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Use and Impact of Savings Services among low Income People in South Africa

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Use and Impact of Savings Services Among Poor People in South Africa

Sibusiso Moyo, David Musona, Wilfred T. Mbhele
and Gerhard Coetzee[1]

Executive Summary

Background
Until recently microfinance institutions focused mainly on providing loans and largely ignored savings services. For many years the popular view was that the poor couldn't save. In recent years this view has been challenged by many researchers (see Coetzee, 1997) and notably by Stuart Rutherford who argued that the "The great irony of being poor is that you are too poor to save, but too poor not to save".[2]

In South Africa and indeed in the rest of Africa, there is a vibrant and diverse informal financial sector. Traditional systems exist for both savings and borrowing. The purpose of this study is ***to improve knowledge and understanding of how low income people in South Africa save, how they use different savings services/systems and the impact of those savings facilities on their household budgets/lives, and thus to facilitate and improve Ithala Bank's (and other institutions') efforts to mobilise savings***.

Specifically the report:
- Pays particular attention to savings services used and those not used by low income people;
- Examines the perceived advantages and disadvantages of this variety of savings services;
- Investigates the socio-economic characteristics of the people using these savings services;
- Explores how savings services are used to manage household income/expenditure flow;
- Investigates why some people save in-kind and which financial services might induce them to start monetised savings; and
- Draws lessons for Ithala and other financial institutions seeking to develop poor-responsive savings services.

Methodology
This study applies ***MicroSave*'s** qualitative research methods including Focus Group Discussions using Participatory Rapid Appraisal techniques and in-depth interviews with low income people and Ithala officials. The study was conducted in a wide variety of settings in KwaZulu Natal's rural and urban areas.

Summary of conclusions and recommendations
The study identified thirty-five products and of these 17 are Ithala products. Among the most often mentioned are:
- short-term loans from *omashonisa* (informal sector moneylenders),
- cash saving (through *stokvels* - Accumulating savings and Credit Associations or ASCAs),
- targeted saving (through Ithala) and
- funeral schemes or burial societies

The rest are shown in the next Table.

[1] Sibusiso Moyo is an intern at ECI in South Africa (a socio economic consulting and research company active in Southern Africa) and a Masters student at the University of Pretoria. David Musona is the Director of M & N Associates, a socio economic research company in Zambia. Wilfred Mbhele is a freelance fieldworker also associated with Rural Urban Studies in Durban (South Africa), while Gerhard Coetzee is the Director: Finance and Enterprise of ECI in South Africa and Professor of the Agricultural and Rural Finance Programme at the University of Pretoria, South Africa. Sibusiso Moyo and David Musona did the bulk of the research from planning, execution to analysis and writing the report, Wilfred Mbhele participated in the execution of the fieldwork, while Gerhard Coetzee supported the process with advice and assisted in writing the final report. This research is part of an initiative by ***MicroSave*** and AFCAP. The usual disclaimers apply.

[2] Rutherford S. The Poor and Their Money. Oxford Press 2000, New Delhi. Page 8

Most Often Mentioned Products

Product	Mention Score
Short term loan from *omashonisa*	12
Cash saving (*stokvel* – ASCAs)	11
Target save	11
Funeral scheme (Burial Society)	11
Fixed deposit (12 months)	10
Savings account (Stop Order)	10
Club save account	10
Saving for food (*stokvel*)	10
Short and medium term loan (Loan Sharks)	9
Funeral plan	9
Fixed deposit (6months)	8
Rotating savings (RoSCAs)	8

Of the twelve most often mentioned, only six are Ithala products. This is an indication of the intensity of the competition from informal sector products. We observed that:

- Most Ithala clients are generally low income people and of low literacy;
- A significant number are senior citizens; and
- The majority does not know products offered by Ithala and in some cases some did not know by name the type of account they held.

This study indicates that Ithala's clients are also clients of the informal sector and the evidence suggests greater use of informal financial services than Ithala products. The informal sector competition is significant and should not be ignored by Ithala.

Recommendations

In view of the characteristics of Ithala clients we recommend that Ithala should examine the possibility of incorporating some informal sector features into the existing and future products. We recommend some product refinement as follows:

Product	Key Features	Clients Perception	Our Suggestions
Fixed Deposit 12 months	*High interest rate fixed for period of investment *Minimum balance R5,000	*Popular product especially among *stokvels* and the low income with regular income.	Would be more productive if targeted at *stokvels*.
Savings Account	*Low service fees *Unlimited number of withdraws *Transactions at any Ithala branch	*Generally happy with this product but complained of the R2,500 limit on withdrawals and the requirement for notice in respect of larger withdrawals.	This account should be operated using a cash card but with an option for cheque/pass book. The limits on withdrawals should be retained to safe guard liquidity at branch level.
Funeral Plan	*Low premium *Easy and fast benefit claims	*Happy with the product but felt the procedure for claiming benefits was a bit cumbersome and coverage restrictive.	Review policy on coverage limitation to accommodate the realities of the African family.

Use and Impact of Savings Services Among Poor People in South Africa

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1. Introduction and background

1.1 Background

Until recently microfinance focused mainly on providing loans and largely ignored savings services (Coetzee, 1997). For many years the popular view was that the poor couldn't save. In recent years this view has been challenged, for example Stuart Rutherford (2000) argued, "The great irony of being poor is that you are too poor to save, but too poor not to save".[3]

In South Africa and indeed the rest of Africa, there is a vibrant and diverse informal financial sector (Adams et al., 1992; Ardener and Sandra (eds), 1995). Traditional systems exist for both savings and or borrowing. Many researchers have recorded this across Africa (see, for example, Miracle et al, 1980).

1.2 Research objective

The purpose of this study is to improve knowledge and understanding of (and if) how low income people in South Africa save. How they use different savings services/systems and the impact of those savings facilities on their household budgets/lives and thus to facilitate Ithala's and other MFIs' efforts to mobilise deposits.

Specifically the report:

- Pays particular attention to savings services used and those not used by low income people;
- Examines the perceived advantages and disadvantages of this variety of savings services;
- Examines the socio-economic characteristics of the people using these savings services;
- Explores how savings services are used to manage household income/expenditure flow;
- Explores why some people save in-kind and which financial services might induce them to start monetised savings; and
- Draws lessons for MFIs seeking to develop poor-responsive savings services.

1.3 Outline of the report

In the first section we provide background to the research problem and stated the research problem. Section two describes the context in which the study took place, the reality of microfinance in South Africa's KwaZulu-Natal and the specific micro finance institution that participated in the study. Section three discusses the methodology used, the collection of information and the framework for analysis. Section four provides the analysis and the results of the analysis. We conclude with section five in which we summarise the findings and discuss the impact that the findings have on the lives of low income people. We also attempt to identify relevant research areas for the future.

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[3] Rutherford S. The Poor and Their Money. Oxford Press 2000, New Delhi. Page 8

2. Context

2.1 Introduction

In this section we provide the context in which the study took place. This is presented at three levels: the macro context (looking at the overall economy), the context of the microfinance sector, and the context of the specific MFI that participated.

2.2 The South African macro-economic framework

The South African government's official macro economic framework was presented in the Growth, Employment and Redistribution document (GEAR) in 1996. GEAR was formulated in line with global developments of opening up economies and moving towards freer trade. Its main objective was to rebuild and restructure the economy in keeping with the goals of the Reconstruction and Development Programme (RDP), which had been proposed soon after the return to democracy in 1994. The main task of the RDP was to correct the injustices of the past and hence ensure that South Africans had equal opportunities in all spheres of life. The RDP White Paper (1994) took cognisance of the fact that wealth distribution was skewed probably partly as a consequence of the uneven access to financial services. South Africa has a robust, highly industrialised economy with the Gross Domestic Product per Capita about US$2,500 and an annual growth rate hovering just under 3% (although GEAR aims to take it beyond 6% pa) and inflation currently between 6 and 7%. Close to 40% of the population lives in urban areas with rest living in rural areas. Unemployment has been steadily rising over the years and is currently estimated at about 29.5% (officially - unofficially it is estimated at nearly 40%).

2.3 Background information on KwaZulu-Natal

KwaZulu-Natal is the most populous province in South Africa with about 9.3 million people (approximately 22% of the country's population). The population by race group is quite mixed although Africans are the largest in number as they are close to 70% of the inhabitants. The dominant age groups are below 40 with the 0-15 age group being about 35%, the 15-40 age group 42% and the 40 and above age group 23% of the provincial population. Women are a majority (53%) (StatsSA, census 1996).

Average annual household income data reveals that about 2% of 1.65 million households in KwaZulu-Natal have no income at all.

35% have an annual income between R2,000[4] and R12,000, with 25% of the population earning between R12,000 and R55,000. Only 14% of the population earn more than R55,000 per annum.

The majority of the population (72%) earns less than R2,500 per month. Specifically 7% earns less than R200 per month, 17% earns between R201 and R500, 18% between R501 and R1000. Only 3% of the population earn more than R8,000 per month (StatsSA, census 1996).

There is a high HIV/Aids prevalence rate in KwaZulu-Natal. To date, 16% of all below 20 years are estimated to be HIV positive. The 20 – 24 and 25 – 29 are the most infected with prevalence rates of 25% and 26% respectively. The infection rate declines with age, for example only 8% of those around age 40 are HIV positive. Compared to other provinces in the country it has the highest infection rate, with 32% of the total population HIV positive.

2.4 The microfinance industry in South Africa

2.4.1 Introduction

South Africa has a vibrant micro-finance sector, which is growing rapidly, serving the low and middle income segments of the population, which have been considered as "unbankable" in the past (DGRV, 2000). The contribution of the micro-finance sector to the national economy cannot be easily quantified because of the informal sector nature of many of the industry members.

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[4] R10 = $1

In the following table the present supply of micro-lending services in South Africa is described and presented.
Source: Coetzee, Gerhard and Grant, William. (2001). Overview of the micro finance sector in South Africa, unpublished Mimeo, Ebony Consulting International (Pty) Ltd.

Retail Institutions	Loans Rmillion	Savings Rmillion	Number of Outlets	Number of Loan accounts	Number of Savings accounts
Public Sector	**205**	**1,774**	**2,434**	**63,028**	**2,650,000**
Private Sector	**14,259**	**4,703**	**9,427**	**4,497,766**	**4,711,114**
Informal sector	**400**	**1,760**	**1,150,000**		**14,750,000**
Totals	**14,864**	**8,237**	**1,161,861**	**4,560,794**	**22,111,114**

It is clear from the table that the private sector plays an important role in the provision of financial services to the low income in South Africa. However, most of the private sector financial services are focused on the employed, while the self-employed still struggle to access financial services.

The South African micro-finance industry provides mostly consumer lending products through "micro-lenders". These micro-lenders emerged as a fast growing industry during the 1990 decade. The total book of the micro-lending industry is currently estimated to be about R15 billion.

According to the MFRC, the majority of micro lender loans (69% between R1,000 and R6,000) are utilised for emergency and consumption finance, which amounts to approximately 45% of the total average. Educational and housing type loans amounts to 15% and 17.4% respectively[5]. Only a few lenders are strategically involved in social development and rural upliftment. Lending outlets are found all over the country:

2.4.2 The Regulatory framework

The regulation of the financial sector in South Africa has been a process, reflecting a move from a position where it was thought that some sub-sectors (microfinance in particular) could be left unregulated as long as they did not have a huge impact on the rest of the sector. The financial sector is legislated in the form of acts of Parliament, the two most relevant to the micro-finance sector being the Bank Act of 1993 and the Usury Act of 1968 (Staschen, 1999). These various acts have been amended over time to make them relevant to the ever-changing needs of the industry.

The Bank Act was meant to be a bank supervision tool, applicable to all institutions practising the business of a bank, which is to accept deposits and also act as a financial intermediary for the employment of funds accepted by way of deposits. Banks were therefore seen as deposit taking institutions rather than credit granting institutions and hence a large part of the micro-finance sector remained unregulated (Staschen, 1999). In short, as soon as a financial institution engages in deposit taking it has to register as a bank and hence meet the corresponding requirements of the Banks Act, one of which is to have a minimum capital of R250 million.

The Usury Act (No. 73, 1968) on the other hand was meant to protect borrowers from usurious interest rates. It basically capped interest rates on all loans (currently at 20 % for loans above R10 000 and 23 % for loans below R10 000) and also stipulated rules for disclosure and reporting of certain transactions. This has been a controversial act with micro-finance experts arguing that it prevented MFI's from full cost recovery.

In 1992 the government published an exemption to the Usury Act that allowed lenders to provide loans under R6,000 at any interest rate as long as they adhere to a specific set of rules. In 1999 this ceiling was lifted to R10,000 but institutions that wanted to benefit from this exemption needed to register with a new regulator, the Microfinance Regulatory Council (MFRC). The MFRC was incorporated under

[5] Lenders provide the MFRC with these figures and in certain circumstances the use of the loan may be unknown or unverifiable.

Section 21 of the Companies Act, and was set to be the official and single regulator of all money lending transactions falling within the scope of the Usury Act Exemption Notice. Moneylenders, with interest to avail themselves of the benefits of the Usury Act Exemption, are therefore required to register with the MFRC and thereafter comply with the rules of the MFRC and the Exemption Notice.

The main elements of the exemption to the Usury Act are that a financial transaction had to comply with the following:

- does not exceed R 10,000;
- together with the total charge of credit which is owing by the borrower, shall be paid to the lender, whether in instalments or otherwise, within a period not exceeding 36 (thirty six) months after the date on which the sum of money has been advanced to the borrower; and
- is not paid in terms of a credit card scheme or withdrawn from a cheque account with a bank registered in terms of the Banks Act, 1990 (Act No. 94 of 1990), or a mutual bank registered in terms of the Mutual Banks Act, 1993 (Act No. 124 of 1993), so as to leave such account with a debit balance.

The MFRC reports nearly 1,300 registered lenders, from all levels of the financial sector. Note that registration as a bank does not exempt of registering with the MFRC should the bank wish to charge interest rate higher than the Usury Act interest rate ceiling on loans below R10,000.

2.5 Past studies on the savings services in South Africa

There are limited studies specifically focusing on savings of the poor in South Africa. The Strauss Commission (1996) and several university research reports (see Spio, 1998; Coetzee, 1997) address the topic. Most of these studies recognise the importance of savings, the short supply of appropriate savings products for the poor, and the positive impact savings may have on the loan portfolio of institutions. Coetzee (1997) summarises the advantages and disadvantages of the provision of savings facilities to low income people by lending institutions as follows:

- The seemingly cheap funds obtained from donor and aid agencies always come with enough red tape and rules to ensure that the extension of these funds will be extremely costly to the institution. Financial institutions usually have to follow regulations pertaining to the size and type of loans, the amount to lend each borrower, disbursement and repayment schedules and decision rules. When lenders mobilise their own resources, they can develop loan programmes that are more location specific and can be more flexible in their operational activities. In this way they can address the demand for financial services as expressed by their clientele and not as described by a donor in another country or by a government. Lastly, institutions dependent on budget votes as a source of income may find these votes turning against them if their borrowers lose political clout, or if government changes, or in times of economic hardship in a country. It is therefore wise to diversify the funds generation portfolio.
- Economies of scale seem to be in operation where financial institutions broaden their range of services. Firstly, the same front-line staff could be used and secondly more information of potential credit clients can be obtained should those clients have a savings record with the institution.
- Borrowing money from an institution that takes deposits from the community (and even from the borrower him/herself) means that default on loans will directly influence the community, and not a donor agency or taxpayers of another country. Furthermore, if the institution extends loans from deposited funds, and not from some far away donor agency, more care is taken with the screening of applicants and default management. Meyer (1989) mentioned empirical studies in rural lending that indicate that loan collection efforts are more important than farming income, in explaining loan repayment. The decision-making character of a depositor-controlled institution differs markedly from that of a borrower dominated institution (Chaves, 1994).
- If using the lending group methodology, more cohesive groups can be formed through group saving schemes. Informal group saving schemes are well known amongst rural people right across the world. By building on this knowledge, financial institutions can provide access to financial services to groups by starting with savings first. The well-known Grameen Bank operates in this way. Slover (1991) indicated that it is extremely difficult to form groups artificially for interacting with financial institutions. Groups generally evolve by themselves and are extremely flexible in accommodating the particular needs of the group members and the group itself. Starting a group with joint savings, brings better cohesion than a group starting solely to get credit.

- Saving contributes to the alleviation of the collateral problem in rural financial markets in developing countries. Saving schemes allow rural people to improve their creditworthiness through the accumulation of financial assets. This is important because most small farmers, especially in Sub-Saharan Africa, lack land title deeds for loan security purposes (Schrieder and Heidhues, 1991). Saving therefore is one vehicle through which rural people can build a capital base. Examples of schemes exist where loans are only extended if the borrower has a track record in a compulsory savings scheme (Mauri, 1983).
- It should be noted that for savings-first institutions, the management of voluntary savings leads to better discipline in the overall management of the loan portfolio.

However, some disadvantages or areas of concern should also be noted:
- A compulsory saving scheme merely increases the effective cost of loans and reduces the size of the loan.
- It is important to highlight the cost of managing a large number of small-savings accounts: bookkeeping and documentation of daily deposits and withdrawals require a good information management system.
- The risks of managing larger savings or deposit accounts whose withdrawals can introduce great instability on the liability side of the institution are also an important issue.

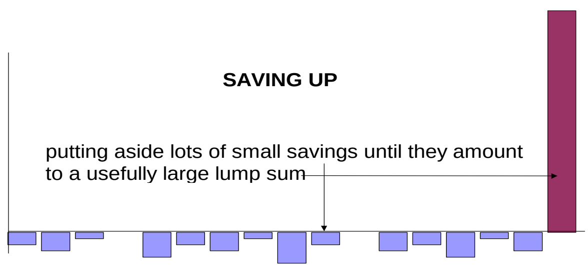
2.6 The framework for analysis

In this report we follow a specific framework of analysis as espoused by Rutherford (2000) in his publication on the "The Poor and Their Money". Rutherford argues that throughout their lives, the poor experience many occasions when they need sums of money larger than what is immediately available to them. There are three categories of such occasions:
- ***Life cycle needs***. The poor need usefully large sums of money to deal with life cycle events such as birth, death and marriage, education and home-making, widowhood, old age and death, and the need to leave something behind for one's heirs.
- ***Emergencies***. In order to cope with impersonal emergencies such as floods, cyclones, and fires, and with personal emergencies such as illness, accident, bereavement, desertion and divorce.
- ***Opportunities***. There are opportunities that require large sums of money, such as starting or running businesses, acquiring productive assets, or buying life enhancing consumer durables such as fans, televisions and refrigerators.

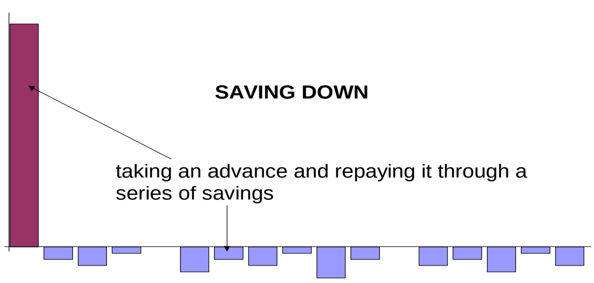
The only reliable and sustainable way open to the poor to get hold of these large lump sums of money is to build them from their savings.

There are several ways in which savings can be built into usefully large sums of money, but they fall into three main classes, as follows:[6]

1. ***Saving up***. This is the most obvious way. Savings are accumulated in some safe place until they have grown into a usefully large sum. Many poor people lack a safe and reliable opportunity to save up. As a result, they may be willing to accept a negative rate of interest on savings, in order to be able to make deposits safely. We see this in the case of the deposit collectors that work in the slums of Asia and West Africa.



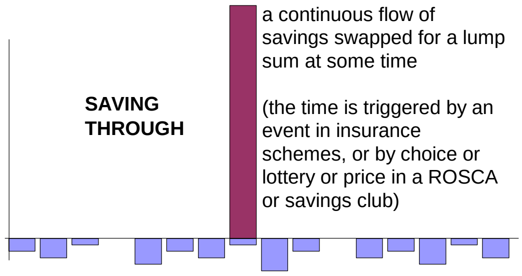
2. ***Saving down***. In this case the poor manage to persuade somebody to give them an *advance* against future savings. Many urban moneylenders offer this service at high cost. Bangladesh's famous MFIs, including BRAC,



[6] Adapted from **Mutesasira** L. et al, Use and Impact of Savings Services Among the Poor in Uganda. June 1999

offer a similar service but do so at reasonable cost and with greater reliability. The recipient of a BRAC or Grameen Bank general loan makes a large number of repayments at short intervals and these repayments can be traced from the borrower's capacity to save. The advance can therefore be spent on any of the uses in the three classes listed above[7].

3. ***Saving through***. In this third case savings are made on a continuous and regular basis, and a matching lump sum is made available at some point in time during this flow of savings deposits. The services offered by insurance (in which case the savings take the form of premium payments) are of this type, though the poor are very rarely offered formal insurance services. Many forms of savings club, including, notably, rotating savings and credit associations, or ROSCAs also offer, "Saving through". 'Saving through' therefore constitutes the most common class of device that the poor are able to provide for themselves.



Thus, ***financial services for the poor*** are services that help the poor ***turn savings into lump sums. Good*** financial services for the poor are a matter of doing this:

- In as many ***different ways*** as possible (saving up, saving down and saving through)
- Over as many ***different periods*** (varying from very short term for quick needs, to very long term for old age or widowhood, for example) as possible
- In ways that are ***convenient, quick, appropriate, flexible***, ***affordable and reliable.***

In addition the framework will include an examination on how the 8 Ps of marketing that is, Pricing, Product/Services, Place/distributions/location of operations, Promotion of the products, Positioning, People, Process and Physical evidence are reflected in the perceived advantages and disadvantages of the service. This is important, as the main objective of this study is to inform on appropriate product development.

2.7 The institution that participated in the study

Ithala Bank, otherwise known as Ithala Limited is the banking arm of Ithala Finance and Investment Corporation. It has a very long history in KwaZulu-Natal having been born out of an institution set up in 1959 to develop what was then known as the KwaZulu homeland. It started as a developmental lender, not very different from enterprise lenders (although they sometimes use similar approaches), except that they have a far greater existing investment base on which to build. In 1990, in terms of the then formulated Banks Act, Ithala applied for and was granted an exemption from the provisions of the Act by the National Minister of Finance. This exemption was granted provided that Ithala met a number of conditions designed to protect the public with regard to their deposits with Ithala.

Presently Ithala Limited[8] operates like a fully-fledged bank offering a wide array of savings and loan products in 40 branches across KwaZulu-Natal province only, but does not have a banking license. Products offered include: Business Account, Ordinary Savings, Club Save, Target Save, Fixed Deposit, Call Account, Staff Savings Account and Trust Account and Funeral Schemes. On their loans portfolio they have, Progress Home Loans, Cash Loans, Security Loans and Home Improvement Loans.

3. Methodology and data collection

3.1 Terms of reference

The brief from the client requests that this study use:

- ❑ Qualitative and participatory research methods, in particular in-depth interviews with people who are clients of Ithala Limited and of informal financial organisations such as RoSCAs, *stokvels*,

[7] That is, it is not necessary to spend the advance on 'income generating activities' that produce an immediate stream of additional income.

[8] Note that Ithala does not have a banking license and therefore cannot use the word Bank in its name.

funeral clubs, etc. The project team is also requested to conduct interviews with poor people who are not clients of Ithala to discover why they are not and how (and if) they save.

- Analysis of selected quantitative data provided by the management information system of Ithala.

3.2 The Methods chosen

This study used qualitative research methods among which Focus Group Discussions based on Participatory Rapid Appraisal Techniques and in-depth interviews (using discussion guides) with low income people and Ithala officials.

Discussion Guides (5 sessions):

Using Guided Discussions, the researchers interviewed groups that provided insights into what challenges they face, the various mechanisms low income people use to save money, what they use the savings for, and the kind of products and services they want to see in a financial institution.

Life Cycle Profile to Trace Lump-sum Cash Needs Over Time (1 session)

Life Cycle Profile, which analyses key life-cycle events and how these are financed, provided the researchers with insights into what life cycle events require lump sums of money. The common life cycle events include setting up a home, starting a business, marriage, sending children to school and death. Understanding the most pressing of these needs enables MFIs to design products that respond to these events that require the most money and promote them as solutions to those needs.

Financial Services Matrix (6 sessions)

Financial Services Matrix, which analyses which socio-economic strata use which financial services and why, helped the researchers to understand the competitive environment both in the formal and informal financial sector. It allowed a quick understanding of the most prevalent financial management strategies/mechanisms and of who used them. The matrix included formal banks, Community based organisations, MFIs, Rotating Savings and Credit Associations (RoSCAs), *omashonisa* (informal sector moneylenders), *stokvels* (ASCAs), burial societies. Understanding the most prevalent of the mechanisms allowed the researchers to identify the features that make financial services popular.

Financial Sector Trend Analysis (3 sessions)

Financial sector trend analysis was useful in determining which financial services had been used over time and thus understanding the changes in the use or availability of a variety of financial services over time and why participants used them. This exercise was also useful in examining the level of competition and popularity among financial institutions both formal and informal.

Product Attribute Ranking (7 sessions)

Product attribute ranking was used to understand how the clients and non–clients perceived the components of financial services Ithala provided. The purpose was to ascertain what matters to them and why they had those preferences.

Relative Preference Ranking (3 sessions done)

In view of the competitive environment in the microfinance industry in KwaZulu-Natal we used relative preference ranking to understand how Ithala clients and non-clients viewed the variety of financial service providers and their services. This information is important for product development or refinement.

Seasonality of Income, Expenditure, Savings and Credit (3 sessions done)

This seasonality analysis was used to obtain information on seasonal flows of income and expenditure as well as on the demand for credit and savings services. This allowed understanding the risks and pressures faced by Ithala clients and how they used Ithala's financial services to respond to these risks and pressures.

Classification of the low-income group

Through a participatory process we identified three socio-economic classes within the low-income group namely: the "above average", "not so poor" and the "poor". The classification was based on access to food, clothes and asset ownership. These definitions were used to discuss low-income people in this report. According to discussions with clients they had the following perceptions about the "poor", "not so poor" and the "above average":

The "poor":[9]

- Are usually unemployed;
- If employed usually on temporary jobs, fetching water, firewood for neighbours and getting paid for it. Are usually recipients of donations;
- Easily distinguished by looking at way their children dress when they are off to school, e.g., no shoes, torn school uniforms;
- Live in shacks, i.e., do not have proper accommodation.

The "not so poor":

- Are usually employed or are self-employed, have education, have means to purchase goods.
- Own tuck shops or a store;
- They have painted houses, children go to school clean, there is soap at home for washing, mostly are sugar cane farmers;
- Able to pay school fees for their children beyond Standard 10;
- Probably own a car.

The "above average":

- Drive cars, live in well kept houses, their children go to upper class schools;
- Join funeral schemes with financial institutions rather than burial societies;
- Usually run businesses.

4. Analysis of results and main findings

4.1 Introduction and approach

Each qualitative session was meticulously recorded and the results were summarised according to the techniques used. This report presents these results clustered per financial service and per sector[10]. At the end of the section on each sector we present a summary of findings specific to that sector. Thereafter we compare the findings of different sectors and we come to some overall conclusions where relevant.

4.2 Informal financial sector

Results from the study and anecdotal evidence indicate that the informal financial sector in KwaZulu-Natal is large and competitive.

4.2.1 Reciprocal lending arrangements

This is probably the oldest form of lending or source of credit, mostly among the "not so poor" and the "poor". Whenever people are in need of cash urgently, they usually turn to people they are closest to first. There is an element of reciprocity involved i.e. one would help a friend/neighbour/relative because they would expect them to return the favour some time in the future. Amounts lent are usually less than R500. In KwaZulu-Natal most people felt that this method of lending was loosing popularity due to high incidences of failure to repay which lead to quarrels and hence loss of trust.

4.2.2 *Omashonisa* (Moneylenders)

These are usually individuals or groups of people who pool together resources and then operate a lending business usually at the premises of the owner or chosen member if it's a group. *Omashonisa* is a Zulu word meaning "to drag down". *Omashonisa* are generally perceived as unfriendly but respected people as they don't mingle much with neighbours. The means they sometimes use to recover loans, e.g. coercion, make would-be borrowers fear default. They specialise in short term loans (usually 30 days) charging interest rates on average between 40 and 60 % per month. Delays by just a day usually result in payment of a second month's full interest on capital. They are seen as most prevalent in urban areas lending mostly to people whose ability to repay the *omashonisa* can verify. Lending is relationship based, with clients gaining reputation as they build a clean repayment record. The largest proportion of

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[9] Please note that the definitions of the "poor", "not so poor" and the "above average" are perceptions of people and are area specific.

[10] Informal, semi-formal and Ithala, which belongs to the formal financial services, sector.

clients consists of people who have jobs or are self-employed but “live beyond their means”. Despite the high cost of credit *omashonisa* are still very popular sources because:

- The decision on whether one qualifies for credit or not is reached very quickly;
- Lenders do not necessarily need any proof of employment, etc, but just assurance that money will be repaid on a certain date; and
- Keeping close ties with a lender could result in loans being rescheduled or being cheaper.

“We call these people omashonisa, because once you are in its almost impossible to get out, they just drag us down. Payments are unbearable but it’s great too to have money when you need it.”

4.2.3 *Omholiswano* (RoSCAs)

This is an arrangement between a group of people usually numbering less than 10 to give each other certain agreed amounts of money on a rotating basis. Mostly “poor” and the “not so poor” people practice it. Participants are usually close in the sense that they could all be street traders having stalls next to each other or are teachers in one school, etc. The recipient of the amount for that month, week or day gets the equivalent of the number of members minus one multiplied by an individual’s contribution. Therefore on payday an individual is able to pocket more money than their daily, weekly or monthly earnings. This is a very popular means of savings amongst people of similar economic status because:

- It allows them to save for items or services that they probably would not have afforded with their monthly incomes only; and
- If one is unable to honour the due contribution, friends can cover for you to ensure continuity of the scheme.

Rotating savings do not accrue any interest charges at all.

A group of four schoolteachers in Jozini (Northern KwaZulu-Natal) rotate savings on a monthly basis. In the first month three of them (B, C & D) give R500 each to teacher A. In the second month A, C, & D give R500 each to teacher B, thus each recipient gets R1500 every third month.

4.2.4 Burial society

This is a type of institution whereby a community (usually the “not so poor” and the “poor”) sets up a scheme to assist members during bereavement. They can consist of a few households living together in a small town, to include several thousands of people from different townships in large cities. The starting point is to draft a constitution stating how the organisation will operate, how much and when to contribute, by whom, for whom and when the benefits can be realised. To generalise, most burial societies are established solely because people realise that individually they are unable to meet funeral costs and yet do not qualify for formal insurance schemes. Amounts contributed are around R30 per month (some pay weekly). Payments are very flexible, but it is essential that a member be always up to date with payments. Failure to do so may result in non-payment in case of bereavement. Resources are usually kept in bank accounts and easily accessible. Some burial societies invest contributions to generate more resources, thus they act as lending institutions, mostly to members charging interest. The rates charged vary from vary from 5% to 20% of borrowed amount depending on burial society based on what would have been agreed on at inception. Burial societies are omnipresent in urban areas and their numbers diminish in rural areas. With the advent of HIV and AIDS, many households are realising the importance of being part of such schemes. Groups reported that membership had swelled in the past two to four years. A further impact of HIV/Aids is that payouts of Societies are on the decrease. Burial societies are popular with many low income urban dwellers because of the following:

- Payments are flexible so that when members have cash flow problems, payments can be postponed to following months without any penalties. Members can choose between weekly or monthly payments;
- Contributions are reasonable as people get to agree amongst themselves how much to pay. As more members register with the scheme smaller amounts are usually contributed;
- They are not strict on household members to be covered, extended family members staying with paying breadwinner get covered too, and the schemes do not impose age restrictions;
- Money is released quickly whenever death is announced, no death certificate or affidavit is required, etc.;

- Bereaved families get more than financial support, e.g. emotional support, transport, and help with preparation of food and in-kind donations.

The main disadvantages to members are fraud. There are several reported cases where leaders sometimes steal the funds and flee. This causes a lack of trust.

4.2.5 *Stokvel* (food)

Stokvels, like burial societies, are formed by a group of people in a community, usually along gender lines to satisfy specific needs. People form food *stokvels* in order to cushion themselves against uneven cash flows, and thus counter food insecurity in times when money is scarce. These food *stokvels* are usually dominated by "not so poor" women, who contribute money on either a monthly or weekly basis with an objective of purchasing food/groceries for their households at an agreed time. This is usually at the end of the year, meant to coincide with periods of high food demand - like school holidays. In most cases the food bought lasts longer than the school holidays for which it has been set aside. Contributions are kept in a bank account opened by the organisation (usually have three signatories) where this deposit earns an interest. Bank rates are determined by the movements in the rediscount rates (South African Reserve bank) at the time of the survey was between 6 and 9% per annum. Resources are also used as a source of credit for members, at an interest rate. These rates vary from one stokvel to the next and can be anything between 5% and 20% of borrowed sum. Groups usually do not exceed 30 members, as bigger groups imply more complicated management. Also, members usually want to restrict membership to friends only. *Stokvels* are popular because:

- Members feel encouraged to save. "*Its always easier to save as a group, if on my own I would just blow the money or would sometimes not feel obliged to put aside something*", one participant said;
- Purchases made through *stokvels* are cheaper as the food is bought in bulk and hence qualifies for discounts; and
- Is a ready source of credit for members.

4.2.6 *Stokvel* (money)

A money *stokvel* operates on the same grounds than a food *stokvel*, only that in this case, money and not food is shared. The trend is to start saving at the beginning of the year, with payout at year-end, at which time money would have accrued interest. Participants are to a large extent people who have insufficient funds to maintain individual bank accounts but still like to save as a group (members are often drawn from the "not so poor" category). The money is usually used for school fees, farming implements, and to meet festive season expenses. Advantages associated with this type of institution are:

- Contributions are flexible, can be weekly/monthly and can be very small, R10 for example, amounts that banks wouldn't accept as deposits;
- Pooling resources together yields better profits. There is a higher interest income from pooled resources than if people were to deposit money individually; and
- Encourages low income people to save.

4.2.7 *Stokvel* (alcohol)

In this type of *stokvel*, friends (usually "not so poor" people) agree to rotate days in which they buy alcohol for each other. For example one person buys in the first week of the month, in the second week the second takes over etc. The payout period in this case is shorter and the money is used for no other purpose than buying alcohol. This is a very popular method of saving amongst friends because even if one is broke they are still entertained during weekends.

4.2.8 Savings collector

A savings collector is basically an individual who acts as a financial intermediary, collecting money from 'depositors' and keeping it safe for a small fee. The ones that we came across in KwaZulu-Natal do not pay interest to depositors and clients did not seem to mind at all. This facility is used by people who are unable to open bank accounts because they do not meet the necessary requirements and usually live in a cluster with the savings collector being a landlord for example if people live in a 'hostel'. They are popular because:

- Of convenience as collectors visit them at their premises;
- Any amount can be deposited;
- Collectors are sources of credit too;

- There is no need for complicated information as required by formal institutions; and
- There is usually a very close and personal relationship between the collector and clients, hence communication between the two is easier and benefits both parties.

There is a hostel on Umgeni Rd in Durban where most residents are low income women engaged in sewing and selling clothing. They rent the premises from a man called Reggie who also acts as their financial intermediary. Everyday he visits them to collect deposits if they have any. Amounts as low as R5 are accepted, each tenant has a record card (size of a cigarette pack) and money is kept for a fee of 10% of the total deposits, which tenants are comfortable with. Money can be withdrawn as per need and no interest income is accrued. Most tenants used this mechanism for keeping safely small amounts daily so that by the end of the month it equates to their rent, something that they would not have been able to do with a formal bank. Reggie is also a source of credit at 10% interest on capital to potential borrowers.

4.3 Semi-formal financial sector

4.3.1 Cash lenders

Cash lenders consist of people or organizations, which are usually registered with the Micro Finance Regulatory Council (MFRC) and lend people amounts not exceeding R10,000 with repayment periods not exceeding 36 months. During sessions, they were often referred to as "loan sharks". For borrowers to qualify for credit they usually have to prove that they are employed, i.e. produce a payslip. Although this is an illegal practice, discussions revealed that in some cases clients are required to leave their national identity documents and their bank ATM card with the lender. On payday, the lenders are the first ones to withdraw what is due to them sometimes leaving borrowers with only a small portion of their earnings. Cash lenders are frequented by the "above average" and to a lesser extent by the "not so poor" and the "poor". Interest charged on borrowed capital ranges between 30% and 40% annum in most cases. Their main advantage is that compared to banking institutions it is relatively easier to access credit. Clients are usually able to know about whether they qualify for credit or not on the day of application. The main disadvantage pertains to the fact that clients are scared that fraud could occur when they do have to hand over their ATM card.

4.3.2 Pawnbrokers

Pawnbrokers are generally popular amongst the "not so poor" members of the community in KwaZulu-Natal. Pawnbrokers use durable and semi-durable goods as collateral against money that they advance to individuals in need of short-term funds. These are often used to finance emergencies, or short term cash flow deficiencies in daily lives and businesses. The advances are made against the pledged item(s). Interest rates range between 25 to 30 percent per month. The borrower has up to three months to reclaim her/his items by paying off the advance, or else she/he forfeits the pledged items. Between the time the pawnbroker makes the advance until the time the client comes to reclaim the item, it is the responsibility of the pawnbroker to store and maintain the item in original condition. If the client forfeits the item, it then belongs to the pawnbroker who is free to sell it as a second hand good.

4.4 What is the impact of savings on individuals?

As can be seen from the foregoing discussion low income people in KwaZulu-Natal use various forms of saving to manage their household and business budgets. In the following sections we highlight a few examples of the impact of savings on individuals.

4.4.1 Business opportunities

Savings or swapping accumulated savings for a lump sum enable low income people to acquire physical assets especially when needed for establishing or expanding a business. Informal financial services providers often provide these financial services, such us pawnbrokers, RoSCAs, savings collectors and *stokvels*.

4.4.2 Emergencies

In the PRA sessions death and illness were the most frequently mentioned emergencies. The low income group in KwaZulu-Natal have been coping with these emergencies through the use of informal and semi-formal financial services such as those provided by the *omashonisa*, burial societies and cash lenders.

4.4.3 Safeguard against uneven income streams

Low income people in KwaZulu-Natal safeguard against uneven income streams due to seasonal variations through use of the various savings products provided largely by the informal financial sector and to some extent by Ithala. The most commonly used products in this regard are the food *stokvel* and Ithala's savings account.

4.4.4 Human development

The low income group in KwaZulu-Natal save for investments in education for children and other human resource development using mostly the informal financial products such money *stokvel* and Ithala's education plan.

4.5 What is the impact of savings on Ithala?

Ithala Limited offers a wide array of loans to clients. There are obviously set conditions to qualify for most of these loans. Of these five loans products, cash loans and home loans are the only popular products (most branches had no accounts at all for other loan products) in the 13 surveyed branches. To qualify for a cash loan, unlike others, a client ought to have money invested in either a fixed or target savings account. The cash loan granted can only be 90% of the invested sum and the repayment period is determined by the time of maturity of the investment. The investment acts as collateral for the financial institution: if a client defaults on the loan, they stand to forfeit part of their investment.

To qualify for home loans, the amount that can be borrowed from Ithala depends on a client's disposable income every month, after deducting normal monthly living expenses for the family. Therefore the maximum Ithala lends its clients for the purchase of a home is an amount where repayment does not exceed 25% of monthly income. A cash deposit is needed if the requested loan exceeds R30,000. To qualify for a home loan exceeding R30,000 the clients must have saved or have available about 5% of the purchase price. If the loan application is for R30,000 or less, or the applicant is employed by government and qualifies for a loan, no deposit will be required. It is clear that access to home loans has little to do with savings at Ithala but with their employment status.

One of the objectives of this study was to find out whether client's saving patterns affect their demand for loans. In the surveyed branches, only housing and cash loans were popular. Since clients' access to cash loans is conditional to having either a fixed or target account, data on fixed accounts, target accounts and cash loans were compared to find out if there was any relationship.

Correlation analysis was used to determine whether there is a relationship between Ithala cash loans and fixed deposit accounts and also with target save accounts. The same was done for housing loans against fixed and target accounts. The results were as follows:

Correlation matrix for loans against investments:

	Fixed deposit	Target Save
Ithala cash loans	-0.173669259	0.634330018
Housing loans	0.77433896	0.456266022

Interestingly there is no correlation at all (-0.17) between cash loans and fixed deposit accounts. The immediate explanation to this could have been the data. There are different types of fixed deposit accounts, and when information on that was requested from Ithala, they supplied it in terms of the total for all fixed accounts. Low income people do not use some of these and some have huge portfolios like the corporate fixed account, which could have biased the figures.

Housing loans seem to move positively with fixed deposit accounts (0.77), and also the same applies to Ithala cash loans and target save (0.63)[11]. This is due to Ithala's policy that requires one to have an investment account to qualify for a loan. To be able to determine whether saving patterns of clients are related to the uptake of loans more accurately, it would be necessary to gain more access to client information from Ithala.

[11] As a rule of thumb a correlation coefficient greater than 0.6 is seen as significant.

4.6 Main findings of the study

4.6.1 Introduction

In this section we discuss the main findings of the study on the basis of specific techniques to identify financial products used by the low income group in KwaZulu-Natal and the perceptions of clients and non-clients of Ithala.

4.6.2 Main findings on the basis of specific techniques

The main findings per technique are discussed below:

Financial Sector Trend Analysis

The financial sector trend analysis identified twenty-four financial products; of these the most often mentioned were the Target Save Account, Fixed Deposit (12 months), Fixed Deposit (6 months), Savings Account (stop order), cash loans (non-Ithala), Funeral Plan, Club Save Account and *omashonisa* (moneylender). As can be seen a large number of the products mentioned were non-Ithala products. This is an indication of the strength of the competition from the informal sector products.

<u>Target Save Account</u>

The popularity of the Target Save product has been stable over the years because there are no bank charges levied on this account and it has a low minimum opening balance of R50. But interviewees fear that its popularity will soon decline as a result of growing unemployment in KwaZulu-Natal.

<u>Fixed Deposits</u>

- The 3 months deposit: popularity has been increasing partly due to retrenched workers who have been depositing their terminal benefits.
- The 6 months deposit: popularity has also been increasing, most people who use this product are those that have been retrenched and families where a breadwinner has died and the family is still deciding on what to do with the insurance package
- The 12 months deposit: popularity has been stable especially among the low income people with regular income. Also the *stokvels* use this product.
- The 18 and 24 months deposit: Not popular, people do not have money to invest that long. The growing unemployment is worsening the problem. What clients do not like is the fact that money cannot be accessed before the maturity date.

<u>Savings Account</u>

The Savings Account's popularity came about, as many companies required their employees to have a bank account so that their salary could be electronically transferred. Previously cash or cheques were used. Ithala clients said they are happy with the product because of convenience of withdrawals of money required for daily household needs and emergencies. However, clients are not happy with the limit on withdrawals at R2,500 and the number of days notice for larger withdrawals.

<u>Cash Loan (non-Ithala)</u>

This product of the loan sharks has emerged over the last five years to be very popular among government employees such as teachers, policemen etc. These are people who were classified in this study as "above average" people. To access this product one is required to show a payslip as evidence of formal employment and regular income.

<u>Funeral Plan</u>

Ithala clients are happy with this product because it lightens the burden of burial. The policy covers mortuary fees, food for mourners and transport among others. However, some clients felt that this scheme was expensive.

> *"It is important to note that today funerals are just like weddings, people will talk badly about that particular household if they were not well catered for at a funeral, they have to be fed and for that you need money".*

<u>Club Save Account</u>

This product has become popular over the years amongst the low income group because it offers them an opportunity to save in groups and from as little as R20 per month. The self-employed and those in formal employment use this product. People in *stokvels* (both food and money) mainly use this product.

<u>Omashonisa</u>

The popularity of the cash loan product offered by the *omashonisa* (moneylenders) has been increasing over the years because of the worsening economic environment and particularly the growing unemployment that has left many people with very few alternatives.

The scores below are average scores for the three PRA sessions, on a scale of 1 – 5 with 5 denoting the most popular.

Table 1: Financial Sector Trend Analysis[12]

SERVICES	NOW	2 YEARS AGO	5 YEARS AGO
Savings Account	4	5	4
Club Save Account	4	3	3
Stockvel (Food)	4	4	3
Stokcvel (Money)	2	2	1
Omashonisa	5	3	2
Omholiswano	2	2	1
Funeral Plan	4	3	1
Personal Loans	1	0	0
Insurance Lenders	1	1	0
Money Lenders	2	1	0
Burial Societies	3	3	3
Fixed Deposit 6m	4	3	2
Fixed Deposit 12m	2	2	3
Fixed Deposit 18m	1	0	1
Fixed Deposit 24m	1	0	0
Target Save 9m	2	2	2
Target Save 12m	1	1	0
Housing Loans	2	1	2
Cash loans	3	1	1
Cheque account	2	1	1
Friends/Relatives/Neighbours	1	1	2
Fixed deposit 3m	2	2	1
Smart card (Ithala)	1	1	0
Cash card	2	1	0

Financial Services Matrix

The PRA sessions identified twenty-four major savings products/services as shown in Table 2 below. Of these the most often mentioned were Target Save Account, Savings Account (stop order, and Club Save Account. Of the products/savings services identified, eight are products offered by the informal sector. Here again we see the strength of the competition Ithala is facing from the informal sector.

[12] Please note that there were three group sessions where the financial sector trend analysis tool was used.

Table 2: Financial Services Matrix averages scores[13]

SERVICES	POOR	NOT SO POOR	ABOVE AVERAGE
Savings Account	1	4	2
Club Save Account (1yr)	1	5	1
Burial Societies	2	4	1
Stokvel (Money)	1	2	1
Stokvel (Food)	1	3	1
Cash card	0	3	3
Fixed Deposit 24m	1	1	1
Fixed Deposit 12m	0	2	3
Target Account 12m	1	4	2
Friends/Relatives/Neighbours	2	1	1
Savings in Kind	0	1	1
Housing Loans	0	0	1
Cash loans (non Ithala)	0	0	1
Fixed Deposit 6m	0	3	3
Funeral Plan	0	2	2
Education Plan	0	1	1
Omashonisa	2	3	1
Fixed Deposit 3m	0	2	1
RoSCAs (*Omholiswano*)	0	2	0
32 day notice	0	1	0
Pawn Broking (*Isibambiso*)	0	1	0
Fixed Deposit 9m	0	1	2
Stockvel (alcohol)	0	2	0
Ithala Cash loans	0	1	3

As can be seen from Table 2 the "poor" uses four of the twelve identified Ithala products/services. It is clear that most of Ithala products/services are utilised by the "not so poor" and the "above average".

Relative Preference Ranking

Ithala was ranked favourably (Annex One) except in respect of queues. Clients were unanimous in identifying long queues as a major disadvantage of Ithala's financial services and suggested that Ithala should introduce a cash card as a way to reduce the queues since a client would have flexible hours to access their savings accounts.

Product Attribute Ranking

The participants in the seven sessions that were conducted using product attribute ranking identified eighteen attributes (Annex Two). Of these the most cited were, interest on deposit, language, bank charges, queues, and 24 hours access.

The clients felt very strongly that interest on deposit matters to them most. They argued that low interest on deposits adversely affects the purchasing power of their savings and thus makes savings unattractive. However, opinion was divided as to whether the interest on deposit that Ithala offers is adequate or not.

The medium of communication between the clients (or potential clients) and the financial institution was also identified as important to them. They are happy that Ithala communicates to them in Zulu.

Bank charges were identified as an element they do not like, they claimed that if one left R100 in a bank account after a few months it would be wiped out by bank charges. *"This is the main reason why we left Ithala and are now preferring not to have bank accounts at all*".

[13] Please note that there were six group sessions where the financial service matrix was used. In Table 2 above, the mention score is average of the six scores.

In every session that was held strong views were expressed regarding the long queues Ithala clients are subjected to. Clients felt that the long queues expose them to robbers in addition to taking too much time from their core business activities. They suggested that Ithala should introduce a cash card as a way of reducing the queues.

Easy access to their accounts especially in terms of being able to withdraw cash even after banking hours was identified as a desirable element that is presently missing from the financial services Ithala offers. In 10 out of the 27 sessions participants suggested that Ithala should consider introducing an ATM card. However, some participants feared that a "cash" card would facilitate fraud and therefore suggested that the account pass books should not be phased-out but used together with cards. There seems to be a general mistrust of cash cards by the clientele interviewed. People seemed comfortable with signing when withdrawing money. An account owner sees a signature rather than a receipt from an ATM as concrete proof of withdrawal.

Discussion Guides

Discussion guide-driven focus group discussions identified sixteen products and of these only six were Ithala products. Among the most often mentioned were food *stokvel* and cash savings through *stokvel*, rotating savings, group loans, short term cash loan from *omashonisa*, savings in kind, short and medium term loan from loan sharks, funeral scheme provided by burial societies. As can be seen among the most often mentioned products none was Ithala products. This is probably an indication that Ithala clients more often use informal sector products.

The participants identified savings for food and cash savings through *stokvel* as some of the most often used products. Interestingly *stokvels* maintain the savings mostly using Ithala products such as the Target Save and Club Save Accounts.

Jozini is a 'growth point' 400km north of Durban. A group of fifteen women from this area came together to form a food stokvel. They have regular contributions of R300 per month or weekly breakdowns of this amount, depending on members' preference. Money is pooled together and a Club Save Account opened at Ithala Limited (opened in the first year - for the following years small deposit is left on the account to maintain continuity). This is done from the first month of saving, which is usually January, so a maximum amount of R4,500 is deposited every month earning them an interest at a rate of 0.25% to 3.5% per annum. Usually some money is not deposited to cater for emergency needs. At the end of each year the capital (more than R50,000 plus interest) is withdrawn. All is then set for a trip to Durban where the money would be used to purchase foodstuffs varying from cooking oil to sugar, etc. Durban is chosen because of the presence of huge wholesale stores who usually sell their wares at discounted prices and are also able to provide free transport to stokvel members, all the way back to Jozini. The food usually lasts through the festive season and three months after that, and the process of saving for another bulk purchase would be started.

<u>Rotating savings</u>

This product provided by the *omholiswano* (RoSCAs) was popular particularly among women. The popularity is partly due to easy entry requirements - such as one does not have to be in formal employment and also the amounts involved are small and are decided by consensus. The research team learnt in one session that the popularity is on the decline because some people reneged on their mutually agreed rounds and failed to make good their part.

<u>Short-term cash loan</u>

Loans from *omashonisa* are used by all the classes of the population. However it is the "not so poor" that use *omashonisa* most commonly and the "above average" and "poor" groups use them less frequently. This is so because the "above average" can access other cheaper sources of loan funds. The "poor" class is rarely accepted by the *omashonisa* because the risk of default is high.

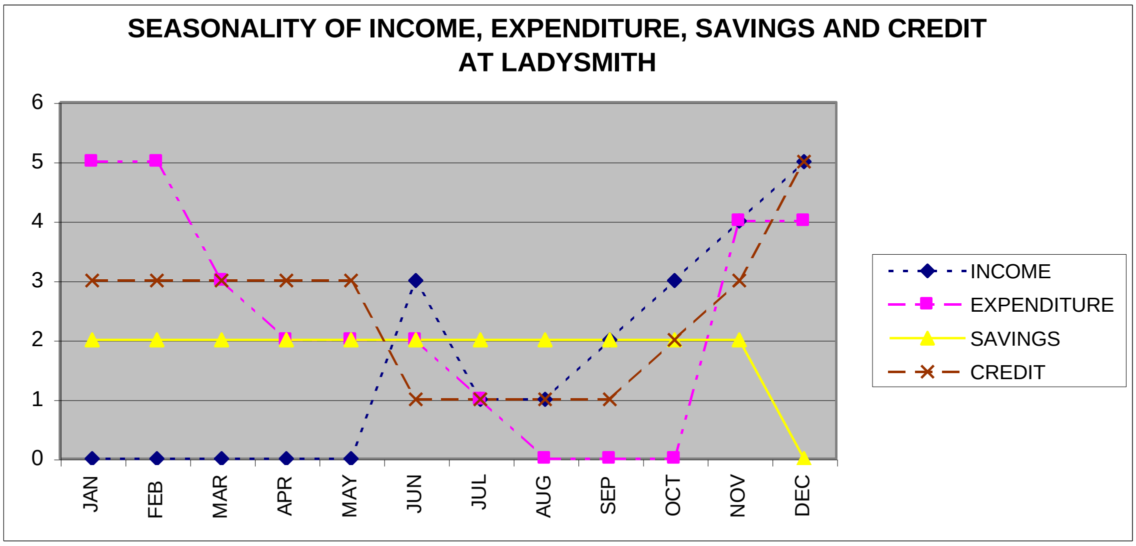
<u>Saving in kind (usually livestock)</u>

This is a system of saving that was identified to be popular among the low income people, especially those living in urban areas. These urban people keep their livestock in the rural areas at their villages of origin. Surprisingly, the rural people did not consider livestock as saving in-kind as they felt that livestock was a status symbol. Because of the status symbol aspect associated with savings in livestock it is probably not possible to induce these savers to switch to monetary savings.

<u>Short and medium term loans</u>
These loans mostly from loan sharks were identified as products very often used by the "above average". This is so because access is conditional on one being in formal employment and having an account with a commercial bank.

<u>Funeral schemes (burial societies)</u>
These schemes provided by burial societies were identified to be more popular than the funeral policy offered by Ithala. This is so because the scheme offered by burial societies is easy to access during need as there are no long procedures, premiums are low and the schemes can cover extra household members at no extra cost.

Seasonality of Income, Expenditure, Savings and Credit
Savings are important for smoothing out peaks and troughs in income and expenditure. For example at Ladysmith branch of Ithala we found marked seasonal fluctuations of income flows. The months of June through to October bring in income from agricultural produce sales. Income is highest in November and December as migrant workers trek back home with bonuses. However, January through May are particularly hard months because many households experience low income.



Expenditure is very high at the beginning of the year because of school fees, travel costs for migrant workers and paying Christmas hire purchases. One participant commented "*Furniture shops have a tendency of wooing customers to buy in December without any deposit and start paying in February, sadly people fall for it*".

From March expenditure declines but rises again in October/November as people start preparing to cultivate crops. With the distinct seasonality of both income and expenditure, there is a demand for a savings mechanism to allow households to store money when they have excess income in order to meet consumption and emergency needs during the lean months of January through to May. Presently the low income people have been meeting these needs using saving down financial products such as loans from pawnbrokers, loans from *omashonisa* (moneylenders) and also liquidating savings in livestock.

Life Cycle Profile
Low income people make regular savings for financing life cycle events. These events include establishing household, marriage, birth of a child, school fees, illness and death. All these events pose problems to low income people, which require substantial sums of money. In KwaZulu-Natal the low income people use largely the informal and to a lesser extent semi-formal savings systems to accumulate long-term lump sums in preparation for these life-cycle events.

The participants identified nine life cycle events that require lump sums of money (Table 3). The dominance of informal sources of finance is quite striking; the general explanation for this trend is that it is relatively easy for the low income group to access informal financial services. It is surprising that the participants discussed school fees but did not mention Ithala's Education Plan product, instead mentioned Target Save Account as a product they normally use to accumulate funds for school fees. The Education Plan product could have been cannibalised by the Target Save Account.

Table 3: Life Cycle Events

Life cycle event	**Source of finance**
Lobola[14]	Savings in kind (livestock), Cash savings, loans from banks and employers
Wedding	Cash loans from *omashonisa* and Target Save Account
Establish household	Bank loans, Company loans and housing loans
Birth of a child	Cash loans from *omashonisa* and cash savings
Primary education	Cash savings through *stokvels*
Secondary education	Target Save Account, cash savings through *stokvels*
Children's marriage	Savings in kind (livestock)
Illness	Cash loans from *omashonisa*
Death	Benefits from burial societies

4.6.3 Summary of main findings of the study

Products

The study identified thirty-five products (Annex Three) of which 17 are Ithala products. Among the most often mentioned are short-term loan from *omashonisa*, cash saving (through the *stokvel*), Target Save Account (through Ithala) and funeral scheme from burial society and the rest are shown in Table 4 below:

Table4: Most Often Mentioned Products

Product	**Mention Score**[15]
Short term loan from *omashonisa*	12
Cash saving (*stokvel*)	11
Target Save Account	11
Funeral scheme (Burial Society)	11
Fixed deposit (12 months)	10
Savings Account (Stop Order)	10
Club Save Account	10
Saving for food (*stokvel*)	10
Short and medium term loan (Loan Sharks)	9
Funeral plan	9
Fixed deposit (6months)	8
Rotating savings (RoSCAs)	8

Of the twelve most often mentioned, only six are Ithala products. This is an indication of the intensity of the competition from informal sector products, and also that Ithala has a recognisable presence in the market.

The study identified ATM card as a new product feature that would be desired by Ithala clients (Section 4.6.2). The clients would like this product to have the following attributes:

- the ability to access the account from any branch of Ithala and
- an option to have both ATM card and savings account pass book.

[14] Bride price

[15] Mention scored out of all the 27 group discussions that were held.

The Core Product Attributes
This study has identified the following core product attributes:
- Liquidity
- Convenience
- Security
- Interest rate

Liquidity
The ease and speed with which clients can access their money is important to all people but is more so for low income people because they tend to save for emergencies, which may arise at any time. It is therefore not surprising that this attribute was identified as a core product attribute. Ithala clients felt that the present products except the savings account do not provide the required liquidity. This is the major reason they suggested a cash card.

Convenience
The easy access to the branch offices in terms of distance to walk, hours of operation, simplicity of withdrawal forms/procedures and absence of long queues are factors that determine the convenience of access to financial services. Although the clients were generally happy with the location of Ithala branches and the withdrawal procedures, they expressed strong dislike for the queues they often had to endure.

Safety (Security)
The factors that determine the security of a financial institution are the degree to which money is physically secure and the perception about the financial health of the financial institution. Ithala clients perceive the financial health of Ithala to be good and are comfortable with the safety of money at Ithala.

Interest rate
The effective return on money deposited in a financial institution is an important attribute especially for those clients saving for investment opportunities. Some Ithala clients complained that the interest rate offered by Ithala was very low.

Product Refinement
In this section we discuss possible product refinement, of the 17 Ithala products that were identified (Annex Three) we selected six most often mentioned for this discussion.

Table 5: Product Refinement

Product	**Key Features**	**Clients Perception**	**Suggestions**
Target Save Account	*Term 12 months *Min. monthly instalment R20 *Deposits accepted at any Ithala branch *No service fees	Popular product because of no bank charges and low minimum monthly instalment.	No refinement recommended
Fixed Deposit 12 months	*High interest rate fixed for period of investment * Minimum balance R5,000	Popular product especially among stokvels and the low income group with regular income	Would be more productive if targeted at stokvels
Savings Account	*Low service fees *Unlimited number of withdrawals *Transactions at any Ithala branch	Generally happy with this product but complained of the R2,500 limit on withdrawals and the requirement for notice in respect of larger withdrawals	This account should be operated using a cash card but with an option for cheque/pass book. The limits on withdrawals should be retained to safe guard liquidity at branch level
Club Save Account	*Low minimum opening balance *Low service charge *Unlimited withdrawals	Happy with low minimum opening balance and unlimited withdrawals	No refinement required
Funeral Plan	*Low premium *Easy and fast benefit claims	Happy with the product but felt the procedure for claiming benefits a bit cumbersome and coverage restrictive	Review policy on coverage limitation to accommodate the realities of the African family
Fixed Deposit 6months	*Funds not tied for a long period *Minimum balance R1,000	Happy with the product	No refinement required

Competition
Ithala's most serious competition comes from the informal financial sector. So far Ithala has been competitive in most respects, but its competitiveness is declining as more people lose formal employment. To stay in the competition Ithala will have to incorporate into its products some of the features that make informal sector products attractive such as easy access to services and quick decision-making processes.

4.6.4 Comparison with experience in rest of East and Southern Africa
As would be expected we found similarities of issues and savings mechanisms. For example a study in Tanzania (Mutesasira et al., 1999) found that the poor felt that their incomes were too low and that there was too much formality at banks and that the banks were uninterested in small deposits. This perception of unfriendliness associated with banks was also cited in the focus group discussion held with low income people in KwaZulu-Natal. As a result most of the low income group in KwaZulu-Natal do not use formal banks. In addition, the Tanzanian study found a large variety of informal financial mechanisms used by the poor and this is similar to our finding in KwaZulu-Natal.

A study in Uganda (Mutesasira et al., 1999) found that most of the low income group do not use formal banks because they require high opening balances, high minimum balances, they have an intimidating appearance, staff attitudes are unhelpful, the branches are usually far from the poor people's neighbourhoods, they maintain inconvenient opening hours, have relatively complicated transaction forms and transaction costs are usually high. Also the study found a multiplicity of informal savings mechanisms. These issues are similar to the issues we found in KwaZulu-Natal.

A recent study in Zambia (Musona and Coetzee, 2001) found that the low income in Zambia have limited access to formal banks because the banks are located far from the poor people's neighbourhoods, the opening and minimum balances are too high for most poor people. The study also found a wide variety of informal savings mechanisms. These issues are similar to the ones found in KwaZulu-Natal.

5. Conclusions and recommendations

The informal financial sector in KwaZulu-Natal is competing with Ithala and appears to have a competitive advantage in terms of offering flexible financial services, for example, financial services offered by burial societies, *stokvels* and savings collectors.

The multiplicity of informal financial mechanisms suggests the existence of needs that are not adequately met by the semi-formal or formal financial sectors. This is a market opportunity for Ithala. For example, the financial needs currently being met by *stokvels* could be served by appropriate products from Ithala.

There are also opportunities for Ithala to develop mutually beneficial relationship/linkages with the informal sector for example the existing linkage with *stokvels* could be enhanced to make it more effective in mobilising savings from the low income people. Effective linkages with savings collectors could also be developed through providing banking services to savings collectors, thus indirectly reaching a greater number of the poor.

The low income group in KwaZulu-Natal use various forms of savings to manage their household and business budgets these include the use of informal financial service/providers such as pawnbrokers, RoSCAs, savings collectors and *stokvels*. These financial services enable low income people to acquire physical assets for establishing or expanding businesses.

Low income households are also able to cope with emergencies through the use of informal financial services such as those provided by burial societies and *omashonisa*. The low income group in KwaZulu-Natal safeguard against uneven income streams mainly through use of *stokvels* and Ithala's savings account.

Due to data limitations we could not establish conclusively whether client's saving pattern affect their demand for loans. However we found some evidence that Ithala housing loans move positively with fixed deposit accounts and also Ithala cash loans move positively with the Target Save Account.

Recommendations

- We recommend that Ithala engage in savings mobilization as follows:

  Ithala as a financial institution serves KwaZulu Natal well with a wide branch network in all urban, peri-urban and rural areas of the province. In most cases proximity to branches for clients is not a pressing issue. It became clear from the survey that Ithala seems to have two major client groups. Firstly the employed (formally or informally), who are required by their employers for payment purposes to have a bank account, and secondly those who choose to use Ithala's services because they feel comfortable working with it. Comfortable in the sense that they are amongst other things addressed in their preferred language and they consider the bank to have reasonably fewer restrictions to savings, i.e., no need for pay-slips for example to open a savings account.

  On the other hand, a majority of Ithala's clients are people with low incomes, who deposit small sums whenever they do and regularly require access to their savings. It has quite a significant number of clients who are members of *stokvels*, who prefer to pool resources together rather than, save individually. So, in a bid to mobilize savings Ithala should consider adopting different strategies for different market segments possibly as follows:

- Formally employed – Mobilizing savings would imply Ithala persuading clients who currently are not banking with them to do so. This could involve vigorous marketing activities with corporations. For example the marketing department could visit farms, factories, etc (if they are not already doing so) and encourage the workforce to consider Ithala as a banking solution. Clients highlighted the importance to them of the personal contact they received from banks as a reason for them choosing to work with them. Another aspect of savings mobilization could actually be introduction of educational programs aimed at encouraging clients to keep their deposits at Ithala for longer.
- Self-employed – The difficulty of working with the self-employed is that they have irregular income streams and hence in some instances do not consider keeping a savings account a viable option. Encouraging people to organize themselves into groups along the lines of stokvels could yield dividends for Ithala. With the help of local agents Ithala could bring together people with similar income earning activities and structure incentives for them to save thus benefiting both parties.
- Unemployed – This segment of the population was identified in group discussions as not participating in informal financial saving mechanisms as they do not have money at all, and hence it could not be worthwhile for Ithala to pursue them.

❖ Recommendations for methods of linking informal saving systems into semi-formal or formal sector financial service operations:

Ithala is already doing something in this regard. The 'Club Save' account if for example is targeted at people saving in groups be it *stokvels*, burial societies or any other group of people interested in securing their savings for a period of time in anticipation of some events. Probably the challenge for them is to broaden this and also try to replicate other informal financial services available in the market. For example *omashonisa* remain very popular amongst clients yet Ithala also has loan products. Clients voiced their concerns that they found it difficult to borrow from Ithala as they needed a savings account with money prior to borrowing. Maybe Ithala should look more into enforcing repayment rather than 'preventing' people from borrowing. Instead of requiring people to have savings accounts with money prior to borrowing Ithala should introduce some form of progressive borrowing, i.e., more money lent as the clients repays previous small amounts hence proving their credit worthiness.

❖ To make any recommendations pertaining to product refinement two sets of information are needed:

- Information of the product itself is needed i.e., its features and conditions that go with use need to be clearly understood.
- There is need to have a problem defined, which demands that an investigation be done. For example the product could possibly be under-performing or facing high drop out rates. In this particular instance we do not have this set of information and thus not sure whether we can recommend anything related to this.

❖ Probably most important, a recommendation for market research and product development that would inform items recommended above. This is in view of the fact that the information gathered in the study is not sufficiently comprehensive to be used for product development mainly because product refinement or development was not the objective of the study. There is a great need for extensive market research, if Ithala Limited is to make decisions that could enable it grow. If Ithala were to consider implementing any of the recommendations mentioned, there is no doubt that further insight into these issue would be needed. Ithala is one of many active financial institutions servicing the province. It could be possible that it is offering products not entirely different from its competitors, but the way it does business could be what affects savings mobilization.

6. Further research questions

There are many micro-lenders in KwaZulu-Natal with probably a bigger market than Ithala, for example lenders like Credit Indemnity and African Bank. It would probably be useful to apply the same market research techniques to the clients of these institutions. Also of interest could be to try and quantify the effects these institutions have on household borrowing and hence household budgets. Something relevant to Ithala could be to look at the institution itself and try to find out whether it has capacity to deliver all the services that it is currently offering efficiently. It is possible that some of the issues clients raised have a lot to do with delivery mechanisms.

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Annexes

Annex One: Relative Preference Ranking

Criteria	AB	NB	NBS	IT	CI	ABSA	FNB	OM	FRI	STO	BS	AM
Interest on deposit	-	5	4	4	-	4	3	4	-	4	-	-
Interest charges	1	3	2	5	1	-	-	1	5	1	-	-
Fairness	-	4	4	5	1	5	-	1	1	4	2	-
Flexible repayment	3	-	-	-	-	-	-	1	5	5	4	-
Loan size	1	-	-	5	-	5	-	3	2	3	3	-
Queues	3	2	-	1	3	5	4	4	4	4	4	-
Access to credit	3	1	-	5	2	-	-	5	-	5	-	-
Proximity	2	-	4	4	-	1	3	5	-	5	4	4
Ease access to funds	-	-	-	5	-	4	4	5	1	4	-	4
Funeral premium	-	-	-	5	-	1	-	1	1	5	5	5
Minimum opening balance	-	-	3	5	-	-	-	2	-	2	-	-
Friendly Staff	-	-	3	3	-	-	3	-	-	-	-	-

Key
AB = African Bank
NB = Ned Bank
NBS = Natal Building Society
IT = Ithala
FRI = Friends & relatives
STO = Stokvel
AM = Amakishi
1=Low
5=High

CI = Credit Indemnity
ABSA =
FNB = First National Bank
OM = Omashonisa
BS = Burial Society

Annex Two: Product Attribute Ranking Tally Sheet

Attribute	**S12**	**S13**	**S16**	**S17**	**S19**	**S21**	**S24**	
Convenience							1	
Language	2	2	2	3		7		
Savings book	5	1	1			1		
Communication							2	
Proximity	1	6		3				
Speed of service	3					3		
Withdrawal limit				1	3		4	
Staff courtesy				2		5	2	
Opening balance	4	4	5					
Interest on deposits	6	3	3		4	2	5	
Safety					6		1	
Bank charges	8		4		2	6	5	
Access to withdrawals	9			1				
Queues		7	7	5	5		2	
24 hour access			9	6	1		3	
Minimum balance	7	5					6	
Friendly staff			6	9	7			
Nation-wide access	10		10	7				

NB: The number in the table indicates the position an attribute was given by that specific group. Whilst the total indicate the frequency by which the attribute was mentioned.

Attribute	**S12**	**S13**	**S16**	**S17**	**S19**	**S21**	**S24**	**Weighted average (> average = more important)**
Savings book	0.6	1	1			1		**0.51**
Interest on deposits	0.5	0.7	0.8		0.4	0.9	0.3	**0.51**
Language	0.9	0.9	0.9	0.7		0.1		**0.49**
Bank charges	0.4		0.7		0.9	0.3	0.5	**0.39**
Queues		0.1	0.3	0.4	0.4		0.8	**0.31**
Staff courtesy				0.8		0.4	0.8	**0.29**
Withdrawal limit				1.0	0.6		0.4	**0.28**
Proximity	1	0.3		0.7				**0.28**
24 hour access			0.2	0.3	1.0		0.3	**0.27**
Opening balance	0.7	0.6	0.6					**0.26**
Speed of service	0.8					0.6		**0.20**
Safety					0.3		1	**0.18**
Access to withdrawals	0.2			1.0				**0.17**
Convenience							1	**0.14**
Minimum balance	0.3	0.4					0.1	**0.12**
Communication							0.8	**0.11**
Friendly staff			0.4	0.1	0.1			**0.10**
Nation-wide access	0.1		0.1	0.2				**0.06**

Annex Three: Overall Product Tally Sheet

Products	**S1**	**S2**	**S4**	**S6**	**S7**	**S8**	**S10**	**S11**	**S15**	**S18**	**S20**	**S23**	**S25**	**S26**	**S27**	**TOTAL**
Ithala Cash loans	1		1		1		1		1				1			6
Target save account (12 m)	1	1	1	1	1		1	1		1	1	1	1			11
Target save account (9 m)								1				1				2
Funeral Scheme (Burial society)	1		1	1	1	1	1	1		1	1	1			1	11
Fixed deposits (36 m)			1													1
Fixed deposit (24 m)	1							1			1	1				4
Fixed deposit (18 m)								1		1		1				3
Fixed deposit (12 m)		1	1	1	1		1	1		1	1	1	1			10
Fixed deposit (9 m)		1		1						1			1			4
Fixed deposit (6 m)	1	1		1			1	1		1		1	1			8
Fixed deposit (3 m)				1			1	1		1			1			5
Saving in kind	1				1	1			1					1		5
Cash card	1	1	1	1							1		1			6
Housing loan	1	1	1					1								4
Personal loans (Banks)			1					1				1				3
Savings account (Stop Order)	1	1	1	1			1			1	1	1	1	1		10
Group loans					1	1								1	1	4
Business Account			1													1
Business loans					1	1										2
Short & Medium term loans (Loan Sharks)	1	1			1	1		1			1	1	1		1	9
Funeral plan (Ithala)	1	1	1	1	1			1			1	1	1			9
Education plan	1	1														2
Club Save Account	1	1	1	1			1	1		1	1	1	1			10
Short term loans (Omashonisa)	1	1	1		1	1	1	1	1	1		1	1		1	12
Saving for food (Stockvel)				1	1	1		1	1		1	1	1	1	1	10
Cash Savings (Stockvel)		1	1	1	1	1			1		1	1	1	1	1	11
Saving for alcohol (Stockvel)				1												1
Reciprocal lending (Friends/Neighbours/Relatives)			1	1	1		1	1			1				1	7
Rotating savings (Roscas/*Omholiswano*)		1			1	1	1					1	1	1	1	8
32 Notice deposit account			1				1									2
Pawn Broking							1									1
Current/Cheque account								1		1						2
Credit card			1							1						2
Ithala Smart Card								1								1
Savings collector														1	1	2

Annex Four: Tally Sheet for Discussion Guide

Saving Services	**S7**	**S8**	**S15**	**S26**	**S27**	**Total**
Funeral services	1					1
Loan Shark	1	1			1	3
Stockvel (food)	1	1	1	1	1	5
Commercial Banks	1					1
Omholiswano (Roscas)	1	1		1	1	4
Stokvels (money)	1	1	1	1	1	5
Burial Societies	1	1			1	3
Business loans	1	1				2
Group loans	1	1		1	1	4
Ithala Cash loans	1		1			2
Fixed Account	1					1
Target Account	1					1
Omashonisa	1	1	1		1	4
Company loans (employers)	1					1
Friends/relatives	1				1	2
Saving in kind	1	1	1	1		4
Savings account				1	1	2
Savings collector				1	1	2

Annex Five: Financial Sector Trend Analysis Tally Sheet

Savings service	**S2**	**S11**	**S23**	**TOTAL**
Target save account (12 m)	1	1	1	3
Target save account (9 m)		1	1	
Burial society		1	1	2
Fixed deposit (24 m)		1	1	2
Fixed deposit (18 m)			1	1
Fixed deposit (12 m)	1	1	1	3
Fixed deposit (9 m)	1			1
Fixed deposit (6 m)	1	1	1	3
Fixed deposit (3 m)		1		1
Cash card	1			1
Housing loan	1	1		2
Savings account (Stop Order)	1	1	1	3
Cash loans (non-Ithala)	1	1	1	3
Personal loans (Banks)			1	1
Insurance lenders			1	1
Funeral plan	1	1	1	3
Education plan	1			1
Club Save Account	1	1	1	3
Omashonisa	1	1	1	3
Stokvel (food)		1	1	2
Stokvel (money)	1		1	2
Friends/Neighbours/Relatives		1		1
RoSCAs (*Omholiswano*)	1		1	2
Current/Cheque account		1		1
Ithala Smart Card		1		

Annex Six: Relative Preference Ranking Tally Sheet

Element	**S3**	**S5**	**S14**	**Total**
Interest on deposits	1	1	1	3
Fairness	1			1
Flexible repayment	1			1
Loan Size	1			1
Bank Charges	1			1
Queues	1	1		2
Access to credit	1	1	1	3
Funeral Policy premiums		1		1
Access to withdrawals				0
Proximity		1	1	2
Loan Amount		1		1
Friendly Staff			1	1
Minimum opening balance			1	1