

FOCUS NOTE: Savings and the Poor – How do households accumulate lump sums?

KEY POINTS:

- Many households have a bank account but they tend to be used as a transaction account rather than a means for accumulating savings.
- Formal savings instruments, like a fixed deposit or a retirement annuity, are not used as often as stokvels (i.e. umgalelos or gooi-gooi's).
- However, stokvels tend to save for a specific time or event.
- Therefore, there is very little saving for an unexpected event.



A common misconception is that the poor do not save. However, as Rutherford (2000)¹ points out, the poor have a need to accumulate large lump sums of money for a variety of reasons – for school fees, for feasts, for children's clothing – which cost more than what they can manage to spend out of their monthly cash flow. The easiest way to think about saving within the context of poor households, therefore, is their ability to accumulate lump sums.

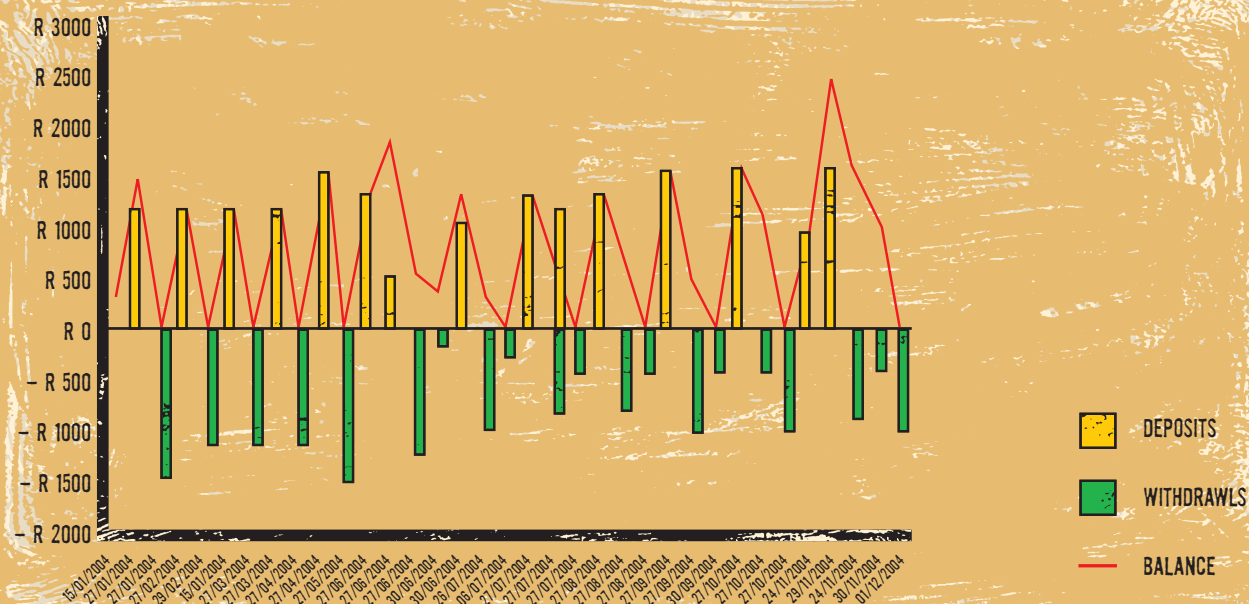
The poor use a variety of methods to accumulate a lump sum. Table 1 on the next page outlines some of the more common ways. There are

other ways of getting a lump sum – selling an asset or taking a loan – but these are the instruments that households set up for the specific purpose of building up a lump sum.

The poor do save, but it may be in a different manner than those who are better off. The Financial Diaries sample suggests that the poor tend to save in ways that are connected to a specific time, purpose or event, rather than an ambiguous time when money may be needed. Only very rarely did the Financial Diaries households save without a specific intent involved – which leaves them vulnerable to unplanned events.

¹ Rutherford, S. (2000) The Poor and Their Money Oxford University Press, New Delhi.

SAVINGS ACCOUNT CASH FLOWS: MRS MAMYIRA* (RAND)



* Names have been changed to protect the identities of the respondents.

STOKVELS ARE GENERALLY THE SAVINGS INSTRUMENT OF CHOICE

Table 1 shows that although more sophisticated instruments like savings annuities and unit trusts are used, most savings instruments tend to be either bank-related or informal. For those who have formal jobs, many have a provident fund, but they know little about how it works and no one is sure how much money they have accumulated. Many households claim that they are afraid to ask too much about these funds, for fear of losing their job. Retirement annuities are very popular with teachers in Lugangeni and, we are told, salespeople from investment companies periodically come to the schools to make presentations on their products. Only 12% of households in the sample seek out some sort of savings product such as a fixed deposit account, education savings plan or a unit trust, without it being connected to their job.

SAVINGS ACCOUNTS: IS ANYONE REALLY SAVING?

Nearly half of all sample households have a savings account that they use, but are they really using it to save? Some data on withdrawals provides a suggestion. Most households who use savings accounts withdraw their entire payment in one withdrawal. Every household has to travel in some way to reach the ATM they prefer to use – this means that not only are withdrawals expensive, but if there is an emergency, it is too far and too costly to withdraw money from the ATM. Therefore, most households will prefer to keep the money in the house, but if money is on hand, most households find it difficult not to spend it.

The chart below shows a typical pattern of a household that is using a savings account. Mrs. Mamyira* has her salary paid into her account every month on the 25th. She then withdraws most of her money, leaving a small amount over the month for further withdrawals. The balance clears to R0 every month. Several times over the year, she took out a loan from her employer for R450 and paid it back from her salary.

TABLE 1: FINANCIAL INSTRUMENTS FOR ACCUMULATING A LUMP SUM

	LANGA		LUGANGENI		DIEPSLOOT	
	% of sample that has at least one	% of sample that has 2 or more	% of sample that has at least one	% of sample that has 2 or more	% of sample that has at least one	% of sample that has 2 or more
BANK ACCOUNT						
Savings account	75%	40%	52%	23%	76%	33%
Post bank	15%	4%	10%	0%	4%	0%
Fixed deposit	6%	0%	3%	2%	6%	0%
FORMAL INVESTMENT INSTRUMENTS						
Pension / Provident fund	27%	2%	18%	5%	31%	6%
Savings annuity	12%	0%	17%	5%	6%	0%
Unit Trust	2%	0%	2%	0%	0%	0%
INFORMAL SAVINGS INSTRUMENTS						
Money guard	8%	0%	13%	0%	19%	2%
Stokvel	81%	52%	70%	28%	50%	17%
Saving in house	73%	2%	98%	22%	83%	13%



CASE STUDY 1: Stop order savings

A good example of effective saving using formal financial instruments is Siphon*, who lives in an urban shack settlement. Siphon is paid roughly R2000 per month into a savings account. In 2003, he managed to save R1500 for lobola by making small monthly contributions to his Post Bank account. In 2004, however, he became more technical and more ambitious and opened a fixed deposit account with a monthly stop order from his savings account for R500. By taking the decision of how much to deposit

out of his hands, he was able to accumulate six times as much as he started with in a very short period of time. His key purpose of saving in this way was to pay lobola so he could get married to his partner, who lived with him in Langa. Unfortunately, late in the study year, he found that his partner was stealing his ATM card and taking money from his account! He considered changing his mind about marrying her, but as the study came to a close, they were together again.

* Names have been changed to protect the identities of the respondents.

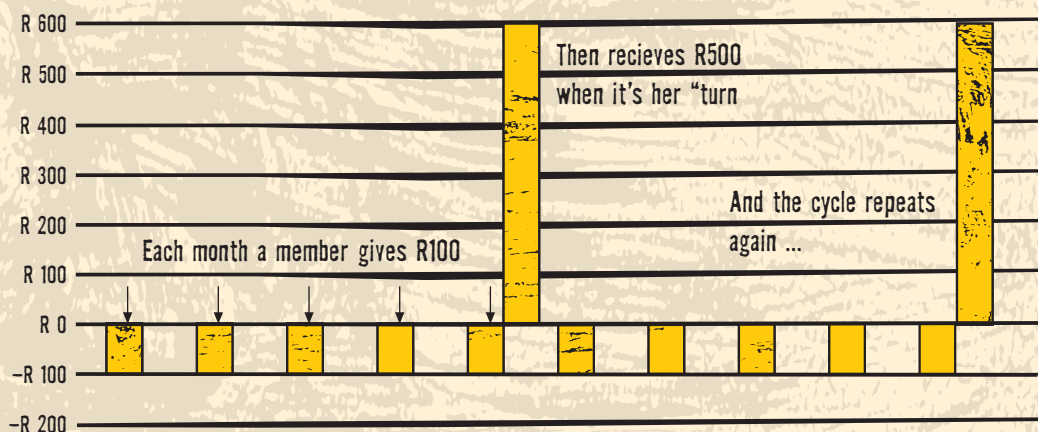
...OR TO JOIN A SAVINGS CLUB?

In the case study above, Siphon finds a savings discipline with a bank stop order, but many use the pressure of a peer group to save. From Table 1, it is clear that a very popular way to save is with a savings club. In South Africa, these groups can be called stokvels, umgalelos or gooi-gooi's. The structure of stokvels can vary across timing, purpose and amounts. Several of our respondents belong to very loose stokvels of three or four people which would vary during the year as members joined and dropped out. Two common forms are a ROSCA (ROtating Savings and Credit Association) and

an ASCA (Accumulating Savings and Credit Association). We found most of the stokvels in the sample met on a monthly basis.

In a ROSCA, the members contribute on a monthly basis into a central "pot" of money. In turn, each member takes the "pot" home each month. So for example, if five people belong to a ROSCA, and each contributed R100 per month, they would each get a turn getting the whole "pot" of R500 every fifth month.

CASH FLOW PATTERNS IN A TYPICAL ROSCA (RANDS)



Another pattern that stokvels can take is an ASCA (chart on the next page). In an ASCA, members will contribute R100 every month together and save the money until the end of the year, when it will get distributed between the members.

Where is the money kept while it is accumulating? Sometimes it is kept in a club bank account. Other times it is loaned out to members and non-members. We found that rarely was the money kept within a member's house.

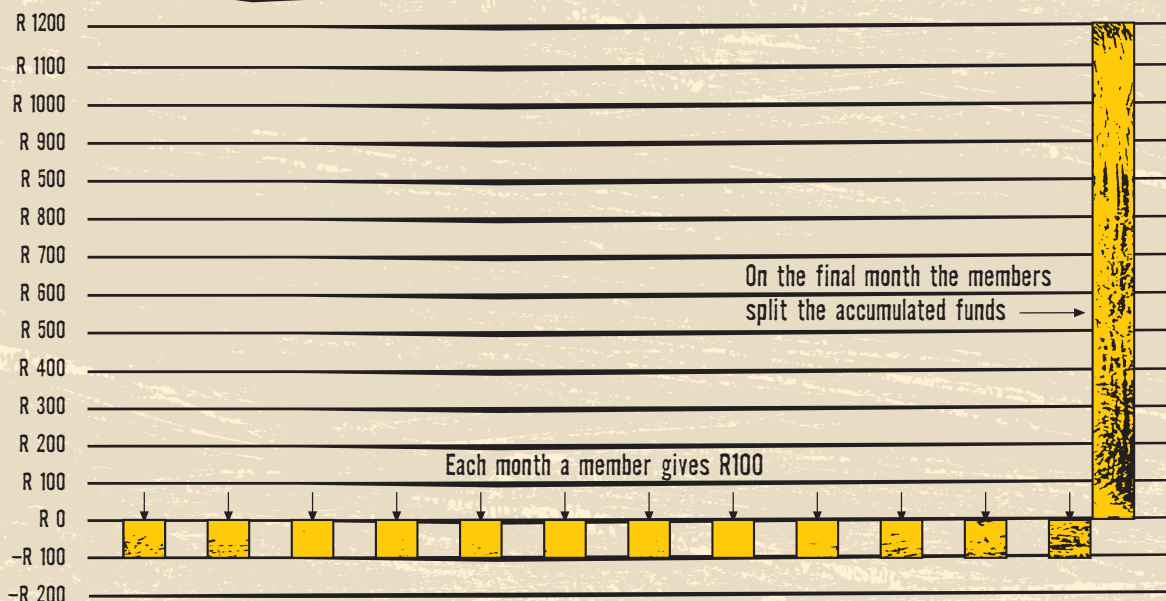
A key feature of both of these structures is that the money earns no interest over time. Why would anyone save their money in this way, if there is no

interest? We found that most respondents found that this was a way that they could ensure savings for a particular event.

"You feel compelled to contribute your payment. If you don't do that, [it] is like you are letting your friends down. So it is better because you receive your payment no matter what."

"Because when you do it alone to save money sometimes I don't honour the rule and in the stokvel your money is safe."

CASH FLOW PATTERNS OF A TYPICAL ASCA (RANDS)



CASE STUDY 2: A stokvel member and mashonisa at the same time ²

Sylvia* belongs to five stokvels. The most interesting is an accumulating stokvel that she has belonged to since June 2003. There are 33 people and they pay in R200 per month and lend out the money at 30% per month. Members are obliged to take some money to lend out to other people during the month. Sylvia usually takes large amounts of money from the stokvel to lend out to her neighbours. In March, for example, she was very ambitious and took R1000 from the stokvel. From the money she gets from this stokvel (and sometimes her own money), she keeps up a very busy lending schedule. From July to November alone, she lent to a total of sixteen people an average of R364 each. She charges them 30% per month, as per the rules of the stokvel. This lending will add to her payout because the interest earned increases the amount of money accumulated.

Unfortunately, Sylvia did not earn as much as she expected from the payout of this stokvel. First, because some of the people to which she had lent out did not pay her back, she needed to pay back the stokvel from her own pocket, which decreased the amount of money she earned. Second, just before the payout, the treasurer of the stokvel was robbed and killed as she was coming with the money from the bank. Luckily, she was only carrying half of the stokvel members' money. Sylvia received R1600 from the member who was holding the other half of the money, but she had expected to receive R2600.

² Sylvia is discussed in Profile 5 in Findings in Brief.

CASE STUDY 3: ROSCAs of the well-off

Even those who have more than adequate access to formal financial services treasure their membership in stokvels. Mr. Mjobo* is a successful undertaker who belongs to a very prestigious stokvel. This stokvel has about 40 members and they meet on the first Sunday of every month. Although Mr. Mjobo has a hectic schedule running funerals in both urban and rural areas, he always makes sure that he is present at the stokvel. His dedication is not unusual – we have another respondent who belongs to the same stokvel, who says he'd rather starve than miss a payment. Both men say that this is their main form of savings. This stokvel has been running since 1973. The format is a ROSCA – a rotating savings

scheme, where everyone contributes money to one person each month and take turns in receiving the money.

Mr. Mjobo invites us to attend a meeting one Sunday; the meeting where he is the one to get the pot of money. We are invited in very cautiously and only after being cleared by Mr. Mjobo. With large amounts of money being handled, "you just can't be too careful." Men and women are sitting separately, with the most prestigious men sitting up close to the person being given the money. Mr. Mjobo sits in the chair of honour. One by one, each person stands and speaks to Mr. Mjobo about his character and his

* Names have been changed to protect the identities of the respondents.



CASE STUDY 3: Continued from page 4

place in the community. Each person had already made their big deposit into Mr. Mjobo's bank account and put the deposit slips with the secretary. In between each speech, the entire crowd joins together in song.

In the second round, each person gives about R10–R20 and makes another short speech about Mr. Mjobo. In the third round of fund-raising, each person goes up and shakes his hand and adds R2–R5 to the pile. After the third round, the committee stops and takes stock of how much Mr. Mjobo had been given.

The chairmen then starts chastising the group – it appears that the entire sum is only R90,945, but he thinks they should be able to give Mr. Mjobo R100,000. He says that Mr. Mjobo always made sure they are taken care of and that they should take care of him. More singing begins and people stand up and take out their wallets, giving more money and having it recorded in the books. Now the sum totals R91365. Still, the chairman beseeches, it's not enough and the members contribute more, trying to see who can top the next. Suddenly the total is R91600. One last heroic woman stands up and reaches into her wallet for R400 to make the grand total of R92000. All the while Mr. Mjobo sits impassively on his chair of honour.

Now it's time for awards. There are eight award statues of varying sizes sitting on the committee's table in front. The individuals that have contributed the most receive an award. The person who receives the smallest of those trophies has given R4050; the one who receives the largest has given

R13000. The last order of business is then to choose a date for next month and to let everyone know who will have the next turn. The committee is very organised – they have copied the amounts that this person has given to each of the members the last time it was their turn. The members are expected to give her the same as she gave them last time or better. It becomes clear why everyone was trying to find as much money as possible to give to Mr. Mjobo – when it is their turn, he'll be forced to give them as much or more than they gave him today. The meeting ends with a feast. This is the second full meal served at this meeting – Mr. Mjobo hosted a braai the night before.

The value each of these members puts in the stokvel is apparent. For Mr. Mjobo, with a successful business and ample cash flow, meeting the financial requirements of membership is usually easy. In the last prior months, he made two contributions of about R3000 each. Keep in mind that he is a long time member and tends to give others big gifts, so in return, he received a sizable lump sum of cash on this day. Others, however, do not find it as easy to make the payments – some are unemployed, others live off a pension. Mr. Mjobo said that the committee recently "pensioned" off three older men by allowing them to take their turn early and then stop participating in the stokvel. He said they each received about R30000 from their turn in the stokvel.

What did Mr. Mjobo use his R92000 for? He says he used it to buy furniture for his new house in the Eastern Cape.

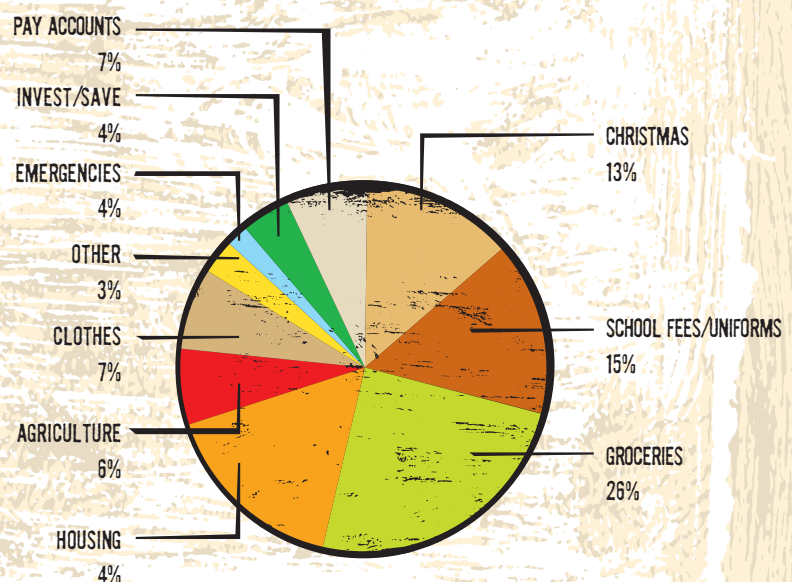
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WHAT ARE STOKVEL SAVINGS USED FOR?

What is this savings for? When we asked both ASCA and ROSCA members what each used their savings for, the answers tended to be very specific. Rarely was the money invested or saved for emergencies.

The frequent membership of households in stokvels suggests that the discipline that social solidarity provides enables an effective accumulation of money. However, this money tends to be used for a specific event or use, the most common of which is Christmas (or Christmas groceries) or annual school fees paid in January. Although this helps households buy useful items or contribute towards foreseen events, household rarely join stokvels to cover unplanned events. The funeral of a relative, for example, is the most common event in the households' lives,³ but stokvels rarely are an effective savings mechanism for this event.

Intention of stokvel payout (% of total)



³ See Focus Note: Funerals and Finance – Events in the lives of Financial Diaries households



MONEY GUARDING

An unusual way of saving is to use a money guard. This is when households hand over a lump sum of money to a relative, neighbour or friend and ask them to keep it. This tends to be a way of safeguarding money rather than accumulating it.

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CASE STUDY 4: Using a money guard on the sly

One key example of money guarding is found in the Financial Diaries from the relationship between the boyfriend of a house-owner and the woman who rents the shack behind the house. Xolile* (the boyfriend) takes his salary every month to the shackdweller, Zukiswa* and asks her to look after it for him. He withdraws money whenever he needs

it, just like a bank. He does this because he often goes out drinking (and spending money on his other girlfriend) and he would often lose the money. Based on this information, we have deduced that Xolile earns about R800 per month. We've also learned that he rarely gives money to his girlfriend for groceries.

FUTURE RESEARCH TO COME

FO This report shows what households intend to do with their stokvel, but how do they actually use it? Do households use the payout for things that they had not planned to use it for?

FO Initial results from the Financial Diaries suggest that households can drop in and out of stokvels during different cycles. How often does this happen and do households consequently lose money?

FO What is preventing households from savings for unforeseen events? Is it the habits of households or the financial instruments on offer? What would be the attributes of an effective mechanism that would allow households to save for unforeseen emergencies?

DETAILS CAN BE FOUND ON
www.financialdiaries.com

