



# Labour Market Frontiers

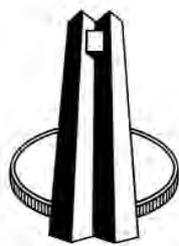
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# **Labour Market Frontiers**

**June 2004  
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## Editorial overview

While South Africa is faced with numerous challenges including unemployment and limited access to and usage of financial services, this volume demonstrates how closer interrogation of these issues could uncover opportunities for economic participation and growth. It reveals that employment growth is not non-existent – it is rather the pattern of labour demand and job creation that is changing in form. Secondly, with the appropriate ingredients such as targeted education and training strategies and globalisation of the labour market, the apparent labour supply pressure can truly become a demographic dividend for the economy. Thirdly, concerning the financial sector, opportunities for enhanced access to finance, especially among the previously disadvantaged, are presenting themselves through, for instance, improvements in the ownership of bankable assets such as formal housing.

As the debate regarding the extent to which the economy creates and/or sheds jobs and caters for young labour market entrants continues, it becomes necessary to add other dimensions that take the discourse to new heights. The one need is to complement macrolevel analysis of net labour market outcomes by identifying specific employment growth and contraction nodes within various economic sectors. Apart from demonstrating the apparent structural changes in the economy, such information also sheds more light on the opportunities for realising a more efficient labour market. The first article attempts to address this issue by analysing trends in major job shedding and gaining subsectors in the economy. In the process the analysis also raises caution about some of the limitations associated with the main sources of employment data in South Africa.

South Africa's employment challenges (and opportunities) relate to both the demand and supply sides of the labour market. The second article explores the potential supply of labour on the basis of demographic trends as revealed by the previous two population censuses. The discussion is couched within the international context and it weighs the country's prospects for optimally utilising the so-called 'demographic dividend' compared with future global economic giants such

as India and China. Other studies argue that one of the assets that makes these economies well positioned to become key global economic players in the medium to long term is their ability to capitalise on the ample supply of the work force.

Apart from the analysis of past employment trends and future labour market dynamics, this volume also includes an article that revisits one of the challenges of widening access to financial services. Lack of collateral is one of the obstacles to banking the unbanked. The third paper analyses trends in formal housing ownership between 1996 and 2001. It argues that increased ownership of formal housing is one of the crucial steps in the desired direction. This process broadens the collateral base in the economy and creates an opportunity to have a more inclusive financial system. The analysis is premised on De Soto's proposition that property ownership and rights are key to unlocking capital in pursuit of economic development and promotion of economic activity.

Lead editor: M Lehutso-Phooko  
Research Department  
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# Employment gains and losses by sector and subsector between 1980 and 2001

Thami Hlekiso, Research Department

This article reviews changes in formal non-agricultural employment between 1980 and 2001 at sectoral and subsectoral level. It identifies job gains and losses in formal non-agricultural employment. The 1980s have shown a steady shift towards more skilled jobs and a relative decline in unskilled jobs. Conversely, the 1990s marked the beginning of trade liberalisation and the process of economic restructuring that somewhat explains changes in both the private and the public-sector employment patterns.

Between 1980 and 2001 the labour market experienced net job losses. Total formal non-agricultural employment stood at 5,1 million in 1980 and by 2001 it had declined to 4,7 million. During the same period economic activity grew by 1,7 per cent. As employment creation has become South Africa's structural problem, it is important to place these employment patterns into context by reviewing them at a disaggregated level to identify employment growth and contraction nodes at subsectoral level between 1980 and 2001<sup>1</sup>.

The first part of this article compares the two decades in terms of main sectoral employment patterns using formal non-agricultural employment series data. In order to identify the main drivers of sectoral employment patterns, the second part assesses subsectoral employment trends over the same period. The two decades being analysed, namely 1980/1990 and 1991/2001, were chosen to capture the structural break in employment patterns during 1990. It is argued that marked shifts in relative importance of most industries in the labour market occurred after 1990<sup>2</sup>, hence this analysis uses 1990 as the demarcation point.

*Earnings* (STEE) which replaced the previous discrete labour surveys. The SEE is establishment based and is more reliable for estimating formal non-agricultural enterprise trends such as employment, productivity and labour costs. Because it is a quarterly release, it is more amenable to time series analyses. The series was improved in September 2002 with a more comprehensive sample to include formal sectors that were previously not surveyed. The survey, however, excludes unregistered or informal enterprises. Among registered non-agricultural businesses, the SEE includes only those with a declared turnover of R300 000 or more per annum\*\*. This means that the SEE does not provide a complete cross-section of the labour market. Smaller unregistered enterprises in the motor and clothing industries, for example, are integral segments of the exports sector\*\*\*, yet they are not necessarily represented in the sample. Moreover, the practicalities of capturing such businesses that have both formal and informal attributes into the sampling frame pose a major challenge.

The TIPS data set covers formal-sector employment, which indicates the number of paid employees and includes casual and seasonal workers. The main sources of TIPS data are (a) Statistics South Africa: STEE/SEE, October Household Surveys (OHS), Labour Force Surveys (LFS) and Population Censuses; (b) Department of Labour: Manpower Surveys; and (c) Development Bank of South Africa: Standardised Employment Series. The TIPS data series complement SSA's formal non-agricultural employment series and make it possible to analyse subsectoral trends.

\* SIC is used in classifying business establishments and other statistical units by the type of economic activity in which they are engaged. The classification provides a framework for the collection, tabulation, presentation and analysis of data and its use promotes uniformity.

\*\* Statistics South Africa. 2003. *Survey of Employment and Earnings*, September 2002 and December 2002, p.15. Pretoria: SSA, August.

\*\*\* Devey, R., Skinner, C. and Valodia, I. 2003. *Informal Economy Employment Data in South Africa: A Critical Analysis. Paper presented at the TIPS/DPRU Forum*, Johannesburg, September.

## Sectoral employment: 1980 to 1990

Overall, total formal non-agricultural employment grew by an average of 1,1 per cent from 1980 to 1990. Formal employment in mining peaked in 1986 to 835 000 employees and thereafter showed a steady decline from 1988 to 1990. Mining-sector employment declined by 0,1 per cent, on average, during 1980 to 1990. However, as shown in Figure 1.1, formal employment in the manufacturing sector increased slightly during the same period, recording a marginal average increase of 1,0 per cent. Employment in the construction sector also recorded a

### Box 1: Background on data used

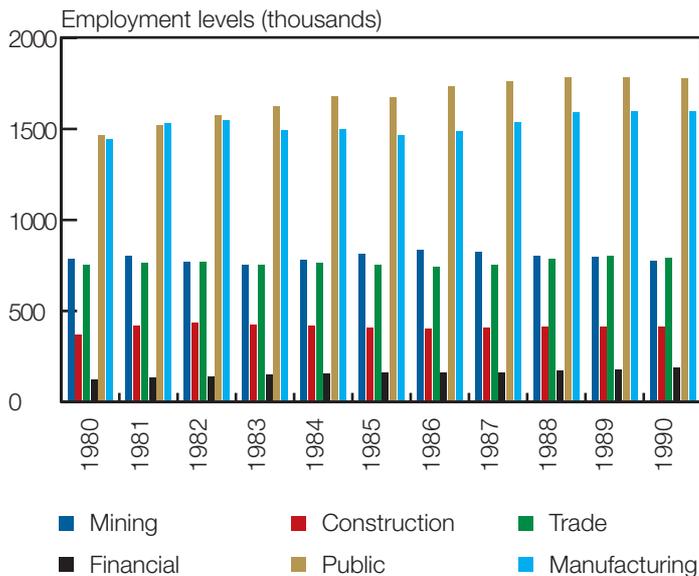
The two data sets used are Statistics South Africa's (SSA's) employment series and the Trade and Industrial Policy Strategies (TIPS) formal employment series. The main formal-sector employment survey from SSA is the quarterly *Survey of Earnings and Employment* (SEE) that covers employment statistics and gross earnings according to the Standard Industrial Classification (SIC)\* of all economic activities at main sectoral level. The forerunner of the SEE was the *Survey of Total Employment and*

1 This article uses two data sources: Statistics South Africa's (SSA's) non-agricultural employment series for sectors and the Trade and Industrial Policy Strategies (TIPS) series for subsectors. The specific details of these data sets should be noted (see Box 1).

2 Fedderke, J.W. and Mariotti, M. 2002. The changing market conditions in South Africa: A sectoral analysis of the period 1970 – 1997. *South African Journal of Economics*, Vol. 70, No. 5, pp. 831-865.

marginal average increase of 1,1 per cent while that of trade was steady at 0,5 per cent. Job creation in financial institutions increased by an average of 3,9 per cent during the same period. Overall, private-sector formal employment increased by 1,4 per cent during this period. By contrast, formal employment in the public sector grew at an average rate of 1,8 per cent from 1980 to 1990.

Figure 1.1 Formal non-agricultural employment by main sectors, 1980 – 1990\*



\* Transport and storage is missing as a main sector because formal employment in this sector is captured in other sectors such as trade or public service

Source: SARB database

Except for mining employment, which recorded a decline, total formal employment in all sectors remained virtually flat and stagnant during this period. The year 1987 was crucial for mining employment in particular as a major industry-wide strike was followed by retrenchments. The year marked the emergence of a strategy of employment rationalisation. The slight decrease in mining employment during the 1980s contributed to a steady shift towards more skilled jobs, driven by mechanisation and technological changes<sup>3</sup>. Overall, formal employment in almost all major sectors of the economy showed marginal increases with the tertiary sector showing expansion albeit from a low employment base in the 1980s.

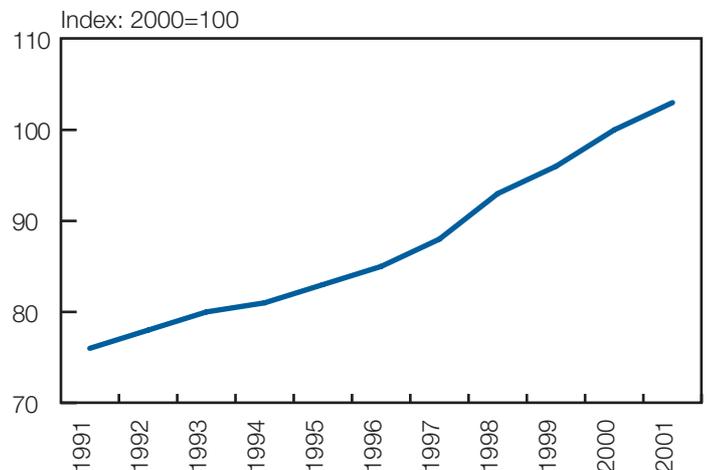
3 Standing, G., Sender, J. and Weeks, J. 1996. *Restructuring the labour market: The South African challenge*. Geneva: International Labour Organisation.

4 Labour not directly concerned with production. Indirect forms of employment include outsourcing, subcontracting and atypical forms of employment. Indirect labour is also meant to include some formal-sector employment that displays all the characteristics of informal employment such as insecurity, lack of contract, etc.

## Sectoral employment: 1991 to 2001

The long-term trends in the sectoral distribution of formal non-agricultural employment have been fairly typical of developing and industrialising economies. These trends are associated with steep declines in the labour intensive sectors of the economy. The capital/labour ratio (see Figure 1.2) also shows that between 1991 and 2001 the South African economy experienced substantial capital intensification to the detriment of labour. In South Africa's case, significant declines in the employment share of mining and manufacturing took place between 1991 and 2001.

Figure 1.2 Total non-agricultural capital/labour ratio, 1991 – 2001



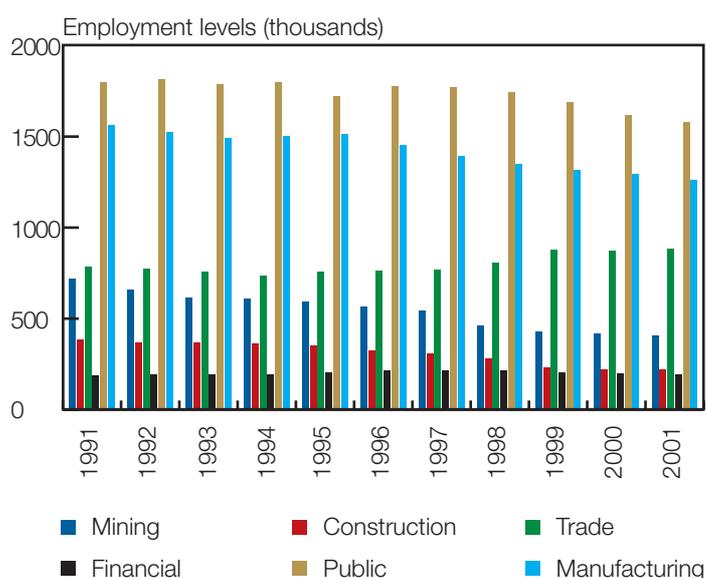
Source: SARB database

During the same period, the share of employment in the service sectors, such as trade and financial institutions increased by 22,1 per cent and 9,0 per cent, respectively. Employment continued to decline in the mining sector during the 1990s, losing approximately 250 000 employees (an average of 5 per cent of total mining-sector employment). The next significant job-shedding sector during the 1990s was construction with approximately 100 000 (4,9 per cent) job losses. Figure 1.3 shows that employment in the construction sector was some 40 per cent down or a reduction of approximately 144 000 employees from 1994 to 2001. Part of this decline can be attributed to indirect labour<sup>4</sup> creation trends in the construction industry that continued throughout the remainder of the 1990s.

Manufacturing-sector employment declined by approximately 102 000 employees (1,9 per cent) during 1991/2001 compared with 1980/1990. A plausible cause for the decline could be the impact of globalisation and competitiveness, forcing firms to cut jobs and to shift from direct to indirect employment. Borhat<sup>5</sup> concludes that factors such as technological changes within firms partly explain the shifting preference of firms from lower skilled employees to those that are higher skilled.

Figure 1.3 shows steady increases of employment in the service sectors such as trade and financial institutions. The service sector has benefited from increases in skilled employment and has been enhanced by the liberalisation of the economy in the 1990s. The sector has seen employment levels rise throughout the 1990s as outsourcing and contract jobs increased substantially<sup>6,7</sup>. Recent observations confirm significant employment shifts from primary and some secondary sectors towards parts of the service industry during 1995 to 2001<sup>8</sup>.

Figure 1.3 Formal non-agricultural employment by main sectors, 1991 – 2001



Source: SARB database

The public sector continued to be the largest source of employment until 1995. In 1994, public-sector employment accounted for almost 24 per cent of total employment. By 2001, the sector had declined to 18 per cent of total employment share. The average number of non-agricultural workers employed in the sector from 1991 to 2001 was almost 1,7 million. The public sector shows a steady decline in employment from 1995 to 2001 with the steepest decline of 4,2 per cent occurring in 1995 (see Figure 1.3). An explanation<sup>9</sup> for this decrease is the new government's intention to reduce inefficiencies, to rationalise the public-sector wage bill and to outsource non-core functions at all tiers of government. Furthermore, research shows that the public sector was not only the largest job shedding sector in the economy, but that most of the jobs lost were in unskilled categories<sup>10</sup>.

### Subsectoral sources of employment gains and losses

Fedderke and Mariotti argue<sup>11</sup> that landmark transformation of relative importance in the labour market occurred after 1990, indicating the possibility of a structural break in employment patterns during the course of the 1990s. They concluded that the restructuring in the South African economy has impacted on the distribution of employment across subsectors. The following analysis shows the extent of subsectoral employment changes between the periods under investigation.

This part of the article describes subsectoral employment patterns using three-digit Standard Industrial Classification (SIC) coding. It analyses employment, which is ranked by percentage share of job losses and gains over the two decades 1980/1990 and 1991/2001.

It is evident from Table 1 that the gold and uranium ore mining subsector suffered significant employment losses of some 180 501 employees or 35 per cent of total mining employment. These employment losses are attributed to changing labour patterns that favoured fewer but better skilled employees during this period<sup>12</sup>.

5 Borhat, H. 2000. *Decomposing sectoral employment trends in South Africa*. Cape Town: DPRU.

6 Statistics South Africa. 2002. *Survey of Employment and Earnings* Pretoria: SSA, September.

7 Data released for the new SEE, for example, showed an increase of more than 1 million employees in March 2003 compared with December 2002.

8 McCord, A. and Borhat, H. 2003. Employment and labour market trends. *Human Resources Development Review: Education Employment and Skills in South Africa*. Cape Town: HSRC Press and East Lansing: Michigan State University Press.

9 Borhat, H., Lundall, P. and Rospabe, S. 2002. *The South African labour market in a globalising world: Economic and legislative considerations*. Geneva: International Labour Organisation.

10 Ibid.

11 Fedderke, J.W. and Mariotti, M. 2002. The changing market conditions in South Africa: A sectoral analysis of the period 1970 – 1997. *South African Journal of Economics*, Vol. 70, No. 5, pp. 831-865.

12 McCord, A. and Borhat, H. 2003. Employment and labour market trends. *Human Resources Development Review: Education Employment and Skills in South Africa*. Cape Town: HSRC Press and East Lansing: Michigan State University Press.

In the early 1990s, some parts of the manufacturing sector continued to shrink in terms of employment (see Figure 1.4). These included the iron and steel subsector<sup>13</sup>, the motor vehicle subsector<sup>14</sup>, as well as the textiles, clothing and machinery subsector<sup>15</sup>. The main sources of the decline in formal construction employment were the subsectors building construction and civil engineering construction, which recorded 32 per cent and 11 per cent declines, respectively, between 1980/1990 and 1991/2001.

**Table 1 Selected subsectors with the highest employment losses**

Sectors and subsectors	Percentage change between 1980/1990 and 1991/2001*	Change in absolute terms between 1980/1990 and 1991/2001
<b>Private services</b> .....	-4	
Transport and storage.....	-39	-154 758
Water supply.....	-16	-1 661
Catering and accommodation services .....	-15	-39 551
<b>Mining</b> .....	-26	
Gold and uranium ore.....	-35	-180 501
Coal.....	-35	-32 150
<b>Manufacturing</b> .....	-4	
Other transport equipment .....	-45	-11 100
Basic iron and steel .....	-39	-35 401
Tobacco.....	-36	-1 657
Textiles.....	-34	-34 884
Basic non-ferrous metals .....	-34	-8 664
Footwear .....	-28	-9 033
Non-metallic minerals .....	-27	-21 328
Machinery and equipment .....	-22	-19 490
Coke and refined petroleum products .....	-21	-4 863
Electricity, gas and steam .....	-17	-13 691
Metal products excluding machinery .....	-16	-21 462
Leather and leather products ....	-14	-1 445
Rubber products .....	-13	-2 430
Motor vehicles, parts and accessories.....	-13	-11 890
<b>Construction</b> .....	-24	
Building construction .....	-32	-83 557

\* Calculated as a percentage change between the average values of 1980/1990 and 1991/2001, respectively.

Source: TIPS data and own calculations

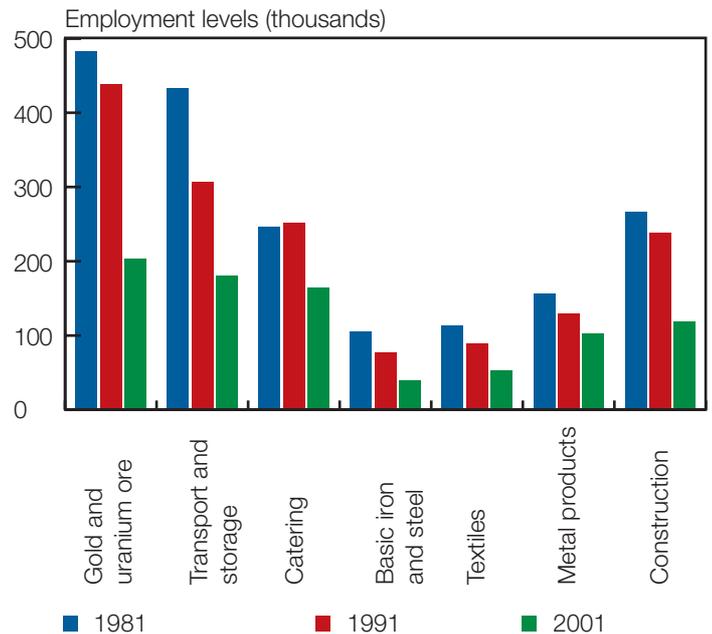
<sup>13</sup> Basic iron and steel employment declined by 39 per cent (35 401 employees) when comparing 1980/90 and 1991/2001 averages.

<sup>14</sup> Figures for employment shifts in motor vehicles, parts and accessories need to be noted. For instance, Table 1 shows a decrease in employment in this subsector between the 1980s and the decade after by 13 per cent (11 890 employees). However, it may be that this subsector has generated substantial increases in employment recorded under wholesale and retail as more people are employed in the wholesale and retail of motor vehicles such as sales, marketing, etc.

<sup>15</sup> For instance, textile employment declined by 34 per cent (34 884 employees), and machinery and equipment declined by 22 per cent (19 490 employees).

<sup>16</sup> Due cognisance, however, must be taken of the difference in the coverage of employees between the two data sets (see Box 1).

**Figure 1.4 Selected subsectors with the highest employment losses**

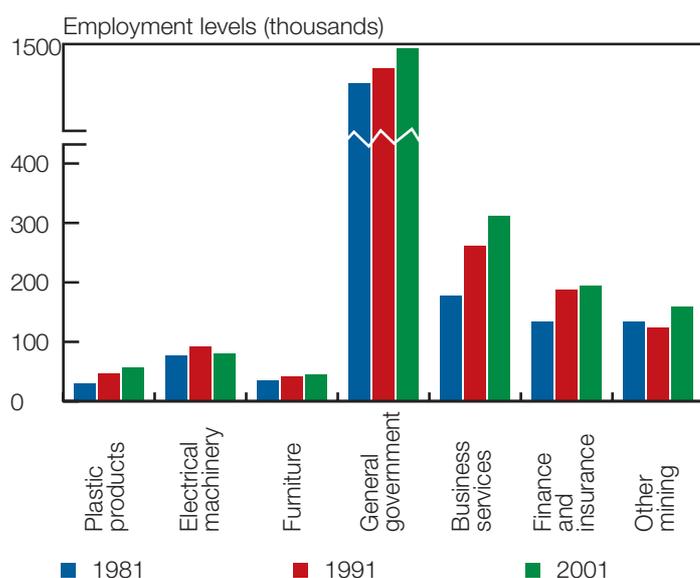


Source: SARB database

The business services and finance subsectors (Table 2) reaffirm the employment increases experienced at the level of the main financial institutions sector from 1991 to 2001 (Figure 1.3). Subsectoral patterns show significant employment gains in two service subsectors. Business services experienced a 31 per cent increase or approximately 66 000 additional employees in 1991/2001 compared with 1980/1990. The finance and insurance subsector increase accounted for approximately 44 000 additional jobs (28 per cent) during the same period<sup>16</sup>.

Overall, net gains in formal employment were mostly in the tertiary subsectors such as finance, business services, and wholesale and retail. Despite manufacturing, mining and private-services sectors showing overall employment losses, there were a number of subsectors within these sectors that showed net employment gains (see Table 2 and Figure 1.5). The analysis also reveals that major job losses were spread over a wider range of subsectors when compared with those that recorded gains in employment.

Figure 1.5 Selected subsectors with the highest employment gains



Source: SARB database

Table 2 Selected subsectors with the highest employment gains

Sectors and subsectors	Percentage change between 1980/1990 and 1991/2001*	Change in absolute terms between 1980/1990 and 1991/2001
<b>Manufacturing</b> .....	-4	
Plastic products.....	47	15 931
Television, radio and communication equipment .....	30	3 559
Electrical machinery and apparatus .....	21	15 499
Furniture .....	17	6 639
Paper and paper products .....	15	6 217
<b>Public services</b> .....	<b>31**</b>	
General government services ...	31	344 644
<b>Private services</b> .....	-4	
Business services .....	31	66 213
Finance and insurance .....	28	44 086
Printing, publishing and recorded media .....		8 634
<b>Mining</b> .....	-26	
Other mining .....	22	25 924

\* Calculated as a percentage change between the average values of 1980/1990 and 1991/2001, respectively.

\*\* Public services from TIPS data accounted for approximately 345 000 (31 per cent) additional jobs in contrast with an increase of 66 000 (4 per cent) additional jobs in the SEE (see Figure 1.3). It should be noted that TIPS data captured a significant number of employees that were in non-governmental, charity and welfare organisations who were not registered and who were classified under the public-services sector.

Source: TIPS data and own calculations

## Conclusion

Generally, formal non-agricultural employment in the main economic sectors shows that changes in employment patterns during these two decades do not have homogenous labour market outcomes across sectors. It is important to note that the two data sets used in this article have numerous discrepancies<sup>17</sup>.

Specifically, sectoral trends during this period indicate that employment losses occurred in mining and manufacturing. Employment gains are observed in the general government, finance and business services subsectors. Overall, the public sector still remained the largest employer from 1991 to 1995, after which its prominence as a major employer gradually declined. The trade sector became the largest major employer by percentage share of total employment in 2001 accounting for 22 per cent of total employment compared with the public sector at 18 per cent<sup>18</sup>.

Overall, the general trends in formal non-agricultural employment from 1980 to 2001 show a long-term decline with marginal improvements evident since 1999. Furthermore, subsectoral data show that formal non-agricultural employment in South Africa during the period of investigation has followed typical stages of developing and industrialising economies characterised by declining primary and secondary sectors and a growing tertiary sector, which is a global phenomenon. One of the challenges facing South Africa is to balance job creation with the level of capital intensity in the economy. Accordingly, South Africa faces similar policy challenges in employment creation as other developing countries, notwithstanding its unique past.

A limitation of this article is that it observes only formal non-agricultural employment trends over two decades. In order to be able to capture deeper socioeconomic implications of these employment shifts, such as occupational, skill and racial distribution effects of these shifts, further research should be coupled with studies on formal employment shifts to non-formal, atypical, flexible and indirect employment. An even more pertinent investigation would be to assess whether employment shifts to indirect forms of employment are confined to unskilled labour. Hence, one of the challenges in current labour market analysis should be an attempt to move beyond concepts of formal/informal sector employment characterisation.

17 For example, mining employment shows steep declines in both data sets. However, there exists some difference in the magnitudes of each – the SSA data series indicate an average decrease of 31 per cent while those of TIPS record 26 per cent. At the same time, formal manufacturing employment declined more than total manufacturing employment, each of the series recording a loss of 6,7 per cent and 4,2 per cent, respectively. These differences could be attributed to a shift from formal employment to indirect employment that is not captured by surveys among employers such as that of SSA.

18 McCord, A. and Borat, H. 2003. Employment and labour market trends. *Human Resources Development Review: Education Employment and Skills in South Africa*. Cape Town: HSRC Press and East Lansing: Michigan State University Press.

# Demographic change and supply-side dynamics of labour markets

*Moleboheng Lehutso-Phooko, Research Department*

The 2001 census reveals that South Africa's population expanded by 4,24 million people from 40,58 million in 1996 to 44,82 million in 2001. This represents an average annual population growth rate of 2,17<sup>1</sup> per cent. At face value this is a positive development in that the average rate of economic growth in the same five-year period was marginally higher at 2,3 per cent. Combined with the decline in average household size from 4,5 to 3,8 persons per household during the intercensal period, this population and economic growth nexus could be optimistically viewed as a positive basis for improvements in per capita income going forward. Labour markets are a crucial transmission mechanism through which economic growth can be translated into job creation and broad-based economic and social upliftment. The question is to what extent are these macroeconomic and social ideals realisable given South Africa's unfolding demographic transition? This paper considers supply-side prospects of the labour market arising from the demographic trends as depicted by the 1996 and 2001 censuses.

The supply of labour is a function of population dynamics as well as structural and cyclical economic factors<sup>2</sup>. For labour markets, the demographic impact is reflected by changes in the composition of the working age population, which conceptually falls between the ages 15 and 64 years<sup>3</sup>. The differential rate of growth between various working and non-working age groups and compositional changes thereof are the net effect of births, deaths and migration. The working age population is the potential reservoir of persons who are willing and available for employment or for job searching.

The demand side of the labour market, by contrast, is linked to economic output growth which, in turn, is supported by monetary and fiscal stimulus. The labour market outcomes of these cyclical and structural economic forces, in tandem with demographics, constitute the effective – as opposed to potential – supply of labour. This effective supply of labour consists of economically active people aged 15 and above who are either employed or job seeking. This article considers

the broader labour supply, which includes cohorts of the population that will potentially enter and exit the labour market as they go through the life cycle.

The objectives of the analysis are, firstly, to assess trends in the age structure of the population using the 1996 and 2001 censuses and, secondly, to consider the implications of these trends for labour market dynamics in South Africa. The next two sections respectively address the two objectives, followed by concluding remarks.

## Changes in population composition: Findings from the 1996 and 2001 censuses

Changes in population age structure have an impact on medium and long-term economic trends and they provide useful pointers of probable supply pressures, or gaps, in future labour markets.

Although population census taking has a long history in South Africa, the first comprehensive census was in 1996, followed by the 2001 census. The analysis is therefore confined to data from these two censuses<sup>4</sup>. The age structure of a population can be depicted using relative proportions of the population in various age groups, their rates of growth and changes in the median age and age dependency ratios.

### Box 2: Age categories and dependency ratios

The age categorisation applied in this analysis follows conventional practice in which the various age groups match different phases in an individual working life cycle in terms of a person's propensity to enter, participate or withdraw from the labour market. The 0-14 years and 65 years and over age groups are associated with the non-productive phase of the population and the remaining 15-64-years age group consists of potentially productive persons. Within the 15-64-years age range, the

1 The population growth rate was estimated at 2,4 per cent when the preliminary 2001 census results were released in 2003. Statistics South Africa revised the estimate of the population growth rate to 2,17 per cent.

2 JP Morgan. 2004. *Global issues: Supply side responses drive US labour markets, too*. Office of the Chief Economist, JP Morgan Securities, Inc, March.

3 The lower and upper age limits of the working age population that are conventionally used by analysts are based on official definitions. The lower official age limit for South Africa is 15 years whereas that of the United States of America is 16 years. Economic activities among those aged below 15 or above 64 years tend to be treated as exceptions to the norm. The concept of child labour, for example, is used to depict labour market participation below the age of 15.

4 Clearly, the two time points limit the extent to which conclusions can be made. A further drawback is that there was under-coverage of the following groups: Children under the age of five, males and Whites, as well as an over-count of children aged between 10 and 19 years.

working age group, there are different stages associated with peculiar labour market participation propensities. For the purposes of this analysis, the working age population is further disaggregated into new entrants, adult working ages and 'mature' working age groups.

The 15-24-years age group consists of new labour market entrants as well as young adults. This group tends to easily enter and exit the labour market, as they are most likely to respond more closely to cyclical demand in the labour market. This flexibility could be due to further education, career development and pursuit of job matching. The 25-49-years age band represents the adult working ages and is essentially the core\* of the potential labour force. It is characteristically associated with consolidation of experience and skills\*\*, and the population in this age group tends to be more stable and traditionally less prone to attrition compared with the younger or older age bands. In the case of South Africa, with relatively high HIV/Aids prevalence levels, the opposite could apply. The 50-64-years age group comprises the mature population which, if economically active, prepares for retirement either to exit the labour market completely or to change to more appropriate occupations. This category tends to be least open to career changes compared with the younger age groups. Notably, the exact labour behaviour outcomes are determined by more immediate supply-side attributes such as gender, education, skill level as well as structural and cyclical demand-side factors.

### Dependency ratios

Age dependency ratios represent the numeric relationship between the number of non-working persons per 100 working age persons. The ratio measures the demographic burden of the 'non-productive' sector to the *potentially* 'productive' segment of the population. The problem with this indicator is that some persons within the non-working age groups could actually be contributing as producers, while some of those in the productive ages might be economically dependent. The age dependency ratios are conventionally distinguished from economic dependency ratios, which are calculated by relating the non-economically active to the economically active population.

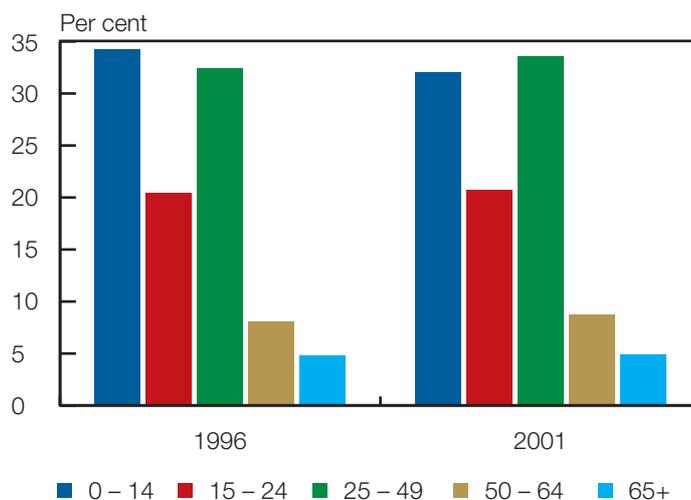
\* Bank of Canada. 1998. Labour force participation in Canada: Trends and shifts. *Bank of Canada Review* Ottawa: Bank of Canada, Summer.

\*\* Vass, J. 2003. The impact of HIV/Aids. *Human Resources Development Review 2003: Education, Employment and Skills in South Africa*. Cape Town: HSRC Press and East Lansing: Michigan State University Press, p. 191.

### Age composition

Figure 2.1 demonstrates the composition of the population by age between 1996 and 2001<sup>5</sup>. It shows that the population remained youthful over the five-year period, with nearly one in every three people (34 and 32 per cent of the population in 1996 and 2001, respectively) falling

Figure 2.1 Percentage share of broad age groups, 1996 and 2001



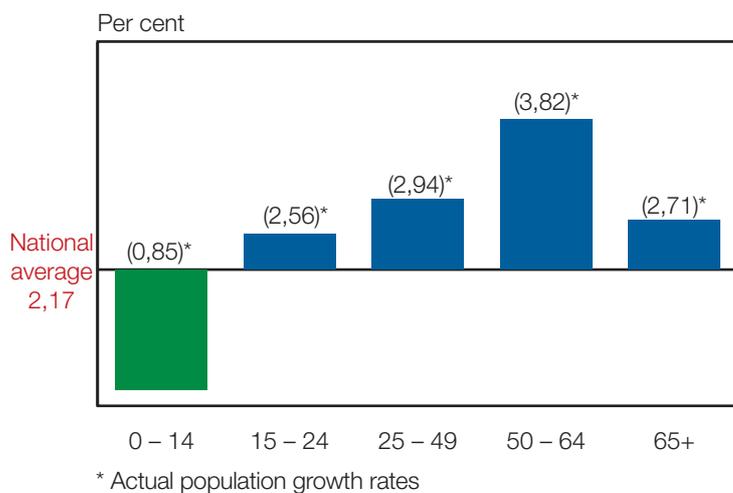
Source: Own calculations using Statistics South Africa (SSA) data. 1996, 2001. *Census*. Pretoria: SSA.

below the age of 15 years. Evidently, much of the population growth did not emanate from this age group. From the labour market perspective, this indicates a progressively declining pressure of new entrants. The existing backlog of high youth unemployment nevertheless implies continued pressure due to long-term unemployment among older youth and young adults within the 15-24-years age band.

The disaggregation of the data into broad age groups reveals the drivers of the intercensal population growth rate. Figure 2.2 indicates that the main sources of growth are in the working age groups. Without exception, all the working age categories register population growth rates that exceed the national average of 2,17 per cent. Within the working age range, the rate of growth escalates with age from 2,56 per cent in ages 15-24 years to a peak of 3,83 per cent in the ages 50-64 years. Between the two non-working age groups, the 65 and above age group exhibits a higher rate of growth than the 0-14 age group. The latter is an outlier and it is the only age group which displays a lower than national average rate of 0,85 per cent. The percentage change over the five years for the total population is 11,8 per cent and 15,8 per cent for the working ages. Within the non-working age population the 65 and older age group returned a higher 14,5 per cent change compared with the 0-14 age group, which is 4,4 per cent.

5 Box 2 highlights the reasons for the age classification applied in the analysis.

Figure 2.2 Annual growth rate: Deviations from national average, 1996 – 2001



Source: Own calculations using Statistics South Africa (SSA) data. 1996, 2001. Census. Pretoria: SSA.

Although in absolute terms all the age groups increased in size, the differential impact of the growth patterns are worth noting. The working ages combined increased their percentage share of the population from 60 to almost 64 per cent over the five years to 2001, resulting in a relative decline in the share of the non-working age population.

### Median age

Median age is the point at which half of the population is older and the other half is younger. It is used to indicate the rate at which a population is ageing and to weigh its consequences for the labour force and other socio-economic considerations.

Due to the relatively short intercensal period of five years, various estimates of the median age do not display significant shifts. The median age for the total population increased by one year from 22 to 23 years between 1996 and 2001. A breakdown of the population into the different age groups shows that the sources of this modest rise in the median age were the age categories 25 to 49 and 65 years and older. The respective median ages climbed from 34 to 35 years and 71 to 72 years. For the rest of the age groups, the median ages remained unchanged at seven years for the 0-14 years band, at 19 years among the young working age population and at 56 years for the 50-64-years range.

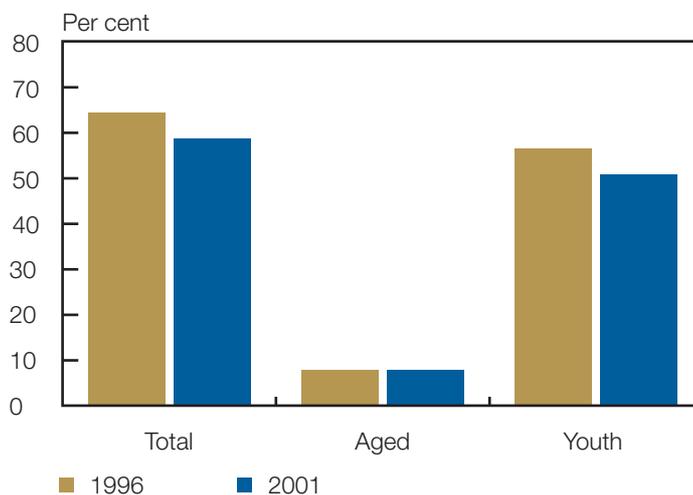
6 See Box 2.

### Dependency ratios

The age-dependency ratio is often used as a proxy measure of the economic burden which the potentially productive part of a population is expected to bear<sup>6</sup>.

The differential expansion of the population sizes also has an impact on the dependency ratios of the population. Figure 2.3 displays the breakdown of dependency ratios for 1996 and 2001. The total dependency ratio relates both the young (0-14 years) and the aged (65 and above) populations to the working age population. The youth dependency ratio estimates the demographic burden of the young population to the working age group and the aged dependency ratio estimates the burden stemming from the aged population.

Figure 2.3 Age dependency ratios, 1996 and 2001



Source: Own calculations using Statistics South Africa (SSA) data. 1996, 2001. Census. Pretoria: SSA.

The graph shows that between 1996 and 2001 the total dependency ratio declined from 64,3 to 58,5 for every 100 working age persons. A greater part of the demographic burden arises from the younger non-working age groups. Whereas youth dependency was 56,4 children per 100 working age persons, the aged dependency was 7,9 per hundred in 1996. Five years later, youth dependency dropped to a greater extent at 50,9 per hundred compared with the marginal downward shift of the aged dependency to 7,8 per cent. More of the total demographic burden is therefore driven by compositional changes among children than among the aged – this is an

expected outcome of demographic transition to lower fertility levels in the population.

Given these population changes, what are the implications for labour supply in particular, and the macroeconomy in general? The next section attempts to address possible scenarios and challenges.

### Implications for labour market dynamics

This section considers various implications of the findings regarding changes in the potential supply of labour.

A population with a declining share of persons aged 0-14 signals a progressively declining proportion of potential labour market entrants. This is confirmed by the declining youth dependency ratio that occurs over the intercensal period.

Higher growth rates at the top end of the working age range could indicate lofty growth levels among persons who are likely to exit the labour market through early retirement, normal retirement or death. With everything else remaining constant, the highest growth cohort – aged 50-64 years in 2001 – will be exiting the labour market until 2016. Mortality will also add to the attrition, depending on age-specific death rates<sup>7</sup>.

The more subdued expansion of the pre-working age population compared with higher growth levels among those at older working ages implies higher exit to entry level ratios in the labour market. With younger age cohorts known to be relatively more educated than older persons<sup>8</sup>, the resultant outcome could augur well for enhanced productivity levels in the aggregate economy. This is likely to be the case provided the new labour market entrants acquire the skills that render them employable and optimally productive. Furthermore, with reduced rates of growth of the pre-working age population, the pressure on the education system will progressively decline, thus providing an opportunity to deepen the quality of education and training in the country.

Findings from the two censuses indicate that a number of challenges and opportunities are imminent within the working age population itself. The increase in the percentage share of the 15-64-year-olds could be both favourable and detrimental. Firstly, the fact that the growth rate of the working age population exceeds the total population growth rate means that, leaving all else constant, the labour market will be potentially subject to supply-side pressures in the foreseeable future.

Secondly, the relative expansion of the working age population could be favourable in that it increases the potential ratio of willing and able workers to the non-productive population and it implies a wider tax base – provided the rate of hiring matches the rate of labour supply. Underlying this prerequisite would be, among other things, training and skilling in relevant fields and at required levels of expertise, better access to labour market information for job seekers and an efficient job matching regime. However, at this stage of South Africa's economic transformation, the shortage of relevant skills is still the reality. This situation is mainly attributable to structural blockages in which the demand seemingly exceeds the supply of skilled workers, while the shedding of unskilled jobs persists. As a result, the supply reservoir is bloated by excessive rates of growth of the potential workforce, lack of skills and demand patterns that favour the skilled and highly skilled. In this manner, the increasing share of the working age population is likely to be detrimental to the efficiency of South Africa's labour market as long as the quality and rate of growth of potential labour supply is not mirrored by the level and pattern of demand.

A discussion of some international experience puts the South African case into perspective.

The ability to translate potential into real supply of labour is underpinned by vibrant output growth. This capacity to create jobs and fill positions is often referred to as the 'demographic dividend'<sup>9</sup>. A growing school of thought postulates that this quality will be key to Brazil, Russia, India and China (the so-called BRICs) becoming global economic giants to be reckoned with over the next fifty years. Wilson and Purushothaman predict that the BRICs will enjoy a combination of highest proportions of the population in the working ages, falling share of dependent children and competitive factor and product markets which will be associated with rising demand for labour<sup>10</sup>.

In contrast to the projected demographic dividend in the BRICs, the advanced European economies, Japan and, to a lesser extent, the United States of America are facing the challenges of demographic ageing. Ageing entails a rising share of aged persons due to longevity and that of children and youth falling as a result of declining birth rates which cause a shrinking working age population. It leads to, among other things, a reduction in the ratio of potential workers and job seekers to the aged, a shrinking tax base and an increasing weight of consumption at the expense of savings. It can also lead to a 'meltdown' in asset prices, particularly real estate and shares, and put a strain on

7 These figures are still to be released by Statistics South Africa.

8 Dion, R. and Bill, L. 2003. Recent Labour Market Developments in Canada. *Bank of Canada Review*. Ottawa: Bank of Canada, Autumn.

9 Wilson, D. and Purushothaman, R. 2003. Dreaming with the BRICs. *Global Economics Paper No. 99*. Goldman Sachs, October.

10 Ibid. Archarya, S. Can India grow without Bharat? Available: [www.rediff.com/money](http://www.rediff.com/money) (accessed: 4 February 2004).

public services such as health and welfare<sup>11</sup>. Much of the opinion is that this is not necessarily a catastrophe for developed nations, as long as they entrench the openness of their economies and they adopt strategies that compensate for the inevitable labour shortages. Some of the strategies include productivity enhancement, moving capital to the less aged and more youthful emerging economies to exploit the demographic dividend, importing labour intensive goods and services or adopting immigration policies that encourage entry of young productive workers and job seekers into their labour markets<sup>12</sup>.

Paradoxically, South Africa's economy is facing a bit of both these worlds. The labour market is characterised by unmatched demand, untapped supply of unskilled labour and resultant structural unemployment and an apparent factor preference for capital instead of labour<sup>13</sup>. The economy can look forward to expanding potential labour supply – needless to say with lessening growth momentum at the point of entry – coupled with continuing skills shortages. From the global perspective, the South African labour market can gain from the ensuing rapid industrialisation of China and India through opportunities to export primary products such as food, coal and metals. Secondly, if OECD<sup>14</sup> countries trade freely they can import workers from labour-rich countries such as South Africa. These are, however, more medium to long-term prospects for the economy.

Education and training are key to South Africa's ability to exploit its demographic dividend. A skills development strategy that targets skills formation in fields that cater for job creating growth points in key growth sectors and subsectors in the economy could play a supportive role<sup>15</sup>. Studies show that the rate of unemployment decreases with education<sup>16</sup>. A marked drop in unemployment propensity is more evident at tertiary level. Between 1996 and 2001, the census data reveal positive supply-side trends in that the proportion with post-matric qualifications increased from 6,2 to 8,4 per cent of the population aged 20 years and above. Although this magnitude is not sufficient to redress the skills challenge, the upward direction is a positive signal. Unless these increases entail qualifications in skills that match the demand side, however, they will not necessarily boost the efficiency of

the labour markets. An emerging debate is that middle level skills need as much intervention, if not more, than higher skills echelons. The ageing workforce is a challenge to training and development in the workplace.

Apart from possible labour market outcomes *per se*, the high unemployment environment leads to a wide differential between economic and demographic dependency ratios. In this sense, South Africa's situation mirrors that of the advanced, ageing economies. The effective tax base is not as broad as it could potentially be. Consequently, pressure on the fiscus remains strong due to an effectively non-productive working-age population base adding to the dependent youth and aged cohorts. Studies show that over half of the unemployed fall below the age of 30 years<sup>17</sup>. The fact that the working-age section of the population is growing at a faster rate than the rest of the population aggravates the labour market challenges.

HIV/Aids further compounds the labour market conditions. According to available projections<sup>18</sup>, South Africa is nearing the peak years of Aids mortality. Furthermore, empirical information seems to support this forecast. The Medical Research Council recently published a report on mortality levels in the country. The study found that death rates are highest in the ages ranging from 25 to 35 years, especially among women. Although inconclusive, the study posits that a large share of these deaths could probably be attributable to HIV and Aids<sup>19</sup>. The reversal of the growth of the percentage share of the working age population is most likely to happen sooner than the normally slow pace of structural demographic transition.

## Conclusion

The paper focuses on the compositional impact of population dynamics on labour markets and it adopts various indicators of the population age structure of South Africa using the 1996 and 2001 censuses. It finds that the youthfulness of the population structure persists with over 30 per cent of the population falling below the age of 15 and the median age only increasing marginally to 23 years in 2001. The data demonstrate an increase in the share of the working age population relative to the non-productive childhood ages (0-14 years) and the aged population. These changes are underpinned by relatively

11 The International Economy. 2004. *Is the ageing of the developed world a ticking time bomb?* Washington, DC: The International Economy Publications, Winter.

12 Ibid.

13 McCord, A. and Bhorat, H. 2003. Employment and labour market trends. *Human Resources Development Review 2003: Education, employment and skills in South Africa*. Cape Town: Human Sciences Research Council Press and East Lansing: Michigan State University Press.

14 Organisation of Economic Co-operation and Development.

15 See article by Hlekiso in this volume.

16 McCord, A. and Bhorat, H. 2003. Employment and labour market trends. *Human Resources Development Review 2003: Education, employment and skills in South Africa*. Cape Town: Human Sciences Research Council Press and East Lansing: Michigan State University Press.

17 Bhorat, H. and Liebrandt, M. 2002. Correlates of vulnerability in the South African labour market and modelling vulnerability and low earnings in the South African labour market. In Bhorat, H. et al. *Fighting poverty: Labour markets and inequality in South Africa*. Cape Town: University of Cape Town Press.

18 Quatteck, K. 2000. *The Impact of Aids on South Africa: A dark cloud on the horizon*. Johannesburg: ING Barings.

19 Medical Research Council. 2004. Unabated rise in number of adult deaths in South Africa. Available: [www.mrc.ac.za](http://www.mrc.ac.za) (accessed 5 April 2004).

swifter rates of growth or percentage changes within the working age population. In addition to exceeding the national average of 2,17 per cent, the rate of growth of the working age component also increases with age and peaks in the age group 50-64 years.

The outcome of these changes is a decline in the total dependency ratio driven in the main by the slide in the youth dependency ratio. In terms of the median age, there is negligible movement within the working age range, except for the 25-49 age group where there is an upward shift from 34 to 35 years between 1996 and 2001. Except for the 65 and older age band, the median age for all other age groups remained flat, on average, over the five years.

South Africa's prospects are that it is likely to be an economy that is, in the short to medium term, unable to exploit the demographic dividend offered by a relatively young population age structure with a fast growing

population of persons who are potentially willing and able to work. In the face of skills shortages and HIV/Aids, it seems that the challenges outweigh the opportunities partly as a result of the country's population dynamics. The scope for the economy to capitalise on potential supply of labour as offered by its demographics is therefore seemingly a far-off ideal. The demographics unearthed by the census pose more challenges than opportunities, at least in the medium term.

Further rigorous research is required to assess prospects for the economy to convert the potential working age population to a real labour force and, even more importantly, to a productively employed work force. The possible role of frictional and seasonal employment in the labour market needs attention. In addition, other macro-economic consequences of South Africa's demographic trends such as the fiscus and key drivers of growth and employment creation need to be better understood.

# Access to credit and dwelling ownership in South Africa

Raj Naidoo, Research Department

A fundamental link in the theory of property rights and economic development is that enhancing property ownership and strengthening property rights encourage lenders to use titled property as collateral, thereby reducing credit rationing and inequalities in access to financial markets<sup>1</sup>. De Soto's research into property rights and ownership indicates that most of the resources that are necessary for developing countries exist within the countries themselves<sup>2</sup>. A premise of his study is that the poor often have considerable property but lack title to it and thus cannot use their resources to raise their living standards. He advocates that if all assets that have the potential to be titled are brought into the mainstream formal economy through proper registration, it could make these assets become bankable property, affording access to credit to title-holders, thereby creating opportunities to enhance economic growth, development and poverty eradication<sup>3</sup>.

Research into property rights in Peru<sup>4</sup> and Thailand<sup>5</sup> explores how titling and registering the property of the poor result in large wealth effects, substantial financial market deepening and higher rates of economic growth. Although De Soto's suggestions are being widely implemented by numerous Latin-American countries, Ghana and Egypt are the African countries that are known to have publicly announced initiatives for supportive titling reform policies<sup>6</sup>. Evidence of the impact of these initiatives still needs to be established.

In South Africa, the Financial Sector Charter acknowledges that, in spite of the financial sector being generally recognised as world class, it is confronted with a number of challenges. Some of these challenges include the fact that there are low levels of participation<sup>7</sup> among African and Coloured population groups, especially women, in meaningful ownership, control and management of

productive or bankable assets. Further, not having responded adequately or innovatively to the spectrum of needs for financial services, the sector has not effectively provided credit to entrepreneurs, particularly African businesses<sup>8</sup>. In terms of the Financial Sector Charter, it was agreed that strategies would be put in place to ensure that the financial sector is more efficient in the delivery of financial services. The sector specifically undertook to make available transaction and savings financial services, which are affordable and accessible, to at least 80 per cent of the country's poor and marginalised by 2008<sup>9</sup>.

When increased access to finance relaxes the liquidity constraint that households face, it may enable a shift from coping strategies to activities that generate wealth. Accordingly, expanded access to credit has been enthusiastically championed for its potential to generate sustainable economic growth that favours particularly the poor<sup>10</sup>. The objectives of this article are to analyse and comment on the intercensal changes in formal dwelling ownership, in terms of gender and race, and to assess prospects for access to finance based on trends of ownership of formal housing as a potentially bankable asset.

This article looks at access to finance in South Africa by, a) taking a snapshot of the usage of credit products in 2003, and b) examining dwelling ownership as an indicator of the level of potential collateral that can enable access to credit. Data from the 1996 and 2001 censuses are used in this analysis. The discussion includes an overview of current usage of credit products by race and gender. The next section tracks changes in dwelling ownership in the previous two censuses and, finally, the way forward weighs the implications of future formal housing ownership and highlights some limitations of the study and areas for further research.

1 Field, E. 2003. *Do property titles increase credit access among the urban poor? Evidence from a nationwide titling programme*. Princeton University.

2 De Soto, H. 2000. *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York: Basic books.

3 De Soto, H. 2004. Ghana to solve mystery of capital. Available: [www.afrol.com](http://www.afrol.com) (accessed 4 March 2004).

4 Holden, P. 2000. *Credit and poverty: Institutional reforms to make financial markets work*. Washington, DC: The Inter-American Development Bank.

5 Byamugisha, F.F.K. 1999. How land registration affects financial development and economic growth in Thailand. *World Bank Policy Research Working Paper 2241*. Washington DC: The International Bank for Reconstruction and Development.

6 De Soto, H. 2004. Ghana to solve mystery of capital. Available: [www.afrol.com](http://www.afrol.com) (accessed 4 March 2004).

7 In its policy document, "South Africa's Economic Transformation: A Strategy for Broad-Based Black Economic Empowerment", the Government noted that apartheid "... systematically and purposefully restricted the majority of South Africans from meaningful economic participation." Available: [www.gov.za](http://www.gov.za) (accessed 12 May 2004). See also, Black Economic Empowerment Commission Executive Summary Report. 2001. Available: [www.bmfonline.co.za](http://www.bmfonline.co.za) (accessed 12 May 2004).

8 The Banking Council of South Africa. 2004. The Financial Sector Charter. Available: [www.banking.org.za](http://www.banking.org.za) (accessed 31 March).

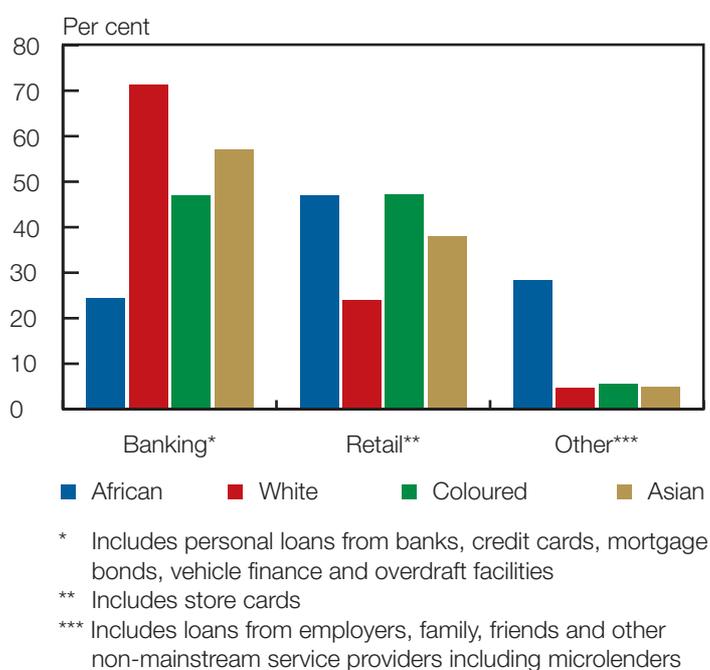
9 Ibid.

10 Morduch, J. 2000. The microfinance schism. *World Development*, Vol. 28, No. 4, pp. 617-629. Robinson, M. 2001. *The Microfinance Revolution: Sustainable Finance for the Poor*. Washington, DC: World Bank.

## Usage of credit products and services: The current scenario

Substantial impediments to job creation, entrepreneurship, growth and development in South Africa, lie in the lack of access to finance and credit and are believed to be on the demand side<sup>11</sup>. Many emerging entrepreneurs are under-skilled, they lack business experience, a proven track record, financial statements and collateral, with the result that their prospects for access to capital are adversely affected. Data from a 2003 survey<sup>12</sup> on financial behaviour of South African adults provide an overview of patterns of usage of credit products and services by race and gender. Figure 3.1 depicts usage of credit products and services by race.

Figure 3.1 Usage of credit products and services by race, 2003



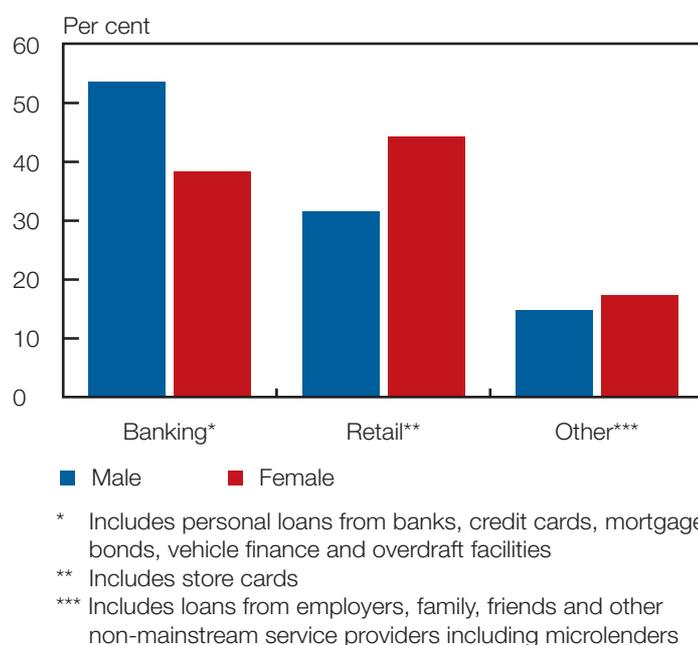
Source: Own calculations using FinMark Trust. 2003. *Finscope 2003*. Johannesburg: SAtoZ and Wedge Marketing

Generally, in most categories of banking credit, Whites display the highest usage, followed by Asians. Coloureds and Africans show limited usage of banking credit products and much of this limitation may be partly attributed to their general lack of bankable assets for collateral and inadequate credit track records. Further, many of those who had been granted credit previously

may have lost their creditworthiness. Trended data would shed some light on whether usage of formal credit products among Africans and Coloureds has increased over time or not. Africans enjoy the highest usage of informal credit from family, friends and other non-mainstream service providers including microlenders. Instead of requirements such as collateralised property, it is assumed that societal attributes of trust and support are primarily for accessing informal credit. The FinMark study shows that Africans are largely excluded from overdraft products – a facility that is used by formal businesses to finance new or existing ventures. Usage of mortgage credit within racial groups, which could indicate acquisition of titled property, is disproportionately highest among Whites, at 26 per cent. Only 10 per cent of Coloureds, 8 per cent of Asians and 2 per cent of Africans use mortgage loan facilities.

Apart from race, gender is another significant determinant of access to finance. Women's empowerment and gender equality has gained centre stage in the development arena with the recognition that gender equality is important, not only as a goal in itself, but also to the achievement of numerous other social and economic objectives<sup>13</sup>. Accordingly, access to finance among women currently warrants greater attention.

Figure 3.2 Usage of credit products and services by gender, 2003



Source: Own calculations using FinMark Trust. 2003. *Finscope 2003*.

11 Republic of South Africa. 2001. *SME's access to finance in South Africa: A supply-side regulatory review*. Available: [www.treasury.gov.za](http://www.treasury.gov.za) (accessed 20 March 2004).

12 The 2003 Finscope Survey covered only 3 000 rural and urban households and the results were extrapolated to the general population using the statistical frame of Census 2001. For this reason, some categories have zero percentages and do not appear in the graphical representations. The results should, accordingly, be treated with caution.

13 Heyzer, N. 2004. Gender Issues on the Global Agenda. ADB Review: Gender and Development, Getting the balance right, February. Available: [www.adb.org/review](http://www.adb.org/review) (accessed 15 March).

The data reflect that, in South Africa, fewer women than men enjoy usage of credit products from formal institutions such as banks. The only two facilities dominated by women are credit from family and friends and retail credit through store cards. The first facility underscores the plight of women in that credit is primarily forthcoming by trust from family and friends and not facilitated by, among other things, bankable collateral. The second vehicle of credit usage is retail credit which is used mainly for consumables such as furniture and clothing rather than credit for investment. Accordingly, retail credit is not necessarily an effective or sustainable poverty alleviation and empowerment facility.

Increasingly, financial institutions in the country are being evaluated on how effectively they are able to draw the poor and the marginalised into the web of banking and other formal financial services that provide credit. However, most are still reluctant to widen their scope and risk of lending to include those without adequate forms of capital which may be converted to collateral. Formal dwelling ownership potentially provides collateral that could mitigate against credit rationing and could open the doors to finance, thereby facilitating small to micro enterprise development and employment creation. From a social and developmental perspective, formal dwelling ownership in South Africa can offer a window of opportunity for enhancing access to finance among the country's marginalised households.

It should be noted that, because of the differing methods used to establish tenure in both the censuses, the findings should be treated with caution.

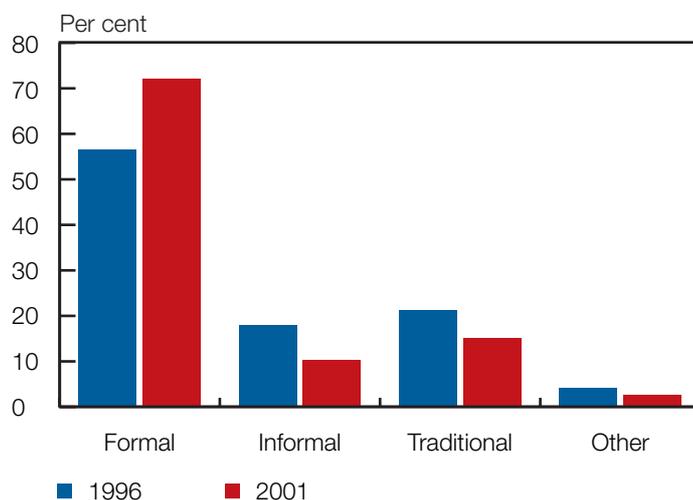
A limitation of the methodology to this particular discussion on dwelling ownership is that the concept "formal" relates only to the materials used to construct the dwelling. In numerous informal areas, "formal" houses are built but do not serve as acceptable collateral as they are not properly titled within the country's legislative framework. Accordingly, attention is drawn to the observation that a "formal" dwelling does not necessarily imply that it is "titled".

It was not possible to compare dwelling ownership by income categories, as the income classification differed in both censuses. Furthermore, ownership was established according to what the respondent said and could not be verified otherwise.

### Censuses 1996 and 2001: Dwelling types and ownership

An analysis of the 1996 and 2001 censuses gives some insight into changes in housing ownership by type in South Africa (see Figure 3.3). Box 3 explains the methodology and criteria used in this article to establish dwelling ownership in each census.

Figure 3.3 Household dwelling ownership by type, 1996 and 2001



Source: Own calculations using Statistics South Africa (SSA) data. 1996, 2001. Census. Pretoria: SSA.

Ownership of formal dwellings increased by 16,3 per cent from 1996 to 2001. Since ownership of formal dwellings can serve as collateral in the mainstream financial sector,

#### Box 3: Definitions and methodological limitations

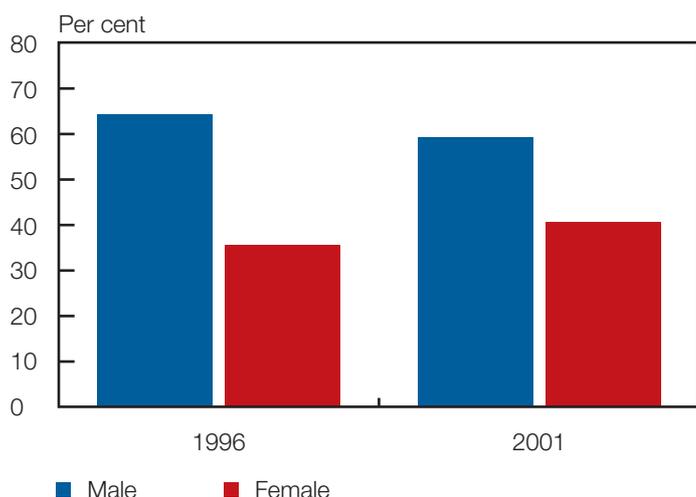
This article defines various types of dwellings in accordance with Statistics South Africa. Formal dwellings in Census 1996 include the categories: house or brick structure on a separate stand or yard; flat in block of flats; town/cluster/semi-detached house (simplex, duplex or triplex) and unit in retirement village. Informal dwellings include the categories: informal dwelling/shack, in backyard; informal dwelling/shack, NOT in backyard, e.g. in an informal/squatter settlement and room/flatlet not in backyard but on a shared property. Traditional dwellings include only the category traditional dwelling/hut/structure made of traditional materials. To establish ownership, the respondents were asked to indicate either "Yes" or "No" to the question posed. All the "Yes" responses were used in the analysis of formal dwelling ownership.

In Census 2001 formal dwellings included the same categories as that of Census 1996 barring the category 'unit in a retirement village', which was not included in the 2001 questionnaire. This study defines ownership by combining responses, i.e. 1 = owned and fully paid off, and 2 = owned but not yet paid off.

evidence from the 1996 and 2001 censuses shows that formal housing ownership<sup>14</sup> has increased from 56,5 per cent of total ownership in 1996 to 72,1 per cent in 2001. Informal, traditional and other forms of dwelling ownership have decreased as a percentage during the period. In other words, relatively more households own formal houses compared with informal housing. This relative decline in informal housing ownership may reflect the emergence of a larger, black middle class as well as the expanded allocation of housing among low income households as part of the Reconstruction and Development Programme (RDP). Even though ownership may entail the acquisition of existing formal dwelling stock, and not necessarily new ones, the evidence still supports a decline in non-formal dwellings. This paper proposes that this decline, coupled with a simultaneous increase in formal dwelling ownership potentially deepens access to credit and subsequent mainstream economic and financial participation.

Figure 3.4 indicates dwelling ownership by gender of household head in 1996 and 2001. Statistics on formal dwelling ownership show that relatively more male-headed households own formal dwellings than female-headed households. An analysis of the two censuses, however, does indicate that inroads are being made into bridging this gender gap<sup>15</sup> in housing ownership. Formal dwelling ownership among female-headed households has increased from 1,40 million households in 1996 (35,6

**Figure 3.4 Formal dwelling ownership by gender of household head, 1996 and 2001**



Source: Own calculations using Statistics South Africa (SSA) data. 1996, 2001. Census. Pretoria: SSA.

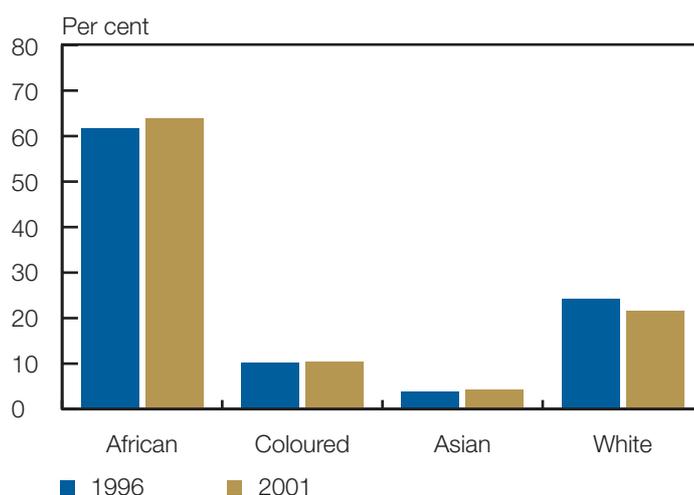
<sup>14</sup> See Box 3.

<sup>15</sup> In terms of intra-gender ownership, 28,8 per cent more male-headed households owned dwellings than female-headed households in 1996. This gap was effectively reduced to 18,6 per cent by 2001.

per cent) to 1,85 million households in 2001 (40,7 per cent) while male-headed households that own formal housing increased from 2,54 million (64,4 per cent) to 2,7 million (59,3 per cent) during the same period. These shifts translate to an effective increase of 32,2 per cent in female dwelling ownership as compared with an increase of 6,2 per cent in dwelling ownership among male-headed households. In part, this serves as evidence of the narrowing gender divide in formal dwelling ownership. With the premise that the expansion of ownership of formal housing enables broader access to credit, this finding supports greater potential for access to finance among female-headed households.

Data from the 1996 and 2001 censuses are also examined along racial lines. Figure 3.5 depicts formal dwelling ownership by race of household head in 1996 and 2001.

**Figure 3.5 Formal dwelling ownership by race of household head, 1996 and 2001\***



\*Calculated as a percentage of total formal dwelling in each year

Source: Own calculations using Statistics South Africa (SSA) data. 1996, 2001. Census. Pretoria: SSA.

In absolute terms, the 1996 and 2001 censuses indicate that formal dwelling ownership increased for all races. Intra-racial, proportional dwelling ownership indicates that 2,41 million African-headed households owned formal housing in 1996 (61,8 per cent), which increased to 2,91 million in 2001 (63,9 per cent), effectively recording an increase of 20,7 per cent during the period. Similar trends are evident among Coloured and Asian-

headed households. The Coloured component of formal dwelling ownership increased from about 396 000 households in 1996 (10,1 per cent) to approximately 475 000 households in 2001 (10,4 per cent) – an increase of 19,9 per cent. The largest increase of 22,8 per cent was evident among Asian-headed households where formal dwelling ownership increased from around 154 000 households in 1996 (3,9 per cent) to approximately 189 000 households in 2001 (4,2 per cent). Part of this large increase may be attributed to ownership among Asian-headed households emerging from the smallest nominal base of the entire group, relative wealth and the rate of household formation.

Percentage changes by race indicate that African, Coloured and Asian-headed households emerged as net winners in housing ownership. Although White-headed households experienced an increment of some 34 000 households, their component share of dwelling ownership dropped from 24,2 per cent in 1996 to 21,6 per cent in 2001, translating to a 3,6 per cent change between the two censuses. As with the gender divide, the data indicate a shrinking racial divide in formal dwelling ownership.

## Way forward

This article, which uses census data, attempts to stimulate and add value to debates around De Soto's<sup>16</sup> stance within the South African context. Further and more vigorous research on this issue should deliberate on the different views and theoretical positions concerning property ownership and rights.

Such studies could also use empirical evidence from a wider pool of data rather than just the population census. The findings from this analysis should be viewed as indicators of broad trends instead of the actual magnitude of change.

What can be gleaned from the article is that at least the potential pool of titled bankable property in the form of formal housing ownership has increased. More rigorous inferences concerning the impact of redistribution, redress, equality issues and access to finance cannot be explored fully within the data confines<sup>17</sup> of this analysis.

The 2003 snapshot of financial behaviour revealed that women, Coloureds and Africans generally show limited usage of formal banking credit products. An analysis of

formal dwelling ownership in the census years of 1996 and 2001 indicates that even though male-headed households own more formal dwellings than female-headed households, the gender gap is narrowing. Although dwelling ownership among all races increased in absolute terms from 1996 to 2001, African, Coloured and Asian-headed households emerged as net winners in formal dwelling ownership in relative terms. In terms of implications for policy-makers, the indicators point in the desired direction and the apparent increase in ownership of housing offers a window of opportunity for redressing equality in access to finance and credit.

A limitation of this discussion is that it analyses potential access to credit by examining macrolevel data from the two censuses. To encapsulate the real dynamics of De Soto's proposition of property ownership, titling and property rights in terms of wealth effects and participation in the mainstream financial and development sectors, a suggested area for further research is to analyse related microeconomic data of the poorest section of the population. This could help to ascertain whether proper titling and registration do, in fact, result in increased access to credit and economic participation and upliftment among the country's poorest. Further insights could be obtained by investigating the net outcomes in any significant relationships between formal dwelling ownership, titling and access to credit and finance. Of pertinent interest is whether formal dwelling ownership automatically translates into access and usage of mainstream credit products.

The article also notes that the impact of socioeconomic factors like poverty and unemployment, among other things, which serve as dampers to housing ownership, warrant deeper analysis and investigation as they increase the potential of ownership forfeiture. In some cases, those who acquire their own dwellings while they are gainfully employed, lose ownership when they become unemployed or face other financial crises. Research into these aspects could establish the sustainability of dwelling ownership.

Finally, in response to the recommendations of the financial sector summit in 2002, numerous banking institutions have proposed plans to develop affordable and accessible financial services to the previously unbanked sector of the economy. Evaluations of these initiatives could help establish what has been achieved thus far and what still needs to be done.

16 In his article entitled, 'Give poor access to legal system', De Soto elaborates on the importance of unlocking capital value. The article is part of a keynote address at the "South Africa ten years on: Empowerment, finance, trade and investment" Conference held in Cape Town in May 2004. Available: [www.businessday.co.za](http://www.businessday.co.za). (accessed 28 May 2004).

17 See Box 3.