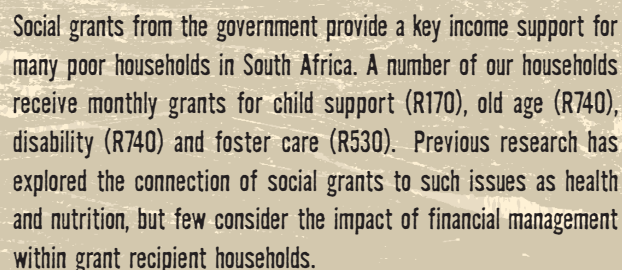


FOCUS NOTE: Grant Recipient Households
– How do they manage their money?

- Social grants are a significant portion of Financial Diaries household income in Langa and Gugulethu but not, as much, in Diepsloot.
- For those receiving the old age grant, this income tends to represent a large portion of household income, while the child support grant is a much smaller share of income.
- Grant recipient households tend to spend about 30%-40% of income on necessities such as food, energy and transport in Langa and Gugulethu, but a much higher 60% in Diepsloot.
- Grant recipient households tend to save in the house and have at least one burial society. To a lesser extent, they also have stokvels and bank accounts.
- Debt payments take up between 15%-20% of grant recipient's income - slightly more than the area sample average.
- Few grant recipient households in the sample have businesses that contribute significantly to household income.



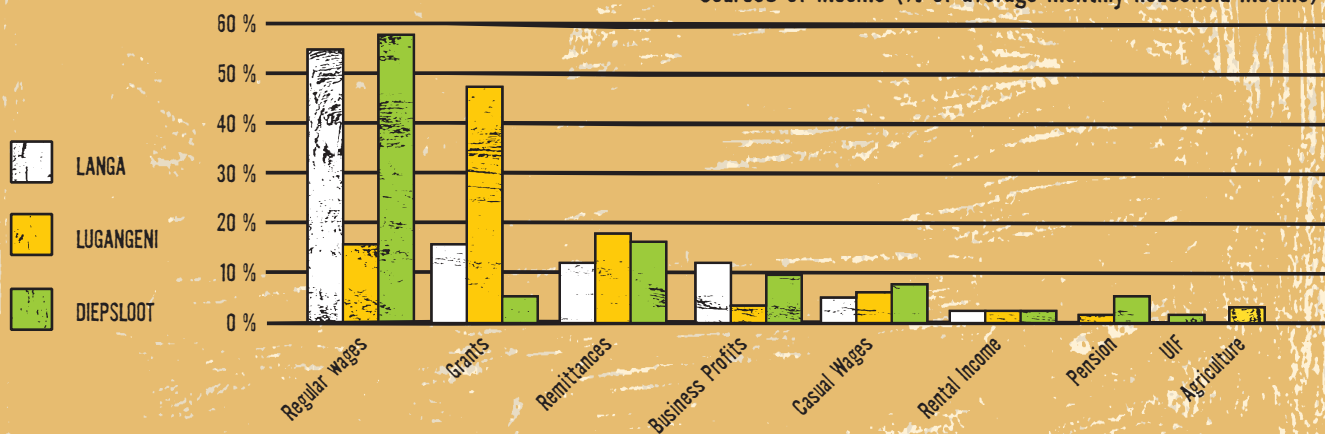
Do grant recipient households spend and manage their money differently compared to households earning income from other sources? The Financial Diaries study begins to answer this question by investigating how grant recipients use their grant money and what financial instruments they employ to manage it. The following summary is based on the sub-sample of Financial Diaries households that received any form of social grant during the study year.



GRANTS ARE A KEY PART OF RURAL INCOME...LESS SO IN URBAN AREAS

In rural Lugangeni, grant payouts constitute roughly half of the average household's monthly income. In the urban areas, grants do not contribute as large a percentage to average household income, although they can be critical to an individual household.

Sources of Income (% of average monthly household income)



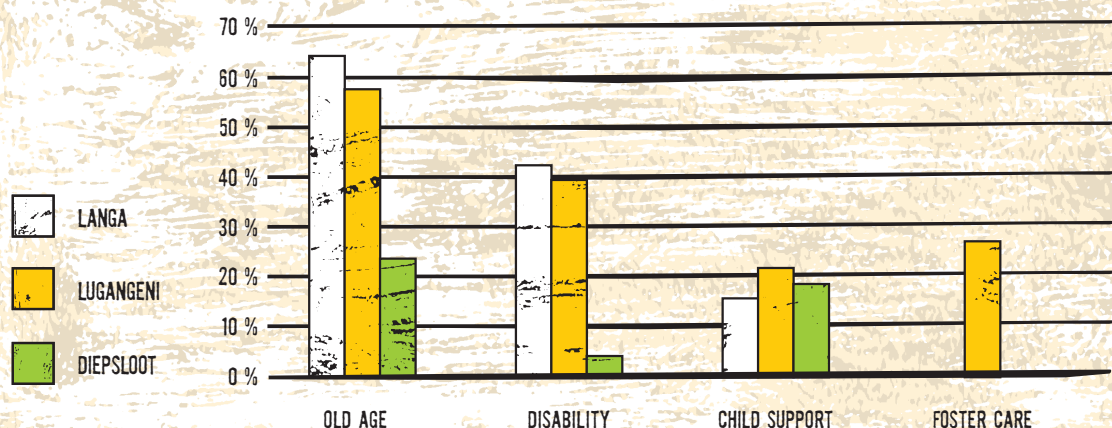
Within the grant receiving sub-sample of the Financial Diaries study, the old age grant and disability grant make up a much larger share of income than does the child support grant (see chart on next page). In Langa and Lugangeni, the old age grant tends to bring in close to 60% of the income of these households. The disability grant constitutes about 40% of household income, for those who receive the grant in Langa and Lugangeni. In Diepsloot, which has a far smaller dependency on social grants as a whole, the old age grant only constitutes 23% of household income, just slightly more than the proportion of income from the child support grant.

In rural areas, old age grants support far more people than the direct recipient. In our Lugangeni sample, about half of the households are receiving an old age grant. For most of these households, this grant

constitutes over 50% of the household income. In those households, an average of four people are supported by one grant. In Langa, the situation is different. There are only four households that are receiving an old age grant. Only one of those households use the grant to support more than the grant recipient.

The child support grant, a much smaller payment of R170 per child, represents between 16%–20% of household income, for those households that receive the grant. There is only one household in the sample who receives the foster care grant, and it represents 25% of that household income.

PERCENTAGE OF MONTHLY INCOME (GRANT RECIPIENT HOUSEHOLDS ONLY)



WHAT ARE HOUSEHOLDS USING THE GRANT MONEY FOR?

NECESSITIES?

If one considers food, energy and transport necessities, the majority of the Financial Diaries households use a substantial portion of monthly income on these items.

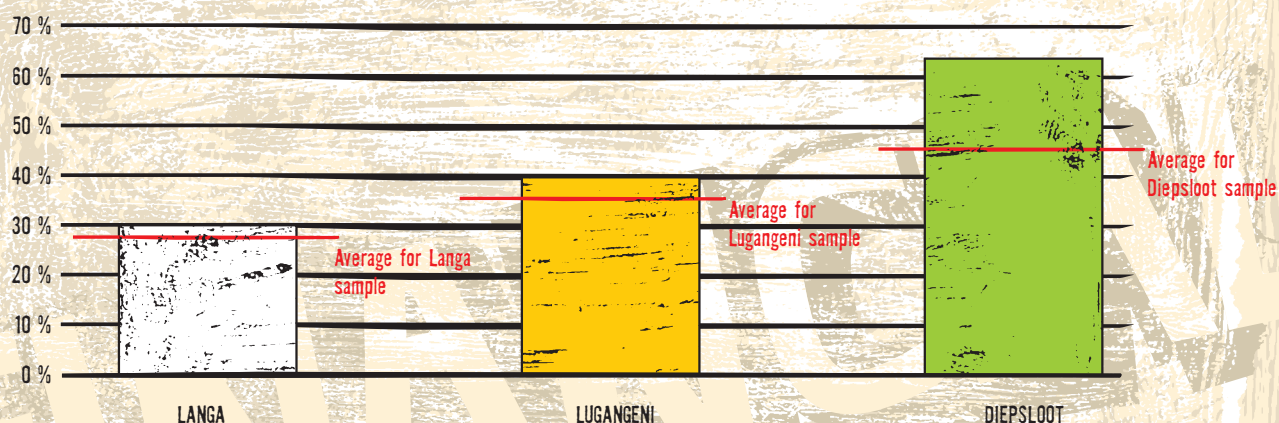
However, a striking result is that households in Diepsloot spend a larger share of income on these items than those in Lugangeni and Langa. When considering only grant recipient households, this discrepancy is even wider, as shown in the chart below.

In Langa, households spend on average 29% of income on necessities, and grant recipient households spend roughly the same. In Lugangeni, households spend more – 38% on necessities, with grant recipients

spending 40%. This can be attributed to both higher food and transport costs.

In Diepsloot, however, an average household spends nearly half (47%) of monthly income on food, energy and transport. Not only are transport costs higher, but also food expenditures. For grant recipient households these higher expenses are particularly punishing. Grant recipient households spend on average 63% of monthly income on necessities. One caveat must be pointed out. Food bought via credit at the local spaza shop is not included in these calculations. This result therefore may be reflecting, in part, how little credit at the local spaza is used by households in Diepsloot, raising the cash expenditure on food.¹

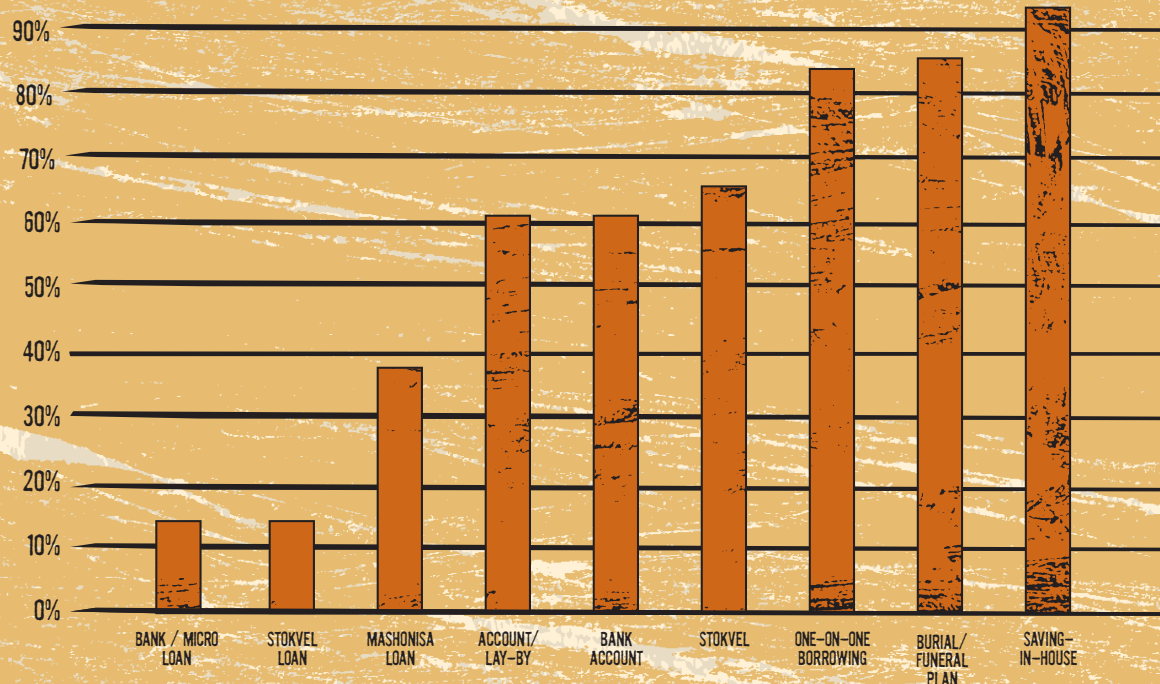
Percentage of Income spent on necessities* by grant recipient households



*Food (not counting credit at local spaza), energy (wood, paraffin and electricity) and transport to work, school and shopping

¹ See Focus Note: Financial Instruments of the Poor for more details on financial instrument usage.

TYPE OF FINANCIAL INSTRUMENT (% OF GRANT RECIPIENT HOUSEHOLDS)



WHAT TYPES OF FINANCIAL INSTRUMENTS DO GRANT RECIPIENT HOUSEHOLDS USE?

As the chart above shows, grant recipient households use a wide variety of financial instruments to manage their money, as do most households in the Financial Diaries sample. Nearly all grant recipient households save in their homes, despite the fact that the majority of them have a bank account. This may be related to the fact that 95% of the grant recipient households are still paid out at a cash pay point. The majority also have burial society or funeral plans and a stokvel (umgalelo).

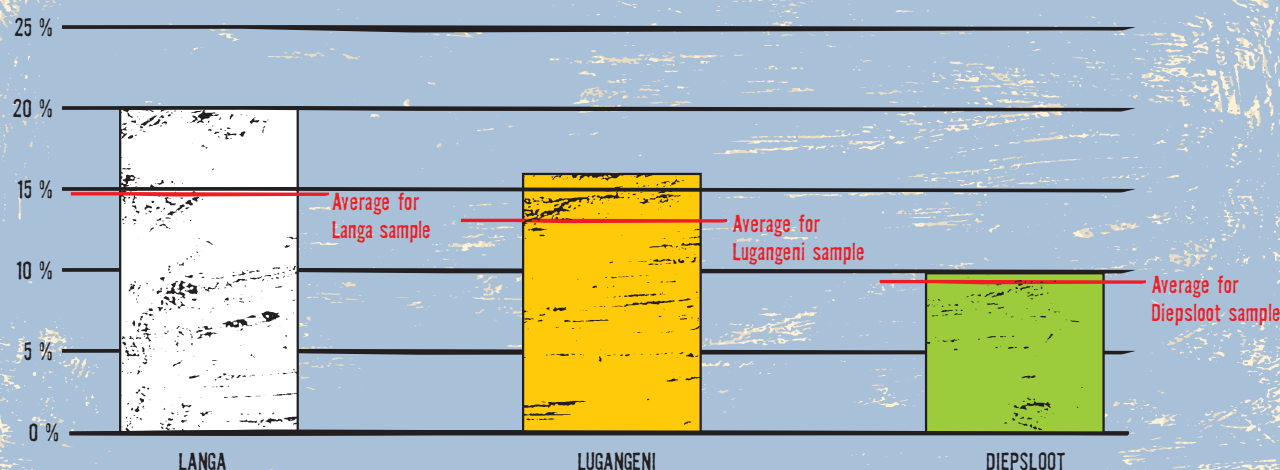
With regards to credit, only the grant recipient households that have members with a regular job and a payslip (i.e. very few) will have access to a formal bank or micro loan. A sizable percentage, however, have accounts

or lay-by's (either formal or with informal traders) and borrow from neighbours or friends.

Does this mean that social grants are being used to foster indebtedness? The Financial Diaries sample suggests that although grant recipient households are slightly more indebted than average, they do not fall into the category of over indebted (i.e. debt payments greater than 20% of income)². In both Langa and in Lugangeni, grant recipient households carry debt burdens that are slightly higher than the sample average. In Diepsloot, grant recipient households carry the same percentage of debt as the average sample.

² See Focus Note: Debt and Household Finance.

AVERAGE DEBT PAYMENTS OF GRANT RECIPIENT HOUSEHOLDS



Average Monthly Debt Payments as a % of Monthly Income



DO GRANTS SUPPORT BUSINESSES?

Another key question is whether social grants are being used to run small businesses. Within the limited sample of the Financial Diaries, this is not the case. There are certainly individual cases where a grant recipient is benefiting from a small business, as discussed below. However, these situations appear to be the exception rather than the rule.

In Langa and Diepsloot, 11% and 25%, respectively, of grant recipient households are also running a small business. Different situations arise. One household in Langa is earning the majority of income from selling sheep intestines and receiving a child support grant.³

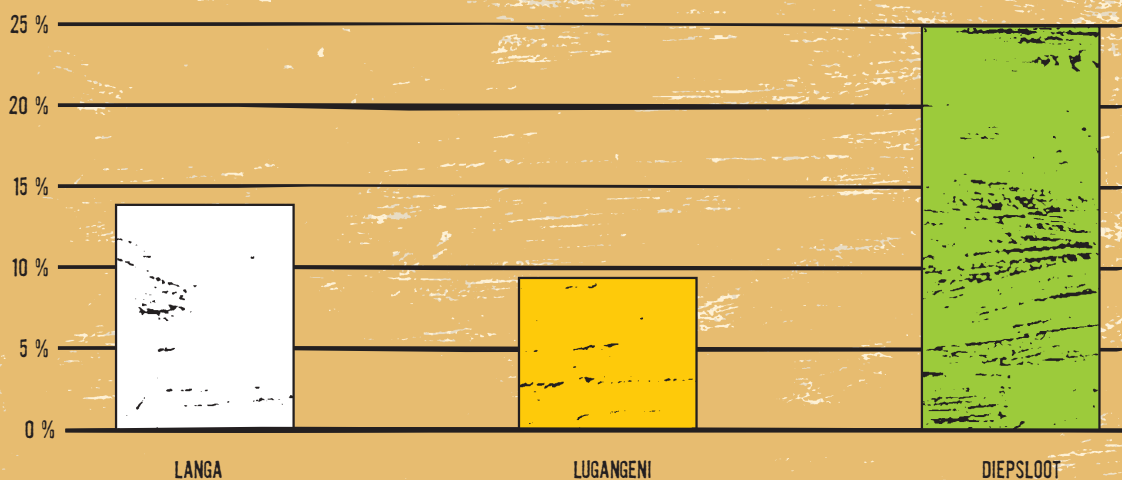
Another Langa household is in the opposite situation: the wife is running a fairly unsuccessful homemade beer operation, while the husband receives a disability grant. In Diepsloot, a very business-minded young father is receiving two child support grants for his children and running a successful and expanding battery-charging business that provides most of the household's income.

In Lugangeni, most grant recipient households earn a minimal amount of money from their businesses, and they supplement their grant receipts with remittances, rental income and casual work.

³ See Profile 4 in Findings in Brief.

PERCENT OF GRANT RECIPIENT HOUSEHOLDS WITH BUSINESS INCOME*

* Includes only households with ongoing businesses



CASE STUDY 1: What would happen if a household stopped receiving their grant?

Nobengazi* is a 34 year old woman living with her 43 year old disabled partner, Sipho,* and 4 year old daughter. The household is completely supported by Sipho's disability grant, which he receives because he is blind and has a physical disability that leaves him unable to walk without a cane. They live in a one roomed house behind the compound of Sipho's mother, who is also our respondent.

They manage the grant money very frugally, spending it mostly on food and household products. They pay R70 every year for the daughter's crèche. They also contribute to two burial societies. One requires payment of R10 per month, while the other only requires payment when someone in the society dies. During the year, there have been three funerals to which they have needed to contribute. Over the year, they also took credit from various informal traders – a dress for their daughter, a food bin to keep the food fresh. They also borrow money from time to time from Sipho's mother, which they pay back when they receive the grant.

In October 2004, their lives were thrown into disarray because Sipho's grant was stopped. The social worker told him that the validity of his disability has been questioned due to many cases of social grant fraud. Since then, he has been to hospitals several times, trying to get his grant reinstated. The latest news he had was that he'd have to reapply for the grant, which means waiting for months before he starts receiving it again.

The impact on this household's finances has been devastating. They had no cash for food so they are taking credit from the local spaza shop. They know that the owner charges interest but they do not know how much. They have stopped paying their burial societies as well as the money they owe to the local hawkers. They said that if the owner of the spaza shop stops giving them food, they will ask Sipho's mother for help. But, as we know the in-depth financial situation of Sipho's mother, we are concerned about her ability to help. Although she is a well-paid teacher, she also has many insurance and retirement policies to pay for and several children to support.

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

CASE STUDY 2: Rural Grant Recipient

Sandile* is the head of an important family in his village. However, although he has a substantial holding of livestock and enjoys influence in the village, Sandile, his wife and eight children and grandchildren live primarily off one old age grant (R740) and two child grants (R170 each). Every now and then, one of the family members may get a day or two of casual work, or sell some eggs, but this income is low and unreliable.

This family is struggling, but some may call them wealthy because of their livestock. Nonetheless, they are living off only R146 per household member per month. This household is a good example of a household that is asset wealthy but cash flow poor.

* Names have been changed to protect the identities of the respondents.
In the table below a certain margin of error in data collection may result whereby sources do not exactly equal uses.

SOURCES AND USES OF FUNDS FOR SANDILE FOR OCTOBER 2004

SOURCES OF FUNDS		USES OF FUNDS	
Operational		Operational	
Grants	1080	Food	303
Financial		Clothing	25
One-on-one borrowing	100	Shoes	20
Take money from house	100	Transport to shopping	57
		Penalties and fines	20
		Financial	
		Funeral plan	60
		Burial Society	103
		Saving in house	150
		Pay one-on-one loan	50
		Stokvel	300
TOTAL	R1280	TOTAL	R1108

FUTURE RESEARCH TO COME

- How do grant recipient households use burial societies and funeral plans? How many do they use? What do they pay each time? Does it help them when there is a funeral?
- Is there a correlation between the time that households start receiving a grant payout and when they begin to use particular financial instruments?



DETAILS CAN BE FOUND ON
www.financialdiaries.com