# Economic analysis of indebtedness among workers in formal employment in UMzinyathi District


**DA Yeboah**

**24816108**


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**Supervisor: Prof. O.I. Oladele**

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## DECLARATION

I, Daniel Adusei Yeboah, declare that this research project is my own work. It is submitted in partial fulfillment of the requirements for the degree of Master of Business Administration in Finance at the Graduate School of Business & Governmental Leadership, University of the North-West (Mafikeng Campus). It has not been submitted before for any degree or examination at any other university.

**Signature.........................................** **Date...............................**

**DA YEBOAH**

## DEDICATION

This work is dedicated to my exceptional mother Felicia Asare (who is popularly known as Aunt Felicia) and my beautiful wife Nana Fosu Hemaa for their love, unbelievable support, prayers and encouragement which has propelled me to come this far.

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## LIST OF ACRONYMS

| | |
|---|---|
| BCEA | Basic Conditions of Employment Act |
| CBM | Credit Bureau Monitor |
| GDP | Gross Domestic Product |
| NCR | National Credit Regulator |
| SPSS | Statistical Package for Social Sciences |

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## ABSTRACT

During the last decade consumer indebtedness has increased substantially in South Africa. After the recession in 2008, there has also been a great decline in savings among households in South Africa which formal workers are of no exception in a trend usually associated with low income households. Despite great improvement of remunerations in formal employment sector, employees continue to be drown in debt and it has been reported that South Africans are still continuing to sink under debt.

In the light of these developments, the study sought to analyse indebtedness among formally employed workers in the UMzinyathi District in the province of KwaZulu Natal in South Africa. The methodology used was cross-sectional survey design with a sample population of 150 respondents that were selected based on random sampling by the use of probability proportional to size sample technique. A self-administered questionnaire was used to collect the data, which was processed and analyzed using the Statistical Package for Social Sciences (SPSS V16).

The findings of the study revealed that majority of workers (78%) in formal employment hold tertiary educational qualifications, (78%) are in an age group regarded as youthful and (88%) work on a permanent basis. Results showed that there has been significant improvement in saving behaviour that was shown by the correlation between the saving behaviour and net income with the aid of Pearson chi-square under the asymptotic significant value of 0.004, but that has little influence on formally employed workers' borrowing behaviour as majority (85%) of the respondents still have credits to repay. The study also found that few respondents (6%) are over-indebted, but there is alarming rate of workers heading towards over-indebtedness. The findings have wider implications on credit usage in future. Some recommendations have been made and discussed and future research suggested.

# CHAPTER ONE

## 1 INTRODUCTION

### 1.1 Background to the Study

According to Ntlama (2010) the apartheid regime created a significant income inequality between black and white South Africans. After the apartheid regime, various initiatives were put in place in an attempt to bridge the inequalities of the past and to ensure social progress by government and role players. For instance, the democratic government put in place a number of policies and legislations including the Employment Equity Act to remedy the historical imbalances of the past.

Those who benefited from these policies have access to higher income, which has improved their livelihood and levels of affordability, resulting in excess of credit which has been inappropriately utilized (Nga, 2007). An increase in the level of saving would be expected based on economic theory and the marginal propensity to save, which states that the more income a person earns, the more likely an increase in their level of savings (Nga, 2007). However the economic theory cited earlier does not support what is happening in South Africa. SARB (2007) reported that annual saving ratio to Gross Domestic Product (GDP) deteriorated to a historical low of 14% in 2006. Apart from having little discipline in saving, it was also reported in 2013 that about five million South Africans are battling with over-indebtedness (Slabbert, 2013).

The South African economy has been the largest in Africa until it was overtaken recently by Nigeria, where 24% of its gross domestic products in terms of purchasing power parity is ranked as an upper-middle income economy by the World Bank; this makes the country one with the most attractive economy in which to work. Since 1996, at the end of over twelve years of international sanctions, South Africa's GDP tripled to US$ 400 billion and foreign exchange reserves increased from $3 billion to nearly $50 billion; creating a growing and sizable African middle class economy, (CNN, 2013).

Since the end of apartheid, the South African economy has writhed to reach its potential, controlled by a range of factors such as inadequate infrastructure, along with structural obstacles and historical legacies (Theron, 2010). Economic Survey of South Africa 2010 confirmed that South Africa has "an extreme and persistent low employment problem which interacts with other economic and social problems such as inadequate education, poor health outcomes and crime (OECD, 2010).

Despite the problems that emanated from the past, there has been some significant improvement in the formal employment sector since the apartheid regime, but there is still lack of employment opportunities in the formal economy as it continued to be a major challenge for the government of South Africa, even before the recession of 2008/9 (Banerjee, Galiani, Levissohn, McClaren & Woolard (2008). The country is faced with a shortage of skilled labour, 453,000 more people were employed in the South Africa's formal sector in the fourth quarter of 2012, making its highest year-on-year growth in the formal sector since the end of recession in 2009 (Stats SA, 2012). Contrary to what happened in the formal sector, the country's informal sector lost 91,000 jobs year-on-year, which was the first time the informal sector shed jobs one-year to one-year basis. This increased the number of unemployed people, because those who did not have matric certificates made up of the majority of unemployed people (Stats SA, 2012).

As noted by Verick (2009), before the recession, there were rapid adjustments in the informal sector which increased the employment rate in that sector, but employers in formal sectors, were resorting to layoffs to cope with reduced demand. It was also observed that the informal sector in South Africa did not act as absorber of laid-off workers and means to find alternative employment in the formal sector. Stats SA (2011) confirmed this observation during the economic meltdown in showing a decrease in employment in the informal sector from 17% in 2008 to 15.5% in 2009.

The South African workforce is subject to both formal and informal employment relationships. According to the quarterly Labour Survey, there were 13.4 million people employed in South Africa for the first quarter of 2012, comprising 9.5 million in the formal sector and 2.1 million in the informal sector (Stats SA, 2012). Similarly, ADCORP (Abyssinian Development Corporation (2011) reports that 12.7 million people are currently employed in the formal sector in South Africa which comprises of 8.9 million engaged in typical employment and 3.8 million in atypical employment, while the reports indicates that 6.2 million people work in the informal sector.

Formal employment is an area of employment where special or adequate skills are required from individuals and better remunerations are given to workers which includes social security protection. It also has formalised and regularised activities that differentiate it from informal employment (Rutkowski, 2011). On the other hand, informal employment is defined by Statistics South Africa as "employment in precarious work situations with no written contract and no benefits." Theron (2008) includes the category of self-employment in informal enterprises, workers in unregistered enterprises and other wage workers who fall into what has been referred to as the "survivalist" category of workers.

OECD (2008) blames the small nature of the informal sector on the legacy of the apartheid regime which discouraged entrepreneurship and this has contributed to unemployment situations in South Africa. High levels of unemployment and weakened economy in South Africa have given rise to growing informal sector and associated increase in unacceptable working condition and exploration (Stats SA, 2011).

In South Africa the right to social security and assistance is constitutionally mandated and in furtherance of this, a number of legislative measures have been passed to regulate social insurance and assistance (BCEA, 2002). Since July 2013 there has been an improvement of conditions of service in employment sectors. Basic Conditions of Employment Act (BCEA), which operates to exclude employees earning above the threshold from certain BCEA entitlements and protections, has increased from the current R183, 008 per annum to R193, 805 per annum, an increase of approximately 5.9%. This is clearly shown condition of services is dear to the heart of stakeholders (Harrison, 2013).

Apart from statutory regulations, the employers are mandated to review their employees' basic conditions in order to avoid unintentionally grant their employees' contractual rights. According to Cohen & Moodley (2012), BCEA outlines the best practices of condition of service at work places at which employers should adapt in order to motivate and safeguard employees. Despite the introduction of best practices, there are still no comprehensive social security systems, provision of health care and retirement benefits as piecemeal and has been largely limited to employees in informal employment. This clearly shows that the conditions of service in the formal employment sector are better than the informal employment sector. This problem of insecurity and poor conditions in informal employment makes the formal employment sector very attractive and conducive place to ply trade.

The current occupational-based retirement and risk benefits provision in South Africa meets some of these principles to a greater or lesser extent. The majority of formal sector employees have access to risk benefits either through a retirement fund or through a group insurance policy bought directly by their employer (Hendrie, Smith, Hobben, & Musa (2007). They add that, "average system provides its 5-6 million members with lump sum death benefits of 2–3 times annual salary at an average cost of approximately 2% of salary. Disability benefits consist either of a similar lump sum, or more expensive income benefits of 75% of salary, which on average ,cost about 1.5% of salary" (Hendrie *et. al.*, 2007).

Employers have come a long way to ensure that remuneration is fair and equitable. An agreed conversion has been tabled by the unions and policies, so no employer needs to experience any uncertainties and disruptions during and after conversion. Because of this, employees in formal employment received a total package which is very exciting and empowers individuals to structural competitive packages. Many South African organizations have moved into all inclusive packages in line with international best practises remuneration trends (Gildenhuys, 2014).

Despite of what the employers are doing to improve the lives of the workers, there have been recent protracted strikes in South Africa especially by workers in formal employment. In 2010, it was reported by CNN, public workers went on strike across South Africa demanding a wage hike of up to 8.6%, about the double rate of inflation at that time (CNN, 2010). Similarly, in 2014, Post office workers embarked on almost five-month-long strike demanding a 7.5% increase backdated to 1 April 2014; a further 0.5% increase from January; and an addition of 8% increase from 1 April 2015 (ENCA News, 2014).

After several weeks of sit down strikes, the government called the leadership to negotiation table and an agreement was reached between both parties (Fin24, 2014) Phumla (2014) reiterates that, the recent protracted strikes in South Africa are of concern to government and other stakeholders in business. "It is in this spirit of seeking a workable solution that we call upon all role players involved in the current strike action to seek an amicable solution. Robust engagement between employers and labour around the negotiation table offers a workable catalyst for balanced, fair and socially responsible solutions."

In demand theory it has been usual to suppose that the current period income will laid out in such a way to maximise utility ,depending solely upon the quantities of goods consumed .Economists see saving as the difference between income and expenditure. Inflation decreases saving, because it is not 'profitable' to save when the value of the money goes down. With this assertion, workers will result in protracted strikes due to economic hardship which affect real income and saving behaviour (Amos WEB, 2014)

## 1.2 Statement of the problem

According to Anker *et. al.* (2002) in Cohen & Moodley (2012), South Africa's wages and income remain highly unequal between the economy in the formal and informal sectors with poverty and inequality assuming racial, gender and age dimensions with the blame placed on unions and the past political regime. This is supported by a discussion document by Theron (2010); the average employee at ESKOM earns 40% more in terms of purchasing-power parity than other workers in same capacity working in the informal sector. Despite the good remunerations being offered in the formal employment sector, there is high demand of credit facilities in South Africa. About five million South Africans are battling with over-indebtedness that is almost 14% of the total number of

South Africans older than 16 years and in employment sector as well. The number of people with formal credit or loans increased from 13.1 million to 14.2 million in 2012 (NCR, 2013).

The National Credit Regulator (NCR, 2013) also confirms that there were 19.34 million active consumers in South Africa, and 67.53 million credit accounts in South Africa, which meant an average of 3.5 accounts per active credit-consumer. This clearly shows the credit situations in the country are really high. The NCR December 2012 credit market report shows that the value of credit granted to consumers increased by R10.22 billion (9.31%) from R109.72 billion for the quarter ended September 2012 to R119.94 billion for the quarter ended December 2012. The value of the outstanding gross debtors book increased by R52.30 billion (3.76%) from R1.39 trillion to R1.44 trillion during the same period. The Consumer Credit Market Report, issued by the NCR in 2012, offers insight into how much credit is being granted nationally and offers data on South Africa's total debtors' book. The report paints the picture of a nation that is becoming increasingly indebted (De Waal, 2013).

With quick offers and easy cash readily available, consumers feeling the pinch always go for credit to resolve their financial problems. It is therefore hardly surprising that South Africa is being consumed by a credit crunch. As confirmed by NCR (2012), between 1994 and 2010, South Africa's exposure to credit in the private domestic sector increased from R230 billion to close on R2.1 trillion. In addition, out of 76.5million accounts, 12 million or 18% has three or more instalments behind and 50.7 million or 74% are of good standing. For instance, the Tribunal's presentation has been increased of cases of indebtedness between 2009 and 2012 which does not augur well for the future, as it indicated that more people were falling into debt.

FinScope (2013) reports that more than a third of the credit active population shows signs of over-indebtedness like applying to reschedule debt, considering seeking help with their debt, considering cancelling policies to pay back debt, are in arrears with payments or have been garnisheed. The troubled consumers tend to borrow from multiple sources, including the informal sector. It also reported that the majority of 'troubled consumers' includes salary workers "They have credit all over the place,"

Very little research in this field has been conducted in South Africa. Review of the available South African studies shows that these studies were often not comprehensive, in that studies did not consider a wide range of possible factors as well as impact these factors may have on formal workers' saving behaviour and indebtedness. As such, many gaps exist in our understanding of factors that influence credit decisions which had led to indebtedness among employees. It is on this basis that, the study is necessitated to analyse indebtedness among workers in formal employment in UMzinyathi District.

## 1.3 The objectives of the study and Research Questions

The general objective of this study is to investigate indebtedness among workers in formal employment in UMzinyathi District.

The specific objectives are to:

1. Identify personal /socio-economic characteristics of formal workers.
2. Examine saving behaviour of formal workers.
3. Determine sources of credit and their preferences among formal workers.
4. Determine the level of indebtedness of formal workers.
5. Ascertain purpose of loans/credit taken by formal workers.

The study seeks to find answers to the following research questions;

- What are personal/socio-economic characteristics of formal workers?
- What are the levels of indebtedness of formal workers?
- What is the saving behaviour of formal workers?
- What are the sources of credit and their preferences among formal workers?
- What are the reasons for loans/ credits taken by formal workers?

## 1.4 Scope and Limitation of the Study

In this study, the researcher has gathered statistics about formal workers who have accessed credit facilities in both financial and non-financial institutions. It sought to analyse indebtedness among formal workers in UMzinyathi District. The researcher did not, however, included all the workers in the formal employment sector in the District, but rather focused on those formal workers who are in community services such as the Departments of Education, Health, Social Welfare, Justice, Police and local government. The researcher applied the subjective model of indebtedness to measure the level of indebtedness since the statistical data available was inadequate for the use of other methods.

**Limitations of the study**

Every research work has its own limitation and this research is not an exception. Although the study achieved its set objectives, there were some unavoidable limitations. First, the researcher had limited time to investigate in further depth aspects like the methodology and literature review. This research study aimed to fulfill the academic requirements within the required period of six months to finish on time.

Second, since the sampling frame was not known, and the sample was not chosen at random, there was inherent bias that made the work unlikely to be representative of the population being studied. This limited the study in generalizations made from the sample to the population. Thirdly, another limitation was the reliance of the study on self-report measures as the sole source of supply of data. Respondents completing questions for the survey by themselves on their saving behaviour, borrowing behaviour, level of indebtedness could instigate problems such as method bias and subjective self-evaluation which might bias the results.

Finally, the study was cross-sectional in nature which analysed indebtedness among formal workers within a short space of time. This study did not take into account the changes that might occur in formal workers indebtedness over time.



## 1.5 Significance of the study

This study will be a stepping stone for other researchers who will wish to research further into the subject of indebtedness of workers in formal employment. The study will be a guide for establishing and implementing policies that will ease the burden on workers remunerations and how borrowing can be reduced. Again, this study will provide workers in the formal sector with alternatives of finding money apart from borrowing and living within their means or using their scarce resources. Finally, the study will make a significant contribution to understanding the factors that combine to influence workers' decisions on credit facilities and, furthermore, it will provide a foundation for future studies on issues of indebtedness among workers in general in the Republic of South Africa.

## 1.6 Organisation of the study

The dissertation is divided into five chapters. Chapter one provides an introduction and background to the research topic, the problem statement of the research and the aim of the study. The literature review is presented in the second chapter, followed by the third chapter which addresses the issue of research design and methodology, population, sample, and questionnaire design and administration of the questionnaire. This is followed by the data analysis in chapter four which describes the process of data collection from the research questions. The conclusions of the whole research and recommendations are presented in Chapter 5.

## 1.7 Methodology

This study made use of quantitative research design through the use of self-administered questionnaires. This was because the study aimed to collect a number of responses from a large number of respondents. The study was cross-sectional in nature and the data were collected from formal workers in various governmental departments. Those departments were chosen because they were more accessible than other departments.

The study was undertaken in the UMzinyathi District in KwaZulu-Natal. Data collection took place in three of the major townships, namely Dundee, Nquthu and Glencoe. Probability proportional to size sampling technique was used to determine the sampling frame of formal workers who have accessed credit before. The researcher ensured that the demographic features of the respondents reflect the true picture of the formal employees in the District.

Questionnaires consisting five main sections were used to collect the data. The data collected was analysed using the Statistical Package for Social Sciences (SPSS). And a number of statistical procedures were used to analyse the data, including descriptive and inferential statistics.

## 1.8 Definitions of key terms

**Active credit consumers**: They are those who have an obligation to pay a credit provider and/or have an account with a supplier of goods or service (NCR 2012:3).

**Credit:** Obtaining funds from third parties with the promise of repayment of principal and, in most cases, interest and arrangement for charges in exchange of the money (NCR 2012:3).

**Savings:** Safeguarding and accumulating wealth for future use (NCR 2012:3).

**Formal workers:** People who work in institutions/firms that are regulated by government, such that workers are assured of a wage and certain rights, and occurs within the purview of state regulations (Stats SA, 2011).

**Indebtedness:** As a rule when a person is said to be indebted then they are unable to meet their financial commitment and their available income level at certain length of time does not cover their expenses (Persson *et al*, 2013).

**Over-indebtedness:** Objectively unable, on a structural and on-going, to pay short-term debts taken out to meet the needs considered to be essential from their habitual income provided by work, financial investments or other sources, without recourse to loans to finance debt contracted previously (European Commission 2008a:109).

### 1.9 Chapter summary

This chapter presents a case for the significance of the problem and overviewed the research design and methodology in order to achieve the objectives of this research. Definitions of key terms are given to ensure clarity of understanding and finally, the organisation of the study was outlined and explained.

CHAPTER TWO

# LITERATURE REVIEW

## 2.0 Introduction

This chapter reviews the literature relating to formal employment, savings, consumer credit behaviour and indebtedness among formally employed workers. The literature covered areas such as the definitions of formal employment, savings, and forms of saving, reasons for saving, consumer credit behaviour and indebtedness of formal employees among other things. It also covers literature on the conceptual framework adopted for this study.

## 2.1 Formal Employment

Formal employment has been defined in different ways by various institutions and scholars based on regulation, perspectives and theories. But there is no clear cut definition which has been accepted by all. Formal employment and formal sectors are used interchangeably by scholars and researchers.

According to Badaoui, Strobl, and Walsh (2010), employment within the formal sector is defined as "all jobs with standard hours and regular wages, and are recognised as income sources on which taxes must be paid". In addition to receiving a regular wage, included in the definition is the assurance of certain rights e.g. paid holidays, sickness leave, and wages are taxed.

Nevertheless, Statistics SA argues that formal employment must be defined along the laws of the state as "employment that is government regulated, such that workers are insured a wage and certain rights, occurs within the preview of state regulation and as employment originating from a business or firm that is registered with the state". (Stats SA, 2012). In summary, the reviewed definitions of formal employment include all employments that have laid down documentation, stipulated rules and regulations that govern employee welfare and the way they go about their duties.

### 2.1.1 Characteristics of formal employment

Although the above definitions give some features of formal employment, more detailed descriptions of characteristics of the formal employment sector are provided by Funds for NGO's (2009). Formal employment is characterised by an organised system of employment with clearly written rules of recruitment, agreement and job responsibility. Its standardised relationship between employer and employee is maintained through a formal contract. The employee is expected to work for fixed hours and receive a fixed salary in addition to incentives and perks. The employee works under decent work environment and entitled to benefits such as leave, savings and loans, etc. The employee has an organised association or union where his grievances are addressed. Besides remuneration, the employee is covered under social protection benefits such as life insurance, health insurance, pension and gratuity (Funds for NGOs, 2009).

From the above characteristics, workers that work in a firm and receives all the benefits and regulations such as formal contract, codes governing their working behaviour, protected and secured environment at work place, work within stipulated hours and receive regular income monthly is said to be working in formal sector. People working in civil service, public service units, government service, defence, multinational/national and private companies, schools /colleges, research institutes, banks, management organisations etc. are all fall under formal employment.

### 2.1.3 Formal Employment in South Africa

There has been some difficulty when it comes to getting statistics on employees in both the formal and the informal sectors of employment. Both Statistics SA and Abyssinian Development Corporation's Employment Index (AEI) have come under scrutiny with regards to estimates of employees in the country. This is confirmed by the statement issued by Adcorp Employment Index 2013 "some of the survey results are unreliable" because estimates of total employment have statistical confidence value below 41% that makes it difficult to rely upon (ADCORP, 2011).

Despite this differences Adcorp's and Statistics SA's estimates of formal employment corresponds fairly closely, with correlation of 85%. Adcorp indicates South Africa has largest diversified employment services company, possesses many rich sources of fine-grained data, both within the group (permanent and temporary placements, job search times, work applications, etc.) and from industries and sectors in which the group operates (skills development levies, unemployment insurance claims, labour relations cases, etc.). Although Adcorp data is not fully representative of the South African economy, some kind of reliability can be placed on it since Adcorp's data are readily available (in most cases with no material delays in data collection) and reliable (based on more than 1 million labour market transactions per year) (ADCORP, 2011).

According to Stats SA in the third quarter of 2009, total estimate of employees in formal sector was around 9 million plus. Though there was a fall of over four hundred thousand employees due to layoffs, particularly in the wholesale, manufacturing and agricultural sectors during the recession. Formal employment confines itself with basic qualifications and prerequisite skills that meet the criteria of the jobs portfolios. Importantly, non-traditional employment types, such as contract, temporary and agency employment amounting to approximately 3.9 million employees. Also, the Statistics SA's methodology is subject to more-or-less continuous revisions, which makes the identification of consistent long-term trends impossible (Stats SA, 2011).

Though formal employment continues to be the most attractive sector in the economy, there has been a decline in the number of people having the privilege to work in the sector due to lack of adequate skills and abuse of power by trade unions. Apart from various governmental departments, other formal sectors are being characterised by strikes and retrenchment due to underproduction of some major firms. This problem has been put on doorstep of the government for formulating government policy which was based on the narrow special interests of trade unions (ADCORP, 2011).

## 2.2 Savings

Saving is a common word used by individuals on a daily basis. It contained broad-based meaning of numerous explanations. Saving is used in different context and therefore it is sometimes interpreted differently, depending on the context to which it is being applied. According to Miller and VanHoose (2001), saving is a forgone consumption. They explain forgone consumption as one's refusal not to spend all the income that is earned within a given period. To them, once part of what is earned today is left for future use there is a saving. It simply means putting something aside for future use or what will be considered as deferred expenditure.

In addition, Ahmed (2002:5) put it in a simple language as "putting money aside for future use" and further argues that saving is the result of careful management of income and expenditure, so that there is something left to be put aside for future use. According to Keynesian economics, saving is the amount left over when the cost of a person's consumer expenditure is subtracted from the amount of disposable that consumer earns in a given period of time. Also, accumulation or investing—directly in capital equipment, by paying off a home mortgage or indirectly through purchase of something—are seen as savings (Nga, 2007).

The concept of payment of capital investment as savings is supported by Prinsloo (2002:3–4) defining the personal saving as "the part of current income after payment of direct taxes that is not consumed or transferred as part of household current consumption". The definition is further extended to include disbursement made toward reduction and liabilities such as capital investment and loans for housing as part of saving.

All the stated definitions do not differ materially, as all points to one fact that, savings represent money that is earned today but kept for use in the future. It is, however, worth noting that saving is not always a result of an excess of expenditure, but sometimes it comes as a result of a deliberate decision of an individual or family to put part of what is earned today aside for future use .

### 2.2.1 Factors affecting savings

The factors that influence saving behaviour are many, complex and often interrelated. However, the several determinants widely accepted among economists can be classified into policy and non-policy factors (Akpokodje, Lancon, Erenstein, & Toure, 2004; Falahati & Paim, 2012).

The main policy variables that have been found to influence saving behaviour are fiscal policy, government saving, social security arrangements, financial market development and macroeconomic stability. The non-policy factors most likely to affect saving are growth, demographics, and external factors. While the separation between policy and non-policy factors is open to debate, its purpose is to convey the idea that policymakers have a direct influence on only some of the variables that affect saving. Other factors, such as growth, demographics, and external factors, including the terms of trade, may be influenced by economic policy, but are not themselves policy variables (Akpokodje *et al*, 2004).

### 2.2.2 Savings Behaviour

According to Warneryd (1999) and Chai, Chia, Fong, Lew & Tan (2012: 8–9), savings behaviour is the combination of perception of future needs, a saving decision and saving action. They identify the determinants of saving behaviour among individuals as financial literacy, self-control, once orientation and peer influence. These four are directly linked to individual savings behaviour.

The above determinants are supported by research conducted by Delafrooz & Lail (2011) which shows that saving behaviour is significantly influenced by financial literacy whereby individuals with low level of financial knowledge are not intended to save and eventually encounter financial problems in future. Those having knowledge about financial issues tend to take decisive decisions that help them to save as well as not involving themselves in borrowing to solve their economic problems.

Baumeister (2002) explains self-control as the ability to identify and regulate ones emotions and desires. Self-control is branded by the assertion of will, self-discipline and ability to delay self-gratification. Considerably, self-control is used to explain the saving behaviour of people who always continue to do impulse buying which contribute to low savings. This is supported by the research done by Esenvalde (2010) which provided empirical evidence that self-control is positively associated with saving behaviour.

Research has proven that one's orientation or upbringing has an influence on saving behaviour. Furnham (1999) notes that most peoples' savings behaviour are caused by their orientation, which shows that saving behaviour is a habit rather than an event which needs to be inculcated in individuals while they are young. A study done by Erskine, Kier, Leung, & Sproule (2005) indicates that peer influence has an impact on individual's saving behaviour, the reason being that members of the same group share a common environment and people with similar preferences tend to belong to the same group. Peers tend to be influenced by the way their colleagues react and this could affect their behaviour which saving is part of it.

Prinsloo, cited in Manyama (2007:19), argues about other economic determinants that influence saving behaviour of workers such as the level of income, ability to save and financial deregulation. Similarly, Maimbo & Mavrotas (2003) argues that expanded access to credit by individuals has reduced the rate of individual savings, and further explains that an environment with low interest rates normally fuels consumer spending and has a negative implication on saving behaviour. Also in the study of South African savings literature, Prinsloo (2000) lists the reasons for decline in South Africa's saving rate for personal saving as: rising of personal taxes; high rate of inflations, deregulations of financial institutions and easy access to credit facilities. All these determinants are fiscal policies which are indirectly affecting the saving behaviour of individuals.

In addition, Akpokodje *et al* (2004) observed that demographic factors have a great influence on ones saving behaviour. They use the life cycle model to explain the significant bearing on saving behaviour due to the age composition of the population in developing countries. The youth and the elderly have low incomes and low savings. Those in middle age have higher productivity, income and save more to repay past obligations and to finance their retirement. They also assign the dependency ratio as one of the contributing factors affecting saving among households. This clearly shows demographic characteristic has impact on household savings, especially in the rural areas where dependency ratio is high.

From the discussions above, some of the determinants of saving behaviour can be controlled by individual consumers such as self-control, peer influence, one's orientation and financial literacy.

Nevertheless there other determinants such as taxes, high inflation rates, deregulation of financial institution and other fiscal and non-fiscal policies which cannot be controlled by individuals.

### 2.2.3 Saving behaviour in South Africa

According to Mohr and Rogers (1999) deterioration in South Africa's saving behaviour should mainly be attributed to decline in savings of households and government and relates to GDP. This decline of personal saving as a percentage of disposable income in the home is worse amongst low-income households. South African households are known for their inability to save. From the 1960s to the 1970s the average rate changed from 11.4% to 10.2%, whereas during the 1970s to 1980s, it declined to 4.1%. Thereafter the 1980s to 1990, it declined further from 11% to 1.5%.

Again, Prinsloo (2000:13–23) confirms the deterioration and attributing the decline in private savings over the past years to real after-tax interest rate; demographic trends; redistribution of income among households; slow income growth; and deregulation of financial institutions. The decline in household saving is also supported by time-series analyses done by Aron and Muellbauer (2000) and Prinsloo (1994; 2002).

Nga (2007), cited the Reserve Bank figures presented at the South Africa Saving Symposium (2004), which showed that household saving, as a ratio of household disposable income, declined to only 0.2% in 2001, and increased marginally to 0.4% in 2002. "As a ratio of disposable income, net saving by the household sector declined from 5.5% in 1992 to an average of about 0.5% between 2000 and the first half of 2004." South Africa's extremely low ratio of household saving which began to decline in the early 1980s is an issue which has attracted the attention of many economists.

In addition, (SARB News, 2007) states that household saving (equal to the difference between the disposable income of and final consumption expenditure by households) as a percentage of GDP average only 2% in the last quarter of 2005. The level of savings in South Africa remains poor due to the servicing of consumer and mortgage debts. Manyana (2007) noted that easy access to credit has been the main factor contributing to poor saving culture in South Africa since one of the key motives of saving is provided by available credit facilities (SABC News, 2007 and Manyana, 2007).

In a recent study done by Du Plessis (2008), the main factors contributing to the lack of commitment to saving in South Africa, are identified as "being a lack of income due to unemployment, insufficient income, overconsumption (due to conspicuous consumption and procedural rationality) and market failures, such as incomplete or no information on financial literacy, cultural and political factors. FinScope (2012:12–13) reported that personal incomes are relatively low, especially among young adults in South Africa. This brings an argument that individual's lack of saving may not be attributed to saving behaviour, but rather their inability to save due to the small income they receive, and catering for large households. Many South Africans are experiencing increasing financial stress and hardship, whether brought about by underemployment or a reduction in purchasing power due to rising of prices and inflation.

Nevertheless, this is not always the case as it is indicated in an NCR report for 2013 which shows individual having high incomes tend to borrow more as compare to low earning employees. Individuals with income exceeding R15000 a month dominated the consumer credit market for most products and individual with incomes less than R10000 a month dominated short-term credit transactions (mainly unsecured loans) (NCR, 2013:28).

Saving behaviour is linked to the individual's income—those who earn low income, tend not to save, and those who save, normally save it at home, or with other people. The decrease in saving behaviour mainly relates to inadequate funds, individual lifestyles and pattern of consumptions. As reported by Fin Scope (2012:23), only 25% of adults in South Africa claim to have enough to save money after covering all spending needs. An overlook of determinants of South African personal, individual saving behaviour, requires a consideration of factors in addition to the theoretical based established in the saving literature.

### 2.2.4 Motives for Savings

One's decision to save some of his or her earnings can be grouped into four main categories, that is to level the availability of financial resources over time to preserve a daily lifestyle, to plan for giving up work and donations, to finance anticipated lifetime expenditure like owning properties and education and lastly to be able to have something to depend on should an unexpected event take place like loss of job, sickness (Prinsloo, 2000).

Similarly, Manyama (2007:23) confirms the following motives for private savings assigned by Prinsloo (2000) to the theoretical literature groups: to fund retirement and bequest; to finance expected large lifetime expenditure; to finance unexpected losses of income; and to smooth the availability of financial resources overtime to maintain a more stable consumption profile.

The above motives of savings were noted by FinScope (2012:23) which indicates that individuals in South Africa mainly save for emergencies. For instance, 58% of adults claim that is important to have enough money available in case of an emergency, 47% claimed to provide for family in the event of death, 41% saved towards funeral (own or someone else) expenses, 37% for old age/retirement and lastly 34% saved towards education /school fees.

### 2.2.5 Forms of Savings

An individual's decision as to where to save to derive maximum satisfaction as well as to ensure the security of their income, is very vital individual and family decision. According to Prinsloo (2001) personal savings are grouped into two categories, namely discretionary savings and contractual savings and further explained contractual savings as individual commitments towards a series of payments such as premiums on insurance policies, pension contributions and capital amount paid on mortgage loans.

Discretionary saving is where individuals are not bound by fixed commitment. In line with discretional savings, financial institutions outline ways in which individuals can save. These are saving accounts, equity-linked bonds, funds, portfolio bonds, individual shares and monthly savings. The individual has the power to decide when, how, and what to save regarding his/her income (Swedbank, 2010). All the forms of savings mentioned are aligned with banking and investment policies. Ismail (2013) indicates other non-formal way of savings such as "stokvels" and funeral policies as the most popular saving vehicles among South Africans.

## 2.3 Borrowing Behaviour

Borrowing behaviour is difficult to link to defined motives since individuals are influenced by so many factors. Several factors combine to make one buys or consumes a product or service; or a borrower to promptly repay or default repayment of a facility.

Kon & Storey (2003) use the Marshaling Economic theory which postulates that consumers strive to maximize their utility and do this by consciously calculating the consequences of any (purchase) decision. With this theory, it is assumed that individuals make a conscious effort to satisfy their utilities hence influence their behaviour towards borrowing. The key economic factors that influence borrowing behaviour are income, expenditure patterns, cost of investment project, and marketing success of the project (Kon & Storey, 2003).

In addition to economic factors Nguyen, cited by Karamagi (2013:7), argues that there are other factors that influence consumer behaviour since a primacy theory holds that, common behaviour normally results mainly from an individual's interactions with the environment. As the environment changes, individuals tend to cope by changing their behaviour. This shows that individual borrowing behaviour is determined by circumstances around, be it economic, cultural, social, psychological, personal and political factors.

On the other hand Andreou (2011) and Campbell & Mankiw (1999) use the life-cycle model of consumption to explain borrowing behaviour. They attribute household or individual borrowing behaviour to demographic characteristics such as age. They argue that young people tend to expect their incomes to rise and base on expected income to borrow in order to consume some of their future income (i.e. younger people tend to have more debt relative to assets and income than older people). They add that ex-households or individuals always try to maintain a fairly smooth pattern of consumption over their lifetimes, based their lifetime expenditure on the expected flow of income over their lifetime rather than just their current income.

Prinsloo (2002:74) brings another dimension of factors influencing borrowing behaviour and argues that financial policy and institutional changes have an impact on borrowing behaviour of consumers of credit. Making credit accessible to consumers will definitely influence many individuals to increase their borrowing in relation to their income.

FinScope also attributes borrowing behaviour to psychological factors such as risk tolerance and financial discipline. Research has shown that people who are risk averse preferred a buffer against unforeseen events, and hence are more likely to save and less likely to borrow. This is opposite to those who are risk tolerant. They are more comfortable using combinations of leverage credit product (FinScope, 2012).

Borrowing behaviour has been a great issue when it comes to indebtedness among workers because the motives for borrowing money have a direct linkage on the repayment of such a facility. If the motives that influence one to borrow are not controlled, it will definitely lead to indebtedness (Nyhus & Webley, 2001). Although it would be difficult to link some of the factors influencing borrowing behaviour to the current trend of indebtedness among workers, they are undoubtedly contributing to the rapid rise in outstanding credit and its impact on household debt and lower rate of household savings.

### 2.3.1 Borrowing Behaviour in South Africa

Mahlangu (2006) argues that lack of saving culture is not the main issue that threatens the economic growth rate in South Africa, but rather people's tendency to "borrow to spend". This implies that South Africans are not living within their means since their income is not sufficient to sustain their lifestyles, hence leading to the tendency to' borrow to spend'. For instance, a report issued by NCR in 2013 indicates that individuals with income exceeding R15 000 a month dominated the consumer credit market for most products and individuals with less than R10 000 a month dominated short-term credit transaction. This clearly shows that credit facilities are not accessed only by those with little income (NCR 2013:28).

According to NCR (2013:26) there are 20.08 million active credit consumers in South Africa (provided by credit providers). This may be more given to the fact that people usually under-report borrowing and being indebted, and often borrowing is considered as having an account with the supplier. For instance, getting a loan from "Mashonisas" does not require an account number. Fin Scope (2012:27) claims that 35% of adult in South Africa borrow/have credit/products and 26% are formally served (getting their credit from registered financial institutions). It was also revealed that only 6% of adults used informal mechanism to access credit.

### 2.3.2 Sources of Borrowing

NCR defines credit as "funds or items obtained from a third party with the promise of repayment of principal and in most cases, with interest and arrangement charges in exchange for the money or the item". Prinsloo (2002:64) outlines five main types or methods of credit facilities which active credit consumers can explore and explains open account as an account that includes all outstanding debts to dealers, and those accounts payable to buy-aid of goods and services. The account is meant for durable and semi durable consumer services and has a short extension by which outstanding balances are expected to pay at short period of time.

Personal loans consist of overdrafts, money made available by banks to their clients and other advances to individuals. It avails money accessible to customers at certain limits. Only the part drawn becomes part of consumer credit. The repayment conditions are very flexible and arranged at the discretion of the bank. Other personal loans consist of loans granted to individuals by long term insurers where the surrender value of the policy serves as security for the loan. Examples are revolving loans, car loans and student loans (Prinsloo, 2002:64).

The bank makes credit card facilities available to consumers, offering a convenient method of making purchases and deferring payment of purchase. Debit balances are payable within one calendar month after the card holders receive their account, but 'budget' facilities are also provided to postpone the payment over a longer period of time. Outstanding debt balances take into consideration regarding the total consumer credit (Investor Guide, 2013).

According to Prinsloo (2002), an instalment sale agreement (hire purchase agreement) is a transaction which involves goods and services by which consumer pays the price in instalments. The product is given to the buyer, but legally it belongs to owner until the last payment is made. Mortgage advances are explained as entering into loans (home mortgages) to buy houses and other fixed property and provide the property concerned as security for the loan. The size of the loan is usually determined according to the annual income of the borrower and the value of the pledged property. The loan is repaid over a long period of time.

Prinsloo (2002) indicates that there has been markedly changed in the retail finance sector. There has been new developed, particularly in private label credits and on secure loans. The types of credits have been grouped under formal, informal sources of credit facilities. The formal products are products provided by a government regulated financial institution such as commercial banks, insurance companies and microfinance institutions. Informal products are financial services provided by individuals and/or associations which are not regulated by government, such as saving clubs and private moneylenders (NCR, 2012:23).

Those credits and loans products that fall under formal are store card or account, credit cards, home loans, vehicle finance through banks or dealers, overdraft facility, personal loan from a retail store. The informal credit and loan products are borrowing from friends or family, colleagues, spaza shops, "Mashonisas", saving clubs, employer and others (NCR 2012:23).

### 2.3.3 Preferences for Credit Sources in South Africa

Formal borrowing is largely driven by store account and hire purchase, and followed by credit card and mortgage. This is supported by recent report, which states that 8.5 million active credit consumers spend their earned income paying store cards and hire purchase instalments at least once a month. It also indicates that one out five active credit consumers' (2.2 million pay mortgage, loan loans or bond on monthly basis (FinScope, 2012:29–30).

Informal borrowing is largely driven by friends and family, followed by saving clubs, local spaza and borrowing from the employer. Mashonisa/loan sharks are seen as the least attractive of the credit providers for the informal sector. Again, access to loans from informal sources does not lower the propensity to seek out formal credit as reasons for borrowing vary considerably between sources (FinScope, 2012:29–30).

### 2.3.4 Purposes and how Consumers use loans/credits Facilities

There are a lot of reasons why people take a loan/credit. It can be for emergency cases such as an accident, medical emergency or pending bills. Most people take personal loans to cover up other loans such as credit card debt. In addition, loans are also taken to buy cars, house or shops. Some people will choose to buy their car /either by loan or installments. Other reasons such as home improvement, clearing away from financial obligation, for education, for emergency expenditures and for weddings are also seen as major reasons why people access credit (Peacocks, 2014).

The above purposes of loans were observed by FinScope (2012) survey, which indicates, 29% of adults South Africans claim they definitely would borrow money to buy or start their own business. Other reasons people borrow includes: for an emergency (27%), buying a house (26%) and paying for a funeral cost (24%). Other reasons for borrowing based on person's preferences are as follows: to pay school fees; to buy a car; to help another family member; to pay debt; to pay for a wedding or lobola; to buy clothes; and to buy household furniture/appliances (FinScope, 2012:27).



## 2.4 Indebtedness

Prinsloo (2001) defines general debt as "an obligation or liability arising for borrowing money or taking goods or services on "credit" (i.e. against an obligation to pay later)." Similarly, Choy and Li (2005) defined debt burden as "the monthly loan payment as a percentage of monthly income." A person has the responsibility to repay what has been borrowed, bought something with the funds, has a loan or a credit and debt or more money for bills or accounts, and is in debt. There is no recognised standard of what constitute acceptable level of debt (Choy & Li, 2005). According to Persson, Henriksson & Lundström (2013) here is no generally accepted definition of indebtedness, but as a rule as a person is said to be indebted when they are unable to meet their financial commitment and their available income level at certain length of time does not cover their expenses.

From the above, the person who has borrowed an amount or any item and has an obligation to pay back in specified period of time is in debt. However, it is difficult to know whether anyone in debt is over-indebted or not. Consumers are considered to be over-indebted when they are objectively unable to pay back their loan facilities. That is to say that income after deduction of living expenses is no longer sufficient to meet the repayment of debts as they fall due (OCR Macro, 2001:5).

### 2.4.1 Determinants of indebtedness

The combinations of several factors have led to the growth of consumer debts. To provide an exhaustive approach of the variables of consumer indebtedness is not simple. As noted by Lobna, Dorra & Sonia (2012:346) some of the determinants are income, age, family size, property of housing, profession, and the number of dependent children. Income as determinant is explained by model of life cycle which indicates that high expectation of increase in income always lead to high borrowing. De'Armond & Zhu (2012:7) confirm this assertion by indicating that consumers with high income are more likely to have a high amount of debt as compare to those with low income. In respect to age as determinant factor, individuals tend to borrow more when they are young, save during their middle ages, and lower their expenditure during retirement. In addition, Jappelli, Pagano & di Maggio (2008:10) also outlines determinants of debt into three categories, namely: Institutional factors, demand-side factors and supply-side factors. They further explain institutional factors such as credit rights and judicial enforcement affect the supply of loans, given the extensive evidence that credit rights correlate positively with total lending.

Similarly, Finocchiaro, Nilsson, Nyberg & Soultanaeva (2011:9) identifies a number that influence individual choices of consumption that leads to borrowing and if not controlled leads to indebtedness. They outline the variables as real interest rates, future income, demographics and uncertainty. They explain that decrease in real interest rate can boost borrowing because it cuts the cost of servicing the debt and decrease savings because it increases the present discounted value of future income. And also an increase in future income expectations drives consumption up, boosting borrowing. Income profiles of individuals are affected by age and dependents of the family members.

### 2.4.2 The Life Cycle/Permanent Income model of indebtedness

This is the main theoretical framework that has been used to explain consumer behaviour (Modigliani & Cao, 2004). According to the theory, consumers optimally choose a smooth path of consumption over time. It indicates that young consumers borrow against their expected future higher amount, while middle aged individuals accumulate resources to finance their retirement period. Individuals apply for credit from financial markets because they want to have living conditions over the years. In the same way, the level of consumption is chosen on the basis of the expected total lifetime resources, without being limited by specific time period in which these resources are expected to become available.

### 2.4.3 Conceptual Framework of examining of consumer indebtedness

Generally, there is no agreement on appropriate concepts of indebtedness, on how to measure it or where to draw the line between normal and excessive indebtedness. The varying degree of data availability in the system and the general lack of detailed information on individuals debt and assets limit the way indebtedness are measured in practice. ORC Macro group underlie model of existing measures of consumer indebtedness into three general models.

These are:

- **The administrative model:** This model is the by-product of legal functions. It tries to examine all cases of non-payment of debts that have been registered or declared by the court or mandated institutions. It makes use of stages of the legal process that is concerned about nonpayment of consumer debt, usually starts with lodging complaint with the relevant authorities of notification that the consumer is in arrears. The more informative versions of this model depends on the existence of a legal structure that involves lodging a complaint of detailed records at the early phase of debt nonpayment with the judicial or other official body that is responsible for setting the conditions for settlement of arrears or bankruptcy. This administrative model associated with the specific judicial system, the rate of success cannot be measured across board. It only focuses on the actual realisation of consumer bankruptcy or debt default, but does not consider cases of potential risk of bankruptcy or debt default. It measures only the outcome of default. This can be said to be the best part of the model because it does not take into account risk and measures only outcome (ORC Macro, 2001).

- **The 'objective' model of indebtedness:** This model devises quantitative measures that try to capture the net indebtedness or the debt services of consumer and establishes threshold levels of that regarded as abnormally high as to put consumers in danger of becoming over-indebted. This is the common model used by lending institutions to determine credit–worthiness by using parameters relating to income and debt of consumers in ratios such as debt to assets and debt to income. The household age of borrowers may be factored into determining their ability to pay back their creditors, this is used to know the flow of income during the loan and to set limits for household and not to discriminate among the household of different ages (ORC Macro, 2001)

- **The subjective model:** This model classifies over-indebted consumers as those who consider themselves to be over-indebted. It measures consumer indebtedness on the basis of micro survey based information ,that also rely on the assumption that consumers are the true people to reveal their debt/income situation to their best of knowledge (ORC Macro 2001). According to Russell *et. al.* (2011) the subjective model classifies over-indebted as all those who judge themselves to be unable to repay their debts without reducing their other expenditure below their normal minimal levels. They further add that within the subjective model, over-indebted households are identified as those that express 'difficulty' or 'serious difficulty' in making debt payments, including credit debt, mortgage payments and hire purchase installments. One problem associated with this measure is that it cannot be used in isolation since it varies across countries and time.

The above models can be used to ascertain the level of indebtedness pertaining to the information which the researcher has at his disposal. Looking at the three as clarified by ORC Macro (2001) the subjective model will be suitable in the South African environment since there is a varying degree of data available in the system and the general lack of detailed information on individual's debt and assets. And also person's unwillingness to give information on the finances, limit the way indebtedness is measured in practice. Subjective model was adopted by Fin Scope to illustrate signs of indebtedness, such as applying to reschedule debt, considering seeking help with their debt, considering cancelling policies to payback debts, as tools to measure levels of indebtedness in South Africa (FinScope, 2012).

### 2.4.4 Sources of information on consumer indebtedness

ORC macro categorizes sources of information in consumer indebtedness into three categories; macro, micro and legal. Macro data is drawn from banking and other financial institution systems. It gives total values of loans, lending institutions, types of credit and other information. The micro data also relates to periodic sample survey done by reputable institutions. The disadvantage of using micro data source is that, it takes longer period for the results to become available. The legal data cover the information available about the status of various stages of loans or consumer payment default. This is usually starts with the default of a consumer on a loan or utility payment or notification to a utility provider of a consumer's payment difficulty. Because of difficulties involving in getting access to other information, micro data have been the basis for a number of studies that have analysed the common factors and differences among defaulting consumers (ORC Macro, 2001).

### 2.4.5 Indebtedness in South Africa

Fin Scope (2012) financial survey showed that, about five million South Africans are battling with over-indebtedness that is almost 14% of the total number of South Africans older than 16 years. It further states that, a third of the credit active population shows signs in over-indebtedness like applying to reschedule debt, considering seeking help with their debt, considering cancelling policies to policies to payback debts, are in arrears with payments or have been garnished. The troubled customers tend to borrow from multiply sources, including informal sectors (FinScope, 2012).

De Waal (2013) throws more light on indebtedness in South Africa by citing that, the value of credit granted to consumers increased by R10.22 billion (9.31%) from 109.72 billion for the quarter ended December 2012. The value of the outstanding gross debtors book increased by R52.30 billion (3.76%) from R1.39 trillion to R1.44 trillion during the same period. The report paints the picture of a nation that is becoming increasingly indebted. Similarly, the Credit Bureau Monitor (CBM) reported that a total number of 20.08 million credit active customers found in credit bureau, 52.5% were in good standings, that is, their payments were up to date or no more than two months in arrears. The percentage of credit active consumers with impaired credit records stood 47.5% in March 2013 (NCR 2013:30).

## 2.5 Over-indebtedness

There is widespread concern about the problem of over-indebtedness, but there is no acknowledged definition. The European Commission (2008b), cited by Nyawuwata (2010:5), says "an individual is over-indebted if income earned over an extended period is not sufficient for servicing debt on time (after deducting cost of living expenses) despite a reduction of the standard of living" Similarly, the European Commission (2008a:109) gives the economic definition of over-indebtedness as "objectively unable, on a structural and on-going basis, to pay short term debts taken out to meet the needs considered to be essential from their habitual income provided by work, financial investments or other sources, without recourse to loans to finance debt contracted previously."

### 2.5.1 Causes of over-indebtedness

According to the European Commission (2008a) people attribute their inability to repay credits or being over-indebted to the following possible causes: namely, loss of income due to loss of employment or retrenchment; low income; poor money management; over-commitment and over-spending; and complex social phenomena. However, Anderloni & Vandone (cited in D'Alessio & Lezzi (2011:3) argue that financial prudence is one of the key drivers of over-indebtedness. They further explain that poor financial decisions caused by inadequate understanding to the real cost of repaying the loan can lead to over-indebtedness. This factor is linked to both issues of transparency of lenders' terms and conditions, and borrowers' financial literacy and ability to manage their finances correctly.

In addition, other factors such as unexpected events and poverty are seen as causes of over-indebtedness. Unexpected events can modify the initial conditions in which the contract between creditor and debtor was concluded. Unexpected events include increase in taxes, high inflation rates and loss of job by the creditor. Similarly, poverty also drives individuals incapable of coping with their expenses to go for credits which they know they will have difficulties in repaying (D'Alessio *et. al.*, 2011:3).

### 2.5.2 Indicators of over-indebtedness

Both theoretical and practical, it is very difficult to outline signs or indicators that show whether someone is over-indebted or not. Notwithstanding this controversy, D'Alessio *et. al.* (2011:3) outline some indicators which portray some level of over-indebtedness. They classify them into four categories, namely; cost of servicing the debt; arrears outstanding; number of credit individual is having; and subjective perception of the burden. They further explain the cost of servicing debt by more than 50% of consumers' gross monthly income on total borrowing repayment is a clear indication of over indebtedness. Although, this may not be the case where a consumer who earns high salary may not be affected using half of their salary on loan repayment.

Also, on the issues of arrears (having more than two months in arrears on a credit commitment or individual bills) is also seen as an indicator of over-indebtedness. Clearly this may be a case only if the inability to repay the arrears is due to insufficient income after deduction of daily basic expenditure (D'Alessio *et. al.* 2011:3). All the mentioned indicators are only seen as signs of over indebtedness if the situations in which the income available after paying the debt or not able to settle the repayment, is not sufficient to meet the basic needs of life (Russell *et al*, 2011).

## 2.6 Chapter Summary

The purpose of this chapter was to explore the subject of the formal employment sector, saving behaviour, borrowing behaviour and indebtedness among workers in South Africa. This was done by reviewing existing published studies and theories that dealt with issues under study.

The chapter was divided into four sections:

- The first section reviewed formal employment sector in general and later on limited it to the South African economy. Major issues such as characteristics and the trend of the formal employment sector were discussed.

- The second section dealt with the concept of savings. It began with description of savings as well as factors that affect savings in general. It then discussed the saving behavior in general, followed by saving behavior in South Africa. This section also examined forms of saving as well as motives for saving.

- The third section examined borrowing behaviour. This section dealt deeply into borrowing behaviour which began with description of credits as well as factors that affect borrowing in South Africa. It then discussed the sources of credit in the market as well as consumer preferences for credit sources.

- Finally, it examined the reasons why consumers accessed loans/credit facilities. The final section reviewed the existing literature on indebtedness as well as over-indebtedness. This section dealt with the concept of indebtedness. It began with a description of indebtedness as well as determinants of indebtedness. This was followed by theoretical and conceptual frameworks to explain consumer behaving as well as consumer indebtedness. It then discussed the sources of information on consumer indebtedness. Finally, the review was done solely on indebtedness in South Africa.

## CHAPTER THREE

## RESEARCH METHODOLOGY

### 3.0 Introduction

This chapter provides a detailed discussion of research design and methodology used in order to achieve the objectives of the study and the required data. This chapter has been divided into seven sections which thoroughly explains the research design, data collection methods, sampling design, research instruments, data processing and methods of data analysis.

### 3.1 Area of the study

UMzinyathi District Municipality is located in the province of KwaZulu-Natal, South Africa. The municipality is a second–order administrative division with a population of above six hundred thousand inhabitants. The estimate terrain above the sea level is 835 metres. It is found at latitude – $28^0$ 35'8.52" and longitude $30^0$33'31.79" (UMzinyathi District, 2008).

The UMzinyathi District Municipality (DC 24) is one of the ten districts of Kwazulu-Natal. The district is bordered in the north by the aMajuba Municipality, in the west by uThukela Municipality, in the southwest by the uMjunjundlovu Municipality, in the south east by uThungulu Municipality. The district consists of four local Municipalities, namely: eNdumeni (KZ 241), Nquthu (KZ 242), Msinga (KZ 244) and uMvoti (KZ 245).

The district has a land area of 8 709 $km^2$ with extensive grassland in the north supporting the primary agricultural sector. The primary activities found in the area are: cattle ranching, food farming, mixed farming, coal mining and stone quarrying. Based on the 2011 population census, the population of uMzinyathi District was 510,838 people. Out of the figure 45% are men and 55% are women. It was stated that 18% live in urban centers and 82% reside in rural areas. The employment rate is 15% of the total population in the area of which 5% are in the formal sector (UMzinyathi District Municipality, 2013).

Predominant formal employment sectors found in this district are community service, agriculture, mining, manufacturing, construction and finance. Community service includes departments that render service to the general public, examples are Department of Health, Education, Police, Social Welfare and Justice. These sectors employ the highest percentage of residents, followed by the agricultural sector, manufacturing, trade and finance (UMzinyathi District Municipality, 2013).

### 3.2 Research design

A cross–sectional design was used to analyze indebtedness among formal workers in the UMzinyathi District. The quantitative method was employed by the researcher for empirical assessments consisting of numerical measurement and analysis. A deductive approach was used by the study to conduct research based on existing themes and research (Saunders, Lewis & Thornhill, 2009).

### 3.3 Population of the study

The targeted population of this research is formal workers in various departments who have accessed credit before, the estimated number of formal workers in this district was around ten thousand (UMzinyathi Municipality, 2013). According to Lancaster (2005:153) a population can be defined as 'the full set of items or people under investigation'. This is the group from which the sample will be drawn and according to Tustin, Ligthlem, Martins, & Van Wyk (2005) it should include all the people or establishments whose opinions, behaviour, preferences and attitudes will yield information for answering the research questions. This was done based on the estimated number of formal workers in community services in the District. The target population was chosen because they could provide firsthand experience about their income levels, saving behaviour, borrowing behaviour and their preferences for source of credit.

### 3.4 Sampling Procedure and Sample size

Since the sample units vary considerably in size, it was most useful to use Probability proportional to size sampling technique in order to give larger clusters a greater probability of selection and smaller clusters a lower probability of selection. This sample technique was chosen because the distribution of formal workers in the various departments in the district shows that Department of Education has a highest number, follow by Departments of Health, SAPS, Correctional Services, Social development, Justice and Local government respectively (UMzinyathi District Municipality, 2013)

Respondents were selected because they work in the departments selected for the survey and had accessed credits from various financial and non-financial institutions. Questionnaires were distributed to the formal workers in chosen departments in the District haphazardly to the amount equal to the sample size, but deliberate effort was made to ensure that the respondents included people of different age groups and gender.

### 3.4.1 Sampling Size

Due to constraints of lack of credible data on the total number of formal workers who had accessed credit in the district, a statistical calculation to determine the suitable sample size was not feasible. As a result of this impediment, the researcher estimated the sample size based on information provided in the review of literature. The sample size of 150 formal workers who have accessed credits before was considered to be highly representative and sufficient for the descriptive and cross sectional study by Fraenkel and Wallen (2000).

Nwana (1992) suggested that if the population is a few thousands, then a 10% sample is recommended. The sample size comprises of 55 workers in the Department of Education, 35 workers at the Department of Health, 25 workers in South African Police Service, and 35 from other departments. For a cross-sectional study such as this where data on the total population is not available and can be estimated below 2000, the use of sample size of 150 was therefore justified.

**Table 1. Composition of respondents.**

| Respondents | Questionnaire Distributed | Questionnaire Received |
|---|---|---|
| Department of Education | 65 | 55 |
| Department of Health | 50 | 35 |
| SAPS | 35 | 25 |
| Correctional Services | 15 | 10 |
| Social Development | 10 | 9 |
| Department of Justice | 10 | 8 |
| Municipalities | 15 | 8 |
| **Total** | **200** | **150** |

## 3.5 Data collection and development of research instruments

### 3.5.1 Data collection

Primary data were obtained through the use of self-administered questionnaires distributed to respondents following the specified research design, including a sampling plan. This study made use of five research assistants assigned to one of the four main working groups specified by the researcher. They were trained with regards to the questionnaire administration, especially how to approach respondents having in mind about ethical issues surrounding the administration of questionnaires.

Data collection took place at various governmental department premises and other places where the target groups reside or accessible. The collection took place within six weeks. A total of 200 questionnaires were given out to respondents: however, only 150 respondents gave their feedback correctly and on time representing an effective response rate of 75%.

### 3.5.2 Data collection Method

A self-administered questionnaire was used to obtain the data. The questionnaire was divided into five sections whereby section A consists of demographic profiles of respondents, while section B examined the saving behaviour of formal workers, section C determined the level of indebtedness among formal workers, Section D explored sources of credit and their preferences and final section tried to ascertain the purposes of loans/credit (Appendix).

Before the questionnaire was disseminated to the target population, a pilot test was conducted at the Department of Education in Dundee to ensure that the respondents could easily understand and answer the questionnaire without confusion (Saunders *et. al.,* 2009). 20 sets of questionnaires were distributed to educators, clerks and other staff. This assisted the researcher to amend the questionnaire to remove all those items with which respondents were not comfortable. Thereafter, 200 sets of improved questionnaires were distributed by the research team to the respondents in all the selected formal sectors. Respondents were given a structured questionnaire to complete at their various workplaces. This technique was adopted because it saves time, allowed for data collectors to gather them with ease and also ensure that those who previously have had access to credit, answered the questionnaire.

### 3.6 Reliability and Validity of the Research Instruments

In an effort to ensure validity, careful measures were put in place during formulation of the questionnaire. The questionnaire was developed in harmony with the guidelines specified by experts. A review of literature relating to questionnaire design was used to guide the construction, sequencing and outline of the questionnaire. Face validity was done by experts in financial analysis in order to give respondents greater confidence in the measurement procedure and the results.

Reliability of the instruments was tested using split-half methodology. The questionnaire was randomly divided into two halves using odd and even numbering of the questions. A score of each half was calculated based on the respondents' score per each half. The correlation coefficient was 0.542856 and then corrected by Spearman-Brown correction which resulted in 0.703703.This result shows that the test was quite reliable.

**Table 2. Split-half methodology for reliability of the instrument.**

| No. of respondents | Odd questions scores | Even questions scores | | Value |
|---|---|---|---|---|
| 150 | 5029 | 4929 | Correlation Coefficient | 0.542856 |
| | | | Spearman-Brown corrections | 0.703703 |

### 3.7 Data analysis

The data were analyzed by taking into consideration the statistical procedures, and the type of data analysis technique applied with the aid of Statistical Package for Social Science (SPSS) software of 16 versions. The statistical procedures used for this study were descriptive and inferential statistics. The descriptive statistics enabled the researcher to describe and compare variables numerically which enhances the data analysis and interpretation (Saunders *et. al.*, 2009). And also the inferential statistics were used to generalize the result from the samples of population perspective. The cross tabulations, frequency and percentages were used to present the results for the sample characteristics. The strength of association between workers' savings behaviour, relating to their demographics was analyzed with the use of Chi-square.

**Ethical consideration**

The following measures were taking in order to ensure that ethical issues were not compromised: each questionnaire administered had a covering letter explaining the motives of the study; respondents were participated of their own free will; they had the choice of responding to questions which they felt comfortable answering; ethical clearance by North-West University was issued before the questionnaires were administered. Contact details of the researcher and supervisor were given to respondents in case they wanted further clarification.

### 3.8 Chapter Summary

This chapter outlined the research design and methodology followed in order to achieve the objectives of this study. The chapter discussed details relating to the development and pre-testing of research instruments and the measures taken to ensure the validity and reliability of the data collection. Issues relating to the target population and the sampling procedures used, as well as ethical considerations taken in collecting the data have been presented. Finally, the chapter discussed the main statistical tools used during data analysis.

## CHAPTER FOUR

## PRESENTATION OF RESULTS AND DISCUSSION

### 4.0 Introduction

This chapter presents the results obtained from the data analysis. It also describes the demographics of the respondents, their saving behaviour, level of indebtedness, sources of credit and their preferences and purpose for accessing loan or credit facilities.

### 4.1 Descriptive Analysis

#### 4.1.1 Socio-economic profiles of respondents

##### 4.1.1.1 Representation of gender among respondents

The representation of the gender of the respondents is presented in Figure 1. According to the results, 45% of the respondents were male and 55% were female, which is an indication that in the study area there are more women than men employed in the formal employment sector. There are two main reasons that could be assigned to this, demographic features of the district and also the qualification requirement needed to work in the formal sector. These results are in line with the district and national demographics previously published which show that there are more females than males and certain skills are required in formal employment (UMzinyathi District, 2008; Rutkowski, 2011).

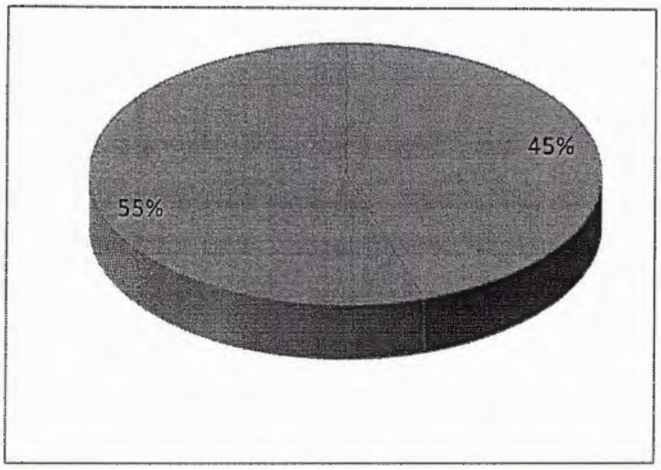


**Figure 1. Representation of gender among respondents (Source: Field Survey, July 2014).**

#### 4.1.1.2 Age Distribution of respondents

The ages of the respondents of the study fell between 20 years and 60 years. Figure 2 shows that 50% of respondents were between the ages of 30–39 years, 28% of them were between 20–29 years, 17% were between 40–49 years and, 5% were between 50–59 years. This is in line with the demographic profile of the district as well as the country. The UMzinyathi District has a significant number of formal employees being in their youthful age (UMzinyathi District (2008).

Akpokodje *et. al.* (2004) claim that a demographic factor such as age has a great influence on saving behaviour. This is explained by a life cycle model that says that the youth and the elderly have low incomes and low savings. In addition, De'Armond (2012) argues that individuals tend to borrow more when they are young, save during their middle ages, and lower their expenditure during retirement. Those in middle age have higher productivity, income and save more to repay past obligations and to finance their retirement.

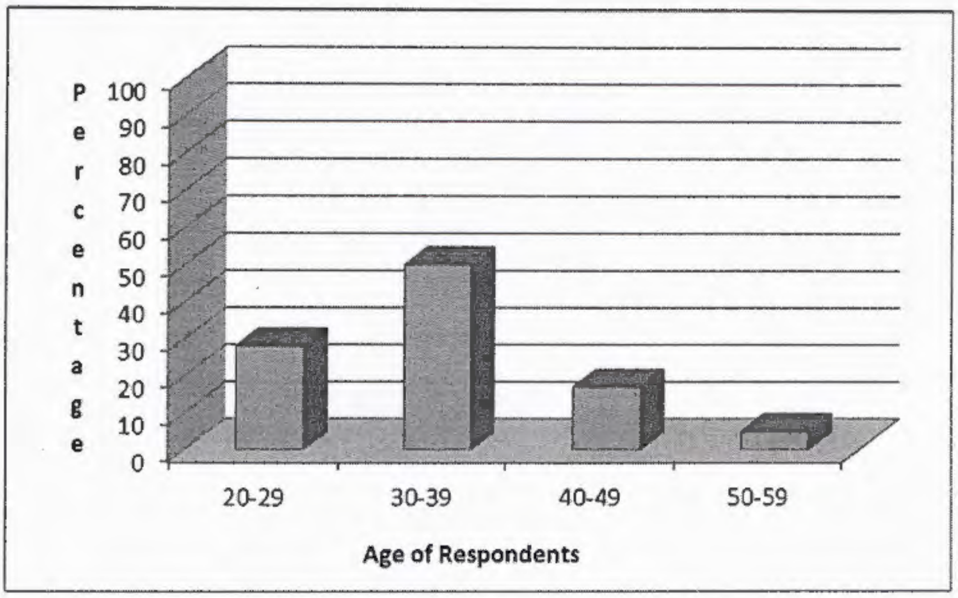


**Figure 2. Age distribution of respondents (Source: Field Survey July 2014).**

#### 4.1.1.3 Residential status of respondents

Table 3 indicates the residential status of respondents. 37% of the respondents stated that they live in urban area, while 63% live in rural areas. The results also show that 45% live in their own house, while 55% live in rented places in the urban areas. Similar results are found in the rural areas where 45% indicated that they live in their own houses and 55% indicated that they live in rented places in the rural areas.

The majority of the respondents live in rural areas. The demographic features of the District states that 82% of the population resides in rural areas (UMzinyathi District, 2008). About 41% of formal workers are in community services which are mostly found in rural areas. This can explain why a larger number of the respondents live in rural areas. Since accommodation in rural areas is cheaper than urban areas, this may encourage workers to stay close to where they work to enhance their savings. The results indicate that there is an increase in the number of employees who now stay in their own house rather than renting accommodation. This is consistent with NCR reports which indicate a higher percentage increase in accessibility of bonds to workers (NCR, 2013).

**Table 3. Percentage distribution of residential status of respondents (Source: Field Survey, July 2014).**

| Area of Residency | Status of Housing | | |
|---|---|---|---|
| | **Urban (%)** | **Rural (%)** | **Total (%)** |
| Owned | 37 | 63 | **100** |
| Rented | 45 | 55 | **100** |
| **Total** | **55** | **45** | **100** |

#### 4.1.1.4 Marital status of respondents

The respondents were asked to indicate their marital status on the questionnaire. The results presented in Figure 3 indicates that 48% of them are single, 33% are married, 13% are cohabiting, 3% are widowed, 2% divorced and, only 1% are separated. Statistics SA records indicate that the average age for a first marriage in South Africa for women and men is 30 and 34 years respectively. This may be due to inadequate income, lifestyles, cultural background that affects one intention to get married. The highest percentage of workers being single is consistent with Stats SA data (Duncan, 2014).

Getting married is one of those life-changing events that has huge financial implications on saving behaviour especially in marriages in community of property. This demographic has direct and indirect role in ones saving and borrowing behaviour since one does not have absolute control over finances in marriage in community of property (Planting, 2014).

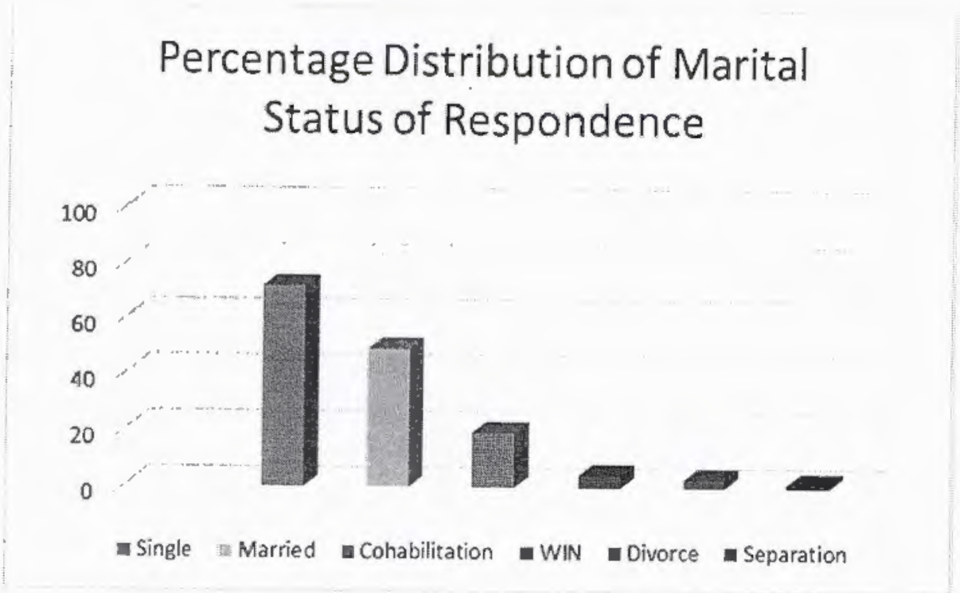


**Figure 3. Percentage distribution of marital status of respondents (Source: Field Survey, July 2014).**

#### 4.1.1.5 Level of education of respondents

Table 4 shows that 61% of respondents stated that their highest educational qualification was university degree, while 15% held qualifications ranging from diplomas to other certificates, 14% have high school education (matric), 8% had vocational training and 1% had a primary school education. It is important to note that, according to the results, 15 % of the respondents had at least attended an elementary institution. It is also revealed that majority of formal employees have a tertiary education.

These findings may account for the fact that requisite skills and qualifications are the main requirements for employees in the formal sector. This means that there has been improvement in requirements for workers in formal employment and this is in line with findings that formal employment requires basic qualifications and requisite skills that meet the criteria of the jobs portfolios (ADCORP, 2013; Stats SA, 2009).

It is expected that the saving behaviour among workers will be encouraged as education empower people with the life skill that requires creating an improved saving culture. Once the people are empowered with the information, changing of mindsets and attitudes towards savings will be painless (Manyama, 2007).

**Table 4. Educational level of respondents (Source: Field survey, 2014).**

| Education level | Frequency | Percentage (%) |
|---|---|---|
| Primary School | 2 | 1 |
| High School (Matric) | 21 | 14 |
| University | 92 | 61 |
| Vocational training | 12 | 8 |
| Further Education and Training | 23 | 15 |
| **Total** | **150** | **100** |

#### 4.1.1.6 Salary level of respondents

The distribution of the gross income of respondents is shown in Figure 4. The largest percentage (30%) of respondents earned a gross monthly income between R8000 and R12000, while 23% of respondents receive between R16001and R20000 a month. The findings further show that 23% of employees that participated in the study earned a gross monthly between 12001 and 16000, while 15% and 9% of respondents receive less than R8000 and more than R20000 a month respectively as shown figure below.

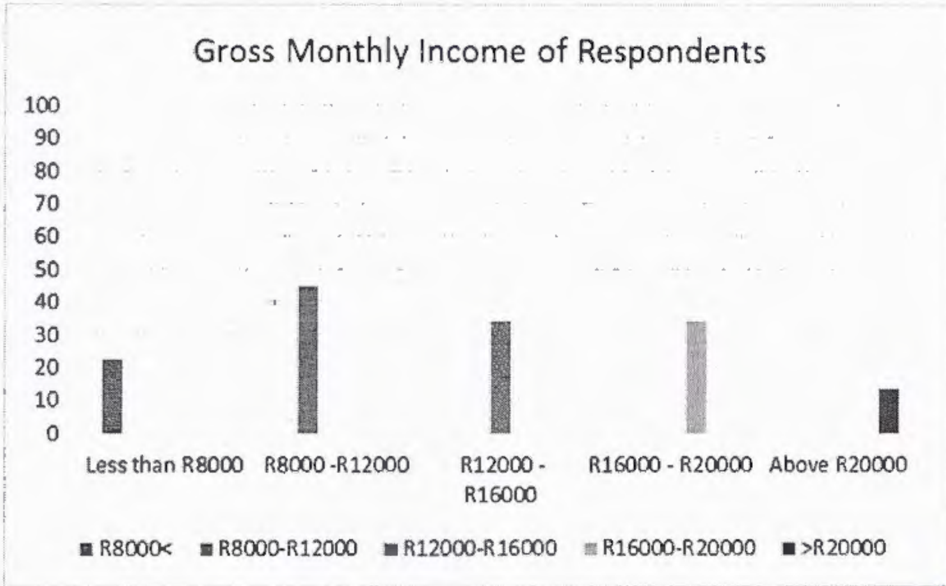


**Figure 4. Gross Monthly Income of Respondents**



There were significant differences between gross and net income which may be due to high income tax and repayment of credit. The distribution of net income of respondents is shown in Figure 5, 31% of respondents earn a net income between R8000 and R12000 in a month, 21% of respondents receive a net salary between R16000–R20000 a month and 20% of respondents receive a net income between R12001–R16000. 23% receive a net income less than R8000 and 5% of respondents receive a net income more than R20000 a month.

According to the UNISA Bureau of Market Research (2011), just over 70% of the South Africa population belongs to the lower income group receiving a personal income below R50000 per annum. The results indicate that the majority of the respondents earn more than the lower income group, but mostly fall within the middle level income group. This implies that there should be more savings among formal workers as the level of income is direct related to savings behaviour. Empirical research recently underlines the fact that saving ratios are low where income is low or near to subsistence levels (Nga, 2007). Contrary to this assertion, higher income bracket also affects borrowing behaviour of workers as it is reported that those who earned more than R15000 tend to have multiple credit facilities that affects their finances (NCR, 2013).

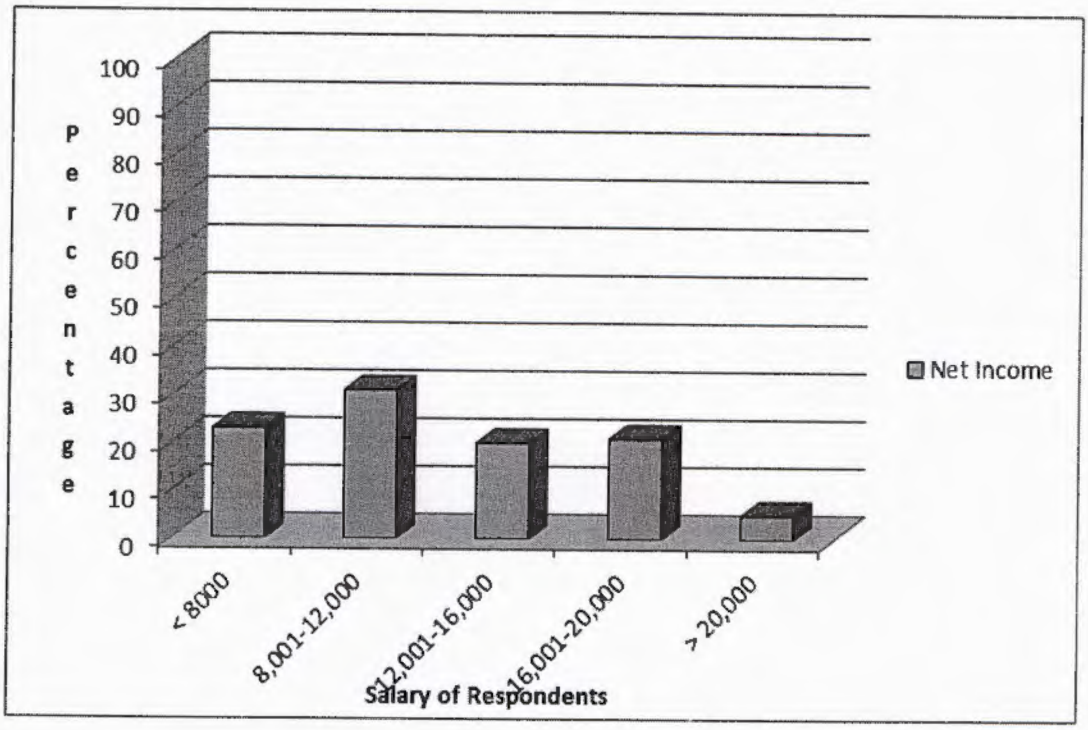


**Figure 5 Percentage distribution of respondents' net income (Source: Field Survey, July 2014).**

#### 4.1.1.7 Status of employment of respondents

Questions concerning the employment status of respondents were asked in order to generate the relative proportion of respondents who work full-time, part-time or on contract. Among those who were sampled, 88% of them were full-time employees, 3% of them were part-time workers and 9% of them were on contract as indicated in Figure 5. Individual employment status has a major influence on saving and borrowing behavior. Those who are permanently employed have access to a lot of credit facilities and tend to consumer their future earnings now.

This finding reveals that the majority of the respondents are permanent workers and that makes them legible for a great number of major credit facilities in the country since they meet the credit requirements. The easy access to credit has affected individual saving and borrowing behaviour. This is confirmed by Manyama (2007) quoting that 'credit has been inappropriately utilized, and hence people are finding it difficult to save as they have to service their debt". The highest percentage of respondents having permanent status are encouraging as it gives job security, but research also indicates that people save when they feel insecure about their future income. Job security helps in planning for the future.

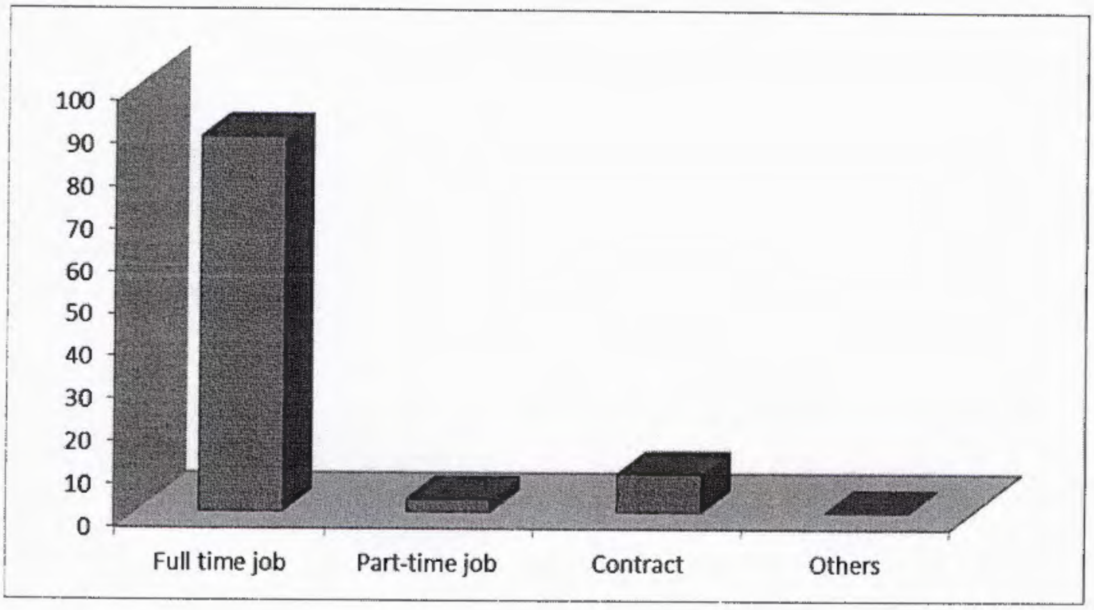


**Figure 6 Percentage distribution of employment status of respondents (Source: Field Survey, November 2014).**

#### 4.1.1.8 Area of employment of respondents

Table 5 shows the area of employment of respondents. This was added to help the researcher to compare workers in various departments per subject under discussion and 23% of respondents work in the Department of Health, while 37 % work in the Department of Education. Again, 17% are employed in the Police Department, 5% work in municipalities, 7% in Correctional Services, 6% in the Department of Social Development and finally 5% work for the Department of Justice.

Having more respondents employed by the Department of Education, followed by the Department of Health is consistent with demographic features of the District which shows about 82% of the populace reside in rural areas. Education and health workers operate in rural areas where schools and clinics are essential services to the rural communities in comparison to other governmental departments. UMzinyathi District, (2008) revealed that 41% of the formal employment sector in the District work in community of services which is dominated by educators, health workers, police, social welfare workers and workers in various municipalities.

**Table 5. Percentage and frequency distribution of respondents' area of employment (Source: Field Survey, July 2014).**

| Area of Employment | Frequency | Percentage |
|---|---|---|
| Department of Health | 35 | 23 |
| Department of Education | 55 | 37 |
| South African Police | 25 | 17 |
| Municipalities | 8 | 5 |
| Correctional Services | 10 | 7 |
| Department of Social Development | 9 | 6 |
| Department of Justice | 8 | 5 |
| **Total** | **150** | **100** |

#### 4.1.1.9 Subjective indicators of indebtedness use to measure indebtedness among respondents

The researcher uses a subjective model of indebtedness to measure the extent and magnitude of debt by providing respondents a choice of options of indicators. Respondents who did not choose any of them show they are not indebted as they are able to pay their repayments of debt on time. Respondents, who chose one or more indicators, show that they are in debt.

The researcher sought views of respondents with regard to the indicators of indebtedness based on a subjective model. The choice of subjective indicators of indebtedness reflects their personal involvement during the past six months. Their responses are depicted in Table 6, 6% of respondents have taken an advances on their salary due to financial difficulties, while 27% of respondents' monies had been paid automatically by their creditors to settle debt. Moreover, 7% of the respondents had cancelled some policies to pay their debts. Furthermore, 71% had been notified via SMS by their creditors about their debts, while 10% of respondents depend on overdraft to pay current expenses and finally, 31% of respondents used credit cards in their current expenditure.

The results reveal that the majority of the respondents rely on credit and have at least defaulted once within the past six months on payment. Looking at their income level, it is expected that respondents' commitment to repayment of credit will be in good standing. This inability to settle credit on time may be due to inadequate knowledge of financial matters, especially the consequences of not paying the credit when due.

The study further reveals that small percentage of the respondents shown no signs of being in debt due to their ability to repay their credit commitments on the due dates, but high percentages have, one way or the other been notified by SMS concerning their inability to repay the monthly installment on time. The findings are supported by NCR report, which states that, a third of the credit active population shows signs of over-indebtedness by applying to reschedule debt, considering seeking help with their debt, considering cancelling policies to pay back debts, in arrears with payments or have been garnished (FinScope, 2012).

**Table 6: Percentage and frequency distribution of subjective indicators of indebtedness chosen by respondents (Source: Field Survey, July 2014).**

| Subjective indicators of indebtedness | Response | | | |
|---|---|---|---|---|
| | Yes | | No | |
| | Frequency | Percentage | Frequency | Percentage |
| Taken an advance on your salary | 9 | 6 | 141 | 94 |
| Had money automatically taken from your salary because of debt | 40 | 9 | 110 | 81 |
| Cancelled policy to repay debt | 10 | 7 | 140 | 93 |
| Been in contact with debt counsellor | 9 | 6 | 141 | 94 |
| Notified(SMS/Call) by credit institution concerning repayment | 106 | 71 | 44 | 29 |
| Depend a lot on my overdraft | 15 | 10 | 135 | 90 |
| Use credit card on most of my current expenditure. | 47 | 33 | 103 | 67 |

### 4.2 Saving behaviour of respondents

This research study sought to determine the behaviour of formal workers towards savings. Respondents were asked to indicate when, where, how and amount they save in the various financial and non-financial institutions.

As can be seen in Figure 6, 53% of respondents indicated that they have developed an attitude of saving, while 47% do not save. 38% of respondents who save indicated that they save from their income earned, while 38% save after expenses, and 8% save when they receive their bonus. This means that saving behaviour among formal employment workers has improved drastically since the recession in 2008. This may be attributed to the improved income levels and educational attainment of employees. The findings are consistent with theories which identify insufficient income and level of education as contributing factors to low saving behaviour (Du Plessis, 2008).

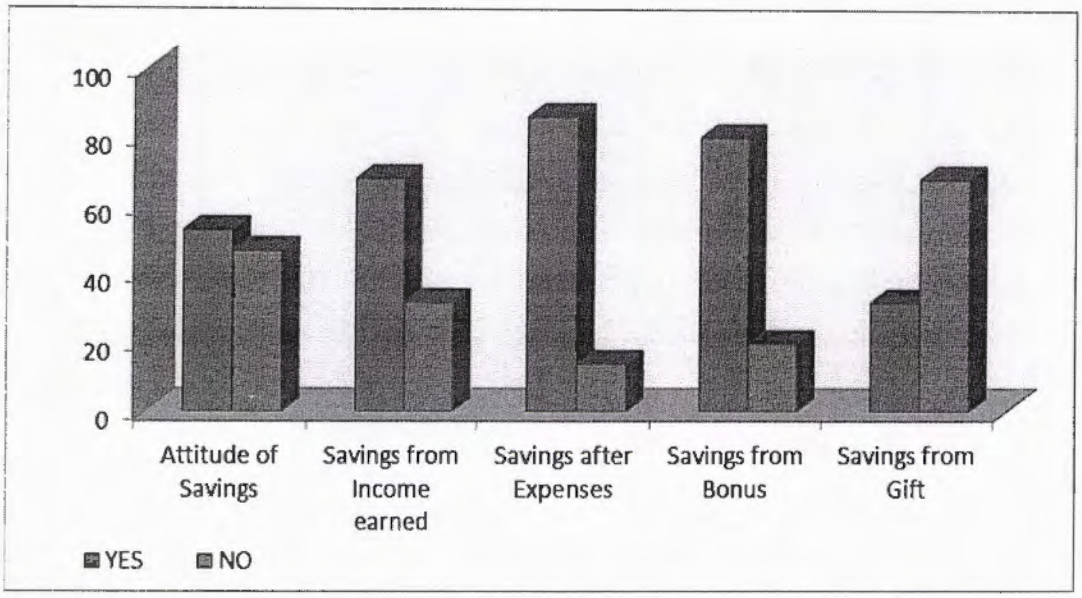


**Figure 7. Percentage distribution on how respondents use to save (Source: Field Survey, November 2014).**

#### 4.2.1 Forms of savings usually engaged by respondents

This section of the research sought to determine the forms of savings and investment that formal workers in the study area normally undertake. It can be seen in Figure 7 that 85% of respondents have saving accounts, 49% have investment accounts, 85% have a mutual fund policy, 51% have a retirement plan and 47% have an emergency fund, 13% have a bond and security policy, 15% have an educational investment and 7% invested in real estate.

The high percentages of respondents having both saving accounts and investments in mutual funds attest to the fact that there is an increasing trend of saving among employees. The choice of savings plans is driven by the motives of the individual which are consistent with four main categories: namely

- the availability of financial resources over time,
- to preserve a daily lifestyle, to plan for giving up work, and to plan for donations,
- to finance anticipated lifetime expenditure like owning properties and education, and
- to be able to have something to depend on should an unexpected event take place like the loss of a job, or sickness (Prinsloo, 2000).

The reason for the low percentage of respondents having emergency and retirement funds can be attributed to explanation provided by the life-cycle model which states that young consumers borrow against their expected future higher amount, while middle aged individuals accumulate resources to finance their retirement period (Nga, 2007). It can be deduced that workers continue to be uninformed about the rules and the benefits associated with the various components of saving plans, hence poor patronage of some of the products like bonds and securities and real estate investment.

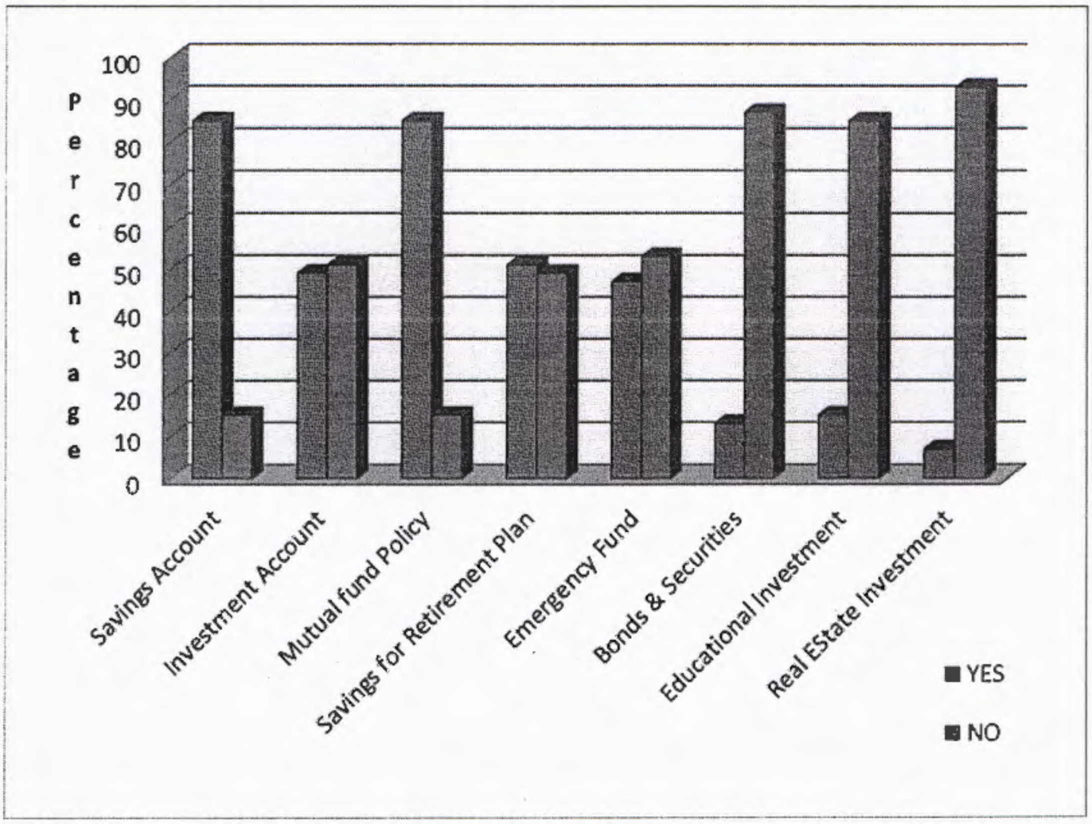


**Figure 7. Respondents' choice of forms of savings and investment (Source: Field Survey, July 2014).**

### 4. 2.2 Methods used by respondents in saving

Figure 8 shows how respondents save to achieve set goals and purposes in life. It shows that 67% of respondents stick to their spending plan, 47% have a written budget that guides them in their savings, 43% stick to their budget, 14% have a check account, 86% pay their bills on time, and 86% plan to reduce their expenditure by comparing prices.

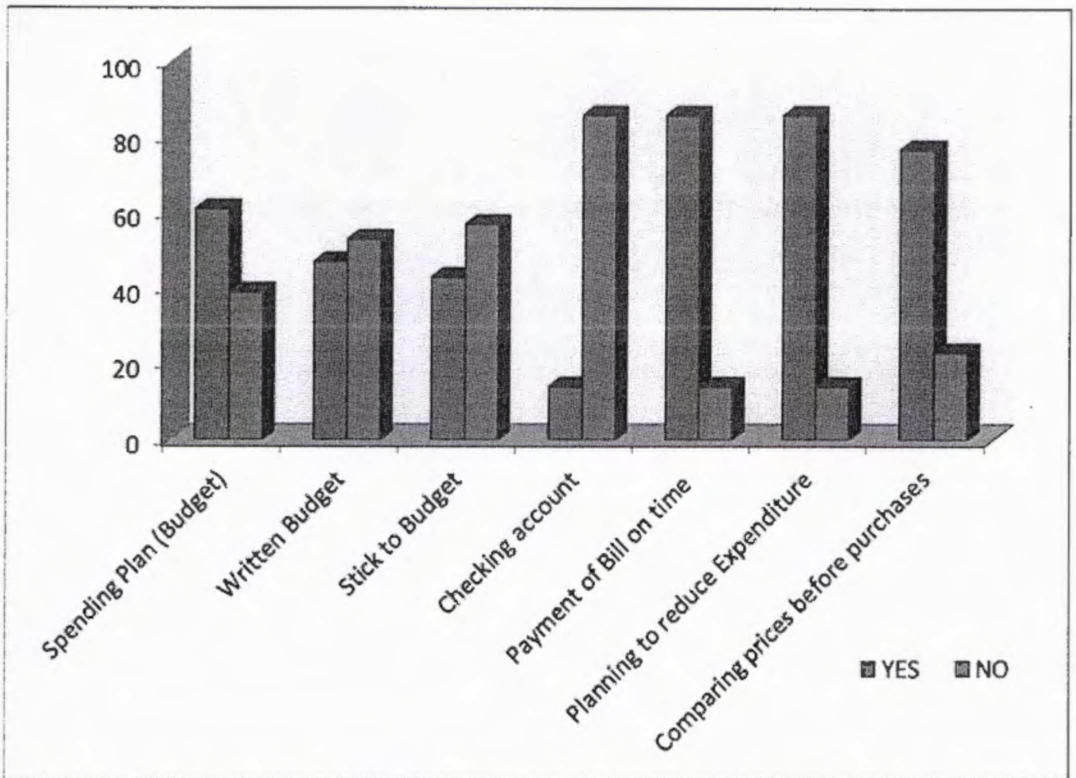


**Figure 8: Percentage distribution of methods used by respondents in saving (Source: Field Survey, July 2014)**

### 4.2.3 How much respondents save

In Figure 9, respondents were asked to indicate how they save. 22% save a fixed amount or percentage of their salary, 43% save a variable amount regularly, 60% save the money left after expenditure. The results reveal that 50% of the respondents have the capability to save, but only 22% are able to save an exact amount or certain percentage of their income. This can be attributed to their income level, their lifestyles and other demographics. As it is revealed by Manyama (2007), the choice of saving does not depend solely on the income, but requires the knowledge of the different products and the incentives provided by corporate and government.

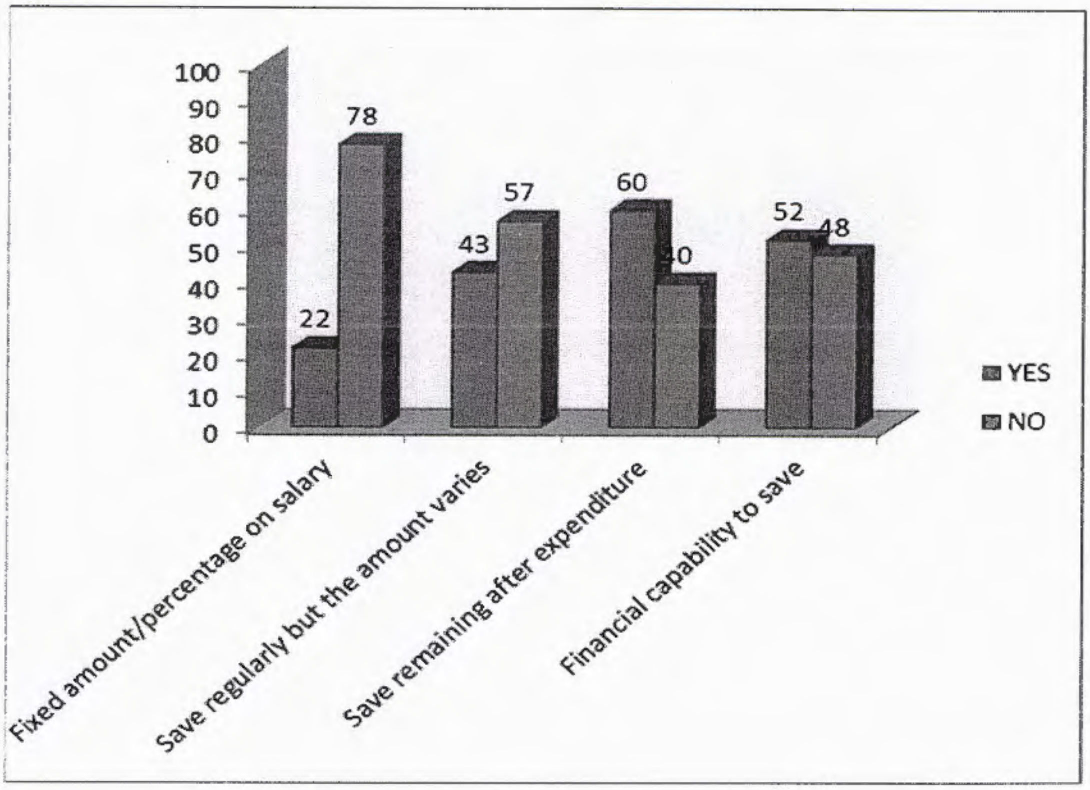


**Figure 9. How much workers save (Source: Field Survey, July 2014).**

### 4.3 Indebtedness among formal workers

#### 4.3.1 Level of indebtedness

Table 7 indicates the level of indebtedness among formal employed workers using the subjective model as a measurement. This table was derived from the questionnaire which sought to determine level of indebtedness. The subjective indicators of indebtedness were put before the respondents to indicate which of the indicators they had experienced in the past six months. The indicators are subjective signs of indebtedness which portray having difficulty of loan repayment and also depending on credit facilities for current transactions over a certain period of time.

This helped the researcher to determine those in debt, over-indebted and not in debt. Those who chose none of the response portray that they are not in debt, while those who chose one up to three indicators show that they are really in debt. Finally, those who chose more than three indicators show that they are over-indebted. Individual respondents' level of indebtedness was calculated per number of indicators chosen by each respondent.

As indicated in table 7, 15% of the respondents did not show any indication of being in debt, while 51% of respondents had one indicator of being in debt,17% of respondents indicated to have two indicators, 13% of the respondents had three indicators, 5% had four indicators and only 1% had five indicators. This means that only 6% of the respondents are clearly in debt and 13% are indebted but not as worse as the 6%.

**Table 7. Percentage distribution per area of employment of respondents per the number of chosen indicators of indebtedness using subjective model.**

| **Area of Employment** | **Chosen indicators** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Number of respondents per number of chosen indicators** | | | | | | | | | |
| | **None** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **Total** | **%** |
| Department of Education | 6 | 23 | 15 | 8 | 2 | 0 | 0 | 0 | **55** | 36 |
| Department of Health | 6 | 18 | 3 | 3 | 4 | 1 | 0 | 0 | **35** | 23 |
| South African Police | 1 | 16 | 3 | 5 | 0 | 1 | 0 | 0 | **25** | 17 |
| Municipalities | 2 | 2 | 3 | 1 | 0 | 0 | 0 | 0 | **8** | 5 |
| Correctional Services | 1 | 7 | 1 | 1 | 0 | 0 | 0 | 0 | **10** | 7 |
| Department of Social Development | 3 | 4 | 1 | 1 | 1 | 0 | 0 | 0 | **9** | 6 |
| Department of Justice | 2 | 6 | 0 | 0 | 0 | 0 | 0 | 0 | **8** | 5 |
| **Total** | **23** | **76** | **26** | **19** | **7** | **2** | **0** | **0** | **150** | **100** |
| % | 15 | 51 | 17 | 13 | 5 | 1 | 0 | 0 | **100** | |

**Implication of indicators**

- None Does not look like a problem
- 1–3 Indebtedness
- 4–7 Over-indebtedness

The results show only a small percentage of respondents can be considered to be over-indebted and 15% are shown not to be in debt at all, since there are no indications of indebtedness. There are few respondents who are over-indebted, but there is a great number of respondents who show signs of indebtedness. This high level of indebtedness among respondents confirms a worrying situation in the country when it comes to the problem of indebtedness. Mandy de Waal (2013) noted that South Africans are sinking under debt. In addition, Engelbrecht (2011) affirms that household debt in South Africa has grown significantly relative to income over the past years and consumers spend approximately 60–70% of their income on repayment of debt.

### 4.3.2 Sources of credit accessed by formal workers

The role of various credit facilities among formal workers is analyzed and the information is presented in Table 8. This helps the researcher to determine credit facilities, formal workers usually engaged in when it comes to credit. As indicated in Table 8, out of 370 accessed sources of credit by respondents, 28% was stored cards, followed by credit card and bank loans with 17% and 15 % respectively. This was followed by vehicle loans of 12% and hire purchase with 11% of the accessed source of credit. Again, 4% of the accessed credit source was from family and study loans, while micro lenders and mashonisa having the least accessed source of credit percentage of 2% each.

The findings of the analysis show that formally employed workers get their credit sources from institutional agencies. This may be supported by the evidence that they meet the requirements of the various institutions because most of them are working on a full-time and permanent basis. Only 8% of the respondents accessed credit by means of informal credit sources such as Mashonisas and family/friends. It also observed that workers have multiple access to credit sources, meaning they do not stick to one particular source as their sole means of access to credit. Formally employed workers get credit sources from banks, micro lenders, stores, mashonisas, friends/family and finally from registered financial companies.

The findings are in line with NCR reports which shows that formal products such as commercial banks, insurance companies and microfinance institutions and the informal credit and loan products such as borrowing from friends or family, borrowing from colleagues, borrowing from spaza shops, borrowing from "Mashonisas", borrowing from saving clubs, borrowing from employer and others as main sources of credit for individuals. (NCR 2012:23).

**Table 8. Frequency distribution of sources of credit accessed by respondents (Source: Field Survey, July 2014).**

| Sources of Credit | Frequency | Percentage |
|---|---|---|
| Bank - Bond (housing) | 26 | 7 |
| Bank loan – personal | 55 | 15 |
| Micro lenders | 9 | 2 |
| Mashonisa | 7 | 2 |
| Study loan (Institutions ) | 11 | 3 |
| Vehicle loan (Banks) | 43 | 12 |
| Credit card (Banks) | 62 | 17 |
| Store card | 103 | 28 |
| Hire purchase | 40 | 11 |
| Family or friends | 14 | 4 |
| Total | 370 | 100 |

### 4.4 Respondents' order of preference of various sources of credit work

The study also attempted to investigate the credit preferences of formally employed workers. Out of 126 respondents who accessed store cards, 36 % ranked store cards as their preferred choice of credit, while 30% of those who accessed bank loans ranked bank loans as their preferred choice.

Again, 25% who accessed bonds indicated that as the preferred choices of credit, while out of 80 respondents who accessed credit, 20% ranked credit cards as the most preferred source of credit. Concerning those who accessed credit from their family/friends, 25% indicated it their first choice of credit.

On the other hand, out of 50 respondents who accessed credit from mashonisa, 75 % indicated it as the least preferred source of credit, while 60% of those who accessed micro lenders ranked it as the least source credit. Again, out of 90 respondents who accessed credit from insurance companies, 18% ranked it as the least preferred credit source and finally, respondents who accessed credit from tuck shops, 20% of them ranked it as the least choice of credit.

The findings indicate that most preferred sources of credit by respondents are store cards and personal loans. The large number of respondents ranked store cards and personal bank loans as their first two most preferred source of credit. It was also observed that bonds provided by banks, family/friends and credit cards were very much preferred by most of the respondents. Mashonisa and micro lenders as source of credit were not preferred by the majority of respondents. Out of 50 respondents of those who accessed mashonisa, 75% ranked it as the least preferred source of credit. It was followed by micro lender, tuck shops and insurance companies. The main reason attributed to the comparatively low ranking for mashonisa and micro lenders as a least preferred source of credit, is the high interest rate they charge and the short term provided for repayment.

**Table 9. Percentage of order of preference of the various sources of credit by the respondents**

| Sources of Credit | Number of respondents who accessed each identified source of credit ( Observed ) | % of order of preference of various sources of credit | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Ranks | | | | | | |
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Bank- bonds | 60 | 25 | 20 | 18 | 15 | 10 | 2 | 10 |
| Bank- Credit card | 80 | 20 | 26 | 20 | 15 | 2 | 8 | 9 |
| Bank- other loans | 70 | 30 | 25 | 18 | 20 | 1 | 2 | 5 |
| Micro Lender | 25 | 0 | 1 | 4 | 5 | 12 | 18 | 60 |
| Store cards | 126 | 36 | 14 | 16 | 10 | 12 | 2 | 10 |
| Retail stores | 65 | 18 | 12 | 19 | 23 | 3 | 2 | 13 |
| Mashonisa | 50 | 0 | 0 | 0 | 2 | 8 | 15 | 75 |
| Saving Club | 15 | 0 | 0 | 50 | 20 | 18 | 12 | 0 |
| Tuck shop | 12 | 0 | 0 | 0 | 20 | 28 | 30 | 22 |
| Friends/family | 80 | 25 | 28 | 18 | 14 | 15 | 0 | 0 |
| Insurance companies | 90 | 0 | 0 | 0 | 7 | 40 | 25 | 18 |

**Scale:** 1 is the respondent's most preferred source of credit, while 7 is the least preferred source of credit.

This is supported by a recent report, which states that 8.5 million active credit consumers spend their earned income paying store cards and hire purchase instalments at least once a month. It also indicates that one out five active credit consumers' (i.e. 2.2 million pay mortgage, loan loans or bond on monthly basis). Informal borrowing is largely driven by friends and family, followed by Mashonisa/loan sharks which are seen as the least attractive for the informal sector (FinScope, 2012:29–30).

### 4.5 Reasons for accessing Credit/ Loan by respondents

The purposes for which loans are taken are very important indications of their repayment. The various purposes of the formally employed workers taking loans /credits are presented in Table 10. Respondents were asked to indicate their purposes of accessing loans from financial and non-financial institutions. As can be seen in Table 10, 38% of the respondents used credit to acquire electronics, 41% for acquisition of furniture and 19% for acquisition of laptops/cell phones.

9% of the respondents used their loan for educational expenses, 20% for groceries purchases, and 20% for payment of other debt and 10% for wedding expenses. A further 27% of respondents indicated that they used credit for buying or repairing cars, 27% for health expenses, 27% for funeral expenses, and 61% for buying clothes. Finally, 10% of respondents indicated that they use their credit on festive expenses, 1% for holiday expenses, 13% for building and 7% acquired loans to renovate their houses.

The findings indicated that there were various reasons why the respondents accessed credit. From the findings it was revealed that the majority of respondents spent their credit on clothing, furniture and electronics. This reveal is not surprising as 48 % of the total respondents are within the ages from 20–40 years and according to life-cycle model, younger people tend to spend more on things that makes life enjoyable. It was also shown that, larger percentage of the respondents used their secured credit on emergencies such as buying or repairing cars, health expenses and funeral expenses. Fewer number respondents used their credits for current expenditures such as buying groceries, paying utilities and servicing of loans.

The above findings differ slightly for purposes of loans reported by Fin Scope (2012) survey, which indicates 29% of adults in South Africans borrow money to buy or start their own business, but other reasons such as people borrow for emergency, buying a house, and paying for a funeral cost are consistent with the report. Reasons such as buying clothes, household furniture/appliances, and cars, paying school fees, helping another family member, paying debt, paying for a wedding, lobola expenses are major reasons formally employed workers sought credit in South Africa (NCR 2012:27).

The study revealed that most of the workers might use their credit on recurrent expenditure instead of on capital expenditures such investment or security, business launching, mortgage, and others which compensate the cost of capital charged on the loan acquired. Inability of formally employed workers to use their secured credit on capital expenditure may be due to lack of financial knowledge and this might increase the level of indebtedness among them.

**Table 10. Reasons for Accessing Loans/ credits by respondents (Source: Field Survey, July 2014).**

| Reasons for accessing Loans/credit | Yes | | No | |
|---|---|---|---|---|
| | Frequency | Percent | Frequency | Percent |
| Electronics purchases | 57 | 38 | 93 | 62 |
| Furniture acquisition | 62 | 41 | 88 | 59 |
| Cell phones/laptops purchases | 29 | 19 | 121 | 81 |
| Education fees | 14 | 9 | 136 | 91 |
| Groceries purchases | 30 | 20 | 120 | 8 |
| Repayment of loan | 7 | 5 | 143 | 95 |
| Wedding expenses | 15 | 10 | 135 | 90 |
| House acquisition | 19 | 13 | 131 | 87 |
| House renovation | 10 | 7 | 140 | 93 |
| For buying car/car repairs | 40 | 27 | 110 | 73 |
| Health expenses | 41 | 27 | 109 | 73 |
| Holiday expenses | 2 | 1 | 148 | 99 |
| Festive expenses | 15 | 10 | 135 | 90 |
| Funeral expenses | 41 | 27 | 109 | 73 |
| Clothing purchases | 92 | 61 | 58 | 39 |

## 4.6 Relationship between savings as against formal workers' earned income, educational level and number of dependents.

### 4.6.1 Net income and saving

In analyzing saving behaviour of respondents, cross tabulation was done on saving and net income of respondents. Table 11 shows the result of the cross tabulation. Out of the total respondents, 75% of the respondents indicated that they save and 20% of respondents who save earned net income less than R8000, 24% earn net income between R8000 and R12000, 15% earn between R12000 and R16000, and 16% earn above R16000.

The results show that net income to saving is encouraged among formal workers as 75% of respondents save regardless of their net income. These results can be attributed to educational level, income level and the motives behind savings of individuals. This result differs from assertions made by earlier research which states there is a greater decline in personal saving in South Africa (Prinsloo, 2000; Aron & Muellbauer, 2000).

Contrary to Mohr & Rogers (1992) assertion, the decline in personal saving as a percentage of disposable income is even worsening among low-income earners. The findings revealed that low-income earners tend to save rather than higher income earners. The small percentage for those who earn high net income regards to savings is consistent with NCR report, which indicates that individuals with income exceeding R15,000 a month dominated the consumer credit market for most products (NCR 2013:28). Having more credit facilities affects savings irrespective of the amount of salary earned by employees.

In addition, the Chi-square test of goodness fit was conducted to determine the relationship between saving behaviour and net income of respondents. The Pearson Chi-square = 13.5999 on 3 degrees of freedom which has a probability under asymptotic significance value = 0. 004 indicate that there is a correlation between saving behaviour of respondents and their net income as shown in Table 11. This means that workers saving behaviour are determined by their net income that is the saving behaviour does follow a particular trend. We can confidently claim that workers are more likely to save when their net income increases or when they earn more and vice versa.

**Table 11. Cross-tabulation between net income and savings from income earned (Source: Field Survey, July 2014).**

| Net Income | Savings from Income Earned | | | | | Chi-square test for savings from income earned | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Yes | | No | | Total Observed | | Value | Df | Sig 2 sided |
| | Observed | Expected | Observed | Expected | | | | | |
| < 8,000 | 30 | 37 | 7 | 37 | 37 | Pearson chi square | 13.599 | 3 | 0.004 |
| 8,001–12,000 | 36 | 49 | 13 | 49 | 49 | Likelihood ratio | 15.285 | 3 | 0.002 |
| 12,001 – 16,000 | 22 | 34 | 12 | 34 | 34 | Linear by linear association | 10.471 | 1 | 0.001 |
| Above 16,000 | 24 | 30 | 6 | 30 | 30 | Number of valid cases | 150 | | |
| **Total** | **112** | **150** | **38** | **150** | **150** | | | | |

The table below shows Spearman correlation coefficient value of 0.265 and that it is significant at the 0.010 level. It indicates a weak positive relationship between the two variables. Though workers' ability to save will increase as their income increases, we are not convinced to conclude that they will save as their income increases.

**Correlation coefficient for income and savings**

| | **Value** | **Approx. Sig.** |
|---|---|---|
| Pearson | 0.265 | 0.010 |
| Spearman | 0.276 | 0.01 |
| Number of Valid Cases | 150 | |

### 4.6.2 Educational level and saving

Cross-tabulation was done to analyze the relationship between educational level and savings among formal workers and Table 12 shows the result of the cross tabulation. Out of the 150 respondents, 95 of the respondents indicated that they save and 75 of the respondents who save are those completed university degrees, while 16 others have completed vocational training and other post matric qualifications. The results further reveal that only 6 respondents who completed matric do save.

The findings show that formal workers with higher educational levels tend to save as compare to their colleagues with lower educational levels. This may be linked to having financial understanding to savings and ability to withstand peer influence, as financial literacy and peer pressure influence ones saving behaviour (Delafrooz *et al*, 2011). And it is also argued that education empowers people with life skills to enhance their saving culture. Once the people are empowered with necessary information, changing of mindsets and attitudes towards savings will be painless (Manyama, 2007).

**Table 12. Cross-tabulation between educational level and savings from income earned (Source: Field Survey, July 2014).**

| Educational Level | Savings from Income Earned | | | | Total | Chi square test for savings per educational level | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Yes | | No | | | | Value | Df | Sig 2 Sided |
| | Observed | Expected | Observed | Expected | | | | | |
| Primary School | 0 | 2 | 2 | 1 | 2 | Pearson chi square | 32.862 | 4 | 0.023 |
| High School | 6 | 21 | 15 | 10 | 21 | Likelihood Ratio | 33.443 | 4 | 0.030 |
| Vocational training | 8 | 12 | 4 | 3 | 12 | Linear-by-Linear Association | 4.762 | 1 | 0.029 |
| University | 72 | 92 | 20 | 13 | 92 | Number of Valid Cases | 150 | | |
| Fet College | 8 | 23 | 15 | 10 | 23 | | | | |
| **Total** | 94 | 150 | 56 | 37 | 150 | | | | |

In determining the relationship that exists between level of education of respondents and their saving behaviour, Chi-square test of goodness fit was also conducted. The Pearson Chi-square = 32.682 on 4 degrees of freedom which has a probability under asymptotic significance value = 0. 023 indicated that there is a relationship between saving behaviour of respondents and their level of education as indicated in Table 12.

The table below shows Spearman's correlation coefficient value = 0.610 and it is significant at the 0.034 level. This indicates that there is a strong positive relationship between the two variables. Thus, workers saving behavior are determined by their level of education. We can confidently conclude that workers are likely to save as their educational level increases.

**Correlation coefficient for level of education and savings**

| | **Value** | **Approx. Sig.** |
|---|---|---|
| Pearson | 0.580 | 0.029 |
| Spearman | 0.610 | 0.034 |
| Number of valid cases | 150 | |



### 4.6.3 Dependency ratio and saving

Table 13 indicates the relationship between savings and number of dependencies. Here the researcher tried to examine whether the number of dependency have an effect on workers saving behaviour. The association between number of dependency and respondent's saving behaviour is presented in Table 15. Pearson Chi-square value of 17.990 on 2 degrees of freedom with significant value of 0.040 indicates that the two variables relate. It shows that respondent's saving behaviour is dependent on the number of dependents in a family.

Another factor that influences ability to save is the number of dependents of a respondent. From Table 15 below, among 85 respondents who save, 79 have less than 5 dependents, 4 have exactly 5 dependents and only 2 have more than 5 dependents each. The results show that employees who have a small number of dependents save as compared to those catering for a larger number of people. This result is consistent with the observation of Akpokodje *et. al.* (2004:23–26) that a demographic factor has a great influence on ones saving behaviour, especially in rural areas with high dependency ratio.

The measure of the strength of the relationship between the two variables is indicated in Table 6. Spearman correlation coefficient value of (-0.341) with significant value of 0.010 indicates that these two variables are negatively related. It means that as the number of dependency decreases, workers saving behaviour improves.

**Table 13. Cross-tabulation between number of dependents and savings from income (Source: Field Survey, July 2014).**

| Number of Dependents | Savings from Income earned | | | | Total | Chi-square test for savings per number of dependents | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Yes | | No | | | | Value | Df. | Sig 2 sided |
| | Observed | Expected | Observed | Expected | | | | | |
| <5 | 79 | 122 | 43 | 122 | 122 | Pearson chi square | 17.990 | 2 | 0.040 |
| 5 | 4 | 14 | 10 | 14 | 14 | Likelihood Ratio | 18.690 | 2 | 0.020 |
| >5 | 2 | 14 | 12 | 14 | 14 | Linear-by-Linear Association | 17.340 | 1 | 0.050 |
| **Total** | **85** | **150** | **65** | **150** | **150** | Number of valid cases | 150 | | |

**Coefficient of Correlation for number of dependents and savings**

| | Value | Approx. Sig. |
|---|---|---|
| Pearson | -0.341 | 0.010 |
| Spearman | -0.345 | 0.030 |
| Number of Valid Cases | 150 | |

## 4.7 Chapter Summary

In this chapter, respondents' demographic characteristics have been analyzed via frequency and percentage analysis in the form of tabular and graphical representation. Cross-tabulation was used to analyze the relationship between savings and other variables such as net income, educational level and number of dependents of respondents. Analysis has shown that there is a significant relationship between variables and saving behaviour in this study.

Moreover, the analysis assisted in identifying socio-economic characteristics of the respondents, and determined their saving and borrowing behaviour. Again, respondents' sources of credit and their preferences were identified and their level of indebtedness was ascertained. By applying these results generated from this chapter, a summary of major findings, recommendations and conclusions of the research follows in the next chapter.

## CHAPTER FIVE

## SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

### 5.0 Introduction

This chapter involves the summary of the major findings of this research study, recommendations and conclusions on how formal workers could reduce their level of indebtedness, and suggestions for further study on this topic.

### 5.1 Research objectives, Findings and conclusion

The prime motive of this study is to find out the indebtedness among workers employed in the formal sector within the UMzinyathi District. It is on this basis that the study relied on the review of literature to explore specifically the socio-economic characteristics of saving behaviour, the source and purpose of acquiring a loan facility, as well as, determining the level of indebtedness of formal workers. In order to achieve the main objective, a number of specific directives were determined. These included:

- identifying personal /socio-economic characteristics of formal workers;
- examining saving behaviour among formal workers;
- determining sources of credit and their preferences by formal workers;
- determining the level of indebtedness among formal workers; and
- ascertaining the purpose of loans/credit use by formal workers.

#### 5.1.1 Socio-economic Profile of Respondents

The studies revealed that the majority of the workers are still youthful and have educational qualifications such as university degrees, vocational and matric certificates. They are employed mostly in the educational field (35%) by the public sector. Their earnings are relatively higher in comparison to what workers receive in the informal sector. It was also revealed that most of the workers employed in the formal sector are employed on a on a permanent and full-time basis. This may be due to their higher levels of qualifications.

Other socio-economic characteristics like residential status confirm that most workers stay in their own houses in rural areas, while those staying in urban areas are renting accommodation.

### 5.1.2 Saving behaviour of formal workers

The findings revealed that financial literacy of formal workers has enhanced their savings behaviour, especially with savings from the income they have earned, savings invested after expenses, and savings from the bonus they received. An asymptotic significant value of 0.004 calculated by the Pearson chi-square test showed that there is the correlation between the saving behaviour and net income among formal workers. The saving behaviour of some of the sampled workers manifested in them having a mutual fund policy, retirement plan, and saving accounts. Although it was revealed that only a few workers have an investment account, emergency fund, real estate investment, educational investment, bond and security policy, and this can be attributed to inadequate knowledge of capital investment. It was also clear that most of the respondents do not plan a written budget.

Though it was revealed that formal employees tend to have higher remunerations due to their educational qualifications but it was found that those with higher income save less as compare to those with lower income. Interestingly, it was also revealed that savings increase with education, thus, there is a positive link between education and savings, negative link between income level and savings.

### 5.1.3 Sources of Credit and their preferences

In the study sample the majority of the workers accessed their sources of credit from financial institutions, especially banks offering products such as study loans, credit cards, vehicle loans and house bonds. In addition, micro lenders, store cards, hires purchase facilities and other family members were seen as other sources of credit accessed by formal workers. The most preferred formal sources of credit found by the study were stored cards, personal loans, house bonds and credit cards. It was also revealed that the only informal source of credit preferred by formal workers was support from family/friends. These sources of credit were preferred by formal workers because they meet the criteria for accessing such credit. In addition to the reasons for credits; they are more accessible and have comparatively low interest charges as compared to other source of credit. Mashonisas and micro lenders were seen at least preferred sources of credit among formal workers.

### 5.1.4 Level of indebtedness

The study revealed that about 80% of the workers owed creditors, but only few are seen to be indebted according to the subjective model of indebtedness measurement. It was shown that only 6% of the respondents are clearly in debt and 13% are indebted but not to the same extent as the 6%. Furthermore, the results show that there are no indications of indebtedness for 15% of the respondents.

### 5.1.5 Purposes of Loan

The findings indicated that there were various reasons why the respondents accessed credit. From the findings it was revealed that the majority of respondents spent their credit on clothing, furniture and electronics. It was also shown that, larger percentage of the respondents used their secured credit on emergencies such as buying or repairing cars, health expenses and funeral expenses. Fewer respondents used their credit facilities on current expenditures such as buying groceries, paying utilities and servicing of loans.

The study revealed that most of the workers might use their credit facilities on recurrent expenditure instead on capital expenditures such investment or security, business launching, mortgage, and others which compensate the cost of capital charged on the loan acquired. Inability of formal workers to use their secured credit on capital expenditure may be due to lack of financial knowledge and this might increase the level of indebtedness among them.



## 5.2 Recommendations

This research work also aims to provide the workers with a possible way to reduce their level of indebtedness and offer other related recommendations.

- This study established the linkage between inadequate financial knowledge and indebtedness. This suggests that formal workers must devote significant efforts in examining ways in which they can enhance their financial capacity .They can do this by, implementing measures to reduce their borrowing as well as communicating with financial experts about the steps they need to take to enhance their financial capacity. This will serve to keep formal workers informed and may cut down the level of borrowing.

- Formal workers should inculcate the habit of saving rather than seeking a facility that will increase their monthly expenses. It was clear that some workers do not save as a regularly commitment by allocating a fixed amount for savings, they only save after expenditure. This is as a result of not strictly following a written budget. They need to learn the essence of budget preparation and self-discipline.

- Information on available interest rates, exchange rates and the inflation rate should be the concern of every individual who wants to save, invest or secure a loan. For example, the interest rate charged on bank loans differs from one financial institution to another. Thus, it is incumbent on the formal workers to investigate and search for the best option regarding the type of credit required.

- Formal workers who are drowning in debt should seek counsel from financial services. This will equip them with the skills and competencies of managing their financial resources to meet both their current and future needs.

- According to the findings, purposes of loans were found to be a strong predictor of credit repayment performance. Therefore, the management of the credit facilities should draw a lot emphasis on consumer values, attitudes, experiences and beliefs as this will influence the consumers to pay their credit on time.

- Finally, a similar research study needs to be done over a longer period of time in order to increase the sample size and choose an appropriate methodology that will make the study more representative of the population. A longitudinal study could be done to analyze indebtedness of formal workers in general in South Africa with another conceptual framework.

## 5.3 Suggestion for Further Research

Due to limited time constraint and non-availability of data on formal employed workers indebtedness, it would be appropriate if further research is done on this same subject to be able to address all issues that may arise. Again, future research can discover the possibilities of using other sampling techniques as to make the results applicable to a broader population. Finally, further research should use more precise measurements regarding the level of indebtedness among formal workers. Further research using more clearly defined consumer credit variables may provide more insight information on workers borrowing behaviour.

## 5.4 Conclusion

The study attempted to analyze indebtedness among formal workers in UMzinyathi district. The statistical description shows that formal workers have improved their saving behaviour, but there are still many employees who do not have in-depth understanding of savings as well as composition of credit facilities offered by credit institutions. It was revealed that formal workers tend to have higher remunerations due to their educational qualifications but it was found that those with higher income saved less as compare to those with lower income. Interestingly, it was revealed that savings increase with education, so it could be stated that, there is a positive link between education and savings, negative link between income level and savings.

Analysis of indebtedness of formal workers has been identified as an important factor to address the level of indebtedness among workers. The study found out that the lack of knowledge on savings and credits is the cause of indebtedness of some of the employees.

This research study could make a significant impact on the ability of workers in the formal sector to measure their level of indebtedness. This has become a wake-up call to the financial institutions to be more efficient and proactive; while it is also an eye-opener to the formal workers in the country to assess any credit facility based on them applying a basic cost-benefit analysis.

The study recommends that formal workers equip themselves with regards to financial literacy, information efficiency on macro-economic index, and performance of loan appraisal. Formal workers should endeavour to reduce their level of indebtedness in order to live meaningful lives for now and beyond.

This study is important for analyzing a wide range of determinants of both saving and borrowing behaviour that influence savings and indebtedness among workers in formal employment, and significantly contributes to the insight of indebtedness among workers in South Africa. The recommendations drawn from the conclusions of the study are in line with the findings of the study, furthermore the limitations of the study and recommendation for future study have been outlined.

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**APPENDIX**

COVERING LETTER

University of North West

Faculty of Commerce and Administration

Mafikeng Campus

23/04/2014

Dear Sir/Madam

I am a master student in the Faculty of Commerce and Administration at University of North West, Mafikeng Campus. I am conducting a research on economic analysis of indebtedness among formal workers in UMzinyathi District. The aim of this research is to understand the current trends of usage of credit and motives for accessing credit.

I kindly request that you complete the following short questionnaire with regard to saving behaviour, credit preferences and motives for accessing credit. It should take no longer than 15 minutes of your precious time.

Although your response is of utmost importance for this research, your participation in this study is entirely voluntary. Please do not enter your name or contact details on the questionnaire. All information from the questionnaire will be used for academic purposes and it be reported in summary format only, and will be kept strictly anonymous and confidential.

Should you have queries or comments regarding this research, you are welcome to contact me telephonically at 0787747627.

Thank you for your cooperation.

Yours Sincerely

DA Yeboah

QUESTIONNAIRE

PLEASE KINDLY ANSWER THE FOLLOWING STATEMENTS BY USING AN "X" THE RELEVANT BLOCK OR WRITING DOWN YOUR RESPONSE IN THE SPACE PROVIDED

Section A - Personal Details

1. Sex

| | |
|---|---|
| Male | |
| Female | |

2. Age ______________________ years

3. Highest Education

| | |
|---|---|
| Primary School | |
| High School | |
| Matric | |
| University Degree | |
| Vocational Training | |
| Other | |

4. Employment Status

| Full Time Job | Part Time Job | Contract | Other |
|---|---|---|---|
| | | | |

5. Marital Status

| | |
|---|---|
| Single | |
| Cohabiting | |
| Married | |
| Separated | |
| Divorced | |
| Widowed | |

6. Area of Employment (Department)

___

7. Job Description/ Position

___

8. How long have you been in formal employment? ________ Years

9-11 Monthly Income (From Work before Tax and Other Deductions)

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Gross Income | ≤8000 | | 8001-12000 | | 12001-16000 | | 16001-20000 | | Above 20000 | |
| Tax deduction | ≤1000 | | 1001- 2000 | | 2001- 3000 | | 3001-4000 | | Above 4000 | |
| Other deduction | ≤1000 | | 1001- 2000 | | 2001- 3000 | | 3001-4000 | | Above 4000 | |

12. Other income from self employed

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| ≤ 4000 | | 40001- 8000 | | 8001- 12000 | | 12001-16000 | | Above 16000 | |

13. Do you take public transport to work?

| | |
|---|---|
| Yes | |
| No | |

14. Weekly expenses of transportation to work ___________________________

15. How would you describe your economic status?

| Poor | Below Average | Average | Above Average | Affluent |
|---|---|---|---|---|
| | | | | |

16. How many dependents do you have? ________

17. How would you describe the area you are residing?

| | |
|---|---|
| Urban | Rural |

18. Status of housing

| | |
|---|---|
| Owned | |
| Rented | |

19. Rent paid

**Section B - Saving Behaviour**

This section of the questionnaire examines the saving behavior of formal workers and seeks to answer the question what is the behaviour of formal workers towards savings?

Please mark an 'x' in the box you find most applicable by responding Yes or No to below questions.

When do you save?

| Questions | Yes | No |
|---|---|---|
| Do you put money aside regularly? | | |
| Do you save when you receive your salary? | | |
| Do you save when you have extra money after expenditure? | | |
| Do you save when you receive bonus? | | |
| Do you save when you receive a gift? | | |

Where do you save?

| Questions | Yes | No |
|---|---|---|
| Do you have savings account? | | |
| Do you have investment account? | | |
| Do you have mutual fund policy? | | |
| Do you put money into retirement plans | | |
| Do you have emergency funds | | |
| Do you have bonds and securities? | | |
| Do you invest in your education? | | |
| Do you invest in real estate (buildings) | | |

How do you save?

| Questions | Yes | No |
|---|---|---|
| Do you have a spending plan or budget? | | |
| Do you always have a written budget? | | |
| Do you always stick to the budget? | | |
| Do you have a checking account? | | |
| Do you pay all you bills on time? | | |
| Do you plan to reduce your expenditure? | | |
| Do you often compare prices before you make purchases? | | |

How much do you save?

| Questions | Yes | No |
|---|---|---|
| Do you save a fixed amount/percentage of your salary regularly? | | |
| Do you save regularly but the amount varies? | | |
| Do you only save the money left after expenditure? | | |
| Do you have financial capacity to save? | | |

Indicate average regular savings per month

______________________________________________

**Section C – level of indebtedness**

This section is used to determine the level of indebtedness and answer the question what are the level of indebtedness?

Please kindly indicate with an "X" on the sources of credit that you have monthly installment and outstanding balances.

| Sources of credit | Monthly Instalments | | Outstanding balance | |
|---|---|---|---|---|
| | Yes | No | Yes | No |
| Bond (housing) loans | | | | |
| Bank loan- personal | | | | |
| Micro lender | | | | |
| Mashonisa | | | | |
| Study Loan | | | | |
| Vehicle loans | | | | |
| Credit card | | | | |
| Store Card | | | | |
| Hire purchase | | | | |
| Family or friends | | | | |

Have you during the last six months; (mark an x in applicable box provided?)

| Questions | Yes | no |
|---|---|---|
| Taken an advance on your salary | | |
| Had money automatically taken from your salary because of debt | | |
| Cancelled policy to repay debt | | |
| Been in contact with debt counselor | | |
| Notified(SMS/Call) by credit institution concerning repayment | | |
| Depend a lot on my overdraft | | |
| Use credit card on most of my current expenditure | | |

**Section D -- source of credit and their preferences**

This section of the questionnaire explores sources of credit and their preference by formal workers and seeks to answer the question what are sources of credit and their preference among formal workers? Please state the source of credit you have accessed before by writing the name of company indicate an "X" whether you have installments with them or not. And Kindly rank in order of your preference in accessing of credit with one for most preferred source of credit and 11 as last preferred source of credit.

| Source of credit | Yes | No | Ranks in order of preferences |
|---|---|---|---|
| House loan ( bond) | | | |
| Credit card | | | |
| Personal loan from bank ( not for house loan) | | | |
| Loan from micro lender/cash loan shop | | | |
| Store cards ( where you buy on credit and pay later | | | |
| Retail store account- for purchase of household goods | | | |
| Loan from a mashonisa (informal money lenders) | | | |
| Borrowed money from saving club | | | |
| Taking goods on credit from a spaza shop (tuck shop) | | | |
| Bought product on credit from a catalogue retailer e.g . home choice | | | |
| Borrowed money from individuals e.g. friends or family members | | | |
| Insurance policy (such as funeral policy ,life insurance etc. | | | |

**Section E - purpose of loan/ credit**

This section ascertains the purposes of loans/credit and seeks to answer the question what do people use credit for? Have you taken a loan or used credit for any of the following, please mark an 'X' in the applicable box 'yes 'or 'no' for all items mentioned below and indicate the source of credit used for that if YES

| Items | Yes | No | Indicate the source |
|---|---|---|---|
| Electronics (TV, home theatre etc.) | | | |
| Furniture and home equipment e.g. bedding , Kitchen equipment | | | |
| Cell phones/ laptops and accessories | | | |
| Clothing/shoes | | | |
| To pay for education (fees, books etc.) | | | |
| To pay groceries | | | |
| To pay off another loan / debt/ account | | | |
| To cover wedding expenses | | | |
| To contribute to a funeral | | | |
| To pay for health expenses ( hospital, medicine | | | |
| To buy houses | | | |
| For renovation on house | | | |
| To buy or repair car | | | |
| To pay for a holiday | | | |
| To pay for extra expenses around festive seasons (Christmas). | | | |

If you have taken a loan for other purpose(s) please specify below

______________________________________________________

Thank you for your cooperation in completing this questionnaire