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**DO PROPERTY STOKVELS ALLOW FOR GREATER ECONOMIC INCLUSION
THAN TRADITIONAL MORTGAGES?**

A Dissertation
presented to

The Development Finance Centre (DEFIC)
Graduate School of Business
University of Cape Town

In partial fulfilment
of the requirements for the Degree of
Master of Commerce in Development Finance

by

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MTSLET004

November, 2022

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ABSTRACT

Since the dawn of democracy in 1994 South Africa has made incredible strides in diverse areas, thereby cementing its place as one of the largest and most advanced economies on the African continent. However, there are areas where progress still leaves much to be desired such as the provision of quality housing, particularly to low-income earners in the country. Since 1994, the South African Government has adopted various interventions with the aim of expediting the supply of housing to ordinary South Africans and thereby ensure a right to adequate housing as enshrined in the South African Constitution. As the housing backlog seems to be ever-increasing, another increasingly popular phenomenon in South Africa is that of a property stokvel. South Africans of all class put money together for the aim of gaining access to property in some form or another. Simply put, the concept of an ordinary stokvel, where South Africans would pool money to buy groceries at the end of a given year, has been adapted to enable people to now gain access to property (as opposed to simply purchasing groceries). There were three main objectives to the study. They are: to explore the challenges faced by South Africans of a lower economic class that prevent them gaining access to traditional mortgage financing from banks in South Africa; To understand the motivations for participating in property stokvels in South Africa and; To understand which, between property stokvels and mortgage financing, is more appropriate for acquiring property in South Africa. The sample of participants was drawn from individuals who have participated in property stokvels, and qualitative, semi-structured interviews were conducted with these participants.

From the thematic analysis of the interview data, the study found that that there are various challenges related to traditional housing finance applications such as a complex application process, the fear of rejection by banks, the associated anxieties, and the lack of both affordability and flexibility associated with traditional housing finance. Moreover, the study found that some of the main reasons people participate in property stokvels are property affordability and long-term investment goals, strong and effective leadership in property stokvels, their flexibility and relevance to members' needs, access to large scale opportunity, and building collectively whilst being debt free. Finally, the study highlighted various challenges associated with property stokvels such as the time it took for the property to be transferred to the participants. Notwithstanding these challenges, the study found that the benefits of property stokvels outweighed their challenges. It also found that property stokvels were more appropriate than mortgage financing, particularly for low-income earners, for purposes of gaining access to property. The study recommends that property stokvels should be used more extensively in the mainstream economy to facilitate property purchases. This is especially true for low-income groups in South Africa. It is also recommended that banks should amend their processes to ascertain how they can help property stokvels operate more effectively so as to give ordinary South Africans more widespread access to property.

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LIST OF ABBREVIATIONS

CAHF	Centre for Affordable Housing Finance in Africa
CFPB	Consumer Financial Protection Bureau
CPI	Consumer Price Index
FLISP	Finance Linked Individual Subsidy Program
FWB Attorneys	Fairbridges Wertheim Becker Attorneys
GAO	Government Accountability Office
MENA	Middle East and North African Countries
NHFC	National Housing Finance Corporation SOC Ltd
ROSCA	Rotating Savings and Credit Association
SARB	The South African Reserve Bank
UMBDs	Universal Money Deposits Banks
RDP	Reconstruction and Development Program

ACKNOWLEDGEMENTS

To my supervisor, Prof Latif Alhassan. Thank you so much for your guidance and support. I was blessed to have you in my corner. The world of Development Finance is fortunate to have individuals like you grooming the next generation of finance professionals.

To the individuals who took part in my research. Words cannot express how grateful I am that you took time out of your busy schedules to talk to me. I felt the passion that each one of you has for the advancement of marginalised groups in this, our beloved country. You each inspired me with new ideas that I hope to put into action one day. May you continue being leaders and driving economic transformation in your respective spheres.

To my father, Lungile Matshaka, your love for education has definitely rubbed off on me. I've often pursued the 'road less travelled' (many a time with great difficulty) driven by conversations we have had. Your words of encouragement frequently proved to be just the fuel I needed to keep me going when times got tough. Yours was a voice that mattered. Enkosi Bhayi omkhulu!

To my dear mother, Nodumo Matshaka, your discipline and consistency have been a marvel to behold. Thank you for being exemplary with respect to prioritising tasks that would otherwise be considered menial. Your unwavering support and prayers have proved vital for me on this journey. Ndiyabulela MaGambu!

To my older siblings (ii-grootmans, ooKhetshe), Zukile, Wandile, and Sisanda Matshaka, and my sisters (oo-sisi bam, uMamQwathi no MaJola) Lisa and Siyolise Matshaka, I have had the privilege of learning different life lessons from each from you – to the extent that you have been willing to open up about your past experiences, I am eternally grateful. The benefit of being a younger sibling is that you can learn vicariously from the experiences of those who have gone before you. If ever I stand tall, it is because I am standing on the shoulders of 'giants' such as yourselves.

To Zimkita Nkata, thank you for being a friend throughout this journey. The constant prayers and words of encouragement were a lifeline that God gave me through you, especially when it

seemed like there was no end in sight. Your own journey has been a source of encouragement for me. UThixo akusikelele MaNgxabane.

Someleze shlobo sam, it was an absolute pleasure being able to roll back the years and study with you again after such a long time. Thank you for being such a great sounding board. You definitely made the journey seem doable. May you have an incredible professional journey going forward.

Most importantly, I would like to thank God, in Heaven above, for His faithfulness in carrying me through this important journey. I resonate with 'Man of Wisdom' when he notes, "How much better to get wisdom than gold! And to get understanding is to be chosen rather than silver" – Proverbs 16:16. Also, it is by virtue of my walk with God that I stumbled upon the following words, which have been like marching orders when considering my educational pursuits to date: "Education means more than a certain course of study. It means more than a preparation for the life that now is. It has to do with the whole being, and the whole period of existence possible to man. It is the harmonious development of the physical, the mental, and the spiritual powers" (White, 1903).

It is my desire that this body of work will be but a thread in the tapestry of knowledge seeking to address the housing challenges faced by many people in this, our beloved country. May it help us to see that, oftentimes, the answers to some of our toughest challenges lie in our very hands.

Blessings,
Mzikaphalo

CHAPTER 1: INTRODUCTION

1.1 Background of the study

The South African Constitution highlights that all people have the right to have access to adequate housing (South African Government, 1996). While the South African Government has made great efforts to supply housing to the poorest of South Africans (these are also known as RDP houses), the backlog of housing that still needs to be provided is getting larger. The South African Human Rights Commission (2014) highlights the importance of housing when it notes that housing makes provision for much needed shelter from the elements. It further notes that housing provides place wherein one can sleep, relax and raise a family. Moreover, it highlights the importance of housing to South Africa, from an economic perspective, when it notes that the right to housing is strongly linked to broader developments in the economy. These include developments relating to migration, labour markets, demographic and other trends which have an impact on the access to housing. Widespread access to housing can have a positive impact on the levels of economic inclusion within the South African economy. Meagher et al. (2016) note highlight that economic inclusion can be defined as being included in the economic system of a particular region. They further note that economic inclusion allows for greater participation in the economic market of a particular region.

There are both subjective and empirical factors that support the notion of access to property being of paramount importance for purposes of ensuring the functioning, growth, and economic stability of countries all over the world. Gou et al. (2018) investigated factors that impacted the quality of life of different population groups in Hong Kong. The research noted that the housing environment was one of the most crucial factors that determined the overall quality of life. Rosenfield (1991) makes an important submission that housing is important for the chronically and mentally ill. To further emphasise the importance of housing, Reuschke and Houston (2016) highlight the fact that housing has the effect of shaping entrepreneurship and business outcomes in communities. Moreover, they further highlight the importance of housing for enabling self-employment, noting that housing has an influence on decisions to start a business or become self-employed. In their study they made use of data focused on the United Kingdom and found that homebased self-employment is facilitated by, amongst other factors, housing wealth. This is because it provides the necessary financial security and operational space, on the one hand, whilst also allowing for the flexibility required for entrepreneurship, on the other.

This is especially true for developing countries. The World Bank (2008) notes that a sizeable chunk of the world's urban population lives in slums and a majority of these can be found in developing countries. Sanders notes that the Middle East and North African (MENA) countries have issues regarding quality housing for lower income households (Sanders, 2005). He further notes that a leading cause of the housing affordability problem in MENA countries is that the mortgage markets are underdeveloped, in particular for the lower to middle income segments of society. Moreover, Sanders makes the submission that if mortgage reforms can have the effect of improving small business credit/lending then this will have the effect of increasing economic growth, and as such the living standards will be improved in the MENA countries by virtue of addressing the challenges related to housing shortages.

A popular mechanism with which to acquire property is that of making use of a property/residential mortgage. Campbell demonstrates how residential mortgages are of primary importance for households and financial institutions whilst also showing that they provide a basis for economic stability (Campbell, 2013). He further notes that a typical household in a developed economy has a dominant asset, being a house, and usually, one dominant liability, a mortgage (bond). In developing countries such as South Africa, a similar phenomenon holds true for a vast number of households. Historically, mortgage bonds have been popular for various reasons. These include the fact they have a solid history of successful implementation (Nagy et al., 2020). Moreover, the widespread use of mortgages lends itself to the fact they have a largely standardised cost which buyers can be aware of beforehand (Aalbers, 2008). Also, this makes mortgage contracts easily enforceable, as noted by Przeska (2015).

As popular as mortgage bonds are globally, they have not been able to facilitate the provision of housing to millions of 'low-income' persons. Morduch (1999) notes that low income households are at times left out of the formal banking system by virtue of not having sufficient collateral. He further notes that microfinance has an effective way of utilising contractual structures to create loans that do not have a collateral element to them (Morduch, 1999). Stokvels, on the other hand, offer a microfinancing solution which is largely outside the formal banking system.

Stokvels are gaining momentum in South Africa (Ngcobo, 2015). There are various reasons why this is so. Bophela and Khumalo (2019) make the important submission that stokvels could

be important to poverty reduction efforts and ensuring widespread access to economic ownership and capital accumulation. This would in turn help to raise the standard of living of South Africans. This sentiment is echoed by Matuku and Kaseke (2014) when they note that stokvels are a key means with which to reduce poverty and advance social goals of society. Stokvels have low barriers to entry when compared to accessing traditional mortgages or other types of formalised financing. In some (mainly informal) circles, stokvels are more popular than formal banking solutions. It has been noted that banks have not been able to supply suitable saving mechanisms for households that are considered low income. As such, this demonstrates that banks have not fully grasped their low income customers and what their needs are (Baumann, 2001). On the other hand, Holmes (2017) notes that stokvels are a key part of the economy of South Africa. This is evidenced by the fact 11.5 million people in South Africa are members of a stokvel. Furthermore, stokvels have a low cost of participation and they go beyond the mere pooling of money to achieve a particular objective. Further, it has been noted that stokvels are powered by a purpose that goes over and above money because their primary function is that of improving the lives of members (Moliea, 2007). Stokvels are also advantageous in that they have the innate ability to foster economies of scale. Here stokvel participants can combine their buying power to make items of interest (i.e. property) more affordable.

The Centre for Affordable Housing Finance in Africa (CAHF, 2020) notes that even though access to credit was generally available to low income earners in South Africa, the lockdown (as necessitated by the COVID-19 pandemic) created significant financial difficulty which had an adverse effect on the demand for home loans by mid-May 2020. This was despite lending rates being reduced to a low of 7.75%. As such, even with those who could gain access to home loans, such individuals could not take advantage of the reduced interest rates. The issue of finance affordability was further brought to the fore by CAHF (2020) when they noted that the poor extent of creditworthiness and the high indebtedness of South African households remain a cause for concern. This was highlighted by the fact that in December 2019 only 57.5% of the 25.20 million credit active customers were in good standing on their outstanding loans. CAHF further notes that a total of 4% of the mortgage loans were non-performing in South Africa in the fourth quarter of 2020.

1.2 Research problem definition and research questions

Access to housing is a big problem in South Africa, especially for people of a lower economic class. CAHF (2020) acknowledges that South Africa has a comprehensive subsidy framework. Notwithstanding this, they note that housing affordability is an important challenge in particular for the lower income working class. The South African Government offers a 40 square metre fully subsidised house to households earning less than R3500 a month that meet the qualifying criteria. Efforts made by the South African Government in addressing the housing shortage are commendable. As noted in the General Household Survey for 2018, 13.6% of households lived in housing that was subsidised by the South African Government (DHS, 2018). However, CAHF (2020) also admits that there is a considerable amount of work that still needs to be done especially when considering the fact that in 2018, 13% of South African households lived in informal dwellings. This, coupled with the rapid extent of urbanisation in South Africa (including internal migration to Gauteng and Cape Town) makes access to housing in South Africa all the more unique. Moreover, South Africa has a population segment known as the ‘gap market’ which does not qualify for the housing subsidy mentioned above and cannot afford a bond based on their earnings. It is understood that a lack of access to housing finance, among a myriad of other factors, is a barrier to housing affordability in South Africa. As such, there has been widespread protest action in South Africa, with calls for the South African Government to adopt a policy of expropriating land without compensation (Yeni, 2018). This, it is submitted, will be an appropriate action to help redress the ills of South Africa’s dark past, and improve the economic plight of the masses in the country (Yeni, 2018).

A way of ensuring that people in the lower economic strata have access to housing and land is to ensure that they have access to reasonable housing finance. Housing finance is currently not as accessible (and affordable) as it could be for a large number of South African citizens. For one, the large number of people in South Africa without access to basic housing is a significant indicator of this point. Moreover, in addition to the aforementioned challenge of the housing affordability, CAHF (2020) makes the important submission that a majority (56%) of all residential properties are valued at less than R600 000 and as such are considered ‘affordable’ to the working class. CAHF further notes that these properties are traded less frequently, and are not as likely to be financed with a mortgage by the commercial banks. Moreover, these properties generally perform worse than the higher value market properties. Also, there is the concern of actually qualifying for a traditional mortgage loan. The poor usually don’t meet the requirements for gaining access to such financing and/or they cannot afford the debt

repayments associated with such finance. This is supported by Karley (2006) when she notes that the housing finance system in South Africa has seemingly not been able to provide the necessary housing finance for lower income households in the country. This, she notes, is notwithstanding the fact that South Africa has a considerably advanced financial system when compared to other countries in Sub-Saharan Africa. This has thus adversely affected the rate at which low to moderate income families have been able to gain access to adequate formal housing finance. While acknowledging that housing affordability is a problem, an even greater concern, she notes, is that of access to housing finance.

An alternative to traditional mortgages provided by banks, that should be explored thoroughly, is that of property stokvels. Stokvels are, by and large, self-help initiatives that are designed to respond to the issues of poverty and income insecurity in communities (Matuku & Kaseke, 2014). Matuku and Kaseke (2019) further note that stokvels give members the opportunity to save, invest and ultimately accumulate assets. Traditionally, a stokvel is a pooled savings scheme, where participants join a collective and each undertake to contribute a certain amount of money on a periodic (i.e. monthly) basis (Jenkin, 2019). In line with the predetermined arrangements (also outlined in the stokvel constitution), each member will receive a lump sum pay-out (of all member contributions) at a specified time in the year. Jenkin (2019) further notes that property stokvels take the aforementioned stokvel saving and investment approach and apply it to property. Thus, instead of pooling savings for purposes of members receiving a lump sum pay-out at a specified time in the year, the aim is for stokvel members to acquire a property.

This study sought to determine whether property stokvels are the more appropriate finance raising vehicle to use for persons looking to acquire property in South Africa, as opposed to the use of traditional mortgages. In more detail, the following were the research questions of this study:

1. What are some of the challenges that South Africans of a lower economic class face when obtaining traditional mortgage bonds from banks?
2. What are the main reasons why people participate in property stokvels?
3. How do property stokvels compare to traditional mortgages, when considering the extent to which they enable low income earners in South Africa to purchase property?

1.2.1 Limitations of the previous research studies

There are social and economic benefits of participating in general stokvels especially in light of the severe poverty and high levels of inequality prevalent in South Africa (Matuku & Kaseke, 2014). Given the above, it is noted that stokvels are important self-help initiatives that can be used to combat poverty and improve the wellbeing of stokvel members. While outlining the importance of stokvels in general, Matuku and Kaseke (2014) are silent on the role that property stokvels, in particular, can play in the South African economic landscape to help address the high levels of poverty by providing greater access to housing for South Africans of a lower economic class. This underscores the importance of this study as it looks to highlight the reasons why individuals participate in property stokvels in the first place, and whether property stokvels are considered, by participants, as a more appropriate vehicle for acquiring property than traditional mortgage financing.

Triegaardt (2005) points out that stokvels can be considered as a type of informal social security, that forms an important part of social security. Moreover, Kaseke and Olivier (2008) note that stokvels are an example of mutual aid agreements that are designed to give mutual aid assistance to members by way of responding to the prevalent gaps that may exist in any social protection scheme. This further highlights the importance of this study as it further develops the ideas brought forth by Triegaardt (2005) and Kaseke and Olivier (2008) by offering a detailed exploration of whether stokvels can be used as a vehicle to gain access to housing in South Africa.

Karley (2003) provides an insightful assessment of the challenges prevalent in mortgage lending for those that are under served in South Africa. She details that a large proportion of households in urban South Africa are not able to access institutional finance. She also notes some reasons behind why large parts of the South African population do not have access to mortgage finance, namely low income levels, informal or self-employment, and sporadic (non-uniform) income levels that are irregular in nature. She further highlights the various types of financing that low income earners have access to in South Africa. Karley (2003) focuses on housing loans that are in existence without considering, in detail, innovative alternative means of financing that can be used to provide access to housing to low income earners in South Africa. This study aimed to address this limitation by specifically assessing the potential that property stokvels have to provide access to housing to low income earners in South Africa.

Finally, the CAHF (2020) reported that South Africa has a comprehensive subsidy framework. Furthermore, the report notes that housing affordability is an important challenge in the country but it is limited in that it does not provide details of how this challenge can be addressed effectively. This study acknowledges the gravity of the problem of housing affordability in South Africa and thus aimed to address the abovementioned limitation by investigating the extent to which property stokvels can play a role in solving the problem of housing affordability in South Africa.

1.3 Research objectives and scope

1.3.1 Research objectives

The objectives of the study were the following:

1. To explore the challenges faced by South Africans of a lower economic class that prevent them from gaining access to traditional mortgage financing from banks in South Africa.
2. To understand the motivations for participating in property stokvels in South Africa.
3. To determine whether participants are of the view that property stokvels are a more appropriate vehicle for acquiring property in South Africa, as opposed to traditional mortgages.

1.3.2 Scope of the study

There are various types of stokvels prevalent in South Africa. Stokvels in general, both from South Africa and other parts of the world, were used as a guide to determine the overarching functioning of stokvels. Notwithstanding, particular attention was given to property stokvels and the extent to which they can be used to purchase property in South Africa. Moreover, this study assessed the extent to which property stokvels can be used to drive economic inclusion in South Africa.

1.4 Significance of the research

This research was of an exploratory nature and sought to establish whether property stokvels are a phenomenon that have the potential to play an important role in making the South African economy a more inclusive one.

Firstly, the research explored, through interviews, what challenges are faced by South Africans of a lower economic class when seeking to obtain traditional mortgage financing from banks when looking to finance property purchases. Secondly, it sought to understand, through interviews, the motivations behind why individuals participated in property stokvels. Lastly, it determined, through interviews, whether property stokvels a more appropriate financing vehicle for acquiring property, as opposed to using traditional mortgage financing. The findings of the research have been used to develop recommendations that will ultimately encourage a more widespread adoption of property stokvels as a means of acquiring property by poorer South Africans.

This study is significant because it will add to the existing body of knowledge on property stokvels, traditional means of financing property (mortgage bonds), and financial inclusion in South Africa. It will provide a foundation on which subsequent researchers can build so as to promote alternatives to the existing means for financing property purchases. This will help ensure that more South Africans have greater access to housing finance.

Embracing innovative ways of ensuring the marginalised in society have access to property will benefit the South African economy. The following groups will benefit from the study:

1.4.1 Government

This study will be of benefit to the South African Government by helping them find more innovative ways of ensuring more people in South Africa have access to housing finance. It will allow them to have a basis to improve existing housing frameworks. As highlighted in the constitution (and noted above), the South African Government has a responsibility to provide decent housing to the citizens of South Africa. Spatial planning that was adopted during Apartheid combined with mass urbanisation is making it considerably difficult for the housing demand (backlog) to be satisfied. As such, a vehicle that can help more people gain access to decent housing will have the desired effect of alleviating pressure on Government and allow South Africa to reap the benefits of an economy that has greater levels of stability.

1.4.2 Private sector/Entrepreneurs

Where innovations and new paths are being chartered, there is generally opportunity for entrepreneurs to take advantage of potential business opportunities that are likely to present themselves. This study may help the private sector come up with innovations/systems that can help support the development of property stokvels, thereby making property finance more

widely accessible. This will have the added benefit of creating jobs and rewarding the said entrepreneurs with healthy profits.

1.4.3 Commercial banks

This study can help commercial banks improve their efforts to ensure that people have access to housing finance. There is potentially an entire market that they are not servicing as evidenced by the myriads of people who do not have access to decent housing in South Africa because there are high barriers hindering people from obtaining mortgage financing. The study could help banks come up with innovative housing finance solutions for poorer South Africans whilst simultaneously ensuring that more people obtain access to housing finance.

1.5 Organisation of the study

Chapter 1 of the study has shown that property stokvels have the potential to make a significant impact with respect to economic inclusion in South Africa. The chapter further demonstrated that having access to property is an important part of an economy's growth, particularly a developing country like South Africa. Moreover, the chapter demonstrated that having access to property is an indicator of economic inclusion and highlighted the void that traditional mortgage bonds have left in the housing finance market, as evidenced by the many South Africans without access to decent housing. It was demonstrated that this study will fill a gap in the literature pertaining to the extent to which property stokvels can be used to facilitate economic inclusion, and give marginalised South Africans access to property finance. Chapter 2 provides a detailed literature review on access to property as a determinant of economic inclusion, the shortcomings of mortgage-bond financing for properties, and the extent to which property stokvels can provide a suitable property financing alternative for marginalised South Africans. Chapter 3 details the research design and methodology used in the study. Chapter 4 provides a discussion pertaining to the findings of the research conducted in this study. Finally, Chapter 5 brings the study to its conclusion and provides recommendations for future research.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

The main aim of the chapter is to provide detail relating to the theoretical and empirical evidence related to the study. This chapter commences by providing a definition of the key terms used in the study. Thereafter, the chapter provides an overview of the mortgage market and the history of property stokvels in South Africa and goes on to make a case for property stokvels in the country. The chapter then outlines the conceptual framework for the study with its accompanying components. The chapter then proceeds to outline a review of the empirical literature that is relevant to the study. Therein, the reason behind why it is important that access to housing is provided, is considered. Moreover, the important consideration of the ‘missing middle’ is also considered as it is applicable to the South African housing landscape. The chapter then goes on to consider the prevailing challenges in accessing traditional mortgage financing in South Africa. Property stokvels as an alternative to traditional mortgage financing are then considered. Finally, the chapter concludes with a brief summary of the items discussed.

2.2 Definition of terms

2.2.1 Mortgage finance

The Consumer Financial Protection Bureau (CFPB) (2022) notes that a mortgage bond is a contractual agreement between a borrower and a lender that provides a lender with the right to repossess the property of the borrower should they be unable to make their required payments of principal and interest as highlighted in the contractual agreement. The CFPB (2022) further goes on to note that mortgage loans are used to buy a home or to borrow money against the value of a home that one already owns. A mortgage bond is thus a debt that is used particularly to purchase property. Moreover, Laurens (1984) posits that a mortgage bond is a type of real security which normally affords the holder the right to realise the mortgaged property for purposes of satisfying his or her claim in the event of a default by the debtor. He goes on to note that a mortgage bond gives the holder the power to restrict the owner of the property in their dealings with the property. Kama et al (2013) note that mortgage finance is an agreement where one party borrows money for the purposes of purchasing property and goes on onto pledge the very same so that the lender is able to take possession of the property in the event of non-payment by the borrower. Owing to their equivalent meanings, the terms ‘mortgage finance’ and ‘mortgage bond’ will be used interchangeably throughout this study.

2.2.2 Property stokvels

Jenkin (2019) notes that a property stokvel is a pooled saving scheme where participants undertake to contribute a predetermined amount of money every month and the savings contributed are used to purchase property. On the other hand, Matuku and Kaseke (2014) submit that stokvels are self-help initiatives that are designed to address issues of poverty and income insecurity in communities. Moreover, they note that stokvels give members the opportunity to save, invest and accumulate assets. Schulze (1997) provides a definition that is in line with the above when he notes that a stokvel is a vehicle that facilitates saving clubs, buy-aids, burial societies, and money lending organisations. He further posits that a stokvel is by definition a credit rotating association which primarily has a function of channelling and mobilising community savings and making loans available to members of the association.

2.3 Mortgage market and history of property stokvels in South Africa

2.3.1 Overview of mortgage market in South Africa

Owing to the dark political history of South Africa, it is expected that the mortgage market in South Africa has had to undergo some wholesale changes to get to its current state. Moss (2008) notes that the period leading up to 1994 was marked by a stubborn defiance to service and mortgage payments by South African residents in black townships. The situation became so dire that in the 1980s financial institutions were unable to enforce their lien over properties which they financed. The natural outcome of this was that new mortgage lending in townships came to a halt in 1994, and unfortunately no other housing finance products were widely available for residents in black townships. The closure of institutions that were intended to ensure that the marginalised in South Africa received the appropriate housing finance (such as Cashbank and Community Bank) marked the weakening of retail institutions which demonstrated the capacity and the willingness to service the low income earning customer. On the other hand, Moss (2008) further notes that large financial institutions made the claim that the risks of underwriting small mortgages were significant and the profit margins on loans less than R80 000 were making banking operations unsustainable. Moreover, CAHF (2011) provides a clear analysis when they assert that in South Africa, one of the end user finance instruments that are used to finance housing purchases are mortgage loans. This is in addition to other instruments such as pension backed loans and micro loans to name a few. In order to facilitate these mortgage loans as appropriate, CAHF (2011) notes that banks would ideally like to transact with employed individuals who have a moderate household income who would be happy to make repayments by means of a debit order. Thus, notwithstanding the history of

mortgage financing in South Africa, the instrument still remains an important part of the country's housing ecosystem.

Number of mortgages originated in South Africa by market segment (2007-2015)

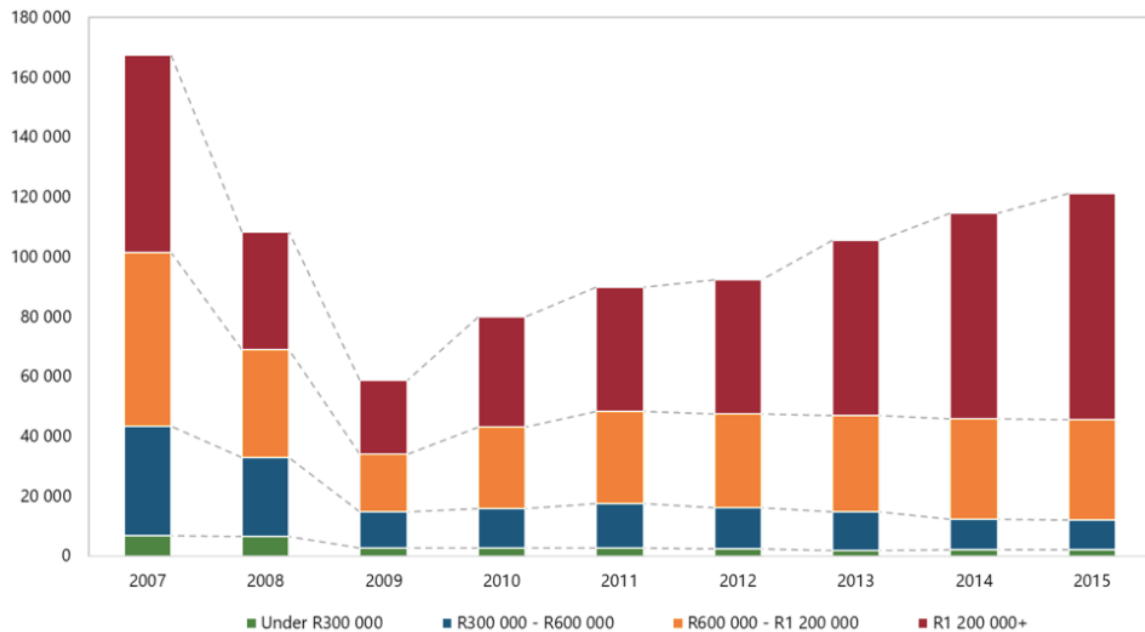


Figure 2.1: Mortgages originated in South Africa between 2007 and 2015

Source: Melzer and Hagworth (2018)

As depicted in Figure 2.1, mortgages that originated in South Africa with a value of less than R600 000 were a fraction of the total mortgages approved between 2007 and 2015. As outlined in Section 1.2, these are the mortgages that are typically obtained by the low to middle income households in South Africa.

2.3.2 Overview of stokvels in South Africa

2.3.2.1 History of property stokvels in South Africa

In highlighting the continued importance of stokvels on the South African economy, Delpont (2020) notes that stokvels can be traced back to the 19th century when informal rotational cattle auctions took place. She further notes that they have continued to redefine themselves with the times and have become formal financial entities embraced by driven saving-savvy individuals who have sizeable goals and a unified vision. It was only a matter of time before this concept that emanated from informal rotational cattle auctions would be applied to property for the purposes of ultimately driving property ownership and thereby economic inclusion in South Africa. Delpont (2020) notes that the rise of property stokvels in South Africa is relatively

recent but it is rapidly becoming a trend in both South Africa and abroad. They allow young South Africans, that are not financially equipped, to invest in property. The 2019 Old Mutual Savings and Investment Monitor also confirms that property stokvels are a relatively new phenomenon in South Africa when it demonstrates that a new parallel property finance market could possibly be born out of the rapid rise in the number of property stokvels in operation (Old Mutual, 2019). The report further notes that the potential for disruption is large when one considers the fact that the traditional stokvel market has grown to an estimated annual value of more than R40 billion. It is evident that the history of property stokvels in South Africa is relatively brief (Old Mutual, 2019). It, however, seems that they will have an increasing part to play in the way in which properties are financed going forward.

2.3.2.2 The housing problem in South Africa

Ever since the dawn of the new democracy in 1994, South Africa has found itself having to negotiate how it would provide decent housing to South Africans in need. The housing backlog has increased over time instead of decreasing. There are multiple reasons why this is so. Matheson (2011) notes that the very low rates of formal housing provision by the South African Government have led to South African urban migrants seeking other lodging options such as informal dwellings. It is understandable why the provision of decent housing would be a priority for government. Buckley et al. (2015) note that decent housing is a necessary protection against the elements and it offers privacy and self-respect. Moreover, they note that it is a place of study and personal development while it can also be viewed as an asset that households can invest in, and a place for leisure and social interaction. A key component in gaining access to quality housing, which would alleviate the efforts of the South African Government in their responsibility of providing housing, is that of giving more people (especially poorer South Africans) access to appropriate housing finance. Such individuals are not likely to get access to traditional housing finance from banks due to their perceived risk profile.

2.3.2.3 Overview of stokvels in South Africa

Property stokvels are a phenomenon that is growing in popularity in South Africa and they may provide the answers to the problems that both the South African Government and banks have not been able to fully address to date, that of ensuring access to housing finance for the marginalised in South Africa. Should this be the case, property stokvels will be a powerful tool that the South African Government can use to drive sustained economic growth in the country

owing to the economic benefits that are associated with a greater part of the population having access to quality housing.

Hutchison (2022) notes that stokvels are a type of indigenous saving mechanism that have an emphasis on upliftment and community-centric. Furthermore, Lengolo (2019) posits that stokvels are member driven collectives where the members agree to contribute a fixed amount of money for the purposes of achieving a common interest. She further notes that there are five main types of stokvels in existence in South Africa. These are, general savings stokvels, grocery stokvels, and birthday stokvels (these are included in the ROSCA structure in 2.3.2.5). Lengolo (2019) notes that the remaining stokvel types are burial societies and investment stokvels. In section 2.3.2.5 these are included in the burial society and ASCRA structures respectively.

2.3.2.4 The legislative framework available

Self-regulation

Stokvels are largely self-regulating mechanisms that are based on the mutual agreement of members upon joining. FWB Attorneys (2019) note that members of a stokvel are free to create their own legal framework that will regulate the composition of the stokvel, its activities, and outline its purposes for existence. Moreover, FWB Attorneys (2019) note that from a legislative framework the basis of stokvel Constitutions is similar throughout all stokvels, regardless of the stokvel type. This entails each member needing to contribute an amount of money to the stokvel's savings pool on a periodic basis. Furthermore, the Constitution of the said stokvel will provide for checks and balances that will enable the regulation of all the aspects of the stokvel including the number of people that can participate in the stokvel at any given time. It is also important to note that many stokvels are increasingly getting their Constitutions endorsed as a way of getting them officially stamped by the police. This enables the stokvel Constitutions to be legally validated and thereby provide some form of legal security to the members (FWB Attorneys, 2019).

Law of contract

Notwithstanding the fact that there may be no single specific piece of legislation governing the operation of all stokvels, it is important to appreciate the importance of the Law of Contract when considering the legislative framework available for stokvels. Collins (2009) makes the important submission that parties should be allowed to create contracts of their own without

any obstructions from the courts. That is to say, as long as there is clarity in what has been included by parties in a contract, this is enough to provide for the enforceability of the contract. Collins (2009) further notes that parties to a contract must be given the power to choose the terms of a contract regarding almost every conceivable matter. This should include the rules governing a contract and how to resolve disputes in the contract (should they arise). Stokvel participants thus have the ability to determine what rules they wish to apply with respect to governing their said stokvels.

2.3.2.5 Models of stokvels

There are various types of stokvel models in existence. These differ based on the objectives for which they were formed but are largely similar in nature in that they are comprised of members who periodically contribute an agreed amount of money to a pool of savings. These savings are then used for the purposes agreed upon by the members upon joining the stokvel (which should also be outlined in the stokvel constitution). Stokvels can generally be divided into three categories as outlined by African Response (2012). These are dealt with in further detail below.

ROSCA structure

Bahre (2007) notes that some stokvels follow the ROSCA (rotating savings and credit association) structure. These are comprised of members making regular contributions into a common pool. These contributions are then paid in full to each member according to a predetermined roster, usually at a predetermined meeting.

The above structure gives members access to a lump sum of funds which they can spend on whatever expenditure needs they may have. Chigada et al.(2019) make the important observation that amounts received from stokvels can act in a similar way to a sudden increase in income which the recipient often spends on groceries and other household items. They further note that the sudden increase in income as a result of the funds received from the stokvel can have a significant change in the expenditure patterns in the household of the participating member. This is an important consideration as it highlights the fact that stokvels are often used for the purposes of informally saving for groceries, other household items, and any further expenditure needs that may arise. Smallhorne (2013) posits that these types of stokvels are the most popular as they have the largest membership.

ASCRA structure

African Response (2012) notes that an additional stokvel model is one where the periodic contributions made by stokvel members are collected in centrally and kept until a specific agreed upon date. This structure is also known as accumulated savings and credit association (ASRCA). At the specified maturity date, the total contributions made by each member are paid out to each member possibly with the accrued interest. Moreover, African Response (2012) further notes that at maturity the lump sum capital may also be used by the stokvel for purposes of buying groceries in bulk and thereafter allotting each member their specified share. The capital may also be used to buy a property. Whilst contributions are still being made to the stokvel the capital is often banked in a formal bank account (African Response, 2012). Matuku and Kaseke (2014) note that this stokvel structure, which promotes investment, often comprises member fixed contributions being allowed to accumulate for an agreed time period prior to an investment being made by the stokvel.

Burial Society structure

Thomson and Posel (2002) note that in this type of stokvel members make contributions to a common pool. The amounts contributed are then used to provide funeral benefits to the member upon their own death, or the death of other insured lives. Further, Matuku and Kaseke (2014) posit that burial societies provide material and non-material support to members and their families in the occurrence of a death. They additionally submit that stokvel members make fixed contributions to cover funeral expenses, noting that the specific benefits due to each member (or beneficiary) are defined in the stokvel constitution, usually including the purchase of the coffin and the transporting of the body to the place of burial.

2.4 Conceptual framework

2.4.1 Mortgage financing framework

CAHF (2011) notes that with mortgage loans a borrower buys a house with the loan, or uses it to affect improvements on an existing house. In terms of completing the financing process, loan repayments are made by the borrower to the financial institution that extended the loan, and the house is used as collateral against the loan. Moreover, an important consideration to make with respect to mortgage financing is the risk profile of the borrower. Greene (2018) makes the important submission that each person has their own unique risk profile that can be based on a number of factors including (but not limited to) student loan debt, employment changes, one's credit score and bankruptcy. He further notes that mortgage finance providers

would like to determine whether the borrower has the ability and willingness to pay back money they have borrowed to purchase or refinance their home. This risk profile is different for each borrower and ultimately determines how much interest a borrower will be charged when obtaining mortgage financing. The above is important when considering the framework that was analysed for purposes of this study.

Furthermore, the Government Accountability Office (GAO) (2014) notes that when individuals buy residential property using debt, this is normally done by means of an agreement where the borrower agrees to make interest and capital payments to the lender for an agreed period of time. The GAO (2014) further notes that it is common practice for the lenders to secure the debt they have provided by means of taking the property under consideration as collateral, which gives them the right to seize the property in the event of non-payment by the borrower. The primary mortgage market plays a key function of connecting borrowers and lenders.

This section outlines theoretical components of a mortgage finance system that were considered important for the purposes of this study. The overarching mortgage lifecycle and its four stages are outlined in this section. These stages are: loan origination; loan securitisation; loan servicing and; loan termination. The aforementioned stages have been depicted in Figure 2.2 below.

2.4.1.1 Loan origination

GAO (2014) highlights the point that financial institutions take time to originate new loans. GAO (2014) further notes that competition between financial institutions plays an important part in the rate at which financial institutions provide loans to borrowers, further noting that intense competition between financial institutions may have an effect of entrenching the adoption of credit scoring by financial institutions. GAO (2014) importantly notes that credit scoring is widely a accepted hard-information lending technique that provides financial institutions incentives to extend loans to borrowers without compromising the integrity of the origination and approval process.

Though widely used in industry, credit scoring as a hard-information lending technique has its fair share of detractors. Rice and Swesnik (2012) maintain that the prevailing credit scoring systems are rooted in a history of housing discrimination and ultimately tend to result in a dual credit system. They further note that many risk scoring mechanisms indicate the risk

characteristics of the borrower. They also reflect the risk levels associated with the environment that the borrower is from, and the risk levels attached to the products that the borrower uses. Thus, loan origination as it is widely practised in industry shows a potential weakness as it will tend to have an adverse impact on people who are from an impoverished economic background, thereby decreasing their chances of obtaining a home loan. Moreover, Singh (2015) notes that credit scoring in South Africa is responsible for insecurity in the country. He notes that it has the effect of entrenching the social categories that were created during the dark years of Apartheid. The above is important to note as, while credit scoring is an efficient way of ensuring that home loans are originated in South Africa, it should be done in a way that promotes inclusivity and ensures that South Africans seeking home loans are not unfairly discriminated against owing to their economic background.

2.4.1.2 Loan securitisation

When highlighting the role played by loan securitisation in the loan lifecycle, GAO (2014) notes that this is when external institutions (financial and otherwise) purchase various types of mortgage loans from the originating financial institutions. These mortgage loans are backed by the loans granted to borrowers by the originating financial institutions. Oyetade et al. (2020) make an important submission that securitisation has historically been used as a means of bank funding, liquidity, and performance and risk management. Oyetade et al. (2020) further note that the financial crises that occurred in recent history brought securitisation under the spotlight and necessitated the introduction of Basel IV. Since its inception the Basel Committee has introduced regulations around capital and liquidity requirements for banks (Basel accords). The objective of Basel IV is that of ensuring increased resilience of banks and promoting their financial stability. These occurrences are said to have had a positive impact on the commercial securitisation activities of commercial banks in South Africa (Oyetade et al, 2020). It is thus important to note that securitisation is an important part of the lending ecosystem which should be considered when analysing the housing finance activities in South Africa. Given the new capital requirements under Basel IV, there will likely be a consequential impact on the extent of home loans granted by commercial banks to home buyers in South Africa. This makes securitisation all the more important when considering housing finance in South Africa.

2.4.1.3 Loan servicing

GAO (2014) notes that borrowers make payments of principal and interest to servicers and receive account statements on a periodic basis. In turn, servicers may own the mortgages or

they may be acting on behalf of the mortgage owners. In such an instance, services then pass the payments that they have received on to investors (i.e. in the case of mortgages backing securities).

Moreover, Fannie Mae (2004) notes that banks' lending practices in the low income market suggests that they tend to adopt loan servicing practices that have been detrimental to low income households. Fannie Mae (2004) further notes that even though these loan servicing practices have been successfully adopted in the traditional markets, they are not appropriate for servicing the low income population in South Africa. It is thus important that loan servicing, especially as it relates to the low income market in South Africa, be done in such a way that allows the low income population to participate fully in the economy.

2.4.1.4 Loan termination

Scirè (2015) notes that a mortgage is terminated when the borrower pays the mortgage loan back in full or when the owner of the mortgage takes control of the property because the borrower has defaulted in making the required payments. Kau et al. (1992) agree with this assessment as they also note that the termination of a mortgage loan can occur by means of prepayment of the mortgage loan or as a result of a default by the borrower. They further note that a default can be brought about as a result of the level of the interest rate or as a result of the value of collateral. Fang and Munneke (2020) further highlight that changes in the level of interest rates and the level of home equity of the borrower on their mortgage loan are the key determinants in loan termination behaviour. For the purposes of this study, the interest rates and types of termination, as noted above, are important to consider as these speak to whether housing finance alternatives should be considered. It would be most appropriate for low income households if they were provided housing finance alternatives that would reduce their likelihood and exposure to defaulting on the said housing finance arrangement.

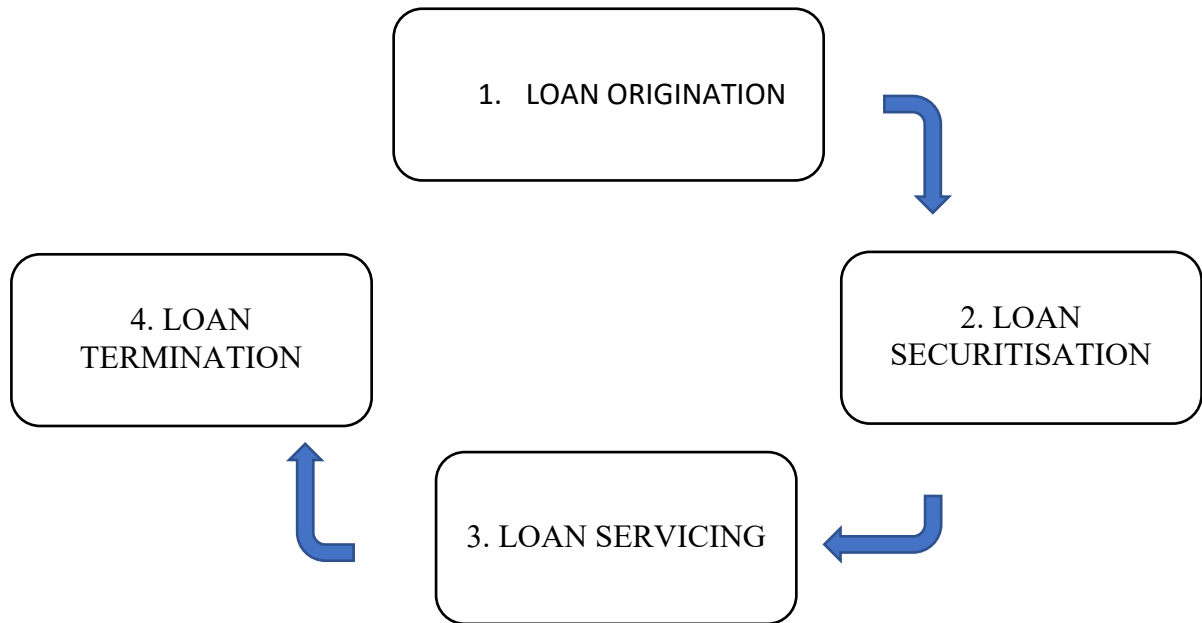


Figure 2.2: Components of mortgage financing

Source: Author's own depiction

2.4.2 Challenges to mortgage access

There is documented evidence of challenges related to mortgage access for certain population segments in South Africa. As noted above, this is an issue that dates back decades in South Africa. This section points out some key elements relating to the various challenges (deterrents) that many low income households in South Africa encounter when seeking to gain access to mortgage financing.

2.4.2.1 Lengthy mortgage periods and punitive measures to counter non-payment

The 2019 Old Mutual Savings and Investment Monitor included research on property stokvels where stokvel founders and members were interviewed (Old Mutual, 2019). The report highlights that there is an degree of self-empowerment associated with property stokvels while it also denotes that there are low levels of satisfaction associated with traditional lenders (Old Mutual, 2019). On elaborating on the dissatisfaction with traditional lenders, the respondents noted that their discontent was broad and included factors such as barriers to property finance, mortgage terms that were long, and having measures in place that were considered punitive in nature such as properties being seized as a result of non-payment (Old Mutual, 2019).

2.4.2.2 Affordability of mortgage finance

Karley (2003) notes that the prevailing challenges in the field of mortgage finance and lending in South Africa cannot be emphasized enough. She further notes that issues such as affordability, limited end user finance, and limited access to the funds required (among others) are factors that undermine the ability of many South Africans to gain access to mortgage finance. This is not unexpected considering the risk profiles attached to low income earners by the major banks in South Africa. Moss (2008) highlights how the microfinance sector also serves as a way of ensuring that low and moderate income households meet their shelter needs. Moss (2008) further notes that the microfinance sector is comprised of the regulated and unregulated markets where interest rates range from 26% per annum to 5% per week. These costs of lending are driven up because there are charges such as credit life, administration, and retrenchment insurance that are included in the cost of the loans granted to borrowers. Moreover, Marais and Cloete (2017) posit that interest rate volatility has compromised the progress made to granting mortgage finance to the lower income market. It is thus evident that the significant cost to the lower income market is an impediment to their ease of access to mortgage finance. Over and above the challenge of affordability is the apparent reluctance of lenders to lend to low-income households. This is explored in further detail below.

2.4.2.3 Reluctance of lenders to lend to low-income households

This phenomenon is further highlighted by the Moss (2008) when he asserts that many lenders are reluctant to lend to low income households and as such these households are unable to access housing loans, even if they could afford to. This phenomenon is especially true of a group termed the ‘missing middle’. This term refers to individuals who earn too much money to qualify for fully subsidized housing from government, but earn too little to qualify for a housing loan (mortgage) from a bank. The Parliamentary Monitoring Group (2020) makes reference to the Finance Linked Individual Subsidy Programme (FLISP). This is a financial programme targeted specifically at the ‘missing middle’ and provides them with a subsidy which can be used to help decrease their bond repayments, or as a deposit to purchase property.

Moreover, the problem of the lack of housing finance provided by South Africa’s banks was raised by Tomlinson (2007) when he noted that, even in the decade prior to the 2008 global financial crisis, the commitment of the country’s commercial banks in providing housing finance was questionable. Tomlinson (2007) further noted that the expectations pertaining to

the outcomes regarding the provision of housing finance in South Africa had not lived up to expectations.

The reluctance of South African commercial banks to provide housing finance to low income households has a historical context that is worth mentioning. One such historical factor is highlighted by Tomlinson (2007). He notes that in 1995 the Mortgage Indemnity Fund was created by government to foster an environment in which the banks would return to the former black townships in South Africa (they had left after the political boycotts that occurred during Apartheid where individuals refused to make repayments on their home-loans for political reasons). The Mortgage Indemnity Fund was meant to guarantee banks their investments in the event that non-payment should occur for political reasons. It transpired that the fund did not have the desired effect of ensuring that private sector finance was giving rise to housing development in the former black townships. Tomlinson (2007) further notes that this led to a conflict between the banks and government with the government eventually withdrawing its guarantees by 1998 and the banks consequently withdrawing from the low income market.

2.4.2.4 Challenges brought about by the South African legal environment

The legislation in South Africa has also played a hand in ensuring that low income households in the country find it difficult to access housing finance. RP Goodwin-Groen (2006) notes that the introduction of the National Credit Act and Regulation in 2005, which had the aim of protecting the consumer, introduced stricter checks on the recipient's ability to repay the borrowed funds. Marais and Cloete (2017) further note that the impact of the National Credit Act was that consumers had greater levels of difficulty in accessing credit in South Africa. The above denotes the difficult job that legislators have in ensuring that they introduce adequate legislation whilst not allowing the very legislation to be an impediment to economic growth.

2.4.2.5 Historical challenges

As alluded to above, poorer South Africans have historically had difficulty gaining access to mortgage financing to fund their housing purchases. This has had a knock on effect on the extent to which the South African Government has been able to achieve its housing goals. This was noted by Tomlinson (2007) when she asserted that the South African Government was purposed to drive the lenders in the country to grant housing finance households that were considered low income in nature. This would serve as a means of ensuring that needy South Africans have access to appropriate housing (by way of a housing subsidy scheme). Over time, however, it has appeared that this working relationship between the government and the

financial sector has not had the desired effect. Tomlinson (2007) further notes that the commitment of South Africa's banks to the delivery of housing finance has repeatedly been questioned, to the extent that the government had the view that the financial sector had ignored the low income market. To address this issue the South African Government attempted to establish initiatives aimed at providing access to housing finance for the poor, but these did not yield the desired results. On the contrary commercial banks concluded that relatively poorer black South African households, whom they ceased lending to in 1987 due to the political climate of the time, posed a greater commercial risk than the higher income white households that they traditionally served (Tomlinson, 2007). Rust and Oelofse (2002) highlight factors that resulted in a withdrawal of commercial banks from the emerging black market. These factors were comprised of the following: low income households lacked the financial means to make substantial deposit which meant that banks would take on more risk when financing mortgages; the threat of politically motivated economic boycotts (which were used to combat the Apartheid regime); the 20-year mortgage term was too long for low income households especially owing to the unstable South African economic climate at the time; and a lack of education and a poor understanding of housing contracts by first time low income home owners.

2.4.2.6 Lack of understanding the low-income customer

In addition to the historical challenges noted above, it is evident that businesses have had a difficult time penetrating the informal (also known as the township) market due to its complexity. This is evidenced by Kgaphola et al. (2019) when they note that additional research is required to understand the township market and the nature in which spaza shops operate so as to allow for the township economy to develop as appropriate. In a similar manner, it is likely that financial institutions have not enjoyed widespread success in the low income housing finance market due to their lack of understanding the said market. This sentiment is shared by Tomlinson (2007) when he notes that pertaining to the low income segment, financial institutions have tended to engage in activities that have been disadvantageous to the low income households they were meant to be helping. Moreover, Fannie Mae (2004) notes that by offering financial products that were successful in the traditional market, without modifying them to be relevant specific to the township market, banks were not appropriately servicing the low income segment. Ferguson (2003) concurs that commercial banks do not have a good grasp of the low income housing market. He further notes that banks lack insight and understanding pertaining to the behaviour of the low income market. This includes a lack of insight pertaining

to what they would prefer when looking to gain access to affordable housing finance. Ultimately, it is evident that banks have a limited understanding of the difficulty that low income households face in servicing their housing loans.

It appears that more could have been done by formal financial institutions to develop financial solutions that are more user friendly for low income households. With respect to housing finance solutions these would need to take into account both macroeconomic and microeconomic considerations so as to address any housing finance requirements comprehensively.

2.4.2.7 Macroeconomic and microeconomic considerations

History has shown that mortgages can be a challenge at both a macro and a microeconomic level. In terms of the macroeconomic level, the 2008 financial crisis made it clear that problems in mortgage lending can potentially destabilise any financial system and economy (Campbell, 2013).

At a microeconomic level (which was the focus of this study), an important reason behind some of the challenges limiting the widespread access to housing is the lack of access to housing finance (mortgage bonds). As noted by Akinwunmi (2009), ordinarily the first source of funding for an individual is their income, which is often their cheapest source of funding as there is no extra payment required in the form of interest. He further goes on to note that in emerging countries (a definition which can be used to describe South Africa), household incomes are generally quite low. This makes mortgage financing all the more important for would-be property buyers in emerging countries such as South Africa.

Moreover, Ferguson and Haider (2000) importantly note that in developing nations, having access to housing is considered to be of greater importance than having access to education and healthcare. This is notwithstanding the fact that housing has not been given the priority it deserves. Ferguson et al. (2000) further note that the miniscule attention that housing has received is as a result of the large capital outlay that is required to purchase or rent a house.

2.4.2.8 Additional challenges related to mortgage financing

The challenges that have been seen regarding the access to housing finance from traditional banks could be linked to the fact that many South Africans (though not the majority) do not

have formal bank accounts. Demirgüç-Kunt and Klapper (2012) note this point when they discuss the formal barriers to (bank) account ownership in Africa. They note that a common reason for not having a formal account is the lack of money to use one. This reason was true for 30% of the respondents in Sub-Saharan Africa. Additional barriers that were noted included the extensive documentation required and, the fixed fees and high costs of maintaining a bank account. Moreover, Lea (2005) notes that the inability of lower income groups to afford housing is attributable to interest being high and property values being expensive. As such South African commercial banks tend to target the higher end market that is predominantly situated in urban areas while being reluctant to grant mortgage loans to low income groups.

The challenges related to gaining access to mortgage financing is likely a significant contributor to the unfortunate housing situation that South Africa finds itself in. Hartmann (2018) notes that the housing backlog in South Africa is large and stands at a staggering 2.3 million while escalating at around 178 000 houses per year.

2.5 Property stokvels and economic inclusion

Property stokvels are looking set to play an important role when it comes to economic inclusion in South Africa. Delport (2020) notes that property stokvels enable individuals to pool their money together, thereby attracting higher interest rates. The shared wealth of the property stokvel participants grows, thereby allowing individuals to invest in worthwhile properties and profit from such investment each month thereafter. The notion that individuals can gain access to monthly profits as a result of owing a share of property (which they acquired by means of a property stokvel) speaks volumes of the ability that property stokvels have to drive economic inclusion. Also, as aforementioned, there are enduring benefits that come with owning and living in a decent house.

Moreover, property stokvels can be used to counter the challenges related to the more traditional financing alternatives such as mortgage finance, as mentioned above. This is explored in further detail below.

2.5.1 How stokvels can address challenges to mortgage access

A World Bank study authored by Demirgüç-Kunt and Klapper (2012) notes that only a minority of adults in Africa (less than one quarter) have an account with formal financial institutions. The study further notes that many adults in Africa use informal methods to save

and borrow. An informal saving method that is growing in popularity in South Africa is a stokvel.

In a property stokvel arrangement the financing period and the measures to counter non-payment are driven by the stokvel participants and not external parties. It is thus expected that the length of the financing period and the measures put in place to counter non-payment are deemed appropriate and manageable by the respective participants, as they would otherwise be free to start or join an alternative property stokvel with rules that are more suitable to their liking. Jenkin (2019) notes that every stokvel should have a constitution which governs its operations, and should address the following key aspects: rules and regulations that address the general governance and operations of the stokvel; information related to the members of the stokvel including amounts that the members are to contribute and the frequency of their contributions; how to handle an instance whereby the member departs from the stokvel (for whatever reason); the duties and responsibilities of each of the members and; how the stokvel intends to ensure that the goals of the stokvel are reached, and ensuring that the finances of the stokvel (members contributions) are kept safe at all times. The above key factors mentioned by Jenkin (2019) relating to the constitution of the stokvel also ensure that the stokvel members make contributions towards a property that they can afford. Moreover, the challenges brought about by the reluctance of formal lenders to lend to low income households will also be addressed as, with property stokvels, the would-be borrowers are effectively financing the purchase of their properties themselves.

The challenges brought about by the legal environment in South Africa can also be significantly reduced by property stokvels. This is due to the fact that members themselves are often part of the origination of the property stokvel constitution, which is the main document governing the property stokvel. Alternatively, members have the liberty of choosing whatever property stokvel they are of the view will work best for them. Thus, they can choose to join a property stokvel that has a constitution that aligns with their values and goals.

Lukhele (1990) points out that a stokvel is a group saving mechanism that is informal in nature wherein members voluntarily agree to contribute a predetermined amount to a common pool on a regular basis (whether weekly, fortnightly or monthly etc.). Moliea (2007) notes that stokvels are a saving tool used by collectives in communities to save for life-cycle needs and mutual agreements. She notes that they are also referred to as a Rotating Savings and Credit

Association (ROSCA). Moreover, Jenkin (2019) posits that a stokvel is a pooled savings scheme, whereby members opt in to join a savings club or society and each contributes a certain amount of money every month. Then, based on a predetermined rotation, each member would receive a lump sum pay out at a specific time of the year which they could use for whatever purposes they deemed fit (or the purposes that was agreed upon with the stokvel members). Jenkin, (2019) further points out the fact that a property stokvel simply takes the stokvel savings approach and simply applies that to property. Thus, stokvel participants do not take turns in taking stokvel money home, but rather have the ultimate aim of acquiring property with funds raised through the stokvel.

Delpport (2020) notes that most property stokvels operate in a similar way. They provide members with various options that differ in monthly contribution amounts, contribution tenures and associated benefits. Based on their contributions, members are assigned shares in the stokvels. The property stokvel then takes one of two routes: it can decide to purchase a property which it will lease out and from which each member will get their share of the monthly rental income; or the stokvel can take the route of securing homes for every stokvel member on a rotational basis in the order that each member joined.

The potential for property stokvels is enormous. This was pointed out in the 2019 Old Mutual Savings and Investment Monitor which highlighted the increased significance of property stokvels. Some even believe that a parallel property finance market could emanate from the rapid rise in property stokvels (“Property finance: Are...”, 2019). There is a reason why they are becoming so popular. Delpport (2020), notes, pertaining to her interactions with a financial adviser from Simply Financial, that a vast majority of South Africans (young South Africans especially) are simply not equipped to invest in property. There is clearly a disconnect between the current (formal) housing finance models and the funding needs of a vast majority of the South African population.

Caution should be taken lest the impression is given that property stokvels are seen as the ‘magic pill’ for housing finance-related issues that South Africans face. Property stokvels have their own pitfalls that one should be aware of. Irving (2005) notes the serious concern that the pooled savings of the said stokvel can be stolen. This can happen when members are on their way to make interval payments. In such an instance the operations of the stokvel would be greatly tarnished (and could likely cease altogether) due to the members discontinuing their

membership. There is also risk that members may fall behind on their agreed stokvel payments. This may adversely impact the progress of the stokvel and may delay the point where the stokvel members are able to finally gain access to property.

Notwithstanding the disadvantages noted above, the benefits of the stokvels can be realised if these risks are managed well. There are vast benefits associated with stokvels. Matuku and Kaseke (2014) note that stokvels are beneficial because of their ability to help the marginalised meet their basic needs. Also, the ability of stokvels to help individuals save for a particular purpose (whether property or otherwise) is also quite an important consideration that makes them a great tool. Stokvels also empower marginalised groups, such as women, that are often left out of the mainstream economy. Finally, Matuku and Kaseke (2014) note that the additional benefit of stokvels is that they create and/or enhance social capital. This social capital creation is especially true for property stokvels as the time required to save for a property via the stokvel is likely to be significant. These solid connections may aid the creation of additional wealth creation mechanisms. Moreover, Matuku and Kaseke (2014) note that trust and honesty, harmonious relationships, and a stokvel constitution are important factors that will help ensure the success of the stokvel. These factors need to be taken into consideration when participating in property stokvels.

2.6 Motivation for mortgage investments

2.6.1 Value of housing to middle class South Africans

Historical evidence from South Africa suggests that purchasing a house in the country has always been considered a good investment. This is highlighted by Marais and Cloete (2017) when they note that a significant proportion of the middle class equity in South Africa is held in housing. They further highlight that this was the case, historically, even during periods where inflation (CPI) in South Africa was higher than the rate of increase in housing prices in the country.

2.6.2 Government supported mortgage investment initiatives

The importance of mortgage investments to the South African economy, in particular to low income households, is highlighted by the varying initiatives that the South African Government has adopted in the past. One such initiative is a partnership that was forged between the South African Government and the financial sector. Marais and Cloete (2017) note that this partnership gave birth to the Financial Sector Charter and had the ultimate aim of a R42 billion

investment which was intended solely for low income housing. This was to translate into 350 000 new mortgages.

The importance of mortgage investments to the South African Government is further highlighted by their move to increase mortgage finance to the ‘gap market’ (missing middle) by establishing the Finance Linked Individual Subsidy Programme (FLISP) in 2005, as highlighted by Marais and Cloete (2017). They further note that there was a R1 billion state guarantee announced in 2010 for purposes of driving home ownership for households in the above mentioned gap market (households earning between R3 500 and R15 000 per month).

Investments in mortgages are, as shown above, important to the economic inclusion and advancement of the citizens of South Africa. This is highlighted by the valiant efforts that have been made by government to drive access to mortgage finance (particularly) to low income earners in the country.

2.6.3 Risk sharing enabled by mortgage contracts

Campbell (2013) points out the important fact that asset pricing economists view mortgages as contracts that enable the sharing of various risk types between mortgage lenders and borrowers. He further notes that long-term mortgages protect borrowers against deteriorations in their own creditworthiness or any adverse conditions in the credit markets (Campbell, 2013). Thus, if a borrower’s credit worthiness deteriorates sometime after taking a mortgage loan, this will not automatically translate into a higher repayment at the point of deterioration. This will allow for a stability of mortgage repayments regardless of future events. This can potentially be a positive for the borrower as they will not need to put up additional collateral.

2.6.4 Housing finance for the ‘missing middle’

Notwithstanding, the above positives do not avail much in an environment where people are finding it difficult to qualify for and afford mortgage bonds, as is the case for many in South Africa. As mentioned above, this study is particularly interested in the housing finance related to the ‘missing middle’. This ‘missing middle’ category is also likely to be the reason why organisations such as the National Housing Finance Corporation SOC LTD (NHFC) came into existence. The NHFC (2019) notes that their principal mandate is to broaden and deepen access in terms of financing and the development of sustainable Human Settlements in the low to middle income South African households. There is clearly a shortage in housing finance for

this large segment. Innovative ways need to be sought to service this housing finance shortage in South Africa so as to ensure that as many South Africans as possible have access to quality housing. One such innovation, which is gaining momentum, is that of a Property Stokvel.

2.6.5 Mortgage-backed securities

To further highlight the importance of mortgage investments, Saayman and Styger (2003) engage in a comprehensive discussion of mortgage backed securities. They note the origins of mortgage backed securities and unearth reasons why there has been a lack of growth in this market when compared to other more developed regions around the world. They conducted their study by means of interviews with relevant personnel within the securitisation sector. This helped inform the methodology used in the study at hand, which is dealt with in more detail in Section 2.7 and Chapter 3 in this dissertation.

2.7 Empirical literature

Various studies have been conducted to investigate the mechanics of and value-add that stokvels provide particularly in the African and South African context. Moreover, researchers have sought to provide insights into the issues experienced with accessing mortgage finance for purposes of purchasing property. This section outlines insights provided by previous literature, noting key methodologies and results in the process.

Nghifindaka (2019) conducted a study to understand the challenges facing affordable housing, with particular focus on Namibia. The study acknowledges the worldwide reality of a shortage of affordable housing. It further notes that affordable housing is an economic indicator that is important in addressing objectives that are of a social nature which include decreasing the levels of poverty. Moreover, the study highlighted that in Namibia's post-independence period, housing has been classified as a national priority. To this end, legislation has been passed in Namibia showing the country's commitment to housing delivery. The aforementioned research study focused on various stakeholders that are challenged with financing affordable housing. The study sought to understand the difficulties encountered when financing affordable housing. It addressed three stakeholders, which included a fund manager, developers, and homeowners. The study made use of a qualitative approach to analyse the data obtained from some of the participant groups (fund manager and developer), while the sequential explanatory mixed method approach was used to analyse the data obtained from the homeowners. The study found that the homeowner challenges identified from the qualitative analysis included lengthy bank processes, associated costs, and the lengthy approval process associated with obtaining

mortgage financing. Moreover, the qualitative analysis in the study identified challenges such as the lengthy application process at the financial institutions and the lengthy bureaucratic, stringent bank requirement processes. The study appropriately dealt with the challenges related to owning a house which includes the challenges associated with gaining access to mortgage financing. However, the study was limited in that it did not explore the possibility of stokvels being used as a vehicle to gain access to housing finance. Moreover, the study was done in relation to the Namibian economic landscape. This may be different in various ways to the South African economic environment particularly in relation to gaining access to affordable housing finance.

Limba (2018) conducted a study to understand the effectiveness of the National Housing Finance Corporation (NHFC) in providing affordable housing finance to low income groups in Johannesburg. The study was descriptive and exploratory in nature, and used a sample of participants drawn from beneficiaries of loans and NHFC officials. Moreover, the study used observations, questionnaires, and semi-structured individual interviews to collect data. Also, the mixed research method was followed using primary and secondary data from the NHFC which was analysed using descriptive statistics like percentages, tables, and frequencies. In the data analysis the study showed that the major challenges that low income earners in South Africa encounter when accessing housing finance include the deposit amount required, the interest rates associated with the housing finance, and the affordability of the loan repayments associated with the loans. The study appropriately dealt with the challenges faced by low income earners when accessing housing finance. Moreover, it recommended that there should be an enhancement to the housing policy in South Africa, and suggested that there should be alternative mechanisms to improve the current conditions. However, it was limited in that property stokvels were not considered as an alternative mechanism that can be used for low income earners to gain access to housing finance. Moreover, there was no direct comparison made between mortgage financing and property stokvels to see which of the two was more user friendly for low income earners seeking to gain access to housing finance in South Africa.

Chipswa (2016) conducted a quantitative analysis of the factors influencing housing demand in South Africa. The study noted that there are various important factors that influence housing demand in South Africa which include employment, income levels, gross domestic product, monetary policy, and demographics among others. In the study, housing demand was measured by mortgage loans granted on a monthly basis by South Africa's four largest banks. Moreover,

the study made use of time series data (covering the years 1995 to 2015). This data was extracted from the website of the South African Reserve Bank. The study made use of a multiple regression analysis to analyse the data and it was noted that there is negative correlation between housing demand (as measured by mortgage loans disbursed to individuals) and the prime overdraft and inflation rate. Moreover, the study noted that there is a positive correlation between housing demand and the foreign exchange rate. As such, if the interest and the inflation rates of the country were to increase, there would be a corresponding decrease in the demand for housing. Whilst the study was very useful in outlining the macroeconomic factors influencing the disbursement of mortgage loans in South Africa, it was limited in that it did not seek to explicitly investigate the relationship between property stokvels and mortgage loans granted in South Africa and whether property stokvels are a more appropriate vehicle for administering housing finance in the country (particularly to low income earners).

Magqaza (2016) conducted an exploratory study where project finance was explored as a means of facilitating development in as far affordable housing is concerned. The study was done through interviewing various participants, based on their role in the infrastructure provision sector. Project finance, it was found, is a satisfactory means for facilitating the ultimate development of housing finance due to its inherent characteristics. While the study investigated the use of an alternative vehicle to ultimately facilitate the development of affordable housing, the study is limited in that it does not investigate the potential relationship between property stokvels and their effectiveness in providing access to housing finance to South Africans. Moreover, it did not compare property stokvels to the mortgage finance provided by commercial banks (traditional lenders).

Akinwunmi (2009) performed an investigation into the factors affecting housing finance supply in Nigeria. The study noted that housing finance is a major factor in determining the quality and tenure and housing consumption, the overall financial portfolio of the public, and the stability and effectiveness of the country's financial system. The study used a multiple regression approach with data obtained from the balance sheets (between 2003 and 2007) of Universal Money Deposits Banks (UMDBs). This was done to ascertain the extent to which financial institutions had the ability and willingness to participate in lending that was of a long-term nature. Importantly, the study sent out questionnaires to individuals who made use of housing finance. This was done to ensure that the findings from the research were valid. The study found that there were various factors that drove the housing finance supply in Nigeria.

These included factors that were associated with the monetary reserves of financial institutions and their share capital. Moreover, the study found that developed countries that were to a great degree funded by deposit liabilities could not be completely applied to developing countries (such as Nigeria and South Africa). This is because, and as highlighted in the study, developed countries tend to have a structure of housing finance that is to great degree funded by deposit liabilities. The study appropriately investigated the elements that have an impact on housing finance in developing countries. However, the study did not go on to recommend possible alternatives to mortgage financing. Moreover, the study was in relation to the Nigerian economy (and not South Africa). Whilst they are both considered developing economies, the make-up of the two countries, particularly regarding the provision of housing finance, is likely to be vastly different. As such, the recommendations for Nigeria may not be fully applicable to the South African economy.

The studies indicate that there is an issue relating to access to formal housing financing, particularly pertaining to low income groups in developing countries. The literature further points out that alternatives need to be considered to ensure that there is more widespread access to housing finance in South Africa. Moreover it is evident from the literature that stokvels have a significant role to play to facilitate financial inclusion in South Africa. The above literature provided the motivation to undertake the present study which aimed to compare property stokvels to traditional lending institutions (commercial banks) and ascertain whether they are a more appropriate vehicle to facilitate more widespread access to housing finance in South Africa, and thereby economic inclusion. Various approaches were used to obtain and analyse the data related to the various studies considered above. It is evident, given the limitations noted above, that there is a lack of literature that investigates property stokvels and their ability to more effectively grant South Africans access to housing finance when compared to traditional mortgage finance offered by commercial banks, particularly to low income households. Considering the literature, the limitations noted above, and the fact that the research at hand was of an exploratory nature, the researcher made use of semi-structured interviews to guide interactions that were made for purposes of collecting the data to be analysed in relation to the present study.

2.8 Chapter summary

Chapter 2 of this dissertation opened with an introduction to the housing context in South Africa especially in light of its politically charged history. The introduction highlighted how

increased access to housing finance can help increase the rate of access to housing in South Africa. Moreover, it was noted that property stokvels are a phenomenon that is increasing in popularity in South Africa, and they can possibly be used as a financing tool to help increase the rate at which South Africans gain access to housing. The chapter then went on to define some key terms that were utilised in the study. An overview of the South African mortgage market was provided, which also elaborated on the history of the mortgage market in South Africa. Also, the chapter provided a history of stokvels in South Africa and how they evolved from informal rotational cattle auctions. The chapter then highlighted how these stokvels formed the operational basis of property stokvels, which was provided in addition to the rapid rise of the prominence of property stokvels. The chapter also provided a conceptual framework with respect to mortgage financing, the challenges to mortgage financing, and property stokvels and economic inclusion. Finally, a review of the empirical literature was presented before concluding with this brief summary.

CHAPTER 3: RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter delves into the research design and methodology that was used in this study. An evaluation of the sources that were used in the study is presented. Also discussed in this chapter is the means which were used to increase the reliability and validity of the data in order to facilitate the research process as appropriate.

3.2 Research approach

With respect to the appropriate research methods, one must decide whether to use a qualitative approach, a quantitative approach, or a combination of the two (also known as the mixed method). Tuli (2010) notes that there are various factors to consider when deciding between qualitative and quantitative research methodologies. These factors are of a philosophical nature and deal with considerations that are of an ontological (the nature of the reality) and an epistemological (the nature of knowledge) nature. Tuli (2010) further highlights that a research methodology based on the assumption that there is one type of reality that can be measured and understood (in that it is a positivist research paradigm) has an objectivist nature of reality and a knowledge that is empiricist in type. On the other hand, a research methodology that is qualitative in nature is founded on a knowledge that is interpretive and a reality that is constructionist in nature (Tuli, 2010).

With respect to the case study at hand, there is not a wide array of research that has been conducted regarding the impact of property stokvels and their comparison to mortgage bonds when it comes to the extent to which they facilitate access to housing finance (and thereby economic inclusion). There are thus no available data and hypotheses to test. In light of this, the quantitative method was not appropriate for the purposes of this study. On the contrary, the study made use of exploratory research that was of a deductive nature. Moreover, when considering the research questions in this study, as highlighted in Section 1.2 of Chapter 1, it was evident that they were of a qualitative nature. This was due to the fact that they were questions that sought to uncover phenomena that arose directly from the experiences of the participants. To this end, Agee (2009) notes that qualitative inquiries pose the types of questions that relate to the why and how of human interactions. As such, the researcher determined that these questions could best be addressed by means of using detailed responses from participants. The lived experiences of the participants regarding property stokvels are

what provided invaluable insight into the potential impact of property stokvels on the South African economy. Du Plesis et al. (2007) note that exploratory research often makes use of research tools that are of an exploratory nature. This is due to the fact that the research tools, though unstructured, have greater levels of flexibility and diagnostic abilities than research tools that are of a quantitative nature. The link between exploratory and qualitative research is further highlighted by Stevens and Wrenn (2013) when they assert that exploratory research is sometimes referred to as qualitative research. It was thus evident that the qualitative approach was more appropriate for the study at hand.

3.3 Research design

3.3.1 Sample and respondents

The researcher sought to determine a sample of an appropriate number of respondents that would enable the study to make observations and various inferences about the population of stokvel participants. Dukes (1984) makes the important submission that the larger the information power a sample has the smaller that sample needs to be. She further submits that where there is a high level of dialogue quality a smaller sample increases the information power related to a study. Moreover, Dworkin (2012) notes that the sample size used in qualitative research is often smaller than the sample size used in quantitative research methods. This is due to the fact that qualitative research concerns itself with obtaining an in-depth understanding of a phenomenon. Moreover, Charmaz (1990) makes an important submission when he notes that the aim of in-depth interviews when performing qualitative research is to create categories from the research data and ultimately analyse the relationships between categories while determining how the lived experience of the research participants can be understood.

As noted by Dukes (1984), the study at hand, which was of a phenomenological nature, was performed on a small sample so as to allow the participants, which were members of property stokvels, to express themselves fully and reveal the logic of their lived experiences. Moreover, as noted by Dukes (1984), the study at hand sought to understand the lived experiences of the participants in a manner that made sense to them. This thought was further highlighted by Smith and Osborn (2007) who note that the aim of phenomenological research is to study the meanings of the lives and experiences of participants. On the other hand, Morse (2000) notes that in order to use a smaller sample size to conduct a study the scope of the study needs to be narrow and the nature of the topic needs to be obvious and clear, and the necessary information should be easily obtainable from the interviews that are conducted in the study.

The qualitative research in this study was performed, as noted by Eisenhardt (1989), by corroborating evidence from various research participants who were members of property stokvels, thereby making the findings stronger and more firmly established. Dworkin (2012) notes that a key consideration that should be made when determining the sample size of a qualitative study is saturation. She further submits that saturation can be considered as the point after which no additional data that is collected will offer any new or relevant insights. Charmaz (2006) makes the important point that saturation can be considered having been achieved when obtaining new data does not provide new learnings of a theoretical nature, neither does it bring to light additional detail pertaining to the theoretical segments established to date. In the present study the researcher ensured that he understood the point of saturation so as to ensure that no irrelevant data was obtained in the data collection phase of the study.

Dworkin (2012) notes that there are certain factors used to determine the level of saturation relating to a given study. These include how diverse or similar the population being studied is, what the criterion used for selecting the participants is, what finances are required to conduct the in-depth study, whether there are key categories that are critical to an in-depth study of the topic being examined, and consideration of the timeline being faced by the researcher. In the present study, the researcher noted that the population being studied was of a homogenous nature as all the participants were South African individuals who had participated in property stokvels. Limited funds were set aside to conduct the study. Moreover, the researcher noted that there were no key sub-categories critical to an in-depth study of the topic being examined. Due to the nature of the study, the timeline to complete the present study was limited. In determining the sample size in the present study, the factors above were taken into consideration.

Dukes (1984) notes that sample sizes of qualitative studies that are of phenomenological nature need not be large, further noting that it should ideally include between three and ten participants. Moreover, Smith and Osborn (2007) note that there has been an upward trend of phenomenological studies being conducted with five or seven research participants. They further note that an important factor in determining a sample size is ensuring that it allows the study to produce a sufficiently penetrating analysis. Morse (2000) notes that qualitative studies that are phenomenological in nature can have samples of between seven and ten participants as a considerable of data is obtained from each research participant.

On the other hand, Dworkin (2012) makes the important observation that a considerable number of publications provide the recommendation that anywhere between five and 50 participants is appropriate to conduct a qualitative study. She further notes that the following important factors should be considered when determining the sample size: the data quality; the scope of the study; the topic of the study; the extent to which research participants are able to provide valuable information; whether the study makes use of shadowed data; and whether the study makes use of the qualitative research method and study design. The data quality in the present study was considered to be of high quality as primary data was collected from subjects that have been participants in property stokvels. Furthermore, the research topic and the associated research questions of the present study are not considered to be of a complex nature, and the study obtained the perspectives of research participants pertaining their lived experiences with respect to property stokvels. Moreover, the information obtained from each participant was of an appropriate depth and detail, given the nature and extent of questions asked in the questionnaire given to participants. Considering the abovementioned factors, the sample size that was used for the purposes of the study at hand was that of seven participants. A sample size of seven was considered to be the point after which no additional relevant insights would have been obtained from participants. Furthermore, it was considered that additional property stokvel participants would not provide data that would provide new learnings of a theoretical nature. As such, saturation was considered to have been achieved with the sample size of seven.

3.3.2 Data collection

Hox and Boeije (2004) note that researchers collect primary data in order to address a particular research problem. This is done using processes that are best suited for the prevailing research problem. They further note that secondary data entails the use of data collected earlier by other researchers or for purposes other than research. In this study, primary data was utilised. The primary data helped to provide insight into the mortgage finance sector in South Africa. It further gave insight pertaining to whether property stokvels have the potential to add value with respect to allowing marginalised South Africans to access property finance, and thereby facilitate greater economic inclusion.

3.3.3 Instruments: In-depth interview

In the study, qualitative interviews were used to collect primary data. Jain (2021) notes that interviews have previously been assessed as effective in obtaining a general grasp of the reasons behind why creating things occur. Moreover, interviews allow the researcher to determine what the beliefs, interests, incentives, and feelings of the participating interviewees are. This broad understanding was key for the purposes of conducting this study as the research area was largely unentered. Jain (2021) also notes that interviews, though time consuming and resource intensive, have emerged as a suitable tool for qualitative exploratory research projects. The point of view of the interviewee will provide very useful insight to the subject matter at hand. This is in addition to the benefit of interaction that is allowed between the interviewer and the respondent (which allows for follow-up questions where necessary).

3.3.4 Instrument administration

The researcher informed the participants that a study was to be undertaken for the purposes of determining whether property stokvels are a more efficient vehicle for low income households to gain access to property, when compared to traditional home loans. The researcher made contact with participants from various property stokvels.

In developing the interview protocol, the researcher used the four-phased interview refinement protocol as outlined by Castillo-Montoya (2016). In so doing, the researcher firstly ensured that the interview questions were aligned to the research questions as outlined in Section 1.2 of the research study. The researcher further ensured that the questions were such as to allow research participants to tell their story in as much depth as possible while remaining aligned to the purpose of the study. To ensure that all of the research questions were covered by the interview questions the researcher developed a matrix for purposes of mapping the interview questions to the research questions. This shown in the Figure 3.1 (see Appendix 2). As noted in phase two of the interview refinement protocol, the researcher ensured that the interview questions of the study struck a balance between inquiry and conversation. This was done by ensuring the interviews were easy to understand by the participants and by ensuring that the conventions of ordinary conversations were followed. Moreover, the researcher ensured that there was a variety of questions with a script containing the necessary follow-up questions to drive the conversation as necessary. In phase three the researcher obtained the relevant feedback on the interview protocol to ensure that research participants would understand the interview questions well, as noted by Patton (2014). As per phase four of the interview

refinement protocol, the researcher would otherwise have gone on to pilot the interview protocol to ensure that the order of the interview questions, the understandability, and the length of the interview questions are of an appropriate standard. However, due to a lack of time and resources the researcher decided to forego the piloting phase. Castillo-Montoya (2016) notes that researchers, at times, may decide not to engage in a piloting phase due to not having money, time, or access to participants for purposes of conducting a pilot phase. He further notes that in such cases phase three of the interview refinement protocol becomes even more important for purposes of ensuring that the interview questionnaire is of an appropriate standard.

3.4 Data analysis

Burnard et al. (2008) note that there are two fundamental approaches in analysing qualitative data. These are the deductive and inductive approach. The deductive approach uses a structure or predetermined framework to analyse data. Using the this approach the researcher imposes their own structure or theories on the data and then uses these to analyse the interview transcripts. They further note that this approach is useful in studies where researchers are already aware of probable participant responses. The issue with this approach however is that it is quite inflexible and can potentially bias the entire analysis process due to the fact that the coding framework has already been decided. This can seriously limit the theory development.

On the contrary, the inductive approach, according to Burnard et al. (2008), involves the analysing of data with minimal predetermined theory, structure or framework. The inductive approach uses the actual data itself to derive the structure of the analysis. This approach is suitable when there is little known about the study phenomenon.

In this study the researcher used the thematic content analysis, which according to Burnard et al. (2008), is the most common inductive method to utilise and arose of out the grounded theory. Moreover, Braun and Clarke (2006) assert that the theme captures an important aspect of the data relating to the research question and represents a systematic or patterned response within the data as appropriate. They further note that the thematic content analysis involves the identification, analysis and the reporting of patterns within the collected data. In this study the researcher analysed the interview transcripts, identifying themes and gathering data related to the said themes.

The researcher followed five steps which are typically associated with the thematic content analysis as highlighted by Braun and Clarke (2006). Firstly, the researcher familiarised himself with the data collected by immersing himself in the data. This was done by reading the interview transcripts and understanding them thoroughly. Secondly, the researcher generated the initial codes relating to the data. This was done by segmenting the data into threads using codes. Thirdly, the researcher went on to search for various themes that emanated from the collected data. The themes identified something important about the data with respect to the research questions. Moreover, the themes identified in the collected data were then reviewed and collated in a way that is cohesive and logical. Lastly, once reviewed, the themes were defined and labelled as appropriate. This then enabled the researcher to interpret and report on the themes that had been identified.

3.5 Research criteria

3.5.1 Validity and reliability of research

Validity

Validity is outlined as a measure by which one can indicate whether the research is indeed measuring what it set out to measure, in addition to the truthfulness of the research (Golafshani, 2003). Quintao et al. (2020) note that external validity is necessary for exploratory research. They further note that external validity is based on established cases and the protocol used to conduct the study.

Quintao et al. (2020) note that external validity can be demonstrated by presenting the reasons for the selected case studies (participants), the context pertaining to each participant, and the identification of themes that enable the results obtained to be generalized. As mentioned above, data was collected from seven property stokvel participants, considering their varied experiences with property stokvels.

Moreover, Golafshani (2003) notes that the validity of data can be ensured by the data cleaning process and ensuring that interview questions are closely aligned to the research questions. In the study under consideration the validity of the data was ensured by a thorough data cleaning process and ensuring that the interview questions aligned to the research questions highlighted in the study.

Reliability

Golafshani (2003) notes that to ensure the reliability of qualitative research, the examination of the trustworthiness of the research is very important. This is further emphasized by Seale (1999) when he notes that the “trustworthiness of a research report lies at the heart of issues conventionally discussed as validity and reliability.”

On the contrary, Stenbacka (2001) postulates that since the reliability of a research report concerns measurements, it has no relevance in qualitative research. On the other hand, Lincoln and Guba (1985) note that because there can be no validity without reliability, demonstrating validity is enough to establish reliability. This is further highlighted by Patton (2001) when he notes that the reliability in a study is a consequence of the validity of the said study.

As such, the researcher ensured the reliability of the study at hand was obtained by testing the validity of the study. It was noted that the reliability of the study was established by virtue of being a consequence of the already established validity of the study.

3.5.2 Steps taken to avoid or mitigate bias

Le Compte (2000) notes that tacit theories can be used in research to help avoid bias in the collection, analysis and interpretation of data. She notes that tacit theories are past occurrences that guide current behaviour and inform predictions about future events. The present study avoided bias by obtaining research participants from varied economic backgrounds and asked them the same questions concerning their experiences with property stokvels. This included individuals that would otherwise be deemed as not needing to make use of property stokvels (due to their qualifications, experience, and financial position). This was done in addition to ensuring the validity of the study.

3.6 Ethical considerations

Roshaidai and Arifin (2018) importantly note that in a qualitative study ethical considerations are extremely important due to the in-depth nature of the study. They further highlight that it is important that human subjects of a study are protected by virtue of the appropriate ethical principles being adopted in the study.

The researcher undertook the study adhering to the appropriate ethical considerations. The researcher exercised integrity, honesty, respect, transparency and confidentiality when

engaging with study participants. The respondents were assured that their responses were voluntary and that they were at liberty to withdraw from the study at any stage.

Moreover, the researcher made a successful application for ethical clearance to the University of Cape Town. This was granted on 23 May 2022. This ethical clearance was obtained to give comfort to the research participants relating to the fact that their confidentiality and anonymity were guaranteed in relation to the present study.

3.7 Limitations of the study

The study of the shortcomings of traditional property financing in the South African context can be viewed from various angles. This study however focused particularly on the shortcomings of property financing for the purchase of property by low income households in South Africa. Moreover, the study compared traditional property financing to property stokvels and sought to determine whether they can be a more effective means of ensuring that low income households in South Africa can obtain access to property.

The researcher noted that there were many persons who had sought to make use of traditional housing finance and or property stokvels in South Africa. The researcher could not interact with all persons who had made use of property stokvels as a vehicle for gaining access to property. There was thus a limitation that the findings of the study would not be applicable to all persons who had made use of property stokvels. This is because some people may have had their own unique experiences with specific property stokvels that may not have been considered in the findings of the study. However, the findings of the study are still relevant as they account for sincere responses from unrelated individuals, regarding the effectiveness of property stokvels. The findings of the study thus provide an important insight into the functioning of property stokvels and their effectiveness (or lack thereof) in facilitating access to property.

3.8 Conclusion

This chapter presented the research strategy, design and methodology that were utilised in the study. Moreover, the chapter detailed an in-depth review of the instruments utilised in the study and further went on to outline the instrument administration before detailing the sampling used to conduct the study. The research criteria were outlined which included the steps taken to ensure the validity and reliability of the study. Finally, the approach to the data analysis was

then outlined, as well as the ethical considerations made in the study prior to the chapter being brought to its conclusion.

CHAPTER 4: FINDINGS AND DISCUSSION

4.1 Introduction

This study purposed to understand which mechanism between property stokvels and traditional housing finance would be more appropriate for facilitating economic inclusion in South Africa. As highlighted in Chapter 1 of the study, there are many in South Africa who do not have access to housing and are thereby excluded from many components of the economy. In response to the research questions, semi-structured interviews were conducted. Respondents that were targeted were those who have had the experience of participating in a property stokvel. The respondents are diverse in nature with respect to their financial background, age, and years of experience. The findings of the research are presented below.

4.2 Response rate

A total of seven interviews were conducted by the researcher which lasted an average of one hour each. The responses were analysed using the thematic analysis. As shown in the table below, interviews were conducted with seven respondents from diverse backgrounds. The findings from the interviews are presented below.

Table 4.1: Population of study participants

No.	Gender	Age	Nature of business	Years of experience	Current role
1	Male	56	Industrial Equipment	10	Sales
2	Female	35	Finance Professional	7	Finance Specialist
3	Male	40	Property	5	Property Strategist
4	Male	34	ICT - Telecommunications	13	Engineer Specialist
5	Male	37	Self employed	5	Various Business Interest
6	Male	40	Health Professional	5	Operational Manager – Trauma and Emergency
7	Female	38	Finance Professional	20	Business Analyst

Source: Research data

4.3 Thematic findings

The thematic findings related to the research questions in the study are presented below. These findings were compiled using semi-structured interviews conducted with property stokvel participants. The interviews sought to ascertain what challenges were being faced by South Africans of a lower economic class when seeking to access mortgage financing from traditional banks. Also, the interviews sought to determine what the main reasons are that lead people to

participate in property stokvels. Lastly, the interviews sought to determine whether property stokvel participants think property stokvels are more appropriate than mortgage financing for purchasing property. The interview instrument used in the study (questionnaire as reflected in Appendix 1) was appropriate as it allowed the study participants to freely detail their experience with property stokvels whilst being guided by the researcher.

4.3.1 Challenges with mortgage financing

The thematic analysis of the response to the question on the challenges faced by the lower end of the South African market when accessing mortgage financing revealed five key challenges: the complex application process associated with traditional housing finance; the fear of (and actual) rejection by banks; anxieties associated with an application for housing finance; the fear of losing affordability; and the lack of flexibility associated with traditional housing finance. The structure of the data showing the flow from the first order concepts to the aggregate themes is shown in Figure 4.1

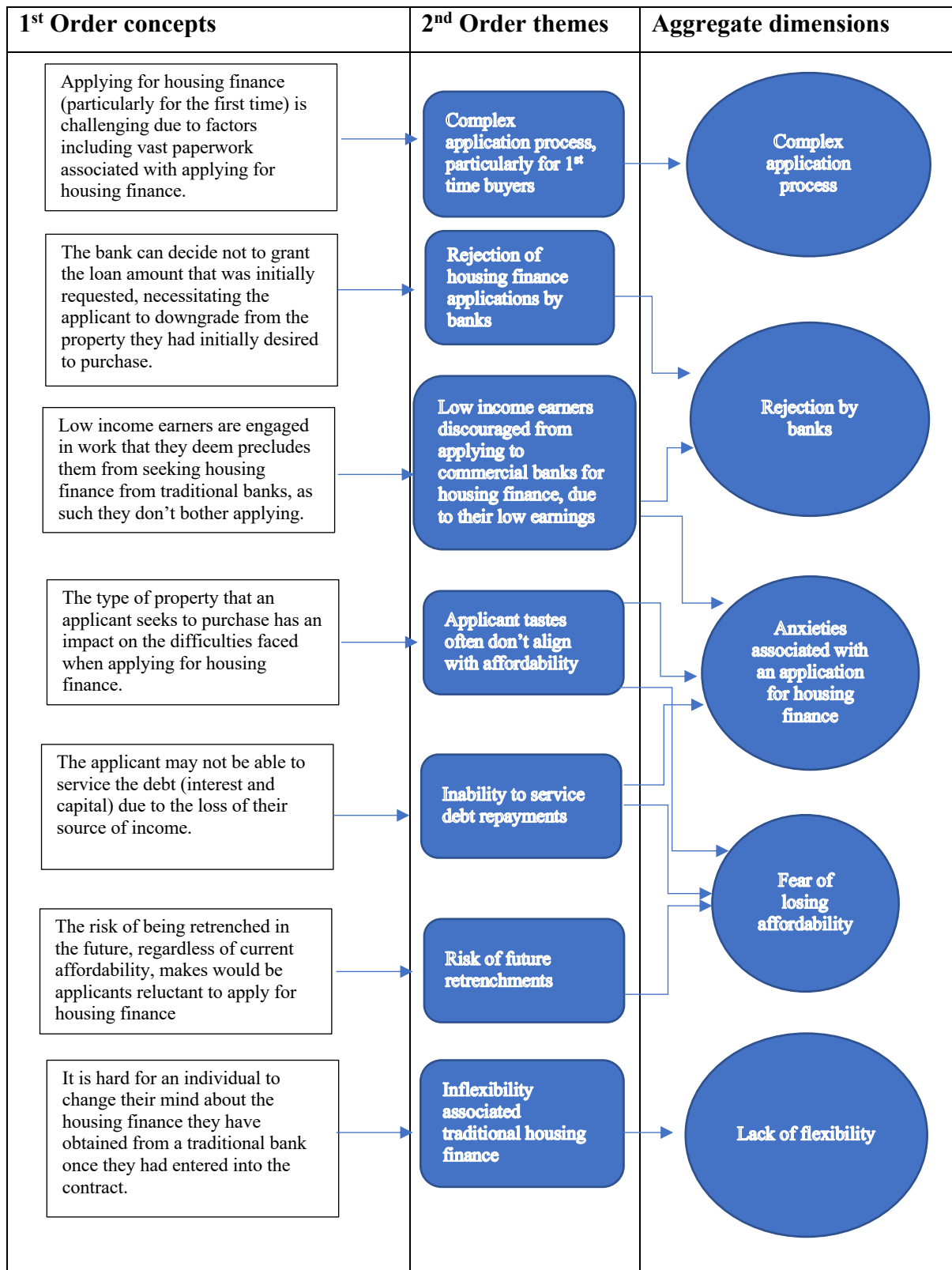


Figure 4.1 : Data structure - Challenges faced by the lower end of the South African market when accessing mortgage financing

4.3.1.1 Complex application process

It was noted that applying for housing finance (particularly for the first time) is quite challenging due to the associated paperwork. It was further noted that the type of property that an applicant seeks to purchase also has an impact on the type of difficulties faced applying for housing finance. Respondent 2 highlighted the above when she noted:

“there is a heightened level of legalities (associated with traditional housing finance).”

Moreover, Respondent 2 highlighted:

“with mortgage finance there are things such as credit checks, affordability checks, (and) red tape. The documentation required, for a typical individual that is of a lower LSM, (is such that) they will never obtain the chance to be a part of a property investment or property ownership of any kind. The above requirements will tend to exclude such individuals.”

In addition, Respondent 5 noted:

“I have heard that there are now banks that have opened the opportunity for people to buy as a collective. There is thus a possibility that people/collectives can work with banks to buy property. But I think that the banks will always revert back to credit scores, which will have the effect of excluding some people from the option of purchasing property as a collective. Thus, some people will always be excluded, regardless of how banks are keen to work together with property stokvel.”

The above is highlighted by Peberdy (2015) when she notes that reasons that contributed to the lower levels of access to finance included the adequacy of the required documentation in finance applications. Mulaudzi (2017) also found that stokvel participants preferred to buy things cash without the need to complete bank applications. Pillay and Naude, (2006) further highlight that factors that posed a significant barrier to people accessing housing finance included a lack of knowledge on the various financial products, poor levels of affordability, and the inability of banks to deal with individuals from the low income segment.

4.3.1.2 Rejection by banks

It was noted that a type of challenge faced when applying for mortgage loans is that the bank can decide not to grant the loan amount that was initially applied for, due to various reasons. This was the case when Respondent 1 noted:

“the property for which I initially applied, I did not qualify for. I was faced with (the option of) either buying a cheaper property in the townships (which I would otherwise qualify for) but which I did not want. The property I did want I didn’t qualify for. This is why stokvels are so important.”

The respondent was eventually granted access to a lower loan amount. This meant that the individual had to downgrade from the property they had initially desired to purchase.

It was noted that, at times, South Africans who consider themselves low income earners are intimidated by the bank requirements and choose by themselves to not even apply for housing finance from traditional banks. This is all the more true for individuals who are engaged in work that they deem precludes them from seeking housing finance from traditional banks. This was the case with Respondent 5 when he noted:

“the field I worked in, I never obtained a permanent position. We did clinical research and survived mostly on external funding. I now am self-employed, and even in this instance one needs to have collateral and I am not in a position that I can apply for a mortgage. I have not applied for a mortgage loan and then been rejected. But, I have disqualified myself due to the fact that I saw myself as having not met the requirements of the bank that would have otherwise made such financing.”

The above sentiment is shared by Luyirika (2010) when she asserts that low income individuals are too poor to qualify for loans that would otherwise be granted by traditional banks as they generally do not have assets that they can pledge as collateral. Smit (2003) also expounds on the issue of households being unable to qualify for housing loans. Limba (2018) further notes that the challenges of high interest rates and expensive houses have resulted in commercial banks seeing low income groups as being risky and as such unable to qualify for housing finance as per the bank affordability requirements.

4.3.1.3 Anxieties associated with an application for housing finance

The anxieties associated with an application for housing finance were highlighted by Respondent 7 when she noted:

“mortgage applications are anxiety inducing. You go there (to the bank) with your hands together. The banks have their own processes. Sometimes they dish out money. Sometimes they

tighten the screws when the interest rates are moving upwards. You never know what the outcome (of your application) will be.”

The above is also highlighted by Pillay and Naude (2006) who note that there are times that prospective buyers do not want to approach traditional banks for reasons that are associated to the adverse perceptions and fear in dealing with financial institutions. Moreover, Moliea (2007) highlights that as a result of the misconceptions associated with financial institutions, banks should conduct financial literacy initiatives to help communities know that they need not be feared.

4.3.1.4 Fear of losing affordability

It was highlighted that one of the biggest challenges associated with housing finance from a traditional bank is the aspect of the individual not being able to service the debt (interest and capital) due to the loss of their source of income. This would in essence mean they would not be able to make payments as required and would likely result in their property being repossessed. The risk of being retrenched in the future, regardless of the current affordability, is an aspect that participants saw as noteworthy. This is likely to be a deterrent to many to access housing finance from traditional banks. The above was noted by Respondent 1 when he highlighted:

“companies are laying people off and as such they are at risk of not being able to repay their mortgages. This would lead the banks to repossessing their properties and auctioning them off to settle the outstanding debt.”

Respondent 4 further noted:

“this risk is especially true where the housing finance applicant actually resides in the house, and does not use it to receive rental income.”

In addition to the above, Respondent 6 noted:

“affordability is also an issue. For example, many Government employees don’t get enough money to qualify for a mortgage loan that can enable them to buy quality housing. Yet, they are also not poor enough to qualify for a housing subsidy. The mortgage loans that such individuals qualify for will only enable them to afford a house in the township, which has its own security risk.”

Respondent 6 further noted:

“in obtaining a mortgage loan there is also a risk that a failure to repay the bank as required will result in the bank repossessing the house.”

The above is highlighted by Pillay and Naude (2006) who found that high interest rates were a factor that added to the non-affordability of housing finance. Moreover, they note that low income groups feared the threat of their properties getting repossessed by the financial institutions as a result of non-payment of their loans. Furthermore, Limba (2018) highlights that in South Africa the lack of affordability of housing is due to the high unemployment rate, coupled with the fact that the banking industry is risk averse. He further notes that low income groups in South Africa find it hard to access housing finance and as such many are excluded due to a lack of affordability. The issue of affordability (related to the traditional housing finance) is one that can evidently drive low income individuals to participate in property stokvels.

4.3.1.5 Lack of flexibility

It was highlighted that a challenge with housing finance from traditional banks is that it is hard for an individual to change their mind about the housing finance once they have entered into the contract. As such there are continuity concerns associated with traditional housing finance. This lack of flexibility means that an individual cannot easily change their mind in relation to obtaining housing finance even if there is a huge life changing event that prevents one from being able to enter into the mortgage contract. This was highlighted by Respondent 2 when she noted:

“the banks have made it very difficult to change your mind once you enter into a mortgage contract. The lack of flexibility is not appropriate.”

Moreover, Respondent 6 noted:

“I am in the military and as such I have been moving quite a lot. I currently stay in military property. It accommodates my family. We built a house in the rural areas for retirement purposes. I have thus never applied for a mortgage loan because I have needed to be flexible with respect to possibly moving for work purposes in the military.”

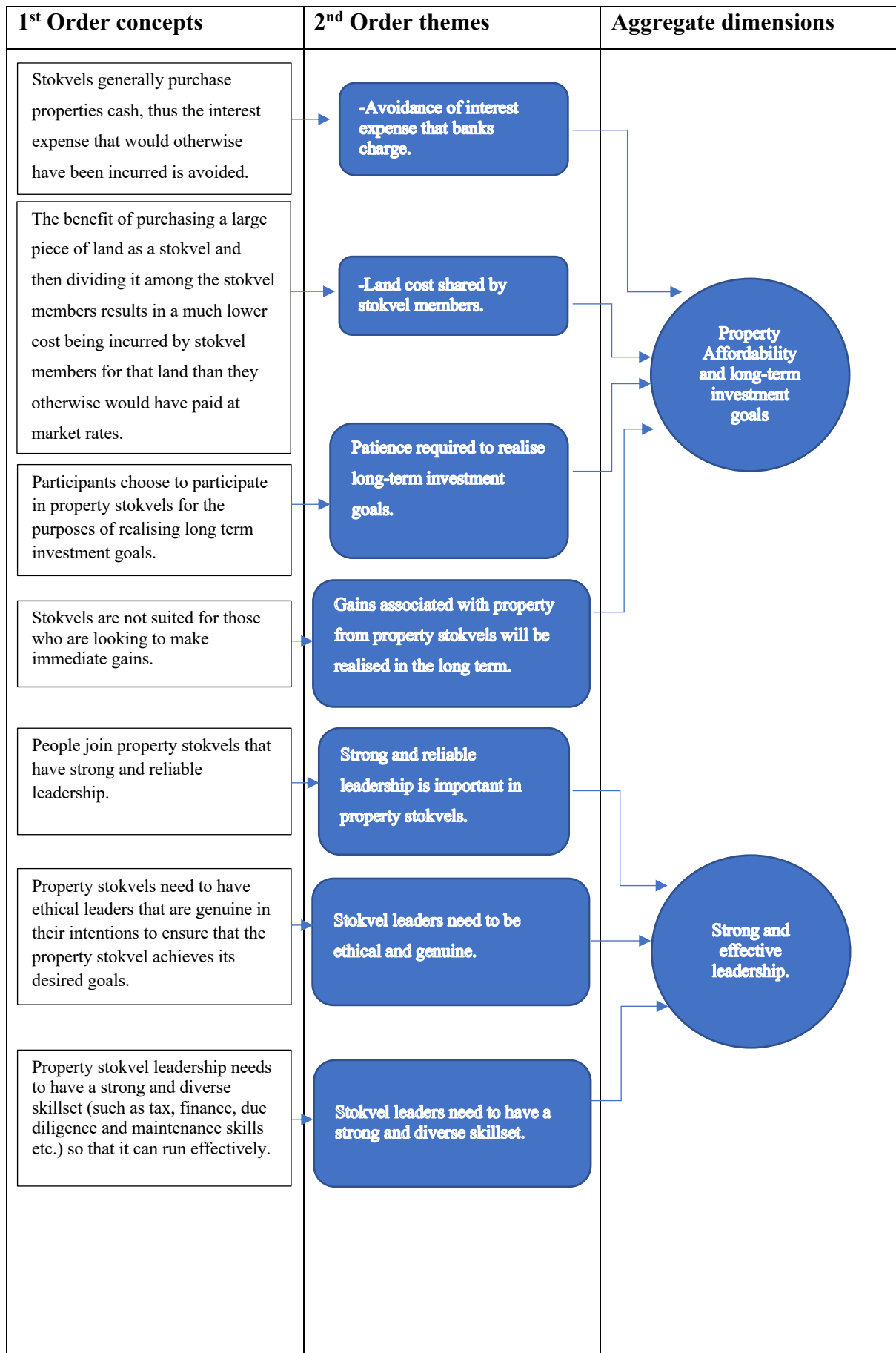
Also highlighted, was the lack of flexibility associated with the costs of traditional housing finance. This was highlighted by Respondent 3 when he noted:

“with the mortgage you don’t have much bargaining power, with respect to the interest, and with respect to the price of the property. With stokvels you are buying cash, and as such you have the power to negotiate the price with the seller.”

In light of the above, Pillay and Naude (2006) highlight that banks are often viewed as inflexible organisations with credit criteria that make it hard for low income earners to access home loans. Moreover, Moliea (2007) highlights that some would-be applicants were of the view that banks were not flexible enough to give them the benefit of the doubt when they required assistance. This is unlike what is experienced stokvel members, where the stokvel is accommodative to members who, for good reason, cannot fulfil their obligations to the stokvel (see Section 4.3.2.3).

4.3.2 Rationale for participating in property stokvels

This section discusses the main themes which explain respondents’ participation in property stokvels. The study participants were asked to detail their experiences when participating in property stokvels and what they particularly enjoyed about being part of a property stokvel, also noting the challenges faced in participating in property stokvels. Significant themes emanating from their responses are: Property affordability and long-term investment goals; Strong and effective leadership; Flexible structure that is relevant to the needs of the members; Access to large scale opportunity; and Building collectively whilst remaining debt free. The structure of the data which depicts the flow of the data from first order concepts to second order themes through to aggregated data is presented in Figure 4.2 below



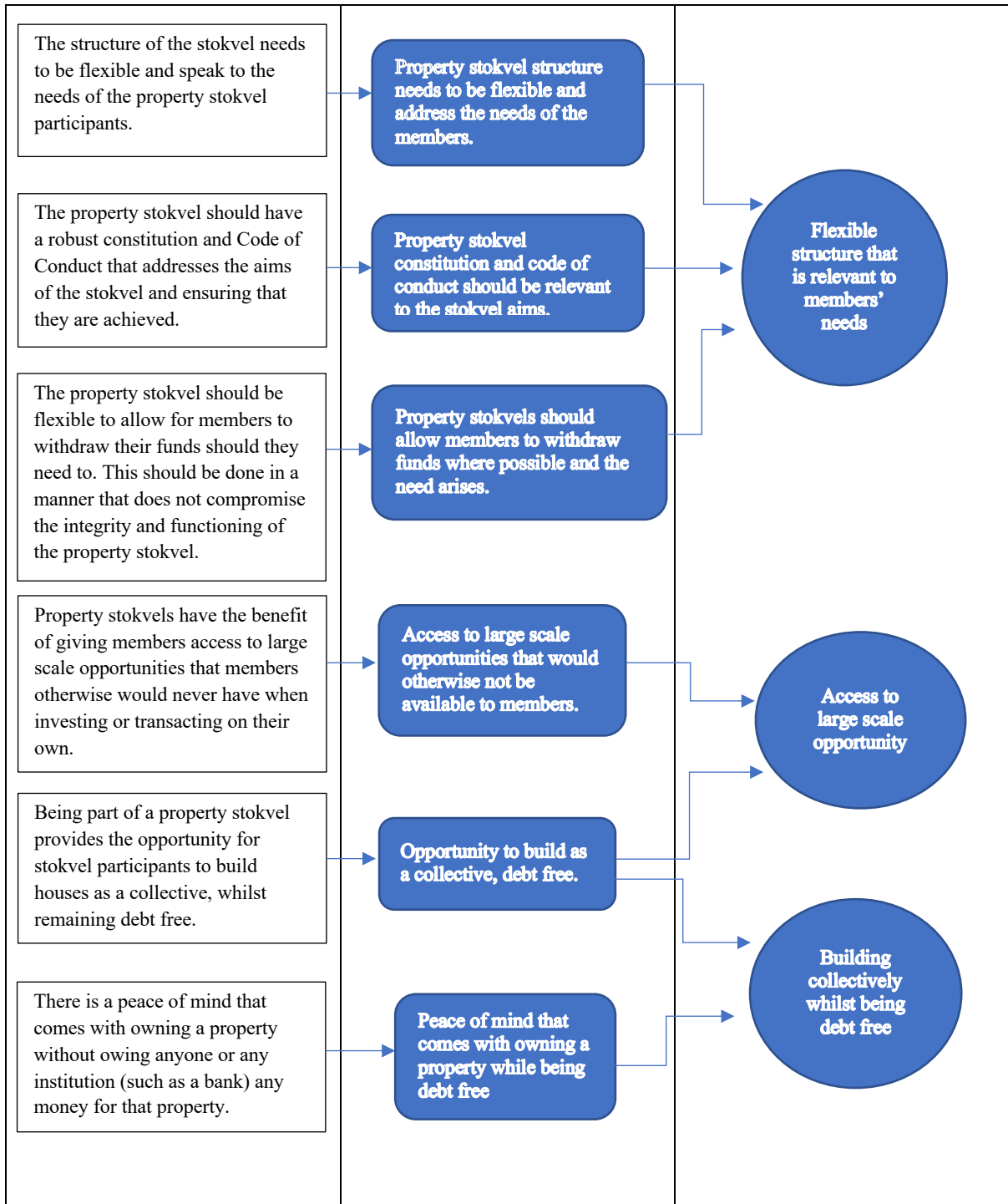


Figure 4.2: Data structure – Reasons for investing in property stokvels

Source: Author’s depiction as adapted from Corley and Gioia (2004)

4.3.2.1 Property affordability and long-term investing goals

One of the main themes that came through, which encouraged people to participate in property stokvels is that of affordability. For instance, Respondent 1 noted that:

“property stokvels are the best route for people who can’t afford to buy a house.”

Because stokvels generally purchase properties in cash, the interest expense that would otherwise have been incurred is avoided. This sentiment was shared by Respondent 3 when he noted:

“I found it very easy to follow the route of the stokvel. It saves you a lot of money in terms of interest etc. You can even afford to wait and pay for the property cash.”

This finding is consistent with Gwamanda (2019) who notes that with stokvels funds are pooled and then used for the purposes of acquiring commodities, investing in business ventures and buying property. Moreover, the benefit of purchasing a large piece of land as a stokvel and then dividing it among the stokvel members results in a much lower cost being incurred per stokvel member for that land than they otherwise would have paid at market rates. It was also noted that participants chose to participate in property stokvels for the purposes of realising long-term investment goals. Stokvels are not suited for those who are looking to make immediate gains. Respondent 1 highlighted this when he noted that, *“it’s important to have a long term view when participating in property stokvels.”*

Skenjana's (2012) view is similar as she notes that prior to embarking on long-term investment project, stokvel members should have a long-term plan for their finances.

4.3.2.2 Strong and effective stokvel leadership

It was noted that people ideally joined property stokvels that had strong and reliable leadership. It was also noted that it is important for property stokvels to have ethical leaders that are genuine in their intentions to ensure that the property stokvel achieves its desired goals. This included ensuring that the property stokvel leadership has a strong and diverse skillset (such as tax, finance, due diligence and maintenance skills etc.) so that it would run effectively and be of benefit to the stokvel members. Respondent 1 highlighted the above by noting that:

“it’s key to identify people that have a passion for other people and stokvels, and don’t get tired, and who have maturity. It is important to know the background of people that are leading the stokvel (business, employment, families etc). These people must be level-headed and don’t get easily intimidated.”

The respondent further noted that, *“when people running the stokvel are honest and true, the finances of the stokvel are protected.”*

Moreover, Respondent 2 highlighted the importance of stokvel leadership when she noted: *“The executive team does the due diligence (on potential opportunities), which they are compensated for (by the stokvel)”*.

Concerning the stokvel leadership, Respondent 2 further noted:

“I appreciate the due diligence and reporting back to the stokvel that the board does. They are transparent when it comes to the opportunities that present themselves, and their respective pros and cons. This is great because as a member you are able to see whether as a member this is a deal you would like to be a part of.”

Skenjana (2012) notes the importance of stokvels having an organisational structure with different roles being filled by different office bearers such as the roles of chairperson and secretary. She further notes, concerning leadership, that stokvels by their very nature have an innate ability to identify talent among the stokvel members. Moreover, she further highlights the value of leadership attached to stokvels when she notes that stokvel members are not afraid of challenging or removing leadership if they feel they are underperforming. It can even get to the extent where some members can decide to walk away and start a new stokvel if they are of the view that the leadership in their current stokvel is not living up to their expectations.

4.3.2.3 Flexible structure that is relevant to members’ needs

The structure of the property stokvel was noted as being an important aspect in inviting participation into property stokvels. It is important that the structure of the stokvel is flexible and speaks to the needs of the property stokvel participants, as the stokvel members will be able to derive maximum benefit from the property stokvel. This includes the property stokvel having a robust constitution that addresses the aims of the stokvel and ensures that these are achieved. It was also noted that the property stokvel needs to have a code of conduct that details how the stokvel members should conduct themselves in carrying on the business of the stokvel. This will enable the property stokvel to be governed in an efficient manner for the benefit of the members. This was highlighted by Respondent 6 who noted:

“it was important to have a watertight constitution to drive the stokvel.”

Also, the stokvel structure, where possible, should be flexible to allow for members to withdraw their funds should they need to (especially in the event of a change in the economic situation of the members). This will provide stokvel members the peace of mind that they will

be able to recoup their funds should there be an unexpected change in their economic circumstances. This should be done in a manner that does not compromise the integrity and functioning of the property stokvel. This was confirmed by Respondent 3 who noted, concerning the functioning of his stokvel, that:

“we decided to give members more flexibility in that members were allowed to withdraw the money they contributed. All that would happen is that whatever money was left in the stokvel was used to calculate a members share in a particular property. Some of the members have moved out of the stokvel because they could no longer contribute to the stokvel, and as such decided to do something else with their money.”

The above has been highlighted by Kibuuka (2006) when noting that stokvels are institutions that are flexible and such the constitution of each stokvel can be created and amended to suit the needs of the members. Moreover, Moliea (2007) notes that stokvels allow for flexibility and can even be adaptive to financial pressure inflation or a recession. Moliea (2007) further highlights that stokvels are accommodative to members who, for good reason, are not able make good on their obligations towards the stokvel. Verhoef (2001), on the other hand, notes that some stokvels are less flexible as a result of the manner in which their constitutions are structured. It is important to note that the benefits of flexibility are not automatic but the stokvel members need to put mechanisms in place that ensure the stokvel structure works for the members. In so doing, the stokvels can realise the notion submitted by Gwamanda (2019) that flexibility incorporated into stokvels makes them an attractive mechanism for saving.

4.3.2.4 Access to large scale opportunities

Property stokvels have the benefit of giving members access to large scale opportunities that the members otherwise would never have had when investing or transacting on their own. This was made clear by Respondent 2 when she noted:

“we all contribute money, and there is an entity in place which is a trust and we are beneficiaries as members. The trust then buys the property and the property belongs to the trust.”

She subsequently noted that she is also part of a property stokvel that:

“partners with property developers.”

Here the stokvels provide the property developers with funding to complete their property development projects. These developers are in turn required to repay the amounts borrowed with the pre-agreed amounts of interest. Such (and other) opportunities are not ordinarily available to individuals due to the large amount of funding required.

In light of the above, Skenjana (2012) highlights that stokvels have their own internal systems that do not rely on external institutions to create the financial discipline required for members to save and support each other. She further highlights an example where a stokvel was able to purchase a holiday resort unit in the Kruger National Park, as a property investment. This initial investment then allowed the said stokvel to explore other opportunities such as purchasing land in the Vaal (South Africa) for purposes of developing it. Moreover, Matuku and Kaseke (2014) further note that stokvels give members that opportunity to save. As such, members are able to engage in large projects such as making extensions to their houses. They further note that stokvel members also use stokvels to invest in even bigger projects such as buying land.

4.3.2.5 Building collectively whilst being debt free

Being part of a property stokvel provides the opportunity for stokvel participants to build houses as a collective. This supports the understanding that ubuntu is an important part of the South African ecosystem. This was also highlighted in a white paper by the South African Government when they noted that ubuntu is the principle of people caring for one another's well-being and showing each other mutual support (Hailey, 2008). The aspect of owning property as a collective while being debt free (as properties are purchased for cash) is also an aspect that is inviting for property stokvel participants. This was noted by Respondent 5 when he noted:

“the peace of mind with a stokvel is that you have the liberty of saying, “this is what I can afford,” and the help of jointly putting money together and buying that property and doing whatsoever you want with the property.”

Moreover, it was noted that there is a peace of mind that comes with owning a property without owing anyone or any institution (such as a bank) any money for that property. Respondent 5 highlighted this when he noted:

“(with property stokvels) you own your property in a very short space of time.”

With respect to the above, Skenjana (2012) notes that a key pillar of stokvels is that members love each other as they love themselves. She further notes that members generally join stokvels that are driven by members' love for friends, family and neighbourhood. Moreover, Matuku and Kaseke (2014) have found that team work, a sense of belonging and collective responsibility are critical factors that ensure the success of the operations of a stokvel. They further note that stokvels are important in that they are a form of social protection in that they allow members the ability to save, invest and accumulate assets. Furthermore, Mulaudzi (2017) has found that stokvels help to free people from debt. He further notes that members mostly want to buy items in cash without using money from the bank. He additionally highlights that the collective power of stokvels can enable them to use collective bargaining in order to benefit the stokvel members.

4.3.3 Comparisons between property stokvels and traditional mortgages

The thematic analysis of the response to the question on how property stokvels compare to traditional mortgages, when considering the extent to which they enable low income earners in South Africa to purchase property, is discussed below. To this end, the themes identified were: there are unique challenges associated with property stokvels that are not experienced with traditional housing finance; the benefits of property stokvels outweigh their challenges; and property stokvels are more appropriate than mortgage financing particularly for low income earners. The structure of the data showing the flow from first order concepts to aggregate themes is shown in Figure 4.3 below.

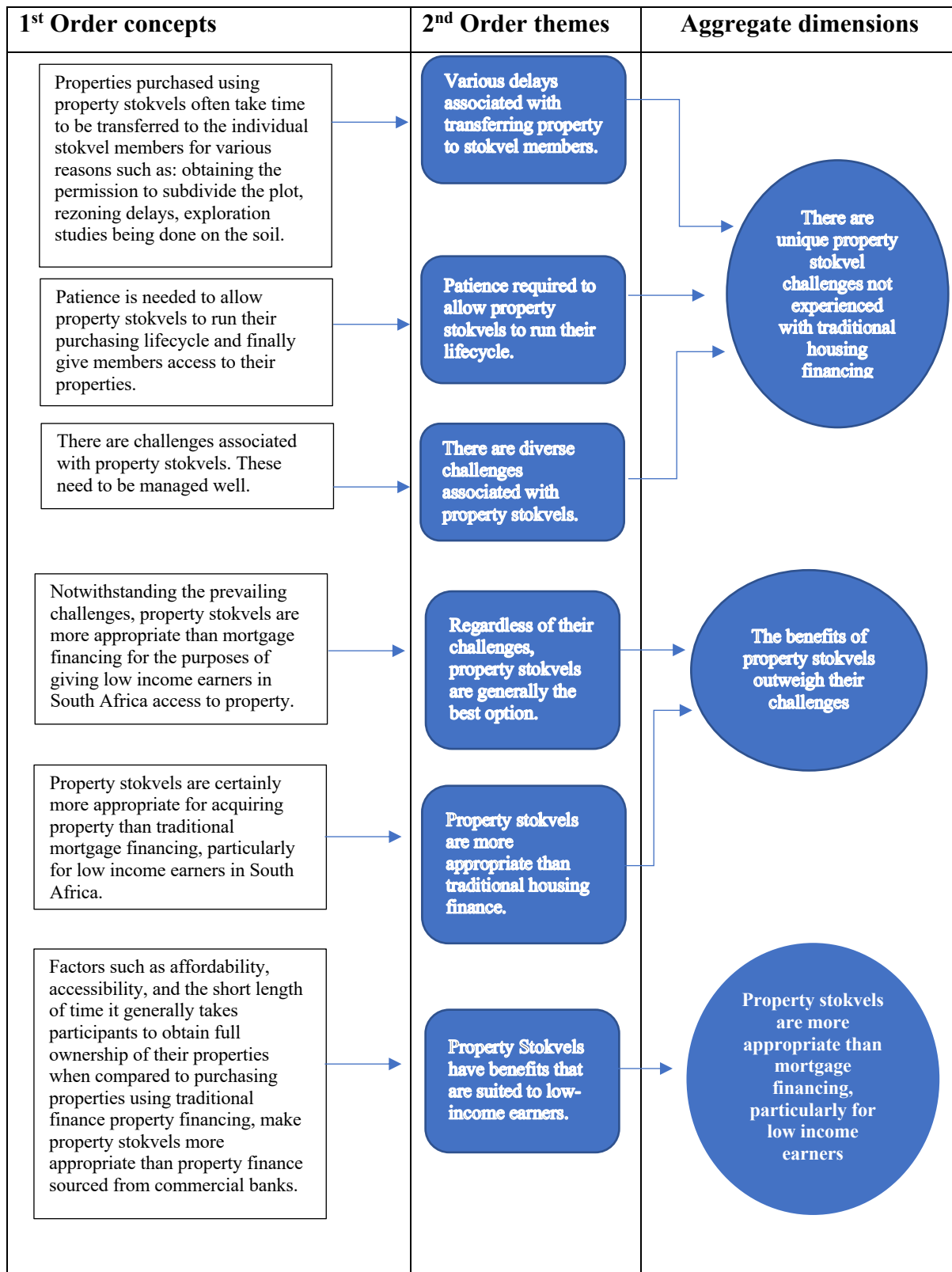


Figure 4.3: Data structure – Comparisons between property stokvels and traditional mortgages

4.3.3.1 There are unique property stokvel related challenges not experienced with traditional housing finance

It was noted that property stokvels come with their own challenges. This includes the challenges related to the inappropriate handling of the funds by the property stokvel leadership. This was highlighted by Respondent 1 when he noted:

“there is a huge risk of a mismanagement of finances happening in the stokvel.”

This challenge would inevitably compromise the functioning of the stokvel, thereby compromising the ability of members to obtain housing. There are also challenges that are race and political in nature that are often faced by property stokvels. Moreover, Respondent 2 noted: *“there is a negative perception out there that stokvels are structureless. People think that they always need to deal with all the stokvel members all the time (say 200 people), not knowing that they can just deal with the board.”*

Respondent 2 further noted:

“we would often lose opportunities just because we have the word “stokvel” in our name.” Pertaining to challenges associated with Property Stokvels, Respondent 3 also noted that, *“another challenge (with property stokvels) is that sometimes members need to pull out. They need to get their cash back.”*

Also, Respondent 7 highlighted the following pertaining to some of the challenges associated with property stokvels:

“With property stokvels something can go wrong. The property may not be zoned properly. The structure of the property may not be appropriate. There can also be vacancies (where the purchased properties are leased out) and there can be squatters on the property, where the tenants refuse to pay.”

Moreover, the issue of a delayed transfer of ownership to individual members was highlighted by participants. Different reasons were given for these delays including permission to subdivide the purchased plot between the stokvel members, rezoning delays, and exploration studies being done on the soil to determine if building can be commenced on the land. It was noted that because of the above, stokvel participants need to be patient with the process and allow for the eventual transfer of the properties to their name. This was highlighted by Respondent 1 when he noted:

“with property stokvels, you buy virgin land, and then it takes time before it gets to the point where each member owns their piece of land. This is why it’s important to be patient with the process.” Respondent 1 further highlighted that, *“it is important to have a long term view when participating in property stokvels.”*

With respect to the above, Walker et al. (2019) note that viability of property development projects, which are at times funded using stokvels, are quite sensitive to delays as a result of community dynamics and obtaining the appropriate approvals from the municipality. They further highlight that a transfer certificate is quite difficult to obtain from the municipality, while it is a precondition of for an application to the Registrar of Deeds to transfer land ownership to the appropriate individuals. Moreover, it was highlighted that there is a likelihood of delays resulting from a lengthy rezoning process and delays in having services installed.

Moreover, with respect to challenges faced by stokvels, Gwamanda (2019) notes that a key challenge is that of a lack of oversight and formal regulation of stokvels. This can naturally lead to unpleasant interactions between stokvel members and jeopardise the ability of the stokvel to meet its stated objectives. On that note, Mulaudzi (2017) points out that a key challenge is that of disagreements that arise between members of a stokvel. Mulaudzi (2017) further notes that a lack of financial literacy among the members of the stokvel can also pose as key challenge that can hinder the progress of stokvels. This sentiment was also shared by Dube and Edwell (2018) who found that stokvels stand to benefit from the expertise coming from the formal financial sector, such as financial management skills. This thereby shows that there is a challenge related to the dearth of such skills in within stokvels.

4.3.3.2 The benefits of property stokvels outweigh their challenges

As noted in Section 4.3.3.1, various challenges associated with property stokvels were highlighted. Notwithstanding these challenges, the respondents indicated that they are of the general view that the benefits associated with property stokvels outweigh the challenges that they came with. This was highlighted by Respondent 3 when he noted:

“in terms of affordability, property stokvels are a good approach. The banks tend to rate you according to your profile. We are in this situation because a huge bracket of people cannot afford mortgages. Hence the issue of property stokvels to try and see if members can obtain a place to stay. It (a property stokvel) comes with a lot of administrative issues on the part of the members, but that is just an effort for their comfort.”

Moreover, Respondent 5 compared the risks and benefits of property stokvels when he noted: *“Risks (of property stokvels) include getting into a stokvel with people that will scam you, and people you will end up not seeing eye to eye with. Because stokvels involve quite a number of people, anything can happen. These (risks) should be mitigated against to ensure that people’s money is not lost.”*

Respondent 5 further noted:

“Property stokvels (are more appropriate) because you own property in a very short space of time.”

To highlight the immense benefits of stokvels, even in light of their challenges, it was noted that they are often structured in a way that ensures that they are self-regulatory in nature. This helps to ensure members are not adversely impacted by the challenges of stokvels, while helping them reap the benefits of stokvels (even to the extent of members being able to take their money and leave malfunctioning stokvels and join properly functioning stokvels, should they wish).

The above is highlighted by Matuku and Kaseke (2014) who note that challenges such as the abuse of funds by dishonest leadership and stokvel members are types of barriers that hinder the success of stokvels. This leads to a lack of trust and dishonesty, and prevents the optimal functioning of stokvels. Matuku and Kaseke (2014) further note that in such instances some members would drop out and join other stokvels as a result of the mistrust existing within the said stokvel.

Furthermore, Matuku and Kaseke (2014) highlighted that a stokvel’s constitution provides the necessary checks and balances against practices that undermine the viability and success of a stokvel. It is evident that stokvels have robust systems in place to manage the challenges that may arise during their day-to-day operations. This further highlights the theme that the benefits of property stokvels outweigh the challenges associated with them.

4.3.3.3 Property stokvels are more appropriate than mortgage financing, particularly for low income earners.

Property stokvel participants were of the overwhelming view that property stokvels are more appropriate for acquiring property than traditional mortgage financing. This is particularly true

for low income earners in South Africa. Varying reasons were given for this, including affordability, accessibility, and the short length of time that it generally takes property stokvel participants to obtain full ownership of their properties when compared to purchasing properties using property finance. This was highlighted by Respondent 2 when she noted that property stokvels are more appropriate for lower income groups wanting to purchase property in South Africa, due to their “affordability.” She further highlighted that:

“there are more people involved in a stokvel which would make it more affordable to contribute to the amount required for the property.”

The respondents, however, provided a word of caution noting that it was important for the property stokvels to be conducted effectively for them to be an appropriate vehicle for acquiring property. Moreover, Respondent 4 provided a balanced view when he noted:

“there are risks either way, it’s just about how these risks are managed. It’s just that with a mortgage you don’t use your own money.”

On the other hand, when comparing property stokvels to traditional property financing Respondent 3 noted:

“in terms of affordability, property stokvels are a good approach. The banks tend to rate you according to your profile. We are in this situation because a huge bracket of people cannot afford mortgages. Hence the issue of property stokvels to try and see if members can obtain a place to stay.”

In light of the above, Gwamanda (2019) notes that, notwithstanding their challenges, stokvels are used by South Africans to make investments in long term assets. Moreover, Matuku and Kaseke (2014) note that another benefit of participating in stokvels is that of establishing friendships and networks. This sentiment is also shared by Kibuuka (2006) when noting that the social capital obtained from stokvels results in information sharing and has the effect of reducing the costs associated with coordination mechanisms and other bureaucratic rules. These would otherwise be found in the formal financial sector. Moreover, Moliea (2007) notes that social capital creation and ubuntu are aspects of stokvels that are beneficial to South Africans. As shown above, the literature indicates that, notwithstanding the challenges that are experienced with stokvels, owing to their benefits, it is not unexpected that participants consider them more appropriate to mortgage financing for the purpose of purchasing property.

4.4 Chapter summary

The chapter presented the data that was collected, and provided a discussion of the primary information that was obtained using semi-structured interviews. The research findings were presented by way of a thematic analysis.

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This final chapter presents the conclusion and makes recommendations for further studies. The purpose of this study was to determine whether property stokvels are more appropriate than traditional mortgage financing for driving economic inclusion in South Africa. This was determined by the comparing the extent to which the two vehicles had the ability to grant, particularly low income earners in South Africa, access to property. This chapter presents conclusions and recommendations aimed at addressing issues in access to property finance. The results of the research are directed towards stakeholders in the processes of property finance, such that they are able to consider alternatives, such as property stokvels, that will ultimately ensure that more people in South Africa are able to obtain access to property, and thereby other aspects of the South African and wider economy.

5.2 Summary and conclusion

The objective of this study was threefold. Firstly, the study sought to explore the challenges faced by South Africans of a lower economic class that prevented them from gaining access to traditional mortgage financing from banks. Secondly, the study sought to understand the motivations for participating in property stokvels in South Africa. Lastly, the study sought to determine whether participants were of the view that property stokvels were a more appropriate vehicle for acquiring property in South Africa, as opposed to traditional mortgages. There are a limited number of studies focusing on this area particularly in relation to the South African context. It was important that the perspective of property stokvel participants be obtained so as to ascertain why they opted for property stokvels to make their property purchases as opposed to using traditional mortgage financing. Moreover, it was important to ascertain the challenges that are faced by low income earners when seeking to gain access to traditional mortgage financing. This would help determine the reasons why low income earners have opted not to make use of traditional mortgage financing when looking to purchase property. Furthermore it was also important to ascertain from stokvel participants whether, notwithstanding the prevailing challenges associated with property stokvels, they would still opt to make use of property stokvels to purchase property as opposed to traditional mortgage financing.

The study notes the challenges faced by the lower end of the South African market when accessing mortgage financing. The first of these challenges is that of lower income earners not

being able to qualify for the mortgage financing that they desire. This then necessitates that they apply for housing finance that will need them to compromise on the type of property they eventually purchase. Another challenge that was noted is the intimidation by the perceived bank requirements when it comes to applying for housing finance, which often leads applicants to disqualify themselves from gaining access to housing finance from traditional banks. Moreover, the anxieties associated with an application for housing finance, particularly for first time applicants, were also noted as a challenge faced by the lower end of the South African market. The fear of losing one's income, and thereby not being able to service the bank repayments which would inevitably lead to the repossession of one's property is also a challenge that was highlighted. Lastly, the lack of flexibility associated with obtaining housing finance from traditional banks that did not speak to the changing circumstances that applicants often face was further noted as a challenge faced by low income households when accessing housing finance from traditional banks.

Moreover, the study notes that the main reasons why individuals choose to participate in property stokvels is for purposes of affordability (no interest cost due to cash nature of the purchase) and the pursuit of long-term investing goals. It was noted that property stokvels require patience. Moreover, it was noted that property stokvels provide access to opportunities and projects that are of a large scale, due to the large amounts that can be raised when many people come together contributing that which they can afford. Such opportunities the stokvel participants would otherwise not have access to if they were to attempt to access them on their own. Another reason why participants tend to opt for property stokvels is that of strong stokvel leadership. It was further noted that participants also enjoy the prospect of being able to build as a community whilst being debt free. Lastly, it was noted that property stokvels are favoured due to the flexible nature of their structure which is more sensitive to the financial needs of the stokvel participants at any time in the lifecycle of the property stokvel.

The study finally aimed to determine whether, in the view of stokvel participants, many of whom have also applied for housing finance from traditional banks, property stokvels are more appropriate for providing access to property than traditional housing finance. It was noted that, particularly for low income households, property stokvels are more appropriate for gaining access to property than housing finance from traditional banks. This, it was highlighted, is the case as long as the property stokvels are properly governed. Some challenges related to property stokvels were, for example, the transfer of property ownership to the individual

members taking a long time and the risk that people can defraud stokvel members and disappear with their money. However, it was noted that the benefits of property stokvels outweigh the risks that they come with. Finally, it was noted that property stokvels are more appropriate than mortgage financing, particularly for low income earners, due to the immense benefits associated with property stokvels.

5.3 Recommendations

Property stokvels are a trusted and popular structure that many South Africans use to raise funding to purchase property. They should thus be used more extensively in the South African economy to help solve the housing challenges faced by South Africa. Housing finance from traditional banks has been shown to be somewhat difficult to access by low income earners in South Africa. This necessitates the use of alternative methods, such as property stokvels, to raise funding for the purpose of purchasing property. Property stokvel participants noted that property stokvels are more appropriate for granting people access to housing than traditional housing finance. It is thus recommended that they be used more extensively in the mainstream economy to facilitate property purchases, particularly for low income groups in South Africa. Banks should also amend their processes to ascertain how they can help property stokvels operate more effectively to give ordinary South Africans widespread access to property.

5.4 Suggestions for future research

This study was undertaken to understand whether property stokvels could allow for greater access to property and economic inclusion than traditional property financing. As shown above, property stokvels have a demonstrated ability of working effectively to facilitate access to property, particularly for low income earners in South Africa. Future research should be done to determine how the existing property financing structures (from traditional banks) can be used to work more effectively with property stokvels to ensure that low income earners in South Africa have access to property. This would provide a solid basis for helping to eradicate the ills that South Africa is facing with regards to ensuring that all South Africans have access to decent housing.

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APPENDICES

Appendix 1: Consent Letter and Research Questionnaire

UNIVERSITY OF CAPE TOWN



Master of Commerce in Development Finance INTERVIEW/SURVEY CONSENT FORM

Participant name:

I volunteer to participate in a research project conducted by Lethu Matshaka as partial fulfilment of the requirements for the Master of Commerce in Development Finance Degree at the UCT Graduate School of Business. I understand that the research is designed to gather information about ‘Do Property Stokvels allow for greater economic inclusion than traditional mortgages?’ and that I will be one of approximately seven of people being interviewed for this research.

Objective(s) of the research

- To determine the main reasons why people participate in property stokvels.
- To determine the main challenges faced by South Africans of a lower economic class that prevent them from gaining access to traditional mortgage finance from banks in South Africa.
- To determine whether, in the views of the participants, property stokvels are of a more appropriate vehicle for acquiring property in South Africa, as opposed to traditional mortgages.

Ethics approval

The ethical clearance for this study was approved by the UCT GSB Research and Ethics Committee on 24 May 2022.

Participation and confidentiality

I understand that my participation in this research is voluntary, that I will not be compensated and that I may withdraw at any time. The interview will take approximately 45 - 60 minutes to complete and will be audio recorded.

I understand that I will not be identified by name in any reports using information obtained from this interview and that my confidentiality as a participant in this study will remain secure. Subsequent uses of records and data will be subject to standard data use policies which protect the anonymity of individuals and institutions.

Should you have any questions or concerns please contact me (082 643 5633; mtslet004@myuct.ac.za) or my supervisor (latif.alhassan@uct.ac.za)

Consent

I consent to participate in this interview, based on the terms outlined above and subject to the following additional condition of my own (if any).

Signed by interviewee

Date

.....

.....

Signed by Student

Date

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Questions

Section 1: Demographic information

1. Gender of respondent:
2. Age of respondent:
3. Nature of business:
4. Years of experience:
5. Current role in business:

Section 2: Interview/Survey questions

- 1) Please can you provide a brief background about yourself.
 - a. Who are you and where are you from?
 - b. Where do you currently reside?
 - c. What is your financial background?
- 2) Are you (or have you ever been) a member of a property stokvel?
 - a. Please provide detail of your experience.
 - b. How long have you been a part of a property stokvel?
 - c. How does your property stokvel ensure that it functions smoothly?
- 3) Have you ever successfully applied for mortgage financing for purposes of purchasing property?
 - a. What did you enjoy about the application experience?
 - b. If no, what reasons were given for being unsuccessful in your application?
 - c. What challenges (if any) did you face any challenges when applying for mortgage financing?
- 4) Do you think there any risks associated with obtaining mortgage financing from a traditional bank?
 - a. If yes, what are these risks?
 - b. If no, please provide reasons.
- 5) Have you successfully purchased a property through a property stokvel?
 - a. Please describe what you enjoyed about your experience in purchasing a property through a property stokvel?
 - b. Please describe any challenges you faced in the process of purchasing a property using a property stokvel?
 - c. How long did you take to contribute towards the property you purchased?
 - d. What would the price difference of purchasing the property have been if you had purchased it using traditional mortgage financing?

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- 6) In your opinion, which is more appropriate for lower income groups in South Africa wanting to purchase property, mortgage finance or property stokvel?
 - a. Please support your answer to the above with reasons.

- 7) What is your opinion on the risk involved in participating in a property stokvel?
 - a. What type of risks do you think exist in participating in property stokvels?

- 8) Do you currently have money that you have contributed to a property stokvel for which you have not yet received ownership of a property?
 - a. If yes, what is the cause of the delay?
 - b. If yes, do you still think property stokvels are more appropriate than mortgage financing even with the challenges you are experiencing with property stokvel(s)?

- 9) Please share any other ideas/comments you may have related to property stokvels and/or property financing from commercial banks.

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Appendix 2: Interview Matrix Protocol

	Background Information	Research Question 1	Research Question 2	Research Question 3
Interview Q1	x			
Interview Q2		x		
Interview Q3			x	
Interview Q4			x	
Interview Q5		x		
Interview Q6				x
Interview Q7		x		
Interview Q8				x
Interview Q9		x	x	x

Figure 3.1: Interview matrix protocol