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Often when discussing money matters, it is the top part i.e. income(salary) that most people are concerned with and without paying close attention to what then happens in the bottom part i.e. expenses(deductions) or how the income is distributed. Often expenses are dealt with by default or assumption with no budget or plan of how these will be paid for, how long and most importantly understanding what is being paid for. Expenses or deductions from income outside debt and savings/investments would generally be for living expenses with the general distribution as follows: 10% savings and investments, up to 30% debt repayments, and 60% living expenses. The reason for highlighting the breakdown is to emphasize the importance of understanding how income is generated and further distributed from a personal finance point of view.

The appreciation and application of the distribution becomes even more important in cases where you find people supporting immediate and extended family with the income earned, which in most cases is a single income. Surveys show that 60% to 70% of income goes towards servicing debts which is not a good sign, based on the distribution illustrated above. Yes, life may well continue even at these debt levels because living expenses are met, however this is not sustainable as people remain in debt forever and never realise financial independence. The key understanding regarding living expenses is that at best these should be funded or paid for more by income earned/own funds and less by debt.

The above then brings the point that, it is evidently not sustainable to continuously meet monthly living expenses on a single income and at some additional sources of income in line with individual circumstances need to be identified. Additional sources of income would be those that would generate income without necessarily being in conflict with employment as most people derive income from employment. The different sources would include: business (informal), financial assets and physical assets.

Business

This would refer to informal businesses, which would not demand time in the manner that formal business would (as this would likely conflict with employment). Examples would be things like lending expertise and skills elsewhere, commissioned based selling of goods and services that can be done outside employer's time. There would be remuneration for such activities which can be in addition to current income.

Financial Assets

Savings and Investments

These would be passive investments where individual is not directly required, which may provide a descent level of additional income in the form of interest earned on fixed deposits, call accounts and money market investments. That said, with financial assets there is always temptation to invest in quick win investments which are sold from time to time that offer unrealistic returns, these should be avoided by all means.

Physical Assets

This is in reference to assets acquired and owned with the intention of generating income.

Land

Land may be leased and income can be earned regularly. Land appreciates in value.

Property

This may be a combination of land and buildings where rental income is collected.

Identifying additional sources of income is an ongoing process and should be part of an overall financial plan. These additional sources of income will not just automatically start yielding results because they have been identified. Discipline and commitment to a financial plan will be of importance in order to achieve either one. It is very possible to get to a level where identified additional sources of income can improve personal financial standing where there is less reliance on debt to meet even the basic of necessities. This can be achieved through committing and being disciplined in saving and investing, and always borrowing within required levels to acquire the assets for income generating purposes.

The fact that budgeting in personal financial planning is important cannot be over emphasized. There is no other way, it is just the first step to realising saving or investing goals, reducing and paying of debt and above all realising financial independence. If we continuously manage the bottom part (expenses) we will appreciate and improve the distribution of the top part (income).

Key Market Indicators

Inflation[1]	5.9%
Interest Rate (Bank Rate)[1]	7.25%
Prime Rate[2]	10.75%

1. Source: Central Bank of Swaziland
2. Source: FNB, Nedbank, Standard Bank, Swazi Bank, Swaziland Building Society

Glossary

1. Inflation – the general increase in prices and the fall in purchasing value of money.
2. Interest Rate – amount paid by borrowers for use of money borrowed from lenders.
3. Prime Rate – the rate used as a benchmark by banks for lending rates.