FSCA
Financial Sector Conduct Authority

Financial literacy, competency and education
Briefing Report No. 2
based on the results of the 2020 Financial Literacy Baseline Survey

South Africans under duress: Economic hard times, COVID-19 and beyond

In response to the COVID-19 pandemic, President Cyril Ramaphosa announced the national lockdown on 23 March 2020. The authorities implemented strict lockdown measures, issuing stay-at-home orders and requesting businesses to temporarily close their doors for business. Although essential for the continuation of public health, the strict lockdown brought domestic production to a standstill. This was compounded by a contraction in global demand as governments throughout the world also introduced some form of lockdown measures. Government authorities provided financial relief to consumers, introducing a variety of different programmes to try and help people cope during these difficult times. However, the general economy as well as individual economic activity and livelihoods were severely affected as a result of the pandemic.

This research brief uses a unique dataset to report on the economic behaviour of consumers during the so-called 'hard' lockdown period (27 March to 15 August 2020). Although the severity of the various lockdown measures fluctuated during 2020 based on contextual developments relating to COVID-19 case numbers, it is generally recognised that this period constituted what has come to be called the 'hard' lockdown period. Subsequent restrictions implemented in the 2021 period have been much milder than those implemented earlier. The data presented in this brief will provide an insight into how the public managed their finances during the 'hard' lockdown, offering greater understanding of consumer behaviour under stress.

OVERVIEW OF THE STUDY

Data for this brief is drawn from a nationally representative survey of all adults (16 years and older) in South Africa. The multitopic survey was commissioned by the Financial Sector Conduct Authority (FSCA) and undertaken by the Human Sciences Research Council (HSRC) to better understand patterns of financial literacy and competency in the country. It forms part of a long-running survey partnership initiated in 2010. Fieldwork for this round of the survey began in late February 2020 but was suspended a few days prior to the 27 March 2020 lockdown implementation. At this stage, approximately 40% of interviewing (n=1066) had been completed.

After approximately six months, on 21 September 2020, restrictions were lowered to alert level 1. Upon ethical reapplication to the HSRC's Research Ethics Committee (REC), it was deemed safe to resume fieldwork in mid-October 2020, and the remaining 60% of interviewing (n=1627) was completed by February 2021. Overall, 2693 interviews were completed nationally.

As a result of this COVID-19 related disruption to the surveying process, the survey sample contains a large subset of adult consumers who lived through the 'hard' lockdown period, the first wave of COVID-19 infections, and for some, the onset of the second wave. This brief will focus on this sub-population (n=1066), evaluating the experiences of financial duress amongst these consumers approximately 7 to 10 months after the national lockdown was introduced. The 40% of interviews conducted pre-Covid

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are excluded from the analysis presented below.

EVALUATING FINANCIAL POSITION

Financial wellbeing

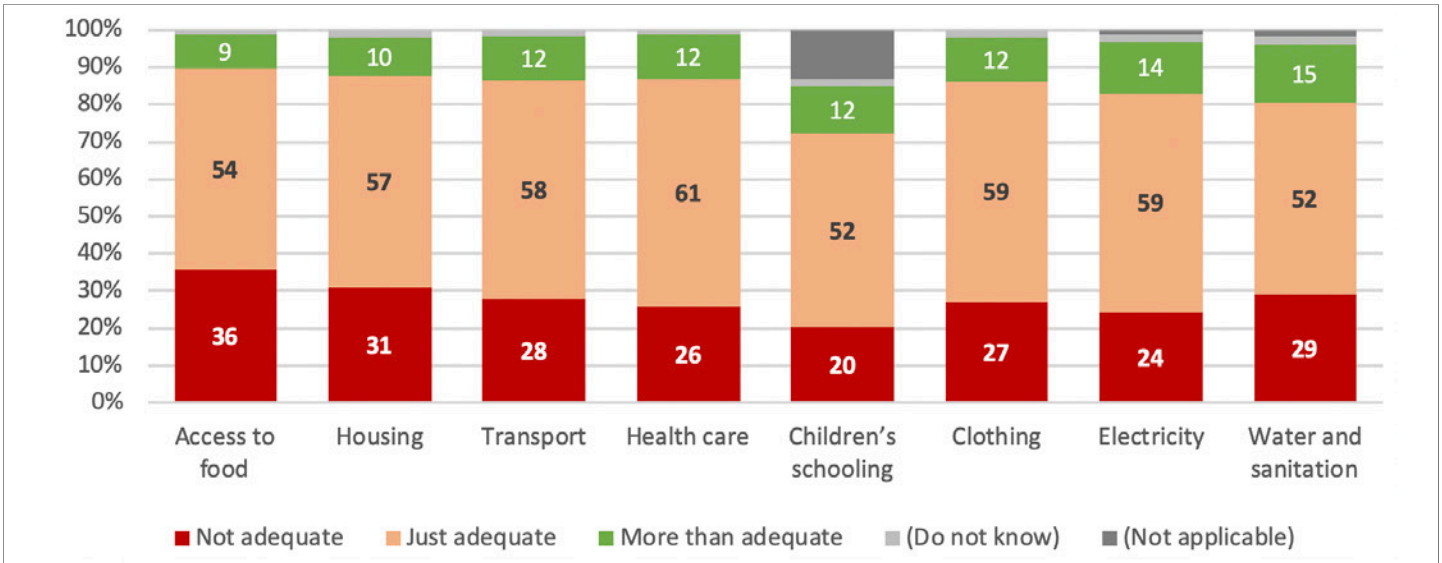
As the country exited the ‘hard’ lockdown period, a significant proportion of adult consumers felt unhappy with their personal financial condition. About half (49%) of the post-lockdown population felt dissatisfied overall with their current personal financial situation. Nearly half (45%) claimed that their monthly household income was less than what they considered minimal for their needs to be met. Many consumers said that their post-lockdown households were characterised by fiscal instability. Only a third (33%) of this group indicated that they lived in households with regular and predictable sources of income.

Consumption (in)adequacy

Food is regarded as one of the most important requirements for basic subsistence, the bare minimum requirement for human survival. In an effort to alleviate the economic fallout from the COVID-19 pandemic, local authorities began distributing food parcels. Given this context, it is worth considering whether the post-lockdown populace had sufficient access to food. Survey participants were required to indicate whether the amount of food their household had accessed over the past month was adequate. More than a third (36%) of these consumers told fieldworkers that they lived in food deprived households (**Figure 1**). This indicates the severe food deprivation that post-lockdown consumers were suffering from.

For a household to maintain a decent standard of living, it requires certain essentials (e.g., electricity, health care, water and sanitation) to be in place. To better comprehend the material position of households post-lockdown, survey respondents were asked to evaluate whether their household had access to these essentials (**Figure 1**). Between a fifth and a third (20% - 31%) of adult consumers interviewed post-lockdown, said that they

Figure 1: Percentage of the population who did not have adequate access to essential household amenities and resources in the post-lockdown period, 2020



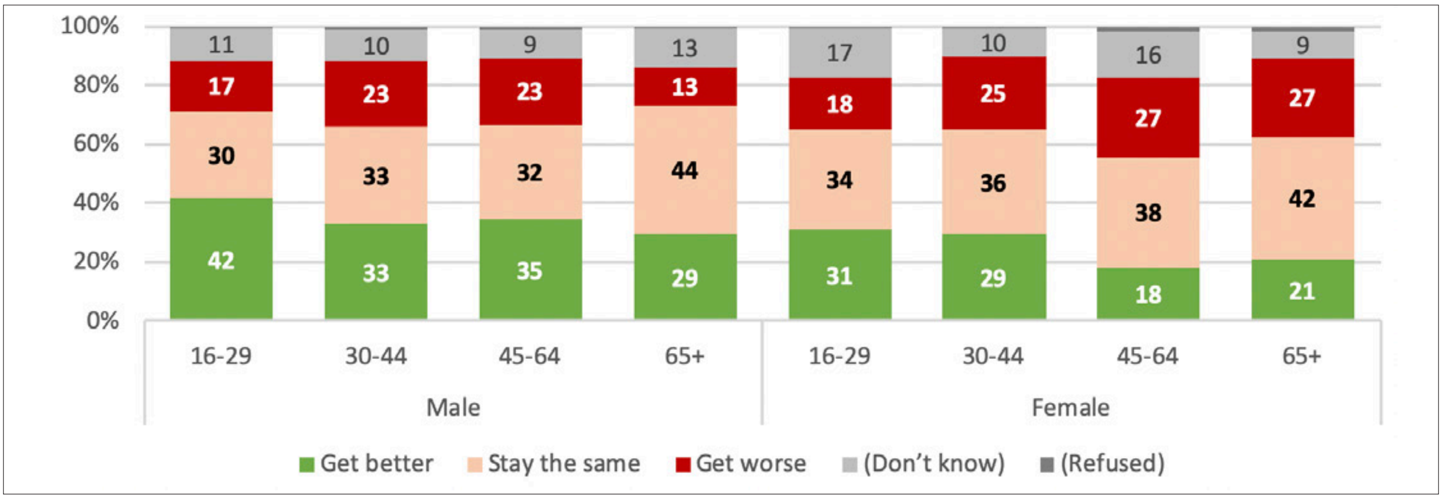
> "The post-lockdown population was found to be relatively pessimistic about their financial outlook. More than two-thirds (69%) of adult consumers were not confident that their household's financial situation would get better in the next two years"

lacked adequate access to one or more of the basics. This demonstrates that many households during the 'hard' lockdown period were suffering from insufficient service delivery provision. Labour market access was an important determinant of whether a household was under this form of duress. Unemployed persons were more likely to live in households which reported inadequate access to service delivery.

Financial outlook

The post-lockdown population was found to be relatively pessimistic about their financial outlook. More than two-thirds (69%) of adult consumers were not confident that their household's financial situation would get better in the next two years. About a fifth (22%) thought their situation would worsen in the immediate future. Post-lockdown, youth were much more inclined than other groups to view their prospects optimistically. But there was a distinct gender disparity noted on this trend (**Figure 2**). Young women, in particular, were more likely to report more pessimistic views about the future than their male counterparts.

Figure 2: Percentage of the adult population who perceived future changes to the financial situation of the household amongst the post-lockdown population by gender and age group, 2020

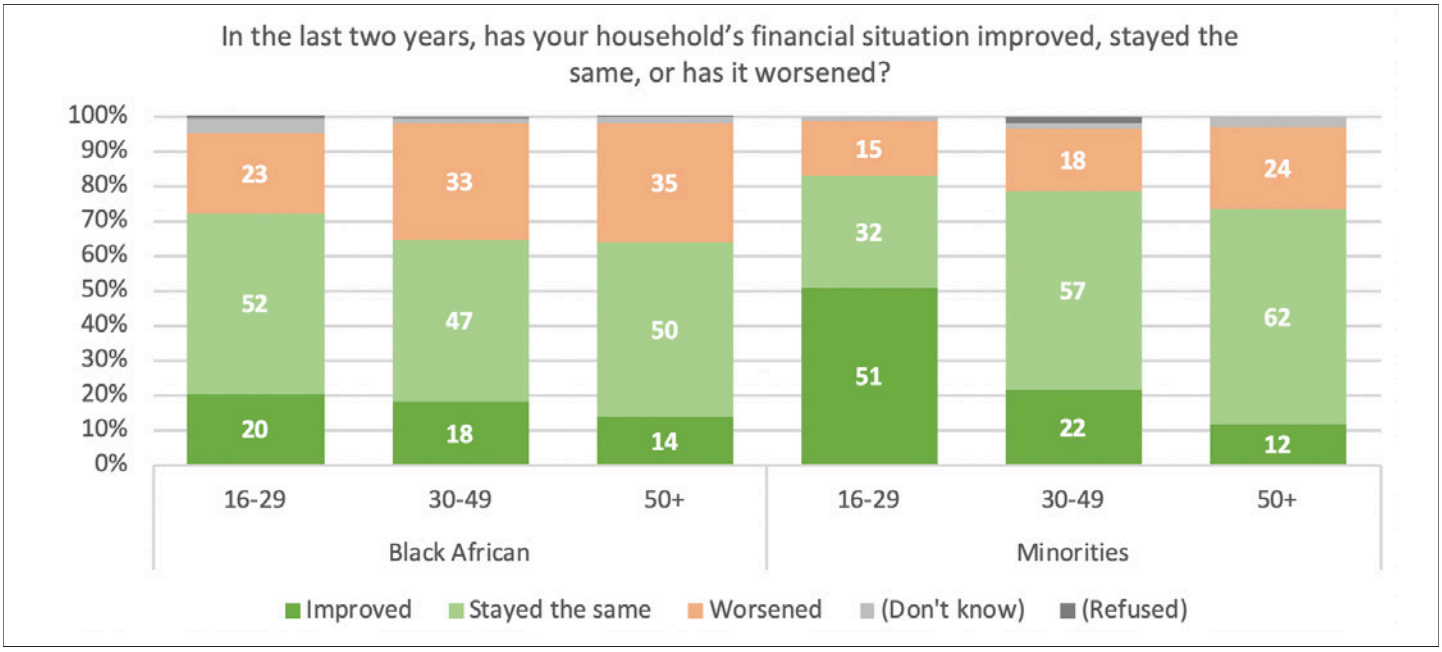


CHANGING FINANCIAL SITUATION

To provide a more direct measure of how the hard lockdown of COVID-19 impacted on the financial position of households, the following question was asked: "In the last year, has your household's financial situation improved, stayed the same, or has it worsened?" A fifth of adult consumers (20%) said that their lives had improved, and half (50%) reported that they had stayed the same. More than a quarter of adults (27%) in the post-lockdown period stated that they had suffered a fiscal reverse, indicating that their lives had worsened over the last two years.

The poor were found to be more likely to report that their lives had worsened. Another group that was found to be especially prone to report a decline was the elderly. But there was a distinct population group disparity to this age differential, with youth from minority race groups much more likely to report life improvement than the Black African youth (**Figure 3**). Indeed, it would appear that a significant share (23%) of the Black African youth felt that their lives have worsened in the last few years while only a minority (20%) thought it had improved. This suggests that youth from minority race groups found it easier to cope and get ahead in the past two years and post-lockdown.

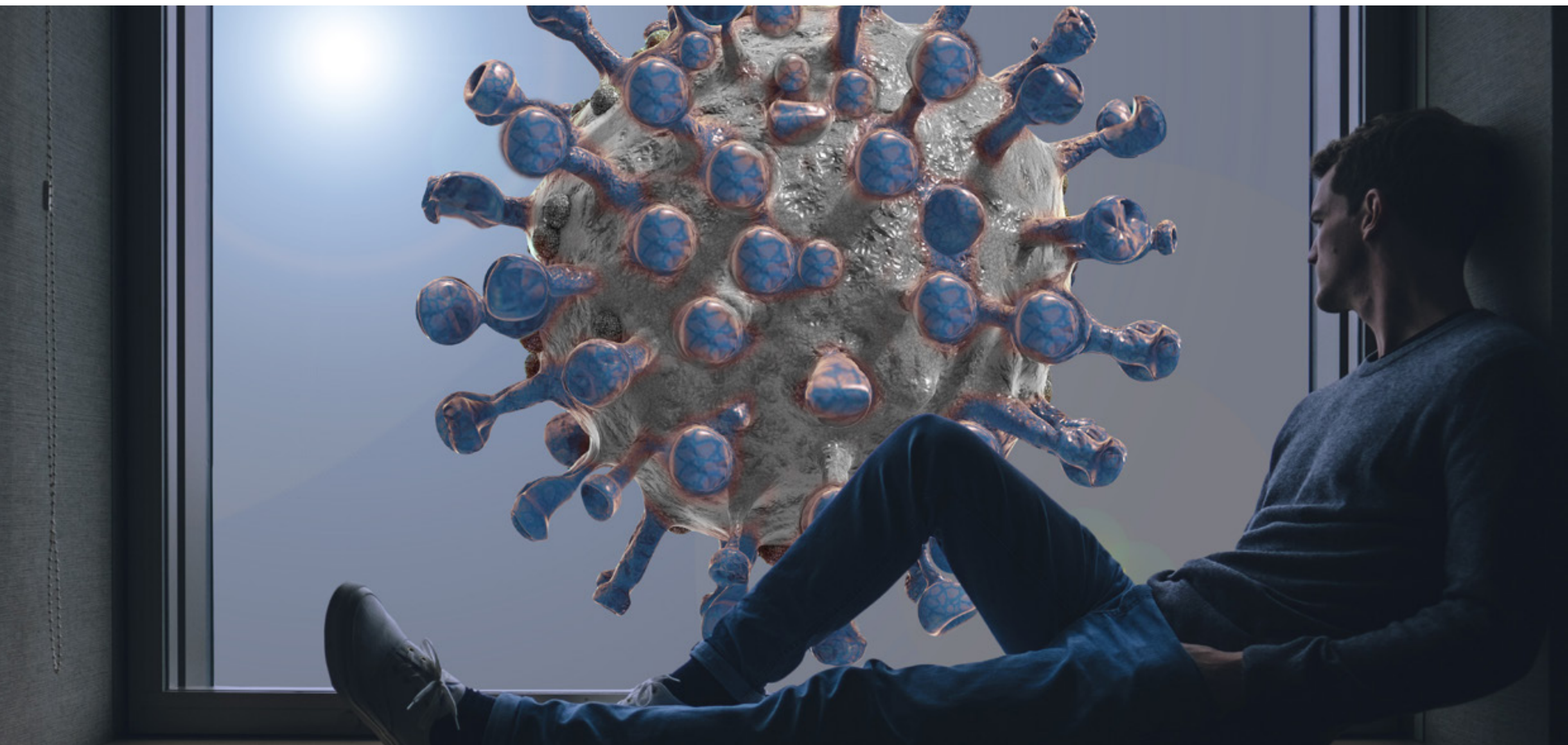
Figure 3: Changes to household financial situation among those surveyed post-pandemic, by population group and age group, 2020



> *"More than a quarter of adults (27%) in the post-lockdown period stated that they had suffered a fiscal reverse, indicating that their lives had worsened over the last two years."*

To provide greater insight into how the fiscal situation of the post-lockdown population had deteriorated, respondents who had reported a decline in financial position were asked: "What were the main reasons why your household's financial situation worsened?" The most common reason given was a loss of employment or a reduction in working hours. Half of those who had experienced a financial deterioration identified this as a primary causal factor. A significant share (13%) also reported an unexpected large increase in the cost of basic household items (such as food). A significant proportion of this group said that a death or serious illness in their family or household had significantly weakened their financial situation.

Notwithstanding the financial hardships caused by the pandemic, it is apparent that some of the population surveyed post-lockdown had managed to improve their lives during this period. To better understand how this occurred, respondents who had reported an improvement in their financial situation were asked how this had occurred. The most common reason received was a positive change in work and employment, with about two-thirds (64%) of those who had experienced an improvement reported this kind of event. Young people were particularly likely to report this kind of change. A significant share (19%) also mentioned that changes to the social grant system significantly improved their lives, with many mentioning the recent extension of the Child Support Grant as a significant contributor to financial stability.



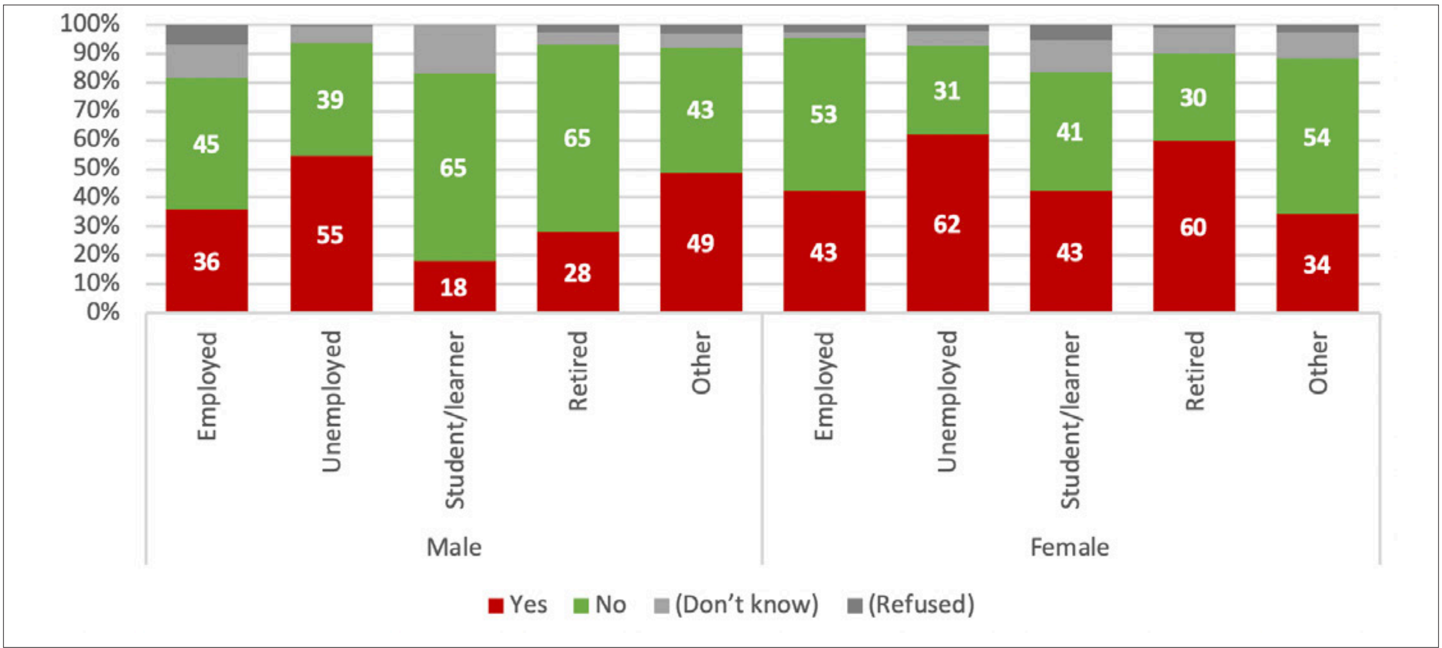
> “The poor were found to be more likely to report that their lives had worsened. Another group that was found to be especially prone to report a decline was the elderly”

EXPERIENCE OF INCOME SHORTFALLS

The financial hardships caused by the COVID-19 pandemic had a significant impact on the financial behaviour of many households in South Africa. In order to provide some indication of this adversity, let us examine the financial difficulty that the post-lockdown population experienced. A sizeable majority (79%) of adults said that, during the ‘hard’ lockdown period, they would at times spend more than they earned. A tenth (9%) of adult consumers said that they engaged in this behaviour all the time and 18% reported that it happened often. Overspending was found to be more common among women than men even when controlling for socio-economic characteristics (such as labour market status or education).

More than two-fifths (45%) of the post-lockdown population said they experienced a situation where their income did not cover their living costs in the year prior to interviewing. This finding indicates that many struggled to lead economically sustainable lifestyles during the ‘hard’ lockdown. There was a distinct gender inequality to this trend, with female consumers much more likely to report this problem than male consumers. Complicating this picture further, there were labour market dissimilarities noted in how men and women experienced financial shortfalls (**Figure 4**). Retired women were appreciably more inclined to report income shortfalls than retired men.

Figure 4: Proportion of the post-lockdown population who experienced an income shortfall in last year by gender and labour market status, 2020



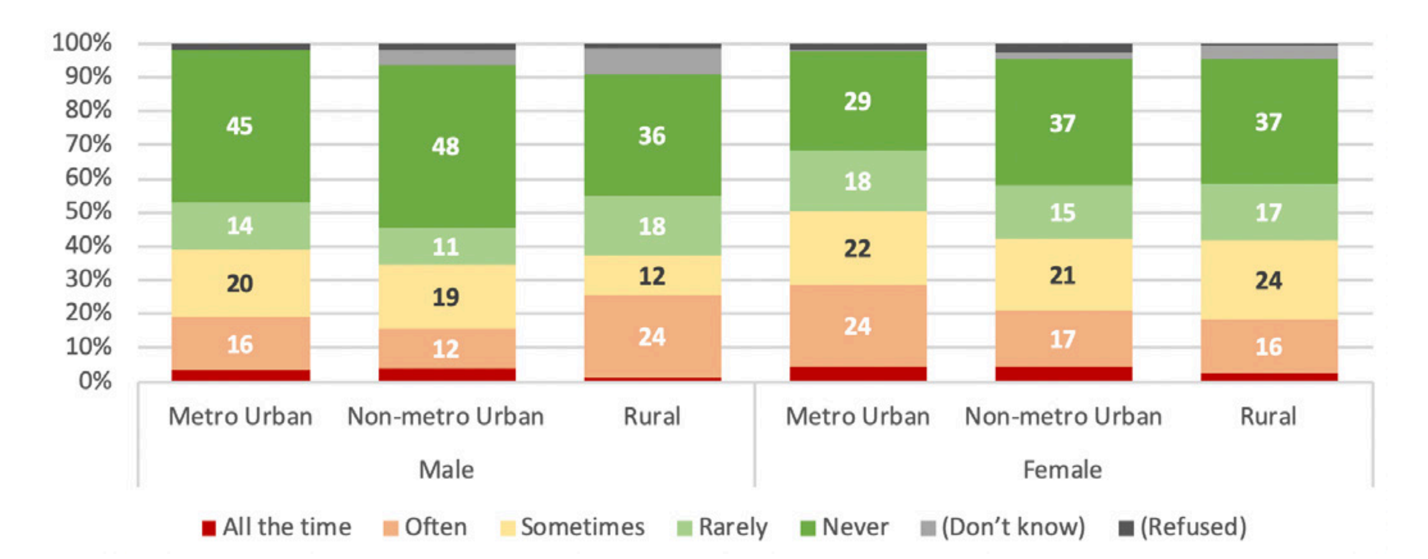
"23% of the Black African youth felt that their lives have worsened"

INDEBTEDNESS

To make ends meet, many people turn to various kinds of debt-related strategies, borrowing money from different sources - formal and informal (e.g., friends, family, banks or mashonisas). To gauge the extent to which the post-lockdown population pursued this strategy, we examined answers to the following question: "In the last 12 months, how often did you manage to go into debt?" A clear majority (57%) of adult consumers admitted going into debt during the 'hard' lockdown. But only a minority (3%) said that they took part in this behaviour very often and 18% reported that it occurred often.

A clear gender divide was evident. Variations by level of urbanisation informed these gender differences, however, indicating different geographic patterns for debt (**Figure 5**). Urban women (especially in metropolitan areas) were more likely to go into debt during the lockdown period than their male counterparts. Rural men were, in contrast, more likely to go into debt during the lockdown period than men from urban areas.

Figure 5: Post-lockdown responses to the question "In the last 12 months, how often did you go into debt (not including debt because you bought a house/property)?" by gender and geographic location, 2020

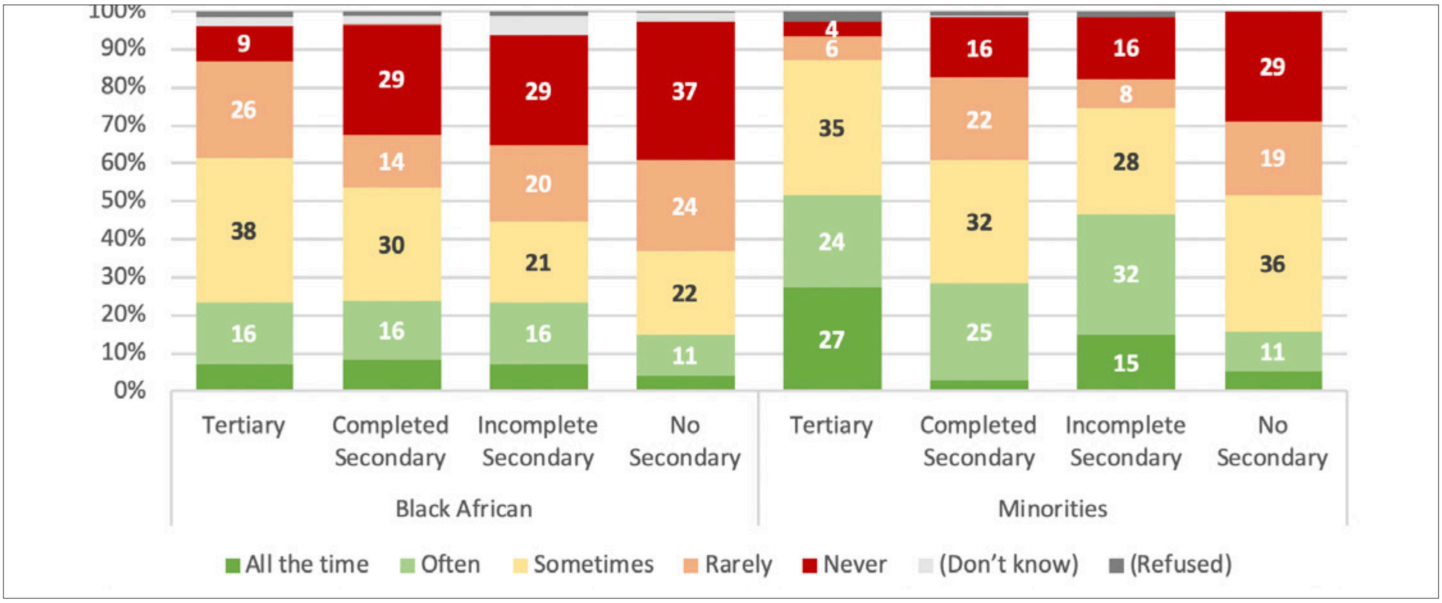


SAVINGS BEHAVIOUR

Even though many households fell into debt during the ‘hard’ lockdown, it was apparent that some consumers were able to save during this challenging period. A clear majority (73%) of the population surveyed post-lockdown claimed to have saved money during this period. But a fifth (18%) said that they did this behaviour only rarely and 28% reported that they were able to save only sometimes. Saving was, perhaps unsurprisingly, found to be more common among the better educated. But there was a stark racial divergence in reported savings behaviour (**Figure 6**). Better educated members of the Black African majority clearly found it much more difficult to save than their minority counterparts.

> *“What were the main reasons why your household’s financial situation worsened?”*
>
> *The most common reason given was a loss of employment or a reduction in working hours.*

Figure 6: Post-lockdown responses to the question “In the last 12 months, how often did you manage to save some money?” by population group and educational attainment, 2020



CONCLUSION

The brief has presented data on the economic position and behaviour of the adult consumers immediately following the ‘hard’ lockdown period. It has highlighted how adult consumers have responded to the financial distress, providing unique insight into consumer reactions to this period. The findings clearly show a vulnerable population, many of whom do not have adequate access to food and basic services (such as electricity and water). A significant minority had experienced financial decline, with labour market changes cited as one of the main reasons. A large number had engaged in economically risky behaviours (e.g., spending more than you earn) during the lockdown. There were significant gendered and racial disparities noted in the findings. 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.