Personal finances: What is the possible impact on entrepreneurial activity in South Africa?

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ABSTRACT

South Africa has the lowest level of entrepreneurial activity of all developing countries surveyed by *Global Entrepreneurship Monitor* in 2005. A possible explanation could be the low levels of savings in South Africa, as personal capital is the main source of funding when starting a new business. The inverse relationship between debt and savings denotes that the more individuals spend on debt, the less they will save. Financial illiteracy has been found to contribute to the mismanagement of personal finances. The purpose of this study is to ascertain the percentage of disposable income spent on debt, and to examine certain behaviours that influence personal debt and savings, as well as the possible reasons that individuals are not saving. All the students enrolled at the University of the Free State School of Management during 2005 took part in the study. Financial literacy is a necessity for entrepreneurial advancement in South Africa, and the high levels of debt, and subsequent low levels of savings, could restrain the development of entrepreneurial activity in South Africa.

INTRODUCTION

The ratio of household debt to disposable income in South Africa fluctuated between 50.6% and 71.8% between 1996 and 2006. However, saving rates declined sharply from 8% in the 1980s to about -0.5% of personal disposable income in 2006 (Kane-Berman & Tempest 2007: 87). Mounting personal debt triggered insufficient savings among South Africans (Grawitzky 2003: 57). Lorgat (2003: 8) argues that

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South Africans lack a comprehensive savings culture. This is caused by manifested financial illiteracy on the part of the consumer. Workers are spending the majority of their income on consumption, leaving little money, if any, for savings or investments. This is problematic in South Africa, both for the individual and with regard to the prospects for economic growth in the country.

The demand for information on personal finance is increasing. Extensive research (Kim 2000; Joo 1998) shows that adults lack the financial knowledge to make competent and effective personal financial choices. Possible reasons for financial illiteracy and a lack of financial knowledge in individuals include excessively high debt levels, low saving rates, being targets of investment fraud, being delinquent on credit cards and bankruptcy (Kim 2000: 1). Anthes (2004: 49) concludes that "financial literacy is the ability to read, analyse, manage and communicate about personal financial conditions that affect material well-being. It includes the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future, and respond competently to life events that affect everyday financial decisions, including events in the general economy." According to the US Financial Literacy and Education Commission (Basu 2005: 2), financial literacy is defined as "the ability to make informed judgements and to take effective actions regarding the current and future use and management of money. Financial literacy should include the ability to understand financial choices, plan for the future, spend wisely and manage and be ready for life events such as job loss or saving for retirement."

South African's personal finances have been attracting ample bad press commentary recently, due to the exceedingly high levels of debt, increases in interest rates and depleted saving ratios. Personal debt reached elevated heights in South Africa, and by introducing the South African National Credit Act (No. 34 of 2005) during 2007, Government indicated that it understands the seriousness of the problem South Africans are facing. The problem is enhanced by the current increases in interest rates. Due to the excessive spending of South African consumers, interest rate hikes are a necessity in order to keep inflation within bounds. This phenomenon is not unique or confined to South Africa, but it is a worldwide occurrence. Recently, the United States and European markets were hit hard as banks extended credit too easily to people with little or no income and no history of savings and borrowing. These loans were then converted into investments traded on the markets. The borrowers have been unable to repay their debt, and this has placed pressure on these questionable investments (Stovin-Bradford 2007: 1).

The National Credit Act (2005: 2), which was implemented in 2007, aims to "promote responsible credit granting for the purpose to prohibit [sic] reckless credit granting and to provide for debt re-organisation in cases of over-indebtedness". In effect, less credit will be available to fewer consumers due to the stringent requirements that the Act places on credit providers. In the past, too much credit has been made available to individuals who, in reality, could not afford it (Temkin 2006: 1). The lower levels of financing from credit providers, on account of the new Credit Act, will not only lead to fewer mortgage loans and fewer vehicles being financed (Cokayne 2007: 1), but another consequence might be that credit providers will provide less venture capital to entrepreneurs. This possibility signifies the importance of personal funds as a vehicle for venture creation. Personal debt and savings can be considered as two sides of the same coin, because of their inverse relationship to each other (Prinsloo 2002: 73), and it is important to discuss their correlation.

The debt management practices of individuals give the impression that South African households manage their finances inadequately. As a result, South Africans have excessive debts and inadequate savings, and these have a negative impact on the entrepreneurial environment. To understand this problem, it is necessary to gain insight into the money management practices of South Africans, with special attention given to debt and savings.

Consumers' savings are at a record low level. Statistics show that during 2006, 0.2% of disposable income was saved, while an average of 73% was spent on debt (RSA MoF 2006: 2). During the third quarter of 2007, it was reported that 77.4% of disposable income consisted of household debt (South African Reserve Bank 2007: 1). An average of 10.2% (as a percentage of disposable income) is spent on interest alone (Clark 2007: 13). This one-sided distribution of income is creating serious problems in South Africa on both the social and economic levels. The high debt and low savings levels will contribute to, and escalate, the low prevalence of new venture creation in South Africa, since entrepreneurs need personal funds to set up new businesses. Without adequate savings, it will not be possible for individuals to start a new venture, as personal funds are a crucial form of funding at the start-up stage of a new venture. It is a global fact that entrepreneurs are heavily reliant on their own savings for starting a new business (Hisrich & Peters 2002: 367). These funds are not only the least expensive, but are crucial in attracting outside funds from banks, investors and venture capitalists. Research suggests that entrepreneurs in emerging markets rely upon informal sources of finance for between 87% and 100% of the total capital needed to start their businesses. Bank lending and venture capital play a very limited role in these emerging markets (Lingelbach, De la Vina & Asel 2005: 4).

The *Global Entrepreneurship Monitor* (GEM 2005) showed that South Africa has the lowest entrepreneurial activity rate of all developing countries included in the survey. It was also found that South African start-up businesses are the least likely in all the developing countries sampled (with the exception of Mexico) to mature to the new firm stage. Another finding established that the probability of a firm surviving beyond 42 months is less likely in South Africa than in any other country sampled during 2005. According to Venter and Neuland (2005: 438), 90% of small, medium and micro enterprises (SMMEs) in Africa go out of business within the first two years of operation. This occurrence can be disastrous for Africa's economic growth, and for that of South Africa, since SMMEs are the major job creators in an economy. Furthermore, the *Global Entrepreneurship Monitor* (GEM 2003: 13) indicated that the principal limiting factor to entrepreneurship in South Africa is access to finance (or the lack thereof).

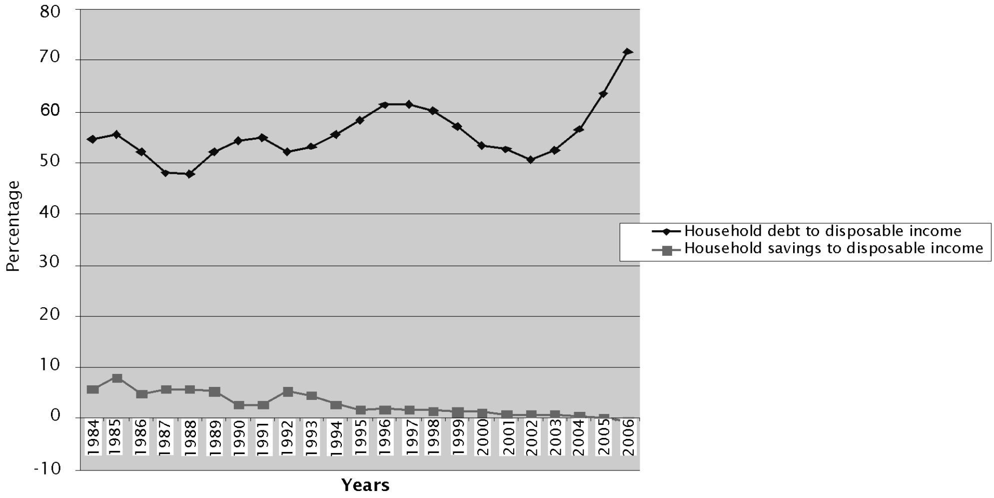
This article will focus on providing a backdrop to the personal debt and savings problem, and discuss the history, as well as the current state, of personal debt and savings in South Africa and their inverse relationship to each other. Financial illiteracy will be discussed by pointing out factors that lead to a decrease in financial illiteracy and the consequences of financial illiteracy. The methodology of the research will be examined and the results will be presented with conclusions and complementary recommendations.

PURPOSE OF THE ARTICLE

The purpose of this article is to determine the percentage of income spent on individual debt, behaviours that lead to poor financial management and the reasons that individuals are not saving. The status of personal savings and debt among South Africans and the implication of these variables, as well as financial illiteracy, on entrepreneurial activity in the South African context, will also be discussed. The article will also focus on establishing the link between personal debt and savings, and entrepreneurial activity and will contribute to the limited research on the subject of South African personal finances.

CONCEPTUALISATION

Personal debt and savings have an inverse affiliation to each other (Prinsloo 2002: 73). The De Kock Commission Report of 1978 suggested financial liberalisation, and the South African government responded by instigating a more market-orientated monetary approach from 1980 onwards, which removed interest and credit constraints. This, in turn, led to sizeable reductions in banks' liquidity ratios between 1983 and 1985 (Aron & Muellbauer 2000: 17). In view of the fact that liquidity ratios were lowered, banks had more cash available to lend to the public, consequently making credit more freely available. The deregulation of financial markets in South Africa brought forth an extreme escalation in personal debt levels, while at the same time savings dropped significantly (Prinsloo 2002: 73). The connections between these two variables are clear, to the extent that when one variable is altered, the other follows by changing in the opposite direction by roughly the same magnitude. Household debt as a percentage of disposable income, compared with household savings as a percentage of disposable income, can be seen in Figure 1.



Source: Kane-Berman & Tempest (2007: 87)

Figure 1: Household debt and household savings as a percentage of personal disposable income (1984–2006)

Substantial changes have transpired in household debt over the past three decades (Prinsloo 2002: 77). Household debt, relative to disposable income, fluctuated between the bounds of 47.5% and 61.5% over the period 1984–2004. These figures indicate that between 1995 and 1997, household debt in relation to disposable income weakened significantly. From 1998–2003 a definite improvement was noted, although the figures were still very high (Kane-Berman & Tempest 2007: 87).

South Africa had a long history of double-digit inflation (from 1974–1992), as well as high, and volatile, interest rates that affected consumers (South African Reserve Bank 1996: 1). The volatility of South Africa's interest rates has a noticeable influence on household debt to disposable income ratios, as well as interest payments.

A rise in interest rates inevitably leads to an increase in interest payments, leaving the consumer immobilised. This increase in debt payments leads to increasing expenditures, leaving individuals with less disposable income.

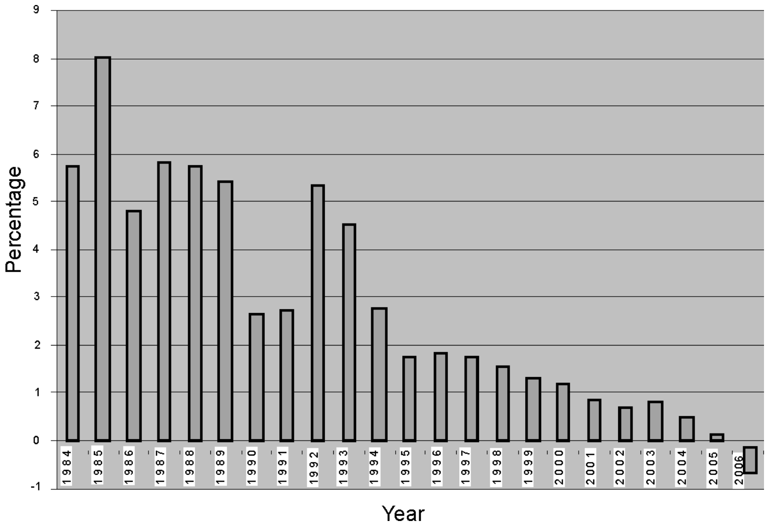
The South African Reserve Bank increased interest rates by 50 basis points (0.5%) respectively in June 2006, August 2006, October 2006, December 2006, June 2007, August 2007, October 2007, December 2007, April 2008 and June 2008. The prime overdraft rate is currently 15.5% (South African Reserve Bank 2008: 1). These interest rate hikes were necessary as household spending intensified, putting pressure on inflation. Consumers have been acquiring increasing debt instead of using the low interest rates to clear debt (Mokopanele 2006: 1).

Interest rates in 2004–2005 were at low levels compared to previous years, which presented the consumer with higher disposable income. Consumers opted for higher debt levels, because interest payments were low. In times of high nominal interest rates, consumers are discouraged from taking on new debt, as interest payments are higher. Interest payments therefore remain high due to the increase in the interest rate. The inflation rate of South Africa, as set by the South African Reserve Bank, is kept between the boundaries of 3% and 6% (South African Reserve Bank 2007: 1). The interest rate increases in 2006 and 2007 should have a negative effect on consumer spending, as the higher interest rate will discourage consumers from taking on more debt and overspending. This, in turn, will have a positive effect on inflation, keeping it within bounds.

These high levels of debt, as well as increased interest rates, made saving more difficult than ever for South African consumers.

Prinsloo (2002: 74) stated that the direct effect that the general deregulation of the financial sector had on savings cannot be evaluated, but that it has, without doubt, added to enlarged household debt and a rapid reduction in personal savings (see Figure 1). Compared with the savings ratios of the household sector from 1997 onwards, high savings ratios existed from 1974–1984. Figure 2 shows that South Africans generally have an alarmingly low savings ratio. Provision for retirement is included in these figures (Kane-Berman & Tempest 2007: 87). The savings rate is at a record low level of 0.2% of disposable income (RSA MoF 2006: 2), and savings decreased from R3.9 billion in 2004 to R1.5 billion in 2005 (Van Tonder 2006: 1).

Deregulation in South Africa led to abrupt increases in the level of debt that consumers incurred, and savings subsequently decreased. The savings figures of South African consumers are a confirmation of this fact, as the debt levels are higher than ever, and the ensuing savings statistics have been low. The decline in household savings over the past 20 years is a global occurrence and not just a domestic incident. Several major industrial countries were part of this phenomenon (Prinsloo 2000: 13).



Source: Kane-Berman & Tempest (2007: 87)

Figure 2: Percentage of household savings in relation to disposable income (1974–2006)

Van der Walt and Prinsloo (1995: 7) accurately affirm that when expenditures surpass current income, dissaving naturally occurs. They come to the conclusion that, unless counteracted by a stronger increase in the assets of the particular household, an increase in household debt will give rise to a decline in the savings of the household. Despite warnings by the Reserve Bank, the level of household debt, as a percentage of disposable income, is currently at 68% and increasing (RSA MoF 2006: 2).

There are so many choices to be made – with so many variables to consider and hidden biases, conflicts and subjective preferences – that consumers can become overwhelmed when it comes to personal financial decisions (Streeter 2003: 4). It is therefore necessary to examine financial literacy and all its components.

There are factors in the immediate external environment that could influence the level of personal financial knowledge of individuals. Factors that could lead to decreasing financial literacy among individuals include the increased complexity of the economy; less time spent accumulating wealth and more time spending it; individuals living longer; an absence of financial education; and insufficient pension and personal savings. These factors are dealt with in more detail as follows:

- Increased complexity of the economy: The finance industry tends to be confusing, intimidating and complex. Individuals that are not sufficiently educated or knowledgeable will not be able to make effective choices and are sometimes too proud to admit that they do not understand. There is a great need for financial literacy training (Streeter 2003: 4). Individuals are not being responsible when it comes to their personal finances, as revealed by Anthes (2004: 51), who reports that according to a 2004 Retirement Confidence Survey, only 58% of workers are currently saving for retirement. Fifty-eight percent (58%) of workers do not calculate how much money they have to save to live comfortably by the time they retire. A shocking finding was that half of the workers that are not saving for retirement feel confident that they will have enough retirement money by the time they need it.

- Less time spent accumulating wealth and more time spending: Countless individuals all over the world are not saving enough for retirement and are unprepared to deal with the complexities of managing and acquiring assets throughout their working lives (Lloyd 2005: 15). In the year 2000, Americans only started accumulating wealth after the age of 25 and stopped long before turning 65. In contrast, individuals started accumulating wealth at the age of 20 in the 1930s and continued to do so until they reached their late 60s. Individuals also spend an average of 35 years in retirement, compared to 20 years in the 1930s. Therefore, time spent in retirement has increased, but there has been a definite decrease in wealth accumulation (Anthes 2004: 51).
- Longer lives: Citizens in South Africa and Western countries are experiencing major financial burdens because of increased life expectancies. People live far longer than in previous decades and consequently need significantly more in terms of retirement savings. The opposite is the case, however. A large proportion of individuals do not plan for retirement or take their life expectancy into account. The average life expectancy in the United States is expected to increase from 68 in the 1950s to 81 by 2025 (Lloyd 2005: 15). Anthes (2004: 51) reports the following statistics concerning US life expectancy:

  — In 1900, 7% of 60-year-old Americans had at least one living parent.
  — In 2000, 44% of 60-year-old Americans had at least one living parent.

- Absence of financial education: There is little doubt that school syllabuses should include basic financial skills training. South Africans lack the necessary financial skills to plan for retirement. Education in this field would be of great benefit to society (Lloyd 2005: 15). In addition, many schools in the United States do not teach financial education as a subject, because the teachers themselves do not understand what they are teaching, despite the availability of financial education programmes developed for youths (Anthes 2004: 51). According to the former deputy minister of Finance, Mr J. Moleketi, individuals should take responsibility for planning their future and empowering themselves with financial knowledge. They should demand explanations from service and product providers when they are doubtful or do not understand terminology. Effective consumer education will not occur overnight and should be a multigenerational initiative. It is therefore clear that the government of South Africa recognises the lack of, and need for, financial education (RSA MoF 2006: 5). "Changes in the school education system are required to raise entrepreneurial awareness and create a good grounding in basic financial and business skills. Secondly, effective training in specific financial administration skills is required on a fairly large scale amongst existing entrepreneurs" (GEM 2003: 13).

- Pension and personal savings: Individuals need to save for the following reasons:
  - to smooth consumption patterns over their lifetime
  - to provide for their retirement and old age
  - to finance expected, large expenditures, such as the purchase of a house or the financing of their children's education
  - to finance unexpected losses of income.

The importance of saving, however, is only realised when the need for it arises, and then it is often too late (RSA MoF 2006: 4). Investment and pension returns have decreased since the 1980s because of lower inflation and reduced interest rates. When individuals are expected to live to the age of 80, these investment returns become even more mediocre. The combination of lower interest and inflation rates means that an individual that is currently retired will need double the capital to buy the same standard of living as in the 1980s (Needham 2005: 13). Pension savings in the United States are becoming increasingly unsteady every year, and with personal savings dangerously declining, there is a clear indication that people do not realise the implications of their actions (Anthes 2004: 51). Factors responsible for the deterioration of financial literacy, such as the complexity of the economy, less time accumulating wealth, longer lives of consumers, and absence of financial education, as well as the deterioration of pension and personal savings, have the following consequences for consumers:

- Spending more than their income: Atkinson and Kempson (2004: 2) found that young people in Britain (aged 18–24), are increasingly over-borrowed and getting into financial difficulties because of financial illiteracy. Workers find themselves in financial crises because of a need to spend their income on costly goods, such as branded clothes and cell phones, for the purpose of 'fitting into' a society where these goods have become necessities rather than luxuries. In order to live up to the standards set by society, people acquire these goods on credit (Lorgat 2003: 6). Anthes (2004: 52) supports this and refers to the 'instant gratification' mentality of individuals that lures them into spending more on what they want and but do not necessarily need.

- Not keeping financial records: A study by Kidwell and Turrisi (2004: 606) deduced that budgeting can change spending patterns of individuals, because of the successful regulation of finances. Unnecessary spending is curbed and budget maintenance is met with a favourable attitude. It was found that 45.6% of students with better financial knowledge keep detailed financial records, compared with only 29% of the students with less financial knowledge. The research conducted by Chen and Volpe (1998: 121) suggests that the more knowledgeable group regulates their spending patterns and decisions by keeping detailed financial records.
- Not planning and implementing a regular investment programme: According to research by Chen and Volpe (1998: 122), 89.4% of financially knowledgeable students view the planning and implementation of a regular investment programme as important. When they were offered an investment situation, 80% of the knowledgeable group made the correct investment decision, while only 51% of the less knowledgeable group made the correct decision. Most consumers are not educated enough to make informed investment decisions. Forty-five per cent (45%) of recipients in a survey by Princeton Research Survey Associates (1999: 38) had some knowledge, while 18% of the respondents did not have any knowledge of investment planning and implementation.
- Making incorrect financial decisions: The more knowledgeable an individual is concerning personal financial issues, the less likely that individual would be to make inaccurate financial choices that could lead to financial problems, such as inadequate insurance, spending exceeding income and incorrect investment choices (Chen & Volpe 1998: 122). Garman, Leech and Grable (1996: 165) suggest that negative financial decisions could be rectified and avoided by providing employees with the necessary financial counselling and intelligence to manage their finances in a more effective manner. Consumers that spend more than they earn, do not keep financial records and do not plan and implement regular investment programmes, give rise to individuals who make flawed financial decisions.

The aim of any financial literacy programme for adults should "be to enable them, individually and collectively, to understand and question the way in which financial institutions, the government and personal and household decision-making connect to shape numerous aspects of their daily lives". Consumer education helps to develop the basic financial skills required to raise public awareness and understanding (Bond 2000: 72).

Various authors (Kidwell & Turrisi 2004: 611; Teichman et al. 2005: 139; Lorgat 2003: 8; Joo 1998: 284) suggest that adults and children alike should be educated in financial issues, such as retirement planning, credit, savings, debt consolidation and investment, in order to equip them with essential financial skills to manage their personal finances effectively. Streeter (2003: 4) views financial education as very positive in improving both personal savings and more effective credit use.

All the research studied gave the impression that financial illiteracy can only be overcome by implementing financial education programmes for all gender, age, income and educational groups.

Lorgat (2003: 8) suggests that South Africans need financial education to increase their financial well-being. Joo (1998: 284) has conducted extensive research in workplace financial education combined with financial counselling sessions and found that it improves attitudes and behaviours related to personal finances, which leads to positive personal financial outcomes and an improvement in overall financial well-being.

There is a definite connection between the levels of personal debt and savings and entrepreneurs' ability to start a new business. Lingelbach et al. (2005: 5) mentions the increasingly consumerist nature of developing countries and verifies that over-indebtedness may constrain an entrepreneur's capability to start a new business. A White Paper was initiated by the US Corporation of Enterprise Development (CFED) whereby the relationships between youth savings and entrepreneurship through financial education were established (Pate 2006: 12).

METHODOLOGY

In South Africa, very limited research is done in this specific research field. More comprehensive literature was obtained from the United States and the United Kingdom. Primary data were collected from structured questionnaires, consisting mainly of multiple choice questions that tested the extent of debt accumulated and the perceptions and behaviours of respondents regarding their personal debt, savings and retirement. The defined target population comprised all the students enrolled at the University of the Free State's School of Management during 2005. The students had a minimum of three years' working experience and a management background, which were set criteria to be met. These students were registered in one of three business and management courses that necessitate knowledge of finances. The target population was selected due to their background and studies in business. It was considered that these individuals would have higher levels of financial literacy than the average South African. The more educated a person, the more likely he/she is to start a business. The probability that a tertiary educated individual will start a new business is 2.5 times greater than for individuals who have only completed secondary education. It was decided to use the whole population (286 respondents), and this decision eliminated the use of a sample. The SPSS (version 13.0 for Windows) statistical software program was used to analyse the data obtained.

The genders of the 286 respondents were roughly equally matched, with male respondents representing 52.4% and females representing 47.6%. The respondents were predominantly highly educated (65.4% had university or technikon degrees or diplomas), and 77.3% of the respondents were between the age of 30 and 49.

In order to determine perceptions of and attitudes towards certain personal financial issues, respondents were asked to grade themselves in terms of their financial literacy on a scale from one to five. From the responses, it was possible to deduce a mean for each statement. The percentage of the respondents who were dissatisfied with their personal finances was determined by calculating the overall percentage of the respondents that displayed dissatisfaction towards statements in the questionnaire, thus positioning their responses with respect to the specific attitudes as one of the two most negative figures.

RESULTS

The results exemplify the attitudes that respondents displayed regarding debt and saving.

With regard to satisfaction towards the amount of money saved and invested for retirement, 49% of the respondents indicated that they were not satisfied with the amount they were saving and investing towards retirement. It was found that the overall level of dissatisfaction among respondents was 57.5%. It is also interesting to note that the overall level of dissatisfaction of the respondents towards the amount of money owed was 50%, while 37.4% of the respondents indicated that they were concerned about the amount of money they owed.

The average percentage spent by each respondent on their respective forms of debt was calculated to determine the overall average of each form of debt. Table 1 shows the percentage of users of each form of debt, as well as the average percentage of income spent on the specific form of debt. By multiplying the percentage of respondents with the average percentage of income spent, the total percentage of income spent on each form of debt can be calculated. By adding all of these percentages, the average total spent on debt could be calculated.

Table 1: Total amount of disposable income spent on the different sources of debt

Sources of debt	Number of respondents (*n*)	As % of *N* (286)	Average % of income spent	Total average % of income spent
Home loans	174	60.8%	23.0%	14.0%
Bank loans	130	45.5%	18.0%	8.2%
Vehicle finance	161	56.3%	21.0%	11.3%
Micro lenders	26	9.1%	-	-
Clothing accounts	192	67.1%	15.0%	10.1%
Furniture accounts	78	27.3%	16.0%	4.4%
Credit cards	201	70.3%	20.0%	14.1%
Total				62.1%

The total monthly percentage paid to all the sources of debt is 62.1%, leaving only 37.9% of the disposable income for general monthly expenditures and savings. This finding is similar to the findings of research in the literature that, according to 2006 figures, 73% of disposable income was spent on debt (RSA MoF 2006: 2).

The highest percentage of disposable income is spent on credit cards (14.1%), rather than home loans (14%) and vehicle finance (11.3%). However, it is important to note that the highest average percentage spent each month is on home loans (23%), vehicle finance (21%) and credit cards (20%). The implication of the results is that 64% of disposable income is spent, should an individual make use of the three forms of debt mentioned, namely home loans, vehicle finance and credit cards.

Due to the very high levels of debt, and an average of only 36.9% of disposable income remaining to pay for monthly expenditure, there will not be much left to save. Since these results were obtained in 2005 when the prime lending rate was 10.5%, these respondents' debt positions could, at present, be far worse due to the increase in the prime lending rate from 10.5% to 15.5 % since then.

A selection of behaviours was presented to the respondents, and they were asked to indicate how often each of these behaviours occurred. The various frequencies presented to the respondents were 'never', 'sometimes', 'usually' and 'always'. Individuals had to choose the rate of occurrence that appealed to their respective personal financial circumstances. From the responses, the mean (or factor) for all the behaviours could be calculated. The poor financial management percentage was calculated by adding up the two most negative responses for each of the behaviours and dividing it by the number of respondents.

The results indicated that respondents displayed an overall poor level of financial management, since 60% did not set money aside for savings, and 67.1% of the respondents indicated that they either 'sometimes' or 'never' set money aside for savings. The overall level of poor financial management displayed by the respondents was 40%. With regard to setting aside money for retirement, 37.8% of the respondents indicated that they 'sometimes' and 'never' save for retirement.

The tendency of the respondents' saving behaviours will impact on their personal finances and will definitely influence future outcomes. Table 2 deals with the reasons the respondents cited for not saving.

Table 2: Main reasons why respondents are not saving

Main reasons for not saving	**Total**	**Total %**
1. I do not have enough money	107	74.3%
2. I do not need to save money	3	2.1%
3. I do not know how much to save	10	6.9%
4. I have not thought about it	19	13.2%
5. I do not think it is important	1	0.7%
6. Another reason	4	2.8%
Total (*n* = 144)	**144**	**100%**

The principal reason that a large number (74.3%) of the respondents identified for not saving was that they did not have enough money to save. A disturbing 13.2% stated that they had not thought about saving, and 6.9% said that they did not know how or how much to save.

DISCUSSION AND CONCLUSION

The levels of debt, as well as the cost of debt, have become so high that consumers do not have enough money left to save after their debts have been covered. As a result, it is reported that, on average, South Africans save between 1% and 2% of their disposable income. This is alarmingly low when it is considered that provision for pension savings is included in this figure.

The total average percentage paid on debt each month equals 62.1%. It was therefore not surprising that respondents felt dissatisfied with the amount of money they owed and saved. These findings and the new credit environment in South Africa suggest that entrepreneurial activity can be expected to dwindle to less than satisfactory levels as the percentages of disposable income remaining after other responsibilities have been attended to keeps declining.

The unmanageably high levels of debt and an ignorance and disregard towards savings influence consumers' ability to start and manage new businesses. Due to the high levels of debt and the impact of the Credit Act, individuals will struggle to obtain credit from credit providers for personal and entrepreneurial purposes. The Credit Act might be a short-term solution to the problem South Africans are facing in terms of the massive levels of personal debt incurred, but by implementing the Act, responsibility for managing one's personal finances is effectively taken away from the consumer and possible future entrepreneur.

The literature supports the link between personal debt and savings, financial literacy and entrepreneurial activity, and the findings offer insight into the status of personal debt and, consequently, personal savings of South Africans.

Personal financial education is essential to obtaining knowledge that could assist individuals in managing their financial affairs effectively. Entrepreneurship is taught to learners without including teaching on personal financial management, which is a critical link in entrepreneurship (Swart 2005: 49). It is vital that individuals should receive education in personal financial management in order to reduce the effects and consequences of the mismanagement of personal finances and negligent use of debt. Services should be provided to individuals to assist them in consolidating loans, as well as moving towards getting out of debt completely. It is also crucial to advise consumers on the need to save for future purposes, especially retirement. The new Credit Act is a step in the right direction, as the level of debt will decrease, which could have a positive influence on saving levels. However, it remains the responsibility of individuals to realise the importance of saving and entrepreneurial activity as a means to becoming financially secure and independent.

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