

Use Money wisely!



This financial literacy information is useful to employees!



Why should you use money wisely?

Life is getting more and more difficult because of the ever-increasing cost of living. Lack of knowledge on how to use and save money. Money is not enough for the ever-growing needs and wants. As a result, you tend to make bad decisions, and join illegal schemes, such as pyramid schemes, to cope. This shows that you do not plan to manage and use money wisely. The information in this booklet is meant to assist you to use your money well.

My life became miserable because of not using my money well. I had to learn to use money wisely!

Advice!

There are many good choices that you can make to avoid being miserable. Always budget and use money wisely!



1

"HOW CAN YOU MANAGE MONEY?"

One of the key ways you can use to manage money is to budget!

What is a budget?

A budget is a plan that clearly shows you how you will use your money against your total income over a period of time, usually a month.

It actually,

- shows you how you will spend your income;
- shows income and expenses;
- shows how much money you have and is needed for expenses, as well as for saving;
- makes you take control of your money; and
- helps you to clearly differentiate between your **needs** and **wants**.

Therefore, without a budget, it would be difficult for you to use your money wisely.

Do you know your wants and needs?

Want



Want



Wants

Things that are not necessary, which you desire or wish for but can live without.

Need



Need



Needs

Things that you require, and you cannot live without them. They include food, clothing, shelter and health care.

Think about these:

- Do you make a budget?
- Is your income exceeding the expenses?
- Are your expenses more than your income?
- How do you bridge the gap?
- How often are you financially broke before month end?
- What do you normally do when you are broke?
- What's your plan to address being broke?



“A lot of people think that it is not necessary to write down a monthly budget. A written budget is very important!”

A written budget clearly shows you your income and expenses!

What does a budget mainly show?

- How much money you make.
- How you are going to spend your money.

Do you think I should make a budget?

Of course, yes! A budget helps you make decisions on how to use, save and invest your money wisely!

A budget makes your life easy – always use it!

Remember!

Unless you actually write down your income and all your expenses, you will often waste money.

Look at my budget below. It clearly shows income and expenses!



“It shows how much I earn and spend. I save part of my income, and spend on needed items only. Please make yours to avoid financial problems!”

How do you start drawing a budget?

You earn net salary of M3,000.00 per month. Think of how much money you spend monthly on each of the following items: groceries, water bill, electricity, transport and airtime. Checking the previous bills, receipts and invoices will help you. The total expenditure for the whole month is M98.00 × 4 weeks = M392.00 for transport. You spend M650.00 on food, you want to buy a television for the first time within a year. So, you have decided to save M300.00 per month. For your long term savings, you transfer M350.00 to your savings account. You pay the school fees of M250.00 per month for your son. You also pay an instalment of M200.00 for loan bursary on a monthly basis. You usually pay M258.00 for electricity and water. You buy clothes for M400.00 and also allocate M400.00 for entertainment.

Your budget is shown below:



BUDGET FOR JULY				
Income	Amount	Amount	Amount	Amount
Earnings (salary)	3000.00		3000.00	
Other income from other activities				
Part time work				
Total Income		3000.00		3000.00
Savings	350.00		350.00	
Television fund	300.00		300.00	
Long term saving	250.00		250.00	
Total savings		900.00		900.00
Income left after Savings deductions		2100.00		2100.00
Less Expenses				
Food	650.00		650.00	
School fees	250.00		250.00	
Loan – bursary	200.00		200.00	
Clothing	400.00		250.00	
Electricity and Water	258.00		208.00	
Transport	392.00		392.00	
Entertainment	400.00		100.00	
Total Expenses		2550.00		2050.00
Balance after expenses		(450.00)		50.00

N.B. As shown in table 1 above, the first two columns present the budget with deficit of M450.00. In order to improve my budget I have decided to cut on clothes, electricity and water, and entertainment allocations as shown on the last two columns. This brings me to a budget balance (surplus) of M50.00 after all monthly deductions. This amount can be used to increase the savings.



Remember!

The M50.00 surplus may look small. However, the amount can be used to increase the savings.

“The example of your budget may look simple, but it has helped me manage my income and expenses well!”



Using Thabo's budget example:

- Record your expenses - money you spend (expenditure) on a monthly basis.
- Record all the money you make on a monthly basis - income.
- Subtract your expenses from your income:
 - If your balance is zero, it means your expenditure equals your expenses. This reflects that you are living within your means.
 - If your balance is below zero (negative), you are spending more money than you make. Therefore, adjust your budget by reducing expenditure items or getting rid of unnecessary expenses. Sometimes people are reluctant to adjust their expenses to match their income and often resort to borrowing money to finance their expenses.
 - If your balance is greater than zero, you are spending less than the money you make. This is appropriate because there is room for more saving and investment. However, this balance is difficult to achieve without proper planning. That is why it is absolutely important to draw up a monthly budget for better management of your finances.

What are other budget benefits? An answer to this question will help me very much!

What are other benefits of a budget?

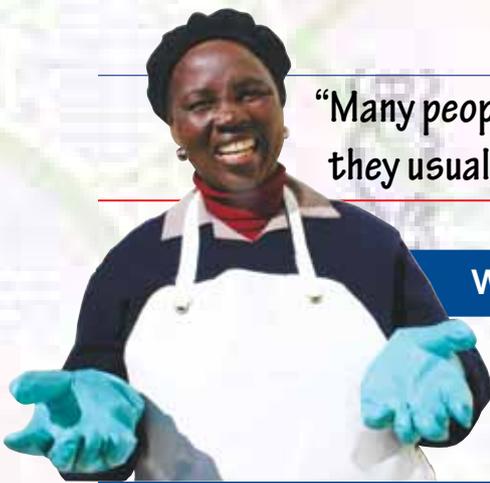
- You can save money for the future, including retirement savings.
- You can accumulate savings in your bank account until desired level to make investment or buy a property (for example, a house, and or a car).



Remember!

Expensive items such as a car or a house need a lot of money, which can be achieved through saving. Stick to your budget to avoid unplanned expenses.

“Many people find it difficult to save money. Through frustration, they usually ask why and how they should save money.”



What is saving?

Saving means putting some money aside for future use. The money can be saved in a deposit account, a pension account, an investment fund, or as cash for future use.

Why should you save money?

Saving money is not very easy, especially when the expenses are increasing while the income is not. It is important to save money for the reasons outlined below:

- **Emergencies** – Saving money for unknown and unexpected events in future.
- **Investment and retirement savings** – Savings may be used to purchase very expensive items or as a deposit towards that. For instance, buying a vehicle, a house, and paying for university tuition fees.

How can you save money?

- Pay your bills when they are due to avoid penalties and other extra charges.
 - Pay full amount to avoid charges related to buying things on credit.
 - Keep your savings in a different account from the one you are using regularly to pay for expenses.
 - Treat savings as line item under the budget.
 - Monitor your budget and try to do away with unnecessary expenses.
 - Avoid spending money excessively.
 - Use licenced financial institutions to minimize risk.
 - Deposit accumulated money regularly to avoid using it.
- Have a long-term financial plan.

Paying for items can be done by:

- Cash.
- Cheque.
- Debit card.
- Credit card.
- Electronic transfer.
- Mobile money.
- Mobile banking.
- eMoney, etc.

Remember. It is very important to visit your service provider or a licenced financial institution to get more information about the different payment methods, and use the appropriate one for your relevant situation.





“Please, do not keep large amounts of cash in unsecure places, such as under the mattress, or in clothes!”

Cash

This is money in physical form of a currency such as bank notes and coins. It pays for goods and services.

Advantages?

- Ideal for small purchases.
- Convenient to use.
- Transactions are completed immediately.
- Can be re-used for other transactions immediately.

Disadvantages?

- Expensive to print, store and transport.
- Expensive to count and susceptible to mistakes.
- Inconvenient to carry.
- Counterfeit fraud.
- Security concerns.
- Can be lost and stolen.
- Can be easily destroyed and becomes fragile over time.
- Not easily traceable.



Warning!

- Do not keep large amounts of cash at unsecure places. For example, under bed mattress, inside kitchen cupboards, or pockets of clothes.
- Do not carry large amounts of cash with you.

What is the difference between a debit card and credit card?

A **debit card** (also known as a bank card) is a plastic payment card. It can be used instead of cash when making purchases. When using the card, the money comes directly from the user's bank account. Unlike credit cards, payments using a debit card are immediately transferred from the cardholder's bank account instead of paying the money back at a later date (for example, at the end of a month). A debit card transaction is only processed if a personal identification four digit number (PIN) is provided by the cardholder as a means to authenticate him/her in the issuing bank's systems.

A **credit card** is also a method of payment. It allows the cardholder to pay for goods and services based on the cardholder's request to the issuer to pay for them (loan) and be reimbursed after 30 days. The issuer (bank) grants the holder a line of credit from a **revolving account** which the cardholder borrows from and is charged interest continuously for as long as the instrument is used. A credit card transaction is processed once the cardholder has provided his signature instead of a 'PIN' since it is a cash advance (loan) request.

Revolving account

It is an account created by the lender where the borrower does not have to pay the outstanding amount in full every month.

What is a PIN?

A 'PIN' is a security code that belongs to you. PIN stands for personal identification number. A licenced financial institution gives you a PIN when you get a debit and/or credit card. You can change your PIN to a number you will remember. Never share your PIN with anyone. Remember it. Do not keep it in your wallet or write it on your card.





“It is important to know that your statements can help you track your use of ATM, debit and credit cards!”

How do you know where you used your debit, credit and ATM card?

Your bank or credit union gives you a statement showing all your transactions. Therefore:

- you will see where you paid with your debit card and how much you spent; and
- you will see where you used the ATM (Automatic Teller Machine), how much you withdrew, and what fees you paid.

What is an electronic transfer?

An electronic transfer is an instruction from the user to a bank presented in a form of an electronic record to pay or collect money from a customer.

Advantages?

- Easily kept and moved in high values.
- Less expensive per unit.
- Cannot be lost or destroyed. Secure.
- More convenient to access.
- Allows transfers of large amounts of money.
- Record kept through bank statements
- Leaves audit trail and records through statements.

Disadvantages?

- Bank needs notice before releasing funds.
- Bank needs prior checking before being processed as errors are costly.
- Money is still taken even if there are no funds in the account.
- Customers may forget to cancel an order and go on paying for services not received.

What about mobile money?

It is a service with which you can manage your money, store value and make payments to any person other than the issuer, and you are not expected to own a bank account or smart mobile phone.

Advantages?

- Use of agent network for delivery of financial services to clients that could not be reached through traditional branches of banks.
- Registration does not require ownership of a bank account or formal sources of income.
- Works with applications of mobile handsets, such as mobile phones and tablets.
- Low finance charges.

Disadvantages?

- Cannot be used if there are mobile network connectivity challenges.
- Identity theft which results in stolen money.
- Lack of infrastructure limits use.
- Lack of solid dispute resolution processes at community level discourages use.

What about mobile banking?

It refers to access to bank services equivalent to ATM or Internet banking, through the mobile phone, where you can access and manage your account and transact.

Advantages?

- Use of mobile phone to gain access to user bank account and banking services.
- Alternative delivery mechanism of existing banking services.
- Can only be provided by licensed banking institution.

Disadvantages?

- Fees charged are higher and there are extra costs incurred such as data and text message fees.
- Have to own a smart phone in order to transact.
- Users are susceptible to security threats, such as hacker attacks that may result in stolen money.
- Lost device means money can be stolen if passwords are known.



With mobile money and banking, never disclose through text, or sms any personal information.

Another thing is to make sure that you put in the correct phone number when you send money.

Mobile banking tips

- Never disclose through text, sms any personal information.
- Sign off or log off after making a transaction rather than just closing it.
- Protect your online passwords.
- Do not use your identity number as a password or username.
- Make sure you put in the correct phone number when you send money.
- If a SIM swap has taken place without your knowledge, report and deactivate SIM urgently.



Why do people borrow money?

People borrow money for different reasons such as:

- when expenses are more than income and one wants to finance such expenses;
- when one does not have savings and runs into an emergency;
- when one buys an expensive item like a house, a vehicle, etc;
- to repay a loan; and
- to acquire unnecessary items.

Remember!

Borrowing money is not always bad. However, it should be carefully evaluated as there is a negative implication arising from interest charges. Some loans are more expensive than others. Borrowing becomes bad when one is unable to service his/her debts. Usually, legal problems come up when you fail to settle your debts.

Borrow money when it is absolutely necessary!



“The most safest places for borrowing money are licenced financial institutions because they charge regulated interests!”

What money borrowing options do you have?

- Micro finance institutions.
- Money lenders.
 - Cooperatives.
- Commercial banks, etc.

The above-mentioned options should be carefully considered before one decides where to borrow from. It is advisable to visit financial institutions licenced by the Central Bank of Lesotho for more information on all the available options.

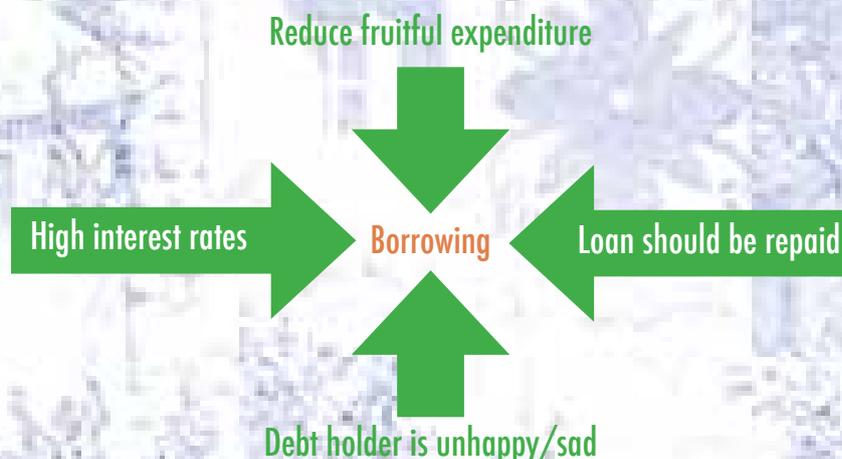
There are **different types of loans** offered by licenced financial institutions. For example:

- **Personal loans** - unsecured loan facility;
- **Business loans** - credit facility offered to a business entity/for business purposes;
- **Overdraft** - short term loan, mostly 12 months maximum period. Can be either reducing or fluctuating;
- **Home Loans** - credit facility for building or buying a residential house;
- **Credit card** - credit facility that you can access with your card;
- **Short Term Loan** - credit facility offered for a period less than five (5) years;
- **Mid-Term Loan** - credit facility offered for a period of five (5) to ten (10) years;
- **Long term loan** - credit facility offered for a period of more than ten (10) years; and
- **Vehicle and Asset Finance** - credit facility for buying a car or property.

Some loans are more expensive than others. It is, therefore, important to do research in order to properly understand the type of loan(s) you need from licenced financial institutions.

What are the problems of borrowing?

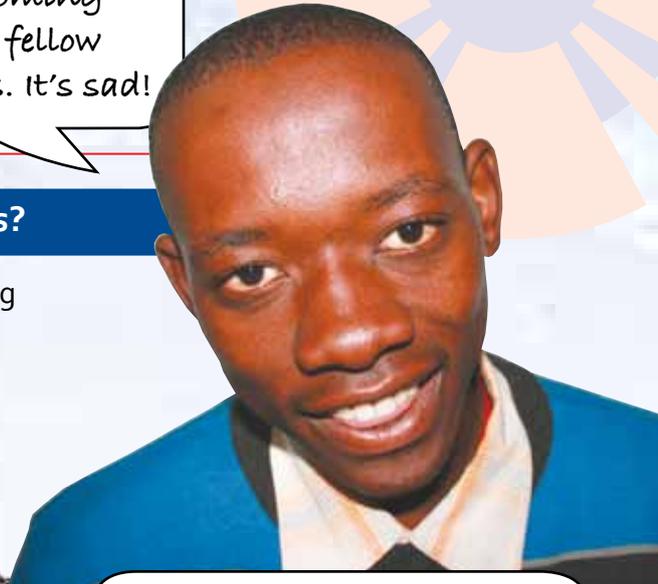
The following picture shows some of the main problems of borrowing:



Remember!

Borrowing is spending the money you do not have and this may have several drawbacks as demonstrated above. You are encouraged to live within your means. This requires high level of discipline and commitment to spend only what is left after putting aside savings.

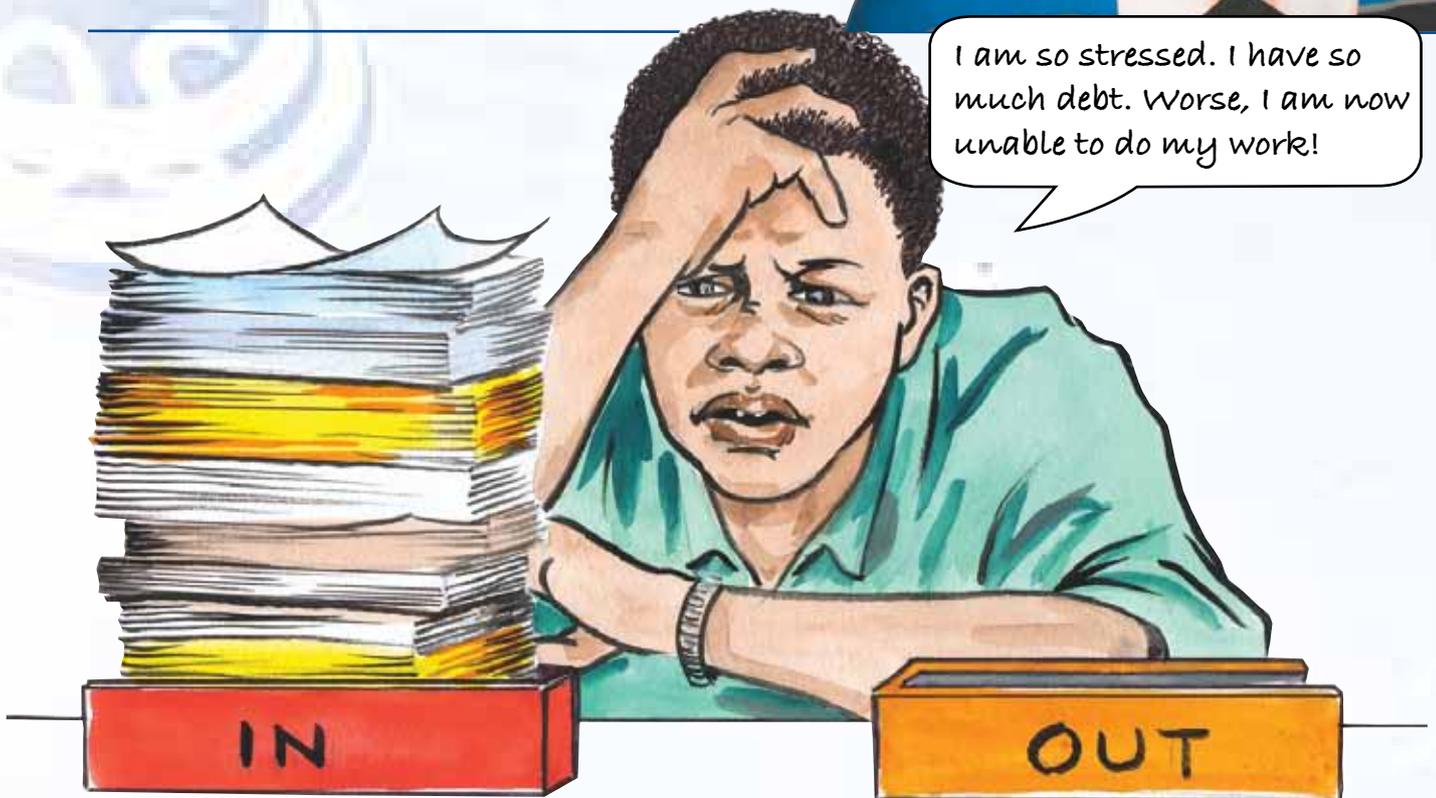
Debts are fast becoming a problem for my fellow young colleagues. It's sad!



What are the warning signs for debt problems?

- Borrowing to pay other loans (for example, borrowing from Thabo to pay Mohale).
- Regular calls from creditors demanding payment.
- Avoiding calls from creditors.
- Getting a loan to finance regular expenses.
- Being blacklisted to obtain a credit.

I am so stressed. I have so much debt. Worse, I am now unable to do my work!



How can I get out of debts?

- Borrow only what you would be able to pay back - otherwise, don't borrow.
- Borrow for needs and or return-making investment or project.
- Pay your bills when they are due.
- If possible, do not stick to the minimum loan instalment. This will reduce interest and loan duration.
- Do not stop paying your debts, even when you have a query. Launch your complaint when you are not satisfied while you are also paying your loan. By so doing, you will avoid double instalments and high interest charges and penalties.
- If possible, when a loan is paid off, save the money which was used to service it?
- Think about legitimate ways of supplementing your income.
- Be a wise consumer (look for bargains/savings).
- Maintain a good credit record because your credit history determines your ability to get credit.

"HOW CAN I BECOME A WISE CONSUMER?"

Watch out advertising, peer pressure and media pressure!

Are you easily influenced to buy things?

Are you easily influenced by advertisements and friends to buy what you would not buy if it was not because of them? For instance, look at the following:



Consumer rights and responsibilities

You should be able to read the financial agreements, warranties, and guarantees. If a bought product does not work as expected, you should be able to raise a query.

Calculating value for money

This involves comparison of prices for similar or same products. Move around from one shop to another, this will eventually help you save money as you will be able to detect where you can get the product of good quality at a fair price.

Using information and advice to make financial decisions

It is through understanding of the financial information that you will be able to make sound decisions with regard to what, when, how to buy or sell property/ assets/ etc.



Avoiding scams and identity theft



Scams and identity theft seem to be gaining popularity recently. One must be careful not to fall victim of being promised a certain amount of money provided he/she deposits a certain portion to the scammers. Sometimes scams promise you a good job, such as the one advertised through a cellphone. They advertise in newspapers, billboards, and online. Their adverts normally look like the one on the cellphone screen.

- The work functions or roles are not detailed, and they guarantee a certain amount of money.
- Identity theft refers to a situation whereby one assumes transactions using your identity such as a PIN, a passport, or other personal information without one's permission.

What must you do to avoid scams?

Learn to read your bills:

- read and watch your bank account statements;
- check your mails;
- check your credit statements/ report; and
- look for accounts or other information, changes you do not figure out and make necessary follow up.

What is the risk and reward situation?

- The higher the **risk** involved in savings/ investments, the higher the returns.
- High interest bearing financial products such as shares or equities tend to be very risky.
- It is, therefore, important for you to assess your risk profile in order to invest in appropriate products which are aligned to your risk taking ability.

Risk

It is usually something that may happen in the future presenting a threat or problem. However, sometimes it presents an opportunity.



“It is important that you carefully evaluate what protection you need and are able to finance!”

Insuring against risks (different types of insurances)

- Credit insurance/credit life insurance.
 - Flood insurance.
 - Vehicle insurance.
 - House insurance/private mortgage insurance.
 - Credit disability insurance.
 - Credit life insurance, etc.
- It is important that you carefully evaluate what protection you need and are able to finance. For instance, a house, vehicle and life insurances are important to have.

4

“WHAT IS THE IMPORTANT ROLE MONEY PLAYS IN YOUR LIFE?”

Money is one of the most important tools or things in our lives. When you have worked for it, planned it well, saved some of it, it can make your life better. For example:

- With it, you can have accommodation, food, and clothes, which are basic necessities.
- When you have earned money and saved some of it, you can access quality education and medical care.
- With money, you can have more control over your life and it can make you feel secure.

Clearly, without money, it would be hard to do these **things that you need**, and even more difficult do the **things that you want**.

What is the link between your personal income and national economy?

- Government gets money through taxes, such as income tax. You, as an employee, you pay income tax, which is used for social and economic activities such as construction of roads, pensions, medical care, and free education.



What are the differences between saving and investing?

Your **savings** are usually put into the safest places or products that allow you access to your money at any time. Examples include savings accounts, cheque accounts, and certificates of deposit. But there is a trade off - your money is paid a low wage as it works for you.

When you **invest**, you have a greater chance of losing your money than when you save. The money you invest in securities, mutual funds, and other similar investments is not insured. You could lose your **principal**, which is the amount you have invested. That is true even if you purchase your investments through a bank. But when you invest, you also have the opportunity to earn more money than when you save. There is a tradeoff between the higher risk of investing and the potential for greater rewards.



Do you know any tips for investing money? If you don't, I have suggestions!

I have thought of some ways. But, please give some suggestions!

Tips for investing money

- Have own financial goals.
- Start by making savings.
- Get financial advice.
- If you want money in short time, do not invest in equities.
- If you do not need that money in short term you can invest in shares.
- Diversify your investment – do not put your eggs in one basket.
- Equities/ share trading although very risky it will beat the inflation in the long-term.

Long-term financial planning

- Plan for retirement as early as possible.
- Put aside little money every month and do not use it.
- Save towards retirement when you start getting your income at an early age.
- Early start requires small amount of money to be put aside.
- Late start (middle to older age stages), requires one to save huge amount as instalment towards retirement.
- Save and invest it for a greater return in the future.

The information in this booklet is very helpful. You should use it in order to have financial stability!





Why **should you** save?

Money is earned not given. All of us need to work hard to enhance our financial well-being.

Saving - for anything - requires you not to get things now,
especially your wants, so that you can get bigger and better things later.

Therefore, make a budget that allows you to use, save and invest money wisely.



In pursuit of a financially stable society

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