

Prepared for a rainy day? The presence of emergency funds in South Africa

■ BACKGROUND OF THE STUDY

As part of on-going efforts by the FSCA to better understand, monitor and promote financial literacy in South Africa, the Human Sciences Research Council (HSRC) has been commissioned to undertake surveys that examine financial knowledge, attitudes and behaviour among adult South Africans. This first round of surveying was conducted in 2010, with replications occurring in 2011, 2012, 2013, 2017 and 2020. The

surveys consist of nationally representative samples, which imply that the results reflect the views of South Africans aged 16 years and older. The series has been designed to assist with the development of strategies to improve financial literacy levels and inform financial policies. This brief presents select findings from the survey rounds and illustrate emergency fund changes over the years.

■ EMERGENCY FUNDS

The presence of emergency funds helps offset the financial duress that could be experienced during periods of unemployment, loss of income, reduced income, or other similar occurrences. The COVID-19 pandemic has once again highlighted the crucial importance for South Africans to possess at least some emergency funds. The absence of such funds is likely to result in appreciable vulnerability in the face of shocks and lengthen the time it takes to recover economically.

To gauge the presence of emergency funds among the adult public in South Africa, the 2020 FSCA Financial Literacy Baseline Survey asked respondents the following question: “Have you set aside emergency or rainy-day funds that would cover your expenses for 3 months, in case of sickness, job loss, economic downturn, or other emergencies?”. The results indicate that only a quarter of adults (26%) have such funds in place (**Figure 1**). The majority (71%) indicated that they have

Figure 1: Share of South Africans who have at least three months' worth of emergency funds set aside, 2020 (percentage)

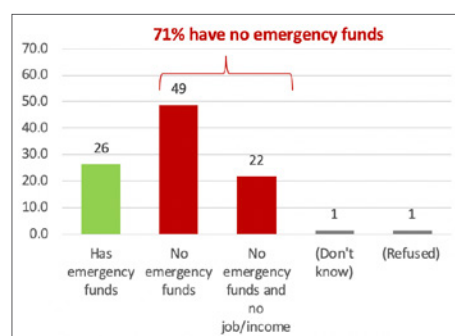
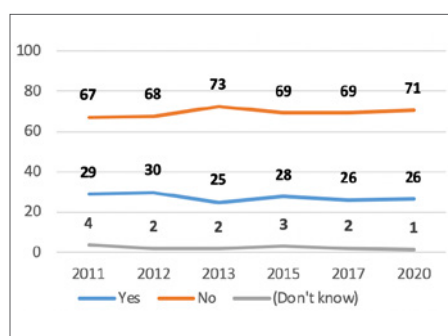


Figure 2: Share of South Africans who have at least three months' worth of emergency funds set aside, 2011-2020 (percentage)



Source: SASAS 2020 FSCA Financial Literacy Baseline Survey

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no emergency funds and a nominal share (2%) was uncertain or refused to answer the question.

The FSCA Financial Literacy Survey has monitored this indicator over time and (**Figure 2**) demonstrates that there have only been minor fluctuations over the

course of the decade with regards to this indicator. The existence of emergency funds varied between a low of 25% and a high of 30% over the surveying points during the decade. Only between a quarter and a third of South Africans have emergency funds at any given point in

time. Interestingly, there was no apparent lack of change in the figures between 2017 and 2020, suggesting that COVID-19 has not further reduced the relatively small proportion of the public with emergency funds. The picture is nonetheless a sobering one.

■ FACTORS ASSOCIATED WITH EMERGENCY FUNDS OVER TIME

To better understand the factors that are significantly associated with the presence of emergency funds in 2020, a multiple logistic regression analysis was conducted. This analysis allows for the dominant socio-demographic predictors of the existence of emergency funds to be established when a set of different variables are jointly considered. Results showed the following as critical variables associated with emergency funds:

- **Education:** Tertiary-educated adults are more likely to report the presence of emergency funds than those with lower levels of education.
- **Employment status:** Employed adults are more inclined to report having emergency funds than unemployed work-seekers, learners and students, as well as other labour inactive adults.
- **Poverty status:** Independent of the class-related variables above, those

classifying themselves and their household as non-poor are more likely to report that they have emergency funds relative to those classifying themselves as poor or 'just getting by'.

- **Other variables** that were not statistically significant controlling for other factors include gender, race, and age group.

■ HOUSEHOLD RESILIENCE IN THE FACE OF ECONOMIC SHOCKS

As a follow-up question on economic resilience, respondents were asked to assess how long their household could cover expenses (without borrowing money or moving house) if the principal source of income was lost. Only 24% of respondents stated that they would be able to

cover expenses for a period of 3 months or more. The majority would not be able to cover expenses for a prolonged period with 16% stating between one and three months, 12% up to a month and 17% less than a week, (**Table 1**). This is a fairly sobering finding, as it suggests that a

sizeable share of adults do not possess emergency funds and live in households where economic consequences of disruption to the primary income sources would have far-reaching effects on the ability to cope for more than a fairly short period of time.

Table 1: Length of time household could maintain expenses if main income source was lost, 2010, 2011, 2015 and 2020 compared (percentages)

	2010	2011	2015	2020
Less than a week	14	21	15	17
At least a week, but not one month	20	17	19	12
At least one month, but not three months	25	17	21	16
At least three months, but not six months	11	11	11	9
More than six months	11	15	13	15
(Do not know)	15	18	19	26
(Refused to answer)	5	1	2	5
Total	100	100	100	100
% less than three months	59	55	55	45
% more than three months	21	26	24	24

Source: South African Social Attitudes Survey (SASAS) 2010, 2011, 2015, and 2020.

When household resilience was considered by socio-demographics (**Figure 3**), it was found that the tertiary educated, employed and the non-poor were more likely to report being able to cope for a period longer than three months than those

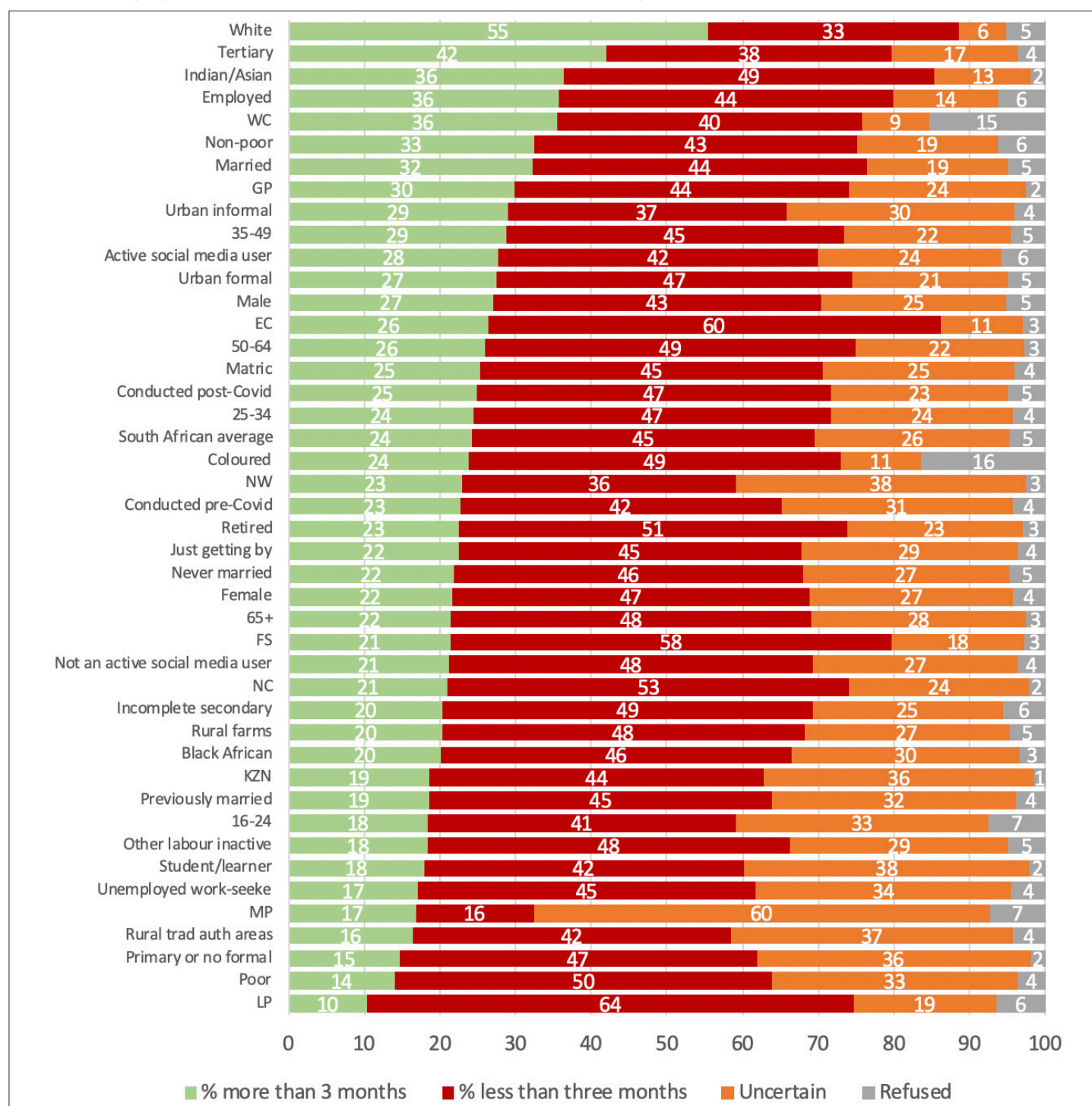
with no or only a primary school education, unemployed work-seekers, and the poor. Controlling for all other variables in a regression analysis, black African adults were less likely than white adults to maintain living expenses for more than

3 months. Only 10% of Limpopo-based residents said they would be able to maintain expenses for 3 months or longer if they lost their main source of income





Figure 3: Length of time households could maintain expenses if main income source was lost, by select socio-demographic attributes, 2020 (% , ranking highest to lowest based on the 'more than three months' category)



■ SOURCING EMERGENCY FUNDS

A third (33%) of South Africans prefer to draw first on any personal savings for emergency funds (Figure 4). A similar share (32%) referred to familial support to help them secure emergency funds to make ends meet. This speaks to the salience of one’s family network as a safety net in times of need in South Africa. Between a tenth and 15% mentioned finding a job or a job with better conditions (13%) or borrowing funds (10%). Less than a tenth reported that they would sell off personal assets (8%) or rely on the charity of others (5%). Fairly sizeable minority shares indicated that they were unsure of what they would do (11%), or that they would simply be unable to leverage such funds (14%).

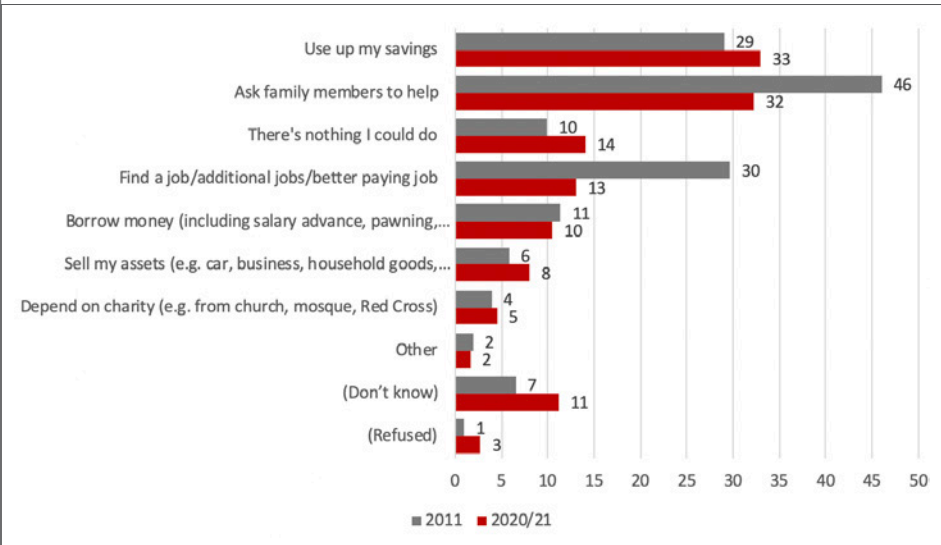
This reaffirms that relatively few South Africans have provisioned for unforeseen events or circumstances, and that in the absence of this or kin support, most would be left to rely on riskier financial options that would increase precarity or, even worse, with no real options at all.

Comparing findings to 2020 (Figure 4), the bar chart indicates that two fundamental changes have occurred over the intervening decade.

- There has been a distinct decline in the reported likelihood of asking for help from family members. Even though this remains a dominant response in 2020, it fell 14 percentage points from 46% to 32%, resulting in it going from the most cited option in 2011 to the second most common response in 2020.
- Secondly, finding a job or a better paying job fell from 30% in 2011 to 13% in 2020.

The changes above probably reflect mounting economic strain in society over the last decade. Rising unemployment levels and economic downturn increased the difficulty of securing employment or a job with better remuneration. These factors are also likely to have decreased the ability of families to provide financial support to family members in need. All other response options changed five percent or less.

Figure 4: Sourcing emergency funds – envisaged actions to make ends meet if money equivalent to one month’s income is needed, 2011 & 2020 (% , multiple response, ranked highest to lowest on 2020 figure)



Source: South African Social Attitudes Survey (SASAS), 2011 and 2020.

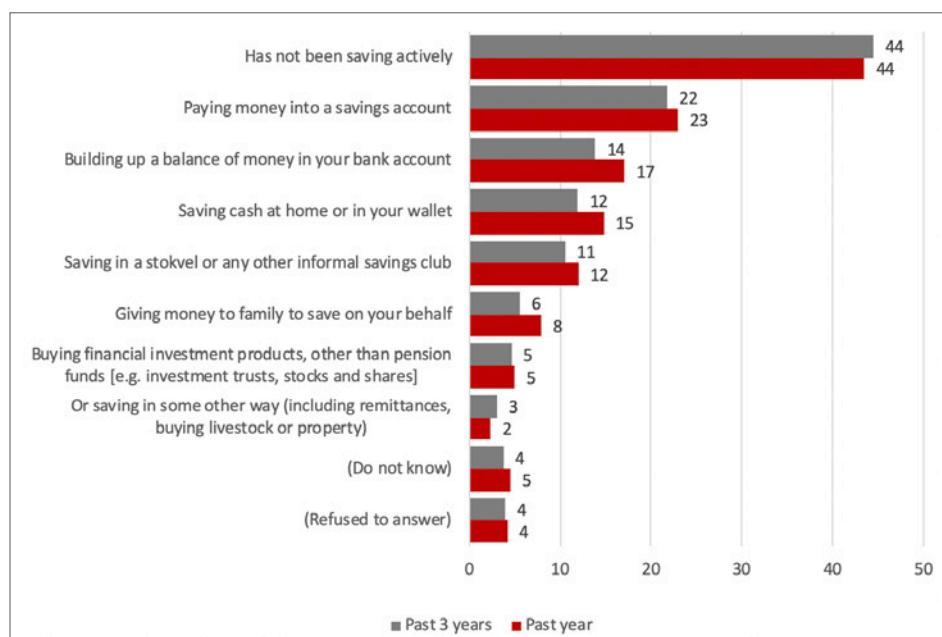




SAVINGS BEHAVIOUR

It is frequently stated by policymakers, academics, as well as financial industry practitioners, that the country lacks a savings culture. In this section, savings behaviour is reviewed as well as changes in saving behaviour over time. **Figure 5** shows that more than two-fifths (44%) have not been actively saving in the year prior to interviewing. Those that have been saving typically save in a savings account, build up a balance in a bank account, save in their wallet, or in a stokvel or informal savings club.

Figure 5: Self-reported savings behaviour in the past 12 months and 3 years respectively, 2020 (% , multiple response)



Source: South African Social Attitudes Survey (SASAS), 2020.

Looking at savings over time, savings behaviour has been fairly constant since 2012. However, a noteworthy trend is that, over time (**Table 2**), saving cash at home has become less prevalent. Conversely, saving in a stokvel, or informal savings club has almost doubled since 2012.

Table 2: Self-reported savings behaviour in the past 12 months, 2012-2020 (cell %, multiple response table)

	2012	2013	2015	2017	2020
Paying money into a savings account	21	21	20	25	23
Building up a balance of money in a bank account	16	14	17	16	17
Saving cash at home or in your wallet	20	19	14	15	15
Saving in a stokvel or any informal savings club	7	5	8	10	12
Giving money to family to save on your behalf	6	6	5	7	8
Buying financial investment products	3	3	3	5	5
Saving in some other way	2	1	2	3	2
(Has not been saving actively)	47	48	51	48	44
(Do not know)	1	2	1	1	5
(Refused to answer)	2	3	2	3	4

Source: South African Social Attitudes Survey (SASAS), 2012, 2013, 2015, 2017 and 2020.



CONCLUSION

As a rule of thumb, good financial practice dictates that a person or household should have emergency funds to the value of at least three months' salary. This brief report showed that only 24% of South Africans have savings or emergency funds that could last at least three months. This picture is rather sobering and confirms official statistics about gross nominal saving rates in South Africa, which is substantively lower than the world average. Despite the difficulty of high costs of living and high unemployment rates in South Africa, saving should be encouraged, even nominal amounts of R50 per month can make a difference in the long run. The reader is encouraged to download the full FSCA report for more in-depth analysis, available at www.fsca.co.za and www.fscamymoney.co.za

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76 264		129 557	452 094
124 142		137 330	654 261
179 656		145 570	887 812
243 797		154 304	1 156 749
318 036		163 562	1 463 542
402 429		173 376	1 818 263
499 541		183 778	2 223 308
610 506		194 802	2 688 505
737 038		206 458	3 218 385
881 052		218 756	3 818 576
948 983		231 706	4 498 749
1039 312		245 418	5 258 576
1153 519		259 902	6 098 749
1291 214		275 168	7 018 989
1453 019		291 226	8 018 989
1639 554		308 086	9 098 989
1851 559		325 758	10 358 989
2089 784		344 252	11 698 989
2354 019		363 578	13 218 989
2645 154		383 746	14 918 989
2963 019		404 766	16 798 989
3308 554		426 648	18 858 989
3682 619		449 402	21 098 989
4085 154		473 038	23 518 989
4517 154		497 568	26 118 989
4979 554		522 992	28 898 989
5473 319		549 312	31 858 989
5999 519		576 538	35 098 989
6559 154		604 670	38 618 989
7153 319		633 718	42 418 989
7783 019		663 682	46 498 989
8449 319		694 562	50 858 989
9153 319		726 368	55 498 989
9895 154		759 102	60 418 989
10676 019		792 762	65 618 989
11497 019		827 348	71 098 989
12359 319		862 862	76 858 989
13264 019		899 312	82 898 989
14212 319		936 702	89 218 989
15205 319		975 032	95 818 989
16244 019		1014 302	102 698 989
17329 519		1054 512	109 858 989
18463 019		1095 662	117 298 989
19645 519		1137 752	125 018 989
20878 019		1180 782	133 018 989
22161 519		1224 752	141 298 989
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26388 019		1362 302	170 818 989
27925 519		1410 032	181 218 989
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31199 519		1508 312	202 858 989
32938 019		1558 862	214 098 989
34746 519		1610 352	225 618 989
36627 019		1662 782	237 418 989
38581 519		1716 152	249 498 989
40612 019		1770 462	261 858 989
42720 519		1825 712	274 498 989
44908 019		1881 902	287 418 989
47176 519		1939 032	300 618 989
49528 019		1997 102	314 098 989
51964 519		2056 112	327 858 989
54488 019		2116 062	341 898 989
57099 519		2176 952	356 218 989
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65469 019		2365 262	400 858 989
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81283 519		2697 912	480 858 989
84739 019		2767 262	497 698 989
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95726 519		2980 952	550 018 989
99604 019		3054 062	568 218 989
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125322 019		3512 462	685 818 989
130042 519		3592 152	706 818 989
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139879 519		3754 352	749 918 989
144992 019		3836 862	771 918 989
150235 519		3920 312	794 218 989
155612 019		4004 702	816 818 989
161125 519		4090 032	839 818 989
166769 019		4176 302	863 218 989
172546 519		4263 512	886 918 989
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184516 519		4440 752	935 218 989
190716 019		4530 782	959 818 989
197063 519		4621 752	984 818 989
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217030 019		4900 302	1061 918 989
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253645 519		5383 352	1196 918 989
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269539 519		5583 152	1253 218 989
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360486 519		6622 552	1556 918 989
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380937 519		6840 912	1621 818 989
391355 019		6951 502	1654 818 989
401999 519		7063 032	1688 218 989
412878 019		7175 502	1721 918 989
423898 519		7288 912	1756 018 989
435058 019		7403 262	1790 418 989
446364 519		7518 552	1825 218 989
457825 019		7634 782	1860 418 989
469448 519		7751 952	1895 918 989
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493175 519		7989 112	1968 218 989
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750115 019		10429 662	2735 818 989
765370 519		10567 512	2780 218 989
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812239 019		10986 702	2915 818 989
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1060674 019		13054 782	3596 218 989
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1102834 019		13365 262	3699 818 989
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1345426 519		15140 112	4298 218 989
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