# The linkages between informal savings and credit mechanisms (stokvels) and commercial banks

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**College of Humanities**

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## Abstract

In low-income countries such as those found in Africa the financial sector is often divided into two parts; the formal and informal sector. Previously the latter was believed to cater for that segment of the population whose financial status did not allow them to participate in the formal financial sector. However as this study and other studies indicate, this is not entirely true. In South Africa particularly, informal financial mechanisms such as stokvels prevail alongside more formal financial institutions. This study's aims were to investigate the reasons why stokvels prevail as a credit and savings mechanism despite access to commercial financial services. In addition, to trying to understand the benefits derived from stokvel participation, this study aimed to uncover the inter-linkages between the commercial banking sector and informal savings schemes, and the constraints that limit greater participation in formal savings schemes.

Open-ended in-depth interviews were used to gather data from 15 participants, both females and males in stokvel groups. The interviews were transcribed and the study objectives were taken as guiding themes. The study was conducted in KwaXimba, a rural village in the Valley of Thousand hills, Cato Ridge, Durban.

The study found that there are interactions between stokvel groups and commercial banks in the form of monetary flow. According to these findings, the dominant inter-linkages between stokvels and commercial banks occur in the form of savings mobilization, in which stokvel groups save their funds with commercial banks for a period of time (usually a year). In addition, this study reveals that linkages in the form of credit flow are non-existent; as none of the participants reported having received a loan from a bank or seeking a bank loan. Therefore, the direction of linkages is one-sided from a less formal to a more formal financial institution.

With regard to the benefits of belonging to a stokvel group, participants cited various benefits some of which confirmed what is already known. The two most cited benefits were forced/collective saving and socializing/companionship. The less prominent benefits of stokvels included high returns on loans and the absence of bank charges.

The study found that one of the two most cited constraints to adopting formal financial mechanisms was unemployment. The second most cited constraint was participants themselves, five participants in this sample argued they did not see the need for a bank account because they were either unemployed or preferred stokvels.

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## Acronyms and Abbreviations

ROSCAs- Rotating Savings and Credit Associations

SAPA- South African Press Association

MFRC- Micro Finance Regulatory Council

BASA- Banking Association of South Africa

ATM- Automated Teller Machine

SASSA- South Africa Social Security Agency

ASCAs- Accumulated Savings and Credit Associations

ILO- International Labour Office

FNB- First National Bank

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# Chapter one: Introduction

South Africa has changed significantly since the end of institutionalized racism more than two decades ago (Philip, Tsedu and Zwane, 2014). Since then, the country has made some noteworthy strides in terms of human rights; however poverty continues to be a problem (World Bank Group, 2015). With a Gini coefficient of 0.69, South Africa is one of the most unequal countries in the world (Philip, et al. 2014). Due to its history with apartheid, inequality in South Africa is often along racial lines (Keeton, 2014). In South Africa the population most affected by poverty and inequality is predominantly African, female and lives in rural areas. Kehler (2001) indicates that the ability to access certain services such as education, employment, resources and wealth is still dependent on race, gender and class. Moreover, poverty and inequality are significant obstacles when it comes to attaining financial services making it harder to leave the cycle of poverty (Honohan, 2008).

According to Carpenter and Jensen (2002:2) "households in low-income countries have a variety of mechanisms available for saving. These mechanisms range from formal institutions such as banks and credit unions to less formal mechanisms such as holding cash, asset accumulation, and participation in rotating-savings-and-credit-associations (ROSCAs)". Porteous (2003) contends that when people have greater access to savings and credit their lives are improved. Access to savings and credit allows households to escape poverty, provides them with capital to pursue business ventures and this, ultimately stimulates the economy of the country (Porteous, 2003).

Honohan (2008) contends that poverty and the inequalities experienced by poor households could be due to the fact that such households do not easily attain financial services offered by the recognized financial sector. He asserts that the extent to which low income households are able to access financial services has an influence on the poverty and the inequality experienced by these households (Honohan, 2008). This suggests that when these households gain access to financial services, be it formal or informal, their lives are improved. The poor are often excluded from formal financial services and may opt to utilize less formal services such as, group lending, rotating savings and credit associations, known as stokvels in South Africa.

Stokvels in their basic form enable members to benefit from joint savings through the rotational mechanism of saving in which at every meeting the sum of money collected goes to each member in turn (Coetzee and Cross, 2003). A stokvel is a generic umbrella term that covers all the voluntary groups whose fundamental goal is to save money and/or offer credit to members (or non-members) for profits (Verhoef, 2001). Traditionally stokvels were construed as a less sophisticated alternative to commercial banks, thus there was a perceived dichotomy between formal and informal financial services. However, recent South Africa-based research indicates that this perception no longer holds true (Floro and Ray, 1997, Hull and James, 2012). Literature indicates that many people use stokvels even though there is a well-established financial sector in South Africa (Ardington et al. 2004). Of those people in stokvels, 60 percent also had personal bank accounts (Ardington et al. 2004). Furthermore, both the South African Press Association (22 November 2011) and CNBC Africa (23 Sep 2013) contend that stokvels in South Africa have a collective value of approximately R44 billion (SAPA). This is a clear indication that these informal institutions are a vital aspect of economic life and offer certain benefits to those who participate in them, including those banked with commercial banks.

To combat the problem of financial exclusion of poor people, scholars such as Kirsten (n.d.) have recommended linkages between informal and formal financial institutions. According to Pagura and Kirsten (2006:2) “linkages can have positive outcomes at the level of both financial institutions and rural clients. Through linkages, financial institutions may be able to expand the scale and scope of their rural operations resulting in greater profits and better financial and institutional sustainability for them. New clients may be reached and existing clients may be offered a broader and/ or cheaper range of financial products and services". Since informal-formal financial linkages allow the formal institutions to expand their services while keeping transaction costs low, the poor can benefit from greater access to financial services such as credit access at a low cost (Pagura and Kirsten, 2006).

This is based on the idea that formal institutions have the infrastructure and the capital needed to provide more people with financial services; however the poor are often distrustful of these institutions and thus opt for informal financial mechanisms such as stokvels (Kirsten, 2006). The challenge is that stokvels are often disadvantaged by the lack of infrastructure and capital and they also rely on different enforcement means. However, because stokvels often operate within communities they possess information about their clients that formal institutions do not. In consequence, the linking of these two financial mechanisms would surmount any concerns that come with inadequate client information that formal institutions often experience.

This study aims to investigate the reasons why stokvels prevail as a credit and savings mechanism among black rural stokvel participants even when some participants have access to and make use of commercial financial services. In addition to trying to understand the benefits derived from stokvel participation, this study aims to uncover the inter-linkages between the commercial banking sector and informal savings schemes, and the constraints that limit greater participation in formal savings schemes.

In order to achieve the above mentioned aims, this study adopts the following objectives:

1. To investigate the linkages between stokvels and commercial banks.

2. To investigate the benefits derived from stokvel participation (social capital, cultural and economic benefits in particular).
3. To investigate if there are constraints that limit stokvel participants from using commercial banking services.

The study seeks to answer the following questions:

1. What are the linkages, if any, between stokvel participation and formal banking? Do these two institutions operate separately from each other, or do people make use of both?

2. Why do people make continued use of stokvels, and particularly those banked by commercial banks? What are the benefits of belonging to stokvels, given the commercial banking options available? Are there additional economic, social and cultural benefits from stokvel use? For example, do stokvels provide social capital benefits that participants value? Or do participants prefer stokvels because they are able to access their money more easily?

3. Are there any constraints that limit the ability of stokvel participants to take up formal mechanisms? For example, do issues around financial literacy, lack of employment, and proximity to banking services, exclude people from making use of commercial banking savings options?

The rest of this dissertation is organized as follows:

Chapter Two reviews the literature on stokvels. This chapter firstly outlines the history of stokvels in South Africa, secondly it discusses the benefits of stokvel groups and lastly it looks at constraints to adopting formal financial services.

Chapter Three outlines the research methodology that was used in this study. This chapter describes and defends the research methodology and sampling techniques.

Chapter Four presents the research findings. This chapter is divided into three parts; the introduction, sample description and results arranged under three themes.

Chapter Five discusses the findings and relates them to the literature and theoretical framework outlined in Chapter Two.

Chapter Six concludes.

# Chapter two: Literature review and theoretical framework

## 2.1 Introduction

The chief concern of this dissertation is the interaction between formal and informal financial services, it seeks to uncover and subsequently understand the inter-linkages between commercial banking services and rotational credits and savings schemes services. According to the literature, one of the benefits of formal-informal financial linkages is that it expands financial services to the poor (Pagura and Kirsten, 2006). This dissertation seeks to understand the benefits and constraints of formal and informal financial institutions as perceived by people who utilise these institutions. Just as formal and informal economies are often studied and perceived in isolation from each other, formal and informal financial systems are likewise perceived to be at odds with each other and this dissertation seeks to understand the inter-linkages between them.

In the next section a brief background of commercial banking services in South Africa will be presented. This discussion is aimed at providing a backdrop against which the formal-informal financial services discourse will be explored thus enabling a better understanding of financial services, both formal and informal. Subsequent to the financial services discussion, the benefits of/and constraints to joining formal financial institutions as well as of taking part in informal financial institutions will be discussed. Finally there will be a discussion on the linkages between formal and informal financial services.

## 2.2 Formal financial services in South Africa

The South African financial system can be understood at three levels; namely the macro-level, meso-level and micro-level. The macro-level contains the laws and policies required to govern the system, thus ensuring that it is both reliable and sustainable, these laws and regulations are specific to the service provided and to the nature of the institution (de Klerk, Fraser and Fullerton, 2013). Moreover, individual sub-sectors have a public body responsible for regulating and imposing legislation, these bodies include: the South African Reserve Bank, the National Credit Regulator, the Financial Services Board, the Cooperative Banks Development Agency and the Financial Intelligence Centre (de Klerk,et al. 2013:8).

The meso-level is made up of the extensive sectorial support structures and services ranging from the National Loans Register to small and medium enterprise programmes (de Klerk et al. 2013). The micro-level consists of financial service providers such as banks, microfinance institutions, insurers, stokvels and retailers (de Klerk et al. 2013).

In South Africa there are four commercial banks that dominate the financial sector; namely First National Bank (FNB), Nedbank, Absa and Standard Bank. Recently, these four giants have extended their reach by adopting branchless banking and micro-enterprise finance (de Klerk et al. 2013).

### 2.3 Microfinance in South Africa

During apartheid many South Africans were excluded from certain financial services such as formal credit, their accounts, for example, were primarily used for salary payments. In instances where large sums of money were needed, people often consulted informal credit providers who usually had high interest rates. This prompted the government to encourage an expansion of financial institutions so as to cater to people who were not particularly the focus market for formal credit products (Kirsten, 2006). However, to do this the government needed to alter the Usury Act and make it less restrictive. Consequently, in 1992 the first exemption on the Usury Act was issued and this allowed credit providers to scale up their loans and timeframes of repayments (Kirsten, 2006).

In 1993 there was an increase in micro-lending due to surplus demand in the market. From 1994 to 1999 a seventeen percent increase in domestic banks was witnessed and a fifty percent expansion was also witnessed in foreign banks (Kirsten, 2006). The new legislation permitted micro-credit providers to provide credit to people who had previously been excluded from commercial banks (Kirsten, 2006).

The exemption led to soaring interest rates and unlawful practices, which consequently led to the revision of the legislation and subsequent establishment of the Micro Finance Regulatory Council (MFRC) exempted under the 1999 Usury Act Exemption Notice (Kirsten, 2006). After this new legislation all micro-credit providers were required to register with the MFRC (Kirsten, 2006).

Even with such a legislative framework established to make financial services available to consumers and to protect them from providers of these services, many South Africans still encounter financial exclusion. According to the Banking Association of South Africa (BASA, n.d:3) financial inclusion means having "access and usage of a broad range of affordable, quality financial services and products, in a manner convenient to the financially excluded, unbanked and "under- banked", in an appropriate but simple and dignified manner with the relevant client protection and financial education". Using this definition of financial inclusion there is still a substantial number of South Africans who are financially excluded. According to the 2012 Action Learning Project report nearly 13 million South Africans are excluded from making use of various financial services (BANKSETA IEDP, 2012).

As a means to amend this problem, the Financial Sector Charter established an initiative called the Mzansi. This initiative sought to expand access to financial services to a population group that was previously excluded (BANKSETA IEDP, 2012). While this initiative had some success in that the uptake of financial services among the adult population increased, there were some problems with regard to continued used of bank accounts; people did not use these services continuously (BANKSETA IEDP, 2012). According to the Action Learning Project report the "usage levels are only at around 58 percent and diminishing at an alarming rate. Many customers never activated their accounts and many converted back to utilising cash subsequent to activating their accounts" (BANKSETA IEDP, 2012:4).

However, this report suggests:

> "that the Mzansi initiative did not adequately balance the focus between increasing the distribution of financial services as well as driving transactional usage by focusing on migrating entrenched financial activity into the formal financial system … great success could have potentially been achieved through the Mzansi initiative had the approach been to focus on identifying activities that low income earners were already engaged in and then convert these entrenched activities into formal banking transactions" (BANKSETA IEDP, 2012:4).

### 2.4 Constraints to joining commercial credit and savings schemes

So what are some of the reasons why South Africans do not join formal credit and savings schemes? The following section outlines constraints that hinder some South Africans from joining formal credit and savings mechanisms such as commercial banks. The constraints range from unemployment which inhibit saving, accessibility to financial illiteracy.

#### 2.4.1 Unemployment

Commercial banks generally service clients who have salary-paying jobs and marginalize the poor and those whose jobs do not offer salaries, and lack documentation such as pay-slips which are required for most services offered by commercial banks (Ardington, Lam, Leibbrandt and Levinsohn, 2004). This is consistent with the findings obtained by Dallimore and Mgimeti (2003) who found that the unemployed, self-employed and those who were not employed formally could not access financial services because they could not produce a pay-slip required by commercial banks.

Dallimore and Mgimeti (2003) also found that households without bank accounts often had low income in a year and the households' assets were low in value. These households were often headed by women and had children of school-going age but who were not in school (Dallimore and Mgimeti, 2003). Also, in a study conducted in a low-income residential area, in Kenya, Anderson and Baland (2002 in Gugerty, 2005) posit that married women joined rosca (stokvels) to keep household savings from their husbands who might want to use the savings for immediate consumption. A study conducted by Rasmussen (2002, cited in Ardington et al. 2004) indicated that women-headed homes were more likely to obtain loans from stokvels compared to their male counterparts. However, rural area homes experienced different constraints to urban financial service seekers (Rasmussen, 2002 cited in Ardington et al. 2004).

### 2.4.2 Savings

The unstable nature of employment in South Africa coupled with relatively low income levels makes saving problematic because people do not earn enough to have left over for saving (BANKSETA IEDP, 2012). In addition, due to high youth unemployment rates in South Africa young people tend to be dependent on middle-age citizens and consequently this segment of the population is less likely to save money (BANKSETA IEDP, 2012). A possible explanation for this could be that this segment of the population does not need bank accounts because they do not have extra money to save. Thus, not only does this limit saving, it also limits the uptake of formal banking services which typically requires one to have regular income.

### 2.4.3 Accessibility

Accessibility can be construed as a product of time travelled across space, it a measure of the amount of time one spends when travelling to obtain something from a particular point. Since 2012 significant strides have been made to reduce the amount of time people have to travel to access financial services. This includes ATMs, banks and Post Offices (FinMark Trust, 2013). Nonetheless, people residing in rural areas still have to travel for an additional amount of time to the closest ATM compared to their urban counterparts (FinMark Trust, 2013).

Due to the apartheid government, South African townships and rural areas lack adequate infrastructure, consequently the new government has been expanding infrastructure to make financial services more accessible to people living in these areas. However, since these areas are at the periphery of major economic activities this makes providing the necessary infrastructure for financial services less commercially feasible than if the same services were to be provided in cities or suburbs (BANKSETA IEDP, 2012).

Moreover, access to commercial banks is determined by geographical location or proximity to these banks. In South Africa, the poor residing in rural areas often do not have physical access to proper financial services (Dallimore and Mgimeti 2003; BANKSETA IEDP, 2012). A survey on financial amenities in KwaZulu-Natal piloted by Ardington (1999 cited in Ardington et. al.2004) revealed that some magisterial regions did not have any banking amenities and wards under traditional tribal authorities did not even have post offices.Furthermore, case studies conducted by Dallimore and Mgimeti (2003) on village banks in Bhambanana in northern KwaZulu-Natal, Mathabatha in Limpopo, Motswedi in the North-West Province, and Sakaletfu in Mpumalunga in 2002 revealed that the poor were completely excluded from financial services. These services were often far away and required transport which they did not have access to. A more recent report by BANKSETA IEDP (2012) concurs with Dallimore and Mgimeti (2003) in that it states that limited investment on infrastructure in places outside urban zones has made formal financial institutions inaccessible for many South Africans.

People living in townships and rural areas away from financial services, incur additional costs when accessing these financial services. Because financial services are often found in towns, people need to travel to town to make use of these services and that requires money for a taxi or bus. For instance in the BANKSETA IEDP project of 2012 one of the participants revealed that transport fare to the nearest ATM costs R25. This is consistent with the Gaefis Foundation (2011 cited in BANKSETA IEDP, 2012) findings which suggest that South Africans who earn less than R10 000 a month, incur approximately R30.50 in excess costs each time they withdraw money from an ATM which includes an estimate of R25 transport fare and R5.50 in cash withdrawal fees. Most South Africans do not earn R10 000 a month, in fact they earn far less and for them, these excess costs are too high.

### 2.4.4 Gender equality and financial services

There are a number of constraints to participating within the commercial banking system, but women may be more constrained than men because of their disadvantaged position in the labor market and the household. Furthermore, access to certain resources determines one's agency in a particular space. Research indicates that women who live in regions where they are unable to access financial services tend to be disempowered; conversely women who have access to microcredit have decision-making power in their households (Kabeer, 2005). Research further indicates that when women have access to finance and thus an accumulation of assets, domestic violence decreases (Kabeer, 2005). Moreover, in cases where the loan was transferred into a woman's personal income or was used to start a business the positive outcomes of having access to finance were enhanced.

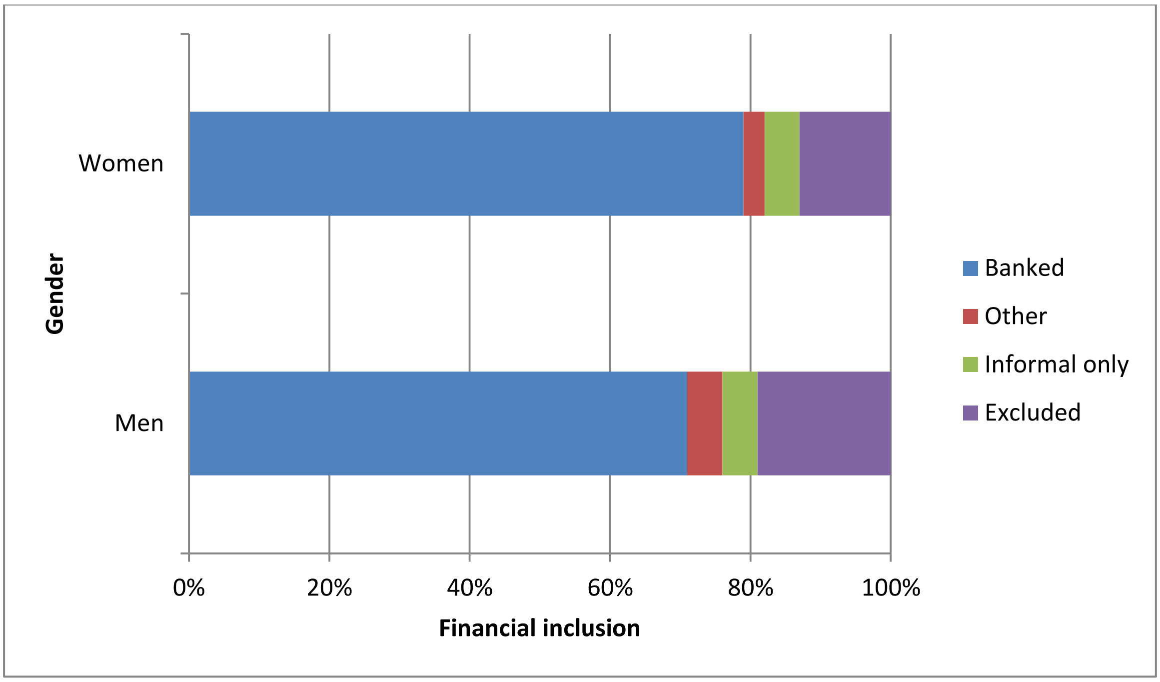


**Figure 1: Financial Inclusion**

Source: FinMark Trust, 2013

However, there appears to be a contradiction in research findings pertaining to women and financial services access. Contrary to the above literature which suggests that women have less access to banking services compared to their male counterparts, recent studies indicate that women have more access to formal financial services than men. As indicated in the table above when comparing access strands between women and men, the financial inclusion was found to be 87 percent for women and 81 percent for men (FinMark Trust, 2013). A possible explanation for this is the recent expansion of the South Africa Social Security Agency (SASSA) system resulting in increased bank use among recipients of the social grants. According to the FinScope survey produced by FinMark Trust (2013), 56 percent of the increase in the bank population can be attributed to the expansion of the SASSA system.

### 2.4.5 Financial literacy

Financial literacy is another factor that may affect uptake of formal financial services. Not many studies on financial literacy have been conducted in South Africa. In fact the 2013 report on financial literacy is only the second study to have been conducted and it is based on the findings of the 2010 pilot research (Struwig, Roberts and Gordon, 2013). The first report revealed that South Africans scored 54 percent in financial literacy; however this score does little to communicate the disparities that exist in financial knowledge among South Africans (Struwig et al. 2013).

With regard to financial knowledge the research indicated that there is a positive correlation between employment status and financial literacy in South Africa (Struwig et al. 2013). People who are in possession of a tertiary qualification, fully employed, financially secure and who reside in cities and suburbs generally have more financial knowledge (Struwig et al. 2013). Essentially what this research showed was that South Africans who live under conditions of poverty have a significantly lower levels of financial knowledge compared to their more well-off counterparts. Moreover, the study showed that less educated South Africans were more likely to have low financial knowledge compared to their tertiary educated counterparts. This is consistent with the fact that people who patronize informal financial mechanisms are often poor, unemployed, without a tertiary qualification and reside in rural areas.

Another study by BANKSETA IEDP (2012) further accentuates the issue of financial literacy by looking at language use and comprehension. This study points out that the language used by banks makes it difficult for lay people to understand, rendering the information inaccessible. Furthermore, unbanked people tend to be mistrustful of banks because there are myths around bank charges interpreted as banks 'stealing' people's money. This is an indication of the need to educate people.

An Indonesian study by Cole, Sampson and Zia (2010) on financial literacy and financial services uptake revealed different results. In this study, unbanked households were divided and one half was assigned to a financial education program and then given a subsidy between three to fourteen dollars for every bank account opened. This enabled the researchers to make direct comparisons between financial literacy and the price of subsidies. Findings revealed that for the entire population financial literacy did not lead to opening of bank accounts, however significant impact, i.e. the probability of a household opening a bank account**,** was observed on the sample segment whose initial educational and financial literacy levels were low. Furthermore, an increase in financial subsidies increases the probability of households opening a bank account, "an increase in subsidy from \$3 to \$14 increases the share of households that open a bank savings account from 3.5 percent to 12.7 percent, an almost three-fold increase" (Cole et al. 2010:3). This is expected because research shows that households with more disposal income tend to patronize formal financial services particularly for savings and investments.

### 2.4.6 Reluctance to try new channels

Over the years there have been enormous strides in technological advancements, particularly in the mobile industry, for instance one can now access banking services on mobile phones. In the past decade many channels have emerged which even the less financially secure can access. However, based on BANKSETA IEDP (2012) and the research conducted by Standard Bank, many under-banked South Africans are not as eager to venture into unfamiliar banking channels. Thus, owning a phone does not mean that phone banking levels increase.

## 2.5 Informal finance

The majority of South Africans who are not part of the formal banking sector often then partake in informal mechanisms. Informal financial mechanisms are those financial dealings that take place outside the commercial arena; this could be financial transactions between friends, relatives, neighbours, members of a rotational savings and credit associations, mashonisa (loansharks) or landlords (the owner of a building or piece of land) (Nissanke and Aryeetey, 2006). These institutions function differently to formal financial institutions, they are believed to cater to a different segment of the population and serve different niches in the financial market. However, informal financial institutions remain stagnant and confined within the same area of specialization (Nissanke and Aryeetey, 2006). In addition, the focus of informal financial institutions is often minor such as short-term loans; also their saving pattern is normally fragmented into small annual cycles.

Unlike formal financial institutions informal financial mechanisms do not rely on documented credit histories to determine the risks involved in lending. Informal institutions often rely on relationships or knowledge of the clientele to base their decisions to grant loans, for group-based institutions such as stokvels, for example, membership or kinship is the key to obtaining a loan sometimes without proof of collateral (Nissanke and Aryeetey, 2006; Mashigo and Schoeman, 2010). Furthermore, these credit mechanisms often do not require collateral to minimise the risks associated with defaulting on loans, thus they are able to cater to the segment of the population whose lack of collateral or documented credit history impedes them from patronizing formal credit mechanisms.

However, due to the unregulated nature of informal credit mechanisms coupled with the fact that a majority of the clientele is often not well-educated, illegal activities and exploitation sometimes occur. Some credit providers retain their clientele's bank cards and identity documents which is an illegal act in South Africa; this is done to ensure that people do not default on loans. In addition, depending on the regional competition among informal credit mechanisms, these mechanisms sometimes charge extremely high interest rates (Nissanke and Aryeetey, 2006).

### 2.5.1 Stokvels

One of the main and arguably oldest informal savings and credit mechanisms in South Africa is the stokvel. Calvin and Coetzee (2010:1) define stokvels as "informal savings groups which operate under an exemption to the Banks Act". The word stokvel is said to have been derived from the term stock fair which was used by English settlers in the Eastern Cape (Verhoef, 2001). During the 19th century African farmers and workers would assemble in stock fairs where cows were auctioned (Verhoef, 2001). In these stock fairs people would converse, gamble and from time to time they would also put their money together to buy cattle. As time went by these evolved into rotational saving associations in which members of the association would visit the homestead of one member and leave the host with the group's collective contributions (Verhoef, 2001). Furthermore, because during the 19th century African people's access to finance was constrained by the oppressive laws put in place by the colonial government; they could not get credit from banks. Consequently, this rotational savings mechanism offered much needed funds for them to buy cattle. As people migrated to the urban areas to work in the mines and industries, they took stokvels with them (Verhoef, 2001). For women in urban areas, stokvels did not start in stock fairs but in tea cliques (Verhoef, 2001). Women would gather to drink tea together and as time went by these meetings evolved into savings groups (Verhoef, 2001). Essentially the purpose of stokvels was "for the poor to mobilise financial resources in the absence of developed financial markets" (Irving, 2005:1).

### 2.5.2 How stokvels work

Stokvels in their basic form enable members to benefit from joint savings through the rotational mechanism of saving in which at regular meetings the sum of money collected from all members is allocated to one member on a rotational basis (Coetzee and Cross, 2003). Each stokvel can have members ranging from 12 to 150 and all decisions regarding the stokvel are made collectively (BANKSETA IEDP, 2012). Commonly stokvel members choose a chairperson and a treasurer to take on appropriate roles within the stokvel. Conventionally members make their contributions in cash at regular meetings; however in recent years some stokvels have started using group bank accounts in which members can deposit their contributions without having to meet (BANKSETA IEDP, 2012). Like any other association, stokvels are governed by rules and regulations that have been agreed upon by members.

According to the BANKSETA IEDP (2012) stokvels can deposit between R 2000 and R 4, 579 per month into a commercial bank and most stokvels only draw their savings at the end of the year. Approximately 52 percent of stokvels use commercial banks to save their funds and the rest utilize informal mechanisms (BANKSETA IEDP, 2012). In light of this, some people in stokvels do not have bank accounts with commercial banks, and among those who are banked, their usage is very small (BANKSETA IEDP, 2012).

### 2.5.3 Typology of stokvels

Over the years different types of stokvels have emerged in response to different needs. Mathebula (2014) identified four types of stokvels namely; Rotating Savings and Credit Associations (ROSCAs), Accumulated Savings and Credit Associations (ASCAs), Burial Societies and Purchasing Power groups/cooperative buying societies. ROSCAs are the most basic type of stokvel which involve members making contributions at regular intervals (usually every month) and giving the sum of all contributions to an allocated member in a rotational fashion until all members have had their turn. ASCAs are a more sophisticated type of stokvel in that they go beyond mere saving They offer credit to members and non-members on behalf of members at an interest rate agreed on by all members (Calvin and Coetzee, 2010; Mathebula, 2014). In addition, this type of stokvel can entail investments of funds in a commercial bank which would attract interest (Mathebula, 2014). In some cases ASCAs are centred on a particular goal such as buying an asset to generate more income

(Calvin and Coetzee, 2010). Burial societies are the type of stokvel that is still dominant in rural parts of South Africa, this type of stokvel entails a collective mobilization of funds for funerals of the group members and their families (Calvin and Coetzee, 2010). The last type of stokvel identified by Mathebula (2014) are the purchasing power groups or cooperative buying societies, which involve pooling funds together for a certain amount of time (normally a year) and then using it to buy groceries.

### 2.5.4 Benefits of joining stokvels

There are a number of benefits to being a participant in a stokvel. Among these is the obvious immediate access to cash but also the entrenching of social networks which are so vital to poorer communities in terms of their everyday survival (Mashigo and Schoeman, 2010). Wilkinson-Maposa, Fowler, Oliver-Evans and Mulenga (2005:x) complement Mashigo and Schoeman's argument by asserting that "help between poor people is widespread, deeply embedded, morally grounded and operates as a vital element for both survival and progress."

#### 2.5.4.1 Access to immediate cash

Since informal mechanisms are not as strict as commercial banks, a member could more easily have access to their savings should there be an emergency that requires money. For instance, Kabuya (2015) argues that in Nigeria ROSCAs have been particularly helpful to low-income households because they are more convenient and provide easy access to funds. Unlike countries such as Nigeria, in Ethiopia ROSCAs (referred to as equbs in Ethiopia) are not confined to rural areas or low-income households only, but these associations are spread across rural and urban areas as well as across economic classes. According to Kedir (2005:4), "households participate in equbs regardless of their race, religion and their socioeconomic status". This is because equbs provide access to finance even to those households whose likelihood of acquiring credit (from formal institutions) has, for whatever reason been constrained (Kedir, 2005). Furthermore, unlike banks stokvels typically do not have paperwork contingent to one accessing their savings or credit, this makes accessing funds easier and quicker. In addition, since stokvels are often formed around kinship members and in some cases, non-members can easily access credit without producing proof of collateral (Mashigo and Schoeman, 2010).

#### 2.5.4.2 Social networks

According to van der Gaag and Snijders (2004:2), "social capital has aspects on both the individual (micro) and collective (macro) level, and its quantification therefore involves phenomena on both levels of analysis." With regard to the former, social capital is perceived to be a source of resources that a person may draw from to achieve their individual goals (van der Gaag and Snijders, 2004). Coleman (1988) adheres to a similar premise as he perceives social capital as a source of financial capital to which a person taking part in an economic action has access by virtue of his/her interaction with other people. Social interactions provide people with a platform to share information; for instance in saving groups members may share information about grocery stores which sell affordable groceries.

With regard to the latter, the collective or macro level, van der Gaag and Snijders (2004) suggest that social capital goes beyond just providing a safety net for the individual; it entails norms, a sense of trust and social reciprocity. This parallels Irvin's (2005) assertion that for any social group to survive there ought to be some level of trust among its members. Stokvels are believed to be a vital source of social support for its members (Irving, 2005). For instance, stokvel members who do not own assets that could be used as collateral have access to loans as members of the stokvel group can access loans by virtue of their membership (Woolcock and Narayan, 2000).

Moreover, literature on social linkages and social interactions proposes that social capital is vital for the survival of these interactions; social capital aids in maintaining social interactions. This notion of social capital may explain why stokvels continue to prevail even though there is a well-established financial system and all oppressive laws prohibiting African people from utilizing formal monetary services no longer exist (Irving, 2005).

Another aspect of social capital is that, a person may engage in a certain activity in order to identify with a particular group. According to Eckert and McConnell-Ginet (1992), various community practices are linked to different categories in society such as class, age, ethnicity and sex. Memberships with different groups in a community also work to reproduce meaning about different categories in a community. As per this logic, stokvels may be more than just savings and credit groups; they could be one of the activities that contribute to constructing the identity of a "responsible woman" or a "good mother" for example. Cohen and Garcia's (2008) article on identifying, belonging and achievement further stresses the benefits that could be derived from belonging to a group. According to this article, belonging to a group can provide a vital basis of social identity and a sense of belonging which in turn can be a source of motivation towards achieving a particular goal (Cohen and Garcia, 2008). This basis of social identity and construction or even the maintenance thereof speaks to the collective or macro level of social capital discussed earlier. Both the micro and macro levels form a useful theoretical lens through which to look at stokvels, particularly the benefits of belonging to savings and credit groups.

**2.6 Formal/informal financial services inter-linkages**

Until recently the prevailing view has been that informal financial institutions play a complementary role alongside formal financial institutions by providing financial services to lower-end clients who have been excluded by the formal sector (Ayyagari, Demirguc-Kunt and Maksimovic, 2010). As per this view, informal and formal institutions function in separate spheres of the financial market. Furthermore, unlike formal institutions informal financial institutions depend on relationships and reputation, and this ensures a greater chance of loan repayments. Based on this view informal financial mechanisms do not replace formal financial institutions because their operational mechanisms are not as sophisticated, therefore cannot expand their reach through the provision of more sophisticated services (Ayyagariet al. 2010).

Another critique of the informal-formal dichotomy perspective comes from Hull and James (2012) who challenge the dual economy notion which posits that there are two separate economies, formal and informal. Over the years three different schools have developed from the study of the relationship between formal and informal economies. The first school perceives the two economies as separate entities with the informal economy autonomous from the influence of the formal economy (ILO, 1991 in Bairagya, 2010). The second school sees the informal economy as dependent on the formal economy (ILO, 1991 in Bairagya, 2010). The third school perceives the two economies as intertwined and inter-dependent; it posits that there are linkages between the informal and formal economies (ILO, 1991 in Bairagya, 2010).

It is the third school to which Hull and James subscribe. They argue that these two economies are interlinked, thus they cannot be studied separately. In an attempt to avoid perpetuating the dual economy notion, Hull and James (2012:8) opted to use the phrase 'popular economies' to denote "areas that are often below the radar of the state and of capitalist enterprise". The term popular economies serves to signify the cultural setting from which economic activities and systems emerge (Hull and James, 2012). One particular strength of the popular economies concept is that it demonstrates the inter-linkages between the so-called formal economy (in this case it would be banking) and the informal economy (stokvels). According to evidence, interactions between the formal and informal financial systems occur without any intervention from the state. The linkages between the two financial systems usually occur in a form of monetary flow (Floro and Ray, 1997).

Previously stokvels were seen as an alternative to commercial banks, thus there was a perceived dichotomy between formal and informal financial services. However, literature has indicated that the two financial systems are not at odds with each other but play complementary roles (Floro and Ray, 1997). For example, Hull and James (2012:5) suggest that “there has been a proliferation of financial products created in South Africa’s townships themselves, through local initiatives and schemes which supplement or run parallel to the credit and financial services offered through the formal banks.”

Hull and James’ (2012) concept of popular economies, discussed above, will be useful in this study particularly in studying the inter-linkages between stokvels and commercial banks, as it demonstrates the inter-linkages between the formal and informal economy.

Literature on formal-informal financial linkages recognizes two types of linkages; horizontal linkages and vertical linkages. Horizontal linkages describe a competitive relationship between formal and informal financial institutions in which the former is in direct competition with the latter for clientele (Floro and Ray, 1997). As per this notion, people first go to formal institutions and the surplus demand gets absorbed by informal institutions. On the contrary, vertical linkages describe a mutually beneficial symbiosis between formal and informal institutions. With regard to this notion, informal institutions lend funds acquired from formal institutions to their clientele (Floro and Ray, 1997).

This dissertation adopts Pagura and Kirsten’s (2006:1) definition of financial linkage, which defines it as “any mutually beneficial partnership between a formal and a less formal institution that results in the expansion of rural financial services. This expansion does not just refer to reaching more of the same clients; but strives to provide access to previously unserved segments of the rural population or to broaden the variety or improve the quality of financial products and services”. Financial linkages can take any form, they could be motivated by the market and unprompted, and they could also arise from sponsorship of informal financial institutions by donors. In other cases linkages may form when small institutions intentionally collaborate with larger ones in order to gain more resources and knowledge, or they may form when larger ones collaborate with small institutions whose knowledge of and proximity to the a particular group of clients is an advantage larger institutions do not have (Pagura and Kirsten, 2006).

### 2.6.1 Importance of inter-linkages

The way formal credit mechanisms are structured hinders effective expansion to rural clientele, which is the geographic focus area of this study (Floro and Ray, 1997). The major hindrance that formal financial institutions encounter is the lack of knowledge about what appeals to potential rural clientele (Floro and Ray, 1997). Thus, one of the positive aspects of formal-informal financial linkages is that they allow an expansion of financial services to spheres that the two financial institutions would not have reached working separately (Pagura and Kirsten, 2006). Linkages allow for the acquisition of new clientele and the expansion of more financial products to existing clientele.

Pagura and Kirsten (2006) identified two groups of linkages in their research; direct financial linkages and facilitating linkages. Direct financial linkages “refers to linkages between financial institutions in which the main purpose of the linkage is to help less formal institutions diversify their sources of funding, expand their loan able funds and/or balance liquidity shortages and excesses” (Pagura and Kirsten, 2006:5). For instance, a bank may lend funds to a micro-finance organization for relending. Facilitating linkages refers to linkages in which a formal institution appoints an informal institution to perform certain tasks on its behalf (Pagura and Kirsten, 2005). In such linkages less formal institutions act as intermediaries between rural clientele and formal institutions. Additionally, in these linkages a party pays fees to another party for provided services (Pagura and Kirsten, 2006). Pagura and Kirsten (2006:5), suggest that “facilitating linkages are more recent and innovative ways of extending services beyond traditional micro and rural finance savings and loan products”.

Another positive result that emerges when formal institutions link up with informal institutions according to Floro and Ray (1997) is the reduction in interest rates and expansion in credit access. Floro and Ray (1997) suggest that when informal credit institutions’ credit pool increases as a result of interactions with formal institutions, the interest rates at which these funds are lent on decrease. However, this becomes undermined if informal institutions collude with one another.

Apart from expanding the informal institutions’ access to funds, linkages with formal institutions have been shown to manage operational costs, gain practical and management skills, gain access to banking equipment and infrastructure, and extending the products and services offered by the institution (Gallardo, Goldberg, and Randhawa, 2006).

However, there are adverse consequences to formal-informal linkages, particularly vertical linkages. Hoff and Stiglitz (1997) showed that if informal institutions receive funds from formal institutions this might lead to a crowding in of money lenders. With the increase of money lenders, borrowers have an increased number of money lenders to borrow from and they are less likely to pay back the loan, this means that moneylenders need to work harder to ensure loan repayments.

The literature that has been discussed above indicates that informal and formal financial institutions do not work separately or in isolation to one other. The literature reveals that the previously prevailing dichotomous view of informal and formal financial institutions is flawed. This view holds that informal and formal financial institutions occupy two distinct spheres of the market; the former caters for the poor and the latter for the well-off. Literature reveals that this view does not hold true as these two financial institutions form links with each other. Following this the literature review discussed the different benefits to joining stokvels and the constraints that may hinder stokvel members from adopting formal banking services.

# Chapter three: Methodology

## 3.1 Introduction

The first chapter discussed the objectives of this study as well as the guiding questions that this dissertation seeks to answer. The objectives of the dissertation are to: (i) investigate the linkages between stokvels and commercial banks, (ii) investigate the benefits derived from stokvel participation (social capital, cultural and economic benefits in particular), and (iii) investigate if there are constraints that limit stokvel participants from using commercial banking services. Chapter Two discussed some of the relevant literature pertaining to this research. This chapter outlines the research methods that were used to select participants, and to collect and analyze data for this dissertation. In addition, justifications for all the choices made in terms of tools that were used are provided below. For this dissertation data was collected through semi-structured interviews conducted with men and women belonging to stokvels.

## 3.2 Study design

As this research relies on the personal experiences of people in stokvels, a qualitative research methodology was used in order to provide in-depth and rich detail. According to Hancock (1998: 2), "qualitative research is concerned with developing explanations of social phenomena". She makes the assertion that qualitative research does not attempt to alter any variables of the phenomenon being studied, but instead describes social experiences or perspectives as they take place in their natural setting. Qualitative research enables one to study people's experiences and with regard to this particular study such a description of experiences and perceptions is important.

In addition, qualitative research enables the researcher to understand the research topic from the perspective of people under study. This research method acknowledges the importance of cultural influences on people's values, views, behaviours and social surrounding (Mack, Woodsong, MacQueen, Guest and Namey, 2005). Denzin and Lincoln (2000:4) further accentuate this point by asserting that "qualitative researchers study things in their natural settings, attempting to make sense of, or to interpret, phenomena in terms of the meanings people bring to them".

### 3.2.1 Advantages of qualitative research

According to Mack, et al. (2005:1) "the strength of qualitative research is its ability to provide complex textual descriptions of how people experience a given research issue. It provides information about the "human" side of an issue that is, the often contradictory behaviours, beliefs, opinions, emotions, and relationships of individuals". Additionally qualitative research enables the researcher to capture elusive dynamics that are often not so apparent, for instance social norms, socio-economic status and mores (Mack et al.2005). Furthermore, due to the flexibility that this research method allows the researcher is able to dig deep and further investigate what participants say.

### 3.3 Study population

The study population is a group of people or objects with shared characteristics from which the sample is drawn (Ruane, 2005). In this research the study population comprises of men and women who are members of stokvels in a rural village called KwaXimba in the Valley of a Thousand Hills in the province of KwaZulu-Natal.

### 3.3.1 Sample size

15 participants were selected from the study population as illustrated in the table below. Only participants who fulfilled the inclusion criteria were selected to take part in the research.

**Table 1: Sample Characteristics of Participants**

| Participant | Age | Gender | Race |
|---|---|---|---|
| 1 | 25 | Female | Black |
| 2 | 25 | Male | Black |

| | | | |
|---|---|---|---|
| 3 | 36 | Female | Black |
| 4 | 40 | Female | Black |
| 5 | 30 | Female | Black |
| 6 | 50 | Female | Black |
| 7 | undisclosed | Male | Black |
| 8 | 27 | Male | Black |
| 9 | 33 | Male | Black |
| 10 | 36 | Male | Black |
| 11 | 44 | Female | Black |
| 12 | 40 | Female | Black |
| 13 | 32 | Male | Black |
| 14 | 35 | Male | Black |
| 15 | 23 | Male | Black |

### 3.4 Inclusion criteria

In order for respondents to be selected to be part of the research they needed to be a member of a stokvel group and to have signed the informed consent form to be interviewed and to have the interview recorded. Stokvels that saved funds with banks were interviewed as were those who did not. Certain types of stokvels were excluded from the research, such as those that are centred on reciprocal exchanges of goods between members such as cold drinks and alcoholic beverages instead of saving money.

### 3.5 Sampling

It is impossible to collect data from everyone who belongs to a stokvel therefore for this study only a sample of the overall population was used to collect data. Sampling entails the selection of a subset of a population for research based on certain criteria or a quality which the researcher deems as important. For this study a snowballing sampling method was used to select participants. Snowballing is a type of purposive sampling method which entails using existing participants to recruit more participants with shared criteria (Mack et al. 2005). In snowballing the researcher uses participants already identified to be referred to potential participants who possess similar criteria useful to the study. Since in this type of sampling participants are not necessarily selected at random, the researcher cannot generalize the results obtained to the overall population instead they can only be generalized to a subset of the population with the same criteria (Latham, 2007). The researcher used his contacts to identify three people who participated in stokvels and asked them for referrals to other stokvel members.

### 3.5.1 Advantages of snowballing sampling method

The advantage of using a sample in research is that with a representative small number of people a researcher is able to infer the findings to the study population. The primary strength of snowballing is that it enables the researcher to use the few units available to acquire more units from the same population through references from the initial group of units. In addition, Dragan and Isaic-Maniu (2013) assert that snowballing is useful in finding hidden populations which are populations whose sampling frame is nonexistent and populations who may be hidden because of privacy reasons. This is particularly true for this dissertation because the researcher observed that potential participants were more at ease and keen to take part in the study after finding out that the researcher was referred to them by a member of their stokvel group. Furthermore, because snowballing relies on social networks, the researcher is spared from intricate planning of sampling frames (Hancock, Ockleford and Windridge, 2007).

### 3.6 Research instruments

Research instruments are the tools used in research to collect data, for instance questionnaires, interviews or surveys. In this dissertation semi-structured interviews were used as the primary tool of data collection. Mathers, Fox and Hunn (2002:1), define the interview as an "important data gathering technique involving verbal communication between the researcher and the subject".

#### 3.6.1 Semi-structured in-depth interviews

As mentioned above, the research adopted in-depth semi-structured interviews as its data collection method. Semi structured interviews comprise a number of open-ended questions about a phenomenon under study (Hancock, 1998, Mathers, et al. 2002). The flexible nature of the interview questions enables the researcher and the participant to fully engage with the topic under discussion without deviating from the topic (Mathers, et al. 2002). In this study, in-depth semi-structured interviews were chosen because the researcher sought to collect data about the issue at hand in detail. Because the questions are open-ended, participants are able to fully express their views or experiences and also the researcher is able to ask probing questions to further explore the phenomenon under study (Turner, 2010).

For this dissertation in-depth semi-structured interviews with 15 participants were conducted, eight males and seven females. These interviews allowed the researcher to explore the perceived benefits of being part of a stokvel group as well as perceived constraints to adopting formal financial mechanisms. However, before the interview started, participants were required to give their consent by signing a consent form.

The interview had three sections; the demography section to assess the demographic profile of the participant. The second section consisted of questions that were designed to elicit the reasons for stokvel participation and assess the workings of the stokvel group. The last section of the interview sought to assess any linkages the participant might have with commercial banks, and to assess specific services that the participant uses the bank for.

With the exception of one, all interviews were conducted at the participants' homes. The reasons for these are that; firstly the researcher did not have a proper venue to conduct interviews, secondly participants are more at ease and comfortable when they are in a familiar place. The last reason was that some of the participants work and return home late, thus the researcher felt that it was best to go to them.

#### 3.6.1.1 Advantages of using interviews

There are a number of advantages of employing the interview method. Firstly, interviews allow the researcher to collect personalized information about a participant (Kajornboon, 2005). Secondly, interviews enable the researcher to probe for further explanation and clarity (Hancock, et al.2007). Another strength of semi-structured interviews is that they are flexible and allow the researcher to alter the order of questions should the need arise (Hancock, et al.2007).

According to Kajornboon (2005:6), the "strengths of semi-structured interviews are that the researcher can prompt and probe deeper into the given situation". This means that the interview is able to add new questions that the researcher had not thought of before in order to elicit more response and enhance understanding.

## 3.7 Data analysis

The interviews were transcribed and the transcripts were assessed for themes. The three research questions were used as themes by grouping participants' responses under them; these included the inter-linkages between stokvels and banks, the benefits of belonging to a stokvel group and lastly, the constraints to adopting formal banking services.

### 3.8 Ethical considerations

In order to adhere to the ethical codes of conduct the researcher first wrote a research proposal and sent it through for approval to the Higher Degrees Committee, and Ethics Committee at the College of Humanities, Development and Social Sciences at the University of KwaZulu-Natal. The researcher only started collecting data after the ethical clearance had been granted. During all the interviews the purpose of the research was outlined and the consent form was read to the participants before they signed. Participants were informed that everything they said was going to be treated with the utmost confidentiality and that their participation was completely voluntary. Furthermore, participants were informed that interviews were going to be recorded and the reasons for this were explained.

### 3.9 Scope of the study

This study was conducted in Cato Ridge, KwaXimba area. KwaXimba is a rural area in the Valley of Thousand Hills in KwaZulu-Natal. This area is appropriate for this study because there have not been many studies conducted there which eliminates the risk of research fatigue. In addition, this area has a Post Office which provides financial services and the closest bank is approximately a 25 minute taxi ride. This means there is some exposure to formal financial institutions.

### 3.10 Challenges faced and how they were handled

The first challenge was finding enough participants who were willing to be interviewed; the researcher ended up travelling to nearby areas in order to include participants. The second challenge was that some participants were sceptical about the study and worried that it was a scam. The researcher handled this particular challenge by asking a well-known community member to accompany him during recruitments who recommended the researcher to participants. Another challenge was that some participants worked, so they were not available during the day, consequently some interviews were conducted at night.

# Chapter four: Results

## 4.1 Introduction

The study aimed to examine interactions between formal and informal financial services, it sought to uncover and subsequently understand the inter-linkages between commercial banking services and rotational credits and savings schemes services. Furthermore, the study aimed to explore benefits of stokvel participation and constraints to adopting formal financial services.

This chapter presents the research findings. Firstly it will outline the sample characteristics; secondly it will present the findings according to the research questions with the questions acting as guiding themes.

## 4.2 Sample characteristics

Contrary to the common belief about stokvels being dominated by women, in this sample there were more males than females. This sample comprised of seven female participants and eight male participants. The reason for this was not because there were fewer females in stokvels, but it was a factor of accessibility. Females were more distrustful and thus were less keen to participate or to refer the researcher to other potential participants. This could be attributed to the fact that it was towards the end of the year which is when most stokvels divide their pay-outs, so there was a fear of being robbed or conned. Males however, did not display this fear and thus they were keen on participating and referring the researcher to other stokvel participants. A brief description of the gender composition of the sample is provided in Table 2 below.

**Table 2: Gender composition of sample**

| **Gender** | **Number of participants** |
|---|---|
| Female | 7 |

| | |
|---|---|
| Male | 8 |

**4.3 Gender-based membership**

Generally stokvel groups are formed around a number of common traits such gender and workplace or location ties. This was consistent with the stokvel groups in this study, twelve participants reported that their stokvel groups were formed on the basis of gender; five female and seven male participants. The remaining three participants belonged to mixed gender stokvel groups. For the twelve stokvel members gender was a stringent criterion for membership.

Two female participants belonging to single-gender stokvels felt that males were not trustworthy *"...it's only females, males are criminals*" (Participant 3, 15/10/27), "*...men are not trustworthy, if they're asked to keep the money for the entire group they disappear with it*" (Participant 4, 15/10/19). Another female participant belonging to a female stokvel group with one male member felt that the reason stokvels are often single-sexed is that there is still a belief that a real man does not associate himself with women, *"I'm not sure but I think it's because you men still a have thing against being around women"* (Participant 5, 15/10/27). This participant mentioned that her stokvel had one male member; however this member never comes to meetings, instead he sends his wife. Apparently this is a common occurrence in stokvels whose members are female; for male members to send females to stokvel meetings because it is frowned upon for a man to be constantly around women. These are the two reasons cited by women for not having men in their stokvel groups.

On the other hand, the majority of men and one woman who left an all-female stokvel for a mixed stokvel felt that women talked too much and they "gossip" which causes conflicts:

*"I thought it was best to have males because I was the one who saw that in my first stokvel group there were only females. As time went by I saw that women had many problems. Another thing that I can say is that women, as a woman myself, I have noticed that you can't control gossip/talking of women whereas men just focus on doing the task. Women talk a lot, if there's a person you have lent money to and didn't pay back time before stokvel meetings, they want all of you as members to go door to door demanding the money"* (Participant 6, 15/10/15).

This was the most cited reason by male participants and some females alluded to this as a negative experience they have had in their stokvels. Another stokvel group had Christianity as its membership criterion; all members were of the Christian faith because they lived similar lifestyles. One participant expressed anti-alcohol sentiments in relation to religion; *"...our stokvel have one major condition, we do not take people who drink alcohol. We only take believers"* (Participant 15, 15/11/05). A brief description of the reported stokvel group gender composition is provided in Table 3 below.

**Table 3: Gender composition of stokvel groups**

| **Gender composition** | **Number of participants** |
|---|---|
| All Female | 5 |
| All Male | 7 |
| Mixed | 3 |

**4.4 Age**

The age group of participants in this study varied from early 20s to 60s; the youngest participant was a 23 year old male and the oldest participant was an over 50 year old female. The table below indicates that the majority of participants were between their 20s and 30s which suggests that they belong to the economically active segment of the population. The presence of this age group could also be attributed to the responsibilities that this age group has regarding saving money. A brief description of the age group composition of the sample is provided in Table 4 below.

**Table 4: Age groups of participants**

| **Age group** | **Number of participants** |
|---|---|
| 18-25 | 3 |
| 26-33 | 4 |
| 34-41 | 5 |
| 42-49 | 1 |
| 50-57 | 1 |
| Undisclosed | 1 |

### 4.5 Membership longevity

The shortest membership longevity revealed by this research was two years and the longest was twenty years. Table 5 below indicates that three years was the frequently cited membership duration. The second longest membership duration was twelve years; the two longest durations were reported by the two oldest participants and this suggests that there are benefits acquired from being a member of a stokvel group.

**Table 5: Membership longevity**

| Years of membership | Number of participants |
|---|---|
| 0-5 | 13 |
| 11-15 | 1 |
| 20-more | 1 |

The smallest number of members per stokvel group reported in this sample was 10 and the largest was 64. The frequently reported number of members, as indicated by the table below, ranged from 20 and more members. Eight participants were of stokvel group members that had members within the 21-31 range. Table 6 below provides an outline of the reported number of members in the stokvel groups whose members were interviewed.

**Table 6: Members per stokvel**

| Number of members | Number of participants |
|---|---|
| 10-20 | 2 |
| 21-31 | 8 |
| 31-41 | 1 |
| 42-more | 3 |
| Undisclosed | 1 |

### 4.6 Education attainment

The education attainment levels of participants varied from none to very high. Only one participant did not have any formal schooling and only three participants had attended a tertiary institution, with one male participant being a qualified teacher, a female participant currently enrolled for a Bachelor's degree in education and the last being a college drop-out. The remaining eleven participants were high school graduates with the exception of three participants; two female participants who dropped out in Grade 11 and a male participant who dropped out in grade 10. Table 7 below depicts education levels among participants.

**Table 7: Education attainment**

| Level of education | Number of participants |
|---|---|
| None | 1 |
| Secondary | 11 |
| Certificate/College | 1 |
| Degree/University | 2 |

### 4.7 Source of income

As depicted in Table 8 below, the majority of male participants were employed, most of them were involved in trade work and only one participant was a professional. None of the female participants were employed whilst in the male sample only one man was unemployed and had been so only for the last few months: *"If I can speak the truth, I don't sell anything I'm not working, whatever my husband gives me I put it in the stokvel. Every time he gives me pocket money I pass it on to the stokvel"* (Participant 6, 15/10/15).

Interestingly the majority of women cited their spouses and/or child support grants as a main source of income, the majority of female participants admitted to using their child support grants to contribute to stokvels*: "From my husband and I also take a portion off the children's support grant"* (Participant 12, 15/11/20).

**Table 8: Source of income**

| **Source of income** | **Number of reported responses** |
|---|---|
| Employed in professional sector | 1 |
| Employed in semi-skilled/unskilled sector | 7 |
| Spouse | 2 |
| Child support grant | 6 |
| Undisclosed | 1 |

### 4.8 Access to formal financial services

All male participants were in possession of bank accounts and they were active users, whilst the majority of female participants did not have bank accounts. The majority of bank account holders admitted that the reason they had bank accounts was that they were required to by their employers for the purposes of salary payments. Furthermore, bank use within this segment of the sample is often limited to transactional services such as withdrawals. Women appeared less keen on using any formal financial services; they seemed content with stokvel group arrangements. One female participant felt that she did not have enough money to save with a bank; the little that she gets from her husband goes into a stokvel.

One participant reported that his stokvel group has made it compulsory for members to have bank accounts as members would no longer meet to divide the funds, instead the money would be deposited into their respective bank accounts. The reason for this change was primarily to counter crime. Participants relayed how stokvel division meetings (meetings where monies are paid out to members) are often targeted by organised thieves.

### 4.9 Proximity from a bank

None of the participants lived within walking distance of a commercial bank, the shortest time needed to get a bank reported by participants was 10 to 15 minutes and only two participants reported this. Only one participant lived 25 minutes away from a bank. The longest time reported was 40 minutes or more and it was reported by 3 participants. The majority of participants in this sample reported that it took them between 28 and 33 minutes to get to the nearest bank.

### 4.10 Financial literacy

Apart from displaying very little knowledge about the type of bank accounts held, with the exception of one, all participants admitted to not knowing much about the different saving options offered by banks. A similar lack of knowledge was also displayed when participants were asked about various services accessed at the bank. The majority of participants only used their bank accounts to access their salaries, only three participants used their bank accounts for additional services. One utilised stop orders, another used fixed deposits and a third participant said that he placed a portion of his stokvel pay-out into his personal investment account. Only these three participants exhibited an above average financial literacy.

### 4.11 Types of stokvel groups

Women participants were generally involved in grocery stokvels; stokvels that used accumulated funds to buy groceries at the end of the year. This type of stokvel appeared to be centred on Christmas. Participants involved in this type of stokvel spoke much about the festive season and being able to provide food for their families. Women also seemed to focus their attention on the home in that money earned from the stokvel would be used to buy furniture for example. Men on the other hand generally steered towards stokvels that involved saving cash at the end of the year. For the majority of participants involved in this type of stokvel, the stokvel serves as a saving mechanism with kinship ties and a space for interaction. Both stokvel types function in a similar fashion, the only distinguishing factor is what the group decides to do with the accumulated funds, some prefer receiving cash and others prefer to use the advantages of collective buying power by using the stokvel funds to buy groceries to be divided among stokvel members. Within this type, one participant claimed that her group saves money with a grocery wholesaler instead of a bank, the advantages of this are that the group does not incur bank charges and is able to strike discount deals with the wholesaler**.**

The lending element of a stokvel also featured in this research. Although the idea of lending money to people was appealing to the majority of participants, some felt that the risk of people defaulting on their loans outweighed the benefits of acquiring large rates of interest on the loaned amount. Some participants argued that lending out a proportion of stokvel funds to the community was a sure way to make money; stokvels can charge an interest rate of up to 20 percent. One participant stated that her stokvel group charges interest of R30 per R100 loaned, this means if one borrows R300 they pay R90 interest which does not cease to accumulate until the loaned amount has been paid. However, one has the option to pay back the loaned amount first and pay the interest later to avoid further interest accumulation. Another interesting thing was that participants exhibited little knowledge of formal banks interest rates; their interest rates appeared not to be informed by those of formal banks. Unlike formal banks, stokvels' loans rely on amity; a member needs to vouch for a potential client for them to acquire the loan and that member then becomes liable for the loan in cases of default.

### 4.12 Linkages between stokvel participation and formal banking

The study results indicate formal and informal financial institutions do not operate separately from each other. Eleven people in stokvels claimed that their stokvels had group bank accounts which they used to save stokvel funds. One stokvel made it compulsory for its members to have personal bank accounts as it had ceased the conventional annual meeting for dividing stokvel money, instead the money would be transferred into members' personal accounts. Therefore, in this case stokvel participation has fostered links with formal bank participation. Furthermore, two participants revealed that they deposited part of their stokvel pay-outs into their personal account because they wanted to invest it for longer periods.

> *"I do deposit part of my stokvel pay-outs into my personal account because I wanted to invest it for longer periods"* (*Participant 14,* 15/11/11).
>
> *"I always invest R2000 of my stokvel pay-out into my investment account in my bank for long term investment purposes"* (*Participant 14,* 15/11/11).
>
> "*Unfortunately I don't usually spend it; I usually take it and put it in my fixed deposit"* (Participant 10, 15/11/05).

For these participants stokvels provide the means to make more money in a short period of time; however banks provide the means to make longer investment or savings. Consequently they utilize both institutions because of the different benefits these two institutions provide.

Of the remaining participants three were in stokvel groups that did not save with formal banks instead members kept the stokvel funds in cash form at their homes or lent them to members. In some cases non-members were offered loans, provided that a member who introduced them to the stokvel group accepted surety. One participant reported that her group saved with a grocery store from which the stokvel bought groceries at the end of the year-

*"we don't even keep it in a bank, we keep it in a grocery store where we shop"* (Participant 11, 15/10/01). One participant did not know where her stokvel kept the money- "*I don't know, I do not even know who keeps it but we contribute into a pool but I do not know what they do with it, maybe they lend it for interest I do not know"* (Participant 1, 15/10/21).

The results of this study indicate that stokvel participation is not necessarily limited to people excluded from the formal banking system. Eleven participants in this sample were banked by commercial banks. Of these eleven participants, the majority had at least a secondary school education and were formally employed. Tables 9 and 10 below provide descriptions of formal banking service usage among interviewed stokvel groups and individual members respectively.

**Table 9: Stokvel groups with bank accounts**

| **Status** | **Number of participants** |
|---|---|
| Unbanked | 3 |
| Banked | 11 |
| Undisclosed | 1 |

**Table 10: Stokvel members with personal bank accounts**

| **Status** | **Number of members** |
|---|---|
| Unbanked | 4 |
| Banked | 11 |

### 4.13 Benefits of belonging to stokvels, given commercial banking options available

The most cited reasons for using stokvels by participants in this sample was to save money. The following quotes were extracted from responses to the question of why participants joined stokvels:

> "*To save money, yeah mostly to save money"* (Participant 10, 15/11/05).

> *"My aim for being part of a stokvel was to be able to save money, it was a way to save money. Because if you are alone you can't save money even if you wanted to but if you are a group, you are forced to save. If they say on a particular day we're contributing, you are going to know that you have no choice. However, if you are alone the day to save comes but you don't save because no one is forcing you"* (Participant 6, 15/10/15).

> *"To save because if you save money alone it's easy to use it but if it's kept somewhere you get it at the agreed upon time"* (Participant 13, 15/10/21).

> *"Eh our stokvel, we started it because around December we often don't have money so we got together and decided to save money so that when December arrives we'd have money"* (Participant 9, 15/11/05).

This question was modified for those participants with bank accounts to ask why they save in stokvels instead of saving with banks. The most cited reason was that they cannot save alone; they need support in order not to default on their savings. However, this reason was not unique to banked participants but unbanked participants also cited that they too need the supportive structure of a group in order to be motivated to save:

> *"I find it easy to save money with a group of people because it disciplines you not to use the money unnecessarily"* (Participant 14, 15/11/11).

*"No I couldn't (save), I would take it out and spend it"* (Participant 1, 15/10/21).

*"No my child if you are going to keep it in a bank, when you run out of salt you go to the bank. Whenever you run out of something you go there because it your (bank card) no one is going to control you, but in a stokvel you can't access it anyhow"* (Participant 12, 15/11/20). This participant like many other participants, feels that when you save alone with a bank you can access your money anytime you want because there is no one to answer to.

The study findings strongly suggest that the social facet is one of the central elements of voluntary organizations such as stokvels. When participants were asked to cite the non-financial benefits of belonging to a stokvel group; social interactions was the most cited:

*"I also get to socialize with other people from different sectors of life"* (Participant 14, 15/11/11).

*"Being able to socialize with people and study their minds, learn a lot about life and people's lifestyles"* (Participant 10, 15/11/05).

"*Being around other women and sharing issues that relates to being a woman, I can say that is the additional gain other than money"* (Participant 4, 15/10/19).

*"Yes I can save it in the bank but I like and want to socialize with the gang and unite, actually our stokvel is a union as I mentioned that it formed by different churches, it's very united. I think it comes from loving unity"* (Participant 9, 15/11/05).

*"Yes, with the bank I just leave my money with some girl if it's a girl or with some boy and leave them there frowning or angry the whole day, and go my way. So it's not nice but it's nice in our stokvel, after we are done we eat, have cold drinks and have a sermon"* (Participant 9, 15/11/05).

What is noteworthy is that participants seemed to lack knowledge about how bank saving options work. They often stated that saving with banks meant that their savings were more readily available to them as opposed to stokvels; thus making bank savings more prone to termination or default. Participants appear to believe that in the absence of social pressure from their members to save, they would default on their savings which is why they prefer saving in a group instead of saving alone with a bank:

> *"Stokvels restrict you from accessing your money unlike a bank account you always tempted to withdraw anytime you see an ATM"* (Participant 8, 15/11/05).
>
> *"If you are a person who can save money, maybe the bank, but I personally think that the stokvel is right because you don't draw the money anytime you want to, but with the bank you can withdraw it anytime, even at midnight but you can't with a stokvel"* (Participant 12, 15/11/20).

Participants believed that stokvels were superior in this regard because they made money less accessible. Obviously this notion is not entirely accurate and it shows that the majority of participants do not know much about the different saving options offered by banks.

Other benefits related to participating in stokvels reported by participants included high returns on lent stokvel money and the absence of bank charges:

> *"We also allow only members to borrow that money in an interest of 30 Rands per 100 Rands borrowed"* (Participant 3, 15/10/27).
>
> *"We help each other because we also lend each other money so that our food increases, R500 yields interest of R150"* (Participant 11, 15/10/01).
>
> *"Yes, in stokvels there aren't any (bank charges)"* (Participant 5, 15/10/27).

> *"They once crossed me; there was a month where I went to the bank though I had an extra balance which means I was not supposed to pay for some more months, when I entered inside they told me that the fees have increased so I must deposit it on the ATM because if I use the tellers the charges are higher"* (Participant 3, 15/10/27).

The benefit of high returns mentioned above was often contrasted against banks' low returns on savings. Stokvels often offer interest rates that are substantially higher than those offered by banks on savings. Owing to the fact that stokvels are outside the formal financial sector which is subject to state laws and restrictions, they can charge any interest rates. Banks however are subject to laws and regulations, some of which restrict the interest rates they can charge their clients. Consequently, stokvel participants prefer saving with stokvels as banks are inferior in this respect. The quote below illustrates the two things which discourage stokvel participants from saving with bank:

> *"With banks there is less interest and there are charges but in stokvels we are able to loan it to different people at our desired interest rates. Therefore, we get more yields at the end of the year"* (Participant 4, 15/10/19).

Another cited benefit was the fact that accumulated interest is shared equally among members, one participant stated that:

> *"Yes, and we work as a unit in the stokvel it's unlike a bank, with the bank you work alone. And in stokvel when I lend money, you lend and he lends money when it gets paid back it comes with interest and that's not your own interest but it everyone's"* (Participant 5, 15/10/27).

When asked how participants personally benefited from belonging to stokvels, a substantial number claimed that without stokvels they would not be able to buy their Christmas necessities. So their reasons for being in stokvel groups were related to “December time”. Participants’ responses suggest that there is much emphasis on Christmas or the festive season. Another benefit of stokvels, especially those centred on buying groceries, is the advantage of buying in bulk with a group, which means they are eligible for discounts:

> *“The reason I joined a stokvel because around December there’s a lot going on, but if you join a stokvel or if you are in a stokvel you get help because you get everything”* (Participant 11, 15/10/01).

> *“Eh our stokvel, we started it because around December we often don’t have money so we got together and decided to save money so that when December arrives we’d have money”* (Participant 9, 15/11/05).

> *“I mainly joined it for the children and to get better food during festive season”* (Participant 4, 15/10/19).

From the above extracts one can deduce that the majority of stokvels in this sample are geared around short-term goals, i.e. to save money that is going to be needed in December, as a result all stokvels with the exception of one, divided their pay-out towards the end of the year. Only one participant said that her stokvel made pay-outs in January because they did not want to squander their savings on unnecessary festive season spending. The short saving period suggests that participants have no desire to make long investments, with the exception of two participants previously mentioned who admitted to saving their stokvel pay-outs with banks. Table 11 below presents responses of participants in this sample regarding reasons for and the benefits of belonging to stokvels.

**Table 11: Benefits to being in a stokvel**

| **Benefits** | **Benefits reported by participants** |
|---|---|
| Socializing/companionship | 10 |
| Large interest on lent funds | 5 |
| Forced saving/collective saving | 10 |
| Motivation /Discipline | 3 |
| Purchasing of expensive goods in cash | 2 |
| Christmas shopping | 7 |
| loans | 1 |
| No bank charges | 1 |

## 4.14 Constraints that limit the ability of stokvel participants to take up formal financial mechanisms

A commonly cited constraint to adopting formal financial mechanisms was unemployment. Approximately five participants felt that people who are not employed could not access formal financial mechanisms and as expected some of the banked participants admitted that the primary reason that they had bank accounts was that it was required at their place of work and that they only used their accounts to access their salaries:

> *"It's (bank account) needed at work"* (Participant 9, 15/11/05).

> *"When I was still using the bank I was still employed but now I stay at home, so I don't see its need"* (Participant 12, 15/11/20).

*"I don't have a reason, maybe it's because I have never had a job that required me to open a bank account"* (Participant 11, 15/10/01).

*"Yes because the bank asks if you are employed and they also require pay slips"* (Participant 7, 15/10/27).

Although none of the participants reported a bank in their area, in fact the majority of participants needed transport to get to a bank; however proximity to banking services was not cited as a constraint to adopting these services. On the contrary, it was the services themselves that participants had a problem with. Services offered by banks appeared not to be in alignment with what participants in stokvel groups require. For instance bank charges was one of the cited "bad experiences" people have had with banks. The Participant felt that banks were "eating" hermoney through bank charges; she did not understand why she was being charged for accessing their own money. The participant shared that the reason she saves with stokvels instead of banks was because "*banks have this money that they take*" (Participant 5, 15/10/27), referring to bank charges.

Another major constraint to adopting banking services that was identified was participants' personal choices five participants in this sample argued there was no need for a bank account because they were either unemployed or preferred stokvels:

*"I don't see a need for it as I explain that the pocket money I get I put it in a stokvel, now which one am I going to put in a bank? It goes to the stokvel and then goes to the bank of the stokvel, a group's account"* (Participant 6, 15/10/15).

*"Yes, since I'm not working I don't have money to save in a bank, so being unemployed makes you not care about banks"* (Participant 1, 15/10/21).

The majority reported not knowing much about the different saving options, however none cited this as a constraint to adopting banking services. As already noted, the majority of participants with bank accounts did not know the type of accounts they had; these participants did not know whether their accounts were savings or current. Such financial ignorance was also observed in the participants' responses when asked why they did not save with banks; they claimed that money saved with banks was easily accessible as it did not have conditions attached to its accessibility. In light of the aforementioned signs of inadequate financial literacy, financial illiteracy was not cited as a constraint to adopting banking services, none of the participants reported financial illiteracy as the reason they did not utilise formal banking services.

None of the participants in this study cited proximity to banking services as a constraint in light of the fact that nearly all of them required transport to reach the nearest bank. As evident in the aforementioned results on bank proximity, the reported closest bank was 15 minutes and the furthest was 45 minutes; both require transport. Table 12 below presents the responses of participants in this sample about the constraints to adopting commercial banking services.

**Table 12: Constraints to adopting commercial banks**

| **Constraints** | **Number of reported constraints** |
|---|---|
| Unemployment | 5 |
| Not enough money | 1 |
| Bank charges | 3 |
| Low interest on savings | 3 |
| Doesn't see the need | 5 |

The results presented in this chapter will be discussed in the next chapter. Furthermore, these results will be discussed in relation to existing literature.

# Chapter five: Discussion

## 5.1 Inter-linkages

African countries often have a poorly developed financial sector which is characterized by segmentation and inadequate infrastructure (European Investment Bank, 2013). Financial markets in most countries are often segmented into distinct dual financial institutions which serve two different segments of the population; formal institutions are more sophisticated and serve more financially secure clientele while less sophisticated informal institutions serve the poor segment of the population (European Investment Bank, 2013).

While the former has been studied intensively due to its vast size and influence, little research has been done on the latter; informal institutions. There is even less research on the interactions between the two financial institutions. As discussed in the literature review, there are three schools of thought that have emerged from the study of the relationship between formal and informal economies. The first school perceives the two economies as separate entities with the informal economy autonomous from the influence of the formal economy (ILO, 1991 in Bairagya, 2010). The second school sees the informal economy as dependent on the formal economy (ILO, 1991 in Bairagya, 2010). The third school perceives the two economies as intertwined and inter-dependent; it posits that there are linkages between the informal and formal economies (ILO, 1991 in Bairagya, 2010). The aim of this dissertation was threefold, firstly it sought to explore any inter-linkages that might exist between stokvels and commercial banks, secondly it sought to investigate the benefits of belonging to stokvels and lastly it sought to investigate the constraints that people in stokvels might face when trying to adopt commercial banking services.

This study is framed around the Hull and James' (2012) model of popular economies which explores the inter-linkages between stokvels and commercial banks. Popular economies is a phrase that these authors use to denote "areas that are often below the radar of the state and of capitalist enterprise” (Hull and James, 2012:8). Hull and James challenge the dual economy notion of two separate economies, namely formal and informal, which is from the first school of thought, they subscribe to the third school of thought. This is the school of thought with which this study is aligned. Although Hull and James apply this model to economies which are arguably broader and further-reaching than the focus of this dissertation, the application of their model to this study is nonetheless useful.

The primary aim of this study was to uncover any inter-linkages between stokvels and formal banks that might exist. Since stokvels often operate outside the formal and state regulated financial markets they are what Hull and James (2012) call popular economies; and according to these authors formal (in this case banking) and informal economies (stokvels) are inter-linked and thus cannot be studied separately. The study, guided by the popular economies model, sought to consider whether these two financial mechanisms operated separately or if there were interactions between them.

Krige (2012), calls for the recognition of the fact that formal financial institutions have penetrated segments of society that are grounded in mutual and reciprocal acts such as stokvels and burial societies. It is this very recognition that prompted the study of linkages that might exist between stokvels and formal banks. Mashigo and Schoeman (2012:58) argued that “stokvels provide the opportunity for government and banks to develop mutually beneficial relationships or linkages with such informal associations to make them more effective and efficient in mobilizing premiums (savings) and advancing credit in poor communities”.

The findings reveal that there are interactions between stokvel groups and commercial banks in the form of monetary flow, which is consistent with what Floro and Ray (1997) and Hull and James (2012) argue. Based on the findings, the dominant inter-linkages between stokvels and commercial banks occurs in the form of savings mobilization, in which stokvel groups save their funds with commercial banks for a period of time (usually a year). In addition, this study reveals that linkages in the form of credit flow are non-existent; as none of the participants reported having sought or received a loan from a bank. This could be due to the participants' reluctance to seek credit from commercial banks; instead they borrow from their stokvel groups despite the fact that stokvels charge interest rates which are significantly higher than those of commercial banks**.** A possible explanation for this could be the social ties that people in stokvel groups often have that makes stokvels a more familiar and perhaps a seemingly safer source of credit. Another possible answer could be the prevailing distrust of commercial banks - there seems to be a common notion among study participants that banks were "eating" their money. This distrust of banks alongside the fact that most participants are unemployed and often do not possess the collateral required to access a loan from a bank, makes it less surprising that the dominant financial link is in the form of savings and not credit flow.

Pagura and Kirsten (2006) found that inter-linkages between informal and formal financial institutions lend to the expansion of financial services in rural areas. While one stokvel group mentioned that its members were required to open bank accounts, thus to some degree leading to an expansion of financial services adoption among its members; this is where the expansion ended. Furthermore, if the financial usage of the participants with bank accounts is anything to go by, the new bank accounts holders from this stokvel group make minimal usage of their newly adopted financial services. Also there is a possibility that they will cease using their accounts after they have withdrawn their stokvel pay-outs.

Pagura and Kirsten further argue that "Sometimes small institutions seek linkages with larger ones to gain access to their more abundant resources and expertise, while larger institutions want to link with smaller ones that are closer to and more knowledgeable about the demands of a specific rural clientele for financial services" (Pagura and Kirsten, 2006:2). This study can't speak for the intentions of banks (as no banks were interviewed) but stokvels did not seek linkages with bank for their vast resources and knowledge, they linked up because it was a safer way to save their funds and a way to acquire interest.

Findings indicate that the direction of linkages is one-sided from a less formal to a more formal financial institution. Moreover, while banks over the years have taken advantage of the untouched stokvel funds, stokvels actively form links with banks in an attempt to ensure safety and security of their funds. These linkages are beneficial to both institutions in that stokvels have a safe place for their money and banks have money they can use to accumulate more money. The sole motivation for forming links with banks is safety and security of funds, participants cited this as the reason they chose to save their funds with banks. This fact along with the admission made by working participants with bank accounts that their bank accounts only served to offer means for them to access their salaries, indicates a very minimal use of formal banking services. Therefore these linkages are one-sided and less intensive than those witnessed in some Asian countries such as India, where formal-informal inter-linkages were revealed to extend beyond savings and also facilitate access to credit (Kirsten, n.d.).

Anticipating linkages that would be minimal in nature and extent, the researcher formulated a question that would gauge the willingness of participants to strengthen their links with banks. Participants were asked if they would be willing to act as financial intermediaries by accepting credit from banks and loaning it to their clientele in the community as is the case with some organizations in Asia and Latin America (Kirsten, n.d.), all participants were against the idea. For study participants the risk of people defaulting on their loans was too great and they felt that it was not worth the risk. These results also offer an explanation as to why some of the stokvels that had previously offered loans decided to stop and form savings links with commercial banks despite the fact that returns from stokvel loans are much higher than those offered by banks.

With respect to differential returns on loans between banks and stokvels, there seem to be no synergies in interest rates between these two financial mechanisms. Firstly stokvels charge interest rates that far exceed those charged by banks. Secondly, the majority of participants exhibited very little financial literacy and they admitted to not knowing much about savings options offered by banks. Thus it is unlikely that their interest ratings are influenced by banks, which suggests that there are no apparent links in interest rates between the two.

While the aim of this study was not to consider whether the links between stokvels and banks were competitive or complementary the results suggest that the inter-linkages are complementary in nature. The first reason for this assertion is that the adoption of formal institutions does not replace stokvels, as indicated by findings of this study eleven participants with bank accounts were also members of stokvel groups, this was consistent with the findings obtained by Ardington et al. (2004) who found that 60 percent of people in stokvels also had personal bank accounts. Secondly, for those stokvels with group bank accounts, an increase in savings means an increase in banked funds for the bank. The bank reaps the rewards of having stokvel funds in its possession. In the past these stokvel funds would not have entered the formal financial system, as they were retained by members. Also the stokvels now stand a chance of gaining returns on their savings in the form of interest.

## 5.6 Social capital

For people to continue using stokvels alongside formal banking services there have to be benefits accrued from stokvel participation that banking services do not offer. In terms of the benefits of belonging to a stokvel group, participants cited various benefits some of which confirmed what was already known. As indicated by the results in the previous chapter, the two most cited benefits reported by participants were forced/collective saving and socializing/companionship.

The former is consistent with previous research on rotating savings and credit organizations by Gadgetry (2005) who found that participants joined these organizations because they needed motivation to save as they could not save alone. Since savings take place in a group setting, there is peer pressure to save even when participants may not be inclined to save. This speaks to the micro (or individual) level social capital theory alluded to earlier. In the micro or the individual level of analysis, participants join a stokvel group because they have personal goals they want to achieve, which they cannot achieve in isolation. This is consistent with van der Gaag and Snijders' (2004) notion of social capital, which perceives it to be a source of collective resources that a person may draw from to achieve his/her individual goals**.** Based on the individual level of social capital analysis, stokvel groups serve to help individuals save money for their personal goals which in some cases are congruent to the group's (the collective) goals.

The latter benefit (socializing/companionship) parallels Irving's (2005) study, which found that stokvel groups are a great source of social support. This speaks to the macro (or collective) level. According to van der Gaag and Snijders (2004) social capital in this sense goes beyond the provision of a safety net and entails shared norms, trust and social reciprocity. In this sense participants join stokvels as a way to experience a sense of shared values and with the understanding that there will be a support structure based on group loyalty and mutual reciprocity. Participants cited socializing/companionship as one of the major benefits to belonging to a stokvel group. Norms define what is normal or expected, since stokvels are formed around certain commonalities such as gender, neighbourhood or kinship members are more likely to share norms which are important for social capital; for instance the all-male Christian stokvel is against alcohol which is a norm among people of

Christian faith. Akçomak (2009) asserts that trust is one of the vital components of social capital, he further claims that "trust facilitates economic transactions and thereby can transform resources to outcomes" (Akçomak, 2009:172). Therefore, trust is very important for people in stokvels, which explains why some participants said that their stokvel group did not allow men because they were not trustworthy. This parallels Irving's assertion (2005) that for any social group to survive there ought to be some level of trust among its members. Social reciprocity entails mutual benefit or exchange of privileges, in stokvel groups this often takes the form of helping fellow members, not necessarily financially, for instance one participant mentioned that as a newlywed woman she sometimes receives advice from older women about marital and household matters. These three factors could be seen as the driving force of companionship within stokvel groups.

Study participants also mentioned how various aspects of their lives were impacted on by their participation in stokvels. This parallels Irving's (2005) assertion that stokvels are believed to be a vital source of social support for its members. The following quote from a participant captures this perfectly:

*"Being around other women and sharing issues that relates to being a woman, I can say that was the additional gain other than money"* (Participant 4, 15/10/19).

Furthermore, with regards to the benefits of forced/collective saving, in most stokvels monthly premiums are paid publicly during the monthly meetings, as a result there is peer pressure on participants to make sure that they never miss a payment. Missing a payment would firstly be embarrassing, compounded by the fact that payment is being defaulted in person. Secondly missing payments is also taken as letting the group down. This benefit was usually contrasted with saving with a bank, which participants felt that they could not do because they would lose motivation to save and rather spend the money. Furthermore, participants felt that the flexibility allowed by banks was counter-productive to saving as they (banks) made it easy for a person to access their money. This notion indicated a lack of financial literacy which might be an even bigger hindrance to making use of banking services.

With respect to socializing/companionship, other studies on stokvels and similar organizations, such as Collins and Morduch's (2008) study have demonstrated that such organizations often form around common interests, traits or kinship, for instance in this study one of the stokvel groups formed around common religious beliefs others formed around gender or common place of residency. This relates to the article by Cohen and Garcia (2008) discussed earlier which discusses the benefits that could be derived from belonging to a group. According to this article, belonging to a group can provide a vital basis of social identity and a sense of belonging which in turn can be a source of motivation towards achieving a particular goal (Cohen and Garcia, 2008). There was certainly evidence of this in the study. Participants of stokvels clearly had a common sense of identity whether it was a "Christian group" or a "women's group". These identities would be reflected in the workings of the stokvel for example the Christian stokvel which would close with a sermon. Stokvels therefore provide an arena for the maintenance of the social identity of people involved, in the case of the male stokvel group formed around Christianity it provides a space for members to exercise their beliefs.

In the case of an all-female stokvel, a participant used an interesting analogy when asked what he thought was the reason stokvels were predominantly for women, this participant said that "a good hen takes care of its chicks". This notion of women joining stokvels in order to provide for their children exhibit some congruency to Eckert and McConnell-Ginet's (1992) article, which asserts that various practices are linked to different categories in society such as class, age, ethnicity and sex. Thus memberships with different groups in a community work to reproduce meaning about different categories within that community, there might be activities that work in constructing what it means to be a “good Christian man” or “good mother” for example.

Considering these facts, it is not surprising that most participants cited socializing or companionships as the reason for joining a stokvel group. For these people, stokvels are more than just savings-orientated organizations but they also offer a platform for people to socialize, make friends and discuss topics of common interest. Furthermore, the social aspect of stokvels could be fostered by the fact that members often have shared norms and trust. Trust and reciprocity fostered in these stokvels makes companionship among members easier. Furthermore, shared norms ensure that there are minimal conflicts.

**5. 3 Benefits**

Aside from the social aspects, among the reported benefits of stokvel participation was high returns on loans; participants felt that stokvels yielded more returns compared to banks. As previously mentioned, stokvels can charge soaring interest rates of up to 30 percent on lent funds. This benefit is particularly enjoyed by stokvels that lend on a portion of their funds. Some participants did not lend stokvel funds because they felt that the risk of people defaulting on their loans was too great, and since the funds are often kept by selected members in their homes, they run a risk of being robbed. These participants admitted that they would like to lend out their funds if people did not default on their loans, however they also felt that the bank was a much safer option for earning interest.

**5.4 Constraints**

The prevailing view is that informal financial mechanisms such as stokvels exist to cater for people who cannot access formal banking services (Ardington, et al. 2004; Ellis at al. 2010); it further holds that there are constraints which hinder people from adopting banking services (Ellis at al. 2010).

Going by this view, people in stokvels are often those with little or no education or people who are involved in unskilled labour and earn very little income (Dallimore and Mgimeti, 2003), all these factors according to this view conspire to exclude this group of people from accessing formal financial services. Indeed one may argue that these factors are displayed among stokvel users, however this dissertation puts forward results which suggest that this notion is not entirely true.

In this study the researcher anticipated three constraints; financial literacy, lack of employment and proximity to banking services, which are constraints that often emerge in similar studies (Dallimore and Mgimeti 2003, BANKSETA IEDP, 2012). Out of the three anticipated constraints only one emerged in this study, a lack of employment; participants cited this as the reason they do not have bank accounts. This paralleled the work by Ardington, et al. (2004), which revealed that banks cater for people with salary-paying jobs which offer documentation (pay-slips) often mandatory for many banking services. More interestingly, some of those with bank accounts admitted that they only had bank accounts because they were required to by their employers. This suggests a lack of appreciation for formal banking services on the part of participants. This lack of appreciation for formal banking services is further accentuated by the five participants who claimed that they did not see a need for a bank account.

While only one participant reported living in walking distance of a bank and the majority required transport to reach the nearest bank, proximity to a bank was not cited as a constraint in this study. Moreover, despite the fact that the majority of participants exhibited very little financial literacy and admitted to not knowing much about different saving options offered by banks, none explicitly cited this as a constraint to adopting banking services.

Although study participants did not identify lack of financial literacy and distrust of banks as a factor of constraint their responses suggest that they were in fact significant constraints. Perhaps if people were more knowledgeable about formal financial services they would see their value and use them. Perhaps this issue lies not with people but with the banks themselves, they may not appeal to the segment of the population that uses stokvels. It seems the only thing participants valued about banks were centred on safety and security of money. Beyond that the bank ceases to be useful to people in stokvels - for them the bank is just a vault.

Interestingly, Struwig et al. (2013) shows that there is a positive correlation between employment status and financial literacy in South Africa. However, in this study this correlation was not as strong; the financial knowledge exhibited by employed and unemployed participants did not differ profoundly. Both groups exhibited very little financial knowledge, in fact the majority of employed participants did not know if they had a savings or a current account. Perhaps the level of education is to blame because the majority of participants never went beyond high school and out of the three who did only one of them exhibited conspicuous financial literacy, and he was a teacher by profession.

Due to their disadvantaged position in the labour market and the household, it was hypothesized that women would experience more constraints than men. The findings of this study were consistent with what was hypothesized in the literature review in that the majority of women in this study did not have bank accounts and were not employed. Furthermore, contradicting research findings by FinMark Trust (2013), suggested that recent studies indicate that women have more access to formal financial services than men due to the recent expansion of the SASSA system resulting in increased bank usage among recipients of the social grants. The FinMark Trust (2013) findings contradicted with those of this study in that among the women who admitted to using a portion of their social grants as their stokvel premiums, the majority of them did not have bank accounts.

This study is a contribution to the existing literature on inter-linkages between formal and informal institutions in that it illustrates (albeit with a small sample) that these two institutions are not at odds with each other as Hull and James (2012) suggest. It shows that informal financial mechanisms such as stokvels do not compete with banks and they are not limited to those who have been excluded by the formal banking system. Furthermore, there is little indication that the more formal institutions are likely to eventually replace the less formal as the two offer differing benefits.

In addition, this study offers a glimpse into the reasons behind the continued use of stokvels by both unbanked and banked participants in light of and alongside formal banking services. It highlights the benefits that people in stokvel groups acquire and also sheds light on the constraints which may hinder participants from adopting formal banking services.

## Chapter six: Conclusion

The main aim of this study was to establish whether or not there are inter-linkages between stokvels and commercial banks, as is predicted by the popular economies model. Further, it aimed to interrogate the benefits of belonging to a stokvel while investigating the constraints that stokvel groups may encounter when attempting to adopt formal banking services.

The research employed a qualitative research method in order to provide in-depth and rich detail pertaining to issues around stokvels and banks. This was done through the conducting of 15 in-depth semi-structured interviews with both males and females who were members of stokvel groups.

This study has found that stokvels and banks do not operate in different spheres and that people use both stokvels and commercial banks in parallel. In particular, this study has found that stokvels and banks are linked through monetary flow in the form of savings mobilization. These links appear to be one-sided in that they flow from stokvel groups to banks. In addition, these stokvel groups appear to be content with using commercial banks for savings services. They have no intention of diversifying their linkages through credit lending, for example.

There are several factors that emerge from the research as being benefits of belonging to stokvel groups. Among these were motivation/discipline to save, forced saving/collective saving and socializing/companionship which were among the frequently cited benefits of belonging to a stokvel group. Some participants also cited large interest on lent funds, being able to shop for Christmas, no bank charges, easily accessible loans, and purchasing of expensive goods in cash.

However, forced saving/collective saving and socializing/companionship appear to be the most prominent. The saying "there's strength in numbers" seemed to be the foundation of nearly all stokvel groups, participants prefer saving within a group setting because the social pressure in such a setting makes it practically difficult to default on savings.

Further, since stokvel groups are often formed around common traits, friendships or kinship there is a strong social component. Such strong social ties are what make stokvel groups last, as evident in the 14 and 20 year stokvel participation reported by two female participants in this study. Also continued stokvel participation indicates that there are benefits to belonging to stokvel groups.

Participants reported several factors as constraining the adoption of formal banking services, however some were not constraints per se but were factors that participants were somewhat ambivalent about with regard to bank use such as bank charges, low returns on savings, not seeing the need for bank accounts and saving alone. The most prominent constraint reported was unemployment, most participants argued that the reason they did not have bank accounts was because they were not working. Employment guarantees a regular income, however in the absence of employment one does not have regular income upon which continued bank use is contingent.

Education and knowledge are important components in the adoption of new skills or technological advance. A prominent finding in this study was that the majority of participants lacked the financial knowledge necessary for one to fully appreciate the value of formal banking services. Some participants reported not seeing the need for a bank account and the majority, including those with bank accounts, admitted to not knowing the different saving options offered by banks. It is recommended that further research be conducted on the financial literacy of banked and unbanked stokvel members since the assumption that people with bank accounts are financially literate is flawed and inaccurate.

The fact that people with bank accounts still prefer using stokvels and those without bank accounts do not see the value of having them indicates a failure on the banking system's part to accommodate or cater for this demographic. The frequently cited reason for taking part in a stokvel was socializing and/or companionship, this indicates that stokvels go beyond serving savings and credit needs but there is a social component that is crucial to their formation and continued existence. The majority of banks appear to be quite Eurocentric and technological in the way that they work, both factors that a typical stokvel member would find intimidating. As soon as one walks into a bank there is a clear distinction between a client and bank personnel, the desk or counter between them could not make it clearer. However in stokvels all members are equal peers, they socialize and share problems. In addition, in light of the fact that banks claim that customers can speak in their native languages, there is still a clear preference of the English language. Therefore, this study recommends that banks adopt a more Afrocentric work ethos and perhaps a more social atmosphere which is what stokvel members are accustomed to. Further research on these two points would be useful.

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## Appendix I: Interview schedule

Demographic questions

- Gender: male/female.
- How old are you?
- Where do you stay?
- Do you have a bank in your area?
- How close is the nearest bank? Is transportation required? How long does it take you to get there by taxi?
- Did you go to school?
- What was the highest grade you passed?
- Who else lives in your household with you? (Number of adults and children, and their gender.)
- Who is the head of your household?
- Are you employed, unemployed or not part of the labour force (i.e. a student/housewife for example)?
- If employed, what work do you do?

Stokvel participation (Please answer the following questions as elaborate and detailed as possible)

- What made you join/use a stokvel?
- How does your particular stokvel work? Does it utilize a bank?

- How long have you been a member of this particular stokvel?
- Where do you get the money that you use to contribute into your stokvel?
- How many people are/were a part of your stokvel?
- What kinds of people are members of your stokvel? (Women/men? Are they self-empoyed? Are the formally employed? Unemployed? Ages, education?)
- What do you usually spend the savings you accumulate from the stokvel on?
- In what way is the stokvel most useful for you personally? What do you gain from being a member? (Probe about social interactions if these are not mentioned)
- Have you had any bad experiences in your stokvel? And what were they?
- Have you ever been in another stokvel group besides the one you're currently in? Probe: if yes what happened to it?
- Based on your own opinion, why is it that stokvels are predominantly used by women?
- Do you feel that certain people believe they cannot join a stokvel group? If yes, who are those people?

Financial linkages questions

- What other kinds of financial services do you use, apart from a stokvel? For example, do you have a bank account? (A current account and/or a savings account?)

*For those who are **not** banked with commercial banks*

- If you are not banked now, have you ever been banked by a commercial bank before? Probe: how were your experiences?

- Why are you not making use of commercial/formal banking services? (Probe whether they know or understand what a bank can be used for).

*For those who are banked with commercial banks:*

- What kind of an account do you have? Current or savings or both?

- Can you specify what particular services you use:

    - Deposit money

    - Withdrawals

    - Debit orders

    - Savings

    - Loans

    - Other, specify?

- What have been your experiences?

- What makes you use both the stokvel and a commercial bank? Do they offer different benefits to you?

- Why not just save with commercial banks? Does it have something to do with when you can withdraw the funds or with the fees you have to pay? (Probe whether the participants even know anything about savings options at banks.)

- Does being banked have an influence/impact on your stokvel participation? For example, do you deposit the money from the stokvel into a bank account? Is it a personal account or a joint account?

- In some countries stokvels act as intermediary financial institutions between people and banks, they borrow money from banks and relend it to people. Does your stokvel do this?

If not, why? Would you want to do this?

## Appendix II: Informed consent

**Informed Consent Form**

*(To be read out by researcher before the beginning of the interview. One copy of the form to be left with the respondent; one copy to be signed by the respondent and kept by the researcher.)*

My name is Meluleki Derick Zondi (209537273). I'm doing a research project required for my Masters in Development Studies degree. The title of this project is "The linkages between informal savings and credit mechanisms (stokvels) and commercial banks". In this interview you are going to be asked a series of questions pertaining to the project and the interview will take approximately 60 minutes. Furthermore, this interview is going to be recorded. This project is done under the supervision of Shauna Mottair of the School of the Built Environment and Development Studies at the University of KwaZulu-Natal. For further information pertaining to this project you are welcome to contact either myself on my cell-phone or email; 08444 85962 or by email at mdzondi@gmail.com OR my supervisor on 031 260 1473 or Mottiar@ukzn.ac.za.

Thank you for your consent in taking part in this project, but before we proceed I would like to inform you that:

- Your cooperation in this study is completely voluntary

- You the right to refuse to answer any question
- You have the right to withdraw from the study at any time.

This interview and its contents will be kept strictly confidential and only members involved in this research will have access to it. Excerpts from the interview may be made part of the final research report but nowhere in the research report would your identity be revealed. Please sign bellow to indicate consent to be interviewed;

---------------------------------------- (signed) ------------------------ (date)

---------------------------------------- (print name)

Please check the appropriate box bellow to indicate consent to be recorded

| |
|---|
| Yes |
| No |

Please provide your address should you require a copy of the research

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