

University of Cape Town

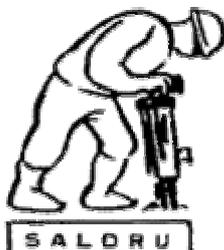


CENTRE FOR
SOCIAL SCIENCE RESEARCH

**SAVINGS, INSURANCE AND DEBT
OVER THE POST-APARTHEID
PERIOD: A REVIEW OF RECENT
RESEARCH**

Cally Ardington, David Lam,
Murray Leibbrandt and
James Levinsohn

CSSR Working Paper No. 65



Published by the Centre for Social Science Research
University of Cape Town
2004

Copies of this publication may be obtained from:

The Administrative Officer
Centre for Social Science Research
University of Cape Town
Private Bag
Rondebosch, 7701
Tel: (021) 650 4656
Fax: (021) 650 4657
Email: kforbes@cssr.uct.ac.za

Price in Southern Africa (incl. VAT and postage): R 15.00

or it can be downloaded from our website
<http://www.uct.ac.za/depts/cssr/pubs.html>

ISBN: 0-7992-2260-7

© Centre for Social Science Research, UCT, 2004

CENTRE FOR SOCIAL SCIENCE
RESEARCH

Southern Africa Labour and Development
Research Unit

**SAVINGS, INSURANCE AND DEBT
OVER THE POST-APARTHEID
PERIOD: A REVIEW OF RECENT
RESEARCH**

Cally Ardington, David Lam,
Murray Leibbrandt and
James Levinsohn

CSSR Working Paper No. 65

May 2004

Cally Ardington is a lecturer in the Department of Statistical Sciences at the University of Cape Town and a Research Associate with the Southern Africa Labour and Development Research Unit (SALDRU) within the Centre for Social Science Research (CSSR).

David Lam is a Research Professor in the Population Studies Center, a Professor in the Department of Economics at the University of Michigan (USA) and a Research Associate of SALDRU within the CSSR.

Murray Leibbrandt is a Professor in the School of Economics at the University of Cape Town and the director of SALDRU within the CSSR.

James Levinsohn is the Deputy Dean of the Ford School of Public Policy, a Professor in the Department of Economics at the University of Michigan (USA) and a Research Associate of SALDRU within the CSSR.

Savings, Insurance and Debt over the Post-Apartheid Period: A Review of Recent Research

Abstract

Sustainable poverty reduction requires that poor households effectively manage risk. The absence of basic financial services is a major obstacle to poverty reduction in South Africa. This paper reviews available South African literature on utilisation of formal and informal risk management instruments. The centrality of income in accessing the complementary bundle of formal financial services excludes households in the lower deciles from formal financial services. Rural households and households without formally employed household members are also denied access. Strong complementarities with informal channels of finance mean that these same households have limited access to even informal financial services. Promoting the use of savings accounts in pension and social grant payouts and the growth of village banks have been suggested as means to increase formal access for the poor.

Introduction

South Africa has a well-developed financial sector that supplies a sophisticated array of borrowing, lending and insurance products. This sector gives some South African households a range of options through which to smooth consumption and manage risk. However, as these options are supplied through the market for financial services, it is only those households at the upper end of the income distribution who have had the resources to buy these services. Indeed, until recently, the functioning of this market was felt to be irrelevant to the survival struggles of South African households at the bottom end of the income distribution. The focus of anti-poverty policy centred on non-market interventions such as the social safety net and social welfare policy.

However, over the last few years, there has been increased recognition by the South African government and financial sector that the absence of basic financial services, particularly in rural areas, is a major obstacle to growth and

poverty reduction. In October 2003, the South African financial sector committed itself to the *Financial Sector Charter*. The financial sector acknowledged that “access to first-order retail financial services is fundamental to black economic empowerment and to the development of the economy as a whole” (Banking Council of South Africa 2003:9). Signatories to the charter committed to substantially increase effective access to retail financial services for the lower income groups by 2008. The Reserve Bank is currently drafting new legislation to simplify the regulatory framework for banks and other financial entities. The *Dedicated Banks Bill* aims to strengthen the country’s economic infrastructure in order to extend provision of affordable financial services to lower income groups (Morgan 2004).

This increased awareness of the role of financial services access in poverty reduction in South Africa echoes developments in the contemporary international poverty literature. A key theme of this literature is that sustainable poverty reduction requires poor people to effectively manage risk. It is through such management that households are able to reduce and mitigate risk and lessen the impact of shocks (Morduch 1999a, 1999b, World Bank 2000, Holzmann and Jorgensen 1999, Dercon 2001). This emphasis on risk management shifts the focus from poverty to vulnerability.

Vulnerability analysis complements the traditionally static asset-based poverty analysis and expands the “scope of poverty analysis into a dynamic, forward looking dimension by identifying those who are in danger of becoming poor in the future” (Tesliuc and Lindert 2002:6). For social policy, this shifts the emphasis from passive or reactive strategies for reducing poverty to dynamic or proactive strategies for preventing poverty. Some households who are measured as poor in any cross-section have a solid vulnerability profile and could emerge from poverty over time without any government assistance. On other hand, some non-poor households lacking effective means to manage risk may be extremely vulnerable to becoming poor.

From a vulnerability perspective, effective anti-poverty policy requires detailed understanding of the way that poor households have managed risk through informal intra-familial and community mechanisms and the forging of a more symbiotic relationship between these mechanisms, the private sector financial services market and the prongs of state welfare policy. Lack of effective risk management instruments and assets limit poor people’s ability to cope with shocks and often result in actions to cope in the short-term that worsen deprivation in the long-term, hence preventing any escape from poverty. Short-term coping strategies such as taking children out of school, selling productive assets and borrowing from money lenders at high interest rates increase

vulnerability to poverty. Actions to avoid risk can also perversely contribute to permanent deeper poverty. For example, a household may not utilise arable land for fear of crop loss or a rural person may stay at home where there is no chance of employment rather than risk the money required to move to an urban area to seek employment.

Households often face constraints to adopting efficient risk management strategies. These constraints include exclusion from or limited access to formal and/or informal savings, credit and insurance markets. Central to any vulnerability analysis is an understanding of the access to and utilisation of these financial risk management instruments. To manage risks, people rely on both informal and formal strategies. Informal strategies include arrangements that involve individuals and households (self-insurance) or communities (informal group insurance). Formal strategies include market-based activities (formal credit, savings and insurance) and publicly provided mechanisms such as social pensions, disability grants and unemployment insurance.

Social capital or networks of mutual support such as rotating savings and credit groups (stokvels) and burial societies are important sources of informal insurance for households. The South African Participatory Poverty Assessment (May and Norton 1997) confirmed that the theme of isolation or exclusion from social institutions is viewed as an important component and determinant of poverty in contemporary South Africa.

Formal market-based credit and savings products offer low-income households a method for converting a series of small contributions into a large sum of money and, thereby, improve a household's ability to smooth consumption through dissaving or borrowing in the face of adverse shocks. Perversely, access to credit can be a source of vulnerability as poor households become over-indebted. Incurring debt on consumables rather than assets can increase a household's vulnerability. Thus, a close examination of expenditure patterns is important. Debt from micro-financiers and furniture and retail institutions is procured at higher interest rates than debt from the formal financial sector. The source of credit, interest rates and the utilisation of borrowings are key characteristics for determining vulnerability.

Credit and savings products cannot provide complete protection against risks resulting in a loss greater than what a household can save or repay. As the size of loss increases relative to a household's expected future income, savings and credit products become increasingly ineffective risk-management tools. Households can no longer effectively smooth their own consumption. At this point, insurance becomes a more effective method of risk management.

Insurance allows households to receive more complete compensation for their loss than they could have provided for on their own. Insurance reduces vulnerability as “households replace the uncertain prospect of large losses with the certainty of making small, regular premium payments” (Brown and Churchill 1999:2).

While the evidence suggests that low-income households have a need for risk-pooling protection, the formal insurance industry has typically under-serviced the low income market. The formal insurance industry’s reluctance or inability to service the low-income market is based on critical issues around product design and risk. The same factors that increase a household’s vulnerability and, therefore, their need for insurance make that household a less attractive proposition for those supplying the needed services. This is a pernicious market failure and makes it clear that there are major challenges in addressing affordability and appropriateness of insurance products for low income households on the one hand, and ensuring sustainability of insurance institutions on the other hand (Brown and Churchill 2000).

This review has a particular focus on literature that informs on the state of South African households’ vulnerability with respect to their access to and utilisation of formal and informal risk management instruments. A branch of South African literature has used national and regional sample surveys to address these issues (Statistics South Africa 2002, Daniels 2001a, 2001b, 2003, Ardington *et al* 2003). Rasmussen (2002) and Maluccio *et al* (2000) make use of the KwaZulu-Natal Income Dynamics Study (KIDS) - a panel study of African and Indian households in KwaZulu-Natal between 1993 and 1998. Porteous (2003) provides a descriptive comparison of the banked and the ‘unbanked’, using the 2001/2000 AC Nielsen *FutureFact Marketscape Survey*, a nationwide representative survey of 3000 respondents.

Overall, national and regional sample surveys do not allow for a particularly detailed picture of the saving, insurance and borrowing behaviour of South Africans. A number of micro-surveys have recently been undertaken to investigate relevant issues (Dallimore 2003, Dallimore and Mngimeti 2003, Ardington 1999). A few review papers provide additional context for this work. Van der Ruit (2002) and the Micro-Finance Regulatory Council (MFRC 2001) provide an overview of the micro-finance industry. Nigrini (2001) investigates the effectiveness of Financial Service Cooperatives (Village Banks) in empowering poor rural villages. In a small-scale qualitative study, Thompson and Posel (2001) examine issues of risk and trust with regard to burial societies.

Much of this work is unpublished at this point and our primary purpose is to

organise and highlight key findings. A lot of the nuances are lost along the way. The literature is not nearly as coherent as represented here. We do not reflect on data limitations, although these are daunting in many instances, or on methodological approaches and differences between the studies. Hopefully much of this corpus will appear in the journals in the near future; thus allowing for more attention to detail that we can do here.

Our review is organised according to the type of risk management instrument. The following section examines savings, borrowing and insurance in turn. The final section highlights policy recommendations from the literature.

Review of South African Literature

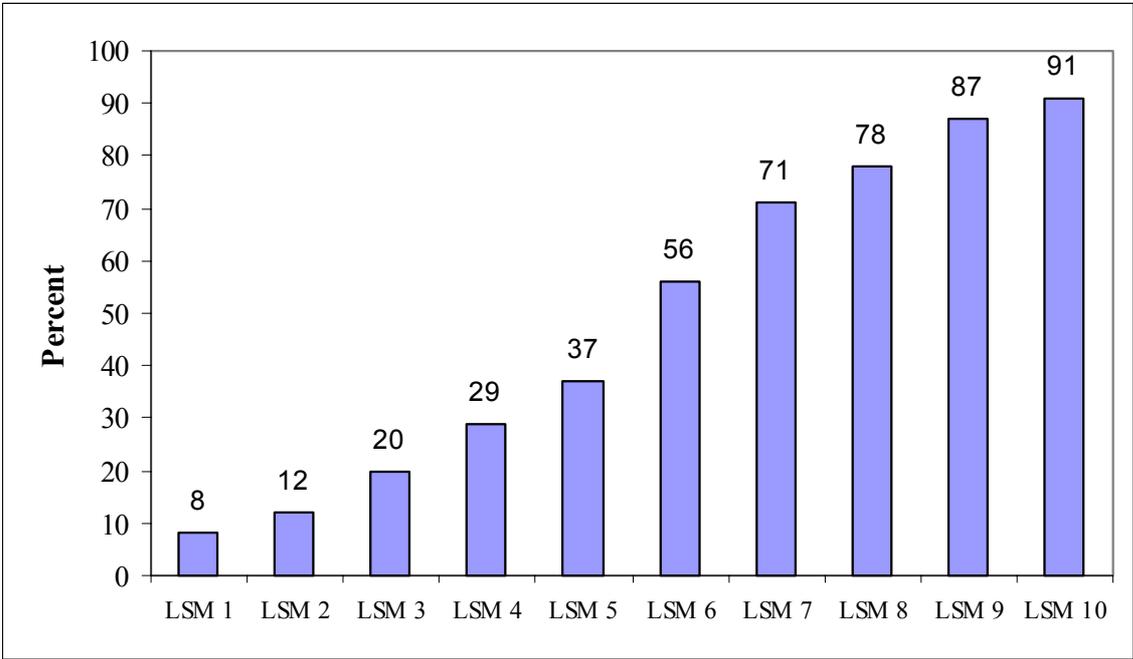
Savings

A number of studies document the exclusion of the majority of South Africans from formal banking services (Van der Ruit 2002, MFRC 2001, Dallimore 2003, Dallimore and Mgimeti 2003, Porteous 2003, Ardington 1999, Nigrini 2001). Access to commercial banks is generally limited to salaried workers (most commercial banks require a payslip in order to open an account) excluding the poor, the unemployed, self-employed and informally employed. Figure 1 below presents estimates of the percentage of South African households in each *Living Standard Measurement* (LSM) category with any bank account based on AC Nielsen's 2002 *Futurefact Marketscape Survey* (Porteous 2003). The LSM is a wealth measure based on standards of living rather than income and is based on an index of possessions and socio-economic characteristics. Access to bank accounts differs vastly across the LSM categories. Only 8% of households in the lowest LSM category had any bank account in contrast to 91% in the highest LSM category.

In 2001, an estimated 17,6 million South African adults were 'unbanked' with no form of basic bank account (Porteous 2003). The 'unbanked' are segmented into four distinct groups – economically active (32%), not economically active (41%), students (16%) and pensioners (11%). While the vast majority of the 'unbanked' are not employed, 21% of economically active individuals who do not have bank accounts work in full- or part-time formal employment. Females were more likely to be 'unbanked' (57%) than males (43%). There are marked racial differences in the percentage of adults who are 'unbanked'. Almost three

quarters (72%) of Africans were ‘unbanked’ as opposed to only 12% of Whites.

Figure 1: Percentage of adults with a transaction account by LSM



Source: AC Nielsen *Futurefact Marketscape Survey 2002* (adapted from Porteous 2003).

Porteous (2003) argues that one cannot simply examine the utilisation of financial services to assess the level of access to these services. Firstly, there may be people with access to a service who choose not to utilise that service. Secondly, there are a number of dimensions to access including physical access (distance to nearest service point), terms of the product offering (limits on certain types or sizes of transaction, requirements for access such as a payslip) and affordability. Based on an average user profile,¹ current low end bank products cost about R40 per month. Setting the affordability level for banking services at 2% of gross household income, Porteous (2003) calculated that all households below LSM 4, or 40% of the population, would not have access to banking services.

MFRC (2001) and van der Ruit (2002) provide an overview of the R13 billion micro-finance industry.² The bulk of the industry is commercial cash lending, most of which is consumption loans. Savings institutions include informal

¹ A typical monthly user profile is defined as two debit orders, two ATM withdrawals, one SASWITCH withdrawal and one statement request.

² MFRC (2001) define the micro-finance market as transactions on loans below R10,000 to poorer people. It is not clear what levels of savings are considered to be micro-finance.

savings clubs (stokvels), NGOs using village banking models, parastatals including the Post Office and the development bank, Ithala. Table 1 below presents a summary of the micro-finance savings market in South Africa.

Table 1: Summary of retail outreach in the micro-savings market in South Africa (1999/2000)

<i>Retail institutions</i>	<i>Source date</i>	<i>Savings Rm</i>	<i>Savings accounts</i>	<i>Outlets</i>	<i>Estimated % Rural</i>
Public sector		1,696	2,840,000	2,415	
Provincial parastatals	Jun-99	650	840,000	50	80
Post Office Outlets	Jun-99	1,046	2,000,000	2,365	35
Private sector		4,662	4,742,000	4,279	
NGOs	Dec-99	5		27	35
Village banks	May-00	2	3,000	60	100
Credit Unions	Apr-00	10	6,000		
Commercial Banks	Dec-99	4,000	4,000,000	4,000	33
TEBA Cash	Apr-00	600	700,000	172	40
Microenterprise focused	Dec-99	45	33,000	20	100
Informal sector		200	8,250,000	800,000	
Stokvels	Apr-00	200	8,250,000	800,000	35
Total		6,558	15,832,000	806,694	

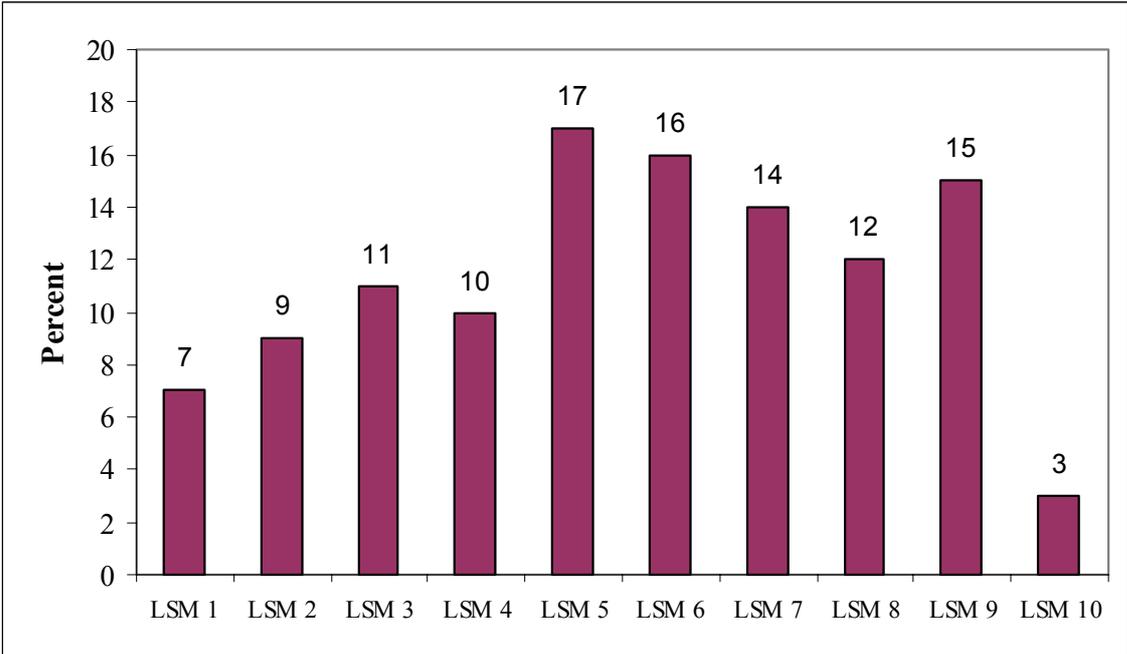
Source: Adapted from MFRC (2001:30).

Stokvels are an important informal savings mechanism in South Africa with an estimated 8,25 million members (MFRC 2001). Figure 2 below shows the percentage of adults who participate in stokvels across LSM categories. It is evident from the graph that stokvels are utilised as a savings mechanism across the wealth distribution. Sixty percent of stokvel members also have a personal bank account. Porteous (2003) views this as an indication that generally stokvels do not substitute for but rather complement formal financial services.

Statistics South Africa (2002) examined changes in household income and expenditure by comparing the 1995 and 2000 *Income and Expenditure Surveys* (IES1995 and IES2000). In 1995, an average of 2% of household expenditure went towards investments and savings (including savings through informal sources such as stokvels) and 2% towards pensions. In 2000, the average proportion of household expenditure on investments and savings increased to 4% and on pensions to 3%. There were distinct differences across the

expenditure distribution in the proportion of household expenditure spent on insurance, pensions, savings and investments. In 2000, only 1% of household expenditure in the bottom quintile went towards insurance, pensions, savings and investments as opposed to 11.9% in the top quintile. While there was an increase in the proportion of expenditure on insurance, pensions, savings and investments across all expenditure categories, the increase was much more significant for the upper two quintiles.

Figure 2: Percentage of adults participating in a stokvel by LSM



Source: AC Nielsen Futurefact Marketscape Survey 2002 (Adapted from Porteous 2003).

Ardington *et al* (2003) focused on who accesses financial alternatives rather than correlates of amounts spent. A benefit of this approach is that both a payment into and a withdrawal from a bank account count as an indication of making use of savings or insurance. Their findings are consistent with those of Porteous (2003) with very low utilisation of any savings in the lowest income categories. Access to formal bank savings rises from 9% in the lowest income decile to around 80% in the top decile. In each decile, there are only a limited number of households accessing stokvels. Access to stokvels is lowest for the bottom two deciles (3% and 5%, respectively) and the top decile (6%).

The racial breakdown of the percentage of households with savings is predictable given the differences across income deciles. Whites have far higher access to formal bank savings (73%) than Africans (33%). This difference is also stark for investments (28% compared to 3%) and private pensions (76%

compared to 28%). Stokvels are predominately accessed by African households, however, only 9% of African households report saving in stokvels.

Ardington *et al* (2003) then conduct a multivariate analysis to examine the impact of a range of socio-economic and demographic variables on utilisation of various forms of savings. The probability of utilising all forms of savings increases with income. Indian and Coloured households are less likely than White or African households to utilise savings. Controlling for income, race and other household level variables, having an employed household member increases the probability of utilising any savings by 8.4%. While rural urban differences are insignificant for other forms of savings (pensions, investments and stokvels), rural households are significantly less likely to utilise formal bank savings pointing to the lack of formal banking services in rural areas. They find strong evidence of complementarities within financial access; those households who access one form of savings institution tend to access other forms of savings and insurance and borrowing institutions. Households without access to one form of financial institution tend to be without access to any form. Consistent with assertions by Porteous (2003) and Ardington (1999) that stokvels are complements to and not substitutes for formal banking, they find evidence of complementarity with stokvels and other forms of savings.

Some households manage to save resources and self-insure to some degree by spending less than they earn in certain periods. This form of savings is not necessarily detected by looking at a household's use of savings institutions. Ardington *et al* (2003) created an income-expenditure index for each household to examine these savings. They found that Africans, Coloureds and Indians have higher savings indices and are, therefore, saving relatively more than Whites once one controls for income, location and other household characteristics. However, these savings indices declined for both Africans and Whites between 1995 and 2000 implying a reduced ability for most households to self-insure against contingencies and an increased need to borrow.

Access to formal financial services for South Africa's rural population, especially the rural poor is virtually non-existent (Dallimore and Mгимети 2003, van der Ruit 2002, Nigrini 2001, Ardington 1999). Using information supplied by the banks, building societies and the Post Office, Ardington (1999) conducted a physical survey of financial facilities in KwaZulu-Natal. The survey revealed whole magisterial districts without any banking facilities and large tribal wards without even one post office. Furthermore, these studies suggest that rather than a widening of the scope of services by state and commercial enterprises, there has been a contraction of provision particularly in rural areas. "It is estimated that whereas in 1995 approximately 50% of the

South African population had easy access to commercial bank facilities, this number has declined recently to approximately 30 percent” (MFRC 2001: 34). “There has been a tendency in recent years for the range of services offered by rural post offices to be restricted or cut back so that today it is unlikely that a post office in an area where there are no commercial banks offers any significant financial services” (Ardington 1999: 10). Consolidation of the banking sector, advances in technology and the privatisation of state enterprises will likely see the continued contraction of provision of services in rural areas.

In their case study of four Village Banks, Dallimore and Mgimeti (2003) held a number of focus group discussions around access to financial services. The discussions highlighted the exclusion of the rural poor from formal financial services: services are virtually non-existent in rural areas; long distances and high transport costs prohibit poor rural people from using commercial banks; commercial banks exclude the unemployed, self-employed and informally employed by requiring a salary slip to open an account; and commercial banks often require a minimum balance to be kept, excluding people who do not have the resources to maintain this balance.

Village Banks are co-operatives that are owned, financed and managed by rural communities. Through linkages with a commercial bank, the Village Bank is able to offer a range of services including savings accounts, term deposits, transfers of social grants, loans and funeral insurance. Village Banks are essentially community-based intermediaries acting as a link between rural communities and the formal financial sector. To date, there are 29 Village Banks operating in South Africa. According to Nigrini (2001), there is no information available to form an opinion on the financial sustainability of Village Banks. Although the infrastructure is still in the process of development and there is no clear information on the sustainability of these banks, Dallimore and Mgimeti (2003) recommend that Village Banks “be further encouraged and supported to grow and develop within South Africa.” They conclude that “Village Banks offer a vital service of providing financial services in poor remote areas which are not likely to be serviced by commercial banks” (Dallimore and Mgimeti 2003: 7).

The results of the household survey comparing Village Bank households with commercially banked and unbanked households show clear distinctions between the three types of households (Dallimore 2003). Commercially banked households enjoy the highest welfare levels in terms of a wide range of indicators. Unbanked households had the lowest annual income, lowest value of assets, highest percentage of female heads and the greatest share of school aged

children not attending school.

Two thirds of all respondents had saved money in the last year. Respondents were asked to list all of the various ways in which they had saved. The most common response was a bank account (49% of the responses), followed by stokvel (28%) and hidden in the house or property (15%). Most respondents were saving for food (31%), emergencies (15%) and school expenses (14%). Use of savings was the most common coping strategy adopted for the “death of a household member” (44% of respondents) and for “serious injury or illness” (22% of respondents).

Using a poverty index based on range of variables such as food security, dependency ratios, education levels, household structure etc., Dallimore (2003) found that for all three types of household there was a relationship between decreasing poverty and increasing savings. In the linear regression on the household poverty index by *per capita* savings, the coefficient for Village Banks was almost three times larger than the coefficients for unbanked and commercially banked households. This indicates that savings within Village Bank households make a greater contribution towards decreasing poverty levels than in the other two household types.

In her survey of 180 households in rural KwaZulu Natal, Ardington (1999) found that although there were no banks or post offices in the entire tribal ward, 82.2% of households had at least one member with a bank or savings account and 10% of households contained at least one individual who had a post office savings account. The nearest post office and bank were 26km and 58km away respectively. Of individuals in the economically active age group (16 to 64 years old), 29.4% had a bank or savings account. The employed were most likely to have accounts (80.5% of employed individuals had a bank or savings account). Non-residents were twice as likely (47.4%) to have a bank or savings account as residents (23%).

Ardington (1999) found that those with bank or savings accounts had higher levels of involvement in other financial services. Table 2 below shows the percentage of individuals who belonged to a stokvel, had formal credit or were party to a hire purchase agreement. Ardington (1999) concludes that “it appears that access to a bank account is more likely to facilitate the account holder’s access to hire purchase and stokvel membership, than membership of a stokvel is to be the source of savings and credit for people who don’t have access to formal technology and banking” (Ardington 1999:23).

Table 2: Comparison of individuals with and without bank or savings accounts

	<i>All individuals</i>	<i>Individuals with bank or savings accounts</i>
Stokvel	4.8%	17.1%
Formal credit	1.6%	7.4%
Hire purchase	8.4%	37.2%

Source: Adapted from Ardington (1999).

“The negative impact of the absence of financial services in the area is illustrated by the fact that three quarters of respondents referred to the absence of banks when asked what problems the residents of Ntuli ward experienced” (Ardington 1999: 23). An absence of financial services in the area is not only costly in terms of transport and time but it prevents any money, such as social grants and government employees’ salaries, from being spent locally. The only significant and physical source of cash in the area was at the pension pay points for one day a month. Ardington (1999) found that most of this cash changed hands at the markets surrounding the pension pay points with the majority of vendors being outsiders who follow the pension pay points. Local storekeepers loose out to these vendors who have wider and fresher stock.

Borrowings

While the commercial banks do not offer savings or credit facilities to the majority of South Africans, there has been phenomenal growth in the micro-lending sector since financial liberalisation in the early 1990s. Table 3 below summarises the micro-lending market in South Africa. The small loans industry and retail stores dominate the micro-lending market, with commercial banks playing a very small role. Furniture sold on credit is responsible for the bulk of the retail stores loans. The furniture industry is a R15 billion industry per year with around two-thirds being sold on credit (MFRC 2001). Informal lenders include stokvels and mashonisas (informal money lenders). MFRC (2001) estimates that there are between 25,000 and 30,000 mashonisas charging interest rates in the range of 50% per month.

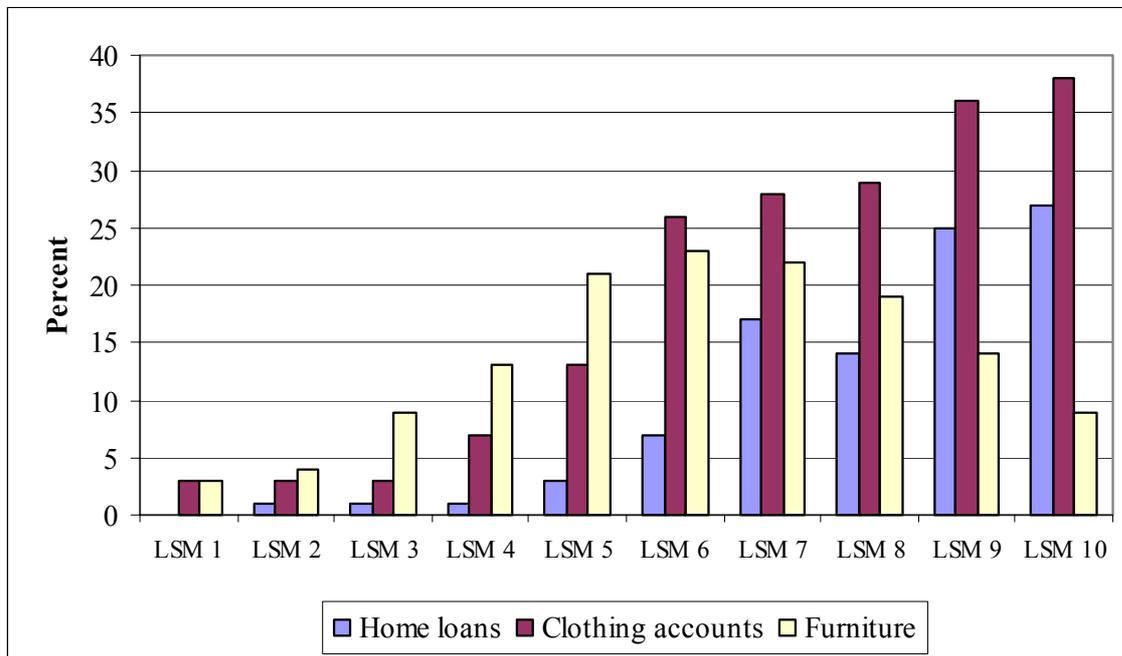
Table 3: Summary of retail outreach in the micro-lending market in South Africa (1999/2000)

<i>Retail institutions</i>	<i>Source date</i>	<i>Loans Rm</i>	<i>Loan accounts</i>	<i>Outlets</i>	<i>Estimated % Rural</i>
Public sector		320	65000	75	
Land Bank	Mar-00	20	30,000	25	80
Provincial parastatals	Jun-99	300	35,000	50	80
Private sector		12,591	7,975,580	15,944	
NGOs	Dec-99	80	50,000	27	35
Credit Unions	Apr-00	9			
Co-operatives	Dec-99	7		25	80
Commercial Banks	Dec-99	25		4,000	33
Retail stores	Apr-00	5,000	2,173,913	1,000	35
TEBA Cash	Apr-00	130	86,667	172	40
Microenterprise focused	Dec-99	40	65,000	20	100
Registered small loans industry	Apr-00	7,000	5,600,000	5,700	35
Pawn Brokers	Apr-00	300		5,000	35
Informal sector		400		825000	
Mashonisas	Apr-00	150		25,000	35
Stokvels	Apr-00	250		800,00	35
Total		13,311	8,040,580	841,01	

Source: Adapted from MFRC (2001).

There is a diverse range of credit products available to households ranging from informal family loans to home loans with commercial banks. Figure 3 below shows the distribution of various credit products across LSM categories. It is evident that home loans have had very little penetration outside of the predominately urban middle to upper income categories LSM7-10 (top 20 percent of the population). Retail credit, in particular furniture accounts, has penetrated much further. “This is in part because the product financed is itself the collateral for the loan under an installment sale or hire purchase agreement” (Porteous 2003: 4).

Figure 3: Adults with home loans, clothing and furniture accounts by LSM



Source: AC Nielsen *Futurefact Marketscape Survey 2002* (Adapted from Porteous 2003).

Daniels (2001a, 2001b, 2003) uses the 1995 and 2000 IES in order to analyse levels of indebtedness (outstanding debt as a percentage of regular disposable household income) across income categories.

Table 4 below presents changes in the proportion of positively indebted households between 1995 and 2000 across the income distribution. Overall the proportion of positively indebted households increased from 15% of households in 1995 to 32% of households in 2000, an increase of over 100%. The proportion of positively indebted households increased for all income categories with increases of over 200% in the R5,000-R25,000 income categories and increases of over 100% for the R25,000-R75,000 income categories. Daniels (2003) views this as evidence of substantial financial sector deepening over the period 1995 to 2000.

Turning to positively indebted households, Daniels (2001a, 2001b and 2003) found that poorer households had lower levels of indebtedness relative to wealthier households in 1995 and 2000 which could “perhaps be partly explained by a lack of access to financial instruments in the formal banking sector ..., corroborated by low levels of collateral among the poor” (Daniels 2001a: 6). There is a particular racial distribution to indebtedness with Africans experiencing the lowest levels of indebtedness and Whites the highest levels of

indebtedness. Male headed households have higher levels of indebtedness than female headed households. There was significant variation across provinces with the Western Cape and Gauteng having the highest levels of indebtedness.

Table 4: Changing proportion of positively indebted households from 1995 to 2000

	<i>2000</i>	<i>1995</i>	<i>% Change</i>
Under R5,000	13%	7%	84%
R5,000 - R10,000	20%	6%	240%
R10,000 - R15,000	29%	8%	269%
R15,000 - R20,000	35%	10%	231%
R20,000 - R25,000	41%	12%	239%
R25,000 - R30,000	41%	16%	159%
R30,000 - R40,000	43%	18%	140%
R40,000 - R50,000	53%	21%	158%
R50,000 - R75,000	57%	26%	118%
R75,000 - R150,000	61%	32%	89%
Above R150,000	65%	40%	63%
Total	32%	15%	109%

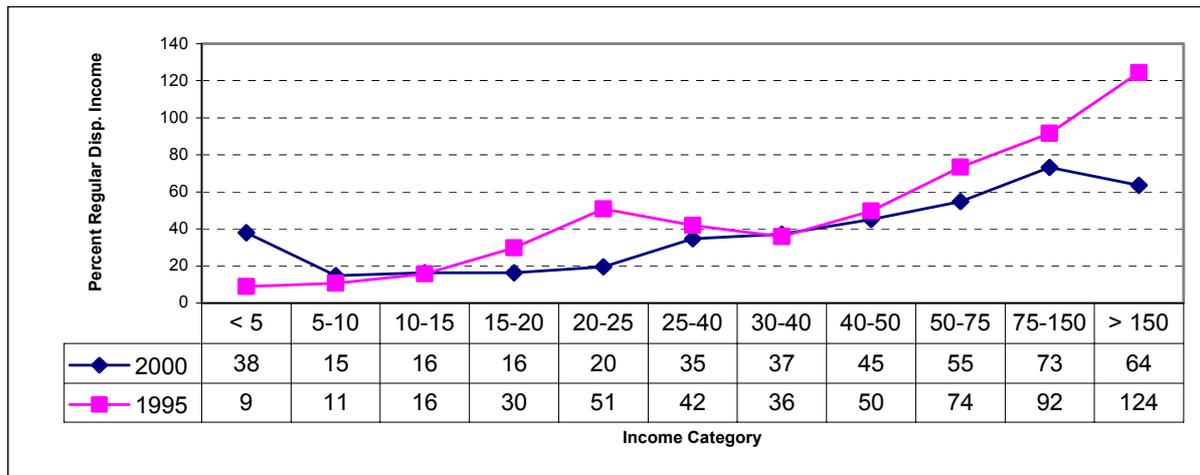
Source: Adapted from Daniels (2003).

Figure 4 below presents the changes in levels of indebtedness between 1995 and 2000 across the income distribution³. In the poorest income group, the mean level of indebtedness increased more than fourfold. Apart from the poorest two income groups, levels of indebtedness either decreased or stayed the same. The most significant decrease was in the wealthiest income group where levels of indebtedness halved.

While access to credit can improve a household's ability to smooth consumption and thereby reduce the household's vulnerability, over-indebtedness can be a source of vulnerability. Within a vulnerability framework, it is important not only to assess access to credit but also to differentiate debt incurred to smooth consumption from debt incurred to accumulate assets. The source of debt is also important as while the poor may have low levels of debt, the cost of servicing the debt may be very high.

³ As the mean levels of indebtedness per income category are particularly sensitive to outliers, Daniels (2003) censors the sample at the 99th percentile.

Figure 4: Total indebtedness per income category (in R'000s)



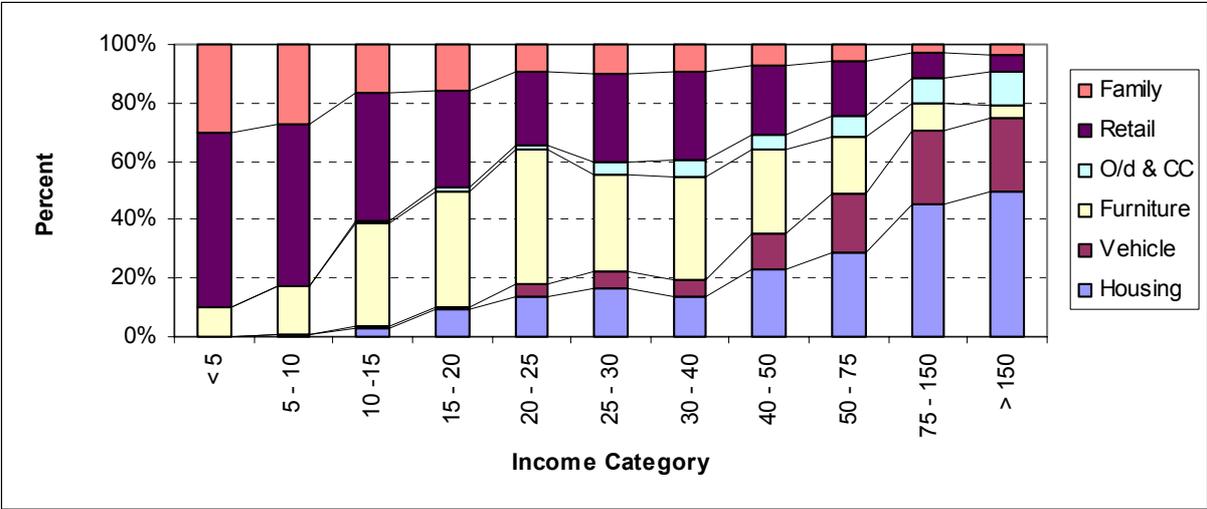
Source: Daniels (2003).

The MFRC (2001) summarises information on levels of indebtedness and evidence of over-indebtedness from a variety of sources. They identify clients as over-indebted if they are using loans to pay off other loans or allocating more than 25% of gross monthly income or 50% of net monthly income to loan repayments. The National Housing Finance Corporation surveys a sample of the clients of its retail lenders on an annual basis. Based on their 2000 sample of 599 rural and 800 urban households, they found that households repay loans to the value of 17% to 18% of their gross household income. This figure is an average for the whole sample and does not allow an identification of vulnerable households. The majority of households (93%) obtained their loans from moneylenders and only 10% obtained loans from banks. Between 15% and 22% of households used loans to repay other loans, indicating the existence of a potential debt spiral. In 1999, PostBank conducted a survey of 3,005 respondents across most of South Africa. The sample was biased towards lower income categories as the aim of the study was to examine the financial behaviour and use of financial institutions by the poor. They found that 16% of respondents were positively indebted. Banks (29%) and moneylenders (26%) were the main source of loans. A high percentage of loans were with friends (22%) and relatives (18%) indicating the importance of social capital and reciprocal transactions for poor South African households (MFRC 2001).

The PERSAL salary system which covers 49% of state employees (1,011,213 employees at February 2000) started collecting information on micro-loans a number of years ago. A comparison of indebtedness in July 1999 and February 2000 revealed that the percentage of people with micro-loans increased from 45% to 49% and the level of indebtedness of individuals with loans increased by 57% percent. The average number of loans per indebted person increased from

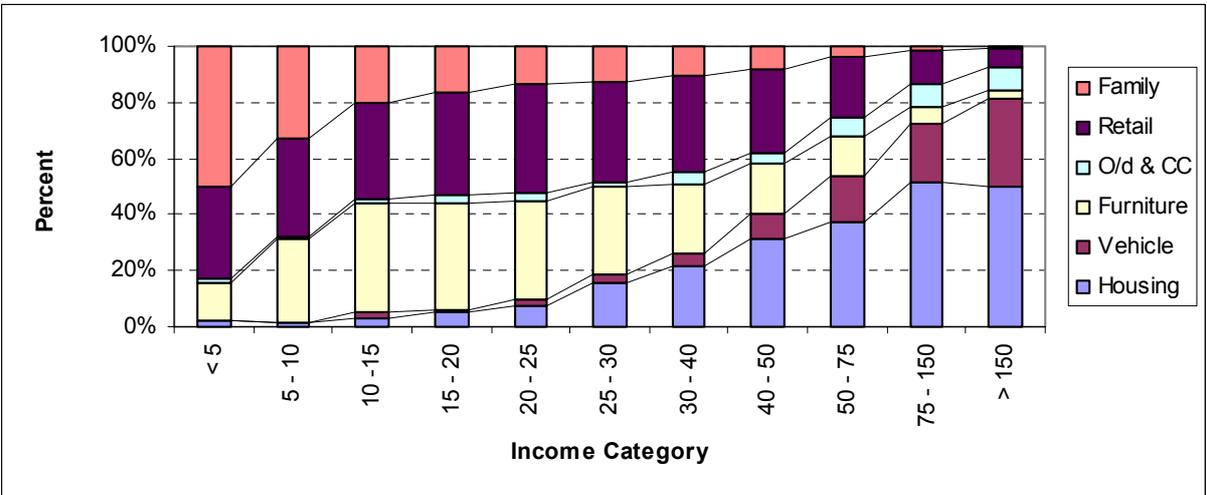
2 to 2.17 with some individuals having as many as 10 loans.

Figure 5: Debt schedule 1995 by income category (in R'000s)



Source: Daniels (2003).

Figure 6: Debt schedule 2000 by income category (in R'000s)



Source: Daniels (2003).

Examining sources of debt, Daniels (2003) finds that the debt profile differs vastly across the income distribution. Figures 5 and 6 above present the percentage of outstanding debt attributed to various sources in 1995 and 2000. In the lower income categories debt was primarily sourced from furniture stores, retail institutions and family implying that poorer individuals were incurring substantial amounts of debt at high interest rates on consumables, rather than assets. At the top end of the distribution, debt is procured primarily for the accumulation of assets, i.e. housing and vehicles. In the poorest two income

groups, there are substantial changes in the sources of debt. Family loans increase from approximately 25% to 50% while retail sector loans decrease.

Daniels (2001b and 2003) then identifies groups that are vulnerable to over-indebtedness by analysing levels of indebtedness together with household dissavings (or liquidity). Findings suggest that households in the R10,000-R25,000 and the over R150,000 categories were the most vulnerable in 1995. Daniels (2001b) examines the patterns of consumption and the type of debt in an attempt to understand why these households were vulnerable. Households in the R10,000-R25,000 category were characterised by a large proportion of debt procured from furniture stores together with a large proportion of total consumption devoted to basic needs expenditure. Households in the over R150,000 income category were deemed vulnerable as they had the highest levels of indebtedness and the lowest levels of liquidity. These households had large levels of outstanding debt devoted to housing combined with greater relative exposure to overdraft and credit card facilities. As the majority of their debt was incurred for the accumulation of assets and these assets could be turned back into income should the need arise, this group is less vulnerable than their levels of indebtedness and liquidity indicate.

Tracking changes in consumption and debt between 1995 and 2000, Daniels (2003) finds that households in the both the R10,000-R25,000 and the over R150,000 category were no longer vulnerable. The poorest households in the R0-R5,000 category and households in the R75,000-R150,000 category were considered vulnerable in 2000. For the poorest group, there was an increase in furniture (hire purchase) loans and bank overdrafts and credit cards over the period 1995 to 2000. There was an increase in housing loans and retail debt for households in the R75,000-R150,000 category.

Ardington *et al* (2003) found that racial differences were less pronounced for indebtedness than for savings and insurance and while the percentage of indebted households increased with income, the increase was not as sharp as for savings and insurance. Controlling for race, income and other household characteristics, having an employed household member increased the probability of being indebted by 9.3%.

While the differences across the income distribution were slight for overall debt, marked differences are apparent when examining different sub-categories of debt. The percentage of households borrowing from formal sources (commercial bank or government) increases with income while informal debt (family loans, moneylenders, stokvels) is important across the income distribution. Retail and furniture and appliances debt (presumably hire-purchase) also increases across

the income distribution but less sharply. The penetration of retail debt into the lower income categories and the importance of furniture and appliances debt in the middle income categories are evident.

Similarly, clear racial distinctions emerge when examining different types of debt. More than half (53%) of White households have formal debt as opposed to only 7% of African households. Furniture and appliances debt (presumably hire-purchase) and family loans are least important for White households. More Coloured households have furniture and appliance debt than any other race group and African households are the most likely to borrow from informal sources.

Comparing sources of debt across 1993 and 1998, Rasmussen (2002) found that while the percentage share of households with debt remained fairly constant at around 42%, the sources of debt changed considerably. She found that the percentage of households that owed money to formal financial institutions went from 36% in 1993 down to 29% in 1998. The percentage of households with informal debt increased from 13% in 1993 to 21% in 1998. The most common source of debt in both years was relatives and friends. As the 1993 survey asked for the total amount of outstanding debt and the 1998 survey for the initial amount of the debt, no comparison on levels of indebtedness was conducted.

If a household is not positively indebted, it is not necessarily an indication of financial exclusion - it may simply indicate a lack of need. Rasmussen (2002) considers households to lack access to finance if they either borrowed in the last 5 years and were not able to borrow as much as they wanted or they did not borrow in the last 5 years but expected that they would not have been able to borrow as much as they wanted. Rasmussen (2002) found 69% of households to lack access to finance (banks, stokvels or mashonisas) according to her definition. Importantly, 80% of households did not have access to banks, which were the only source of finance that offered loans of a Rand value above average monthly income.

As the surveyed households were largely constrained from accessing financial resources, we would expect their ability to smooth consumption over their lifetime and in the face of negative shocks would be limited. Rasmussen (2002) examined income and expenditure levels across the age of the head of the household for households with and without access to finance. She found no evidence of the ability of households to smooth consumption as the gap between income and expenditure exhibited no real difference across ages of household head. She also found that there were no differences in the incomes of households with and without access to finance across ages of household head.

Access to finance did however have an impact on household expenditure. Households with access to finance had higher expenditures than households without access to finance for all ages of the household head. Rasmussen (2002) argues that “this is in line with the reasoning of the theory of precautionary behaviour in that households without access to finance have to maintain a lower level of consumption to keep sufficient resources in case the household in the future is hit by a shock and cannot borrow to overcome the effects of that shock” (Rasmussen 2002: 611).

Analysing the relationship between household characteristics and access to finance, Rasmussen (2002) found that female headed households were less constrained in accessing loans from stokvels than male headed households; the poor and ultra-poor were experiencing no more constraints than the non-poor in accessing finance; households in rural areas had less access to banks and mashonisas whereas households in the city had better access to all three types of finance; households that depended on casual wage income had less access to all types of finance whereas households that depended on passive transfers (government grants and remittances) had better access to banks and mashonisas.

Rasmussen (2002) found that very few households borrowed in order to cope with negative shocks. The questionnaire, however limited the sources of borrowing to stokvels and mashonisas and so the results are not indicative of the extent of borrowing as a coping strategy.

Turning to access to finance, Rasmussen (2002) found that when controlling for the poverty status of the household in 1993, access to finance enabled households to lower the probability of living in poverty after a shock by up to 10 percentage points. She found that this effect was more or less constant across the poverty status of the households in 1993. Lack of access to finance also increased the probability of selling assets or taking kids out of school in order to cope with a negative shock. Both of these are short-term coping actions which can lead to increased deprivation in the long-term.

While one of the primary aims of the Village Banks is to establish a community capital base for members to access loans, the infrastructure for making loans is not yet developed in all of the banks. In their case study of four Village Banks, Dallimore and Mгимети (2001) found one bank offered small loans and another had just started offering loans to small business people. The banks encourage a discipline of repayment by incrementally increasing the sizes of loans on a successful repayment. Village Banks are in a unique position to offer loans as the “solidarity and trust that exist among members of the community as well as local knowledge, management and pressure decrease adverse selection and

moral hazard problems often associated with local financial intermediaries” (Nigrini 2001: 3). Dallimore and Mngimeti (2001) recommend that the infrastructure to offer loans be developed in all the banks as soon as possible as currently money saved in Village Banks is not being circulated and so represents a leakage from the local economy.

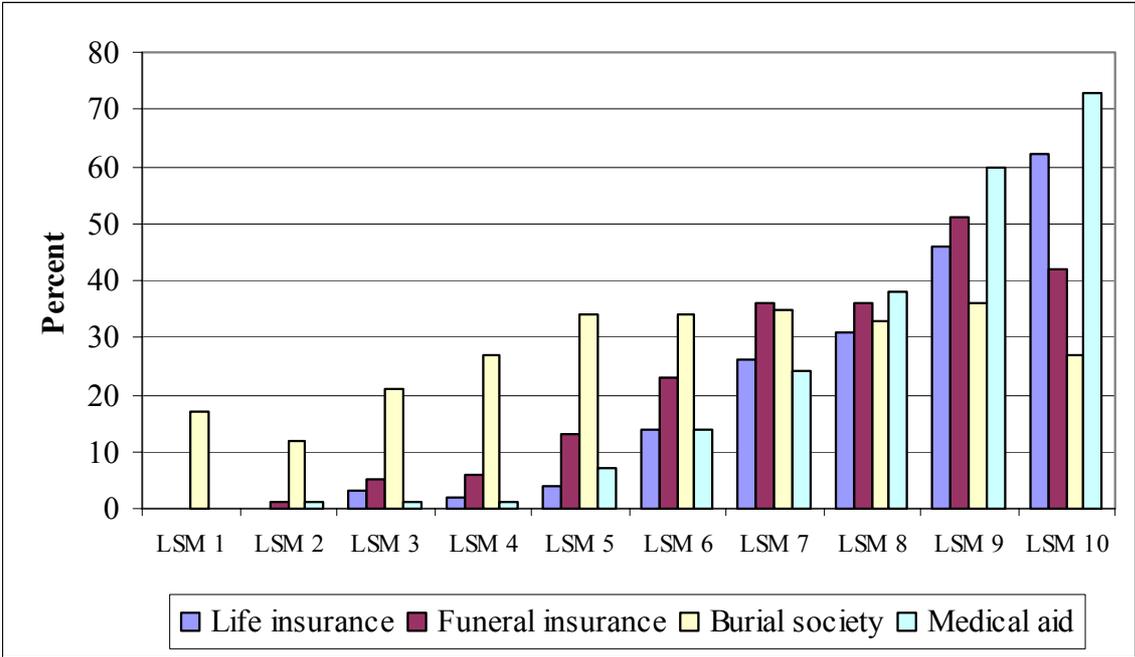
Dallimore (2003) found that just under half of the respondents indicated that they had borrowed money, food or goods in the previous 12 months. The most common sources of borrowing were from non-household relatives (37%), stokvels (25%) and neighbours (11%). Only 3% of respondents had borrowed from a bank and 9% from a money lender. Respondents were also asked whether they had purchased anything on credit or hire purchase and 17% of respondents indicated that they had. The average value of total debt was highest for commercially banked households (R3,758), then Village Bank households (R1,102) and finally unbanked households (R561). Only 10% of households mentioning borrowing money as a coping strategy for the “death of a household member”, while 24% of households borrowed money to cope with serious injury or illness.

Ardington (1999) found that with no access to financial institutions in the area, the incidence of borrowing was very low. Only 1.6% of respondents had formal credit. Hire purchase was a more important source of credit with 8.4% of respondents involved in hire purchase agreements. There was little evidence of informal credit outside of stokvels and no money lenders were evidenced at the pension pay point.

Insurance

Life assurance and medical aid schemes are large established industries in South Africa with the total annual value of benefits paid out on a par with the publicly provided social security system. Aliber (2001) points out that these benefits are racially skewed and do not accrue to the poor. White households accounted for almost two-thirds of all personal insurance cover in 1995 while they only made up about 16% of all households. Figure 7 below shows the percentage of adults in each LSM category with medical aid, life insurance, funeral insurance and burial society membership. While 38% of adults report using at least one type of life insurance, funeral insurance or membership of burial society, it is clear that only burial societies have significant penetration below LSM 6. Short-term insurance is held by little over 10% of adults; the majority of whom are in LSM 8 to 10 (Porteous 2003).

Figure 7: Percentage of adults with life insurance, funeral insurance, burial society membership and medical aid by LSM



Source: AC Nielsen Futurefact Marketscape Survey 2002 (Adapted from Porteous 2003).

Ardington *et al* (2003) found that an African household is about 29% less likely than a White household to purchase insurance. Coloured households are about as likely as Whites to purchase insurance. Indian households are about 16% less likely than Whites to purchase insurance. Conditional on race and other demographic variables, a higher income is associated with increased utilisation of insurance. Having a working household member increases the probability of purchasing insurance by about 8%. As with savings and debt, they find evidence that insurance is a complement not a substitute for other financial options.

Examining specific forms of insurance, they find that unlike other types of insurance, after controlling for income and other demographic variables, Africans households are more likely to purchase funeral insurance than are White households. The strongest racial effect is that of Coloured households. Relative to White households, Coloured households are 41% more likely to purchase funeral insurance. Like other types of insurance, higher *per capita* income is associated with greater likelihood of purchasing funeral insurance but the magnitude of the coefficient on income is much smaller than for other types of insurance. Unlike other types of insurance, rural households are more likely to purchase funeral insurance. Funeral insurance appears to be complementary to other types of insurance. Surprisingly, this effect is especially large and strong with respect to life insurance.

While the low-income market is typically under-serviced by the formal insurance industry, micro-insurance and informal insurance are important sources of risk management instruments for low income households in South Africa. The ESKOM consumer survey of 1998 estimates that 6.5 million South Africans are members of burial societies (MFRC 2000). Porteous (2003) estimates burial society membership at 7.4 million in 2001/2002. Thompson and Posel (2001) estimate burial society membership at around three million. While estimates vary, it is clear that burial societies in particular are an integral part of the risk management strategies of low income households in South Africa. The collapse of these traditional support systems in the face of serious covariate shocks such as famine is well documented (Dercon 2001:6). These networks are likely to come under increasing pressure in South Africa due to the growing AIDS pandemic. The impact of the AIDS pandemic on social capital needs to be incorporated into any assessment of vulnerability.

Maluccio *et al* (2000) used the KIDS survey to examine the effect of social capital on household expenditure. There was an increase in the membership of all groups, with the percentage of households belonging to financial groups (burial societies and stokvels) in particular increasing from 27% in 1993 to 54% in 1998. They constructed a measure of social capital based on group membership, how well the group performs and how actively the household participates. Taking into account various household characteristics, social capital had no effect on *per capita* expenditure in 1993, but had a positive and significant effect in 1998. They found their results were the same when only considering financial groups.

Rasmussen (2002) found that very few households used insurance as a coping mechanism for a shock. Less than 3% of households had used insurance when faced with the “death of a household member” and less than 2% for each of “serious injury or illness”, “loss of regular employment” and “theft, fire or destruction”. Rasmussen (2002) examined the effect of the range of coping strategies adopted on the probability of living in poverty in 1998. Controlling for household expenditure in 1993, she found that “only the use of insurance schemes shows very clear beneficial effects but only for the better off households as no data points were available for poorer households” (Rasmussen 2002:79). The use of insurance as a coping strategy showed a statistically significant impact on prohibiting households from falling into poverty and on assisting households in moving out of poverty.

Summary of Key Findings and Policy Implications

While South African households across the income distribution save and borrow, for poorer households, currently, these financial interactions often take place outside the formal matrix of savings, lending, and insurance institutions. In the bottom deciles of the income distribution, the vast majority of households are excluded from formal financial services. Poor rural households in particular are excluded from the formal banking system. Indeed, there appears to have been a contraction of access to formal savings in rural areas over the past decade which, in the reviewed literature, was attributed to pressures for profitability, technological advances, security concerns and privatisation.

All of this is manifested in the fact that there were distinct differences across the expenditure distribution in the proportions of household expenditure spent on insurance, pensions, formal savings and investments. A particularly pernicious aspect of this process is that there is strong evidence of complementarities within financial access; those households who access one form of savings institution tend to access other forms of savings and insurance and borrowing institutions. Households without access to one form of financial institution seem to be without access to any form. While there is some evidence of financial sector deepening over the past decade, largely due to the growth of the micro-credit sector, many poor South African households still do not have access to any formal financial services. In addition, this broadening of access to debt financing is also off a very low base in 1995. Therefore, it appears that established financial institutions have not diversified their client base into the lower deciles in the post-apartheid period.

Even more traditional options such as stokvels have not opened up options for the poor. Stokvels are accessed primarily by Africans and by those in the rural areas. However, the reviewed literature consistently shows that these access rates are very low across all income deciles. Furthermore, while stokvels are accessible to households in the middle of the income distribution, they do not appear to be accessible to households in the bottom deciles. Not only are there strong complementarities within formal financial services, informal services such as stokvels complement rather than substitute for formal financial services. The literature review suggests that one of the key mechanisms leading to this outcome is that those outside of employment cannot open bank accounts or buy insurance or take a loan. The presence of an employed member in the household was seen to be important for utilisation of all forms of financial options even after controlling for income and other demographic variables (Ardington *et al*

2003).

The single exception to this general lack of financial access appears to be funeral insurance. Such insurance has large penetration across races and across the income distribution. It is by far the largest and often the only form of insurance purchased by households in the bottom deciles of the income distribution. The literature review suggests that much of this insurance is not purchased through formal funeral insurance policies but rather through membership of burial societies. Thus, this certainly provides an example of the fact that there is a demand for insurance in poor households and that a combination of formal and community institutions have evolved to meet this demand.

The above discussion implies a formal financial services market that has been rather static since 1994. However, there have been some important developments. The reviewed literature points to the phenomenal growth of the micro-lending industry and the use of hire-purchase options. Thus, there is evidence of the emergence of important new institutions in the financial services market. The growth of the micro-lending industry has improved access to financial services with the number of positively indebted households more than doubling over the period 1995 to 2000 (Daniels 2003). Interestingly, the levels of indebtedness among positively indebted households decreased within each income category over this period. While access to credit can reduce a household's vulnerability by improving their ability to smooth consumption, over-indebtedness can lead to increased vulnerability. The literature review suggests that very poor and top end households are both vulnerable to over-indebtedness although the composition of such debt varies a lot between these two groups. Households at the bottom hold the highest share of their debt as family loans while, for those households at the top, the highest share is due to home loans.

This literature review has shown the centrality of household income in determining access to financial institutions. This is hardly surprising given that financial service providers are private sector companies to whom issues of collateral and the ability of their customers to pay premiums or to service debt are key to their sustainability. The fact that lack of income drives a wedge between the demanders and the suppliers in the financial services market has a very general implication for government policy. To the extent that all government policies, whether or not they are directed at financial access, raise household incomes and increase formal employment, will serve to bridge the gap between the suppliers of financial services and the demanders. Clearly, this is particularly helpful to the extent that government policies are lifting really

poor households above key income threshold levels. These threshold levels appear to be daunting. Ardington *et al* (2003) show that access to financial services only begins to reach 50% of households in the 7th, 8th and 9th deciles, respectively, for savings insurance and debt. This implies that even a very successful, poverty-oriented matrix of macro and micro policies will not bring too many households into the ambit of the formal financial services market as currently constituted.

Somewhat in contrast to this, financial liberalisation and the lack of formal financial services for the lowest income deciles resulted in the phenomenal growth of the micro-finance industry in the 1990s. While access to credit can reduce a household's vulnerability by improving their ability to smooth consumption, over-indebtedness can lead to increased vulnerability. This double-edged sword is worthy of policy attention. The Micro Finance Regulatory Council (2001) and Daniels (2001a, 2001b and 2003) investigate over-indebtedness and identify vulnerable groups. However, because of data limitations, much of the research is exploratory. Unfortunately, this is another instance in which we just do not know enough or have insufficient data to draw out policy implications on these emerging markets. The MFRC (2001) in particular argues for the need for more information and further research before any policy proposals can be formulated. The MFRC (2001) suggests a comprehensive review from both the demand and supply side on at least an annual basis in order to put regulatory bodies and the state in a position to keep track of the provision of financial services to the poor.

The exclusion of the majority of South African households from formal financial services is important because the literature shows that poorer households are currently dependent on informal loans such as family loans to smooth consumption. Ardington *et al* (2003) show that to these households, lack of access to other financial services means less educational expenditures, less health expenditures and a higher probability of having gone hungry in the last year. The risk and vulnerability framework presented at the beginning of this paper warns that these are the worst kinds of sacrifices because they involve reduced investment in the human capital of household members and therefore a reduction in the medium- to long-term capacities of that household to improve its situation.

Thus, there has to be a discussion of how to change the workings of the private sector financial services market in such a way that this market begins to help those who are most in need of help in order to smooth consumption and to cope with shocks. The *Financial Sector Charter* is the result of such a discussion between government and the financial sector. The Charter commits signatories

to substantially increase effective access to retail financial services but does not elaborate on the current market failures or how best to alleviate them. Unfortunately, as noted a few times in this paper, the available data do not provide information on the workings of the suppliers of financial services. As a consequence, aside from flagging the importance of understanding and addressing these market failures, there is little that we can say about their nature and what can be done to alleviate it. These limitations aside, a number of policy options to increase access to formal financial services for poorer households, particularly in rural areas, are worth exploring.

Ardington (1999) investigates rural access in detail using the example of pension payments in rural areas. She highlights the negative impact of an absence of financial services in rural areas and the stifling effect of dedicated services, such as the exclusive delivery of state grants, on the development of general rural financial services. “Although cash is provided monthly into the furthest corners of the countryside it is only pension money that is paid out and only pensioners who receive it. The pensioners do not obtain access to any other monies and the non-pension part of the rural community does not obtain access to any cash or any other financial service” (Ardington 1999:2). Furthermore the once-off nature of pension days means that cash is only available for one day per month with the bulk being spent at the pension pay point markets where the majority of vendors are outsiders.

Ardington (1999) argues that instead of private contractors being paid for the dedicated service of providing social grants in remote areas, the contracts should be offered to commercial banks, co-operative banks and organisations like the Post Office. If the state undertook to pay all social grants and civil service salaries into accounts, banks may be able to recover costs and extend a full range of financial services to the entire community. In areas where the commission on transfers and withdrawals was not adequate to sustain banks the state might consider special subsidies. “The commission saved on the current and future cash payment of grants would go a considerable way towards covering the costs of the necessary infrastructure for facilities providing a comprehensive range of financial services to the entire rural population” (Ardington 1999:29). Alternatively, Ardington suggests that the acquisition of a banking license could be made dependent on a certain level of services being provided in unserved and under served rural areas.

A recent newspaper article reported on two pilot projects where the Department of Welfare was working together with commercial banks to provide bank accounts to pensioners in the Eastern Cape (Khuzwayo 2003). According to the Intergovernmental Fiscal Review, it costs between R16.73 and R31.50 to

administer each social grant. For each account opened, the Department of Welfare will pay the bank R13.50 per month. The pensioner will be entitled to two free withdrawals a month and any further transactions will attract normal charges. While the scheme is voluntary and will initially focus on urban areas, the Department of Welfare is encouraging the banks to open pay points in all areas where pension beneficiaries live.

A number of Village Banks also allow state old age pensions and disability grants to be paid directly into individual Village Bank accounts (Dallimore and Mгимети 2003, Ngrini 2001). Commissions from government for administering social grants could be used to subsidise the growth and development of Village Banks across South Africa. If Village Banks are truly able to link rural communities with the formal financial sector, then an assessment of the sustainability of the Village Bank model seems to be urgent.

We conclude with a few points about insurance. Critical issues around affordability and sustainability have limited poorer South African household's access to the formal insurance industry. A lack of understanding about risks in the low-income market together with an inability to affordably manage the risks of adverse selection, moral hazard and fraud inhibit formal insurers from servicing the low-income market.

International experience has shown that innovative partnerships between the state, the private sector and community-based organisations can extend insurance provision into low-income communities. The Indian government, for example, has worked together with commercial insurers and co-operatives to broaden access to insurance products. In 1988, the Indian government founded a Social Security Fund. The fund provides financing to insurance companies to subsidise premiums for insurance policies offered to social organisations or cooperatives working with certain occupational groups or poor communities in the informal economy (International Labour Office 2001). The fund has enabled the Life Insurance Corporation of India to halve life insurance premiums and more than two million poor Indians to have subsidised life insurance policies. In South Africa stokvels, burial societies and Village Banks are natural community partners for such a scheme. The decentralised management and ownership structure of these organisations decreases the risks of adverse selection and moral hazard associated with insurance provision in the low-income market.

References

ALIBER, M. (2001) “Study on the incidence and nature of chronic poverty and development policy in South Africa: an overview”, *Chronic Poverty Research Centre Background Paper*, No. 3, Institute for Development Policy and Management, University of Manchester.

ARDINGTON, C., LAM, D., LEIBBRANDT, M. AND LEVINSOHN, J. (2003) “Savings, Insurance and Debt over the Post-Apartheid Period”. Report for the Office of the Presidency.

ARDINGTON, E. M. (1999) “Demand or Support: What counts in rural finance? A case-study based on Mbongolwana KwaZulu Natal”, *Research Report*, No 26, School of Development Studies, University of Natal-Durban.

BANKING COUNCIL OF SOUTH AFRICA (2003) “Financial Sector Charter”, see www.banking.org.za/Downloads/Charter_Final.pdf

BOOYSEN, F., BACHMANN, M., VAN RENSBERG, H.C.J., ENGELBRECHT, M., STEYN, F. AND MEYER, K. (2002) “The Socio-Economic Impact of HIV/AIDS on Households in South Africa: Pilot Study in Welkom and Qwaqwa, Free State Province”, Centre for Health Systems Research and Development, University of the Free State.

BROWN, W. AND CHURCHILL, C. (1999) “Providing Insurance to Low-Income Households Part I: A Primer on Insurance Principles and Products”, *Microenterprise Best Practices*, Development Alternatives, Inc., Bethesda, Maryland, (<http://www.mip.org/pubs/mbp-def.htm>).

BROWN, W. AND CHURCHILL, C. (2000) “Insurance Provision in Low Income Communities Part II: Initial Lessons from Micro-Insurance Experiments for the Poor”, *Microenterprise Best Practices*, Development Alternatives, Inc., Bethesda, Maryland, (<http://www.mip.org/pubs/mbp-def.htm>).

DANIELS, R.C. (2001a) “Consumer Indebtedness Among Urban South African Households: A Descriptive Overview”, *DPRU Working Paper*, No 01/55, Development Policy Research Unit, University of Cape Town.

DANIELS, R.C. (2001b) “Modeling Vulnerability to Over-Indebtedness among Urban Indebted Households in South Africa.”, Paper prepared for DPRU/FES conference on Labour Markets and Poverty, Johannesburg.

DANIELS, R.C. (2003) "Household Indebtedness in South Africa in 1995 and 2000", Draft Report to the Micro Finance Regulatory Council, HSRC, Pretoria.

DALLIMORE, A. (2003) "Savings versus Credit: Comparing Coping Strategies of Poor Households in Rural KwaZulu-Natal", Unpublished Report, Durban: Development Research Africa, February, 2003.

DALLIMORE, A. AND MGIMETI, M. (2003) "Democratic Banking in the New South Africa: Challenging Contemporary Banking Practices at Grass Roots" Unpublished Report, Durban: Development Research Africa, February, 2003.

DERCON, S. (2001) "Assessing Vulnerability to Poverty", Paper prepared for DFID, (see www.economics.ox.ac.uk/members/stefan.dercon/).

HOLZMANN, R. AND JORGENSEN, S. (1999) "Social Protection as Social Risk Management: Conceptual underpinnings for the Social Protection Sector Strategy Paper", *Journal of International Development*, 11, 1005-1027.

INTERNATIONAL LABOUR OFFICE (2001) "Women organising for social protection: The Self-employed Women's Association Integrated Insurance Scheme", International Labour Office, Geneva.

KHUZWAYO, W. (2003) "Social grants make banking sense", *Business Report*, 27 April 2003.

MALUCCIO, J., HADDAD, L. AND MAY, J. (2000). "Social Capital and Income Generation in South Africa, 1993-1998", *Journal of Development Studies*. 36(6): 54-81.

MAY, J. NORTON, A. (1997) "A Difficult Life": The Perceptions and Experience of Poverty in South Africa, *Social Indicators Research*, 41(1-3), July.

MFRC (2001) "Report on Impact of Credit and Indebtedness of Clients", Micro-finance Regulatory Council, Johannesburg.

MORDUCH, J. (1999a) "Between the Market and the State: Can Informal Insurance Patch the Safety Net?", *World Bank Research Observer*, 14(2), 187-207.

MORDUCH, JONATHAN (1999b) "The Microfinance Promise", *Journal of Economic Literature*, 37, 1569-1614.

MORGAN, P. (2004) “New law to bank the unbanked”, *Mail and Guardian* February 6 to 12 2004, 19

NIGRINI, M (2001) “Empowering poor rural villages through the provision of financial services by means of financial service cooperatives: A preliminary investigation into Financial Service Cooperatives in South Africa”, International Jubilee Conference of the Economic Society of South Africa, 13-14 September 2001, Glenburn Lodge.

PORTEOUS, D. (2003) “The landscape of access to financial services in South Africa”, *Labour Markets and Social Frontiers* No. 3, South African Reserve Bank, Pretoria.

RASMUSSEN, K. (2002) “Securing Consumption in Low-Income Households: An empirical study of coping with shocks amongst Black households in the KwaZulu-Natal Province of South Africa 1993-1998”, Unpublished Masters thesis, University of Copenhagen, Denmark.

STATISTICS SOUTH AFRICA (2002) “Earning and Spending in South Africa: Selected Findings and Comparisons from the Income and Expenditure Surveys of October 1995 and October 2000”, Pretoria.

TESLIUC, E. AND LINDERT, K. (2002) “Vulnerability: A Quantitative and Qualitative Assessment”, Guatemala Poverty Assessment Program, World Bank, Washington D.C.

THOMSON, R.J. AND POSEL, D.B. (2001) “Burial Societies in South Africa: Risk, Trust and Commercialisation”, Actuarial Society of South Africa Annual Convention.

VAN DER RUIT, C. (2002) “Micro-finance, Donor Roles and Influence and the Pro-poor Agenda. The Cases of South Africa and Mozambique”, *Research Report*, No 48, School of Development Studies, University of Natal-Durban.

WORLD BANK (2000) *World Development Report 2000/2001: Attacking poverty*, Oxford University Press, New York.

The Centre for Social Science Research

Working Paper Series

RECENT TITLES

Esson, R. 2003 *Savings and Savers: An Analysis of Saving Behaviour among Cape Town's Poor*. Cape Town. CSSR, Working Paper No. 59.

Seekings, J. 2004 *Institutional Design, Cultural Diversity and Economic Solidarity: A Comparison of South Africa, Brazil and Nigeria*. Cape Town. CSSR, Working Paper No. 60.

Seekings, J. Alexander, K. Jooste, T. Matzner, I. 2004 *The 2003 Cape Area Study (CAS3): A user's guide*. Cape Town. CSSR, Working Paper No. 61.

Subotzky, A. 2004 *Mapping bodies: Corporeal erasure and re-presentation in AIDS-related stigma*. Cape Town. CSSR Working Paper No. 62.

Piombo, J. 2004. *Political Institutions, Social Demographics and the Decline of Ethnic Mobilisation in South Africa 1994 - 1999*. Cape Town, CSSR Working Paper No. 63.

Vasquez, G. 2004. *Body Perception of HIV and AIDS: The Memory Box Project*. Cape Town, CSSR Working Paper No. 64.

The Centre for Social Science Research

The CSSR is an umbrella organisation comprising five units:

The Aids and Society Research Unit (ASRU) supports quantitative and qualitative research into the social and economic impact of the HIV pandemic in Southern Africa. Focus areas include: the economics of reducing mother to child transmission of HIV, the impact of HIV on firms and households; and psychological aspects of HIV infection and prevention. ASRU operates an outreach programme in Khayelitsha (the Memory Box Project) which provides training and counselling for HIV positive people

The Data First Resource Unit ('Data First') provides training and resources for research. Its main functions are: 1) to provide access to digital data resources and specialised published material; 2) to facilitate the collection, exchange and use of data—sets on a collaborative basis; 3) to provide basic and advanced training in data analysis; 4) the ongoing development of a web site to disseminate data and research output.

The Democracy In Africa Research Unit (DARU) supports students and scholars who conduct systematic research in the following three areas: 1) public opinion and political culture in Africa and its role in democratisation and consolidation; 2) elections and voting in Africa; and 3) the impact of the HIV/AIDS pandemic on democratisation in Southern Africa. DARU has developed close working relationships with projects such as the Afrobarometer (a cross national survey of public opinion in fifteen African countries), the Comparative National Elections Project, and the Health Economics and AIDS Research Unit at the University of Natal.

The Social Surveys Unit (SSU) promotes critical analysis of the methodology, ethics and results of South African social science research. One core activity is the Cape Area Panel Study of young adults in Cape Town. This study follows 4800 young people as they move from school into the labour market and adulthood. The SSU is also planning a survey for 2004 on aspects of social capital, crime, and attitudes toward inequality.

The Southern Africa Labour and Development Research Unit (SALDRU) was established in 1975 as part of the School of Economics and joined the CSSR in 2002. SALDRU conducted the first national household survey in 1993 (the Project for Statistics on Living Standards and Development). More recently, SALDRU ran the Langeberg Integrated Family survey (1999) and the Khayelitsha/Mitchell's Plain Survey (2000). Current projects include research on public works programmes, poverty and inequality.
