

**Why do South Africans use stokvels and what are the barriers that prevent participation in the formal financial sector?**



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I hereby declare that I have read and understood the regulations governing the submission of Master of Commerce dissertations, including those relating to length and plagiarism, as contained in the rules of the university, and that this dissertation conforms to those regulations.

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## **ABSTRACT**

Two and a half billion of the world's working adults are excluded from financial services. The exclusion of people from the formal financial sector has led to the growth of microfinance globally. The importance of financial inclusion is represented through the Sustainable Development Goals in which financial inclusion is an enabler in seven of the 17 goals. In South Africa, stokvels are one of the most important microfinance phenomena, as 11.5-million people are part of a stokvel. The formal financial sector in South Africa has started to target stokvel members through various stokvel accounts and products.

Previous literature on stokvels focuses on the demography of stokvels; the features of stokvels; and the history of stokvels. Previous studies have found that the formal sector does not understand stokvel clientele. However, the review of the literature indicates that there is an insufficient analysis of the needs of stokvel members and the how the formal sector can better accommodate their needs. Therefore, this study will explore why South Africans continue to use stokvels and what barriers prevent stokvel members from participating in the formal financial sector. Recommendations will be made to various stakeholder based on the themes identified.

This study found that the stokvel members perceived there to be information asymmetry, which they believe is then exploited by the banks. As a result, there is distrust in the formal financial system. Moreover, this study also found that the social interactions in stokvels are changing due to technology. The findings and recommendations in this study can be used by banks and other formal financial institutions to improve the suitability of their product and services. Consequently, financial inclusion will improve as the products and services provided by the formal sector will be better suited to the needs of stokvel members. This study will also provide insights for the South African government, community leaders and The National Stokvel Association of South Africa (NASASA).

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## ACRONYMS LIST

ROSCA	Rotating savings and credit association.
SACCOS	Savings and credit cooperative societies.
NASASA	National stokvel association of South Africa.
LSM	Living standard measure.
NCA	National credit act.
GDP	Gross domestic product.



# 1 INTRODUCTION

More than 2.5-billion people are excluded from financial services (UNDESA, 2018). This is the equivalent of more than half of the world's adult population. This is particularly prevalent in emerging and developing economies (UNDESA, 2018). Moreover, in most developing countries the majority of the population do not have a savings account (United Nations Capital Development Fund, 2006). This indicates that financial inclusion is a concern globally, particularly in developing countries. Financial inclusion is identified as an enabler for the seven of the 17 Sustainable Development Goals (Worldbank, 2018). Moreover, saving is important because it leads to rapid growth, which in turn releases resources necessary to sustain growth (Fry, 1980).

The inaccessibility of financial services has led to the growth of microfinance globally. The United Nations recognised that financial services are available to the poor through microfinance and microcredit (United Nations Capital Development Fund, 2006). Poor households are excluded from the formal banking system for lack of collateral but microfinance exploits contractual structures to create uncollateralised loans (Morduch, 1999). Microfinance has been successful in many developing countries, such as Bangladesh. Muhammed Yunus received a Nobel Peace prize for founding the Grameen Bank in Bangladesh, which aimed to reduce poverty (Mcwha & Willows, 2016). The review of the literature shows that microfinance plays an important role in overall poverty alleviation and improves the standard of living for many individuals (Khandker, 2005).

The growth of microfinance has been evident in South Africa as there has been a reduction in bank account usage and an increase in cash-based and informal systems (FinmarkTrust, 2017). This is because South Africa has high levels of unemployment and poverty, as 81% of the South African population is defined as low income (FinmarkTrust, 2016). Additionally, South Africa has high levels of inequality, which has resulted in financial services being accessible to a minority of the population (FinmarkTrust, 2016). This is due to the apartheid system in which few black people maintained banking or savings accounts (Verhoef, 2008).

Since the early 1920s, voluntary savings organisations have been prevalent in urban and rural areas (Verhoef, 2008). In the international literature, such organisations are referred to as *rotating savings and credit associations* (ROSCAs). Rotating savings

and credit associations are referred to in South Africa as *stokvels*. *Stokvels* continue to be an important part of the South African economy, as 11.5-million people in South Africa are part of a *stokvel* (Holmes, 2017). *Stokvels* are among the key mechanisms of poverty alleviation and social advancement (Maluku & Kaseke, 2014).

Baumann (2013) quoted the former South African finance minister, Trevor Manuel as saying that the commercial banks have been failing to provide savings facilities for low-income households. This indicates that the formal sector has not understood the needs of low-income households. Recently, the formal banking sector started to target *stokvels* through new *stokvel* bank account products, such as Standard Bank's Society Scheme Savings accounts. However, there is uncertainty as to whether these products are meeting the needs of low-income households, specifically *stokvel* members. Furthermore, the Finmark Trust has indicated that there is a resounding call for more in-depth research on the increase in informal financial relationships in South Africa (Finmark Trust, 2017). Therefore, it is important to understand why people participate in the informal financial system in South Africa. More specifically, it is important to understand why South Africans participate in *stokvels* as it is estimated that around R49 billion is invested into *stokvels* every year (Naidoo, 2017).

From the review of the literature conducted below there is predominant focus on the reasons why *stokvels* are successful in South Africa and the composition of *stokvels*. Moliea (2007) found that *stokvels* are driven by a purpose beyond money because they exist to improve their members' lives. Additionally, Moliea (2007) found that the persistence of *stokvels* is attributable to the social capital that is created in the *stokvel*. However, the review of the literature conducted indicated that there is a lack of analysis of the needs of the *stokvel* members and the barriers which prevent *stokvel* members from using formal financial systems.

Mulaudzi (2016) and Ngcobo and Chisasa (2018) investigated the nature of *stokvels* and the demographic composition of *stokvels*. Mulaudzi (2016) and Ngcobo and Chisasa (2018) do not provide insight into increasing informal financial relationships. From the review of the literature it has been identified that the formal sector is not accommodating the needs of *stokvel* members. This is evident as Kibuuka (2006) found that banks and formal financial institutions in general do not understand the *stokvel* clientele. However, the study did not further investigate the needs of the *stokvel*

clientele in order for financial institutions to better accommodate their needs. Furthermore, NASASA Chairman, Lukhele (2018) found that although there has been an effort by banks to promote saving through the stokvel bank accounts there has been extensive criticism against these products.

This study address the following questions:

- Why do South Africans continue to use stokvels ?
- What barriers are preventing stokvel members from participating in the formal financial system ?

Previous studies have not adequately answered the above questions, which have been identified by various organisations such as the Finmark Trust and the National South African Treasury, as being important for achieving financial inclusion. This study will provide recommendations to various stakeholders based on the themes identified.

The above questions will be explored through semi-structured interviews with stokvel members. The questions posed to the stokvel members will be related to their individual experiences in their stokvels, as well as their individual experience in the formal financial sector. The interviewees are stokvel members from various geographical locations across South Africa including: Cape Town, Johannesburg and Durban. Furthermore, the participants will be selected from various LSMs and various stokvels. The geographic and other diversity of the participants adds additional value as the majority of current literature use a very specific group and does not broadly assess different groups needs and experiences. Molea (2007) only interviewed women in Venda as part of their study on stokvels as a form of microfinance. Similarly, Maluku and Kaseke (2014), Verhoef (2001) and Mulaudzi (2016) predominantly interviewed stokvel members who were part of female only stokvels. Since stokvel members mainly comprise black women (Nyandoro, 2018), the majority of the participants in the study will be black females.

The transcripts from the interviews will be analysed using a thematic process in order to identify themes that will be used to answer the research questions. Other studies such as Maluku and Kaseke (2014), Mulaudzi (2016) and Dube & Edwell (2018) use the thematic process to analyse the qualitative data. The themes identified will be

useful to organisations, such as the Finmark Trust, that are dedicated to researching matters relating to financial inclusion and banks who have started to target stokvel members through stokvel banking products. Most importantly, this study will contribute to the dialogue on financial inclusion which has been identified as an important area by the United Nations. This research will be relevant for the South African government because 81% of the South African population is defined as low income and subsequently excluded from the financial sector (FinmarkTrust, 2016).

This study, in chapter 2, continues by examining literature regarding stokvels and the reasons why they are successful. Following this, in chapter 3, the methodology will explain how the interviews will be conducted and describe how the interviews will be analysed in order to identify themes. Chapter 5 will present the results of the analyses, and explain the main themes established through the interviews. Chapter 6 will conclude and make recommendations to various stakeholders based on the themes identified and highlight areas for further research.

## **2 LITERATURE REVIEW**

In the introduction we discuss the importance of being financially included. This chapter starts off with understanding the importance of financial inclusion and the role of microfinance. It then goes on to explore how ROSCA's have developed internationally, followed by the understanding of the evolution of stokvels as well as exploring the different types of stokvels that have developed in South Africa. Savings stokvels are found to be the most popular type of stokvel in South Africa. Therefore, the importance of saving in an economy and the motives for saving are explored in this chapter because it is expected that the motives for saving impact the purpose and type of the stokvel. When trying to understand the needs of users and make recommendations on financial products available understanding the international context gives insights in what we expect to see as our market develops. The chapter will end with looking at the research that has been done to identify why South Africans use stokvels.

### **2.1 FINANCIAL INCLUSION**

The UN stated at the 2005 summit: "We recognise the need for access to financial services, in particular for the poor" (UNCDF, 2005:1).

Microfinance has gained prominence among policyholders and regulatory development agencies like the UN. Furthermore, financial inclusion was identified as an enabler for seven of the 17 sustainable development goals and the G20 committed to advance financial inclusion worldwide (World bank, 2018).

The World Bank (2018) describes financial inclusion as meaning "businesses and individuals have access to useful and affordable financial products and services that meet their needs and transactions, payments, savings, credit and insurance delivered in a sustainable manner". Dev (2006) describes financial inclusion, as the delivery of banking services at an affordable cost to the majority of the low-income groups. One would conclude that financial inclusion covers various services such as credit, saving and insurance.

It is important when assessing financial inclusion to distinguish between involuntary and voluntary exclusion (Park & Mercado, 2015). Voluntary exclusion is where a segment of a population chooses not to use a financial service because of cultural or

religious reasons. Involuntary exclusion arises from low income and a high-risk profile or due to discriminatory practices in the financial market (Park & Mercado, 2015).

Park and Mercado (2015) found a negative relationship between poverty rates and financial inclusion. Quantifying the level of financial inclusion is necessary in order to test whether financial inclusion helps reduce poverty (Park & Mercado, 2015). Yet there is no consensus on how to measure or quantify financial inclusion (Park & Mercado, 2015). Park and Mercado (2015) and Sarma (2008) constructed a financial inclusion indicator that is made up of variables such as deposit and lender usage of financial services and quantity of financial. According to the United Nations Capital Development Fund (2006), in developing countries financial services are only available to a minority of the population. Therefore, most of the literature reviewed quantifies financial inclusion in developing countries such as Asia, Africa and Latin America, and has been broken up into these areas below.

Park and Mercado (2015) constructed a financial inclusion indicator for 37 economies using various dimensions of financial inclusion and demographic characteristics of economies in Asia were found to have a significantly impact the level of financial inclusion. Asian economies with large population sizes tend to have greater access to financial services and Asian countries where there is good governance and high institutional quality tend to have higher financial inclusion (Park and Mercado, 2015).

On the other hand Jansen and Hannig (2010) found that, in Asian countries such as India and Indonesia, there is a tradition of emphasising policies that improve access to finance. In Bangladesh 55% of poor households have access to financial services (Jansen & Hannig, 2010). In India, access to credit for the poor has increased from 7% in 2004 to 20% in 2009 (Jansen & Hannig, 2010). However, in China financial inclusion seems to have declined since the reforms of the rural cooperatives. In Asia, the poor are served through public banks or NGOs (Jansen & Hannig, 2010).

In an African context, Africa faces more challenges than Asia with respect to financial inclusion and poverty (Jansen & Hannig, 2010). However, Kenya has pioneered financial inclusion on the continent through mobile phone payment solutions (Allen et al.,2014). Allen et al. (2014) found that population density is more important in Africa than elsewhere because bank branch penetration levels are low in Africa due to the

continent being sparsely populated. The levels of financial inclusion were low in Africa, using the standard indicators of banking development (Allen et al, 2014)

In Latin America, Peru and Bolivia have achieved high levels of financial inclusion through microfinance, which is robust in both countries. Brazil has seen improved financial inclusion through the use of community agents (Jansen & Hannig, 2010). In a similar vein, Villarreal (2017) found that access to financial services in Latin America and the Caribbean improved. However, in the rural areas commercial bank penetration was low.

In South Africa, Mashigo (2012) found that in townships the majority of the low income households are unable to access credit from formal institutions and so households in townships depend on the informal services such as micro-lenders and rotating savings and credit associations (ROSCAs). These micro-lenders, known as *uMashonisa*, charge interest rates between 30% and 60%. Mashigo (2012) found that low-income households in South Africa have limited access to funding due to collateral constraints. Although, a *uMashonisa* charges high interest rates it is still part of the delivery of financial services. In a similar vein, Maluku and Kaseke (2014) analysed ROSCAs in Orange farm, South Africa and found that ROSCAs play an important part in alleviating poverty and improving economic growth and financial inclusion. Therefore, it is important to analyse ROSCAs in South Africa as it may be an important part of achieving financial inclusion. Dube and Edwell (2018), Verhoef (2008) and Moliea (2007) found that social capital created within ROSCAs is one of the key reason for their persistence in the South African economy. It is expected that the social capital will be an important theme in this study. The saving mechanisms within ROSCAs are analysed in studies such as Morduch, (1998) and Demirguc-kunt, Klapper, and Singer (2017) to gain an understanding of how microfinance can be used to address poverty alleviation.

## **2.2 MICROFINANCE**

UNCDF (2005) and Luyirika (2010) define microfinance as savings, insurance, transfer services, loans and other financial products that are targeted at low income individuals. *Microfinance* and *micro-credit* are terms used interchangeably in the literature.

Moreover, these individuals are too poor to qualify for traditional bank loans as they have no assets to pledge as collateral (Luyirika ,2010)

However, Brouwers and Altemius (2014:7) argued that the definition of microfinance or micro-credit should be tightly framed to meet specific regulatory objectives and should not be drawn from the general literature. Brouwers and Altemius (2014) stated a definition of microfinance that was specific to each country in the study but also provided a broad definition. The broad definition is provision of formal financial services to poor and low income people as well others systematically excluded from the financial system (Brouwers, & Altemius, 2014).

The definitions of UNCDF (2005) and Brouwers and Altemius (2014) and are similar. However, the definition in the latter study is more broad and included people excluded from the financial system. Moliea (2007) said although microfinance and microcredit are used interchangeably in the literature, they do not have the same meaning. Microfinance is a broader term that includes microcredit (Moliea, 2007:13). The study defines microfinance as small-scale financial services, mainly credit and saving products provided to individuals at local levels of developing countries, both rural and urban (Moliea, 2007:13).

This paper will use the definition of microfinance provided by Brouwers, and Altemius (2014:7), as it is more broad. This study will not consider the specific regulatory objectives when defining microfinance because regulation is not the focus of this study. Furthermore, this study will analyse literature relating to the microfinance and not microcredit as this term is more broad.

A stokvel is a type of microfinance mechanism in South Africa that is highly prevalent. However, there are various mechanisms, such as the Grameen Bank, that are effective in other developing countries. It is important to examine microfinance globally as there may be improvements or changes to be made to stokvels in order to improve their efficacy. Stokvels will be described and defined in more detail in section 2.4.

There are strong motives for saving in evident in the review of the literature, yet savings rates remain low globally (OECD, 2019). This is because financial services, including saving products, are only available to a minority in developing countries (United Nations Capital Development Fund, 2006).



Few recent ideas have generated as much hope for alleviating poverty and financial inclusion in developing countries as the idea of microfinance (Morduch, 1999). Microfinance was prominent agenda item at the UN 2005 World Summit. Moreover, microfinance has become more prominent because poor households have been excluded from the formal banking system for lack of collateral. Furthermore, UNCDF (2005) found that 80% of people in developing countries derive their income from the informal sector. Therefore, good informal financial mechanisms are needed to support wealth creation in this sector. The number of families with a microloan has grown more than 18 fold from 1997 to 2010 (Banerjee, Duflo, & Glennerster, 2015).

Microfinance gained prominence in 2006 when Mohammed Yunus and the Grameen Bank were awarded the Nobel Prize for Peace for their contribution of the Grameen Bank microfinance model. United Nations Capital Development Fund (2006) found that the majority of people in developing countries have no savings accounts and do not receive credit from a formal financial institution. Therefore, the literature on microfinance must be examined to assess the effectiveness of microfinance globally.

Additionally, microfinance plays an important role in the socio-economic development of women in a community (Luyirika, 2010). Many microfinance services are specifically targeted at women. Luyirika (2010) found that women in Uganda who accessed loans from microfinance institutions were able to improve their social-economic status through starting up and expanding enterprises. Similar conclusions were reached by the UNCDF (2005) because it was found that increasing the economic power of women enabled them to improve other areas of their lives, especially their children's lives. Once more, Moliea (2007) found that targeting women in microfinance programmes was found to be an effective method of ensuring the benefits of the increased income accrue to the welfare of the family. Therefore, microfinance is an important factor in empowering women and, as a result, of improving the economy.

Furthermore, microfinance plays an important role in improving the health and education of children (Khandker, 2005). In a similar vein, UNCDF (2005) found that microfinance contributes to financing health initiatives and so poor people in rural areas can afford health services. Microfinance improves slum conditions as microfinance services support purchasing of living space and home improvements.

There are formal and informal microfinance services provided in developing countries. The services provided by the formal sector are subject to regulation and an example is finance programmes provided by NGOs (Lyrica, 2010). The informal sector operates unofficially and is not subject to regulation. An example of this is an indigenous bank (Luyirika, 2010).

### **2.3 ROSCAs**

The literature provides extensive analyses of the rotating credit and savings associations (ROSCAs) and savings and credit cooperative societies (SACCOS). A ROSCA is a group of individuals who make regular financial contributions for the creation of a fund (Moliea, 2007). An ASCrA is a scheme whereby the money is paid out once from the available amount at an interest rate. ASCrAs and ROSCAs have the same purpose: to provide savings and lending services. SACCO is a financial institution that is governed by its members (Moliea, 2007). A stokvel in South Africa is generally a ROSCA but there are also ASCrAs stokvels that exist in South Africa (Moliea, 2007). The evolution and context around stokvels will be discussed in section 2.4

This study will explore ROSCAs because this is extensively used by people in South Africa and this study will be conducted in South Africa. There are gaps in the literature as few studies compare different microfinance products and services. It would be relevant and important to know if regulated or unregulated microfinance products perform better. More literature should provide comparisons of various products and services. In South Africa, there is extensive literature on ROSCAs, which are widely used. However, the review of literature on ROSCAs indicated that the focus is on certain rural communities and does not explain if the formal banking sectors should broaden their services to the individuals who currently use informal microfinance services.

Microfinance schemes have been carried out throughout the world, especially in developing countries (United Nations Capital Development Fund, 2006). The results of these schemes have been mixed as indicated by the review of the literature. In certain countries, the microfinance schemes have been successful while in other countries there have been challenges to the scheme.

In Uganda, Carlton and Rhyne (2001) found that the microfinance industry has been successful. It is seen to be the African country with most vibrant microfinance industry. The microfinance institutions have experienced strong growth. ROSCAs have existed in many forms in Uganda, from the 1980s (Carlton and Rhyne, 2001). However, Carlton and Rhyne (2001) found that there were challenges that existed in the microfinance industry in Uganda. The main challenges identified were the reach in rural areas and development of new products. Similarly, in South Africa Verhoef (2008) found that in South Africa the informal banking sector comprised 35% of the labour force. However, there is a lack of literature on the distribution between the informal and formal sector in South Africa. Microfinance has grown in South Africa due to the strong sense of solidarity among members. This is because of the African concept of *Ubuntu* (Moliea, 2007). *Ubuntu* is the African cultural ethic, based on the human being and connections between people (Verhoef, 2008). The review of the literature indicates that microfinance was successful in many African countries. This may be as a result of the concept of *Ubuntu* exhibited in many African countries.

In Bangladesh, Khandker (2005) found that microfinance contributed to poverty alleviation, especially for women. Bangladesh has been the pioneer in the microfinance movement since the 1980s. It has the most extensive microfinance system in the world. The study found that microfinance programmes reduced poverty levels in villages by 1% in each year the programme is implemented in Bangladesh. Moreover, the microfinance systems raised the per capita household consumption for participants and non-participants. Similarly, Mcwha & Willows (2016) identified reasons why the Grameen bank, a microfinance institution, was successful in Bangladesh. The staff members in the Grameen bank are well trained and highly motivated in Bangladesh. Additionally, social collateral and peer pressure prevented defaulting by members. Loans provided by microfinance institutions have significant poverty reducing effects, particularly on income and consumption in Bangladesh (Imai & Azam, 2012).

On the other hand Morduch (1998) found that in Bangladesh there is no evidence to support claims that microfinance increases consumption and education levels in villages. The differences in the findings may be as result of the former study being more recent or of differences in the sample. Bangladesh has vast experience in microfinance (Khandker, 2005) and the Grameen bank is an example of the many successful

microfinance systems. Peer pressure and social networks are factors that make microfinance successful in Bangladesh (Khandker, 2005).

The persistence of microfinance has been shown in developing countries, such as Bangladesh, South Africa and Uganda. There are gaps in the literature as there are few studies that analyse microfinance in poor areas in developed countries. This would provide insight into the challenges of poor communities in developed countries. In the South African context, Moliea (2007), Arko-Achemfuor (2012), African Response Research (2012) and Kibuuka (2006) focus on stokvels in their research on informal finance. The stokvel market represents an opportunity for savings, insurance and investment (Lukhele, 2018).

#### **2.4 THE EVOLUTION OF STOKVELS IN SOUTH AFRICA**

*Stokvel* is a South African term that refers to a ROSCA (Verhoef, 2008). There are many other terms used in South Africa to describe stokvels, such as *gooi-goois*, *makgotlas*, *kuholisana* and *investment clubs* (African Response Research, 2012). This study will use the term *stokvel*, as it is the term most widely used as indicated through the review of the literature and in South Africa. The main purpose of a stokvel is to provide savings and lending services (Moliea, 2007).

In South Africa, stokvels are found predominately among the black population (Nyandoro, 2018). This is due to the apartheid system in which black South Africans were excluded from and deprived of opportunities to participate in the mainstream economy (Maluku & Kaseke, 2014). Consequently, many South Africans resorted to stokvels for accumulating credit (Schulze, 1997). This will impact the methodology of this study as the sample of participants is expected to be predominantly black people.

The term *stokvel* originates from the 19th century “stock fairs” of settlers in the Eastern Cape (Verhoef, 2001). Auctions were held by Englishmen and attended by black labourers. The black labourers continued to meet after the stock fairs in order to socialise and to create savings clubs (Verhoef, 2001). This is where stokvels started, with savings clubs in the Eastern Cape, with six to 20 members mainly comprising industrial workers (Verhoef, 2001).

Stokvels were important for women during the 1900s, as they allowed them to have more financial independence (Nyandoro, 2018). During the 1900s South African women were responsible for maintaining the household (Verhoef, 2001). During the 1920s and 1930s many women in South Africa moved from rural areas to urban areas because of severe droughts and the Great Depression (Verhoef, 2001). In urban areas women could earn an income independent of their husbands. However, most black women would contribute most of their independent earnings to the family welfare while their husbands did not (Nyandoro, 2018). This led to women creating informal financial organisations as a form of financial and mutual support (Verhoef, 2001).

There is a gap in the literature as there is little literature that analyses the role of stokvels for women in South Africa today. The South African context and gender roles have changed and the literature needs to be updated for those changes. Moliea (2007) performed a study analysing the uses of stokvels among Venda women in South Africa. The study found that stokvels are still important for women and women in stokvels preferred other women as members. However, the study did not discuss changes in gender roles. The study focused on a small part of the South African population, the Venda community, and therefore the findings cannot be extrapolated to the larger South African population.

Today stokvels are sophisticated and have evolved to be an important part of the south African financial sector (Naidoo, 2017). Stokvels are still a popular savings and investment vehicle as the stokvel economy is estimated to be worth R49-billion in South Africa (Naidoo, 2017). Stokvels contribute a large portion of the financial activity and thus more updated research should be conducted on the future of stokvels. Stokvels are prevalent because 40% of South Africans belong to a stokvel (African Response Research, 2012). Four provinces dominate the stokvels distribution: Gauteng (24%), Limpopo (20%), North West (11%) and KwaZulu-Natal (14%). Moreover, stokvels are mainly prevalent in urban areas, where 88% of the urban population belongs to a stokvel (African Response Research, 2012). The study performed by African Response Research (2012) showed that the majority of stokvel members fell into LSM 5 and 6 and the age range of 78% of the members of stokvels is between 25 years to 49 years old. Stokvel members are economically active, as 83% of those interviewed in the study were employed.

The study performed by African Response Research (2012) shows that stokvels are an important part of urban areas, especially townships. This is likely due to the history of women moving to urban areas and wanting more independence. Stokvels today operate with a high degree of trust and have low default rates (Cullen, 2018). Stokvels are not homogenous (African Response Research, 2012). Therefore, it is important to examine the various stokvels that exist in South Africa.

## **2.5 TYPES OF STOKVELS IN SOUTH AFRICA**

There is extensive literature that discusses the types of stokvel in South Africa. The types of stokvel are linked to the motives for saving that were discussed previously in this chapter. The types of stokvels may be fulfilling a different motive of saving. The review of the literature indicated that there are mainly four types of stokvel analysed. Maluku and Kaseke (2014) and Verhoef (2001) describes four types of stokvels: savings, burial, investment and high-budget stokvels.

The savings stokvel is a savings club or a stokvel that promotes savings. Members contribute a fixed amount of money to create a pool of money and then the members create a cycle of receiving the money. This type of stokvel has the biggest membership (Maluku & Kaseke, 2014). The earlier stokvels in the 1900s were savings stokvels (Verhoef, 2001). The characteristics of this type of stokvel is that there are generally strict rules of operation with respect to contributions and meetings. The cycle of receiving the money is sometimes stipulated in a formal constitution or contract. Members use the proceeds of the savings mainly for groceries, school fees, burials, Christmas functions, and emergencies such as hospitalisation (Moliea, 2007). African Response Research (2012) found that often the savings pool was deposited into a separate bank account.

The burial stokvels provide support to members and their families in the event of death. Burial stokvels emerged following the migration of black workers to the gold mines. Burial stokvels were created to cope with the high cost of burials and in particular the cost of transporting the body back to the rural areas (Verhoef, 2008). Burying the deceased at the homestead is an African tradition (Maluku & Kaseke, 2014). This results in added costs due to transporting the body back to the homestead. Members

make a fixed contribution to cover funeral costs, such as coffins and transporting the body. In African communities there are high funeral costs because of the tradition of honouring the deceased and providing a meal for the guests at the funeral (Verhoef, 2001). Burial stokvels are often called *makgotlas* or burial societies and were established with the primary objective of assisting urban Africans with funeral costs (Verhoef, 2001). Burial stokvels are dominated by women because matters relating to funerals are regarded as a women's responsibility. There review of the literature indicated that there is a lack of analysis of the prevalence and structures of burial societies in South Africa and a greater focus on savings stokvels (Verhoef, 2001).

Investment stokvels are similar to cooperative societies because the pool of funds is not paid out to the members at the end of the month but rather banked with the intention of carrying out capital projects (Verhoef, 2001). The pooled funds are used for purchasing commodities, investing in business ventures and purchasing property. This type of stokvel has emerged with the growing affluence of Africans in the urban areas. These stokvels are also described as *credit associations* because the pooled funds are used as a source of credit to members and non-members. Similarly, Mashigo (2012) described these stokvels as special purpose vehicles and conduits to extend credit to the poor, who are often excluded from the formal financial sector.

Another type of stokvel is the high-budget stokvel, high budget stokvels have been recently created (Kibuuka, 2006). This stokvel consists of a large membership of roughly 100 members or more who have high social standing in the community (Kibuuka, 2006). The members contribute substantial amounts in order to receive large lump sums (Verhoef, 2001). According to Maluku and Kaseke (2014), this type of stokvel is dominated by men, as women are under-represented among high income earners. High-budget stokvels are not targeted at the poor (Kibuuka, 2006) and thus may not lead to improved financial inclusion. Since this type of stokvel is new there is little literature analysing these stokvels, particularly the investment strategies used by these stokvels.

The various stokvels and membership numbers indicate that stokvels have a large reach in South Africa because they are used by South Africans in lower LSMs (African Response Research, 2012), as well as wealthy individuals for investment purposes (Naidoo, 2017). The type of stokvel used is evolving and so research on stokvels and

microfinance must be updated. The types of stokvel show that there are different reasons why stokvels are used and these reasons must be examined in order to understand the role of stokvels in the financial sector of South Africa. The savings stokvels play an important part in the South African economy as stokvel savings are the most prevalent in South Africa (Mulaudzi, 2016). Furthermore, according to Lukhele (2018) Former South African finance minister, Trevor Manuel said “In a developing country like South Africa, savings are of the utmost importance”. This study will focus on savings stokvels.

## **2.6 IMPORTANCE OF SAVING IN AN ECONOMY**

Savings networks like stokvels have not received the recognition or support that is commensurate with their contribution to improving the living standards of the economically marginalised majority (Mashingo & Schoeman, 2012). This indicates that stokvels and savings more broadly play an important role in an economy. Stokvels are vehicles for savings for the poor and so they are linked to the importance of saving (Moliea, 2007). This was echoed by the former South African Minister of Finance, Trevor Manuel, Baumann (2013) referred to Trevor Manuel as saying that savings facilitate for low-income households the increase both the national savings rate, as well as overall welfare of the country.

A low saving rate will result in the capital per person declining (UNCDF, 2005). This will result in economic decline and more poverty (UNCDF, 2005).

According to Fry (1980), saving and investment are impacted by the rate of economic growth. Furthermore, rapid growth increases saving rates, which releases resources necessary to sustain growth. This was first explained through the Keynesian consumption function analysis (Keynes, 1937). Therefore, the theoretical framework indicates that savings play an important part of developing economic growth. The review of the literature indicated that the evidence of a relationship between economic growth and saving was inconclusive as the results vary across the various countries.

Tang and Tan (2016) found that in Asia, the savings-led-growth hypothesis was upheld if certain factors were controlled in the analysis. Similarly, Zhang, Hang, and Liu (2017) found that in China, there was significant causality from saving to growth for most timescales, whereas causality from growth to savings was statistically insignificant. In



contrast, Kim (2017) found that in Vietnam the short run aggregate saving does not impact economic growth. Additionally, in the long run saving and investment are engines of economic growth (Kim, 2017). The diverging results are likely due to the economic differences between Vietnam and China. The Chinese economy is larger than Vietnam's, as indicated by the GDPs of the countries (Forbes, 2017). This indicates that the savings-led-growth in Asia may depend on the economy of the country. The aforementioned Asian countries and South Africa (United Nations, 2015) are regarded as developed countries and so the above findings may be relevant to the South African economy.

In an African context, Odhiambo (2009) found that, in South Africa in the short run, both savings and economic growth drive each other. However, in the long run the growth of the real sector drives savings. The implication is that in the short run, South Africa needs to focus on both savings and growth to ensure economic growth. In the long run, South Africa should focus more on growth in the real sector. The differences in findings are likely due to the differences between the Asian and African economies. Hence, these findings indicate that evidence of savings-led growth may depend on a country's specific economic context. In contrast, Amusa (2014) found that corporate saving has a significant positive relationship with economic growth in the long and short run, while household and government saving have no significant effect on economic growth. This shows that there is inconclusive evidence regarding the causal relationship of savings on economic growth in South Africa. The different findings may be due to the latter study being performed more recently. The South African economy has changed since the earlier study was conducted. Furthermore, Verhoef (2017) performed an analysis of the Cape Colony in South Africa to determine the role of savings in the financial sector. The study added to the literature because there is little analysis of the role of savings in historic colonies during the 19<sup>th</sup> century. Verhoef (2017) found that there was no significant relationship between savings and economic growth.

Anoruo and Ahmad (2001) conducted in Africa found that domestic savings and growth in Congo, Cote d'Ivoire, Ghana, Kenya, South Africa and Zambia showed evidence of co-integration. However, this was not evident in Nigeria. In South Africa and Cote d'Ivoire there was evidence of bi-directional causality (Anoruo & Ahmad, 2001). This study added to the literature because there are few studies that analysed the growth

in south, west and central Africa. However, this study did not provide insight as to why the above relationships were found.

Additionally, Mohan (2006) examined the causality relationship between growth and saving in countries with high and low GDP per capita rates. Mohan (2006) found that overall the evidence supports the hypothesis that there is causality from economic growth to savings rates. Furthermore, in the low-income countries the empirical results were mixed. In all high-income countries, there is causality from economic growth to savings rates. However, in middle- to low-income countries, such as Brazil, the study showed evidence of bi-directional causality Mohan (2006).

Alternatively, Babajide (2016) argued that saving rates in developing countries are important because of the resource gap and financial inclusion. Babajide (2016) further argued that saving is needed to close the resource gap in developing countries. Financial services and saving in particular are required for production, which is required for capital accumulation. In a similar vein, Demirguc-kunt, Klapper and Singer (2017) found that there was a positive relationship between financial inclusion and savings rates. This indicates that saving plays an important role in financial inclusion. Furthermore, Demirguc-kunt, Klapper and Singer (2017) found that globally financial inclusion can reduce poverty and inequality by helping people to invest in their future. Therefore, saving may play an important part in poverty alleviation. When savings are aggregated and invested properly, even small and seemingly insignificant amounts can fuel economic growth (UNCDF, 2005).

From reviewing the literature on the relationship between saving and growth it is not clear if a strong relationship exists due to the different findings. In some countries there was evidence of causality. However, the review of the literature did not indicate that saving would have a negative impact on the economy and overall welfare of a country. There it can be inferred that saving improves welfare and the economy. Hence, it is important to understand why people save so that households are encouraged to save more and consequently improve the economy. It is important to understand the importance of savings in order to understand the role of stokvels in the economy.

People from different societies have different ways in which they save for the future and other occasions (Arko-Achemfuor, 2012). Historically, banking originated from

people's attempts to save for various reasons (Arko-Achemfuor, 2012). Furthermore, black South African women in stokvels have been motivated to save mostly by a motive drive beyond money and to have access to funds (Moliea, 2007). The savings stokvel is the most prevalent in South Africa and so the motives for saving must be analysed. The needs of stokvel members and more specifically savings stokvel members may be impacted by the motives for saving.

There are various motives for saving that are found through the review of the literature. Eight motives were discovered by economist Keynes (1937) and Browning and Lusardi (1996) added one additional motive to the literature. The motives are:

1. The precautionary motive
2. The life cycle motive
3. The improvement motive
4. The independence motive
5. Enterprise motive
6. The bequest motive
7. The avarice motive
8. The down payment motive
9. The intertemporal substitution motive

Savings motives are not necessarily mutually exclusive and different motives will apply for different populations (Fisher, 2010). Saving motives are likely to result in higher savings rate. As discussed above, saving is an important part of economic development. Therefore, it is important to understand the motives for changing saving behaviour.

## **2.7 MOTIVES FOR SAVING**

The precautionary motive is when individuals consume less to hedge against possible income downturns or unforeseen contingencies (Skinner, 1999). The study found that 56% of aggregate life cycle savings is precautionary savings. This indicates that uncertainty in income plays an important role in savings. Similarly, Kazarosian (1997) found that the precautionary motive is a strong motive for savings. The study found that the precautionary motive varies according to the individual's occupation and risk preference. This is important because government

income maintenance programmes that reduce income uncertainty may result in an unintended reduction in household savings.

In a similar vein, Engel & Gruber (2001) found that unemployment insurance programmes resulted in a reduction in household savings in the US. Therefore, governments need to consider that unemployment insurance programmes may cause households to depend on government intervention instead of focusing on independent saving. Therefore, the South African government needs to consider the impact of the social grant system on national savings rates.

Since the great depression, there has been a material increase in savings rates, which is consistent with the precautionary savings motive (Mody et al., 2018). The study found that, in advanced economies, income uncertainty is highly associated with higher savings rate. Kotlikoff and Summers (2017) added to the literature because the paper examined precautionary savings for uncertain healthcare payments. There is extensive literature examining the precautionary motive relating to uncertain income but very little literature examines the uncertainty of healthcare payments. Kotlikoff and Summers (2017) found that uncertainty in health expenditure increases long-run saving by one third.

In contrast to the findings of Skinner (1999), Kennickell (2006) found that, although there is strong evidence that the precautionary saving motive need to be considered in savings models, precautionary savings only account for 8% of aggregate savings. Skinner (1999) found that precautionary savings were 56% of aggregate savings. Furthermore, the study found that this motive was important for business owners and older households. The discrepancies in the findings may be due to the Kennickell (2006) study being more recent and the study being conducted in Germany, whereas the study performed by Skinner (1999) was conducted in the USA. Dustmann (1997) added to literature by examining the precautionary saving motive among immigrants and natives. The study found immigrants in Europe had a stronger precautionary saving motive compared to the local population. This was likely due to immigrants having fewer rights in the labour market. Similarly, in South Africa Tengeh (2017) found that immigrant entrepreneurs in South Africa use informal savings such as stokvels to compensate for economic restrictions that are placed on them.

The review of the literature indicated that the precautionary saving motive was evident. However, there are divergent findings on the strength of the motive. The strength of this motive depends on various factors, such as income, occupation and risk profiles. Therefore, the strength of the motive will depend on an individual's circumstances.

The review of the literature also shows that this motive is evident among stokvel members. According to Mashingo and Schoeman (2012), stokvels provide savings for unpredictable and expensive events. Similarly, Maluku and Kaseke (2014) found that stokvels are an important part of providing income security and the payouts to members often supplement their husbands' variable incomes.

The life cycle motive is when individuals save for anticipated future needs (Browning, M. Lusardi, 1996). Households are assumed to smooth consumption over the life cycle and households solve the relevant optimisation problem in each period before deciding how much to save (Thaler & Benartzi, 2004). Levin (1998) found evidence of the life cycle motive in households even when liquidity constraints were introduced. However, Galí (1990) found that post war US data suggests that predictability and the smoothing of consumption changes cannot be fully accounted for by the life cycle model. Dynan, Skinner and Zeldes (2002) argue that the life cycle motive overlaps with the precautionary motive because households save to guard against future contingencies, such as health expenditures later in the life cycle. Other authors, such as Gourinchas and Parker (2018) found a model that estimates life cycle consumption. This model incorporated income uncertainty which shows that the life cycle motive overlaps with the precautionary motive.

Similarly, saving for retirement is an extension of the life cycle motive (Fisher, 2010). Time horizon was found to be an important factor in the life cycle motive and more specifically in saving for retirement. The study found that this motive resulted in regular saving.

Since the life cycle motive overlaps with the precautionary motive in the review of the literature, the life cycle motive cannot be reviewed independently. Most of the savings models reviewed in the literature include the life cycle motive. This motive is evident in

stokvel members because stokvels play an important role in smoothing consumption for the poor (Mashingo & Schoeman, 2012).

The improvement motive refers to the motive to save to enjoy gradual increases in expenditure (Browning & Lusardi, 1996). The intertemporal substitution motive is saving to enjoy interest and appreciation. The independence motive is the longing to enjoy a sense of independence. The enterprise motive is saving to fund business projects. The bequeath motive for saving is to leave a fortune to heirs. The avarice motive is satisfying miserliness. The down payment motive is the motive to save in order to accumulate deposits to buy durables. The down payment motive was added by Browning & Lusardi (1996).

The improvement motive is evident among investment stokvel members because, according to Verhoef (2008), stokvels members use the accumulated funds to invest in capital projects. Similarly, stokvel payouts are often used for extending the members' houses (Maluku & Kaseke, 2014). The independence motive is particularly evident in stokvels because female stokvel members were no longer dependent on their husbands for financial support after they joined a stokvel (Maluku & Kaseke, 2014). Stokvel members are driven by the intertemporal motive because some stokvels charge interest to borrowers in the community at rates as high as 30% (Maluku & Kaseke, 2014). Members are given the opportunity to earn interest income. According to Arko-Achemfuor (2012), funds from stokvels can help potential entrepreneurs to start and operate their business. This is an example of the enterprise motive.

On the other hand, the bequest motive is not pervasive as indicated by the review of the literature. However, the review of the literature indicates that many stokvel members joined a stokvel to save for their deaths, specifically for burials. According to a survey conducted by Verhoef (2008), 47% of informal savings are burial societies.

China as one of the highest savings rates in the world. The intertemporal motive was evident in China (Kraay, 2000). Similarly, Heng-fu (1995) analysed motives for saving in countries with strong capitalist spirit and those that do not. The study found that countries with strong capitalist spirit had a strong bequest motive. In China and other Asian countries, their bequest motive is not strong, as there was not an intense capitalist spirit. However, there were high savings rates in Asia due to the "Confucianist

ethic of frugality” (Heng-fu ,1995:140). This indicates that the culture of a country and demographics impact saving motives. The bequest motive may not be strong due the lack of capitalist spirit in the black South African township community (Moliea, 2007). There is a lack of literature examining this motive in South African townships.

Fisher (2010) analysed the impacts of the various savings motives on behaviours. Fisher (2010) found that saving for retirement, emergencies and education were significantly linked to savings. However, the down payment and the bequest motives were not significantly linked to saving (Fisher, 2010). Moreover, poor health resulted in inconsistent saving. These findings mean that the precautionary saving and life cycle motives are stronger motives and thus will result in saving. However, the bequest and down payment motives are strong enough motives to change behaviours. There is a gap in the literature regarding the relationship between the other saving motives and if the motives impact behaviours.

On the other hand, Dynan et al. (2002) found that the life cycle motive and the bequest motive overlapped and could not be distinguished. The authors argued that saving serves a precautionary life cycle function and bequest function. The bequest function is based on the income available after future contingencies are accounted for (Dynan et al. ,2002). The study created a savings model based on bequest and life cycle saving motives.

There are various motives for saving noted in the literature. Secure, cost effective and access to micro savings improves the lives of those living in poverty (UNCDF, 2005). Micro savings is one of the aspects researched by Luyirika (2010),Morduch(1999) and Mcwha and Willows (2016) in their research on microfinance.

## **2.8 THE FINANCIAL SECTOR AND ECONOMY OF SOUTH AFRICA**

This study was conducted in a South African context. Therefore, it is important to understand the financial sector in South Africa. Furthermore, the South African financial sector must be analysed in order to understand the role of stokvels.

According to the FinmarkTrust (2016), more than 31-million people in South Africa earn less than \$4968 a year. The current population of South Africa is 55-million (StatsSA,

2018), so 56% of the population is living on less than \$4968, while the average GDP per capita of other developing countries is \$6459 (StatsSA, 2018). These findings were explained by Makgetla (2004), who analysed South Africa's post-apartheid economy. Apartheid was an ideology supported by the National Party government and was introduced in 1948. Apartheid legislated the separate development of different racial groups in South Africa (SA History Online, 2018). Consequently, South Africa has high levels of inequality, which is shown by the Gini coefficient of 0.68 (Coetzee & Cross, 2002). Makgetla (2004) found that South Africa's post-apartheid economy has been characterised by low growth and investment and increasing unemployment. This indicated that there are high poverty levels in South Africa, which is likely to impact access to financial services.

The South African banking system is highly regulated and is comparable to systems in developed countries (SA Banking Association, 2018). Furthermore, South Africa was ranked 8<sup>th</sup> out of 140 countries in the 2015/2016 World Economic Forum Global competitive survey (SA Banking Association, 2018). There are 17 registered banks, two mutual banks, 14 local branches of foreign banks and 43 foreign banks (SA Banking Association, 2018). The South African banking sector is concentrated but continues to focus on product development. Therefore, South Africa has the infrastructure that is required for financial inclusion (SA Banking Association, 2018).

Yet South Africa's legacy of discrimination continues to exclude people from participating in the economy (National Treasury 2017 Budget Review, 2017). The Financial Sector Charter was created in 2004 to focus on financial inclusion. The financial inclusion increased from 55% to 85%, as most adult South Africans have some form of financial product from a regulated financial institution (National Treasury 2017 Budget Review, 2017). Treasury has four focus areas with respect to the financial sector. The focus areas are: access and inclusion, employment equity, ownership transformation and procurement (National Treasury 2017 Budget Review, 2017). The treasury has made some developments in the aforementioned areas due to interventions such as the Insurance Bill (2016). This bill will create a clear regulatory framework for micro-insurance providers which is in line with improving financial inclusion (National Treasury 2017 Budget Review, 2017). However, FinmarkTrust (2016) found that the majority of South African adults that participate in the financial sector are less than adequately served. Therefore, although, financial-service access



has improved, there needs to be a focus on the quality of these services. It is important to note that the review performed by the National Treasury is likely biased and this may explain the different findings.

The FinmarkTrust (2017) identified key areas for financial inclusion in the financial sector for South Africa. These focus areas are the declining bank account usage and increasing cash levels; innovation to unlock demand for insurance products; and SME access to funding. Similarly, Coetzee and Cross (2002) found that the interventions implemented by government, such as the Khula Enterprise Finance to address SME finance, were deficient.

The legislation in the financial sector is robust (SA Banking Association, 2018). The National Credit Act (NCA) introduced in 2005 and the Cooperative Banks Act introduced in 2007 are pieces of legislation that strengthen the South African financial sector (Coetzee & Cross, 2002). The NCA was introduced to improve access to finance for disadvantaged South Africans. The NCA was also in response to the negative practices occurring in the credit market. The NCA has impacted micro-lenders. It protects customers from high interest rates and introduces comprehensive affordability testing (Calvin & Coetzee, 2010). Therefore, the legislative framework in South Africa must be examined. There is a gap in the literature, as there are no studies that examine whether the regulation results in financial inclusion. In particular the NCA must research further to ascertain the impact it is having on the microfinance systems. The Cooperative Banks Act required cooperative financial institutions to be regulated by one of the four bodies in South Africa (SA Banking Association, 2018). Therefore, customers are protected in the formal market, as there is adequate oversight. There are gaps in South African literature regarding the oversight and regulation in the informal sector.

The economic conditions and the historical context of South Africa mean that financial inclusion is important in reducing the Gini coefficient (Lukhele, 2018). There is some overlap regarding the focus areas of Treasury and the focus areas identified by the FinmarkTrust (2017). The South African context shows that microfinance systems, such as stokvels, are a natural consequence of the high unemployment and poverty levels (Verhoef, 2008). The South African financial system is highly sophisticated and cannot be compared to other African countries (Verhoef, 2008). Yet informal savings

organisations such as stokvels continue to persist despite the existence of many formal intermediaries.

## **2.9 STOKVELS IN SOUTH AFRICA**

Forty percent of South Africans belong to stokvels in South Africa (African Response Research, 2012) and as high as one third of the banked population use stokvels (Kibuuka, 2006). This indicates that stokvels are highly prevalent in South Africa. It is important to understand why people use stokvels so that formal financial institutions can create regulated products and services to cater to stokvels users. In fact, Kibuuka (2006) found that banks do not understand the needs of black disadvantaged people and thus are unable to cater to their needs. The decision to join a stokvel is not only a rational economic decision because there are many social considerations to be made (Verhoef, 2001). The review of the literature indicated that here are various reasons why stokvels remain popular in South Africa.

### **Flexibility**

Stokvels are flexible institutions and the constitution of the stokvel can be created or amended to the needs of its members (Kibuuka, 2006). In addition to this, Moliea (2007) found that stokvels do permit some flexibility and can adapt to financial pressure, recession or inflation. Some stokvels extend rotation periods to respond to tough economic conditions. However, other authors, such as Verhoef (2001), found that some savings stokvels are less flexible because the constitution is structured and rigid.

### **Social capital**

In the literature, this is regarded as the most important feature of a stokvel that makes stokvels successful. One of the benefits of participating in a stokvel is establishing friendships and networks (Maluku & Kaseke, 2014). Prior to the Maluku and Kaseke (2014) study, Kibuuka (2006) found that social capital was an important part of a successful stokvel. Kibuuka (2006) found that social capital results in information sharing and reduced the costs associated with coordination mechanisms and bureaucratic rules. Costs are reduced in stokvels as there are no litigation and

negotiation costs. The reduction in transaction costs improves efficiency (Kibuuka, 2006). Moreover, social capital creates trust and honesty that reduce default rates.

Similarly, Maluku and Kaseke (2014) found that there was moral support and mutual assistance provided in stokvels. Social networks play a role in growing stokvels because women influence each other to join stokvels. Stokvels provide security and support that no other bank can provide (Moliea, 2007). Additionally, Verhoef (2001) found that stokvels provided moral support that resembled the close knit tribal support structure in rural areas. During the 1900s women were socially displaced in urban areas after they moved from rural areas. Therefore, social capital played an important role in women's life in the urban areas. The powerful forces of social capital explain the sustainability of stokvels (Verhoef, 2008). The literature also makes mention of a particular African concept of Ubuntu, which is an important part of social networks in Africa.

### **Ubuntu**

Ubuntu is a “phenomenon according to which persons are interconnected” (Gade, 2012, p. 364). Ubuntu is a part of the moral principles of the African culture. Mangaliso (2001) found that Ubuntu creates a competitive advantage because communication is emphasised; there is suppression of self-interest and there is an emphasis on all voices being heard in decision making. Verhoef (2008) echoed this, as the author found that Ubuntu creates a collective consciousness of a shared experience, which is usually deprivation or poverty in a stokvel. Ubuntu is not shown in the formal sector and this may be a reason why people are hesitant to use formalised financial services (Verhoef,2008). This phenomenon is also evident in the informal sectors in other African countries but is known as *harambee* or *botho* (Dube & Edwell, 2018).

### **Forced savings**

According to Moliea (2007), forced savings is cited as one of the most important reasons why people join stokvels. The social pressures imposed on the stokvel members make it impossible to default on payments and one cannot withdraw the money on impulse. These savings are used to supplement the members' salaries for things like school fees and groceries. Members are encouraged to save regularly which they would have not been able to do alone. Similarly, Anderson, Baland, and Moene

(2009) found that participants felt that they would not have the will power to save on their own. Maluku and Kaseke (2014) had similar findings, as interviewees in the study said stokvels created an opportunity to save and as a result engage in projects such as improving their homes. Zungu (2012) found that stokvels are a great way of forcing oneself to put away a bit of money each month at a better interest rate and lower banking charges than a bank.

### **Easy access to credit and affordability**

Maluku and Kaseke (2014) found that stokvels charged interest to borrowers, which increased the pool of funds of the stokvel. Many stokvels operate as credit associations from which people can borrow money and this improves financial inclusion. Black people's access to credit has been compromised for many reasons (Verhoef, 2001). First, township dwelling was not accepted as collateral by banks until 1994. Stokvels provide poor people who cannot establish creditworthiness with credit (Verhoef, 2008). Stokvels do not rely on collateral to guarantee loans (Mashingo & Schoeman, 2012). Instead they rely on social pressure in the community. Furthermore, the majority of black people were unfamiliar with Western banking procedures and regarded formal banks as intimidating. Stokvels offered a more relatable form of savings (Verhoef, 2001).

In addition to access to saving, stokvels provide affordable credit and savings at lower transaction costs. This is particularly important because South African banks charge transaction costs that are much higher compared to other countries (Kibuuka, 2006). Similarly, NASASA CEO Andile Mazwai found that the problem is that banks can explain the bank charges but they are not able to explain the bank charges in a way that the stokvel members can understand (CNBCAfrica, 2015)

### **Unemployment**

Maluku and Kaseke (2014) found that unemployment was identified as a reason why people joined stokvels. This was particularly evident for women who were not employed. These women had to find other sources of income and participating in stokvels created income security. South Africa has an unemployment rate of 27%, which is high relative to other developing countries (StatsSA, 2018). This makes stokvels more attractive in South Africa. However, this finding contradicts the finding of

African Response Research (2012), as the study found that most of the stokvel members were economically active and 83% of them were employed (17% of the sample was unemployed). The conflicting findings may be a result of differences in the samples selected by African Response Research (2012) and Maluku and Kaseke (2014). In particular, the geographic locations of the stokvels may be different. Some provinces in South Africa, such as Gauteng, have higher employment rates (Stats: SA Unemployment, 2018).

### **Women empowerment**

According to Maluku and Kaseke (2014), participants viewed involvement as a way of empowering women. One of the participants said, “*You must stand up for yourself and save money every month*”. This makes the social network effect more powerful and women will influence each other to join a stokvel. Similarly, Verhoef (2001) found that women utilised the savings from stokvels to start businesses and thus empower themselves. In addition to this, Moliea (2007) found that women are seen as more responsible and therefore they join stokvels. Women remain the main users of stokvels. So, banks need to focus on meeting the needs of Black African women as many of them are opting to use stokvels. On the other hand, Nyandoro (2018) found that stokvels are not effective in moving women out of poverty in South Africa.

Social capital creation and Ubuntu are characteristics of stokvels that are attractive to South Africans (Moliea, 2007). Stokvels provide these unique experiences that formal banks have not been able to create (Verhoef, 2008). Stokvels have done this while still meeting the financial needs of their members and non-members by providing credit to non-members and creating a savings culture within the community. Despite these benefits, there are challenges that arise as a result of the lack of oversight and formal regulation that must be addressed.

The success of stokvels and ROSCAs in general is that they are only sustainable if their members continue to make payments (Moliea, 2007). Stokvels are an example of self-enforcing informal groups (Anderson et al., 2009). This is a concern in the South African context, where the economic conditions are tough due to a high unemployment of 27% and low GDP per capita (StatsSA, 2018). Moreover, many South Africans do

not have a stable income stream. Similarly, Maluku and Kaseke (2014) found that stokvels were heavily reliant on trust and an abuse of funds by dishonest management and fellow members were found to be a barrier to the success of stokvels. In addition to this, Anderson et al. (2009) found that informal saving groups are only sustainable if the costs of the social sanctions of their members are sufficiently high. Furthermore, Anderson, Baland, and Moene (2009) found that this was evident among the informal savings groups in Kenyan slums.

However, Maluku and Kaseke (2014) found that loans issued by stokvels have a low default rate because the constitutions are endorsed by the police. If there is non-repayment the police are involved. Verhoef (2008) also found that stokvels had virtually no defaults because defaulting would forfeit future access to credit and would be an embarrassment in the community, which would result in the breakdown of social networks. Coetzee and Cross (2002) also found that default risk was only a threat in a small number of cases. In terms of stokvels which loan money, the default risk is also low as loans to outside parties are generally allowed for smaller amounts (Coetzee & Cross, 2002). However, there are some cases of fraud where individuals claim to be a stokvel but are actually running pyramid schemes, as it may look like you are getting a considerable sum of money when your pay-out arrives but these schemes run out of money very quickly (Zungu, 2012).

On the other hand, Verhoef (2001) found that a subculture has developed around stokvels. The subculture encourages lavish parties, opulence, violence and criminal behaviour. In a similar vein, the “rowdy” nature of stokvels in communities is creating a negative image in some communities because their activities seem to be similar to that of a tavern (Mulaudzi, 2016). Thus, the spirit of Ubuntu may be less evident in modern stokvels. This has resulted in certain members of the black community rejecting stokvels. This is a concern because Ubuntu is regarded in the literature as being an important part of the sustainability of stokvels. Furthermore, stokvels are collapsing due the social element being overwhelmed by the “profit motive” and “capitalistic greed” (Moliea, 2007). According to Kibuuka (2006), high-budget stokvels are growing and the goal of these stokvels is not in line with the initial goal of stokvels, which was to improve financial inclusion through savings.

Similarly, a weakness of stokvels and the micro-lending sector is that it is largely unregulated (Mashigo, 2012). Therefore, when stokvels decide to provide credit to their members or to non-members they may charge exorbitant interest rates. This results in poor and vulnerable people becoming overly indebted. In a similar vein, Moliea (2007) found that stokvels charged high interest rates of up to 20%, which perpetuates debt dependency because stokvels are not subject to the National Credit Act (NCA) and the Bank Act (Lukhele, 2018). This is an under-researched area evident from the review of the literature, as few papers analyse the lending practices of stokvels and the self-regulation thereof.

Another problem with stokvels is the rigidity of the contributions and the payout rotation (Moliea, 2007). The rotational payouts may not coincide with when the members need cash. There are differing views about the flexibility of stokvels, which were discussed previously in this chapter.

The lack of formal regulation of stokvels is creating practices which are not in the spirit of Ubuntu, due to the high interest rates charged by stokvels. There is an evolution in the stokvels that is due to Western and capitalistic influences in South Africa (Moliea, 2007). These challenges pose a threat to the future of stokvels in South Africa. Similarly, poor governance and leadership within stokvels enable powerful individuals to manipulate other members to their advantage (Dube & Edwell, 2018). Additionally, poor record keeping among members further exacerbates the aforementioned issue.

Lastly, the lack of financial literacy in some communities poses a threat to the sustainability of stokvels (Dube & Edwell, 2018). In terms of education, Ngcobo and Chisasa (2018) found that the majority of households participating in stokvels had their highest qualification being matric education. Ngcobo and Chisasa (2018) recommended based on the findings that the government and financial institutions should inculcate financial literacy into the education and training programmes. Similarly, Mulaudzi (2016) found that financial education was central for the transition from stokvel members being consumers to investors. Compared to the rest of the world, South African stokvels are largely consumer focused as opposed to investment and wealth focused (Mulaudzi, 2016). This may be due to other countries embedding saving into the culture. Stokvels are continually evolving from the initial stock fairs in the early 1900s.

The modernisation and growth of the South African economy and in particular the financial sector is generating a rising demand for capital (Verhoef, 2001). Therefore, stokvels will continue to play a role in the South African economy. However, there is uncertainty regarding the features and practices of stokvels.

Groenewald (2017) proposes that in the future stokvels will not be used for short run savings but become more formal and become upmarket savings schemes. There are two things driving this trend: people who cannot afford monthly investment minimums and stokvels that have large lump sums to be invested. This was echoed by Holmes (2017), because 60% of the stokvels on the StokFella application are investment focused. Stokvels are increasingly geared to the formal economy.

Moreover, the government has made efforts to regulate stokvels with the Banks Act. The Bank's Act exempts stokvels that are registered with NASASA or that operate within a certain ambit (Lukhele, 2018). Regulation in the stokvels is likely to evolve as the NASASA founder and chairman, Andrew Lukhele, indicated there has been a concern by some researchers at the SARB to formalise the regulation of stokvels (Lukhele, 2018). This is an area that is under researched. Hennie Ferreira, CEO of Microfinance SA, said that regulation in the sector needs to be pragmatic (Holmes, 2017). It is unclear what new regulation may be created in the future.

Nedbank (2018) and other registered banks in South Africa have created a stokvel bank account product. This account administers the rotational payouts in the manner stated in the stokvel constitution. This product offers zero transaction fees and requires the holders to have a stokvel constitution and meeting minutes stating that a decision was taken to open the account. This is a recent example of how stokvels are becoming more formal. These products are new, so there is uncertainty as to how they will perform in the market. Similarly, Hennie Ferreira argued that, if banks try to provide formalised services to rural areas, they are automatically excluding them. So it is not clear whether involving the large commercial banks in stokvels is beneficial for the members. Mulaudzi (2016) found that the entire product offering to stokvels was based on a small aspect of their governance, namely being the constitution.

Moreover, the National Stokvel Association of South Africa was formed with the vision of creating opportunities for stokvels and their members (NASASA, 2018). NASASA



provides various services which aim at growing the stokvel ecosystem. NASASA provides *Sonke* magazine to stokvels; stokvel indabas; group visits; stokvel mobilisation group and stokvel activations. Stokvels in the future are likely to use technology due to the new applications like StokFella being developed. StokFella is an online stokvel platform that makes it easier to stokvels to manage the affairs of a stokvel (StokFella, 2018). Similarly, Kariuki & Ofusori (2017) found that WhatsApp has significantly changed the stokvel landscape as young people have found an alternative way of accessing soft credit.

Other technologies that will impact the future of stokvels include cryptocurrency. The AFRO Currency Foundation has issued a whitepaper on blockchain solutions for the stokvel industry. AFRO has the opportunity to become the first cryptocurrency to be used on blockchain specifically designed for stokvels (AFROCurrencyFoundation, 2018). According to the foundation, the decentralised and trust-less properties of blockchain are ideal for stokvels in the future. Moreover, this solution addresses the higher banking fees and other costs associated with banks. Similarly, Chinaka (2016) found that blockchain can be used to execute smart contracts and thus could be used to facilitate peer-to-peer payments among farmers, which speeds up the transactions.

Overall, it seems that stokvels are evolving and becoming more formal and making use of technology. There is uncertainty regarding the regulation of stokvels, as well as the involvement of the large commercial banks. Involving large banks in stokvels may not be beneficial for the members, especially in rural areas.

## **2.10 FINAL REMARKS**

This chapter started by examining the literature relating to microfinance and financial inclusion. The literature showed that microfinance plays an important role in achieving financial inclusion as the formal sector generally caters to the elite. Microfinance initiatives were successful in some countries and not in others.

The South African history of apartheid created a post-apartheid economy which is characterised in the review of the literature by high unemployment and inequality and low economic growth. This history has led to the evolution of stokvels. The various

types of stokvels were explored and the savings stokvel was found to be the most popular in South Africa. The role of savings in an economy was explored and the literature was inconclusive regarding the causal relationship between growth and savings. However, it is evident that saving does play an important role in the economy. The literature showed that there are many motives for saving and some motives are stronger and result in higher savings rates.

The literature indicated that stokvels are successful in South Africa due to social capital and affordable access to credit and savings. However, the literature showed that stokvels have some challenges, such as default risk and lack of regulation and oversight. The future of stokvels in South Africa is promising as there are opportunities for stokvels to invest in long-term investments and to integrate technology into the administration of stokvels. However, there is uncertainty regarding the involvement of commercial banks and the regulation of stokvels. The literature indicates that the formal sector does not understand the stokvel clientele. There is a lack of research on the appropriateness of the products offered.

### **3 METHODOLOGY**

The literature review indicated that there were gaps in the literature relating to the formal sector's understanding of the stokvel clientele. Furthermore, the literature review and introduction indicated that meeting the needs of the 11.5-million stokvel members is a vital part of achieving financial inclusion. Therefore, this study will explore the following research questions:

1. Why do South Africans continue to use stokvels ?
2. What barriers are preventing stokvel members from participating in the formal financial system ?

This chapter describes how these research questions will be explored and will outline the data collection and analysis process. The methodology is adapted from the research methodology used by Maluku and Kaseke (2014). Maluku and Kaseke (2014) studied stokvels in the Orange Farm by performing eight interviews and the interviews were analysed using thematic analysis. Similarly, Mulaudzi (2016), Moliea (2007), Arko-Achemfuor (2012) and Dube and Edwell (2018) also use various qualitative research methods in order to obtain a greater understanding of stokvels.

#### **3.1 QUALITATIVE DATA COLLECTION**

There are various methods of data collection, such as interviews, focus groups and questionnaires, that can be used for qualitative research (Gill & Stewart, 2008). Other authors, such as Mulaudzi (2016) and Moliea (2007), use focus groups as the primary research tool, while Maluku and Kaseke (2014) and Dube and Edwell (2018) use interviews as the primary research tool in their studies.

Focus groups are appropriate where research relates to group norms and meanings or to feedback results to participants (Gill & Stewart, 2008). Additionally, focus groups should be avoided where listening to the views of other participants generates expectations or if participants are uneasy with each other (Gill & Stewart, 2008). Focus groups are not appropriate as the main research tool for this study because the aim is to understand the needs of individual stokvel members and not a particular stokvel group. Furthermore, the participants in a group would likely generate expectations

based on the experience of other stokvel participants. The research questions relate to the financial situation of an individual and participants may not feel comfortable discussing this with other participants. Focus groups were appropriate for Mulaudzi (2016) and Moliea (2007) because Mulaudzi (2016) studied the structures of stokvels and Moliea (2007) aimed to facilitate a conversation among the participants.

Questionnaires would not be appropriate for this study because the research questions are personal and respondents may likely not feel comfortable with answering a questionnaire regarding their financial situation. Obtaining responses from participants would be a challenge in this study, especially due to lack of internet access in many areas in South Africa (Maluku & Kaseke, 2014). A questionnaire was appropriate for the African Response Research (2012) study because it aimed to confirm the size and value of stokvels.

Interviews are appropriate when the data is highly personalised; where a high return rate is important and where respondents are not fluent in the native language of the country (Kajornboon, 2005). The research questions are personalised to the experience of the participant in a stokvel. Furthermore, South Africans have 11 official languages and the interviews may be adapted to a participant's mother tongue. Since thematic analysis requires a high response rate, interviews are an appropriate method. There are different ways in which interviews can be conducted, such as structured, semi-structured and unstructured (Gill & Stewart, 2008). Maluku and Kaseke (2014) use semi-structured interviews.

### **3.2 SEMI-STRUCTURED INTERVIEWS**

A semi-structured interview consists of several key questions that help to define the areas explored but also allows the interview to diverge in order to pursue an idea in more detail (Gill & Stewart, 2008). This study makes use of semi-structured interviews because the flexibility allows for the discovery of new information that may not have been considered previously (Gill & Stewart, 2008). Moreover, the question can be dynamically rephrased or clarified for the participant (Kajornboon, 2005). This will be relevant in this study as the participants have different levels of education,

understanding of the topic and speak different languages, so rephrasing may be required.

Additionally, the studies in the literature that conduct interviews on stokvel members use semi-structured interviews. Maluku and Kaseke (2014) and Dube and Edwell (2018) are examples of such studies.

### **3.3 THE INTERVIEW PROCESS**

Prior to starting the interviews, ethical issues were considered. Ethical issues are one of the main concerns, specifically confidentiality (Kajornboon, 2005). Prior to starting the interviews, ethical clearance was obtained through the UCT commerce faculty. The ethics clearance has been attached in Appendix A. The ethical clearance process requires the author to explain who will be interviewed and the nature of the questions asked.

Once the ethical clearance was obtained, the research questions were created. The research questions can be found in Appendix B. The research questions were based on the questions of Hutchison (2017), who has performed extensive research on stokvels through interviews. The questions were broad in order to limit bias from the interviewer. Once the questions were finalised, participants need to be identified.

Following Maluku and Kaseke (2014), the participants will be found using a snow ball sampling technique. This technique makes use of referrals in order to find participants. This technique was common among qualitative studies on stokvels. For example, Dube and Edwell (2018) made use of this technique to find participants. Once participants are identified, they will be contacted so that the study can be explained to them and to ascertain when and where they would be available to be interviewed. An interview schedule was created in order to prepare adequately for the interview.

The interviews were conducted at UCT, over the phone or at the work premises of the participants. Participants indicated prior to participating in the study whether they preferred to have a telephonic interview or a face-to-face interview. Where interviews were conducted face-to-face at the participants work premises, the author obtained authorisation from the participant. The telephonic and face-to-face interviews were

conducted in a mixture of English, IsiZulu and isiXhosa based on the language preference of the participant. The interviews were recorded with the participants' consent using the author's cell phone. The interviews were then transcribed into English by a transcriber who was fluent in IsiZulu, IsiXhosa and English. The reliability of the transcripts was assessed as the author replayed randomly selected interviews and compared the interviews to the translated transcripts as the author understands IsiXhosa, IsiZulu and English. Confidentiality was maintained throughout the process as the interviews were stored on an access-controlled Google drive and access was limited to the transcriber.

In order to attract stokvel members to participate in the study, airtime vouchers were offered to prospective participants as incentives to participate in the study. The participants were offered R50 for participating in the interview process irrespective of the length of the interview. If the interview was longer than one hour then the participant was given R100 airtime. It was important to compensate the participants for their time as many participants are paid per hour and some participants were interviewed during working hours. The incentives were explained to the participants prior to the interview.

Incentives are problematic in research when the participant has a dependant relationship with the researcher; when the risks are high and when the research is degrading (Grant and Sugarman, 2010). However, this study did not ask inappropriate questions of participants and the risk was low due to the questions being open ended. Incentives can be used to recruit participants without any ethical qualms (Grant & Sugarman, 2010). The incentives were approved by the ethics committee of the Commerce faculty at UCT. Incentives were an important part of ensuring that the sample size was sufficient.

### **3.4 SAMPLE**

The population for this study is all stokvels members in South Africa. According to NASASA, there are 11.5-million people in South Africa that are members of stokvels. There are no other criteria used in selecting participants other than the participants need to be a current member of a stokvel. While, some studies, such as Moliea (2007) and Maluku and Kaseke (2014), consider stokvel members in a specific geographical area, as they only considered stokvel members in Venda and the Orange Farm respectively, this study considered members from various geographical areas in order

to obtain diversity in the answers. The participants of this study were mainly from the Western Cape, KwaZulu-Natal and Gauteng. This was as a result of the referrals made through the snowball effect.

There is not a specific number of interviews that must be conducted in order to have a sufficient data set. Kristiansen (2008) suggested that all variation must be accounted for and understood in the collected data. Hence, what matters is the depth of and variation in the responses. Mulaudzi (2016) and Dube and Edwell (2018) selected a sample size based on maximum variation in deciding on the number of interviews and focus groups to be conducted. The sample size depends on the length of an individual interview and diversity of the interviews. Maluku and Kaseke (2014) conducted eight interviews, while this study conducted 21 interviews and one focus group. The reason for the difference in the sample size is because this study conducted shorter interviews compared to the aforementioned study. Although focus groups were deemed not be appropriate for this study, one focus group was conducted as the stokvel members were gathering for a meeting and preferred to participate in a focus group. Therefore, a focus group was conducted so that information could be obtained from this specific stokvel.

### **3.5 DATA ANALYSIS**

The data will be analysed using the five-step thematic analysis that was used by Maluku and Kaseke (2014) and Dube & Edwell (2018). Thematic analysis is a method for systematically organising, identifying and offering insights into patterns of meaning or themes across a data set (Braun & Clarke, 2012). The thematic analysis will be done using a five-step process (Braun & Clarke, 2012). The five steps of this analysis are:

1. Immersion: The researcher needs to spend time reading through the interview transcripts and understanding them. The interview transcripts will be read, highlighted and notes will be made on the transcripts.
2. Code material: This step involves breaking down the text into segments or common threads using codes. The responses will be tabulated according to frequency of response. The interviews will be stratified into savings stokvels and non-saving stokvels when coding the material.

3. Identify theme: After the text has been coded the information is grouped into themes that are specific. A theme captures something important about the data with respect to the research questions. In this study, the themes will be identified by assessing the pervasiveness of a particular topic or response.
4. Elaboration: The information in the different theme should be pieced together in a way that is cohesive and logical. This step involves reviewing the themes for quality and completeness. This will be done by tabling the frequency of a theme in the interviews. Thereafter, the transcripts will be read again to ensure all themes are accounted for.
5. Interpretation: The researcher makes deductions from the analysis. The interviewer will interpret the relationship between the responses given by the interviewees and the demographics of the interviewees to assess if there are any general trends. Then the themes will be compared to the literature to compare the findings to other studies in order to identify broader relationships and themes.

Thematic analysis is appropriate where a study aims to identify factors or variables that impact a participant (Ibrahim, 2012). Furthermore, thematic analysis is appropriate where the study aims to understand current practices of an individual (Ibrahim, 2012). This study will ascertain the needs of stokvel members and obtain greater insights into the current practices of stokvels in South Africa. Therefore, the thematic process is appropriate.

There are certain limitations that have been identified as possible challenges in the study. The limitations are:

- Telephonic interviews may result in participants providing less comprehensive answers due to the lack of face-to-face interaction. Most of the interviews will be telephonic due to the geographic spread of the participants.
- There is subjectivity and bias involved in qualitative research methods, specifically in the interpretation of the results.
- This study will not analyse the stokvel bank accounts and so the results will only be based on the perceptions and experiences of stokvel members and will not consider if their perceptions are based on actual practices by the formal institutions. This can be explored in further research.



## 4 DATA

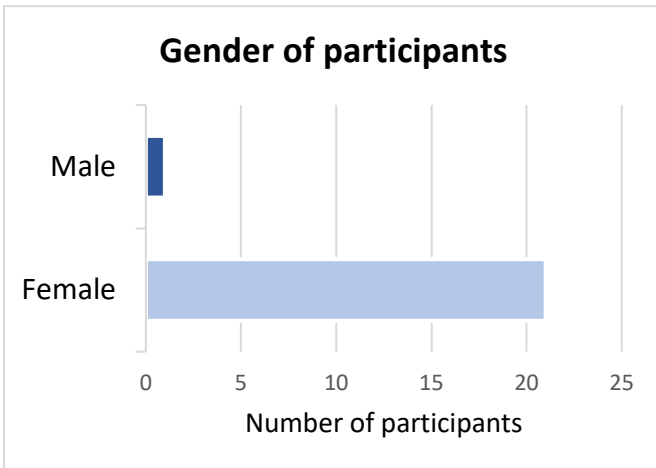


Figure 1

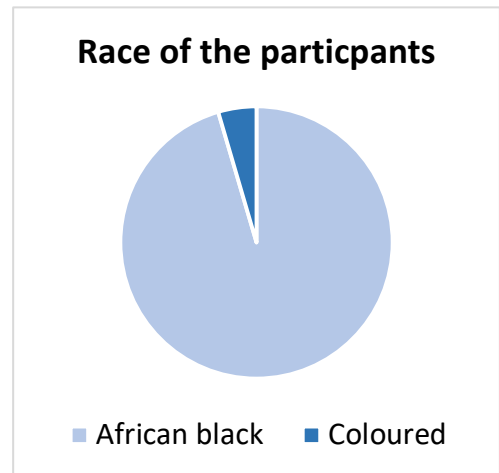


Figure 2

The above results in figures 1 and 2 are expected because the literature review indicated that stokvels are mainly used by black women in South Africa. Therefore, the sample size of the participants is predominantly African black women. The lived experience of a women is expected to be different to that of a male and so this may impact the responses given. However, the sample has diversity in terms of geographical representation, stokvel type and there is mix between suburban and township stokvel members which is shown in Figure 4.

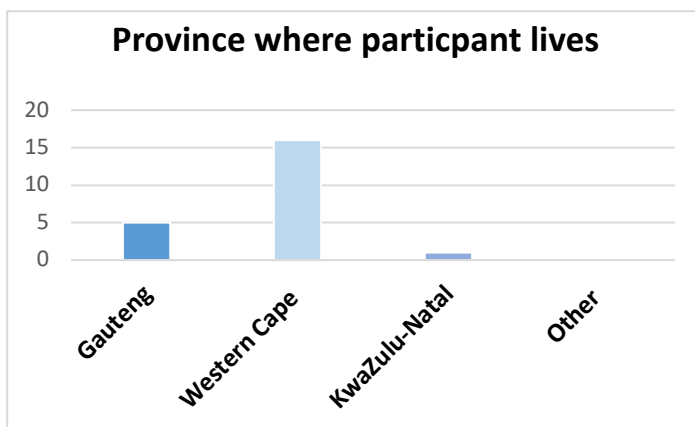


Figure 3

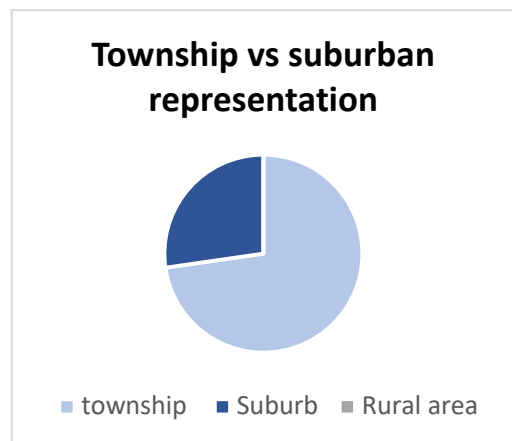


Figure 4

The suburbs where the participants of this study live were Hout Bay, Midrand, Hillcrest and Centurion. The townships where participants of this study live were Khayelitsha, Phillipe, Delft, Gugulethu and Langa. Figure 4 indicates that the sample is diverse so that the results from township and suburban stokvels can be compared to assess if there are any trends or relationships. The study does include any stokvel members living in rural areas as the snowballing technique used did not give rise to referrals of stokvel members in rural areas.

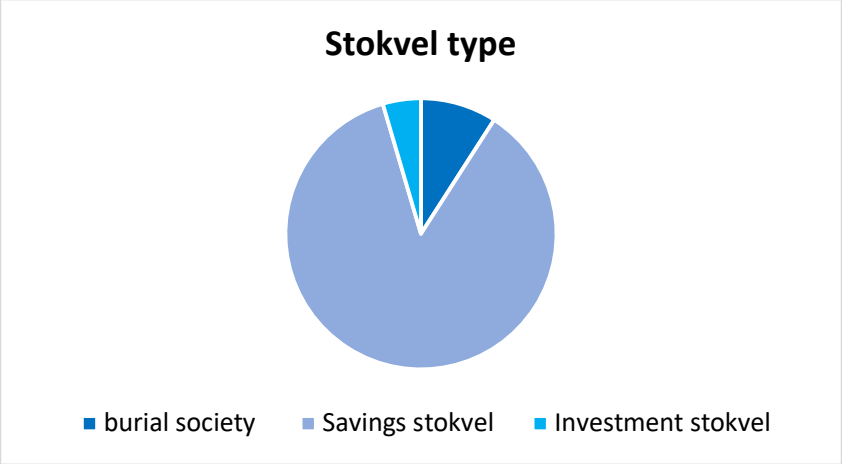
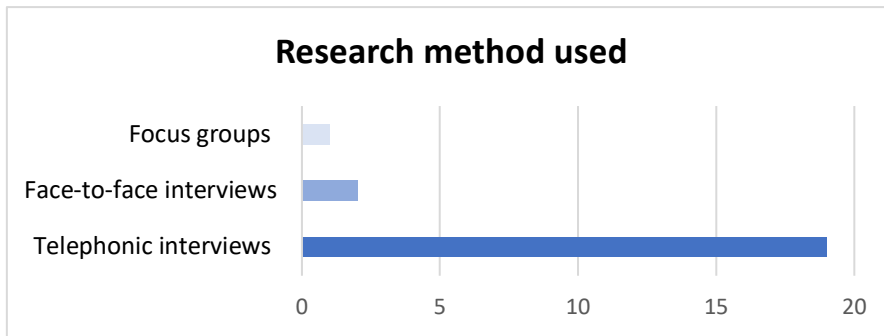


Figure 5

Figure 5 indicates that the sample comprised mainly members of savings stokvels and two members of burial society which is a type of stokvel described in the review of the literature. There was one member of a property and investment stokvel who has interviewed. The sample mainly comprised savings stokvels as the snowballing technique mainly resulted in referrals of members of savings stokvels. Moreover, the literature review indicated that savings stokvels were the most prevalent in South Africa.



**Figure 6**

Figure 6 indicates that the primary research method was telephonic interviews, as telephonic interviews allowed the author to contact stokvel members throughout the country, which resulted in a more diverse sample. The methodology chapter indicated that focus groups would not be appropriate because participants may be influenced by the views of other participants. However, there was one focus group conducted because there was a stokvel meeting occurring on the day of the interviews and the members preferred a focus group setting as it would be convenient for the members. The results of the focus groups and interviews will be separated in the results chapter because the responses of the focus group may be subject to bias, due to the expectations generated from other participants.

## 5 RESULTS

The purpose of this study was to answer the following research questions:

1. Why do South Africans continue to use stokvels ?
2. What barriers are preventing stokvel members from participating in the formal financial system ?

*Table 1: Summary of themes*

<b>Theme</b>	<b>Description</b>	<b>No. of participants</b>
<b>1</b>	Financial literacy levels are a concern among stokvel members; specifically there is a concern that banks exploit the low levels of financial literacy among stokvels.	10
<b>2</b>	Stokvel members want to invest in long-term assets, such as property, education and home improvements	9
<b>3</b>	There has been a change in the nature of social interactions within stokvels as technology is used more in communications with members.	8
<b>4</b>	The current interest rates on savings accounts offered by the banks are not sufficient for stokvel members.	8
<b>5</b>	The flexibility of stokvels make them attractive to users.	7
<b>6</b>	There is less bureaucracy in the form of paper work and credit checks that are involved in a stokvel compared to the formal financial sector.	8
<b>7</b>	Stokvel members are concerned about the lack of transparency around bank charges.	5

These questions, presented in table 1, were identified as relevant questions to be answered because of the gaps in the literature identified in the literature review and due to the importance of financial inclusion. The themes were identified through a thematic analysis of the interview transcripts. Appendix C links the themes to the transcripts by stating examples of what participants said in relation to the theme. Appendix D shows how the themes were coded. The themes are summarised below:

**Theme 1: Financial literacy levels are a concern among stokvel members, specifically there is a concern that banks exploit the low levels of financial literacy among stokvels.**

This theme was pervasive in the interviews as members were concerned with education and more specifically financial literacy. Furthermore, many participants felt as though the banks were exploiting the lack of education or knowledge held by stokvel users. Many participants felt that banks needed to do more in terms of educating stokvel users, through various methods, such as providing information in a relatable format, training and through high-school education. This theme answers research Question one and two as it indicates that stokvel members continue to use stokvels as they feel that they require higher levels of financial literacy to participate in the formal financial sector, and the lack of financial literacy is a barrier for participating in the formal financial sector.

One participant said:

*I think its education. I think you can try include people or want to include them, but people need to be educated. Our people are not educated, even though hundreds of thousands of millions of black people have accounts with the big four banks, they seldom take the time to educate them.*

Another participant shared a similar sentiment as they said:

*Because most people don't even understand these, like the interest rate. In most cases the banks don't explain in detail that the interest rates are not fixed. As much as I'm buying a house, the fact that they approved me gets me so excited. I have my house, they've approved me we don't read the contract. We just sign and want to get it done, but if they have more knowledge and say "I can take a house and make sure that the interest rates are fixed"*

This theme is consistent with the other studies reviewed in the literature. Dube and Edwell (2018) found that the lack of financial literacy in some communities posed a threat to the banking sector and the efficacy of stokvels. Moreover, NASASA CEO,

Andile Mazwai, explained that the information communicated by banks needs to be communicated in a way that the stokvel member can understand (CNBCAfrica, 2015). The concern regarding the lack of education among stokvel members is consistent with Ngcobo and Chisasa (2018), who found that the majority of households participating in stokvels had matric as their highest qualification.

Additionally, Dube and Edwell (2018) found that creating awareness and educating or training members of stokvels in financial management skills, might equip them with the necessary knowledge and skills to grow their stokvels. This was consistent with the suggestions given by participants as one participant said that:

*Yes. I think they should try to go to companies or work places or approach people going to the bank to open a stokvel account and take them through a workshop or training. Or organise a meeting with all members and then give them training.*

## **Theme 2: Stokvel members want to invest in long-term assets, such as property, education and home improvements**

The interviews indicated that stokvel members use their pay-out for buying long-term assets instead of short-term uses. This was indicated as most of the participants indicated that they used their pay-out to invest in property, home improvements and education. This expenditure was expected to yield long-term benefits by the participants. This theme answers Question one as it indicates that South Africans continue to use stokvels in order to invest in long-term assets.

A founder of a property stokvel said:

*Now, why a property stokvel? It's because we want people to be able to afford houses. We want people to use the same concept they have been using but now focusing on property than other things. Our vision is to empower people who are serious about creating wealth, investing for a long-term and who want an investment guidance to create wealth.*

This sentiment was also shared by members of non-investment stokvels, as another participant said:

*I don't think you would want to save so much of money that when you do finally get it you going to spend it on clothes. It's always for things that you need, like things for the house or maybe putting down that registration money for your tuition. It's always those types of things. Even with the ladies it was for something purposeful.*

More recent studies, such as Naidoo (2017), found that stokvels were evolving to be used for investment purposes. Similarly, Robertson (2017) found that 65% of the respondents in their study agreed that stokvels provide capital for the expansion and growth of businesses. However, African Response Research (2012) found that 3.5% of savings stokvels invested the money received and 3.8% of participants of savings stokvels used the money for a specific objective. This study found that 9 out of the 21 interviewee's (40% of participants) in this study indicated that they had a specific goal for the payout and more specifically the nature of the goal was for long-term benefit. The divergence between this study and African Response Research (2012) may be due to the African Response Research (2012) study excluding LSMs 1 to 3 in their sample, while this study included participants from lower LSMs in the sample. This could indicate that members of lower LSMs have a different focus on how the payout is spent.

### **Theme 3: There has been a change in the nature of social interactions within stokvels, as technology is used more in communications with members.**

The interviews showed that the nature of the social interaction and social networks that are found in stokvels are evolving. The participants indicated that face-to face interactions were no longer the primary source of communication and stokvels members appear to be having fewer social meetings and gatherings. Technology, more specifically WhatsApp has become the main source of communication and socialising for stokvel members. In certain instances, the stokvels did not have any face-to-face meetings. This theme answers research Question one, as it indicates that the South Africans continue to use stokvels because of the social interactions that exist



within stokvels. However, the nature of the social interactions is changing. One participant said, “So we don’t have parties or even meetings. Everything we do we only do it via WhatsApp.”

Similarly, another participant indicated that:

*It [WhatsApp] was used for both [communication and socialising] actually. Like if there was something important or funny. Like it was for both. Or if there were reminders to saying guys please don’t forget to pay.*

On the other hand, one participant said that:

*No, it [social interaction] was non-existent because I’m in Joburg and they’re all over the place. People were not very interactive. I don’t know why but they were family members so maybe there was family drama. You know how it is with family. People were not very responsive in the WhatsApp group, I would try to chat to them but all they wanted to do was to put in the money.*

The lack of face-to-face stokvel interactions has resulted in greater reach of stokvels, as a particular stokvel can have members from various different geographical areas. In many cases the participants indicated that the WhatsApp group was used to serve various purposes, as the details around the financial aspect of stokvels were discussed and the group was used as means to socialise. This is similar to the stokvel meetings that were discussed in the literature, as these gatherings served the purpose of discussing financial aspects of the stokvel and the gatherings were used as an opportunity to socialise.

Verhoef (2001) found that stokvels provided moral support that resembled the close knit “native support structure” in rural areas. The WhatsApp communication is different to the close knit structure that Verhoef (2001) found. The difference may be due to evolution of technology since the 20001 when the Verhoef (2001) study was published. This indicates that social interactions are impacted by technology and the context that the stokvel member is in.

Additionally, Kariuki & Ofusori (2017) found that WhatsApp has significantly changed the stokvel landscape, as young people have found an alternative way of accessing soft credit. Therefore, the benefits of WhatsApp and other technologies may transcend the social benefits. This is consistent with this study, as participants indicated that WhatsApp was used extensively for talking about finances. Similarly, Maluku and Kaseke (2014) found that there was moral support and mutual assistance provided in stokvels. The moral support and assistance appear to be reducing, as face-to-face interactions reduce, as some stokvel members indicated that they “only chat about money”. However, the emotional support provided by stokvels and burial societies in particular still seem to be present but in a different manner to the literature. Therefore, it appears as though social capital still remains an important part of a stokvel.

**Theme 4: The current interest rates on savings accounts offered by the banks are not sufficient for stokvel members.**

Participants of this study indicated that the interest rates on savings accounts that are offered by the formal sector are low and do not incentivise them to participate in the formal sector. Interest on savings accounts was identified as one of the needs that stokvel members had. The lack of sufficient interest prevents participation in the formal financial sector and thus answers Question two. One participant said that:

*The investment account had very little interest but we did obviously get interest but the rates were not that great..... interest part is very disappointing for the people.*

On the other hand, another participant said:

*The interest is a humongous [factor]. I've already said that to you. That is a very big inhibitor. As I've told you now that the year has dwindled because people in the group they have discovered that they can earn more interest in other accounts....And then there were members who felt that they didn't want to put more into the Stokvel because the interest on the savings account was lower and they had done their some sort of sums and they discovered that if they put that amount of money into their personal investment or unit trust they would actually be making more money over the longer term than if they just left it in the stokvel account.*

This indicates that the latter participant prefers other formal sector products because the interest rates are higher. However, the references to the transcripts in appendix C indicate that majority of the participants felt that the interest rates on formal savings and investment accounts were too low. The contradiction is likely due to the latter participant coming from Hout Bay a more affluent area of Cape Town and thus having greater access and exposure to various types of formal sector products.

Kibuuka (2006) found that stokvels provide access to credit to its members at a lower cost. The review of the literature indicated that the focus is on the interest rates charged by banks and not on the interest received by stokvel members. Similarly, Zungu (2012) found that stokvels are a great way of forcing oneself to put away a bit of money each month, at a better interest rate. This indicates that stokvels have some similar characteristics to credit unions in the USA, which are cooperative banks. Credit unions offer higher deposit rates and lower loan rates than traditional banks (Rajaratnam, Overstreet, Rubin, & Beling, 2013).

### **Theme 5: The flexibility of stokvels makes them more attractive to users**

The interviews conducted showed that the flexibility that is incorporated into stokvels makes a stokvel an attractive mechanism for saving. Stokvels consider and cater to the individual circumstances of their members and the members consider that certain events that are beyond one's control can impact the financial position of a member. Various stokvels have different levels of flexibility based on the rules in its constitution. This was consistent with the findings of Verhoef (2001), who found that some savings

stokvels are less flexible because the constitution is structured and rigid. This theme answers Question one and two because stokvel members indicated that they continue to use stokvels because of the flexibility that is not always provided in the formal financial sector. One member said:

*The nice thing about having that type of stokvel with your institution is that it's flexible. If I'm really tied up this month and I cannot afford to pay, like I said there's no one on your back waiting for payment.*

Similarly, another participant said:

*Everyone does pay, but there was one instance where we had a problem with someone who was to accept their payment on the 31<sup>st</sup>. They were going to be starting a new job in one of the departments, so they delayed their payment. Then in the next week, which was on the 7<sup>th</sup> the payment was made. There are situations that are not in our control, so we do consider those but with valid reasons, so a person can pay on whatever date if they have a problem.*

Moliea (2007) found that stokvels do permit some flexibility and can adapt to the financial pressure, recession or inflation. From reviewing the literature it appears that the stokvel rotation periods increase where there was additional financial pressure. This is consistent with this study as many stokvels allowed members to contribute later than the agreed upon date if there was an unexpected event. However, members of burial societies indicated that there was less flexibility allowed as the societies had 200 to 300 members and so it was not possible to consider the individual needs of each member.

**Theme 6: There is less bureaucracy in the form of paper work and credit checks that are involved in a stokvel compared to the formal financial sector.**

The participants indicated that the lack of bureaucracy and paper work involved in stokvels resulted in stokvels being “easier” and “quicker” than formal institutions. This was specifically noted as important when members were obtaining credit. Participants said that obtaining credit was easy if one had a good credit score. However, credit

checks were noted as a barrier to access to credit. Additionally, opening bank accounts was identified as being burdensome with the cost in terms of time and money in opening up the account exceeding the benefit derived from using the account. This answers Questions one and two because the lack of bureaucracy within stokvels makes stokvels more attractive to many South Africans and the bureaucracy within the formal sector is a barrier that prevents participation in the formal sector. Stokvel members indicated that they require less bureaucracy during financial transactions as the bureaucracy was reducing the level of financial inclusion. As one participant said:

*Well I mean if they wanted to then definitely. Looking at how the account is setup, it only gives access to two people, which has to be the same two people who go every time can be such a pain to have to do that every time. So that's definitely a hindering factor.*

There is little literature that specifically examines the bureaucracy of the stokvel products offered by formal financial institutions. This may be a result of many of the stokvel products being recently launched.

Maluku and Kaseke (2014) found that stokvels are successful in South Africa because they provide ease of access to credit without the bureaucracy that is required by banks. Furthermore, stokvels provide poor people who cannot establish creditworthiness with credit (Verhoef, 2008). Additionally, Kibuuka (2006) found that long queues, poorly trained bank personnel, rigid language policy and the complexity of opening an account were sources of dissatisfaction with banks. The findings of this study are consistent with the findings in the review of the literature. The participants of this study noted that the credit checks and paperwork were all bureaucratic barriers.

### **Theme 7: Stokvel members are concerned about the lack of transparency around bank charges.**

The interviews showed that stokvel members thought banks were not transparent with respect to bank charges on stokvel bank accounts, as well as their individual bank accounts. Additionally, participants felt as though the bank charges were too high and they felt as though the bank charges were not appropriately explained to them. The

cost of bank charges is a barrier that prevents South Africans from participating in the formal sector and thus answers Question two. The lack of transaction costs within stokvels were identified as a key feature of a stokvel and thus answers Question one. Some stokvel members rejected the formal sector as a result of the high bank charges. As one participant noted:

*The bank charges are too high. The second thing is there's something that happens with the banks of which I found that I wasn't the only one, there are hacks or I don't know what they are called. I used to on the first [day of the month] see them on the statement, for instance last month I had an overdraft of R400 and something because of these hacks. They don't take more than a R100, there'll be one for R99, another for R85, and the next will R50 something.*

Similarly, participants felt as though the bank “takes” their money when it can see that you have money in your account. One participant said, *It is because banks have a lot of charges. Especially when they can see that you have a money in your account.*

The participants felt as though the banks were not fully transparent with the fees charged and that they felt that the banks did not provide enough information to compare various products. One participant said:

*Let's say compare the FNB charges with those of Capitec, as well as Nedbank. From there, pick a bank with a better charge.*

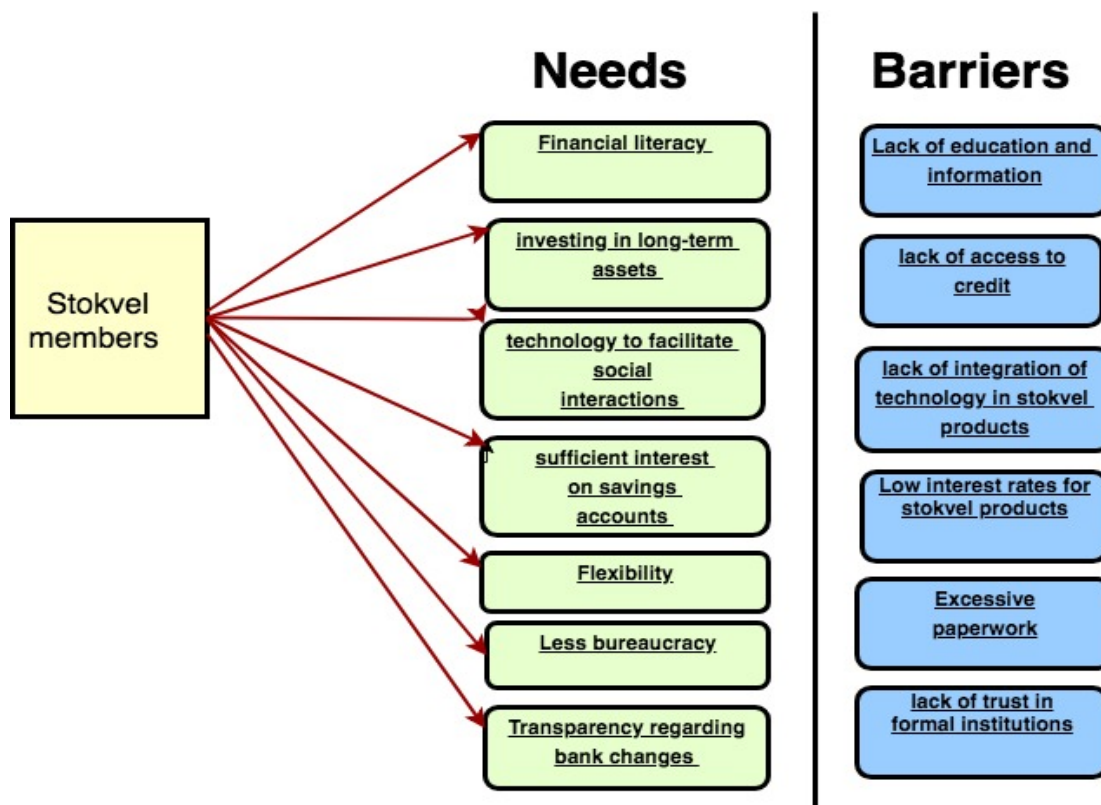
Stokvel members require information that can be used for comparative purposes when making decisions on various products in the formal sector. Lower financial literacy levels may be impacting the perceived lack of transparency.

On the other hand, NASASA CEO, Andile Mazwai, argued that bank charges and other information need to be explained by banks in a manner that is understandable to stokvel members (CNBCAfrica, 2015). Therefore, the cause of the perception by stokvel members may be due to the manner in which the information is provided. Similar, to the findings in this study, Kibuuka (2006) found that high financial charges by banks were one of the most important issues among stokvel members.

## **FINAL REMARKS**

The themes in the results chapter indicated what the current needs of stokvel members are, as well as the barriers thereto. The recommendations chapter will discuss how the needs of stokvel members can be met and thus will explore the second research question.

This chapter discussed the various themes identified through the thematic analysis. This study found that stokvel members required greater financial literacy and information as members felt that the formal sector was exploiting the lack of education and information. Moreover, this study found that participants were concerned about the bank charges imposed by banks and there was a perceived lack of transparency regarding bank charges, due to a lack of trust. These findings are consistent with the literature. Participants in this study found that stokvels were “easy” due to the lack of paperwork required and because WhatsApp helps to facilitate transactions. The use of WhatsApp and technology has not been examined in other literature and thus this adds to the literature on stokvels. The participants of this study indicated that they used the money from the stokvels to invest in long-term assets, such as property or property upgrades. This differed from the literature, as authors such as African Response Research (2012) found that the money received was spent on consumables.



**Figure 7: Summary of results**

The literature review indicated that financial inclusion is required to achieve the sustainable development goals. Figure 7 indicates the factors to consider in achieving financial inclusion for stokvel members, based on the themes identified. Financial inclusion for stokvels means that the financial system provides competitive interest rates for stokvel members or stokvel products. A financial system that is flexible and considers external factors that are beyond one’s control and the financial system supports stokvel members in obtaining long-term asset ownership. Financial inclusion is created when stokvels members are provided with financial education and information that is required to make financial decisions. The recommendations chapter will provide recommendations to various stakeholders on how to address the themes identified in the results chapter.

## 5.1 RECOMMENDATIONS



The recommendations chapter will provide recommendations to the themes identified in the results chapter. The recommendations chapter will explore the second research question: *What barriers are preventing stokvel members from participating in the formal financial system?* The results chapter answered research Questions one and two by identifying themes relating to the reasons why stokvels continue to be used and what barriers prevent stokvel members from participating in the formal financial sector. The recommendations are identified by the author through thematic analysis. The interview transcriptions are analysed to identify themes and then recommendations are made based on themes identified. The recommendations are supported by extracts from the interview transcripts as well as the literature reviewed in chapter two.

### **Recommendation 1 for Theme 1:**

The results chapter described the concern regarding the lack of financial literacy and the subsequent exploitation by banks. The interviews indicated that there was a mistrust of the formal financial sector by stokvel members. Thus, initiatives implemented by banks to improve financial literacy may not be successful due to the relationship between the stokvel members and banks. However, if the banks employ members of the stokvel communities to provide information on the product offering and training on financial literacy, this could lead to stokvel members' needs being better accommodated. Furthermore, this could reduce the information asymmetry that appears to exist. Dube and Edwell (2018) found that training stokvel members in financial management helped stokvels grow. Similarly, one participant suggested the following:

*I think they should try to go to companies or work places or approach people going to the bank to open a stokvel account and take them through a workshop or training. Or organise a meeting with all members and then give them training.*

Moreover, participants indicated that they joined stokvels as they transact with members of their community whom they know. As one participant said, "The stokvel model is based on trust and knowing the person." It is important that these representatives are from the community, as it will help to create the social capital that

stokvels generate. In the literature review, social capital and trust were found to be vital aspects of stokvels. Authors such as Maluku and Kaseke (2014) found that trust and honesty were identified as key factors that make stokvels successful. Moreover, employing representatives of the community results in job creation.

The interviews indicated that stokvel members felt that they require more information about service offerings and the various options provided by banks. One participant suggested, “Maybe by doing comparisons of charges by looking at different banks. Let’s say compare the FNB charges with those of Capitec as well as Nedbank. From there, pick a bank with a better charge.”

This can be addressed through the collaboration of NASASA and the formal sector. NASASA can create a specific stokvel financial academy or programme where the stokvels can learn about the various banking products available to them in order to grow their stokvels. In a similar vein, there needs better collaboration between banks and government, as the government needs to focus on improving financial literacy by incorporating more financial literacy into the school syllabi. This will further strengthen financial literacy which is required by stokvel members.

### **Recommendation 2 for Theme 2:**

Participants indicated that they used the proceeds from the stokvel to invest in property and home renovations. In certain instances, the sole purpose of the stokvel was to invest in property. A member of a property stokvel indicated that:

*Maybe there could be a property organisation that will look maybe into property stokvels. A certain organisation that will protect people because others will come up with the same concept and then end up doing something that will not help people. That will not help people grow financially plus destroy the whole industry.*

Property stokvels collect and invest large amounts of money, as the above member indicated that, “We’re aiming to raise R4.8-million”. As suggested by the participant, there needs to be additional oversight over property stokvels in order to protect their members. Moreover, there needs to be a regulatory framework that is developed for

large property and investment stokvels. Similarly, Dube and Edwell (2018) found that integrating the formal and informal sectors resulted in higher levels of social protection. Additionally, Dube and Edwell (2018) found that such stokvels can benefit extensively from the expertise of the formal sector and more specifically financial management skills.

### **Recommendation 3 for Theme 3:**

This study found that the nature of social interactions within stokvels are changing. Most of the stokvel members that were interviewed in this study indicated that they communicated through some form of technology for the majority of their interactions. Most participants indicated that their stokvels used WhatsApp to socialise and to discuss financial matters. A participant suggested that:

*Like maybe could have an App as well. Where we are all in a stokvel type of a thing where people can track my phone, where if I am the primary user I can do certain things but the other members can just view what's happening. Because I literally had to scan statements, it was a lot of work but I don't want complexity, so I want everything to always have full disclosure. I had to scan to show people the numbers and I had to come up with that, even though it wasn't hard. It's something that the banks could actually use. Like say with Nedbank, they have a stokvel account they should have an app for it. An app that will ask me how many members in our stokvel, and we would join then assign unique numbers to each person. Then I will be able to bank on that stokvel app.*

The formal sector needs to integrate technology into the stokvel products in order to provide more convenience for stokvels and to adapt to the new ways in which stokvels communicate. Similarly, Kariuki & Ofusori (2017) recommended that banks introduce a free transactional banking service that is compatible with WhatsApp. Furthermore, Kariuki & Ofusori (2017) found that Stokvels using WhatsApp gave access to fast and convenient credit to young people for fulfilling their entrepreneurship dreams. The study found that the banking sector should introduce free transactional services that

are compatible with WhatsApp (Kariuki & Ofusori, 2017). Therefore, Recommendation 3 is supported by other literature.

#### **Recommendation 4 for Theme 4:**

The interest rates that stokvels receive using the stokvel bank accounts are not attractive to stokvel members. Thus, banks need to consider increasing the interest rates that stokvel members can receive on the stokvel bank accounts. Additionally, the banks can increase interest on stokvel accounts specifically for stokvels which re-invest the proceeds. This would further increase the incentive to save. The banks benefit from increasing the interest rates on stokvel savings accounts as the stokvel economy is estimated to be worth R49-billion in South Africa (NASASA, 2018). Thus, increasing interest rates on stokvel savings accounts may result in more stokvels utilising banking products, which will be more profitable for banks as their market share of the stokvel economy would likely increase.

#### **Recommendation 5 for themes 5 and 6:**

Stokvels allow for greater flexibility through the stokvel constitutions, which can be tailored to the needs of the stokvel members. The participants expressed that they thought banks did not create products that were tailored to individual stokvel needs. These banks can address this through the use of Ethereum. Ethereum is a form of blockchain technology that was introduced by Vitalik Buterin (Vujičić & Randić, 2018). Ethereum uses built-in Turing-complete programming language which enables anyone to create their own rules for ownership and formats of transactions (Vujičić & Randić, 2018). This is done by using smart contracts, a set of crypto-graphic rules that are executed if certain conditions are met (Vujičić & Randić, 2018).

Therefore, Ethereum can be used by banks to create smart contracts for individual stokvels that will be tailored to the specific needs of the stokvel. Similarly, the whitepaper written by AFRO Currency Foundation (2018) found that Ethereum can be used by stokvels in order to reduce the costs of transacting while also improving transparency. The foundation proposed that Ethereum can be used through a

decentralised application used to create contracts between members. The contract would state details such as the contribution amount, payout date and frequency. Due to the high cost and complexity of implementing Ethereum, it would be more practical for large financial institutions to introduce Ethereum into stokvels their stokvel products.

Additionally, Ethereum can be used by financial institutions to reduce bureaucracy and increase the speed of transactions. This study found that stokvel members felt that the high degree of bureaucracy was a barrier to using the formal financial sector. According to AFRO Currency Foundation (2018), Ethereum transactions are faster than Bitcoin, as the average speed of a transaction is 24 seconds. Moreover, Ethereum will prevent members from needing to go to the bank every month, which was indicated as one of the hindering factors by participants in this study. Furthermore, Shermin (2017) found that smart contracts radically reduce bureaucracy and transaction costs as they use auto-enforceable code that replaces the middle man with machine consensus. This will be particularly important when the payments are administered by the stokvel. Since the smart contracts are automated, members will not have to go to the bank to facilitate the payment of its members. Ethereum reduces the time delays that occur due to the bureaucracy in administering payments in traditional banking.

#### **Recommendation 6 for Theme 7:**

NASASA provides various services to stokvels, mainly stokvel indaba's<sup>1</sup>, magazine features, stokvel visits and stokvel group mobilisation (NASASA, 2018). The stokvel indabas are held once a month in various townships, where the leadership of NASASA present a relevant topic, which is followed by a discussion with stokvel leaders. At the stokvel group mobilisation events, brands are offered an opportunity to engage with the stokvel market (NASASA, 2018). NASASA also issues *Sonke* magazine bimonthly

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<sup>1</sup> A discussion or conference

in order to share important information with stokvel groups (NASASA, 2018). Furthermore, the magazine is used as a platform for the public and private sector to communicate with the stokvel market (NASASA, 2018).

The various services offered by NASASA show that the association has close contact with stokvels. Moreover, there are various platforms that it has to communicate with stokvels. Therefore, the banks and other institutions can collaborate with NASASA to share information about its products and the cost thereof. This can be done through many platforms. The banks can present at the stokvel group mobilisation events. This allows for stokvel leaders to ask the banks questions in a setting where they are more likely to feel comfortable. Additionally, the banks can provide comprehensive details of the products in the *Sonke* magazine. Therefore, NASASA can work in conjunction with the private sector to improve the access to information regarding the cost of formal financial institutions.

**Table 2: Summary of the recommendations**

Theme	Recommendation summary
<p>Financial literacy levels are a concern among stokvel members, specifically there is a concern that banks exploit the low levels of financial literacy among stokvels.</p>	<p><b>Recommendation 1:</b> Banks should train and employ community members in the respective areas where they operate to provide financial literacy workshops to members. Furthermore, financial literacy should be imbedded in the school curriculum.</p>
<p>Stokvel members want to invest in long-term assets, such as property, education and home improvements.</p>	<p><b>Recommendation 2:</b> Investment and property stokvels should collaborate with the formal financial sector in order to strengthen social protection.</p>
<p>There has been a change in the nature of social interactions within stokvels as technology is used more in communications with members.</p>	<p><b>Recommendation 3:</b> Banks should provide banking products that are integrated with technology that is used by stokvels such as WhatsApp.</p>
<p>The current interest rates on savings accounts offered by the banks are not sufficient for stokvel members.</p>	<p><b>Recommendation 4:</b> Banks should consider providing higher interest rates on stokvel bank accounts.</p>
<p>The flexibility of stokvels make them more attractive to users.</p> <p>There is less bureaucracy in the form of paper work and credit checks that are involved in a stokvel compared to the formal financial sector.</p>	<p><b>Recommendation 5:</b> Banks should utilise blockchain technology such as Ethereum to create more personalised and tailored products.</p> <p>The bureaucracy required to open the account, as well as to administer the pay-outs is creating a barrier for stokvels. Banks could improve the stokvel bank accounts and other collective savings schemes by introducing Ethereum.</p>
<p>Stokvel members are concerned about the lack of transparency around bank charges.</p>	<p><b>Recommendation 6:</b> NASASA should corroborate with banks to educate its registered stokvels on the various offerings by the banks.</p>

## 6 CONCLUSIONS

The aim of this study was to ascertain why South Africans continue to use stokvels and to ascertain what barriers are preventing stokvel members from participating in the formal financial sector. Recommendations were made based on the themes identified in answering the aforementioned research questions. This thesis started by examining the literature on stokvels and the features of stokvels in South Africa. Thereafter, the research questions were identified after examining the gaps in the literature. The methodology outlined how the research questions were answered. Then the results of the interviews were described and recommendations were made based on the themes identified in the results.

The study explored and answered the research questions by conducting 21 semi-structured interviews and one focus group of stokvel members from Gauteng, the Western Cape and KwaZulu-Natal. The themes were identified using thematic analysis.

This study is relevant because financial inclusion is an enabler of seven of the 17 sustainable development goals (Worldbank, 2018). Yet half the world's working adults are excluded from financial services (UNDESA, 2018). The exclusion of people from the formal financial sector resulted in the growth of microfinance. In South Africa, the stokvels are one of the most prevalent forms of microfinance, as 11.5-million people in South Africa are part of a stokvel (Holmes, 2017).

Kibuuka (2006) found that banks and formal financial institutions in general do not understand the stokvel clientele. Yet, banks such as Nedbank have started to offer products and services for stokvels. The review of the literature indicated that inclusion is not only about the number of products offered but also about the appropriateness of the products and services. Therefore, it is important to understand the needs of stokvel members in order to understand how banks can accommodate their needs and in turn achieve financial inclusion.

The study found that stokvel members were concerned with the level of financial literacy among stokvels and participants felt as though banks exploited the lack of financial literacy. Moreover, stokvel members perceive there to be information asymmetry between the bank and stokvel members with respect to banks charges.



The study recommended that the financial literacy can be improved through greater collaboration between communities and banks. Additionally, this study found that stokvel members need less bureaucracy and more flexibility. It was recommended that Ethereum should be introduced by the banks in order to address those needs.

Verhoef (2001) found that social capital was important in stokvels due to the support structure and networks created. Similarly, this study found that the nature of social interactions is changing due to technology. More specifically, WhatsApp was found to be crucial in stokvel communication and in socialising. Similarly, Kariuki & Ofusori (2017) found that WhatsApp has significantly changed the stokvel landscape. Therefore, banks should create applications that are integrated with WhatsApp.

This study supports the literature because it provides updated reasons as to why South Africans continue to use stokvels and what is preventing participation in the formal financial sector. Thereafter, recommendations are made to various stakeholder. Other studies in the literature review conducted above identified that the formal sector does not understand stokvel clientele, yet few studies went further to analyse the needs of the stokvel clientele and what is preventing the participation in the formal financial sector. Furthermore, the research questions answered in this study are unique as they have not been answered as indicated in the review of the literature. Grameen bank founder Muhammad Yunus said “If you want to get people out of poverty, don’t look at the poor people. Look at the system that is responsible for creating that poverty.” Therefore, this study examined the financial system in order to understand the lack of financial inclusion in South Africa. The results are particularly useful for banks which offer services and products to stokvels. Consequently, this study makes a contribution to improving financial inclusion in South Africa.

It is imperative for financial inclusion to be achieved in South Africa. Stokvel members are a large portion of the population and by improving financial inclusion for stokvels we ensure prosperity is shared. “Financial inclusion matters not only because it promotes growth, but because it helps ensure prosperity is widely shared. Access to financial services plays a critical role in lifting people out of poverty, in empowering women, and in helping governments deliver services to their people” (Indrawati, 2015).

## **Scope for further research**

The stokvel products provided by banks have recently been introduced into the market. Therefore, there is little literature that analyses the features of these products and services provided. The purpose of this study was not to analyse the stokvel products but rather to analyse the needs of stokvel members. Future researchers should consider researching the features of these products and identify any deficiencies thereof. This can improve the appropriateness and suitability of stokvel products.

Moreover, the sample in this study included participants from Gauteng, Western Cape and KwaZulu-Natal. Future studies can answer the same questions based on a different sample of participants. This would be useful, as the findings of this study cannot be extrapolated to the entire South African population.

This study focused mainly on savings stokvels and in the review of more recent studies investment stokvels were found to be more prevalent in South Africa. Yet little research exists on the mechanics of the investment stokvels. Therefore, future researchers should consider researching investment stokvels and more specifically the needs of investment stokvel members.

The area of block chain is a concept that is under researched due to it being such a new concept. Therefore, future researchers should consider the practicability of introducing smart contracts in the banking industry in South Africa. Moreover, future research should consider the practicality of the white paper on the AFRO Currency decentralised application, specifically if the application is practical for stokvels. In a similar vein the regulation of stokvels is a new concept that was discussed briefly in the literature review. Future researchers should assess whether stokvels should continue to be self-regulated.

As mentioned in the literature review, there are two types of financial exclusion, involuntary and voluntary. This study focused on the perceived involuntary exclusion by stokvel members. The literature review indicated that there is a lack of literature examining voluntary exclusion. Future research should consider the reasons for voluntary exclusion in South Africa.

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## APPENDICES

### APPENDIX A: ETHICAL CLEARANCE



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**UCT Commerce Faculty Office**

19/07/2018

Ms Mbali Gwamanda

College Of Accounting

University of Cape Town

REF: REC 2018/007/060

Dear Mbali Gwamanda,

## Form: Commerce Faculty Ethics Application 2018

We are pleased to inform you that your ethics application has been approved. Unless otherwise specified this ethical clearance is valid for 1 year and may be renewed upon application.

Please be aware that you need to notify the Ethics Committee immediately should any aspect of your study regarding the engagement with participants as approved in this application, change. This may include aspects such as changes to the research design, questionnaires, or choice of participants. The ongoing ethical conduct throughout the duration of the study remains the responsibility of the principal investigator.

We wish you well for your research.

Modie Sempu

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## APPENDIX B: INTERVIEW QUESTIONS

### General question:

1. Tell me about yourself
2. Tell me about your stokvel
3. Tell me about the social aspect of your stokvel
4. Tell me about your experience with banks and other financial institutions. What are some of the challenges that you have faced?

General question	Objective of the question
1.	The objective of this question is for the participant to feel more comfortable with the interviewer by telling the interviewer about themselves and thus establish trust. Furthermore, this question will provide the interviewer with information about the participant's background which can be used in the analysis.
2.	The objective of this question is to ascertain the characteristics and features of how the stokvel operates. This question is broad and allows the interviewer to ask follow up questions relating to the participant's stokvel. Furthermore, this question will help to answer research question 1.
3.	The objective of this question is ascertain how the social capital discussed in the literature review relates to the participant's stokvel.
4.	The objective of this question is to ascertain if there are any barriers or concerns that the participant has with respect to the formal financial sector which will then answer research question 2.

### Specific questions:

1. What do you do with your stokvel pay-out?
2. How does your stokvel benefit you?
3. Are stokvels prevalent in your community?

<b>Specific question</b>	<b>Objective of the question</b>
<b>1.</b>	The objective of this question is to ascertain if the use of the stokvel aligns to the motives for saving in the literature review. This question aims to explore the needs of stokvel members and answer research question 1.
<b>2.</b>	The objective of this question is to understand the needs of stokvel members by exploring the benefits of stokvels. This question aims to explore research question 1.
<b>3.</b>	The objective of this question is to ascertain if stokvels are prevalent in certain areas in South Africa. This question explores if geographical location impacts barriers to the formal financial sector.



## APPENDIX C: THEMES LINKED TO TRANSCRIPT REFERENCES

Theme	Description	No. of participants
1	Financial literacy levels is a concern among stokvel members and specifically there is a concern that banks exploit the low levels of financial literacy among stokvels.	10
2	Stokvel members want to invest in long-term assets such as property, education and home improvements.	9
3	There has been a change in the nature of social interactions within stokvels as technology is used more in communications with members.	8
4	The current interest rates on savings accounts offered by the banks are not sufficient for stokvel members.	8
5	The flexibility of stokvels make them more attractive to users.	7
6	There is less bureaucracy in the form of paper work and credit checks that involved in a stokvel compared to the formal financial sector.	8
7	Stokvel members are concerned about the lack of transparency around bank charges.	5

**Theme 1: Financial literacy levels is a concern among stokvel members and specifically there is a concern that banks exploit the low levels of financial literacy among stokvels.**

References in the transcripts:

- *“Yes, I don’t know if there’s something about lower income groups only seeing or understanding the immediacy of only paying R200 now, as opposed to understanding the long term impact of that R200 over 24months, in terms of interest. And I don’t think that the financial institutions have done a good job around that, around the education of that” -Interview 3*

- *“I think its education. I think you can try include people or want to include them, but people need to be educated. Our people are not educated, even though hundreds of thousands of millions of black people have accounts with the big four banks, they seldom take the time to educate them”- interview 4*
- *“Yes. I think they should try to go to companies or work places or approach people going to the bank to open a stokvel account and take them through a workshop or training. Or organise a meeting with all members and then give them training”-interview 15*
- *“For older people, you know with like the older-older black generation are not educated? I think it should be much more user-friendly for them. Maybe instead of pressing buttons the machine to speak to them their home language. You find that a lot of them get robbed at the banks because they’re looking to whoever who says “Oh no press this and press that” .-interview 2*
- *“I would only go to the bank to withdraw money from the ATM. I don’t have a deeper understanding of what happens”-interview 10*
- *“If they can come and tell how to do something”-interview 18*
- *“They’ll [Banks] need someone to fully explain to them because people from the homelands have their own mentalities”. “Maybe if they can find a knowledgeable person that will be able to explain properly”- interview 7*
- *“because most people don’t even understand these like the interest rate. In most cases the banks don’t explain in detail that the interest rates are not fixed. As much as I’m buying a house, the fact that they approved me gets me so excited. I have my house, they’ve approved me we don’t read the contract. We just sign and want to get it done, but if they have more knowledge and say “I can take a house and make sure that the interest rates are fixed”-interview 11*
- *“It’s uneducated people. It was old people and some have passed on. Others are at home in the Eastern Cape, they are pensioners”-interview 6*
- *“Mbali :Did they explain when you asked where your money went?*
- *Person 2: I am a person that generally doesn’t like going anywhere, so I never went to ask” – focus group 1*

## **Theme 2: Stokvel members want to invest in long-term assets such as property, education and home improvements.**

Reference to transcripts:

- *“Next year I want to into get a stokvel with a friend of mine because we both want to buy new houses”- interview 4*
- *“then I won’t get a lot of money to be able to buy a house”-interview 5*
- *“I used mine [pay-out] to build my home” ... “With others it depends on what they joined for. Maybe others want to renovate their houses or they’re studying and what want to pay for their fees as some study at Unisa”-interview 8*
- *“I don’t think you would want to save so much of money that when you do finally get it you going to spend it on clothes. It’s always for things that you need like things for the house or maybe putting down that registration money for your tuition. It’s always those types of things. Even with the ladies it was for something purposeful”-interview 9*
- *“Now, why a property stokvel? It’s because we want people to be able to afford houses. We want people to use the same concept they have been using but now focusing on property than other things. Our vision is to empower people who are serious about creating wealth, investing for a long-term and who want an investment guidance to create wealth”- interview 11*
- *“It’s because of the things we need to do in our houses. We can’t afford with just the money that we get paid. So we decided to form a stokvel instead of getting a loan. Which we might have ended up paying for like 10 years or more”- interview 13*
- *“Well sometimes if I do borrow money, it is usually on someone’s behalf whose running out of transport money or maybe they’re running short of things in their house. Then I would borrow money for them but I don’t borrow money to maybe renovate the house. I usually do such things with the R10 000[ stokvel money] that I receive at the end of the year”-interview 16*

- *“Person 2: It helped me with buying bricks. I was able to take the money and buy bricks to build my house little by little. My house was built last year. I bought zinc sheets and bricks. I was also able to buy tiles and hire labour for installation”-Focus group 1*
- *“I pay my children’s school fees”-interview 5*

**Theme 3: There has been a change in the nature of social interactions within stokvels as technology is used more in communications with members.**

References in the transcripts:

- *“So we don’t have parties or even meetings. Everything we do we only do it via WhatsApp”- interview 8*
- *“I think we did. I think that time actually BBM was a thing. So we did have a chat group”- interview 9*
- *“With this one we don’t meet because we have a WhatsApp group. So whoever’s turn it is, they send their account number in the group or you tell the people in the group that you want your money in a particular way”- interview 13*
- *“Mwali: Do you think that the WhatsApp group is a very important part of your stokvel? Do you use it a lot?  
Sinazo: Yes, because we use to communicate the time, venue and everything.  
Mwali: Do you think you communicate more on WhatsApp than in person? Face-to-Face?  
Sinazo: More over WhatsApp”-interview 14*
- *“No, we only made arrangement for a meeting which was in January. Thereafter we created a WhatsApp group so that whatever questions or any problems there were, people would be able to post them on the group. Then we would respond” -interview 15*
- *“Mwali: Sorry, I just saying that the WhatsApp group, was it used primarily to discuss matters relating to the stokvel? Or any like for social purposes?*

*Ayanda: It was used for both actually. Like if there was something important or funny. Like it was for both. Or if there were reminders to saying “guys please don’t forget to pay”-interview 2*

- “Mbali: Could you please tell me about the social aspect of your stokvel? If you think you had a social aspect?

*Bhe: No, it was non-existent because I’m in Joburg and they’re all over the place. People were not very interactive, I don’t know why but they were family members so maybe there was family drama. You know how it is with family. People were not very responsive in the WhatsApp group, I would try to chat to them but they wanted to do was to put in the money”- interview 3*

- “Mbali: Do your stokvels use WhatsApp?

*Andiswa: Yes, we have a group.*

*Mbali: What do you do on that group? Do you chat about money?*

*Andiswa: Yes, we only chat about money”-interview 1*

#### **Theme 4: The current interest rates on savings accounts offered by the banks are not sufficient for stokvel members.**

References to transcripts:

- *“If they can have perhaps like specific interest rates for stokvels, because I think the main thing for any stokvel or rather some of them, is to gain interest. Especially the ones that lend out money to people and whatever. So I think if they can have specific interest rates for their people”- interview 2*
- *“And then there were members who felt that they didn’t want to put more into the Stokvel because the interest on the savings account was lower and they had done their some sort of sums and they discovered that if they put that amount of money into their personal investment or unit trust they would actually be making more money over the longer term than if they just left it in the Stokvel account”-interview 3*

- *“The investment account had very little interest but we did obviously get interest but the rates were not that great”..... “interest part is very disappointing for the people”*.-interview 4
- *“They could give us more interest. Their interest is very low”*-interview 5
- *“When we loan out our money we charge a 50% interest rate, whereas the banks have a lower interest rate than us”*-interview 12
- *“You can keep your money with them but their interest will be little”*-interview 15
- *“They had promised us better interest but there’s really nothing that we can do”*-interview 17
- *“But my point is that the interest is low for contributing R250. Let’s say you contribute R250 times 10 months and each person has contributed R2500 in total. In that case, how much is your interest? It’s R40”*- Focus group 1

#### **Theme 5: The flexibility of stokvels make them more attractive to users.**

Reference to transcripts:

- *“There was flexibility, because it’s not like you had to contribute the whole R1000 in all 12 months. I remember I stopped at 8 [months] because after that I couldn’t contribute. I think I had to pay something else”*-interview 2
- *“When a person doesn’t pay, we wait until they can. When they pay, they pay the money they owe plus interest. They also have to disclose as to when they will make the payment, then they pay it on that day”*-interview 7
- *“The nice thing about having that type of stokvel with your institution is that its flexible. If I’m really tied up this month and I cannot afford to pay, like I said there’s no one your back waiting for payment”*-interview 9
- *“Everyone does pay, but there was one instance where we had a problem with someone who was to accept their payment on the 31<sup>st</sup>. They were going to be starting a new job in one of the departments, so they delayed their payment. Then in the next week, which was on the 7<sup>th</sup> the payment was made. There are situations that are no in our control so we do consider those but with valid reasons, so a person can they pay on whatever date if they have a problem.*

*We've never had a problem with a person that maybe disappears with our money"-interview 8*

- *"There's no fine for when someone doesn't pay. The amount that they would usually contribute will become double in the following month."-interview 10*
- *"Now with us we are saying should you lose your job or something happens, we will give you a 3months grieving period to sort out your finances"-interview 11*
- *"And you don't deal with one person or with someone that you know who will understand your situation when you are not able to pay maybe for a month"-interview 16*

**Theme 6: There is less bureaucracy in the form of paper work and credit checks that involved in a stokvel compared to the formal financial sector**

reference to transcripts:

- *"well I mean if they wanted to then definitely. Looking at how the account is setup, it only gives access to two people, which has to be the same two people who go every time can be such a pain to have to do that every time. So that's definitely a hindering factor"-interview 3*
- *"We use a Stokvel Bank Account and we have three members that sign. There isn't anyone that could go and take out that money without the three members"-interview 18*
- *"The problem with banks is when you go to open an account for a stokvel, there needs to be two people. It requires things like the rules. Then sometimes you find that you don't have a chance to go to the bank because we are all available at different times"-interview 8*
- *"Yes. It is much easier for us"-interview 13*
- *"They make it much easier especially now there's emails, people can scan and send documents to each other. There's so much technology they can actually ease the process"-interview 9*
- *"Mbali:Do they give you home loan at the other banks?  
Bongiwe: Yes they do.*

*Mbali: Is it easy or difficult to get it?*

*Bongiwe: It depends on your credit record"- interview 5*

- *"It's easy when you have a good credit record but if you don't then it's not"- interview 15*
- *"To open a bank account there needs to be three members"-interview 20*

**Theme 7: Stokvel members are concerned about the lack of transparency around bank charges.**

References in the transcript:

- *"Yes, I think they should actually explain. Now I pay R209, just for having an account with FNB and there are other little amounts that come off that half the time I don't know what they are. You know if it's a little amount like R50 or R20 you not question it that much but if add it all up its actually comes up to R300 and something. That is deducted from my account for whatever"- interview 2*
- *"The bank charges are too high. The second thing is, there's something that happens with the banks of which I found that I wasn't the only one, there are hacks or I don't know what they are called. I used first see them on the statement, for instance last month I had an overdraft of R400 and something because of these hacks. They don't take more than a R100, there'll be one for R99 another for R85 and the next will R50 something"-interview 5*
- *"I would maybe leave R100 and when I would go with-draw, I would find that my account is empty. I would ask myself where my money went. When I ask what happened to the in my account, the response would be that it's bank charges"- focus group 1*
- *"Mbali: What kind of changes do you think it [banks] needs? Fundi: Maybe by doing comparisons of charges by looking at different banks. Let's say compare the FNB charges with those of Capitec as well as Nedbank. From there, pick a bank with a better charge"-interview 7*
- *"It is because banks have a lot of charges. Especially when they can see that you have a money in your account"-interview 7.*



- “Their products are expensive because they will say that it is a R100 then they deduct R200 charges that are made up of all small charges that they deduct”-interview 16
- “I think the only bank that I’ve ever really interacted with is only FNB. The problem that I have with them is their charges are ridiculous”-interview 2

#### APPENDIX D: CODING OF THEMES

Example of quotations from participants	Concepts identified	Theme
<p><i>Yes, I don't know if there's something about lower income groups only seeing or understanding the immediacy of only paying R200 now, as opposed to understanding the long term impact of that R200 over 24months, in terms of interest. And I don't think that the financial institutions have done a good job around that, around the education of that.</i></p>	<p>Understanding, education, explaining, workshop, training and more knowledge.</p>	<p>Financial literacy levels is a concern among stokvel members and specifically there is a concern that banks exploit the low levels of financial literacy among stokvels.</p>
<p><i>Now, why a property stokvel? It's because we want people to be able to afford houses. We want people to use the same concept they have been using but now focusing on property than other things. Our vision is to empower people who are serious about</i></p>	<p>Wealth creation, renovations, house improvements, building, investing, school fees, tuition and property</p>	<p>Stokvel members want to invest in long-term assets such as property, education and home improvements.</p>

<i>creating wealth, investing for a long-term and who want an investment guidance to create wealth</i>		
<i>So we don't have parties or even meetings. Everything we do we only do it via WhatsApp</i>	WhatsApp, over the phone, cellphones and BBM.	There has been a change in the nature of social interactions within stokvels as technology is used more in communications with members.
<i>You can keep your money with them but their interest will be little</i>	Interest rates on savings accounts and interest on stokvel bank accounts.	The current interest rates on savings accounts offered by the banks are not sufficient for stokvel members.
<i>The nice thing about having that type of stokvel with your institution is that its flexible. If I'm really tied up this month and I cannot afford to pay, like I said there's no one your back waiting for payment</i>	Flexibility, constitution, delayed payment and unemployment.	The flexibility of stokvels make them more attractive to users.
<i>The problem with banks is when you go to open an account for a stokvel, there needs to be two people. It requires things like the rules. Then sometimes you find that you don't have a chance to go to the bank because we are all available at different times</i>	Paperwork, credit checks, signatures, availability and rules.	There is less bureaucracy in the form of paper work and credit checks that involved in a stokvel compared to the formal financial sector.

		Stokvel members are concerned about the lack of transparency around bank charges.
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