

THE  
**FINANCIAL**  
Diaries

INVESTIGATING  
THE **FINANCIAL LIVES**  
OF THE POOR

# FINDINGS

## IN BRIEF

- There is not much detailed knowledge of the extent to which poor households are using formal and informal financial instruments in their struggle against poverty.
- The goal of the Financial Diaries is to present a picture of the financial lives of the poor by interviewing households over the course of a year and compiling a record of daily income, expenditure and financial exchanges.
- Initial findings suggest that poor households, despite their limited income, manage their money actively across a large number of formal and informal financial instruments.
- The Financial Diaries dataset has provided new insight into financial behaviour with regards to indebtedness, the use of social grants, savings, the response to unexpected events and the management of survivalist businesses.

DETAILS CAN BE FOUND ON  
[www.financialdiaries.com](http://www.financialdiaries.com)

RESEARCHED BY:



FUNDED BY:



THE FINANCIAL DIARIES STUDY IS ALSO  
FUNDED BY THE FORD FOUNDATION,  
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## SAMPLE AND DATA COLLECTION METHODOLOGY

The emphasis in the Financial Diaries study is on understanding poor households at a detailed level rather than using a broad sample to make conclusions about the South African population. Given that the majority of poor households in South Africa are black, we focused our sampling on black households in the following areas: Langa, Cape Town (urban); Diepsloot, Johannesburg (peri-urban); and Lugangeni, Eastern Cape (rural). We also wanted to observe the diversity within these areas, so we drew our sample to include households across different dwelling types and wealth levels.

A combination of qualitative and quantitative data was collected. The compilation of detailed daily household cash flows was accomplished with bi-monthly interviews over a period of 13 months from November 2003 to December 2004.

### FINANCIAL DIARIES SAMPLE, NUMBER OF HOUSEHOLDS, BY DWELLING TYPE

	LANGA	LUGANGENI	DIEPSLOOT
HOUSE	17	2	20
HOSTEL	11	0	0
SETTLEMENT SHACK	10	0	30
BACKYARD SHACK	5	0	4
RURAL COMPOUND	0	58	0
FLAT	9	0	0
TOTAL	52	60	54



## WE EXAMINE THE USE OF ALL KINDS OF FINANCIAL INSTRUMENTS

### FORMAL

Bank account  
Pension/provident fund  
Unit trust  
Funeral plan  
Loan from bank or microlender  
Insurance  
Store/credit card  
Account/lay by  
Rent arrears  
Income arrears  
Wage advance  
Retirement/savings annuity  
Trade credit  
Debt under administration

### INFORMAL

Stokvel/umgalelo  
Burial society  
One-on-one lending/borrowing  
Credit at local spaza/shebeen  
Money guarding  
Stokvel/umgalelo loan  
Mashonisa loan  
Saving-in-house  
Salary timing  
Giving credit



## INCLUDING SOME YOU MAY NEVER HAVE HEARD OF...

🇿🇦 CREDIT AT LOCAL SPAZA/SHEBEEN: Buying goods on credit at the local neighbourhood bar or store.

🇿🇦 BURIAL SOCIETY: An informal group that insures each other against funeral costs.

🇿🇦 MONEY GUARDING: Having someone look after your money or looking after someone else's money.

🇿🇦 STOKVEL/UMGALELO: An informal savings club with other people.<sup>1</sup>

🇿🇦 SALARY TIMING: An informal arrangement with one or two other people where money rotates during the month as each gets paid.

🇿🇦 STOKVEL/UMGALELO LOAN: A loan given to an individual by an informal savings group.

🇿🇦 MASHONISA LOAN: A township moneylender who lends out his/her own money for profit.

<sup>1</sup> See more details in Focus Note: Savings and the Poor - How do households accumulate lump sums?

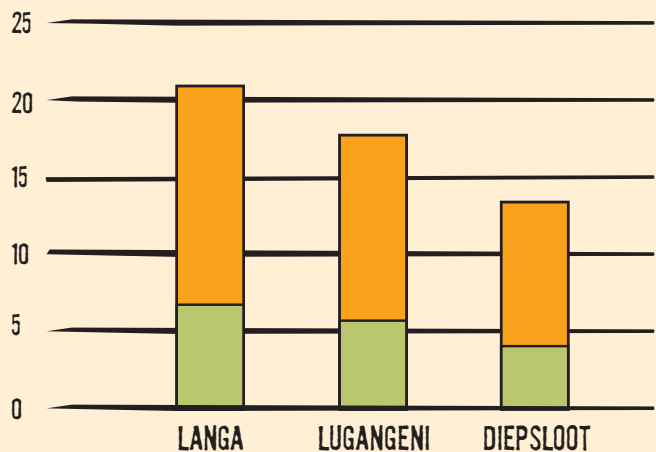




## FINDING - The poor have complex financial lives

- ✂️ Poor households have little money, but this does not mean that they do not manage what they have.
- ✂️ Households used, on average, 17 different financial instruments over the course of a year.
- ✂️ An average household portfolio, based on all 166 households, would have 4 savings instruments, 2 insurance instruments and 11 credit instruments.
- ✂️ The same average household portfolio would have about 30% formal financial instruments and 70% informal financial instruments.
- ✂️ Contrary to our expectations, rural households used just as many financial instruments as urban households.

Average number of financial instruments used during the study year (per household)

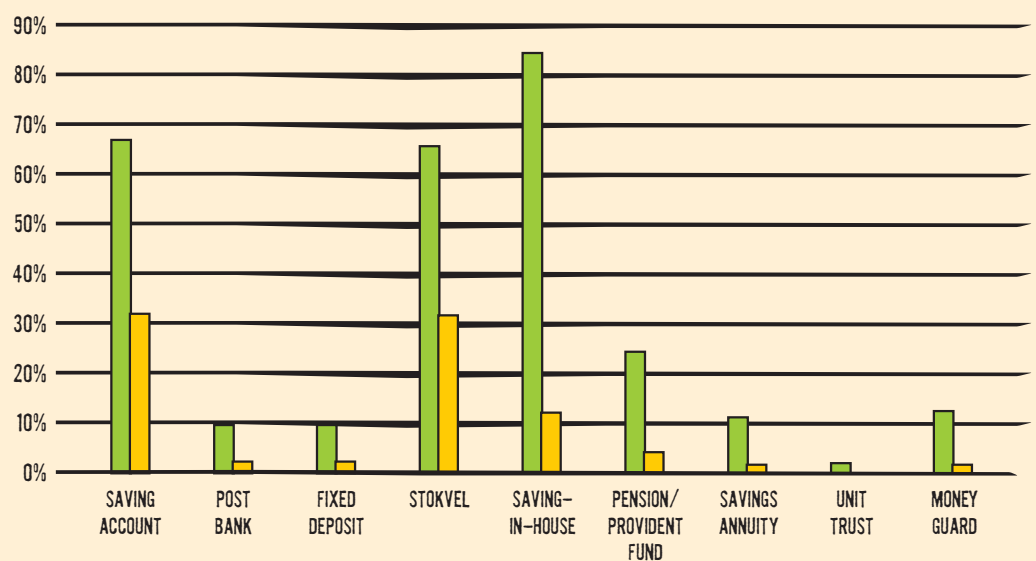


## FINDING - Savings instruments for the poor tend to be time- and event-bound

- Many households (67% of the sample) have a bank savings account, but these tend to be used for transactions rather than as a means for long term savings accumulation.
- Formal long term savings instruments, such as a retirement annuity, education plan or a provident fund, are not as often used as stokvels (umgalelos). 67% of the households have at least one stokvel (umgalelo) while only 38% have a formal long term savings instrument.
- Stokvels are intended as savings for a specific item, event or time, such as Christmas or school fees.
- There is a gap in household financial portfolios for savings instruments geared towards unexpected events.

Percentage of households with savings instruments

■ With at least ONE  
■ With TWO or more

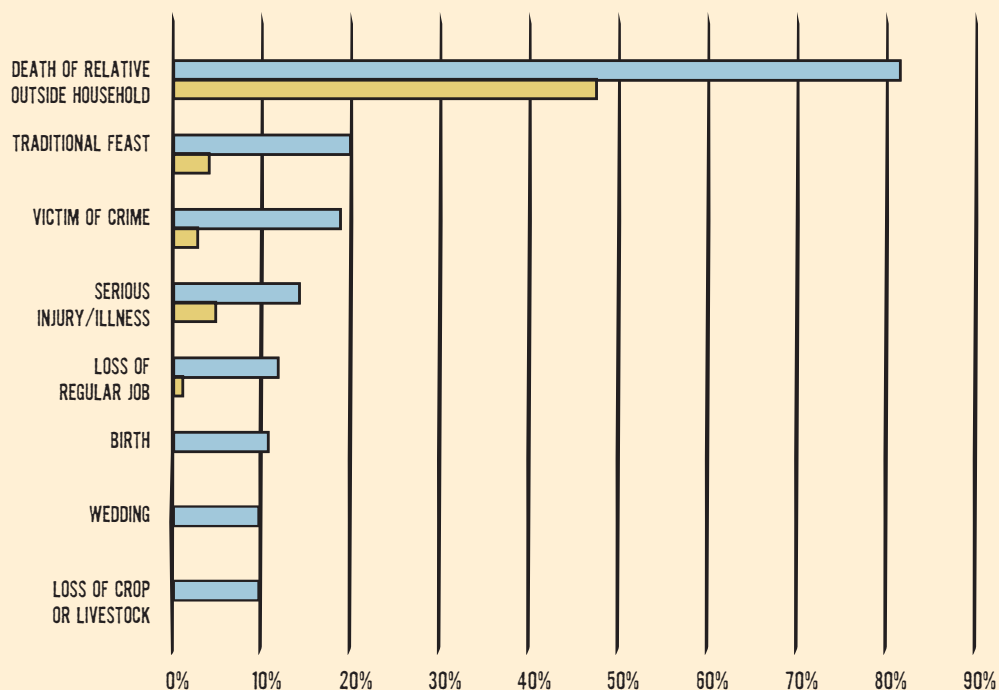


## FINDING - The poor are exposed to frequent financial events

- 10% The most frequent financial event is an unexpected request to contribute to an **out-of-household funeral**; 81% of households had at least one during a 28 month period, while 47% had two or more.
- 10% In the rural area, contributions to **out-of-household funerals** are lower (a median of R40) but more frequent, on average 5 times during the last 28 months.
- 10% Insurance instruments are rarely used (only 6% of the time) to fund contributions for an **out-of-household funeral**.
- 10% Every **in-household funeral** we observed (12 in total over the study year) was funded by several different sources such as insurance payouts, contributions from relatives, savings and borrowing.

Events\* experienced in the last 28 months (% of total sample)

■ At least ONCE  
■ TWO or more



\* This chart only includes events that happened at least once to 10% of the sample or more. Other events include initiation, theft, fire/destruction of property, missing a remittance, cut-off of grant, death inside the household.





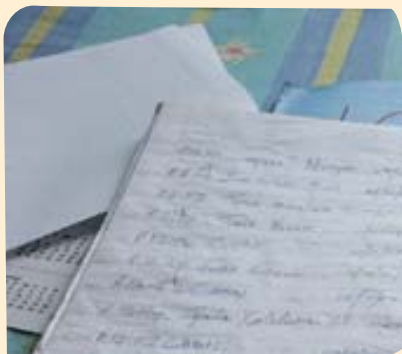
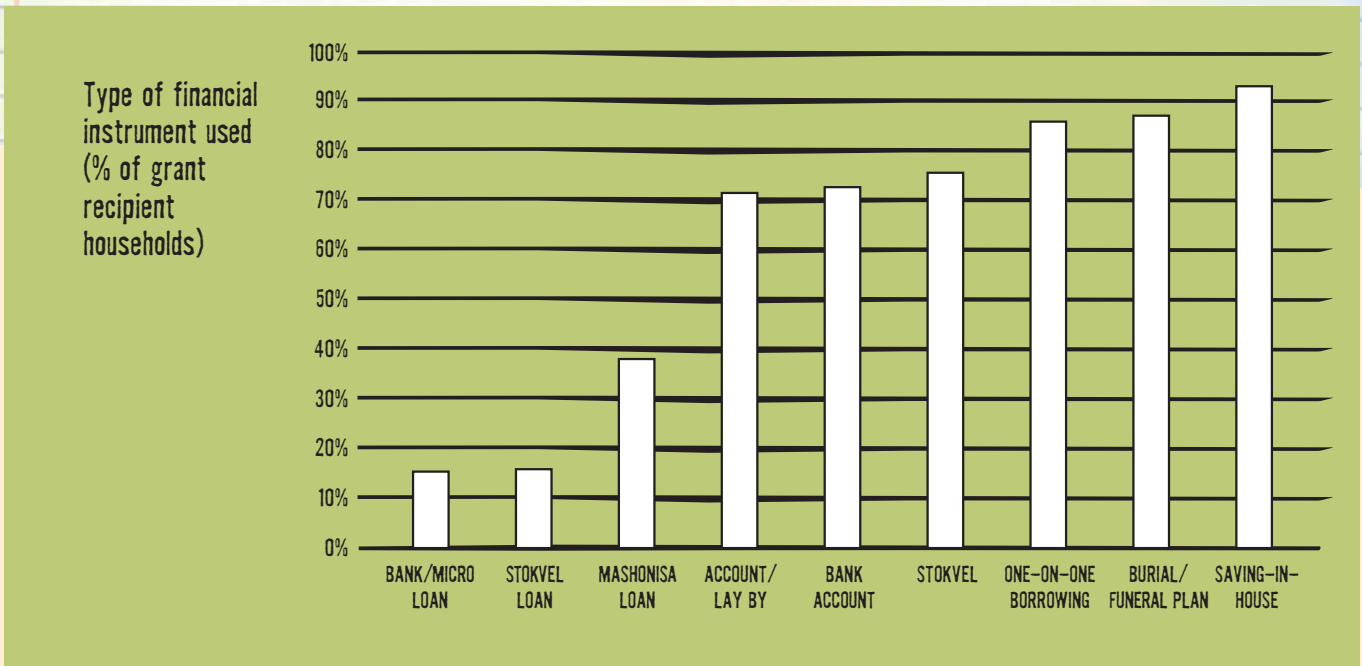
# FINDING - Grant households also actively manage their money

46% of the Financial Diaries households receive some form of social grant from the government. Over two thirds of the rural Lugangeni sample received a social grant every month.

These households use a wide variety of financial instruments but most have a bank account and at least one burial society membership.

Grant recipient households tend to spend slightly more on debt than the overall sample.

Grants do not appear to be directly supporting survivalist businesses.

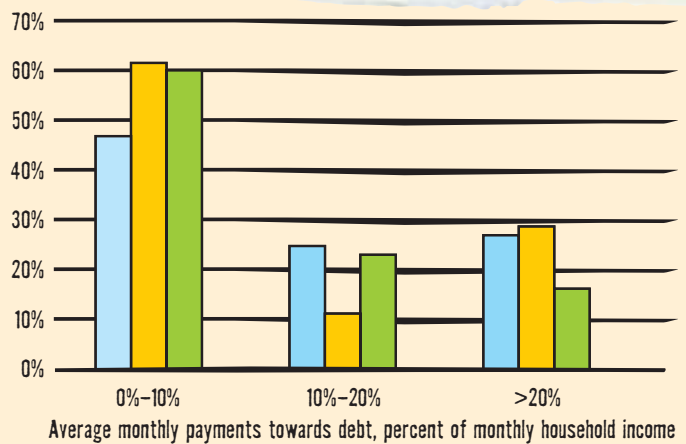


## FINDING - There is a wide divide between minimal and highly indebted

- Nearly all (95%) of households pay some form of debt every month.
- The majority of households are NOT highly indebted\*(76%), but many of them (24%) are.
- Highly indebted urban households pay more to formal financial credit (80% of payments), while rural indebted households pay more to informal credit (71% of payments).

Highly indebted is defined as having average monthly actual (as opposed to scheduled) debt payments across all debt instruments of more than 20% of total income

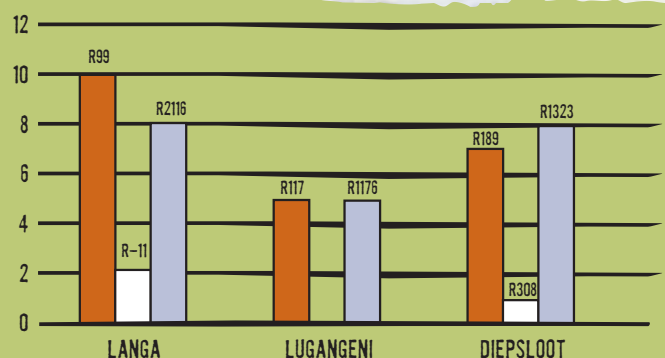
Percent of households in each indebtedness bracket



## FINDING - Sustaining a survivalist business is not easy

- Many of the survivalist businesses (48% of the ones in our households) started and then stopped before the end of the study year.
- Most (63% of the businesses) are retail, which on average tend to make a smaller monthly profit (R385) than services (R2200) or manufacturing (R549).
- It is difficult for a survivalist business to manage cash flow - a clear credit strategy is important.

Sustaining Survivalist Businesses  
(Number, Average monthly profit above bars)





# HOUSEHOLD PROFILES\*

\*Names have been changed to protect the identity of the respondent.

## PROFILE 1: The Rural Grant Recipient

Madlamini\* is a 65 year old woman who lives with her two daughters, a nephew and four grandchildren. They all live on Madlamini's old age grant of R740 per month and in July and October, respectively, child grants of R170 per month for each of her two of the grandchildren commenced. Sometimes her daughter gives her money or food or net wire for the garden, but Madlamini says that it's not enough.

Her biggest concern has been to meet the payments of her one funeral plan and two burial societies. The first is with an undertaker, who comes to her house to

collect R5 per month. Another is only payable when someone dies, but there have been many funerals lately. The last burial society is paid R10 per month but they charge R20 if a payment is missed. She worries about missing a payment so she borrows to cover the cost of the burial societies. Over the study year, she borrowed six times from stokvels, seven times from mashonisas, 13 times from relatives and neighbours and taken credit at two of the local spaza shops. She has also taken various items – chicks, a wardrobe – on credit from 11 different private sellers. But she's also lent out money twice to relatives and neighbours (see Providing financial services in table below).<sup>2</sup>

### PROFILE 1: BASIC HOUSEHOLD INFORMATION

Number of adults	3
Number of children	5
Average Monthly Gross Income	R 1070
Average Monthly Gross Income per member	R 118

### NUMBER OF FINANCIAL INSTRUMENTS

Total	46
Transaction accounts <sup>3</sup>	0
Insurance	3
Savings	2
Credit	39
Providing financial services	2

"I noticed that some people who don't have burial societies struggle to find money for the funeral. My child was sick, then my husband left me and then I thought the best thing was to join a burial society."

<sup>2</sup>Read more about Madlamini in Focus Note: Debt and Household Finance.

<sup>3</sup>As discussed in Focus Note: Savings and the poor – How do households accumulate lump sums?, households use savings accounts more as transaction accounts than savings. Therefore, savings accounts are listed as Transaction accounts.

## PROFILE 2: The Thriving Rural Teacher

Joseph\* is a 33 year old man who lives with his 31 year old wife, 2 year old daughter and new born child. The child was born just before we finished the study. This is a family that is doing well. Joseph earns about R9500 a month as a teacher. He pays a provident fund, four funeral plans and a retirement annuity via payroll deduction. His latest payslip also shows a deduction of R63 for an Old Mutual Group scheme but he's not sure what this is. He also pays R146 each month for an additional Avbob funeral plan via debit order and he has another retirement annuity with Old Mutual that will pay out in fifteen years. One of his major expenses is monthly child support of R200 each that he pays to three different women.

Another big expense is a house they are building next door, towards which they've already spent R40,000. Most of the materials were bought on credit from local shops and then paid off. He belongs to three stokvels and acts as a money guard for one of them using his Post Bank account. One is a savings group which pays out in groceries at the end of the year and another pays out on the member's birthday. He was paid out R2200 from this one in January, a large portion of which he put towards the house. During the year, he lent several times to his cousin.

### PROFILE 2: BASIC HOUSEHOLD INFORMATION

Number of adults	2
Number of children	2
Average Monthly Gross Income	R 9300
Average Monthly Gross Income per member	R 2325

### NUMBER OF FINANCIAL INSTRUMENTS

Total	29
Transaction accounts	2
Insurance	7
Savings	6
Credit	10
Providing financial services	4

"The thing I think about and plan for the most is to finish building the house and furnishing it."

### PROFILE 3: The Urban Entrepreneur

James\* is a strong quiet man who runs a very successful chicken and egg business. Despite his illiteracy, he is a confident and savvy businessman. He tends to earn about R2000 profit from his business per month. He opened the business after he was retrenched in 1999 from a job as a driver. He has learned how to make the business work well since then. For example, when he started the business, he gave credit to customers, but he now holds a strict rule of no credit because he found he wasn't being paid. However, although his business is going well, he was still interested in taking up a temporary painting job during the year. This income helped him to buy a car (although it doesn't run).

He and his wife have successfully managed to raise and educate three children and they own a home in the Eastern Cape. Nonetheless, he, like many in the shack settlement area, was determined to own a home and he moved into an RDP house during the year, without having it officially allocated to him. By the end of the study, he and his wife were comfortably established in this home, with no protest from the council. Despite these urban ambitions, the couple are still firmly based in tradition. His wife used to work as an office cleaner but is now studying to become a sangoma.

#### PROFILE 3: BASIC HOUSEHOLD INFORMATION

Number of adults	2
Number of children	1
Average Monthly Gross Income	R 4030
Average Monthly Gross Income per member	R 1340

#### NUMBER OF FINANCIAL INSTRUMENTS

Total	20
Transaction accounts	5
Insurance	3
Savings	3
Credit	5
Providing financial services	4

"As a businessman, every day I think about managing my money. It needs a lot of thought as I am very busy. People are buying my eggs and chickens so it's a good idea to take care of the money."

### PROFILE 4: The Struggling Sheep Intestine Seller

Mambongo\* is an illiterate 50 year old woman living in one of Langa's most crowded hostel areas, with her three children and grandchild. Their sole income is her profit from her business frying and selling sheep intestines in front of the hostels. She does reasonably well with her business – earning about R800–R1000 per month, with which she supports her household. However, business is often cash-tight and Mambongo needs to think of interesting ways to manage her cash flow. One way is through a rotating stokvel which she formed with three other sheep intestine sellers. Her daughters also use stokvels, sometimes contributing just R1 per day to build up collective savings towards Christmas.

When business does not go well, Mambongo needs to borrow from mashonisas to buy stock. She borrows about R50–R100 and pays off the debt at 30% per month. During the year, Mambongo was able to work for the council for about ten weeks as a street cleaner. She gladly took this job and left the running of the business to her daughter. Mambongo is a brave and rugged woman, but her business is risky and she struggles to make ends meet.

#### PROFILE 4: BASIC HOUSEHOLD INFORMATION

Number of adults	2
Number of children	3
Average Monthly Gross Income	R 1600
Average Monthly Gross Income per member	R 320

#### NUMBER OF FINANCIAL INSTRUMENTS

Total	19
Transaction accounts	0
Insurance	0
Savings	9
Credit	9
Providing financial services	1

"You need to look around and find a good umgalelo(stokvel). (In my umgalelo), we come from the same village and I am in an umgalelo with people I know."





## PROFILE 5: The Moneylender

Sylvia\* isn't a moneylender by profession – she's a domestic worker who works two jobs and lives in a shack. However, through her stokvel, she takes money and lends it out to neighbours. She's been very diligent and organised in doing this, but her investment did not pay off as expected. All year, she borrowed money from the stokvel and lent it out to friends and neighbours for a monthly interest fee of 30%. The table below shows this as "Providing financial services". Towards the end of the year, she needed to lean on these borrowers to return her money, and she ended up paying some of the loans out of her own pocket. However, she managed to make her full contribution to the stokvel and was expecting to be paid out R2600 in early December. But, just before we finished the study, we heard that the treasurer of the stokvel was shot and killed as she was returning from

the bank with the stokvel money for the members. She was carrying half the stokvel payout money and all of it was stolen. The members believe it was an "inside job" – someone who knew about the payout arrangements organised the robbery.

Aside from this method of savings, Sylvia also belongs to four other stokvels, has an education plan for her daughter, a fixed deposit account, two other bank accounts and saves money in the house. She is a diligent financial manager and is one of the few respondents who manage to put aside money in the bank and the house from her monthly wages.<sup>4</sup>

### PROFILE 5: BASIC HOUSEHOLD INFORMATION

Number of adults	1
Number of children	1
Average Monthly Gross Income	R 2900
Average Monthly Gross Income per member	R 1450

### NUMBER OF FINANCIAL INSTRUMENTS

Total	61
Transaction accounts	5
Insurance	2
Savings	9
Credit	5
Providing financial services	40

"Is the stokvel better than the bank? I think it is the same because just like the bank you have to commit yourself."

<sup>4</sup>Read more about Sylvia in Focus Note: Savings and the poor – How do households accumulate lump sums?

## PROFILE 6: The Single Mother with Changed Circumstances

Nandiswa\* is a young mother who lives in a squatter settlement in Langa with her mother and two children. She was once an avid science student and earned very good money as a nanny abroad. However, her family's dramatic change in circumstances came about when she needed to come home to have a child. She became worried about leaving her mother with her two children with so many fires happening in the settlement. (Just after the study was completed, a huge fire swept the settlement, displacing many households). The family spent over a year living off Nandiswa's savings from her earnings abroad, which she kept in a fixed deposit account (she had acquired some R14000 in 2002, but only R1000 was left when we started interviewing her). She managed their money very carefully, relying on two child grants and contributions from her child's father. She believed strongly in using the bank rather than savings clubs to manage her money. Because her work circumstances

changed so dramatically, Nandiswa knew that she needed discipline to keep from spending too much. She often commented that she was pleased that her savings account was so inaccessible, as it would keep them from spending the money. She also said that this prevented her from lending it out to neighbours when they asked, although she couldn't say no all the time! (See table below – Providing financial services was seven separate loans to neighbours.)

By October, both Nandiswa and her mother had found full time jobs and she welcomed a rural cousin into her home to care for the children. However, although she would like to move out of the squatter settlement, she is still very cautious about the future and she wants to build up her savings again before they move.

### PROFILE 6: BASIC HOUSEHOLD INFORMATION

Number of adults	2
Number of children	2
Average Monthly Gross Income	R 2500
Average Monthly Gross Income per member	R 625

### NUMBER OF FINANCIAL INSTRUMENTS

Total	23
Transaction accounts	3
Insurance	1
Savings	1
Credit	11
Providing financial services	7

"The bank is the best way (to save) as it doesn't tell you stories when you need your money. People tend to do this when you need your money."



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