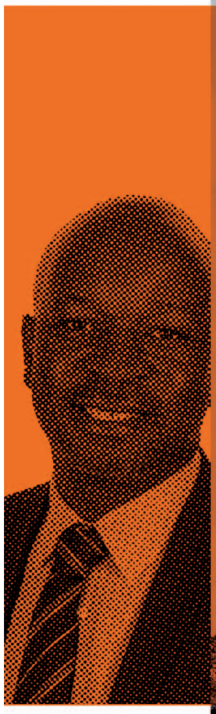
opinion by Peter Tshiguvho



Towards financial inclusion

123RF/lightwise

Tshiguvho is head of channel at Metropolitan

The greatest challenge faced by our ANC-led government since our democracy came into being in 1994 has been to build an inclusive economy and, more importantly, to kick-start a chain of events that allows prosperity to filter down to all.

Unfortunately, this ideal has been through some trying times. We have been buffeted by macroeconomic headwinds and a host of political factors, including credit-rating downgrades and allegations of state capture.

It is an uncomfortable truth that the emerging market in SA is highly exposed to economic shocks and setbacks, and it generally lacks the sustainable buffer of financial security to hedge the effect of these fluctuations.

The Momentum/Unisa consumer financial vulnerability index shows that consumers are becoming more financially vulnerable. The four components of the index — income, expenditure, saving and debt servicing — worsened for a second consecutive quarter last year.

Government and its policies remain the primary gatekeepers when it comes to the emerging-economy consumer's quest to build wealth and play an active role in the formal economy. Nowhere has this been more evident than in the exponential growth of middle-income earners emanating from SA's previously disadvantaged households.

But this pattern has slowed in recent years. Our unemployment rate is 26.7% — extremely high compared with our Brics peers. According to the World Bank, Brazil has 13.4% unemployment, China is at 4.6%, India at 3.6% and Russia at 5.3%. Besides the human toll, our high unemployment hits investor confidence.

The winds of change are blowing through our political landscape, but there's a lot more to do. The new leadership has shown resolve to fix state-owned entities and prosecute cases of maladministration. If successful, this will free up funds for development.

More spending on education, health and public safety saves consumers having to pay for these services themselves. This means more money in their pockets and more need for financial services — a positive step to financial inclusion.

However, consumers and the private sector also have roles to play in creating wealth. For the financial services industry, this means driving education, which is critical to ensure broad-based financial inclusion.

Ideally, financial literacy would move in parallel with financial inclusion, so that as more people enter the formal economy, they gain the skills to manage their finances along with their financial service providers.

The financial services sector can also create innovative financial products and service models relevant to people's needs. Kenya, for example, has created an innovative product: a one-day loan. For instance, a vendor can take out a loan in the morning to fund wholesale purchases for resale. At the end of the day, the vendor pays back the loan, with interest, and keeps the profit. This can be repeated until the vendor has raised enough working capital to sustain his or her business. Small businesses are critical in driving economic growth, so creating an enabling environment for such businesses is essential.

The emerging and informal markets, though different, are rich with opportunities and present similar challenges. Financial planning and financial literacy are important to withstand these challenges, whether you earn R1,000/week or R100,000/month.

By cultivating the right financial habits, in partnership with a trusted financial partner, we will be able to build sustainable wealth. In turn, having active participants in the economy will help to build a stable and inclusive base from which the entire country can move forward and thrive. Together, we can. x

Sustainable wealth can be built by cultivating the right financial habits