



Reality Check Approach Study Brief

Household Finances

Insights from people living in poverty on their household finance management

Background

There is a scarcity of contemporary research on household finances in Indonesia and especially anthropological studies which can provide insights into how families living in poverty manage their finances day-to-day. Given the growing preference in Indonesia to provide poor households with social assistance in the form of cash transfers and the concomitant emphasis on developing financial products for the poor, a study looking at financial behaviours and choices was considered to be highly relevant. This is particularly pertinent as it has been found in other RCA studies that trends in people's spending are changing rapidly.

People's views

Over the period 2014-2016, the RCA Research Team has lived in the homes of over 250 families living in poverty in Indonesia in addition to those lived with during this study focused on household finances. The following insights are gathered from people's own perspectives and are consciously presented without authorial voice or interpretation. These insights are what people themselves say, feel and think about their finances and their management of finances.

Reality Check Approach

This is an internationally recognised qualitative approach to research which has been used in several countries since 2007. This study was carried out in April-May 2016 in 7 provinces of Indonesia. It involved 34 families living in poverty. The study team members had previously lived with all these families (between 6-24 months previously) so they were able to benefit from the close and informal relationships already built. We were welcomed back as members of their families. The study also involved other interactions with neighbours, shopkeepers, loan providers, village officials and others in the community so the findings are based on conversations with over 2200 people. The research approach is based on informality in people's own space and with the least disruption to their everyday lives. This 'hanging out' without note-taking or formal structure provides enabling conditions for trust building and openness, particularly suited to exploring sensitive topics such as finances.



'Farming is food, cash is income'

Everywhere people emphasise that they need cash and that this is what they mean when they talk about income. Food grown for own consumption or reciprocal arrangements such as sharing food for work are not viewed as income. People tell us that their first concern is to *'make sure the family can eat'*. Really hard times, they say, are when they have to eat rice with salt only. Generally people say that this is rare and more often are times when *'We are not starving but don't have much cash'*. Usually people eat rice and fish and/or vegetables daily across Indonesia and spend about IDR 20,000/day to feed the family (roughly half is the cost of rice and half is the cost of the fish plus the spices and ubiquitous MSG). Although food is a priority, these days people also increasingly need cash to pay for electricity (around IDR 30-50,000/month for light but rising to IDR 80-100,000/month to include running a TV), mobile phone credit (nearly all the homes we have stayed in have at least one mobile phone), cooking fuel (as fewer people use firewood) and increasing numbers of households now pay for their water consumption.

A pattern emerging from RCA studies across Indonesia is that poor families budget about IDR 60-100,000 in cash per day, spending it more or less equally on food, snacks and cigarettes. Parents share their concerns about the constant demands for pocket money from their children usually ranging from IDR 5000-15,000 each per day. They worry that their children will not go to school without money for snacks and this becomes a constant headache for them especially as they shared and we saw their children shout, scream, throw tantrums or take to their beds to feign illness to get what they want. Cigarettes are often referred to as *'father's pocket money'* and similar amounts of money are spent daily on cigarettes as on food and snacks. One young man in Central Kalimantan described how giving up smoking since we stayed with him nearly one year ago has enabled him to save IDR1 million/month.

**'School is supposed to be free, but there are always calls for contributions'**

Over the years RCA teams have been staying with families living in poverty in Indonesia families have increasingly shared their concerns with their ability to pay school expenses, mainly because the costs and demands keep escalating. Primary education costs, they say, now range from IDR 3-750,000 per year and can double for Junior High and double again for Senior High, even without considering the mandatory pocket money associated with school-going. With pocket money the costs of sending each child to school are in the range IDR 900,000-3.6 million/year, equivalent to between three months and a whole year of food cost for the entire family. The determination to send children to school and to give their children opportunities for better lives than they have is very high indeed. This and other RCA studies have shown that as well as official education costs there are *'never-ending demands'* for contributions to school maintenance, teacher's gifts, school trips, photocopying, school committee and others. Parents continue to share their frustration at the requirement for so many uniforms for school (usually four and often five), not just the costs of purchase but the laundering too.

'After all the savings there is always something to take it away'

Social pressures require families to contribute to weddings, funerals, baby naming and circumcision parties. These days this contribution is usually expected to be in cash and minimum contributions are about IDR 20,000 but can be much more for close relatives. Hosting a wedding despite the contributions can run into 10s of million rupiah.

Church and Mosque demands can also be very high. Sums between IDR300,000 to IDR 600,000 per year per household are not uncommon. People shared that these were particularly difficult because of the public shaming often associated with not providing or delaying the expected contribution. People shared comments like, *'They should be supporting us, not demanding money from us all the time'*

'I work but never hold the money-my wife takes care of the money'

In nearly all the study families, women take the day-to-day financial decisions and in two thirds of families either women or women together with men take the larger investment decisions too. Amongst the few families which indicated that final decisions on daily expenses were taken by men, they too indicated that mother often knew *'how to persuade him'*. Men consistently told us they give their earnings to the mother to manage. Mothers are also thought to be better at keeping savings.

'I always wanted a regular income'

The unpredictability of income is one of the most talked about concerns among the study families and others we have lived with before. People share their regrets that their livelihoods are precarious, especially farmers and fisherman who tell us *'now climate is unpredictable and we do not know when the rains will come'* and worry a lot about market price fluctuations. They point out that teachers and nurses have predictable incomes and opportunities for accessing credit *'not only are they never short of food but can pay for school and care for their parents'*. Waged employment is an increasing aspiration in order to smooth cash flow and meet the demands of the cash based economy.

'There are many ways to earn cash'

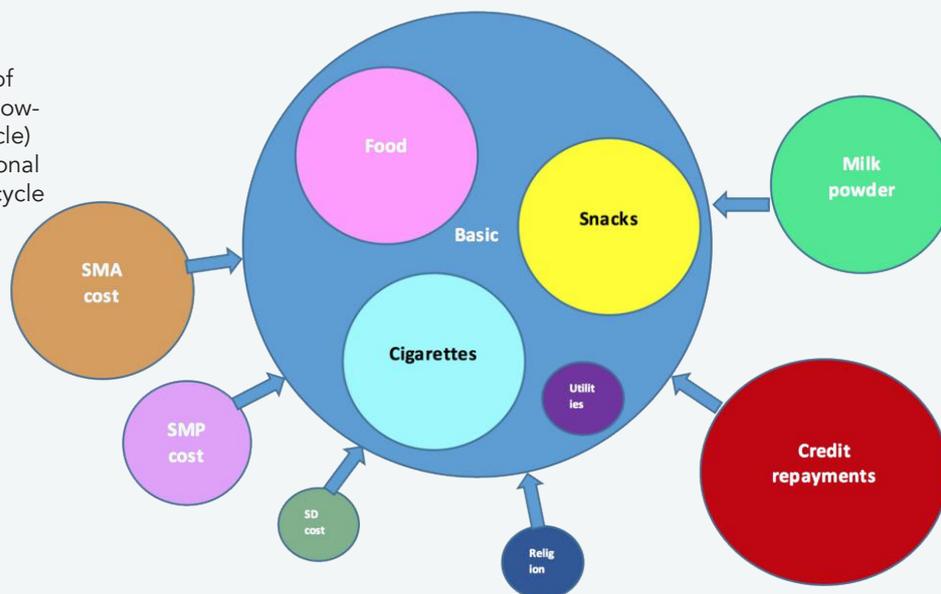
Without regular employment, people rely on multiple ways to raise cash. More than half the families had more than three ways to earn cash and some had as many as six or seven. People are poorest when they live in areas with limited income earning opportunities and have less members of the family capable of availing these opportunities. As an example of multiple and diverse incomes, one family in West Sulawesi shared that

they can get waged work on a local shrimp pond or in construction but there are also self-initiated opportunities like gathering fallen coconuts and making and selling copra, collecting and selling local foodstuffs such as June plums, land crabs, freshwater fish and snails, buying and selling products such as snacks and mobile credit or moving between villages selling clothes or engaging in traditional crafts such as weaving roof thatch panels. This family got their cash income from any combination of these multiple sources each day *'we have to look for things'*.

'We can't depend on social assistance'

This and other RCA studies have revealed that people continue to be *'mystified'* about who is considered eligible for social assistance, confused by the procedures and do not seem to qualify for help consistently (for example, getting student support (BSM) for one child but not others, or getting it for one year but not the next). As the following quote from a junior high school girl student illustrates BSM amounts are considered too small, *'I had to pay IDR 750,000 in addition to the BSM to pay for all the uniforms, books, photocopies and homework papers'*. This and other RCA studies find very rare families who feel RASKIN rice actually helps them.

A schematic representation of typical monthly expenses, showing basic expenses (inner circle) and the magnitude of additional expenses related to the life cycle differences.



'The hardest time is now as my daughter is about to go to junior high school'

'Expenses got worse after the new baby came along'

Families across Indonesia point to two times in the family life cycle which are always comparatively hard; when a new baby arrives and when children become teenagers. Childbirth itself incurs costs but the social and market advertising pressure to feed babies formula milk as well as use lotions and talc takes a toll on family expenses. Milk formula alone can cost in the region of IDR 250,000-300,000 per month, about the same again as a family spends to feed the entire rest of the family and represents an added burden of about a third of their usual expenses. Mothers also stop working and so the family loses a working family member. While this time is often a struggle for families, people talk about the time when their children are teenagers as *'the most difficult'* financially. They heave a sigh of relief when at least one has finished school and has a *'good job and starts sending money back for others'*.

'Whenever there is a crisis then the family will support each other'

There is a strong sense of family helping each other out with loans at various difficult times in the family life cycle (such as when children transition from primary to secondary school or from secondary school to college) or when there are crises such as health crises. These are not loans provided with expectation of repayment in cash but rather with an implicit understanding that whatever is given will one day reciprocated when the donor needs help. Although this is widely practiced, some feel uncomfortable asking for help and burdening other members of the family while others tell us they feel increasingly exploited if they are regarded as earning well. Despite some changing trends in people's willingness to help out family members, people would rather get financial support this way than seek loans from non-family or banks.

**'I never borrow money even from my neighbour' vs
'You can buy anything on credit here'**

Families have opposite but strong views about debt. Some eschew it under any circumstances and told us they are very scared about getting into debt. This included taking loans and buying goods on credit. By contrast other families bought household goods and motorbikes on credit saying that the worst that could happen is that the goods are re-possessed and rarely saw this as debt. They enthused that these goods could also be used as collateral for cash loans. For example, motorbikes may be left with local moneylenders when cash is needed. Nevertheless credit repayment in monthly instalments are often a major outgoing involving paying amounts in the region of IDR 400,000 per month over three years, for example, for a motorcycle. Some of the most stressed families had lots of debts and some were particularly vulnerable to scams such as pyramid selling schemes.

'Banks are costly- I would rather have my money at home where I can access it easily'

Formal loans were often felt to be not designed with their precarious and seasonal incomes in mind and were often seen as too large and therefore too scary to take on. The formalities required and costs entailed often dissuaded people from accessing loans, leaving people to conclude that these products are for 'elites, like shopkeepers'. But the most pervasive feeling was that they were worried about not being able to pay back, being humiliated and people finding out.

The traditional *arisan* (informal rotating savings and credit groups) is less popular than before and mostly seen as a social gathering rather than a serious means to access capital. Although some people said that they are too expensive to be a regular member of. While people were mostly disappointed with co-operative savings and other formal local schemes, local informal efforts to help people save for particular needs, such as for festivals, health or funeral expenses worked very well and primarily on local trust.

'It's a joke to expect that we could save some money'

A third of our families had no cash savings whatsoever and those which did have savings had very small cash amounts kept at home. Very few had savings with banks and in each case this was for safe-keeping and to keep the money away from temptation. With large distances to access the bank and sometimes expensive journeys families reasoned that this makes it purposely too difficult to withdraw the money. Nobody knew about or cared about earning interest on savings.

People shared that they like to keep their cash savings with them or, for safe-keeping, with neighbours and other family members and mostly like the feeling that it is easily accessible when needed. Others keep chickens as easily liquefiable assets and rarely keep these for their own consumption. But they make useful savings because they can be converted into small sums of money when needed, for example for unpredictable school expenses. Gold and jewellery are common means of saving 'as you can always sell it back to the shop' or pawn it when needed. Others prefer to save in stocks of produce such as rice or timber or fruit trees. On the whole people prefer the security of being able to see and touch their savings.



Finally, people are saying

- That they are worried about their unpredictable incomes and the need to have multiple sources of income.
- That they are very aware and concerned about times in the family life cycle which are always especially difficult for them financially. They feel school costs should be reduced (for example, suspending the need to have so many uniforms) and be made clearer and more predictable so that they could prepare better for these costs.
- They feel that Savings and Loan schemes are not flexible enough for them and the lack of clear information about them makes people scared of participation in such schemes. Local schemes run by trusted known people in the village are more attractive and are often run on a small enough scale to be less intimidating.
- They prefer Social Assistance as untied cash and feel it needs to be better geared towards family life cycles. The amounts provided should be commensurate with the actual costs faced. Social assistance, they feel, should also be targeted better to those in caring roles.
- They feel there should be more information about buying good on credit and more information to avoid scams and other forms of financial exploitation, which in particular targets the vulnerable.