ECONOMIC MANAGEMENT SCIENCES

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Unit 1: The Production Process

You have already learned how entrepreneurs make profits by creating goods and services that they sell to consumers.

The process of making a good or service is known as **production**. Production is the process of taking raw materials and transforming them into useful goods and services. The raw materials used in the production process are also known as **resources** or **factors of production**.

Production is the **conversion** by a business of raw materials into finished goods or services to satisfy needs and wants.

The three stages in the production process

1. Primary stage
2. Secondary stage
3. Tertiary stage

Primary stage of production

During the first or primary stage of production, natural resources are taken from the earth. The primary sector is made up of businesses that are involved in the first stage of production. These businesses are called extractive industries because they often **extract** things such as crops or metals from the ground.

The secondary stage of production

Products are manufactured from the natural resources extracted in the primary stage. Businesses in the secondary sector of the economy process the primary sector of production and turn the natural resources into finished goods.

The tertiary stage of production

The third stage is done by businesses that provide a service rather than make goods. Some tertiary sector businesses buy goods from manufactures and transport or resell the goods to consumers. Other businesses in this sector offer services to individual persons such as healthcare, banking or transport. Examples of businesses in the tertiary sector includes: shops, transport companies, doctors and banks.

Unit 2: Inputs and Outputs

Inputs (the factors of production)

The raw materials and other resources used to make a product or service are called inputs. These raw materials and resources are grouped into four different categories and are called the factors of production.

These resources used in the production process to make goods and services. There are four groups of factors of production:

1. Natural resources (land)
2. Labour
3. Capital
4. Entrepreneurs

Natural resources are the things provided by nature that people use to produce goods and services. Examples of natural resources are land, water, minerals, plants and wind.

Labour describes the people involved in the production process. Labour refers to physical and mental effort that people provide to produce goods and services. The human part of any production process is classified as labour.

Capital is the term used to describe all the **man-made** objects that are used in the production process. Examples include buildings, machinery, vehicles and computers. Money is also considered to be a capital item. Any natural resources that have been processed are also considered as capital.

Entrepreneurs are the people who start businesses. They are individuals who identify business opportunities, plan the production process and then produce the goods or services needed. Entrepreneurs combine the other three factors of production to provide useful goods and services. They also identify business opportunities and make them work.

Outputs (goods and services)

The outputs of the production process refer to the products that the business produces. There are two kinds of outputs:

Goods: goods are all the physical products that are made and sold by businesses. We say that goods are **tangible** because they can be touched or owned.

Services: services are all the non-tangible products that are produced and then sold by businesses. For example, a haircut is a service.

Unit 3: Sustainable use of Resources

Renewable and non-renewable resources

A renewable resource is a natural resource with the ability to replace itself through some biological or natural process. Renewable resources can be replenished in time. Examples include: water, oxygen, timber, fruit and vegetables and meat from animals.

There is an endless supply of some renewable resources such as solar energy, wind energy and geothermal pressure. Other renewable resources such as wood, oxygen and fish need some time or effort to regenerate them. Most precious metals are also considered renewable even though they are not naturally replaced. They can, however, be recycled because they are not destroyed during their extraction and use.

A non-renewable resource is a natural resource that cannot be replaced. Examples of non-renewable resources include:

- Fossil-fuels like coal, oil and gas.
- Minerals like copper.

Once a non-renewable natural resource has been depleted it means that there is no more available for future needs.

Sustainability

Sustainability refers to the process of using resources in such a way, that we do not **deplete** them. Sustainable use of resources means that our rate of using the resource can continue forever without damaging the environment. To use resources sustainably, we need to rethink the resources we use and how we use them.

Strategies for sustainable use of resources

There are a number of strategies we can implement to ensure we make sustainable use of resources. These include:

Re-use resources: the simplest way to make resources last longer, is to reuse them whenever possible. Instead of throwing them away, we can try to find another way to use them.

Reduce use of resources: one way to make resources last is to use them less often. We can limit our consumption of a number of resources. For example, it is sometimes possible to use less water when we are cleaning something. By saving water we reduce our usage and make the supply of water last longer.

Recycle: another way to make sustainable use of something is by recycling them. Recycling refers to the process of putting some waste products through a process that transforms it into another kind of reusable form.

Unit 4: Meaning of Economic Growth

When a country's economy grows and becomes bigger, we call it economic growth. If we say a country shows economic growth, we mean that a country's economy has become bigger. In other words, the country has produced more goods and services than it did in the previous year.

Economic growth is a process that occurs when there is an increase in the quantity of goods and services produced in a country. A country's economic growth and development is very important.

Activity 1

1. What would happen if a country's economy did not grow?
2. What effect or impact do you think economic growth has on people living in the country?
3. What factors do you think will stimulate economic growth in a country?
4. What factors do you think prevent or slows down economic growth?

Economic growth in South Africa

Currently, South Africa's economy grows at an average rate of approximately 3% per year. This means that the value of goods and services produced, increases by 3% from one year to the next. This growth rate has remained fairly consistent since 1993. Although it is good that our economy is growing at a steady and consistent rate, the rate of growth is not enough to combat the effects of poverty and unemployment in the country. We need a greater level of economic growth.

Strategies to stimulate economic growth

There are many strategies that can be used to stimulate economic growth in South Africa. These include:

- Promoting entrepreneurship and encouraging new small businesses.
- Encouraging existing businesses to expand and increase their production.
- Improving the level of productivity to produce more goods and services.
- Modifying production techniques to make them more effective so that output increase.
- Ensuring better management of resources so that we gain maximum use from them.
- Improving business management practises so that companies become more efficient and productive.

Results of economic growth

When the level of production in a country increases, there are social and economic consequences. These include:

- There are more goods and services for consumers to choose from which means there is more variety and items available.
- Employment levels rise and employment levels drop. This reduces poverty.
- The level of income increases because people profit from the sale of more goods.

- The average standard of living improves because more people have jobs and more money is being circulated in the economy.

The economic benefits of economic growth do not always flow to the poor people in the country. Sometimes economic growth simply results in the rich people getting richer and poor people becoming poorer. However, this is not always the case. Often, the benefits of economic growth are felt by many people in the country. So achieving economic growth is an important goal of the government of any country.

Activity 2

Make a poster to show what is meant by economic growth and illustrate the consequences of economic growth.

Unit 5: Productivity

Productivity compares the output of the production process and the inputs used to produce outputs. A productive production process produces more quality products within a short period of time using fewer resources. Productivity is a measure of how efficiently the inputs have been used to create the outputs. Productivity is about the relationship between three areas:

- **Inputs**: the number and quality of resources used.
- **Time**: how long it takes to produce a product.
- **Output**: the number and quality of products produced.

Improving productivity

It is the goal of most entrepreneurs to increase productivity in their businesses. If productivity increases, the business will produce more products, which in turn will mean that the entrepreneur makes more profit.

Strategies to improve productivity

These strategies include:

- Improving the motivation and **morale** of workers.
- Involving employees in decision-making about the production process.
- Making more economical use of all resources.

- Improving the level of skill and expertise of all workers so that they can do their jobs more efficiently.
- Improving the method of production (by using newer technology).
- Making use of leadership and management skills to monitor and control the actions of employees.

Result of improving productivity

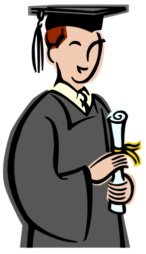
When productivity improves, more goods and services are produced and entrepreneurs make more profit. This increase in output contributes to the level of economic growth in the country.

Unit 6: The Effect of Productivity on Economic Growth

You have learned that increased productivity leads to an increase in output, which in turn can lead to economic growth. One way the government of a country tries to stimulate economic growth is by improving the productivity of the workforce so that the output of all businesses improve. When the productivity of labour is low, there is a waste of resources and a decrease in the level of output. This leads to a decrease in economic growth.

There are a number of factors that can have a negative effect on the productivity of labour. These include:

- Poor health.
- Lack of education and training.
- Poor motivation.
- Absenteeism.
- Strikes and industrial action.



The government takes steps to increase the productive capacity of all factors of production, since all these factors contribute to economic growth. In particular, the government tries to encourage the productivity of labour and land.

<u>The government tries to increase labour productivity by:</u>

- Ensuring that workers are well educated and well trained.
- Taking steps to improve the health status of workers.
- Taking steps to ensure that workers are well motivated.
- Making laws which compel employees to go to work except when they are ill.

<u>The government seeks to increase the productivity of natural resources (land) by:</u>

- Educating people about sustainable use of resources.
- Passing laws which prevent **exploitation** of natural resources.
- Encouraging people to use natural resources responsibly.

<u>Activity 3</u>

1. Explain in your own words what is meant by productivity.
2. Explain in your own words what is meant by the term economic growth.
3. Explain how productivity leads to economic growth.

Unit 7: Technology in the Production Process

Technology plays an important role in the process of production. Technology refers to the inventions (tools, machines and equipment) that make the production process easier. It is the application of scientific knowledge for practical purposes. Technology ranges from simple to complex.

Information and communication technology is a form of complex technology used to find, use, share, communicate and store information.

What is technology?

The word technology is used to describe machinery, equipment or tools developed with scientific knowledge. Examples of technology used in the business environment include: computers, smartphones and electronic gadgets.

Technology has a significant effect on the way humans interact and control their environment. As scientific discoveries are made, new technologies develop and people have more power to change their living conditions.

Technology has a big influence on the way people communicate and do business. Technology also has an impact on the production process and changes the way goods and services are produced.

Advantages of using technology in the production process

Many forms of technology can be used in the production process. With technology, machinery can be designed to do the work of people more efficiently and effectively. Through the use of technology, it is therefore possible to produce more goods and services. Technology improves the production of the other factors of productivity.

Disadvantages of using technology in the production process

Although technology has the potential to improve production, which results in more goods being produced, it can also have disadvantages.
These disadvantages include:

Costly to purchase: Technology is very expensive to buy. It can be very expensive for businesses to use technology, especially when the technology is imported from other countries.

Loss of jobs: Technology can replace the use of labour, since some machines can do the work of humans faster and more efficiently. Therefore, the use of technology can sometimes lead to unemployment. It is true that the use of technology can also create jobs, but it usually creates jobs for highly skilled individuals like engineers and technicians.

Expensive to maintain: Most technology needs to be fixed by a skilled engineer or technician when it breaks down. These are highly skilled individuals who have to be well-paid for their skills. This makes it expensive to own and maintain technology.

Activity 4

Use the internet, newspapers, magazines and books to investigate a new form of technology that is being used by businesses to improve productivity.

1. Describe the new technology and how it was developed.
2. Explain how the technology has affected or changed the production process.
3. Think about how new technology has had an effect on the economy in terms of standard living and unemployment.

Unit 8: Contribution of Technology to Improving Productivity and Economic Growth

You have already learned how productivity can be improved by making better use of labour and natural resources.

Technology and productivity

Technology has the potential to improve productivity. Technology **enables** humans to do things faster and better. Technology also improves efficiency and effectiveness. Using technology can enable businesses to produce more goods and to get more out of the other factors of production. The use of technology can increase productivity and results in an increase in the levels of production.

Although technology has the potential to increase productivity, it can also have negative effects. For example, in many office environments, workers sit at a desk with computers and have access to internet. They are able to check their personal e-mails and use social media whenever they want to. This can stop them from doing their work and make them less productive. Introducing new technology can also have a negative impact on productivity when it causes change to the production process or requires workers to learn a new system. Learning to use new technology can be time consuming and stressful for workers and this can cause a decline in productivity.

Technology and economic growth

Technology has a different impact on economic growth when it leads to a greater number and range of goods and services being produced. Economic growth is the result of an increase in the level of production. When the level of production increases through the use of technology, this will lead directly to economic growth.

Activity 5

Case Study: Farming

Mr Nkosi is a wheat farmer. He struggles to grow crops every few years. Sometimes, he only grows enough to feed his family and there is not any left to sell. He wants to use his land more productively and produce a bigger crop, but insects are eating his crops. He wants to spray them with insecticides but he does not know how to mix liquid. Mr Nkosi is unable to read and write. His lack of education is stopping him from doing his job effectively and efficiently.

1. What is preventing Mr Nkosi from being more productive?
2. Why can Mr Nkosi not contribute to the economy of South Africa?
3. Give two examples of how he can work and use his land in a more effective manner.

Summaries

What is production?

- Production is the process of taking raw materials and transforming them into useful goods and services.
- The raw materials used in the production process are also known as resources or factors of production.
- The first or primary stage of production is when natural resources are taken from the earth.
- The primary sector is made up of businesses that are involved in the first stage of production.
- In the secondary stage of production, products are manufactured from the natural resources extracted in the primary stage.
- Businesses in the secondary sector turn the natural resources into finished goods.
- The third or tertiary stage of production consists of businesses that provides services.

Inputs and Outputs

- Inputs are also known as factors of production and are the resources used in the production process to make goods and services.
- There are four groups of factors of production: land (natural resources), labour, capital and entrepreneurs.
- The outputs of the production process refer to the products that the business produces.
- There are two kinds of outputs: goods and services.

Sustainable use of resources

- Resources are scarce – there are a finite number of them, so we need to use them economically.
- A renewable resource is a natural resource with the ability to be replaced through a natural process.
- A non-renewable resource is a natural resource that cannot be replaced.
- Sustainability refers to the process of using resources in such a way that they do not run out.

Meaning of economic growth

- Economic growth is the process that occurs when there is an increase in the quantity of goods and services produced in the country.
- Economic growth can be achieved by making better use of the four factors of production.
- Economic growth leads to a reduction in unemployment and poverty and results in an increase in the standard of living.

Productivity

- Productivity is a word that is used to refer to how efficiently resources are being used to generate products and services.
- Increasing productivity refers to the process of improving the use of resources to get more out of them so that more goods and services can be produced.
- Productivity can be increased by improving the motivation of workers, improving their level of skills and making better use of technology.
- Improvements in productivity lead to economic growth in the country.

Financial Literacy

Savings

Unit 9: Personal Savings

Personal savings and investing

People can either spend all the money they earn or they can keep some of it to spend at a later stage. Personal savings refers to the money a person keeps, instead of spending it all. **Investing** is using money you save to earn more money. Investment is to purchase property or shares or it can be money saved in the bank in order to earn more money.

Saving and investing are important to help people, families and businesses have a better life in the future. Some people find it difficult to save, especially unemployed people, families with children or people who just started working, as their living expenses are often more than their income.

There are many things you can invest in when you start earning:

- You could buy a house that you can rent out.
- You could invest in a small business and make a profit.
- You could buy shares in a big company and earn part of the profits made.
- You could invest in a bank and earn interest.

People save money for a variety of reasons:

- To buy expensive items in the future.
- For a holiday or outing.
- For children's education.
- For unforeseen expenses.
- To make more money.
- To put money into a pension or retirement scheme.

The economic purpose of saving

Unemployment is one of the greatest problems facing the world today. One way of creating jobs is to encourage businesses to expand their production. They need money to do this. Entrepreneurs wanting to start their own businesses also need money. They either have to save their own money or they have to borrow money from banks.

Activity 6

1. List five reasons why people save money.
2. Is it a good idea to save money by spending less on cheaper products like clothes or equipment or should you buy better quality products because they will last longer? Give reasons for your answer.

Unit 10: Banks

Banks are businesses that act like middlemen between people who want to save or keep their money safe, and people who want to borrow money. Banks that do this are actually known as **commercial banks**. In South Africa, the top four banks are: ABSA bank, Standard bank, First National Bank and Nedbank.

An investment bank is a bank that, instead of lending money directly to a person or a business, helps businesses get other businesses to invest in them or lend them money.

The history of banks

The history of banks began with the first banks that were **merchants** who made grain loans to farmers and traders carrying goods between cities. This has been recorded as early as 2000 BC.

Banks came into existence before notes and coins were used as a form of money. Banking originated in Ancient Mesopotamia in 2000BC, when the royal palaces and temples were used for the safe keeping of grain. These safe houses developed because people felt that they were the safest places to store their grain and other valuables. The palaces and temples were well-built, sacred places, so thieves were too scared to go there. People could withdraw their grain by writing out an order instructing the temple or palace keeper to give them back the grain. These written orders were then used as a medium of exchange, just as people use cheques today.

As gold became a popular form of money, people would ask the goldsmith, who made coins, if he could store their gold money for them. Because gold was heavy and difficult to carry around, and because the goldsmith had big secure rooms in which they could safely store the coins, they left their gold with him. The amount of gold coins that the goldsmith received from a person was recorded on a paper document that had to be produced if the owner wanted some of his money.

Because goldsmiths stored many coins, and knew that depositors would not be collecting their money for a while, they decided to lend out money to people who needed it as long as the lenders paid it back later. To borrow money in this way, the borrower had to pay the goldsmith extra money, known as interest.

The first modern banks were established in the 17th century. In South Africa, First National Bank started as the Eastern Province Bank in Grahamstown in 1838.

The role of banks

Because money is used in the exchange of goods and services, it needs to continually pass between consumers and producers. The more the money flows, the more successful the economy will be. The role of a bank is to help keep the money flow. The flow is between people and businesses who save and invest money; people and businesses that need money and between those who earn the money and those producing goods and services.

Services offered by banks

Today, banks not only look after your money and provide loans; they also provide other products and services. Some of these services include:

ATM’s: the bank has special machines at the branch, or in or near shops, where you can withdraw cash, make cash deposits, transfer money or pay accounts. These machines operate 24 hours a day, 7 days a week. This means that people have access to their money at all times.

Internet banking: you can now check your balance, transfer money or pay accounts using the internet. This allows you to bank from home. You can also do your banking any time.

Financial advice: banks will advise you on how best to invest your money.
Small business support and advise: banks have people who specialise in helping small businesses.

Foreign exchange: customers can buy foreign bank notes and transfer money to other countries.

Credit and debit card facilities: customers can apply for credit cards, which allows you to buy now and pay later.

Opening a savings account at a bank

The first step in opening a savings account is choosing the bank which is most suited to your needs. As most bank offers same services, keep following aspects in mind when choosing your bank:

Accessibility: it is convenient to choose a bank with a branch close to you.

Services offered: you should choose a bank that best serves your needs.

Customer services: customer service is an integral part of a bank’s contact with their clients.

Interest rates: choose the bank that offers you the best interest rate.

FICA

When you've decided on a bank, go to the bank with your parents or legal guardian. They must take their identity document and proof of residence.

South Africa has implemented a law designed to combat money laundering. This is known as the Financial Intelligence Centre Act 28 of 2001 (FICA).

To open a savings account you must be at least 18 years or old and be a South African citizen or permanent resident.

When opening a savings account, some banks request that you deposit a minimum amount, for example R50 in the account.

Banks have accounts that are specific to the needs of children. Once you have opened the account, you will receive a bank card so that you can deposit or withdraw money whenever you want to, from a bank or ATM. Before deciding what bank to choose, you need to consider the following:

- Choose a bank that is near where you live or that you have easy access to.
- Ask them how much money the bank will charge you every month for having the savings account, and whether they will charge you every time you withdraw money.
- Ask them how much interest they will give you for investing in their bank.

Savings accounts at different banks

Standard Bank

☆ An account designed for children and teenagers under the age of 16, packed with benefits that place you in control of how you enjoy your money.

☆ A debit card you can use to withdraw cash at any ATM and buy items at any store displaying the Maestro or VISA sign, if you have money in your account.

☆ No monthly management fee.

☆ 4 Free electronic debit transactions.

☆ 4 Free ATM cash deposits.

☆ 1 Free branch cash deposit.

☆ Free bank card.

- ☆ Free balance enquiries when using your cell-phone for banking.
- ☆ Free prepaid airtime recharges.

ABSA Bank

- ☆ Mega U – savings account
- ☆ Anyone under the age of 18
- ☆ Minimum of R10 in the account
- ☆ Used for spending and savings
- ☆ Debit card
- ☆ Can be used at the ATM to deposit and withdraw money
- ☆ Top up airtime.

ABSA

Today, tomorrow, together.

Activity 7

Match the number with the correct letter by choosing the most suitable match.

1	Savings	A	Checking your bank account balance or transferring money using a computer.
2	A reason for saving	B	Interest
3	The cost of borrowing money	C	New factories and other businesses can be built and new jobs created.
4	Why saving is important for an individual person	D	Taking the money you save and putting it into something that will help you make more money.
5	An ATM	E	Income that has not been spent.
6	Investing	F	They act as the middleman between people who want to save and invest and those who want to borrow money.
7	Why saving is important for the country	G	The changing of South African rands into American dollars.
8	Foreign exchange	H	A machine you can use to draw cash from, anytime during day or night.
9	The main role of banks	I	It helps you improve your standard of living in the future.
10	Internet banking	J	Putting money away for something that may be needed in the future.

Unit 11: Community Savings Schemes

In South Africa, many people do not earn large salaries or wages and many earn a living in an informal sector. They save very little and often do not use banks. Instead, they invest in informal community-based saving schemes. These are clubs known as **'stokvels'.**

Today, stokvels are not only formed by low income people, but they also exist amongst high income earners who have started investment stokvels, birthday stokvels and even tourism stokvels.

Stokvels have been around in South Africa for over 150 years and are like a savings club. They are formed by a group of people who agree to support each other to achieve some sort of goal. The members are often neighbours, members of the same community or church. They agree to put a set amount of money into the fund, which is often put into a savings account at a bank.

In some stokvels, the money is taken out once a year and shared amongst the members or used to buy food, which is shared by all. In other stokvels, the members each get a turn to take the pool of money. In some stokvels, a member can withdraw money in times of need or in order to buy household goods.

Unit 12: Financial Institution and Organisation Promoting Entrepreneurship.

<u>Financial institutions</u>

Financial institutions are businesses that provide some kind of financial service, where people can invest or borrow money. Examples are banks, insurance companies, pension funds and investment companies. Besides banks, Old Mutual and Sanlam are two of SAs largest financial institutions. Most financial institutions are regulated by the government.

Insurance and pension companies

People can pay insurance companies money to insure or protect them or their property against loss due to fire, accidents or theft. If one of these things happen to you, they will pay you a certain amount of money. You can also buy health or life insurance which pays out to your family if you get sick or die.

Insurance is a form of saving and the insurance companies not only pay their customers if there is a disaster, but companies who offer retirement annuities also invest in their clients' money in banks and other businesses.

By putting money into a pension fund, a person is saving money that earns interest that will be paid out when they retire at the age of 55 or older. Pension funds invest the money in other businesses or banks to earn interest.

Organisations promoting entrepreneurship

In order to try and solve the large unemployment problem in South Africa, there are many organisations that have been starting to promote entrepreneurship and small businesses. They offer help in getting a business up and running, as well as helping the entrepreneur to get money to start the business. A few organisations include:

SBDA: The Small Business Development Agency is a government agency run by the Department of Trade and Industry. They give advice and support to small businesses and have regular market days and courses for entrepreneurs. http://www.seda.org.za

The Khulu Enterprise: helps small business owners to get bank loans of R1 million or less to start their business. http://www.khula.org.za

The National Youth Development Agency: promotes entrepreneurship, job creation and skills development for South Africa between the ages of 14 and 35. http://www.nyd.gove.za

Activity 8

Copy the following table into your workbook.

Indicate which of the following statements are true or false, by ticking the correct answer.

	True	**False**
A bank is a financial institution.		
SBDA is a bank.		
A pension fund will protect you against damages in a fire and will pay out money if your house burns down.		
Old Mutual and Sanlam are financial institutions that offer mainly insurance.		
The NYDA helps young people develop skills which will help them find a job or start their own businesses.		
The members of a stokvel usually do not know each other very well, but all invest in the same fund.		
Khulu Enterprises is an insurance company.		
You invest in a pension fund so that you will be able to earn money, in the form of a pension, when you retire.		

Summaries

Personal savings

- Personal savings refer to money a person keeps instead of spending it all.
- Investing means using the money you save to earn more.
- Saving and investing are important to help people, families and businesses have a better life in the future.
- Savings are the most important source for making money in the future and creating wealth in the economy.

Banks

- Banks are businesses that act as the middleman between people who want to save or keep their money safe, and people who want to borrow money.
- The role of a bank is to help keep money flowing between people and businesses that save and invest money, and people and businesses that need money.

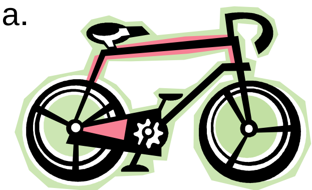
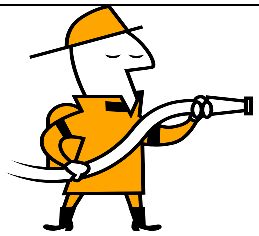
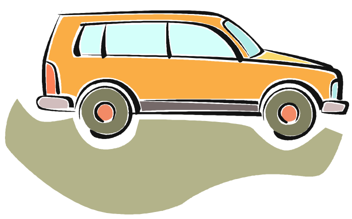
- Banks also provide many other products and services such as internet banking and financial advice.

Financial institutions and organisation promoting entrepreneurs

- Financial institutions are businesses that provide some kind of financial service where people can invest or borrow money.
- Financial institutions include banks and businesses that provide insurance and pension funds.
- There are many organisations that promote entrepreneurship and small businesses.
- They offer help in getting a business up and running as well as helping the entrepreneur to get money to start a business.

Topic Revision

1. List the four factors of production.
2. Look at the pictures below, of goods and services. Identify which of these are goods and which are services.

a. 	 b.	 c.
 d.	e. 	f. 

3. Explain the difference between renewable and non-renewable resources.
4. Explain in your own words, the meaning of economic growth.
5. Discuss the effect that technology has on productivity and economic growth.

Case study: Stokvels help many people to save.
Today, stokvels meet a range of lifestyle needs. People set them up to pay for groceries, holidays, businesses, schooling, university or a deposit for a car. A recent study conducted by market research company, African Response, revealed that 47% of the South African population belongs to a stokvel. Managing director, Mamapudi Nkgadima says their study shows that there are 811 830 stokvels, with 11.4 million members, and a total estimated fund value of R44 billion. Eunice Sibiya, FNB's Consumer Education Programme Manager says, "There will always be a need for stokvels, especially in our culture. I know of people who've achieved their degrees from stokvel money. Their mothers would have been domestic workers and saved like nobody's business, with dreams of their children going to school. People have also managed to start businesses from stokvel money. Increasingly, stokvels have found their place among the youth, says Motshegoa. "Some may no longer have their parents around. Perhaps some have had to take care of their siblings, so they need that stability," says Motshegoa, director of Foshizi, a black consumer insight agency. "It is also a disciplined way of saving because they are accountable to other people." Nkgadima says that parents are also making a point of inviting their children to join stokvels. The youth has realised that they can do things differently from their parents. While parents belong to a burial society, younger members may instead join birthday or investment stokvels and see it as 'I can put down a deposit for a car'. "As stokvels have evolved, so too has the safekeeping of money, with members now using bank accounts and electronic transfers", says Sibiya. "It is a nest egg that is not sitting at home, where it can be stolen or destroyed in a fire. It is somewhere safe. And if there is a crisis the money is easily accessible."

The nature and beauty of stokvels is that it encourages savings, something former finance minister, Trevor Manuel always emphasised. "South Africans needed to boost the country's economic growth", says Sibiya. "We are really lacking badly in savings in South Africa. I think stokvel accounts make up for it"

There are some things that work against mainstream banks, argues Motshegoa. When someone dies, stokvels are more approachable and the turn-around time is quicker. Banks need a death certificate as proof. Stokvels don't need paperwork – they know the person who has died and understand that families are grieving.

Banks also don't offer friendship, brotherhood and community. With stokvels, people chat and know each other's lives. "Stokvels are about more than just money, they are about coming together", says Motshego.

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Activity 9

Answer the following questions in your workbook.

1. Why is it important for people to save money?
2. Why are stokvels good for the South African economy?
3. Give two examples, from the case study, that show stokvels have helped improve the lives of people.
4. Name one kind of stokvel that is mainly made up of younger people and explain why a young person may want to join such a stokvel.
5. Why do some people enjoy saving their money in a stokvel rather than a bank?
6. Why do you think more and more stokvels are using services provided by banks?
7. Explain whether you think stokvels can help encourage entrepreneurship in South Africa.