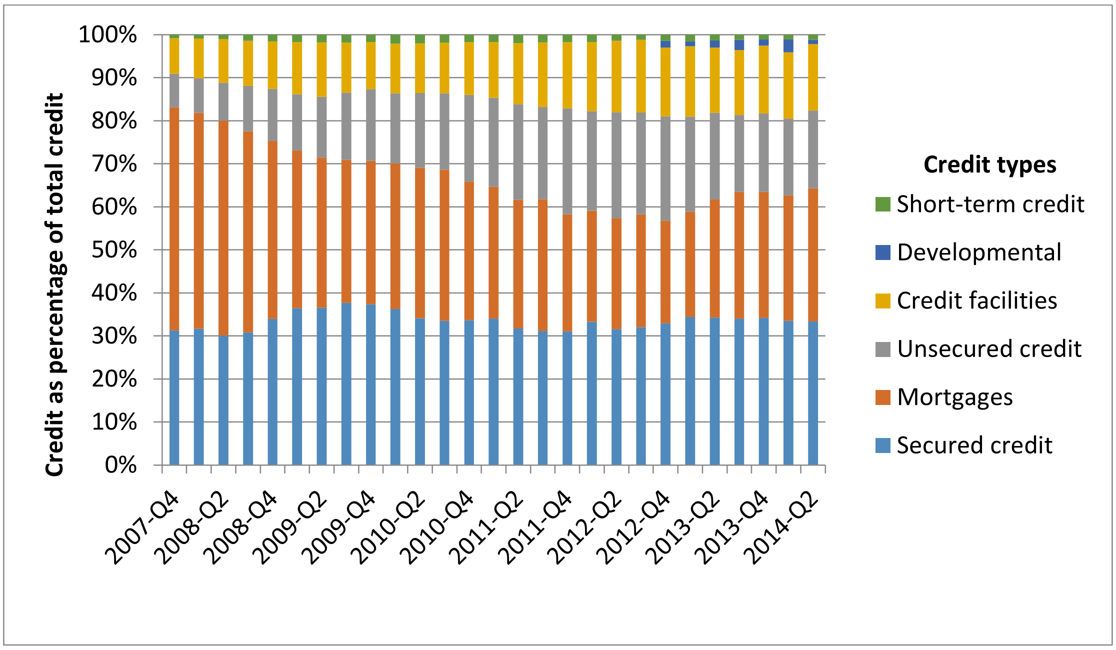
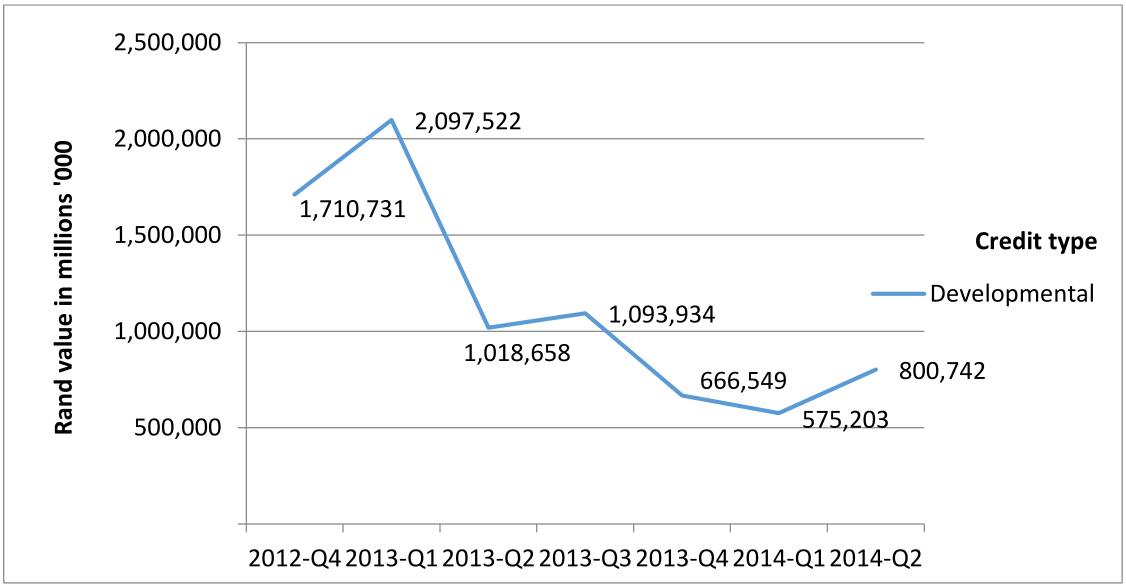
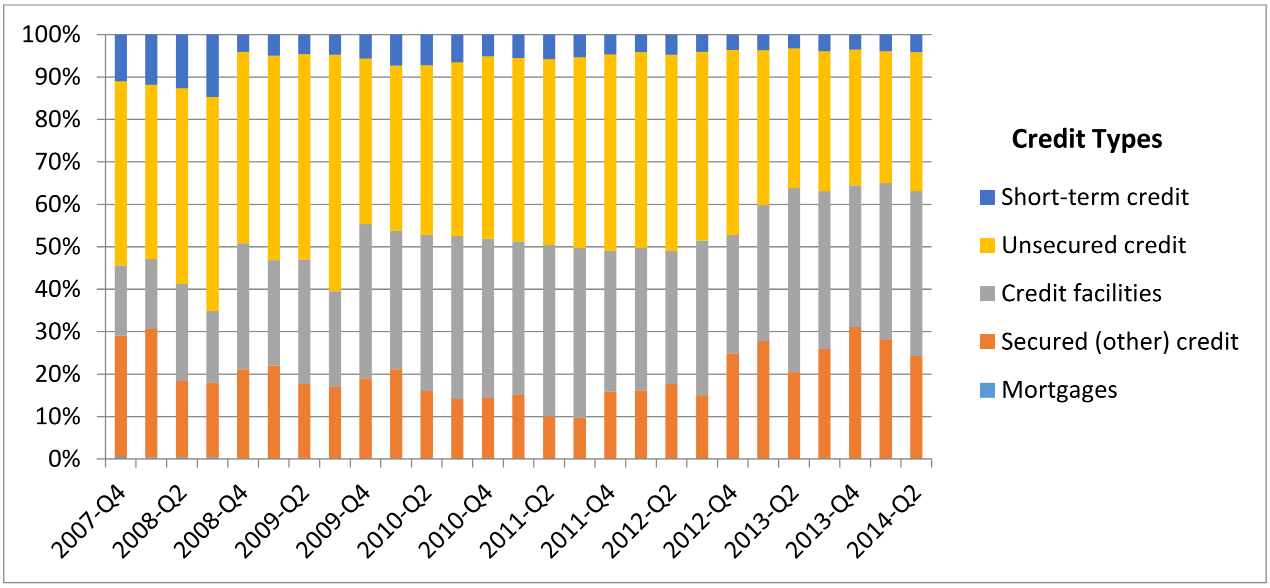


Figure 5. R0 - R1,500 income bracket - types of credit uptake



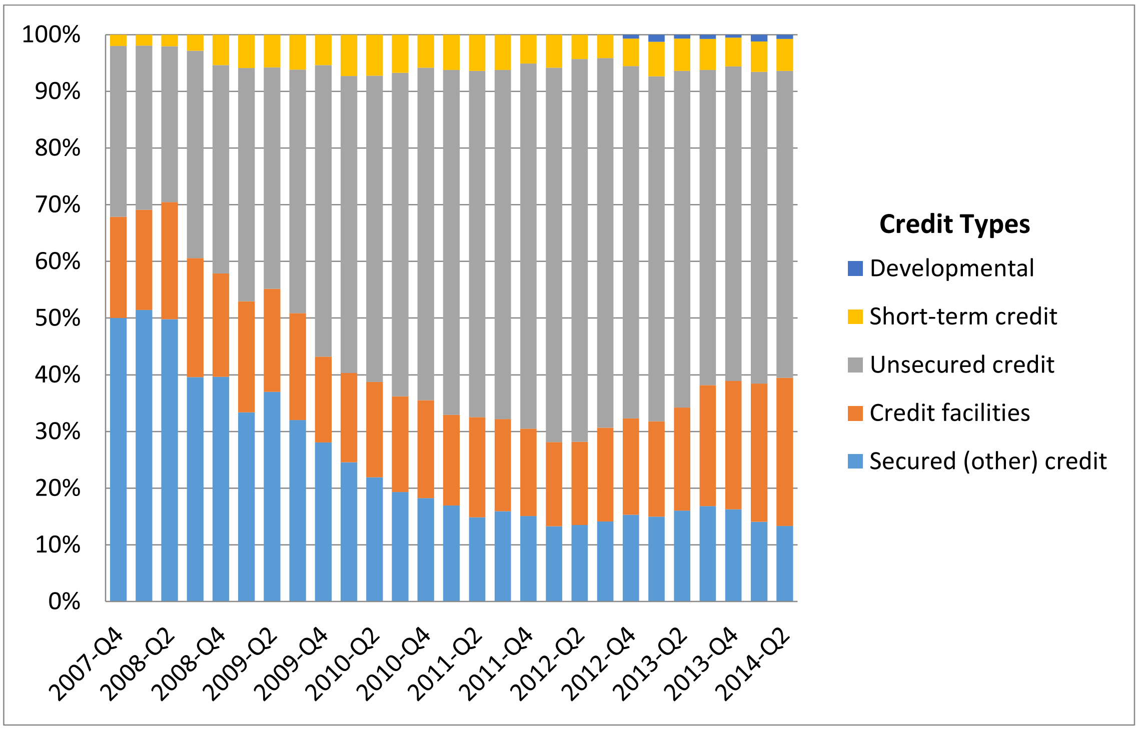
Developmental credit is a credit type that is less rigorous and is mainly for the purpose of either pursuing further development through report loans or loans to build or to develop a small business; this is the only credit type that the R0-R1,500 bracket used. Figure 5 illustrates how developmental credit growth experienced a decline of an average of -18.58% per quarter. The number of individuals who used this type of credit declined significantly within the lower income group segment. The R0 to R1, 500 group took this loan but because the numbers were so small in relation to the other types of credit it was removed from the R0-R3, 500 group as the calibration of the chart would be affected by the extreme scales.

Figure 6. R0 - R3,500 income bracket - types of credit uptake



Within the R0-R3,500 group it can be seen in Figure 7 how the least used type of credit was mortgages, whilst unsecured credit and short term credit was the most used credit type. The mortgages credit type had the highest drop off rate, with the number of mortgages in this income bracket falling from 416 granted to just one in 2014. All the categories in this income group experienced a fourth quarter growth spurt and then a decline in the following year's first quarter. All credit types experienced a decline over the years, with the number of loans for each of the types experiencing negative growth with a total decline in the last reported quarter of -18.24%.

Figure 7.   R5,501 - R7,500 income bracket - types of credit uptake

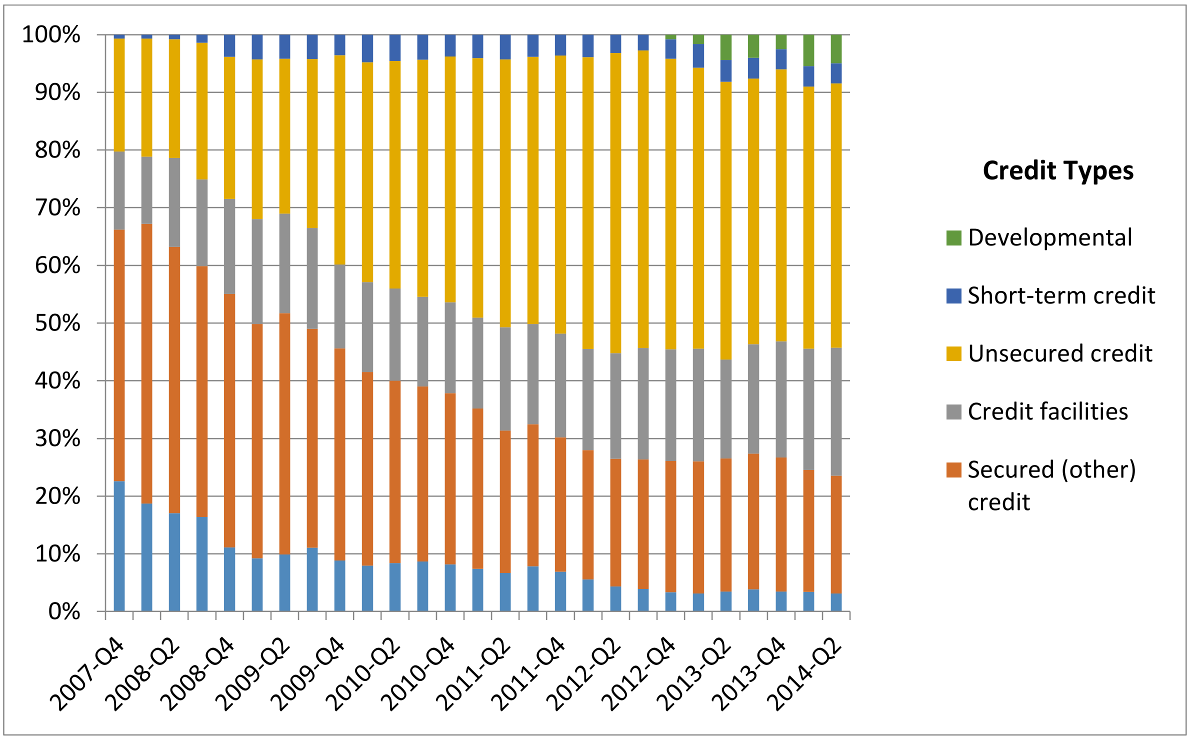


In the R5, 501 - R7, 500 income segment there was a high uptake of unsecured credit, with the number of individuals receiving this type of credit increasing from R846, 752,565 to R1, 544, 629, 912. The unsecured credit type made up 53% of the total value of the credit for this cohort as seen in Figure 8. Unsecured credit experienced a spike in growth around the period of 2010 in the fourth quarter to 2012 with an average of 2.5 billion being granted per quarter.

There was a gradual decline over the years which appeared to be the case for most of the cohorts in the lower income segment. This may have been a result of aggressive credit education by the NCR (see appendix A). The NCR reported to have increased the proportion of above-the-line campaigns that were centred on credit and consumer protection. The above-the-line campaigns were supported by taxi rank activations, as well as by NCR staff talking to individuals at the taxi ranks to give them advice on better lending practices.

The opposite happened with secured credit, whereby in 2007 it was in demand but over the years it saw a major decline from R1.4 billion to R379 million. This cohort has a low appetite for mortgages and developmental credit, with only R39.45 million and R21.54 million being granted respectively.

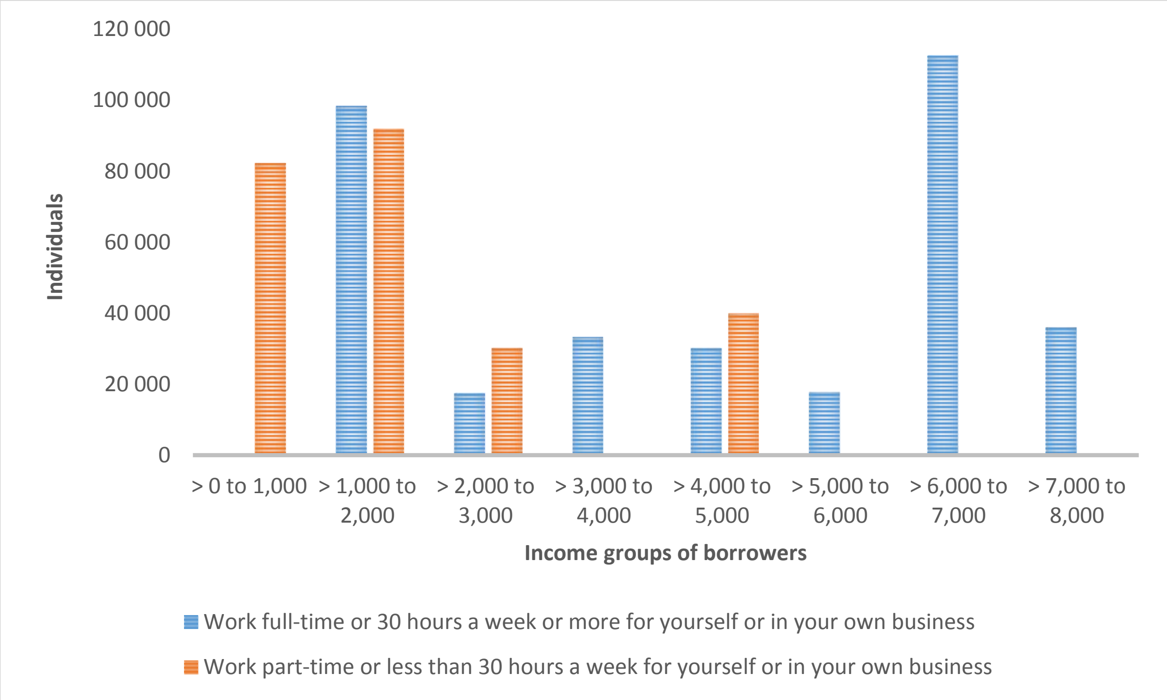
Figure 8. R7,501 - R10,000 income bracket - types of credit uptake



For comparison sake the R7, 501 - R10, 000 group there was a healthy appetite for unsecured credit as well as credit facilities, which experienced an upswing over the years with peaks mainly occurring in the fourth quarters and troughs in the first quarters. In this segment secured credit did not experience as sharp a decline as the other lower segments. Figure 9 shows how on average it moved by 4.39% closer to 2014, but it had taken a few knocks in 2009 where it dropped by an average of 22.97% in the first three quarters. Mortgages and developmental credit were slightly higher in this cohort, with 602 individuals taking mortgages and 3,660 developmental credit applications being approved.

4.3.2. Self-employed borrowers

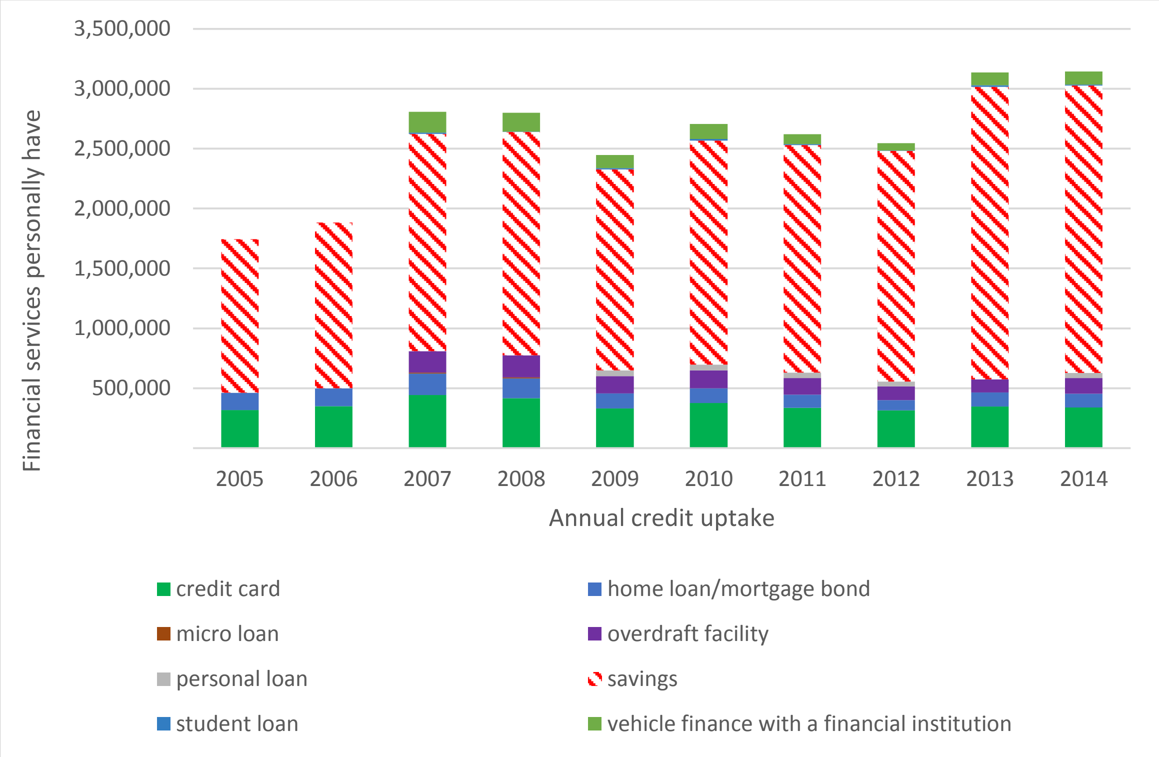
Figure 9. Self-employed borrowers in the lower income groups



Only 590,954 individuals claimed to be self-employed on either a full-time or part-time basis. These individuals all maintained that they had borrowed within the last 12 months at the time of the report. The income brackets that stood out the most were the R1, 000 to R2, 000 group and the R6, 000 to R7, 000 group, as per Figure 10.

When it comes to financially services personally have for the self-employed group compared to the credit products uptake there was a high usage of savings instruments by the self-employed cohort. Year-on-year the saving uptake increased whilst the other credit holdings remained within the same region as the previous year. The worst performing credit products were micro-loans and personal loans as seen in Figure 11.

Figure 10. Financial services used by self-employed individuals



4.3.3. Levels of indebtedness for lower income groups

Table 9. Level of indebtedness in 2012

Credit data: 2012-05			Root				TOTALS
			Income band				
			00001-1499	01500-3499	03500-4999	05000-7499	
			Individuals	Individuals	Individuals	Individuals	Individuals
Root	Debt to income	0% - 5O%	148 755	3 834 910	2 109 377	1 421 127	7 514 169
		50% -100%	18 679	341 937	260 049	235 498	856 163
		100% -150%	3 073	83 042	71 806	74 127	232 048
		150% -200%	818	31 592	27 175	29 376	88 961
		200%+	683	32 512	26 345	31 338	90 878
	Instalment to income	0% - 25%	81 491	2 489 815	1 257 453	909 178	4 737 937
		25% - 50%	68 027	782 407	469 173	358 688	1 678 295
		50% - 75%	10 801	382 528	223 924	191 777	809 030
		75%+	11 689	669 243	544 202	331 823	1 556 957
TOTALS			172 008	4 323 993	2 494 752	1 791 466	8 782 219

Source:(Eighty20, 2014)

Table 10. Level of indebtedness in 2013

Credit data: 2013-07			Root				TOTALS
			Income band				
			00001-1499	01500-3499	03500-4999	05000-7499	
			Individuals	Individuals	Individuals	Individuals	Individuals
Root	Debt to income	0% - 50%	403 737	5 221 804	2 009 103	1 194 440	8 829 084
		50% - 100%	27 109	496 670	396 929	357 303	1 278 011
		100% - 150%	3 384	117 085	128 282	153 615	402 366
		150% - 200%	908	46 212	55 128	72 611	174 859
		200%+	1 921	60 895	60 133	105 140	228 089
	Instalment to income	0% - 25%	240 969	2 907 431	1 016 051	717 495	4 881 946
		25% - 50%	84 821	1 186 374	581 030	439 599	2 291 824
		50% - 75%	20 910	565 341	319 672	258 827	1 164 750
		75%+	18 106	1 032 752	705 257	458 851	2 214 966
		Unknown	72 253	250 768	27 565	8 337	358 923
TOTALS			437 059	5 942 666	2 649 575	1 883 109	10 912 409

Source:(Eighty20, 2014)

The total number of people who had debt in the lower income segment increased by 24% in 2013 from the previous year. Significant increases were seen in the number of people paying instalments in the 0-25% variable. There was a shift here and as this number decreased for the R1,500 to R3,499, R3,500 to R4 999 and R5,000 to R7,499 segments it increased it spilt over into the 25-50%, 50-75% and 75%+. There was an increase in the 0-25% instalment to income variable for the R0 to R1, 499 segment.

The R1, 500 to R3, 499 cohort had the largest percentage of instalments to income. Of the people who paid 25%-50% instalments against their income 52% came from this cohort, whilst 49% in the same cohort reported an instalment to income ratio of 50% to 75%. Over one million (1 032 752) people paid more than 75% of their salaries towards credit repayments.

The R0-R1, 499 segment had a low to debt-to-income ratio, with only 5% having a 0-50% ratio and just 2% reporting a 50-100% debt to income ratio. The R1, 500 to R3, 499 segment showed that the majority of the segment had a debt-to-income ratio of 0%-50%; 160, 541 individuals, making up 14%, had a debt to income ratio of above 100%. The bulk of the growth of the debt-to-income ratio grew in this cohort from the previous year by roughly two million. There was also growth, albeit off a small base, of 150% in the 200% debt-to-income ratio.

The R3,500 to R4,999 segment reported to have 17% of constituents with a debt-to-income ratio of over 100%, while the R5,000 to R7,499 segment had the greatest number of individuals with a high debt-to-income ratio, with 25% of the group having higher than 100% as their debt-to-income ratio.

4.3.4. Product holding arrear status

In 2011 there were 11 credit product offerings reported by the NCR, which was added to in 2013 through student loans. This is significant as it explains the spike in uptake of developmental loans at a certain time.

Amongst the lower income segments in 2011 the arrear status items were retail apparel, accounts and micro lenders for the R1, 500 - R3, 499 group. This was similarly the case in 2013 with the addition of a few items such as personal loans and student loans, which were also quite high.

Table 11. Credit products holding an arrear status by income band, 2011

Credit data: 2011		Root				TOTALS
		Income band				
		00001-1499	01500-3499	03500-4999	05000-7499	
		Row %	Row %	Row %	Row %	Row %
Credit products /Arrears status	Accounts	1%	55%	29%	15%	100%
	Asset finance	0%	16%	35%	49%	100%
	Credit card	0%	24%	31%	45%	100%
	Financial other	0%	36%	35%	28%	100%
	Micro-lenders	0%	40%	38%	21%	100%
	Mortgages	0%	15%	25%	60%	100%
	Personal loans	0%	29%	39%	32%	100%
	Retail apparel	0%	56%	31%	13%	100%
	Retail furniture	3%	65%	22%	10%	100%
	Retail general	0%	42%	34%	24%	100%
	Telecomms	0%	16%	46%	37%	100%
TOTALS		1%	50%	31%	17%	100%

Source: (Eighty20, 2014)

Table 12. Credit products holding an arrear status by income band, 2013

Credit data: 2013			Root				TOTALS
			Income band				
			00001-1499	01500-3499	03500-4999	05000-7499	
			Row %	Row %	Row %	Row %	Row %
Credit products /Arrears status	Asset finance	Not applicable	3%	54%	25%	18%	100%
		Yes	0%	11%	18%	71%	100%
	Credit card	Not applicable	4%	56%	24%	16%	100%
		Yes	0%	10%	38%	51%	100%
	Financial other	Not applicable	3%	54%	25%	18%	100%
		Yes	1%	40%	30%	29%	100%
	Microlenders	Not applicable	4%	55%	24%	17%	100%
		Yes	1%	46%	31%	22%	100%
	Microlenders or personal loans	Not applicable	4%	56%	24%	17%	100%
		Yes	1%	45%	31%	23%	100%
	Mortgages	Not applicable	3%	54%	25%	18%	100%
		Yes	13%	28%	26%	34%	100%
	Personal loans	Not applicable	4%	55%	25%	17%	100%
		Yes	0%	36%	32%	32%	100%
	Retail apparel	Not applicable	5%	51%	24%	20%	100%
		Yes	0%	59%	27%	13%	100%
	Retail furniture	Not applicable	3%	53%	25%	19%	100%
		Yes	6%	63%	21%	10%	100%
	Retail general	Not applicable	4%	54%	25%	18%	100%
		Yes	1%	43%	31%	25%	100%
	Student loans	Not applicable	3%	54%	25%	18%	100%
		Yes	0%	59%	28%	13%	100%
	Telecomms	Not applicable	4%	55%	24%	17%	100%
		Yes	1%	28%	36%	34%	100%
TOTALS			4%	54%	24%	17%	100%

Source:(Eighty20, 2014)

4.3.5. Uptake of mortgages in the lower income segments

Table 13. Uptake of mortgages in the lower income groups

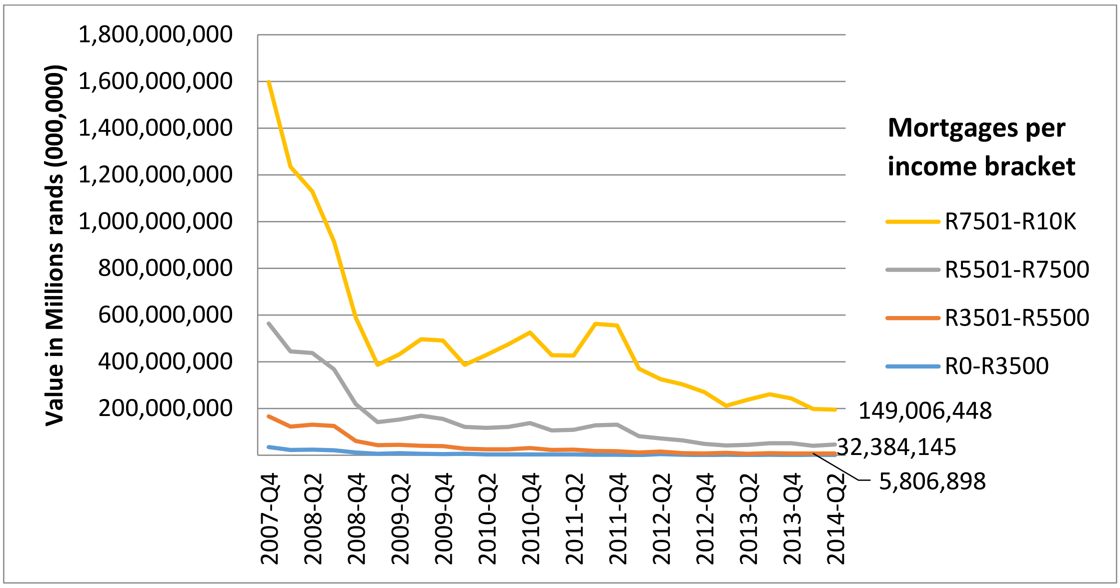
Credit data: 2013			Root				TOTALS
			Income band				
			00001-1499	01500-3499	03500-4999	05000-7499	
			Individuals	Individuals	Individuals	Individuals	Individuals
Credit products /Credit product holdings	Mortgages	Not applicable	328 861	5 603 448	2 525 366	1 668 902	10 126 577
		Yes	35 945	88 450	96 644	205 870	426 909
TOTALS			437 059	5 942 666	2 649 575	1 883 109	10 912 409

Source:(Eighty20, 2014)

Of the lower income groups there is a greater uptake of mortgages in the higher income brackets of this segment, with 205, 870 individuals in the R5, 000 to R7,499 category taking on a mortgage. This income segment made up close to half of all the individuals with a mortgage. The remaining 221,039 were spread across the three other segments, with the R0 to R3, 500 group having the least. There were 10,912, 409 individuals in the lower income segment without a mortgage.

When compared to the next income bracket which is the R7,501-R10,000 income bracket and is the lower end of the middle income bracket all three income brackets combined fare very poorly as they only make up 26% of the total value as seen in Figure 12. This indicates that few mortgages are being granted as a productive credit instrument to increase financial inclusion. There seems to be a disproportionate ratio of consumptive versus productive loans being granted to the lower income groups.

Figure 11. Total value of mortgages per income bracket



CHAPTER 5. DISCUSSION OF RESULTS

5.1. Introduction

This chapter is focused on the discussion of the results and explaining them in relation to the literature review. The propositions are further elaborated on as each of the questions are unpacked, and thereafter a conclusion is drawn regarding each of the propositions with regards to the topic at hand. The three factors that will be dealt with are the effects of financial inclusion, financial literacy and credit as a financial inclusion tool.

5.2. Demographic profile of respondents

The key demographics of the individuals who were studied in this research report were South African adults over the age of 16 that earned between R0 and R7,499. In some cases these respondents were compared to higher income earners that were also over the age of 16 but earned a minimum of R10, 000.The credit bureau does not distribute data that reveals the customers identity such as race, gender, occupation and geographic location to protect the consumer credit market. For this reason the Finscope and AMPS data were used, which resulted in the lower income group totalling 17 million as this was no longer limited to low income adults who had borrowed from a registered financial institution.

5.3. Discussion pertaining to Proposition One

5.3.1. Effects of financial inclusion on lower income groups

Proposition one: Financial inclusivity as a financial developmental strategy improves the livelihoods of low income adults in South Africa.

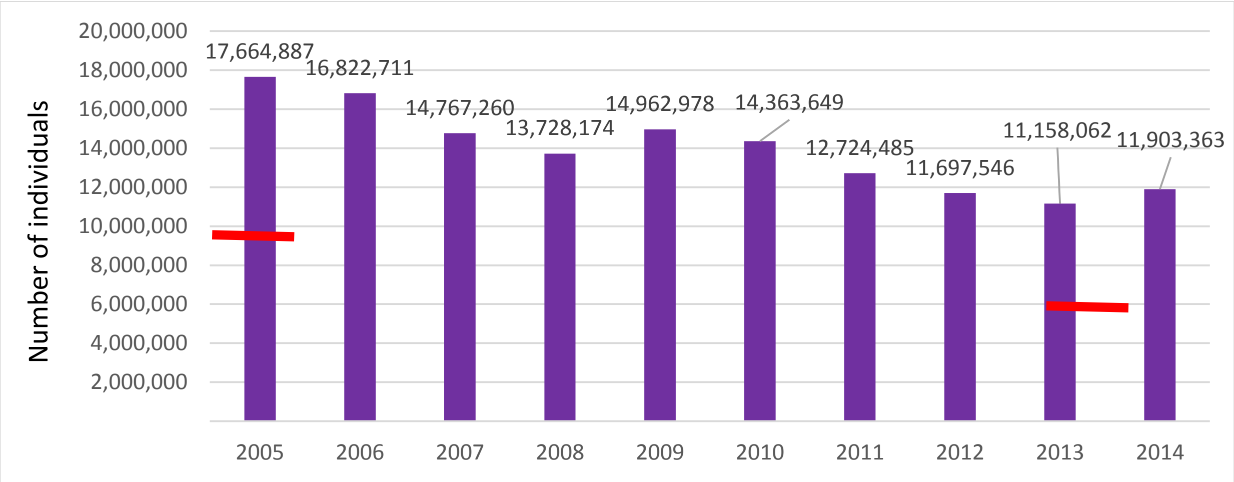
In relation to financial inclusion it is evident that South Africans in general have started to engage more with the financial services sector and there has been a higher uptake of products.

The number of financial services increased almost by double over a five year period ending in 2014 which means that there has been increased economic participation. The South African government has enforced the Financial Services

Sector Code through policy making action, which was prepared in terms of the Broad-Based Black Economic Empowerment (B-BBEE) Act, subsequently referred to as the Act (FSCC, 2012). This is based on a harmonisation of the Generic Codes and the Financial Sector Charter gazetted under Section 12 of the Act under Code Series FS800. This correlates with the Measurement of the Access to Financial Services element of Broad-Based Economic Empowerment as it relates to members of the Banking Association of South Africa, which are required to expand financial services to the portion of the South African population that was previously excluded from participating in the financial services sector. The banking industry members could gain up to 14% in B-BBEE points as seen in the table below if they comply with some or all of the legislation. The banking solutions were mainly targeted towards financially excluded individuals in the lower income groups.

The introduction of affordable banking services to low income individuals brought about the creation of accounts previously discussed and seen in Table 2. These low cost initiatives have helped reduce the unbanked population from 17 million in 2005 to 11 903 363 in 2014. Approximately half of the unbanked population is made up of the lower income groups, which indicates that there is still more work to be done (AMPS, 2014).

Figure 12. Unbanked population in South Africa



Source: AMPS (2014)

The efforts of the Financial Services Charter can be seen in the reduction of the unbanked populations. This can also be seen in the decline of the number of unbanked lower income adults, who in 2005 were 9,865,434 individuals which dropped to 5,965,258 in 2014 as marked in Figure 13 in red.

This evidence confirms Demirguc-Kunt et al.’s (2008) beliefs that through government policies which are focused on building sound financial institutions financial inclusion can be achieved. More especially if the private sector is provided with appropriate incentive structures to broaden access.

5.3.2. Limitations to financial inclusion for lower income groups

Some people in the lower income segments are still financially excluded, either by not having a bank account or by not being able to borrow (taking a loan).

The reasons for people not having a bank account or being able to take out a loan mainly pertain to unemployment, irregularity of income, affordability, distance, not having the correct KYC (Know your client) documents and concerns related to debt and bad experiences in the past. Some individuals stated that they are afraid of debt and are scared to approach a bank. The reasons that were found in this research are similar to the set of market failures that Demirguc-Kunt and Klapper (2012) and Chakrabarty (2013) identified as some of the reasons people seek out loan sharks and generally become victims of them, becoming trapped in costly cycles of credit repayments.

Of the respondents who were financially excluded 86% were black and 59% were female, highlighting that there are number of previously disadvantaged individuals that have not yet been embraced by the financial sector (AMPS, 2014). The Financial Sector Charter has tried to address many access-related issues but the government needs to create jobs so that unemployment-related barriers to exclusion are further reduced (Stiglitz, 2002).

5.4. Discussion pertaining to Proposition Two

5.4.1. Financial literacy and financial capability

Proposition two: Financial inclusion is made possible through improving financial literacy.

When it comes to the competencies that are needed for the management of finances as way of determining levels of financial literacy. The research findings were centred around five categories, i.e. the ability to speak, read and write based on a formal education experience, the ability to save and invest, the ability to budget and track earnings and expenses, and behavioural management traits (Hung et al., 2009; Remund, 2010).

Hung et al., (2009) argued that the basis of financial literacy is the ability to speak, read and write gained through formal education, yet the research findings show that there are very low levels of illiteracy in South Africa, with only 4% of the lower income segment not having any formal education.

Most of the respondents had completed primary school, high school and/or matric, which means that the sample satisfied Hung et al.'s (2009) conceptual perspective of financial literacy. However within the South African educational context this may not mean much especially in the case of the lower income groups that attend poorer government schools.

In an assessment conducted in 2011 which involved numeracy and literacy tests among 6 million learners at government schools it was revealed that the quality of teaching poor leading to performance (UNICEF, 2015). As a result of that for a student to reach the 'achieved' status they need as little as 30 per cent to pass. Those who had performance from 12 per cent to 31 per cent accomplished a 'partially achieved' level (UNICEF, 2015). The educational system and the outcomes do not make it conducive for financial inclusion to increase through financial literacy.

In terms of the relationship between borrowing and levels of literacy there was a high propensity for individuals to borrow if they had either an apprenticeship or a university degree; people who had no schooling preferred not to borrow. This may be because they are not confident enough to approach an institution and may end up falling into the hands of unregistered lenders. The lowest income earners also had a high propensity to not know their borrowing status, which possibly means that they are highly active in the informal borrowing space; they may be borrowing from friends, local spaza shops and/or loan sharks.

When it comes to Remund's (2010) conceptual perspective, of the factors that contribute to financial literacy there was very little knowledge about the financial planning initiatives that are available to the lower income group. The poor knowledge of the presence of the ombudsman, for instance, may leave the individuals vulnerable to exploitation.

From the operational perspective of financial literacy that focuses on budgeting, saving, borrowing and investing, there were interesting patterns in the findings.

Twenty three per cent of the lower income group that agreed to write a plan of their spending and earnings were mainly in the lower end of the income spectrum. The groups earning R5, 000 to R8, 000 were found to be less likely to track their monthly spend. This pattern is consistent with the lower segments of the sample who agreed that they check their bank statements for transactions and items paid. This may simply be a function of the fact that the R0 to R3, 000 segment has the highest number of respondents within the sample.

It was also found that when it comes to savings the lower income segments mostly prefer informal types of savings and investment tools such as Stokvels. The Stokvel is centred around a collective where decision-making falls on the shoulders of the group and not on one individual (Kotelo, 2012). Between the Stokvel and investment clubs there were 1,370,366 people who participated in these. These savings clubs tend to be more trusted, provide higher returns than the banks, have less requirements for entry and in the event the individual goes through financial difficulties they are able to explain their circumstances without fear of being blacklisted (Mphulo, 2004).

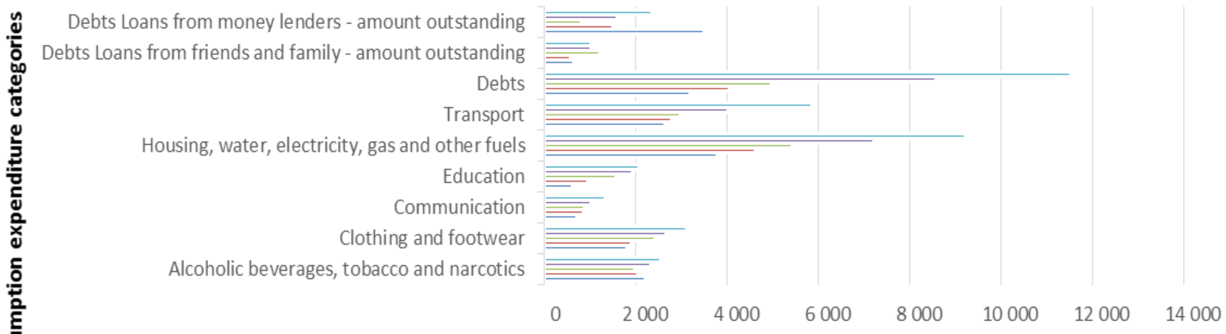
There was very little engagement with complex and long-term planning tools for future financial needs such as education; rather, there was a high usage of short-term savings plans such as keeping money aside at home for specific incidences. This is backed up by the research findings that there are a lot of individuals in the lower income groups who sweep their accounts, i.e. they take all of their money from their accounts as soon as it is deposited. This may done to avoid debtors taking their money.

One of the reasons there is low engagement with savings products may be that people simply do not have disposable income to put aside for a rainy day. The South African economy has little to offer as it is experiencing poor growth and people’s salaries are not enough to support them and still leave enough to save. The research shows that there is a high drop-off rate where people used to have certain savings and investment products but no longer do.

According to literature the positive effects of financial inclusion when well executed are increased savings and investments this is not the case with the lower income group(Allen et al., 2012; Chakrabarty, 2013). The people are not able to manage their finances well due to the demise in education which is probably why there is high propensity to gravitate towards a group that allows for collective decision-making(Remund, 2010).

The poor education also affects the low income groups’ ability to prioritise their spending. They may track their monthly spend and earnings but their priorities could affect their ability to direct their finances into the right areas. The Income and Expenditure Survey Report, which is conducted every five years, puts this into perspective as per Figure 14. The average lower income South African household will spend more on alcohol beverages, tobacco, narcotics and clothing than on education (Statistics SA, 2012). This highlights that the inability of people to manage their finances can be a result of a pervasive culture of instant gratification, which is fuelled by aggressive consumer marketing and the proliferation of readily available credit (Remund, 2010).

Figure 13. Consumption expenditure patterns of lower income groups in 2011



	Alcoholic beverages, tobacco and narcotics	Clothing and footwear	Communication	Education	Housing, water, electricity, gas and other fuels	Transport	Debts	Debts Loans from friends and family - amount outstanding	Debts Loans from money lenders - amount outstanding
LSM 5	2 544	3 116	1 343	2 078	9 211	5 848	11 530	1 023	2 369
LSM 4	2 351	2 667	1 022	1 944	7 214	4 030	8 574	1 038	1 597
LSM 3	1 977	2 433	894	1 574	5 437	2 973	4 972	1 217	808
LSM 2	2 053	1 920	860	957	4 632	2 786	4 063	576	1 499
LSM 1	2 218	1 823	717	616	3 784	2 643	3 200	662	3 505

Mean spend per household in rands

There are a number of people who are educated and somewhat financially literate, but there is also a gap between literacy and capability. When one looks at the literature, the sample fulfils the conceptual aspect of financial literacy but fails when it comes to the operational perspective. This confirms Johnson and Sherradon's (2007) belief that there is still a gap between the concepts, measurement and actual participation. As a result, although an individual may be financially included in terms of having a bank account, at best they are still not able to maximise on the opportunities that present themselves (Johnson & Sherraden, 2007). The results imply that there may not be a link between financial literacy and financial inclusion because although the factor correlate there may not be causality.

5.5. Discussion pertaining to Proposition Three

5.5.1. Credit as a financial inclusion tool

Proposition Three: Credit is one of the key tools for financial inclusion for lower income groups in South Africa.

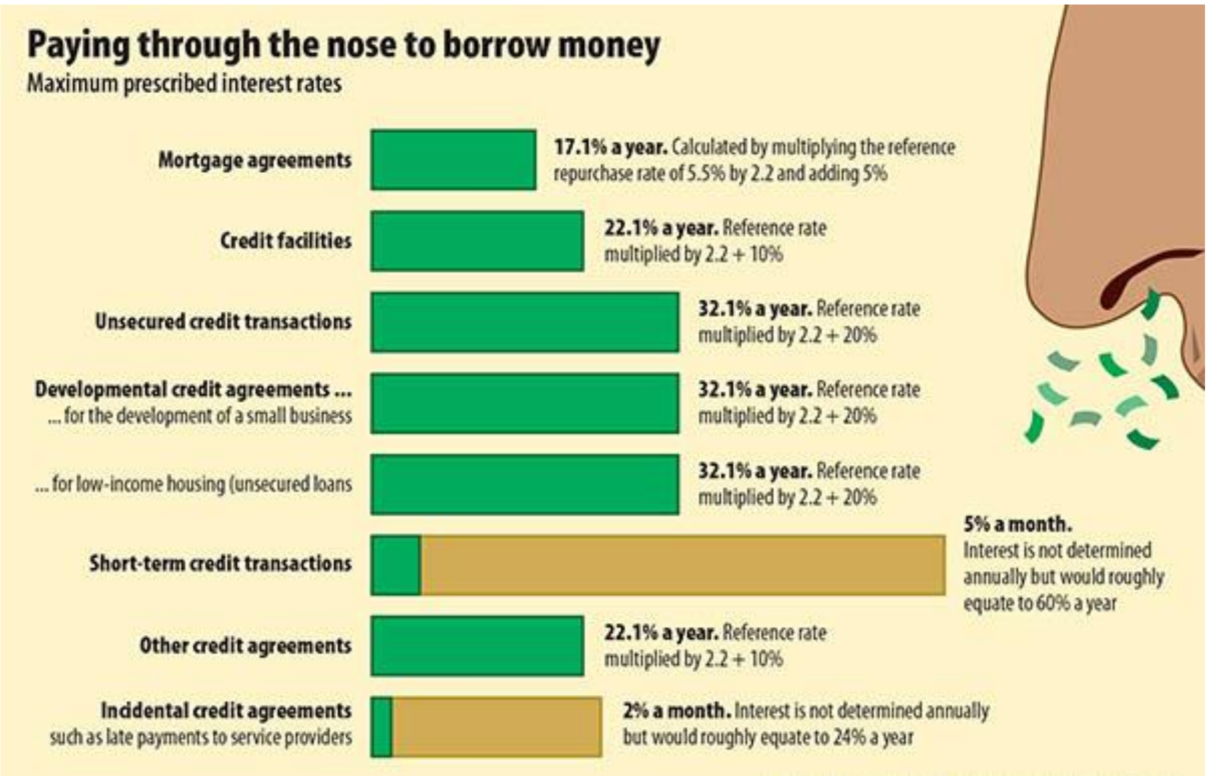
With regards to credit as a financial tool, concepts that were found in the literature were analysed from a South African perspective including the type's credit available as well as levels of uptakes, levels of indebtedness, product usage arrear status and the uptake of mortgages in the low income groups.

Across the lower income group there was a high uptake in unsecured credit, credit facilities and short-term credit. Developmental credit was one of the least used types of productive credit that was accessible to the lower income group. Strangely this credit had its highest uptake within the R0 to R1, 500 income bracket, possibly because it is being used for education or to fund very small businesses in this segment.

The key finding in the research is that there has been a higher uptake of consumption credit, which is related to credit facilities such as credit cards, retail apparel, furniture financing and short-term credit as well as unsecured credit. These types of credit usually amount to nothing substantial and leave the customer with less disposable income. There was a great decline in productive credit, such as mortgages granted, across the board. The category shed approximately R19 billion which shifted to the unsecured credit and credit facilities categories.

This shift occurred as a result of the banks backing out of major productive credit categories during the economic crisis. By expanding its consumptive category base the banking industry stood to make a larger profit as seen in Figure15. While mortgages would only bring in up to 17.1% returns per year per agreement, the unsecured loans and credit facilities would cost the customer up to 32% and 22% per year per agreement.

Figure 14. Cost of credit as set out by policy makers



Source: (Bonochris, 2014)

There is therefore more consumptive credit being granted to the low income earners. This being the case, there stands to be poor creation of other income streams in the lower income groups because only consumption credit is being granted. This can be seen as the crippling of lower income groups by the banking industry.

Rutledge (2010) and Latifee (2003) shared the belief that the growth in the credit market has provided consumers with access to resources to invest in either themselves or business through credit. Latifee (2003) added that there were an estimated 26.8 million very poor individuals who, through credit, were able to create self-employment and were removed from the clutches of poverty. This was anything but the case in the South African context.

Firstly, there were only 590,954 people in the self-employed cohort of the lower income group who had borrowed money in the prior 12 months. This was a strange result thus a further look was taken to see what financial services were mostly used in terms of credit by the self-employed group.

In 2014, of those who indicated they were self-employed in the lower income segment, the key credit product holding was credit cards. The least used products were micro-loans, personal loans and vehicle finance. The most interesting finding was that this cohort mostly used a savings product, growing from 1,281,898 to 2,399,529 products between 2005 and 2014.

To understand this result, further investigation was conducted online to see what the reason was behind the poor uptake of credit among self-employed individuals.

Cameroon (2007) shed some light on the issue when she detailed her secret shopper experience for a loan from the Big Four banks. It was brought to her attention by the various sales consultants from each bank that self-employed individuals are deemed to be highest risk profile, even if they are the owner of a big business. In fact they are seen to be far worse credit risk than a domestic worker who works for them. Another interesting outcome from Cameroon's experience was when Standard Bank's NCA expert, Hannalie Crous, explained that the most vulnerable people are low income earners as they are charged higher rates because the factors that are used to determine a high risk profile means that people in these brackets tend to be seen as high risk.

Models that work on determinant factors and give individuals loans at high rates drive people into high levels of indebtedness. The research found that there was a 24% increase in the total number of people who had debt in the lower income segment on a year-on-year basis from 2012. This also led to an increase of 20.2% of the number of people who had an instalment-to-income ratio. The R1, 500 to R3, 499 cohorts had the highest number of indebted individuals in total. Approximately 3.5 million individuals had an instalment-to-income ratio of more than 50%. This confirms what the literature states, i.e. that the increase in access to credit for poor people does not improve their livelihoods - it simply leaves them with less incremental income after receiving micro-loans when compared to a control group that did not receive the loans (Remund, 2010).

When compared to the literature the low income groups also display a similar pattern, as identified by Bridges et al., (2012) of utilising more than one type of credit. The R1, 500 to R3, 499 group had the highest number of credit products within the low income segment. They were also most likely to be in arrears for their retail apparel accounts, student loans, retail furniture accounts, micro-loans and personal loans, and 28% of them were also in arrears on their mortgages.

The group that were in arrears on vehicle finance the most was the R5, 000 to R7,499 segment, with 71% having missed payments in the last three months. Over one-third (34%) of the same income bracket also missed payments on their mortgages. This confirms Bridges et al.'s (2012) findings in some respect, but does not support their claims that low income individuals without mortgages are likely to be in arrears when compared to homeowners who have collateral. The research findings instead show a case of the lowest income group being least likely to have mortgages and showing very low percentages on product arrear status. More individuals in the middle income segments were in arrears on their product holdings, and the highest number of mortgages in arrears came from the upper end of the lower income group.

5.6. Conclusion

Through the analysis of the results in the context of the literature review this chapter has discussed the effects of financial inclusion, financial literacy and financial capability, as well as credit as a financial inclusion tool.

The efforts of the Financial Services Charter can be seen in the reduction of the unbanked population, which can also be seen in the decline of the number of unbanked lower income adults. This confirms Demirguc-Kunt et al.'s (2008) belief that through government policies and prudential regulation, the private sector can be incentivised to provide the public with financial services that can increase financial inclusion.

When it comes to financial literacy it was found that the lower income group is capable of understanding but they fail to execute, and there is a gap between the type of product the consumer needs and the products available at present. As a result, although an individual may be financially included in terms of having a bank account, they are not able to maximise the opportunities that present themselves. It was also found that the demise of the South African primary and secondary school education leaves people incapable of sufficiently managing their finances and as they do not possesses sufficient skills and knowledge regarding financial matters to confidently take effective action that best fulfils their personal, family and global community goals (NFEC, 2015)

As far as credit is concerned, it was found that in South Africa it does not lead to the creation of wealth, but rather decreases an individual's income and leads to high levels of indebtedness. Self-employed individuals are also deemed to be high risk and as a result they are generally not given loans by banks, which means that the notion that credit can lead to self-employment and better opportunities is not true in the South African context. Especially in the instance where banks are prone to decline loan applications from these individuals.

CHAPTER 6. CONCLUSION AND RECOMMENDATIONS

6.1. Introduction

This chapter will give a brief overview of the report and the conclusions that were reached after analysing the results and discussing them in the context of the literature review. Thereafter recommendations will be provided to the various stakeholders that were initially identified as key stakeholders. Finally, suggestions for future studies that might help key stakeholders will be put forward.

6.2. Conclusions of the report

The purpose of this research was to evaluate the effects of expanding access to credit for lower income groups in South Africa. It sought to provide insight into whether credit as financial development tool can achieve financial inclusion.

It became apparent that the South African context for lower income earners is unique in a number of ways. Firstly there is a high uptake of consumptive credit in the lower income group but productive types of credit such as mortgages, developmental credit and vehicle finance are generally on the decline in the segment. This may be as a result of the low income group being considered to be high risk clients, thus they are charged exorbitant rates for their micro-loans and personal loans, which generally lead to high levels of indebtedness. Low income earners are not being removed from poverty as suggested by Latifee (2003) - instead they are being drawn further into it as their incomes shrink and their instalment-to-income ratios increase.

This may be a result of the fact that there is poor financial capability; despite their being basic financial literacy the lower income group is still not able to act in their own best interests. There is poor use of the savings and investments products provided by the financial sector - rather there is a high usage of informal savings clubs and the keeping of money at home. This could possibly mean that either the lower income group does not trust the banks with their money, or that they feel that the banks' savings products are not suitable for them.

In conclusion, the types of credit that are being granted to the lower income groups are not conducive to the creation of wealth, and therefore credit as a financial developmental tool is not a suitable strategy for the South African lower income groups that are not financially capable.

6.3. Recommendations

In light of this conclusion, the following recommendations have been made for the key stakeholders that were initially identified at the outset of the report.

It is recommended that policy makers revisit the points-based system in the Financial Sector Charter Code, taking into account the types of credit available to low income earners. There should be greater incentives for the Banking Association South Africa members that create more productive types of credit and reduce the number of consumptive credit agreements in the lower income group.

Financial institutions need to revisit the cost structure for consumptive credit for low income earners, as this is leading them into high levels of indebtedness and could push them deeper into poverty. The Financial Sector Charter Code should also address this issue.

The self-employed cohort should be granted loans as they will help to reduce poverty if they invest money into their businesses and quite possibly create employment.

There should be a maximum number of credit products that an individual should be allowed to take based on their current basket. People with mortgages, for instance, might only be allowed to take on three other types of credit, and each client should have at least one type of productive credit. This is only possible if the banking industry relooks the credit products available at present.

6.4. Suggestions for further research

Further studies that could be looked at to provide further assistance to policy-makers, the banking industry and credit market consumers include, but are not limited to, the following:

- A report across emerging markets to analyse the types of consumptive and productive types available to lower income groups in Kenya, Nigeria and Ethiopia.
- The role policy makers and governments play in ensuring the right credit products are created for the consumer credit market.
- An analysis of the models that determine credit worthiness and how they influence the cost of debt.
- Working with financial institutions to lower over-indebtedness through collateral registries, credit bureaus and better risk management, especially in relation to non-performing loans.
- An investigation of the conceptual and operational facets of financial literacy in South Africa and the effect on financial capability.

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APPENDIX A: NCR Educational Campaign Leaflet

Source: NCR (2014).

APPENDIX B. Condensed consolidated statement of comprehensive income

Condensed Consolidated Statement of Comprehensive Income			
R million	% change	Audited 2013	Restated 2012
(Loss)/profit for the year	(>100)	-4199	3 090
Other comprehensive income comprising it ems t hat are or maybe reclassified subsequent ly to profit or loss:			
Exchange differences on translating foreign operations	(>100)	9	-4
Movement in cash flow hedge reserve	(>100)	609	-200
IFRS 2 re se rve transactio ns (e mployee incentives)	(>100)	3	-7
Tot al ot her comprehensive income/(loss) f or t he year, net of t ax	(>100)	621	-211
Total comprehensive (loss)/income for t he year	(>100)	-3578	2 879

Source: (ABIL, 2013)

APPENDIX C. The scorecard for access to financial services as it relates to members of the Banking Association of South Africa

	Access method	Qualifying market/ area	14%	Qualifying criteria	Range	Target
1	Geographic Access (Kirsten, 2006)		5	One or more of:		
1.1	Transaction point	50% or more of households fall within LSM 1-5	1	draw cash or 85% purchase from their accounts	5km	1
1.2	Service point		1	reset a PIN money transfers, get a statement, or initiate account queries	10 km	70%

1.3	Sales point		2	replace a card, deposit cash into their accounts, or acquire: a transaction account, a funeral policy, a savings account, or a loan.	15 km	60%
1.4	Electronic access	Individuals earning less than R5,000 per month increasing by CPIX p.a.	1	TBC		
2	Banking densification	Individuals in the LSM 1-5 group nationally	2	Access to cash withdrawal facility per measuring unit	TBC	1, 500
3	Product related access	Individuals in the LSM 1-5 group nationally	3	Number of active accounts for qualifying products per institution	National	TBC
4	Affordable housing origination	Qualifying measures as per metrics agreed	2	Mortgage and development loans to qualifying households	National	TBC
5	Consumer education	Qualifying individuals in the LSM 1-8	2	Consumer, primary and basic education	National	2012=0,25% 2013=0,3% 2014=0.4%

Source: (FSCC, 2012)

APPENDIX D. CONSISTENCY MATRIX

Financial inclusion and the effects of credit expansion on lower income groups in South Africa					
Sub-problem	**Literature Review**	**Hypotheses or Propositions or Research questions**	**Source of data**	**Type of data**	**Analysis**
The first sub-problem is to define financial inclusivity as a financial developmental strategy and the limitations or opportunities for lower income groups in South Africa.	(Beck & Honohan, 2008; Chakrabarty, 2013; Demirguc-Kunt et al., 2008; Rutledge, 2010a)	Financial inclusion as a financial development strategy improves the lives of lower income groups in South Africa.	What effect does financial inclusion have on lower income groups? What are the limitations to financial inclusion for lower income groups? What are the opportunities that are derived from financial inclusion for lower income groups?	Nominal data to be analysed	Descriptive statistics
The second sub-problem entails the discussion of expansion of the credit sector in South Africa as a financial inclusion tool for lower income groups.	(Chowdhury, 2009b; Karlan & Zinman, 2009; Latifee, 2003; Theobald, 2013)	Credit is one of the key tools for financial inclusion for lower income groups in South Africa.	What types of credit are mainly used by lower income groups? What are the key behavioural traits of financial management in lower income groups? What percentage of lower income groups are empowered? What percentage of lower income groups are indebted?	Nominal, ordinal data	Descriptive statistics