Literature review:
South Africa is a buy now, pay later society: How do we change this to a save now, pay later culture?

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Contents:

Introduction

What and how do you convey a message of financial literacy to an 8-12 year old? What topics do I address?
In order to do this literature review I felt I needed to do this not from an adult perspective alone, but from the perspective of an 8-12 year old and what the literature says to them.

Robert Kiyosaki's book Rich dad Poor dad is a testament not to its brilliance and simple insights but to the fact that it is the dad (although it could be the mom) who provides these insights. I think Kiyosaki's book is the key to this literature review. (Robert T Kiyosaki, Rich dad Poor dad: What the Rich teach their kids about money-that the poor and middle class do not!, Wayfarer Books, 2000)

The closest people to the child who need to provide the message of financial literacy are the parents, and the people around them. These people show children informally what and how to do things around financial literacy.

What if the parents have no clue what we are talking about?
This literature review will show that parents in South Africa are more in debt and use more credit than they save. In this way poverty and inequality in society makes a huge difference to the levels of financial literacy and high unemployment make it worse.

This literature review will thus ask difficult questions such as, whose job is it to educate the parents, so they can educate the children? There are whole generations of people who are not literate in the ways of money and the management of it, and this does not seem to be changing.

The effects on young people's financial literacy are thus characterized by the same behaviour patterns as parents and society as a whole. These are high credit and high consumer behaviour with very little savings, and in turn high social risk behaviour.

This literature review will highlight community based programmes and models which show how poor communities save and work as a group to better manage money and change their lives.

My Personal Story: My lessons as a child from my dad"

My dad taught me important principles about money which most other theorists and practitioners on financial literacy do as well.
They are:

Don't spend if you don't have to
Save regularly 10% of your earnings
Never buy something on credit, unless it is a house
Always pay cash for goods
Buy assets not liabilities (An asset is somethiing which gives you money. A car is not an asset but a liability. However owning your own business or your own home is an asset as you make money).

He taught me this without ever telling me these things. He taught me by his practice.
I am amazed by the few people who know let alone understand these basic principles of financial literacy.

Robert Kiyosaki believes that this is why the rich stay rich and the poor stay poor. Even my peers who make more money than me do not understand these principles and although they drive a better car, they do not have the assets, which I have been investing in the last 15 years, and I am very conservative with money.

My family never pass money on to the second generation. They always pass money on to the first generation, and it is the first generations responsibility to teach and invest in the money and the financial literacy of the next generation wisely. This is a simple principle, but is often misunderstood. My grandmother will only pass on her inheritance to my father, and not her grandchildren. My family believe that grandchildren are not mature enough to deal with very large amounts of money, and that this maturity will only come later. In this way there is an understanding about inheritance and the younger generation accept this.

Financial Literacy is a personal issue just as much as it is a national concern. The central issue for me is " What is enough?" and what does this mean for each and every individual in South Africa.

The Scope of the topic: Financial Literacy

Financial Literacy is a very broad topic and touches on many elements in the financial world but also on very human issues such as consumerism and credit. For this literature review I have divided the issues between financial aspects, and human behaviour and finance.

Financial aspects:

1. Credit

What is Credit?

Credit is nothing but the expectation of money, within some limited time. --Locke.

Influence derived from the good opinion, confidence, or favor of others; interest.(Clarendon).

Often credit is more than the giving of money alone, it is the faith that you will pay the money back. This faith is a <u>very personal issue</u>.

Credit is also the trust given or received; expectation of future payment for property transferred, or of fulfillment or promises given; mercantile reputation entitling one to be trusted; -- applied to individuals, corporations, communities, or nations; as, to buy goods on credit.

Reliance on the truth of something said or done; belief; faith; trust; confidence.

Reputation derived from the confidence of others; esteem; honor; good name; estimation.

Ready money; especially, coin or specie; but also applied to bank notes, drafts, bonds, or any paper easily convertible into money. (Webster's Revised Unabridged Dictionary, 1913)

2. Loans

What is a loan?

The act of lending; a lending; permission to use; as, the loan of a book, money, services. That which one lends or borrows, esp. a sum of money lent at interest; as, he repaid the loan. (Webster's Revised Unabridged Dictionary, 1913)

3. Debt

What is debt?

That which is due from one person to another, whether money, goods, or services; that which one person is bound to pay to another, or to perform for his benefit; thing owed; obligation; liability (Webster's Revised Unabridged Dictionary, 1913)

Types of debt

- Credit card - When utilizing these cards to purchase goods or services, the user is taking out a loan that comes due when the bill arrives each month. If the balance is not paid, interest is charged. The cost of such convenience varies, which is why consumers need to educate themselves about the card's annual percentage rate, annual fees and grace period.

- Mortgage - This legal document sets a lien upon a property until the loan is repaid. With an adjustable-rate mortgage (ARM), the interest rate can climb according to changes in a particular index once the initial low-interest period is over after a few years. With a fixed-rate mortgage, the interest rate remains the same throughout the loan period. Generally a home equity loan, a second mortgage is paid only after the first one is paid in case of a default.

- Auto loan - A loan to purchase a vehicle, generally it is repaid in segments, usually on a monthly basis.

- Student loan - These loans finance a student's higher education and come through the federal government, private institutions, the university itself or other funds. Some are based on need and some are not. Private loans from financial institutions usually are secured by assets, but the federally subsidized loans are not.

- Consolidated loan - This is a loan that combines two or more other loans, so that the consumer faces only one bill carrying the same interest rate each month.

- Retail card - These cards are issued by retailers such as department stores and often offer certain benefits such as discounts and private sales. While these cards are usually free of annual fees, they can carry relatively high finance charges if the consumer doesn't pay off his or her balance after each bill.

- Payday loans - These are short-term loans (typically two weeks or less) provided by payday loan services, which charge a relatively high amount of interest. Generally, to be approved, borrowers have to show a driver's license or other valid identification, their latest checking account statement, a recent pay stub and a list of references. Borrowers write out a check to the service when they receive the loan. That check is not cashed until after payday.

The South African Situation:

The proportion of household debt to disposable income is 60%.

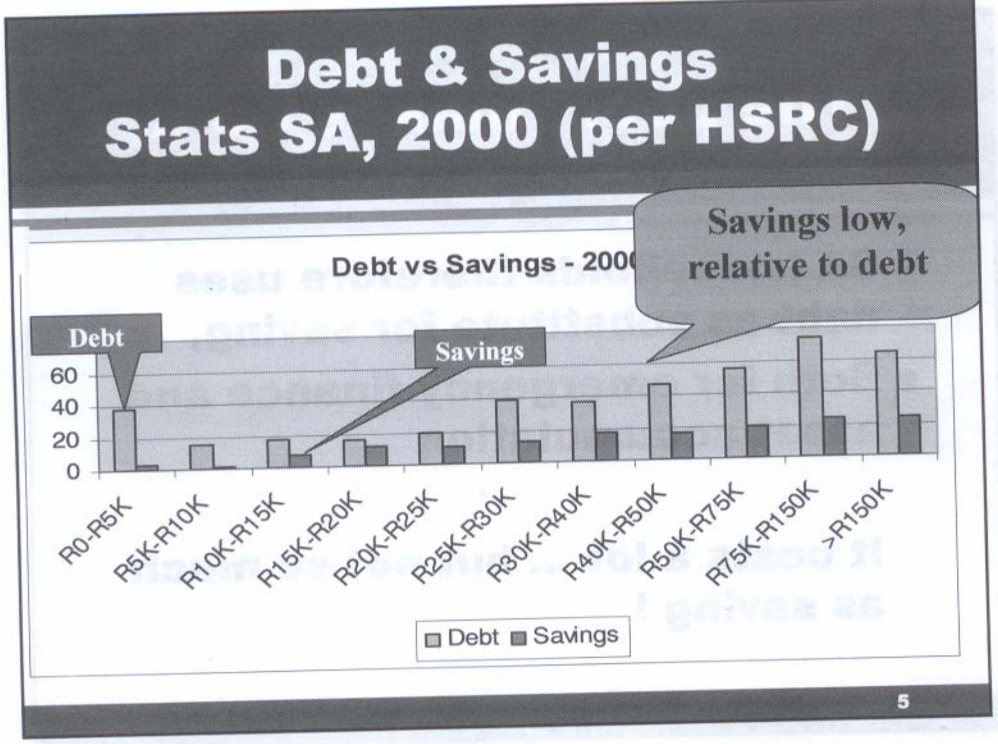
South Africa is a buy now, pay later society

Credit is far more accessible in South Africa than other countries like China, especially through mass amounts of microfinance (often unregulated) institutions and retail outlets. The places where one should get reliable credit such as banks are often inaccessible to the majority of citizens.

SA Households use debt as a substitute for savings

In South Africa people borrow first, then use savings, and lastly sell assets. In most other countries this cycle plays itself out in the opposite way. People first sell assets, then use savings then borrow.
(Di Turpin, SASI, 2003. Institute of Unit Trusts)

(See the graph below)



4. Savings

Definition: [n] a fund of money put by as a reserve; S**ynonyms:** nest egg **See** (www.hyperdictionary.com)

Savings as a percentage of GDP

Year	Gross Savings	Household Savings
2002	16.1	3.1
2000	15.2	3.7
1990	19.1	5.6

The proportion of household debt to disposable income is 60%

In the last 10 years gross savings has decreased from 19.1 to 16.1 (Savings as a percentage of GDP: See graph above) quite a decrease, and household savings has dropped from 5.6 to 3.1.

Saving in a country is the amount of resources or income produced in the economy in a given year that is not immediately consumed but is put to use in a way that will provide returns to the economy in years to come. (Noelani King-Conradie, ABSA bank economist, 2003)

In order to stimulate economic growth , the required level of domestic savings needs to be 25%, but is only 16%. This means that the country focuses more on investment inflows than domestic savings. The current thinking of the government is that direct foreign investment is the solution to developing the economy and creating jobs. However the foreign investment is sluggish and has not taken place at the levels needed to make this shift. (Noelani King- Conradie, ABSA bank economist, 2003)

The savings instruments out there are not conducive to the poor who need access to income especially for emergency needs. Poor households, by contrast save as part of livelihood strategies that require regular withdrawals from savings to smooth income flows. (Ted Baumann, Consultant, 2003)

As we can see from the savings istruments below they are not really conducive to the broad majority of people in South Africa and cater mainly for the rich. When we get to the section on community actions we will see the reaction from the poor and how they mobilise savings in their own way.

Current Savings Instruments:

1. Savings Accounts

Definition: Accounts at a bank, savings and loan, or credit union.

Risk: Low risk

Return: The interest rate on most savings accounts tends to be relatively low.

Liquidity: High liquidity--you can withdraw your money at anytime.

Time Frame: Good for shorter time periods--3 years or less.

2. Certificates of Deposit (CDs)

Definition: CDs are notes issued by banks that guarantee payment of a fixed interest rate until a future date (the maturity date).

Risk: Low risk

Return: Interest rates are generally higher than the rates for savings accounts but lower than the rates for longer term or riskier investments.

Liquidity: Relatively low--if you withdraw the money before the maturity date, you pay a financial penalty.

Time Frame: Good for medium time frames--anywhere from 6 months to 5 years.

3. Money Market Accounts/Money Market Mutual Funds

Definition: Money market accounts are savings accounts offered by banks, requiring a high minimum balance. Money market mutual funds are available from brokers, many banks, and directly by mail. The money that you deposit in these funds is invested in a wide variety of savings instruments.

Risk: Bank money market accounts have no risk on the first R100,000 because the government insures up to this amount. Money market mutual funds are not guaranteed by the government, but the bank or brokers usually invest the funds in very safe short-term instruments that have the highest credit ratings.

Return: The interest rate for bank money market accounts is generally somewhat higher than for regular savings accounts. Rates on money market mutual funds are often somewhat higher than for bank money market accounts.

Liquidity: High liquidity--you may withdraw your funds at any time. However, money market mutual funds do not have to send you a check for up to 3 days.

Time Frame: Money market instruments are best for short-term savings goals. However, because of their great safety and liquidity, many people keep a portion of their total college savings in these types of accounts.

4. Mutual Funds (Unit Trusts)

Definition: These funds can be invested in SA Government securities or in stocks and bonds. You can purchase a mutual fund through an investment firm, brokerage house, many banks or directly by mail.

Risk: Risk varies widely depending on the objectives and policies of the fund. Funds are not federally insured, but your money is generally safer in a mutual fund than in a few individual common stocks because a mutual fund invests in many different stocks and bonds and thus spreads the risk over many different investments.

Return: The return on a mutual fund depends on whether the fund makes good investments.

Liquidity: Very liquid--you can sell the fund at any time. However, the amount of money you can get for the fund depends on its value, and the value changes regularly depending on conditions in the stock and bond markets.

Time Frame: Good for longer term investing--5 years or more.

5. Individual Corporate Bonds or Stocks

Definition: A bond is a promise by a corporation to repay the face value of the bond, plus a fixed rate of interest, at a specific future date. Stock represents part ownership of a company. You make money on stocks either through the dividends you earn or by selling the stock at a price that is higher than the price for which you bought it. The prices of most stocks--and many bonds--are listed in major daily newspapers. Over longer periods, the price of the stock may increase or decrease. Stocks and bonds can be purchased from brokerage houses and through some banks.

Risk: The stocks and bonds of good companies can be quite safe over longer time periods. However, these investments are not guaranteed by the Federal Government or anyone else. Furthermore, there are many companies that are very risky for a person to invest in. An additional risk--even for good companies--is that prices of their stocks will fluctuate widely and that an investor will have to sell at a loss. This is risky for a parent who may need to sell the stock to pay for college tuition at a time when the price of the stock is relatively low.

Return: Interest rates on bonds vary depending on the type of bond and its rating. Generally, returns are higher than on savings accounts, CDs and U.S. Savings Bonds. The return on individual stocks can be very high depending on the dividends the company pays and the increase in the price of the stock. However, returns can also be low or negative if the price of the stock falls between the time you bought the stock and the time you sell it.

Liquidity: Most types of corporate and all types of government bonds are highly liquid. They can be sold through a broker on any weekday that markets are open. However, some bonds can only be sold when buyers make offers. Most individual stocks can be sold almost any day; however, there an some exceptions. With both stocks and bonds, you may have to wait for up to 3 days from the date of sale for the broker to send you the proceeds.

Time Frame: Short-term bonds are good for time periods of 1-3 years. All other bonds and common stocks should be considered as longer term investments good for periods of 5-18 years.

Human Behaviour and finance:

The Public need to change:

In the light of terrible savings and high use of credit in South Africa, it seems that the main issue is that the public need to change their behaviour. The knowledge may be there but this does not necessarily mean people will change.

Government can instill new policies and savings instruments but people need to change their behaviour. (Dr Chris Stals, SARS, 2000)

The question is, “How do we change people’s behaviour?”. It seems that a social marketing approach may be effective but this will take another five years.

There need to be campaigns as well as better legislation. The carrot and the stick approach. (Hixonia Nyasulu, SASI, 2003)

The issue seems to be to combine Education and actual Investment.

However there is a debate and evidence to show that grassroots movements are more effective than social marketing campaigns.

One thing is known. Young girls and women have to be the target of all grassroots savings systems and behaviour change. Where this leaves men is uncertain. The main reason for this is that women often take on the burden of the household. I mention the word burden because financially women are often required to manage the household income. This is sometimes seen as a roots cause of domestic violence as women are left in a vulnerable situation when there are few resources and the man expects bills to be paid. There will be a short section on gender later in the literature review.

The value of money to the individual.

There is a growing school of thought that the way we value money reflects on our inner health as human beings. The New Road map Foundation by Joe Dominguez and Vicki Robin have written a book called “Your Money or your life”. (Dominguez and Robin, Your Money or Your Life: Transforming Your Relationship With Money and Achieving Financial Independence by Joe Dominguez, Vicki Robin , Penguin, 1999)

This is a particularly good book as they believe people need to reorder material priorities and live well for less. This is easier said than done for people who are poor, who may have come out of poverty. However the lesson is important. This lesson may be even harder for young people who like to buy new things and have little natural feel about what exactly is enough.

A good example of the change in the value of money came when in Argentina (2002) the whole level of national debt and alignment to the dollar brought the economy to its knees. The individual could not even access their domestic savings. This showed how important domestic savings actually is.

One could ask, how good is domestic savings if the ordinary Argentines could not access their own savings? However it is so important a source of the countries well being that all the Argentine government had left was domestic savings. This shows how important a high rate of domestic savings is to an individual and a country. The domestic savings literally “saved” the economy in the short run.

However there also arose the bartering markets, where people literally bartered goods and services as though they are money. A doctor gave a consultation for a chicken, a mechanic fixed a car for a massage. The value of money changed

However they mention that the concept of saving money and the discipline needed to do so also translates into saving the planet and saving lives.

Who supports financial education?

Above all financial literacy is about the relationships that young people have with other people and the institutions around them. It is about these relationships and the way they either nurture financial savvy or keep one in the dark. Financial literacy is also about how young people perceive the world around them and how they respect the earth. However if we are talking about parents and institutions such as banks then there is a huge amount of educating which still needs to be done, and some financial institutions and banks are attempting to create more financial literacy.
However the role of consumerism and profit still hamper the individuals capacity to save and manage their cash. (See the section on consumerism)

Key areas of concern

I have asked questions as areas of concern as some of these questions are later answered in the literature review. They are quite broad as is the topic and some of them have no answers at all, which should lead to lively discussion.

1. Why are parents and relatives not teaching their children basic lessons of financial literacy? (this also relates to communities)
2. What are these groups teaching their children?
3. Why and what are banks and financial institutions not teaching children these lessons, and designing products which will help people and make them comfortable with money?
4. How much are children affected by consumerism, and how does this affect financial literacy?
5. Why do South African's not know what is enough money and material goods to keep them happy and fulfilled, and what is excess or clutter? This is not to say that other nations also need to answer this question as it is a global issue (see the section on globalisation), but due to high expectations post-apartheid and high rates of consumerism and debt it seems this is an important question!
6. Why has the government no national savings program?
7. Why have the banks no national financial products. The banks generally compete with one another. However they would all benefit by having a common product because there are so many un-banked individuals in South Africa.?
8. Why is there no national youth savings scheme?
9. What effect does poverty and unemployment have on financial literacy?
10. What long term effect do living in debt and in credit have on people's health and future outlook on life?

Nature of the problems

What are the problems which this literature review has identified in case of the topic. They are the low savings rate compared to the high use of credit.
Also the nature of banks have changed and have never been accessible to poor and black people.
Debt leads to high risk behaviour and uncertainty which also leads to high levels of consumerism.
If you look at the statistics which are presented with such high levels of poverty and unemployment, financial literacy does not seem to be as important to (young) people as consuming and living for the moment.

To make a comparison with China and South Africa, they have a gross national savings rate of 37%. They have accessibility to savings institutions, there is improvements in land rights, many government savings initiatives and a lack of formal consumer credit mechanisms.(Di Turpin, 2003). South Africa on the other hand have very high access to credit, no government savings initatives (aimed at the domestic saver), and poor accessibility to savings institutions.

In the nineteenth and twentieth century banking system, the bank was a part of the community. Bank managers knew people first hand. When an individual needed a loan, they asked. If the Bank manager knew the person well he would grant a loan. This does not happen anymore.

Today banks are difficult places for many people to be, especially the poor and ones who have few resources.

This means there are a massive amount of people who are called the un-banked. The banks see them today as the biggest target market because their numbers are so large. In the section on the proposed national bank account (NBA) later, the banking sector are making some proposals on how to reverse this trend.

If the un-banked do not have access to banking facilities and specifically credit then they use credit where they can. This usually means Micro finance Institutions (MFI's) and other forms of credit such as retail credit are used. MFI's are characterised by very high interest rates, and the conditions for achieving a loan are much easier than a bank. Until recently this sector was not legitimised and many cases of exploitation have taken place.
This scenario translates into less savings and more debt.

How do the problems of a lack of financial literacy affect young people?

In this section I will outline the problems which young people face when they lack financial literacy. The worst problem is the issue of (under)unemployment and the dependency on a job for survival. If there are no jobs, then everything else seems to crumble.

1. Unemployment and the job market:

Zed Tshabalala in the recent “The youth development journal” wrote an article, “ Beyond statistics: The face of youth unemployment” (April 2000)
Most of the young people he speaks to believe they will get a job and not resort to crime. However the reality is he believes, a very difficult and different one for a young person to get a formal job. This is borne by the current statistics just released in South Africa that we have a 42% unemployment rate and are releasing 500 000 matriculants into the job market every year.

Zed believes this inevitably leads to **some** youth who resort to commit crime. “It is the youth who commit crime” he remarks, and judging by the statistics , it is so!” (April 2000)

This is not only a South African problem. Nearly one third (32%) of Maori Youth are unemployed (ages 15-19). This was three times the non-Maori Rate, and the levels of crime are also unusually high.

In Jamaica and other parts of the Caribbean the rate of youth unemployment fluctuates between 35% - 82%. These lead to social problems such as high crime rates. Youth between the ages of 16-25 accounted for 52% of crimes in 2000. (Internet, www.globalalliance.co.za)

The linkage between unemployment and crime is a contentious one but the statistics are in favor of this theory. For example in Khayelitsha, a suburb of Cape Town the crime statistics are rated the highest in the country. The unemployment rate is around 75%. The majority of unemployed people however do not commit crime.

Dependency is created because of a lack of financial literacy

A lack of financial literacy creates many financial dependencies. Dominguez and Rubin show that there is a lifetime of dependency which is created. The first is on **parents**. In South Africa this is happening more and more, not just from youth but from teenagers and even adults, as unemployment has now grown in some areas to 56% (Limpopo province).
Dependency is also created on the **economy** to get a job. Young people believe that they need to get a job rather than create one. This leaves little room for entrepreneurship amongst the youth. However in a recent competition by the Umsombomvu Fund (2002), they received 20 000 new idea applications from young people. There is no lack of innovation, but the financial acumen is not there, and the government is blamed for not creating jobs. As people do not take responsibility for their own savings they also take little responsibility for creating work.
There is also a dependency on **pension** for old age. People need to understand that a savings plan needs to be a life plan, and this starts when you are young. It

is also more varied than just pension and has to include other investment strategies.
All these issues of dependency lead to a type of “enslavement” in which people become trapped…unless they are financially literate and understand how to make the system work for them.
Added to this vicious cycle are issues such as spending more than you earn, not liking the job you are in, but there is no way out, needing two jobs, and leaving your money to experts who feed on your ignorance. People need to learn in order to do the work they want and to create their own destiny in the job market. There are plenty of opportunities which are not being exploited.

2. Health and social implications:

The effect of keeping up loan repayments is found to be more stressful than even sickness or death (see graph above). (V Pearson, Finmark Trust, 2003). This is a study done in Uganda through the savings and credit facilities of certain small scale banks.

What Dominguez and Rubin also mention is that by focusing on money/position/success at the expense of personal fulfillment and meaning in the US, led to a 60% increase in depression, anxiety and stress. (Douglas la Bier in Dominguez and Rubin).

This is proven by the figures which show that there is a strong correlation between the level of education and standard of living: Poverty amongst people with no education is 69%, compared with 54% among people with primary education, 24% with secondary education, and 3% for tertiary education.

Uncertainty in the future:

The debt which is seen in South Africa, lead to all types of social problems such as crime and lower standards of living, but for youth the real problem is an uncertain future. This uncertain future is reflected not only in South Africa but recent world events. People like Clem Sunter feel that economically the world is in an uncertain place and the ordinary citizen has no certainty and control over events such as the money market. More so if you are young, poor and in South Africa.
This uncertainty is further exacerbated by events such as September 11 and the Wars in Iraq and Afganistan. Corruption in corporate and government circles and recently issues of race (Racism in rugby), which we see in abundance in the world today also contribute to uncertainty.

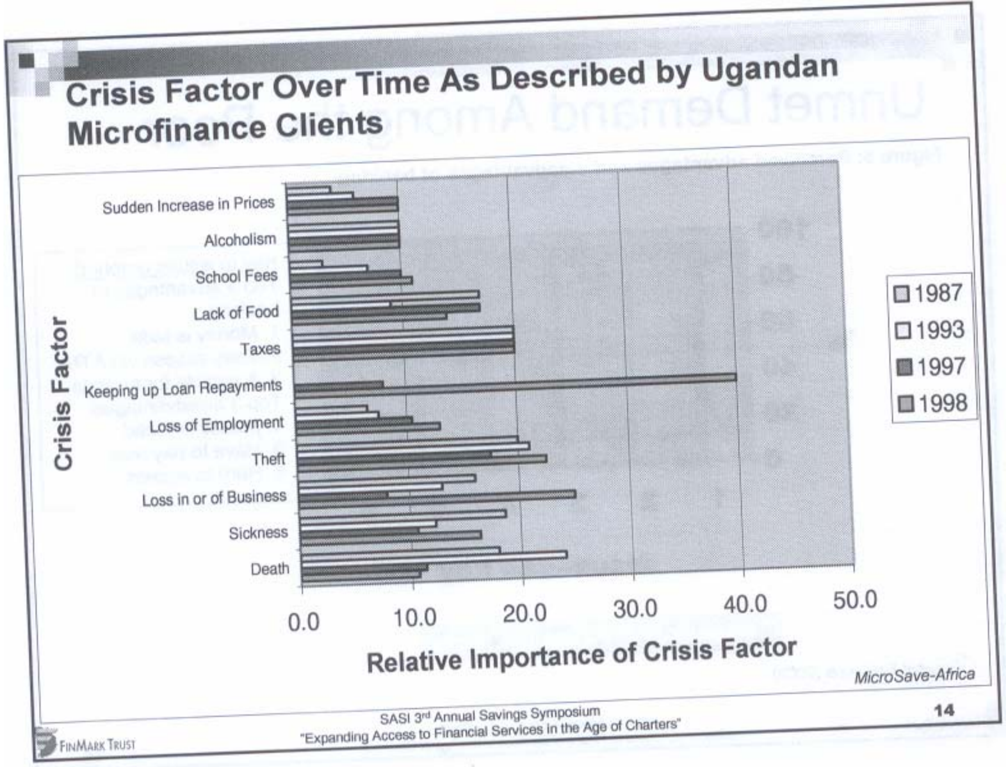
This uncertainty contributes to feelings of “ What do I have to save for?” My assumption is that uncertainty in ones future could be lead to riskier behaviour.

Some of the riskier behaviour can also be seen in social problems such as single parenting very high levels of HIV and AIDS. amongst youth.

Uncertain future	**Certain Future**
Think like an individual	Think with the group
Consume	Consume less
Low value of money	High respect for money
Negative social behaviour	Positive social behaviour
High risk	Low risk

Consumerism:

However when it comes to financial literacy consumerism rears its ugly head. Dominguez and Rubin have shown that many people don’t live life they consume it. What this means is that people try and buy happiness. People believe they have the right to consume whether they need it or not. If there is no money then people who learn this kind of attitude use credit. On another level consuming what we don’t need leads to higher levels of production and more needless plundering of the earths resources and pollution.



Statistics (National/Regional) as compared to other countries

The indicators or statistics of wether a countries youth are financial literate or not do not exist. However the best indicators may be based on previous section. The negative effects of not being financially literate.

In this section I will convey statistics on the main issues which have been highlighted throughout this paper.

- Youth (both sexes) unemployment statistics worldwide (see table) (United Nations)
- World Bank says in the 15-24 age group 1.8 billion unemployed by 2010 and 1.5 billion in developing contries
- Youth to adult unemployment (see table) (United Nations)
- Savings and debt in South Africa (See table above)
- Child Poverty (UN Integrated Regional Information Networks, May 27, 2003)

Between 57% and 75% of children in SA are living in poverty. An estimated 10.5 million children.

When using an absolute poverty measure of R490 per month per household, 75% of 0-17 year olds live in poverty, an estimated 14.3 million children.

This means that 3 out of four children live in poverty

- Retail Credit and youth figures show that most retailers do not allow anyone under the age of 18 to open an account. This means that the youth are buying with cash or they are using the credit of their parents. If they are using cash then they are saving less. (see table below)

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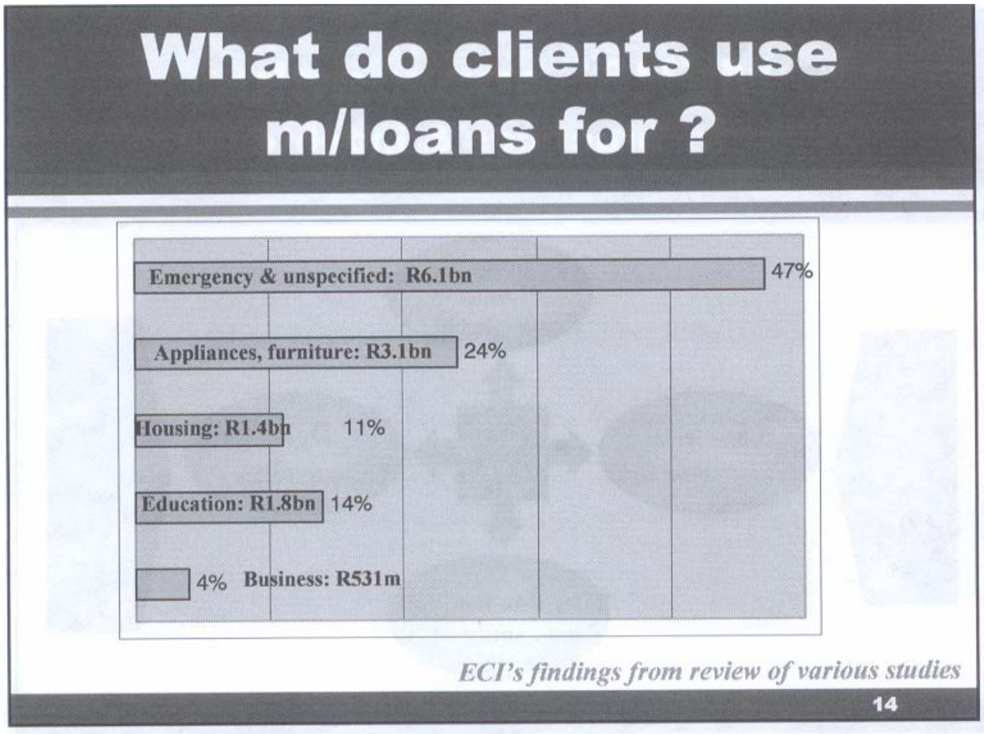

Best Practice (system) to build financial literacy amongst youth

This section is based on Western Based systems in comparison with Eastern Community based approaches which will be dealt with in the next section.

The West:

1. You and your Money Program (A Program in South Africa)

When the **you & your money** project begins working with a group of underprivileged people to help them get rid of their debt, they try to tap into their deep emotions about money. In the first session that a group has together, one activity we do helps them open up to each other. Participants are asked to choose cuttings from magazines with which to describe themselves, and then to share their explanations with the whole group*. Nomsa chose two pictures.*

The first, a picture of happy children, she said described how overjoyed she was to be hired by an NGO. After being unemployed for so long, she was sure she was finally going to be able to provide for her young daughter in the way that she *had always wanted. The second was of a woman holding her head in her hands, a picture of despair. This, Nomsa said, showed how she feels now. With her small monthly salary, the high cost of living, and the large amounts of debt she has already accumulated, she has realized she is still very, very poor. And she can't provide so well for her daughter after all.*

you & your money was able to serve Nomsa by helping her deal with her debt, and take financial control of her life. She realised that she didn't have to walk alone, unsupported, but that help was quite truly at hand.

What you and your money is doing about debt:
you & your money exists to reduce the escalation of personal debt that burdens so many of our disadvantaged citizens. Since they are a Non-Profit Organisation in 2001, they have been fighting this crisis on several different fronts. They work at a preventative level, by giving people financial lifeskills; and also help people already in crisis, by giving them debt advice and ongoing support. Through theirr different programmes, they work with individuals, groups, and communities.

In 2001 they opened a Debt Advice Centre, a safe space for people to phone or drop-in to for free debt advice. This Centre functions as the administrative and operational core of the project. And today they have opened the first of 5 Satellite Debt Advice Offices. These Offices are being strategically set in disadvantaged communities, so that people needing debt advice can more easily access our services.

2. The Banking sector is product driven

In South Africa Banks have been very conservative in their approach to youth and have few products directed at them. However in the USA they have some innovative examples and our banks are moving in the same direction.

Examples include: Kids-n-coins club

They have some unique components focused on individual young people:

- Interest is paid quarterly
- Each member receives a free Coin Bank, club ID card, and a stamp card
- Special Kids banking hours
- Kids learn to save and have fun, including parties
- Club newsletter
- A R1 is only required to open the account
- Available to children 0-12 years

3. Investment houses

Investment houses are starting in the USA to target children as parents tend to think that anything that helps teach kids values they will need later as adults is a positive thing. Adriane G Berg in Kid Friendly, investments double as teaching tools", believe that in order to teach financial literacy you have to balance or combine teaching financial literacy/Education and actual investment.
She found that a nationwide study of 12 year olds in 1997 by the Jump Start coalition for personal Finance Literacy revealed only 57% of questions were answered correctly. When asked what the best return on investments over the past 18 years was, only 15% said stocks.
I am pretty sure the youth in South Africa are just as ignorant about financial literacy.

She also found that if financial institutions are physically in neighborhoods then neighborhood programmes like innovative talks, skits, plays, concerts and carnivals with money themes work for the little ones. Older children need good service and superior deals.

Many Mutual Funds in the USA (almost 40 of them) are aimed directly at children.

A good checklist for young people from Dominguez and Rubin is:

- Don't shop
- Live within your means
- Take care of what you have
- Wear it out
- Do it yourself
- Anticipate your needs
- Get it for less
- Buy used

Combining the West and the East:

1. Credit unions

Use of credit unions have been around all over the world and will probably rate as the biggest grassroots banking sector in the world. There are 2583 credit unions with 2.31 million people worldwide, average savings @ $289 per individual with an average loan @ $1260 per individual. Mostly women who better the lives of the household. 40% of savers are women. They also have products for young members and savings clubs. They focus strongly on ages 12 and under.
One such example is called the Johnny Appleseed youth savings Club.
The account is free, lots of goodies, bi monthly savings incentives, contests, and newsletters are used to aid in financial literacy.

A savings and credit cooperative (SACCO) is a democratic, member driven, self help, not for profit financial cooperative, owned by members who have a common bond, They have boards and committees of members, and give loans at interest rates better than banks if you are seen to be credit worthy, and even for emergencies. They also have a share system as a show of ownership, collect monthly and have financial products of choice to the members. They see themselves as a business and an alternative to a bank.

It is interesting that in South Africa, SACCO's were formed as social organisations at first by the Church and not as businesses.
SACCO's started in Europe in the 1870's and then North America.

2. The parent

The parent is still the best teacher is born out my own experience and millions of others who have learnt the lessons from their parents in action and word. This does not necessarily depend on levels of poverty but the rich certainly do teach and continue the cycle while the poor do not pass any lessons on. The reasons seem to be related to their own levels of financial literacy which are low, but also to their actions (which are to save little and spend more).

3. The East and Africa

In Egypt it took a government domestic policy of structural reforms to promote higher savings. They also link savings to public works programmes. This is something which South Africa needs to consider urgently and I am aware of the Department of Water Affairs using this approach in The Working For Water program. This program clears alien vegetation in order to build the resources of water. Most of the people who clear the vegetation are women, and they have started as part of the program a grassroots savings scheme as part of the system.

Savings is one of the important link between the prevention of AIDS, job creation and other social problems for the Egyptians, and they believe it is vital to increase domestic savings rates, especially through public works programmes.

In Indonesia they have the National Youth employment Action Plan.

In West Africa (World Bank) they balance literacy training with components of savings, credit, and enterprise development (John Oxenham, 30.06.2002). They believe that you need to combine vocational training with literacy training. They also believe there has to be a national savings strategy.

Other examples include Development Banks, such as the Development Bank of Phillipines who target 6-14 year olds with savings plans.

Japan has a long tradition of common economic activity and self help since 1843. There was a move to centralise many areas of economic activity after world war one. The onset of world war two saw controlled cooperative organisations and laws especially in agricultural banks. These banks have became national institutions and politically active but most importantly these banks have been the places where strong domestic savings take place. Today Japan has one of the highest savings rate worldwide.

Best practices in this section include individual savings actions but when savings is driven by an institution (s) like government or a business then savings can be seen to increase dramatically.

Community actions

Unlike the approaches above, community action have a few major differences and financial literacy is deeply affected by these differences:

- The best practice however is to target the women and young women of the household to support the youth to save or to save with them.
- People save in groups
- People use savings as a strategy to mobilise
- Savings is more important than credit
- Youth learn through participating
- People learn from other people through exchanges

The issue of savings and gender:

I have made the assertion that women and savings are intimately linked which will make some people ask if this women's problem or should men not take some responsibility as well.

The facts are that amongst the rich, men usually control the finances. Amongst the poor it is women. Most of the grassroots savings schemes worldwide have been built around the efforts of women. This is partly a taking of responsibility but also part women's empowerment. By having access and control to finance give women the lobby power they need. Men have few problems when women take responsibility for the savings and budgeting of the household, as they themselves benefit. This is both a good and a bad side. (Charles Maisel, LETS END DOMESTIC VIOLENCE TOGETHER: A NEW MODEL TO TAKE AWAY FEAR AND THE PROBLEM OF ACCESSING MONEY FROM WOMEN'S LIVES, 2000).

"When savings schemes collect money they collect people. Savings makes room for (poor)(my brackets) people to develop their strengths gradually, to make decisions together through a communal mechanism." (Face to Face, January 2000)

1. The Homeless People's Federation system of savings and *The National Youth Federation*

The Homeless Peoples Federation with around 1500 groups around the country and around 75 000 women is probably the biggest grassroots women's social movement in the country. The movement has also spread to Namibia, Kenya, Zimbabwe, and Lesotho, and has links with 20 other countries in the world and continues to grow.

The Homeless peoples Federation began in 1991 with a workshop attended by 150 squatter leaders from around South Africa and with an Indian delegation. Through continued international exposure visits from India and South Africa women began to save, build partnerships, and so begun a peoples movement. (Face to Face, January 2000)

The **National Youth Federation** has 800 members countrywide and has only been in existence since 2002, but they use the same system of savings.

This is how it works:

"The savings walk"

You go house to house with one of the women
(a collector), you collect money from each household, you document it in each individuals savings book, you come to a central point once a week with many other collectors, count the money, put it in a ledger and process the loans (which a collector has asked for). These small daily acts sustain the movement (Face to Face, Jan 2000)

"It opens up doors"

One of the most difficult barriers to change behaviour is the perception that, "It's their problem not mine." Once everyone believe this they tend to do very little. Communities who do not communicate with one another, and see private lives as private issues perpetuate this perception.
The daily savings scheme opens up doors. A collector collects everyday, 365 days a year, by arriving at someones door. The collector can see and hear from others what is going on, and people knows a collector will be coming everyday. This opening up of doors is a huge empowerment factor.

"**It unites people on a street level"**

If youth are to be mobilized as a social movement who learn from one another, and take up issues of behaviour change the most robust way is to organise exchanges where youth can see how to collect money everyday.

"The daily savings as a ritual"

A ritual is defined as a structured event to create, enhance and express the belief system of a social movement. The daily savings ritual makes this group unique and distinguishes the savers from the wider community. (Washington University, 2001)

“Its everyday, 365 days a year not 9-5”

Most NGO’s and government departments operate from nine to five and close on weekends. The fact is youth meet any time, any day, and anywhere. Only a ritual like daily savings can address this need.

“Access to resources”

With the onset of AIDS and unemployment youth need access to money immediately. The daily savings give youth immediate access.

“Represents commitment”

“For each individual who saves, this represents commitment of people to their own development.
Without this people will participate in any freebie which comes along. Development only happens when the community is behind it”.
(Face to Face, Jan 2000)

“Communication channels made easy”

“Men communicate like telegrams-short, coded, minimum information. But women communicate like loudspeakers-telling everyone everything. Constant talk, constant questions. Women are the best communication known to man.” (Face to Face, Jan 2000)

This is important as through the daily savings walk women can spread messages about what is happening in the community or about an important meeting.

“No training and awareness needed”

Through the ritual of daily savings and exchanges youth become empowered and awareness happens naturally. Workshops and planned meetings become less, and more awareness happens on an informal basis. If information needs to be passed on it is.

Daily savings is robust, and this is the reason it transfers from one community to another. “There’s not a single place where we have used exchange to set up daily savings where it has not strengthened the community, and the federation. It’s a very strong idea, backed with very mechanistic, routine systems-you can walk anybody through a daily savings process. (Face to Face, Jan, 2000)

Other savings and community options

It is important to know there are other savings options open to people, and I would like to show what makes the daily savings so unique. Most of the other savings options focus on money, business, and access to loans. While the daily savings does focus on money it is the **ritual of collecting which is important** and how this unites people.

I would like to highlight how the daily savings scheme differs from four other systems: credit unions, stokvels, grameen bank, and traditional banks, as well as job creation. This will show the uniqueness of the daily savings scheme, and secondly how this system works to address social issues.

1. "Stokvels"

Stokvels are like savings clubs, which rotate among members the benefit of the capital accumulated each month to help with emergencies (Fatima Meer, 1984) as payment for women's needs. They usually put a set amount of money in each week or month, so individuals can clear all funds on a rotational basis.

Other points about stokvels are:

There is no surplus generated and loans are not given

Members meet on a monthly or weekly basis, and save only at these times.

The organisational unit is the stokvel not the entire community

The group seldom uses it resources or knowledge to address social issues.

What makes daily savings unique in terms of stokvels are again daily versus weekly or monthly savings. In fact stokvels do not save because they use all the pool money and nothing is accumulated in the long run for an individual. (Peoples Dialogue Newsletter, Issue 12, December 1999)

1. **"Grameen type Banks"**

Provides credit to the poorest of the poor in rural Bangladesh without any collateral. At Grameen Bank, credit is a cost effective weapon to fight poverty and it serves as a catalyst in the overall development of socio-economic.

Microcredit

Microcredit is the extension of small loans to enterpreneurs too poor to qualify for traditional bank loans. It has proven to be an effective and popular measure in the ongoing struggle against poverty.

Grameen type banks are rule driven, with a strong emphasis on uniform savings and repayment regardless of fluctuating financial situation.

Professionals or salaried employees play a key role in managing and administering finance, rather than women themselves.

Groups save and pay back loans weekly, rather than daily.

The organisation is used to address individual need rather than broader social issues.

Peer pressure is used for repayment. (This is important especially as regards women's lives and crises such as in domestic violence cases)

Groups are relatively isolated and have few contacts with other similar groups, while daily savers have contact with hundreds of streets, communities, and international groups. (Peoples Dialogue Newsletter, Issue 12, December 1999)

Other ways people can save are through Banks, Financial markets, pensions, and Insurance, or simply to put their pennies under their pillow. The major difference is the amount of money as an investment is only seen after many years, and it is completely individualistic, with no community togetherness built.

3. Job creation schemes

Most job creation schemes and projects focus on a very small group of people. These people tend to be isolated from the community as the scheme is based solely on self interest. No money is usually saved, and the scheme often falls through when support has dwindled. This means it is often not sustainable. A job creation scheme coupled with savings would be a good option but these groups seldom address community issues, and since their numbers are small they are not connected to broader networks.

The daily savings is a unique solution to the economic issues many communities face as it builds communities and thus deals with a broad range of other issues such as violence against women and crime at the same time as it builds money and access to resources. Something everyone, and every community needs.

The fact that women do understand financial literacy but in their own way and will decide how to manage money in their own way

Barriers to change the problem of a lack of financial literacy in SA

- Parents need education in terms of living in debt and how to save so they can pass on messages to their children
- Parents need to communicate more about financial issues with their children as in all facets of life.
- Community groups need to involve children in their savings schemes.
- There is no national government strategy, as there are in other countries with high rates of financial literacy and high levels of savings. The government seems to be too focused on a macroeconomic view of the economy rather than the micro actions of its denizens.
- Banks and financial institutions are only now creating the opportunities for young people to join, and this still seem like a long way away.
- Credit is too easily accessible in South Africa, and credit is dominated by micro finance institutions who do not exactly have the consumers best interests at heart.
- Unemployment is too high and entrepreneurship too low as access to money is too difficult. Aids and crime reflect a Live for today attitude rather than a live for tomorrow attitude. . Aids policy and young people dying. The government policies have hurt the perception of youth in their future. Poor people do not have access to drugs and health care and this further exacerbates a pessimistic view of the future.
- Financial literacy needs to be part education and part practice. A balance between formal education and investment action. There are few opportunities and resources for many people to undertake this level of experience.

Key debates influencing financial literacy

1. Globalisation

The globalisation debate believes we live in a global world or system where each action affects another action. So markets in the USA and the rest of the world will affect us. Many people do not understand this. When there is a war and prices of oil go up then the whole world is affected. Part of financial literacy is to understand that we are part of the global economy. As much as we believe we are separate sometimes our actions and those of others affect us.
Part of financial literacy has to involve following world trends just as much as knowing how to save and stay out of debt.

2. The impact on the environment

As the need to consume increases all over the world the pressure on natural resources becomes more acute. This includes the pressure on water resources and power.
The age of consumerism has led to countries and individuals not knowing inherently what is "enough".
The implications are that there is more and more consumption and less emphasis on saving the resources we have.
The principles of saving the environment are so similar to savings (financial) in general that they work side by side.
They could be used as education tools for one another. The principle of saving the environment for the future is similar to saving for an individuals financial future and security. Both are long term views rather than short term views

3. The BIG grant

Through a civil society initiative a Basic Income Grant has been promoted but rejected by government for various reasons. The proponents of the BIG believe that the cash given to families will help alleviate poverty (Francie Lund, 2002). This may be true but will it increase savings and reduce debt?
Those against the BIG grant believe that based on people's current savings and credit behaviour, it seems the money will probably go towards consuming and thus credit and increased debt rather than poverty alleviation alone.

4. The lottery conundrum (and gambling)

What amazes me about the lottery is that R50-R80 million is spent on tickets each week. This is income which could have been saved in a group to change communities. Instead the money is hoarded and creates expectations of get rich quick instead of the "real" lessons of financial literacy. I have already mentioned the issues of uncertainty and consumerism, and I believe that the lottery adds to these issues. Both add to the low levels of savings.
The lottery aims to alleviate poverty through social programmes, however isf we followed a savings philosophy, then 10-15% of lottery funds should be part of the start of the first National Savings Plan, where money will go directly to the poor.
In this way 25 cents of every lottery ticket will go toward savings.

Policies which help financial literacy

1. Governments plans to increase jobs and reduce poverty through public works programmes. This may or may not increase savings in the long term, but savings has to be part of these programmes, and they do have potential to build a savings culture.

2. The National Banking account

This is the only issue which I would like to expand on, as it is the most unique and innovative method which may shift youth and it is the first time banks have come together to change the scenario of savings.

<u>All the banks</u> in South Africa found that the un-banked and under-banked needs are not met adequately. That basic banking remains inaccessible to significant segments of the population. They have come together in a groundbreaking initiative as the banking sector as their contribution to increase domestic savings. This information has not been given to the public yet.

The reasons for being un-banked they found are:

- People do not have enough money
- People are not regularly employed
- Bank charges are too high
- Difficult to open accounts
- Minimum amount in account
- Staff don't speak own language (Source: Finmark research)

They have now designed the National Banking Account (NBA)

- Standardised banking product meeting most basic savings and transmission needs
- Functionality identical across banking industry
- Standardised and simple pricing
- No monthly maintenance fees
- Modest interest
- Capital preserved for clients that save (Charles Chemel)

The implementation is still a while away but it is the first real attempt by the banking industry to build in savings and financial literacy.

Media Communication strategies worldwide

I have mentioned how **banks and credit unions and even investment houses** (In Models of the West, Pages 17-19) communicate towards the youth. I will also show in this section some bigger national programmes worldwide.

1. Choose to save program in the USA (TV and radio) This is the biggest multi media strategy I could find in the world. www.choosetosave.org/tvradio/avpas.htm#yth
2. This program is also supported by The American Savings Education Council who have a program targeted at youth called the "Save for your Future" campaign.
3. Young Money Magazine www.youngmoney.com

Why Communicate	What to communicate	How to communicate
Savings is for future, and the future is not uncertain	Future scenarios	Have to show how savings creates the future
		Small amounts amount to a lot, even cents
		Group savings is the most powerful, and groups are in every street, school and club
Don't get into debt	Debt should only be used in emergencies	First use savings before use debt
		Show how debt leads to personal problems and social problems
		The difference between assets and liabilities
		How to do a Budget
Consuming what you don't need could land you in debt with low savings	Consume only what you can afford and need	Look at what you buy; can you afford these things, Do you need them, what can you get rid of or fix
		The media and its powerfull effect to buy, buy, buy.
Educate and invest at the same time is a good model	Educate and invest at the same time is a good model	Learn through experience, toys, games, competitions, and theater.

Recommendations

1. There has to be a shift from debt and credit behaviour to savings behaviour.
   - Opportunities to balance Education (Formal and informal) and actual investment practice.
   - A national Government savings plan
   - Make credit very hard to get
   - Rewarding savings behaviour
2. Large scale social marketing campaigns to change behaviour toward savings and promote (like Proudly SA) that SA has a future ahead and that each individual has a great future as well.
3. **Support of The National Youth Federation which has savings as its cornerstone. Soulbuddyz clubs should join immediately this federation**

to build their savings and financial literacy. If there are 1000 groups and 10 savers per group then there are 10000 possible savers. If 10000 savers save 50c per day this will amount to R5000 per day, R35000 per week, R140000 per month, and a staggering R1680000 per year. The potential is all there it just needs to be harnessed.

4. The implementation of the NBA to increase access to savers.
5. Education and investment opportunities of parents as a primary source of knowledge about financial literacy.

Key role players which may be able to make a contribution to the debate

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SACCO, 021-4187258
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Finmark Trust, David Portius, roland@tiscali.co.za
South African Savings Institute (SASI) Yvonne Benn, 082 556 4485
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Postbank (Department of communications)
National Bank Account (NBA) Charles Chemel, 011 6361141, Cchemel@sbic.co.za
Metropolitan, Patronella Sono, Financial Education, 083 678 0157
Instant Grass communications, 021-4213681

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