Publication: Finweek (English)
Date: Thursday, July 13, 2017
Page: 29

We need savings levels to exceed 25% to boost investment levels that will in turn trigger improvements in both national income and capital formation in our economy.

portfolio investments to supplement our low savings. The importance of savings in an economy has received extensive empirical attention. Savings not only finances current account deficits, but also plays a mobilisation role by contributing towards capital formation in an economy. The contribution of savings to growth is constrained.

We need savings levels to exceed 25% to boost investment levels that will in turn trigger improvements in both national income and capital formation in our economy. With a downward spiralling savings rate and inadequate foreign direct investment, we are challenged by having to finance the current account deficit.

We also have to ensure that our future generations are financed and supported. This would not only change our behaviour towards savings but also improve households' savings levels.

Offering options beyond pension funds, provident funds or RAs

A pension system in a developing economy for the low-income and informal sector must be established and designed for both rural and urban communities. The pension system elements must include the ability to make contributions by the member as well as payments into the pension by others.

Payments should be able to be made by family members, even those in the diaspora, given the nature of family structures. Pension design must take into account the seasonality of income and cash, allowing for irregular or varying contributions or payments. The quantum of payments should also focus on the micro-income received by households in informal labour markets.

Incentives originally offered in the private sector, which have since dwindled, should be replicated in this system, where contributions are matched to incentivise workers to save. The government could match contributions and could also subsidise the development of systems or use existing networks and software in the private and public sectors. Innovation and technology are needed for investors in difficult-to-reach places. Using digital software and mobile payments to capture contributions and applications will become important.

The private personal schemes contributing to the second and third pillars have been restructured to exert a direct effect on the financial system. These are largely occupational schemes with large tax incentives, or incentivised voluntary savings through retirement annuities. This formal pension fund sector has been further developed post-1994, and, unsurprisingly, the coverage for the formally employed remains highly developed.

Employees who earn a low and/or inconsistent income and those without formal employment remain economically excluded without concrete social security policy and favourable tax credit frameworks that would aim to ensure the inclusion of pension benefits for the millions of South Africans whose retirement needs are not met, beyond the non-contributory pillar.

Savings are not automatic but can be encouraged with a regulatory framework incentivising contributions from all sectors of the population. Government should aim to incentivise low-income earners with a greater emphasis on a pro-poor tax legal framework. It is also necessary to ensure that the costs of contributing are monitored to prevent the high costs usually associated with management of pension funds.

Furthermore, steps must be taken to incorporate SA's unique social context. Family-based solutions may be a means to addressing the pension problem from a savings aspect. This is something that Treasury and industry may want to consider in future tax design. The current framework doesn't reward family-based savings, from extended family members or the mechanism of *umgalelo* (stokvels), a form of savings derived from monthly contributions where payment is rotated amongst the group members. This is ironic for a country known for the concept of *ubuntu*.

Micro-solutions must be offered and developed, responding to the constraints of the two-tiered emerging-market or developing economy.

Life insurance companies, pension fund managers and the wider financial services sector should be encouraged to do so. In time, the increased savings effect will trickle down to and grow the entire economy. ■

Nthabiseng Moleko teaches statistics and economics at the University of Stellenbosch Business School and is busy with a PhD in development finance.

This material has been copied under a Dalro licence and is not for resale or retransmission.