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# ***Stokvels* as Alternative Microfinance Institutions: Conversations with Women from Venda**

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A research project submitted to the Gordon Institute of Business Science,  
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## ABSTRACT

*Stokvels* have been around in South Africa for many years and they are a way that people motivate each other to save. The study explored the operations of *stokvels* in order to identify features of *stokvels* that make them successful and why they remain popular in Black communities even with people who have access to formal financial institutions. The study further explored if there were gender preferences for *stokvel* groups and the reasons thereof.

Exploratory research in the form of three focus groups was conducted with women *stokvels* in Venda in the Limpopo province, South Africa. All the groups have been in existence between seven and thirty years. The women were asked questions to determine why they choose to participate in *stokvels* and also what it takes to make the groups successful.

The study found that the success of *stokvels* is that they are driven by a purpose which is beyond money, they exist to assist the members improve their lives. The members take the rules seriously because they do not want to disappoint each other. Trust and social capital were found to be critical in ensuring success. The women said that *stokvels* forced them to save through peer pressure, and they appreciated the relationships that they were able to foster in the *stokvels*. Those who had no access to formal financial institutions found that the *stokvels* gave them access to funds that they would not otherwise have thereby making it possible for them to achieve a higher standard of living. Women were found to prefer other women as members in their *stokvels* groups.



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## DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University.

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Hulisani Moliea

14 November 2007

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**Refiloe, my inspiration, you are my world, this is for you!**

## LIST OF ABBREVIATIONS

ASCrA	Accumulating Savings and Credit Association
FSC	Financial Services Charter
LSM	Living Standard Measure
MFI	Microfinance Institution
MFRC	Micro Finance Regulatory Council
NASASA	National Association of <i>Stokvels</i> in South Africa
NCA	National Credit Act
NCR	National Credit Regulator
NGO	Non Governmental Organisation
ROSCA	Rotating Savings and Credit Association
SARB	South African Reserve Bank

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# CHAPTER 1: INTRODUCTION TO RESEARCH PROBLEM

## 1.1 Introduction

Rotating Savings and Credit Associations (ROSCAs) are locally referred to as *stokvels*. They are popular in most Black communities and most of them provide a range of services, starting from the traditional pure savings *stokvels* to the more contemporary profit-driven clubs. It was believed that *stokvels* were a way for people in poor communities to save but this was abandoned as it became evident that many people with higher incomes still participate in *stokvels*.

These institutions are not unique to South Africa, they are found in many other countries and are called a variety of names, the most commonly used being ROSCAs. Many *stokvels* are like social clubs where participants help each other in many ways in addition to the monetary assistance they give to each other. In a *stokvel* people from within a particular group save and take turns in receiving the contributions of all members of the group. In addition, members' needs for social interaction, sharing and belonging are satisfied.

Their popularity in South Africa is apparently attributed to the legacy of apartheid where almost no legal business was permitted in Black townships, because business made money, and money was reserved for the White minority. There were therefore no banks in the Blacks only residential areas allowed in the cities or in the homelands where Blacks lived. From this history, *stokvels* continue to be popular amongst the

Black South African communities in both rural and urban areas long after the demise of apartheid.

It was thought that as more people in the Black communities became exposed to formal financial institutions the popularity of *stokvels* would fade, which did not happen. The current trend is that *stokvels* and formal financial institutions are used together. It is reported that 14% of bank account holders are *stokvel* members (Stokvel Online, 2006). *Stokvels* remain institutions that exchange millions of rands in the informal markets and Verhoef (2001) claims that *stokvels* are the biggest generator of informal funds in South Africa.

Coetzee (2002-3) states that *stokvels* seem to be dominated by women. Verhoef (2001) says they represent a mechanism which women ingeniously exploited, to generate funds for survival. Over time *stokvels* developed into a system of highly diversified savings and credit organisations to suit the needs of all income groups. They have become known as such a strong intermediary in the informal financial sector that the South African Reserve Bank (SARB) included them in the regulatory framework of financial institutions in 1994.

## **1.2 Scope of the Research**

The purpose of this study is to investigate the operations of *stokvels* and the reasons for their popularity with Black South African women, including the popularity with women who have access to formal financial institutions. The study further investigates whether women prefer other women members only in their *stokvel* groups.

The definition used in this research is that of Scheepers (2007, p.3) who provides the National *Stokvel* Association of South Africa's (NASASA) definition of a *stokvel* as a “voluntary group of people, or club, where individual members choose to belong. The group is always formed on the basis of trust between members, friendship and a strong sense of mutual responsibility. The members of the *stokvel* group agree upon the group's purpose, its rules and its outcomes”.

There are a variety of *stokvels* from burial societies through to rotating savings clubs and also credit clubs. This research will focus on *stokvels* which have savings as their core purpose, irrespective of whether the money is distributed to the members on a rotational basis or all at once. Those *stokvels* who lend out the money to grow the fund will also form part of the scope of the research.

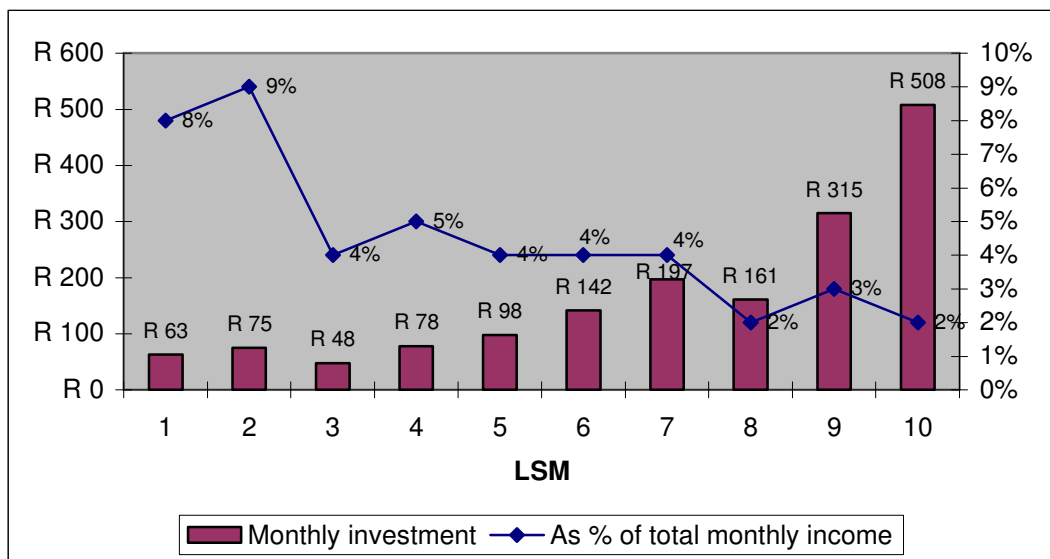
### **1.3 *Stokvel* Membership**

The exact prevalence of *stokvels* is challenging because usage is underestimated as *stokvels* operate in the informal market. There is also no clear cut working definition of a *stokvel*, as well as the fact that it can be associated with a host of different names depending on the culture and language spoken which could lead to underestimation of usage (Scheepers, 2007). Verhoef (2001) argues that there is no official recognition given to *stokvels* in statistics which contributes to the underestimation of their importance both as savings institutions and as mechanisms of poverty alleviation and social advancement. In addition, there is insufficient recognition given to the importance of the savings records of *stokvels* as a basis of access to credit, especially for African women. There are therefore varying degrees of usage of *stokvels* reported.

Baumann (2002) states that even though South Africa has an advanced financial services sector, it only meets the needs of about 40 to 50 percent of the population for products such as transactions, savings, credit and insurance. The remainder of the population has no or inadequate access to these services and therefore a high percentage (approximately 3.56 million households) are members of *stokvels* in order to meet the need left by not having access to these services. Low income households are said to invest four to eight percent of their monthly income in their *stokvels*.

Figure 1 provides the average amount invested in *stokvels* by those who are members of *stokvels* and also indicates that people across all LSMs invest in *stokvels*.

**Figure 1: Average monthly investments into *stokvels* by LSM (FinMark Trust, 2002)**



The FinMark Trust (2002) reported that 12% of the adult population (3.56 million households) use *stokvels*. This report also stated that the total amount invested in *stokvels* annually is R5.61 billion and that the total amount invested by the unbanked in *stokvels* annually, is R1.36 billion. Some of the *stokvel* membership statistics from this report are presented below.

Figure 2: Claimed membership of *stokvels* by LSM (FinMark Trust, 2002)

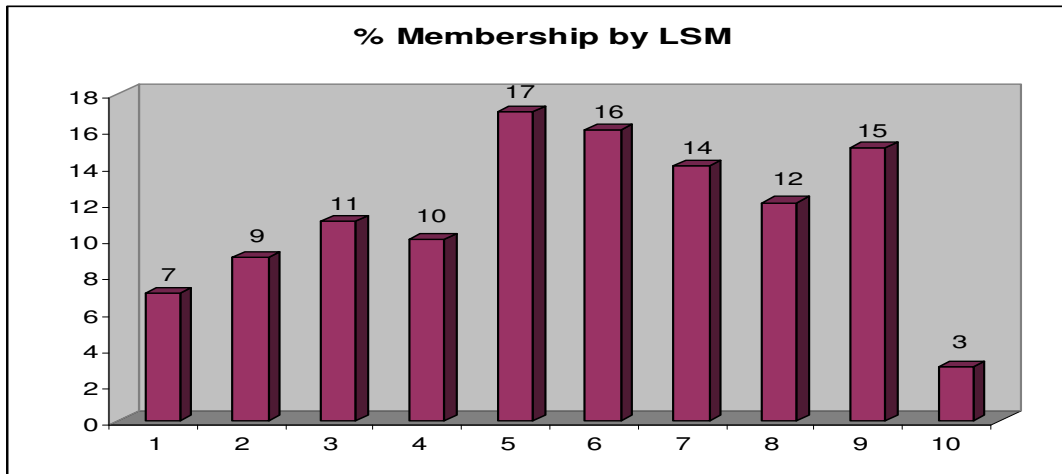
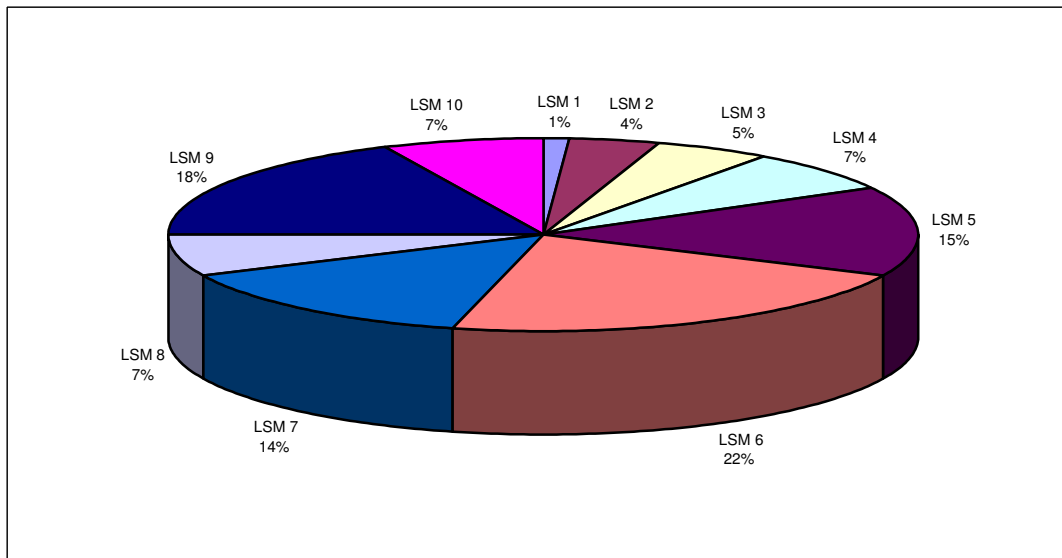


Figure 3: Share of money – total *stokvel* investments by LSM

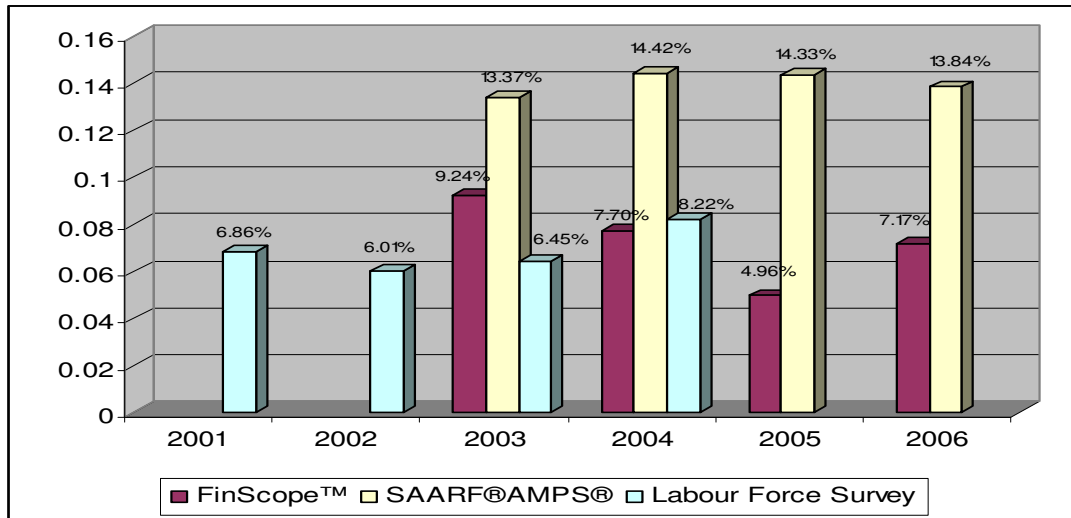


Scott (2006) reports that the size of the informal savings market is estimated at R12 billion a year. The UCT Unilever Institute of Strategic Marketing research indicated that 2.5 million South African adults (9%) belong to 8 million *stokvels* and that 14% of bank account holders are *stokvel* members (*Stokvel Online*, 2006).

Tracking some surveys from 2001 to 2006, Scheepers (2007) found the following estimates of usage:



**Figure 4: Data for *stokvel* belonging (Scheepers, 2007)**



Even though there are discrepancies for the number of people that utilise *stokvels*, it is apparent that *stokvels* are a significant part of the South African informal savings market. Verhoef (2001) says that *stokvel* activities have a definite multiplier effect in the economy by keeping money moving in the informal sector.

#### **1.4 Motivation for the research**

Currently 16.71 million South Africans live in rural areas, which represents 38 per cent of the population (Schoeman, undated). Despite these numbers, formal financial institutions do not provide financial services within these areas because the income derived from these services do not warrant the cost of provision due to the limited extent of services and the remoteness of most of the rural villages (Nigrini, 2002).

The absence of basic financial services, particularly in rural areas is seen as a major obstacle to growth and poverty reduction in the country. In October 2003 the South African financial sector committed itself to the Financial Services Charter (FSC), which acknowledged that access to "first-order retail financial services is fundamental to

black economic empowerment and to the development of the economy as a whole" (Banking Council of South Africa, 2003). Signatories to the charter committed to increasing effective access to retail financial services for the lower income groups (Ardington *et al.*, 2004).

*Stokvels* play a diverse traditional, social and economic role in Black communities and might represent the only access to credit for very poor people. The limited amount of credit needed and the irregularity of such needs make links with the formal financial intermediaries challenging. The key role that *stokvels* play in South Africa and the integral nature of that role in women's lives indicate the need for pursuing innovative solutions to extend the provision of credit. This will require acknowledgement of the savings discipline and managerial skills conveyed by women through *stokvels* as a basis for the provision of credit, without requiring conventional security for loans (Verhoef, 2001).

Baumann (2002) claims that fifty-three to sixty-eight percent of the 3.56 million households that are members of *stokvels* have no personal banking account.

This research aims to identify the features of *stokvels* that make them the product of choice for the 3.56 million households who have no bank account and also with the many people who have access to formal financial institutions. Identifying the features that make *stokvels* successful and popular should inform financial institutions of what these customers are looking for in financial products which will help them in ensuring that they meet their commitment to the FSC. The research focuses primarily on savings and lending *stokvels*, whilst the lessons identified could primarily apply to

those institutions involved in savings and lending these lessons should be transferable to institutions involved in other services, for example, insurance.

This research explores *stokvels* as vehicles required for the savings, lending and insurance needs for the poor. The view taken is that microfinance is not only about lending but that it is also about savings and insurance, and that in the South African context MFIs should always incorporate savings in order to make microfinance programmes self-sufficient and sustainable. The research explores *stokvels* as an alternative sustainable and self-sufficient form of microfinance.

Lieberman (2001) claims that there is a gap between the demand and supply of microfinance and that the only way to close this gap is for MFIs to mobilise savings, to raise capital commercially and to service clients through extensive branch networks. This research also explores *stokvels* as one possibility of closing this gap as their role is primarily to mobilise savings and they also operate on the ground where the clients are located.

Verhoef (2001) argues that women play a central role in the maintenance of their families and this must be recognised as a fundamental reason why women's *stokvel* activities deserve more attention. According to her women's saving through *stokvels* must therefore be acknowledged through improved access to regular credit offered at reasonable interest rates, an opportunity which will enhance the status of Black South African women in financial matters and facilitate the alleviation of poverty by recognising the continued central economic role of women in African families. This

research seeks to explore the role of *stokvels* in women's lives and identify whether women prefer to work together in *stokvels*.

### **1.5 Research Objectives**

This research aims to:

1. Explore the features of *stokvels* that make them successful.
2. Determine why people who have access to formal financial institutions choose to be members of *stokvels*.
3. Explore whether gender is an important criterion for *stokvel* membership and the reasons thereof.

### **1.6 Outline of the Research Report**

Chapter two provides a review of the literature on microfinance and introduces the South African microfinance industry, concluding with literature on ROSCAs and *stokvels*. Chapter three provides the research questions emerging from the literature review. The research methodology followed in the research is described in chapter four. The results are presented in chapter five. Chapter six analyses the findings within the context of the literature explored in chapter two. Chapter seven concludes the research report and recommending further avenues of research. This chapter also offers recommendations on understanding how formal institutions can be involved in providing effective services to this market, which has so far been kept out or chosen to stay out of the formal spectrum

## CHAPTER 2: LITERATURE REVIEW

### **2.1 Introduction**

The theory reviewed in this section aims to give an understanding of microfinance and its importance. Challenges of conventional microfinance are then discussed before a brief background to the South African microfinance sector and its challenges are discussed to highlight the necessity of alternative forms of microfinance. The reasons for focusing on women when discussing microfinance are discussed next, concluding with the findings of prior studies on ROSCAs and *stokvels*.

### **2.2 Microfinance**

Robinson (2001) defines microfinance as small-scale financial services, primarily credit and savings provided to individuals and groups at the local levels of developing countries, both rural and urban. Savings services allow savers to store excess liquidity for future use and to obtain returns on their investments whilst credit services enable the use of anticipated income for current investment or consumption.

The terms microfinance and microcredit are used interchangeably by many authors, but they do not have exactly the same meaning. Vonderlack & Schreiner (2002) argue that the shift from using the term microcredit to microfinance is recent, a shift reflecting the acknowledgement that savings services, and not just loans, can help improve the well-being of the poor in general and of women in particular. Microfinance is therefore a broader term that includes microcredit. This research will focus on the broader meaning of microfinance, one which includes savings, credit and insurance services.

Microfinance Institutions (MFIs) are said to serve more than 5 million households in developing countries. They introduce financial institutions into rural areas in less developed countries, which are out of the traditional banking system. Whilst traditional banks suffered from pervasive borrower default, repayment rates in MFIs have risen to levels previously unseen in less developed countries. Grameen Bank, the pioneer of microfinance, reports repayment rates of over 98% and other similar programmes have replicated such figures. (Abbink, Irlenbusch & Renner, 2006).

In the 1990s microfinance was marked by major debate between two leading views, the poverty lending and the financial systems approaches:

**Table 1: Microfinance Paradigms (Robinson, 2001)**

	<b>Poverty Lending</b>	<b>Financial Systems</b>
Goal	Making financial services available to poor people	Making financial services available to poor people
Focus	Reduce poverty through credit	Commercial financial intermediation among poor
Targeted clients	Poorest of the poor	Economically active poor
Service providers	Donor- and government-funded institutions	Savings, commercial debt and for profit investment
Role of savings	Not significant	Critical
Emphasis	Microcredit	Microfinance
Operations	Provide microcredit at low cost	Offer easy access at reasonable cost
Sustainability	Not sustainable	Attained wide outreach profitably & globally affordable
Weakness	Voluntary savings demand not met	Not appropriate for extremely poor people

Robinson (2001) argues that there is now a shift occurring from donor funded initiatives to self-sufficiency initiatives because there has been a realisation that government and donors cannot finance the millions of people who constitute present

unmet demand for microcredit. In addition, the poverty lending approach does not attempt to meet the vast demand amongst the poor for voluntary savings services. She further states that appropriately designed financial products and services enable many poor people to expand and diversify their economic activities, increase their incomes and improve their self-confidence.

Robinson (2001) presents a toolbox with an emphasis on financial services appropriate at various income levels. This toolbox suggests that when moving up income levels the financial systems approach becomes more appropriate:

**Figure 5: Financial Services in the Poverty Alleviation Toolbox (Robinson, 2001)**

Income level	Commercial financial services		Subsidised poverty alleviation programs
Lower Middle Income	Standard commercial bank loans and full range of savings services		
Economically active poor		Commercial Microloans	
		Interest-bearing savings accounts for small savers	
	Official poverty line		
Extremely poor			Poverty programs for such purposes as food and water, medicine and nutrition, employment generation, skills training, and relocation

### **2.2.1 Importance of Microfinance**

Robinson (2001) states that 80 percent of the 900 million households in low-income as well as lower-middle-income countries do not have access formal financial services. Increasing and improving the role of MFIs has been mentioned as a strategy for addressing the poverty in developing countries.

Makina & Malobola (2004) argue that microfinance programmes have become one of the most important interventions in developing countries' efforts to reduce poverty. Woolcock (1999) also states that the success of microfinance programs as agents of poverty alleviation are well documented and enthusiasts point to repayment rates of over 95 percent and the high participation of women. Other benefits include improvements in the health of and education of children and the potential for programs to become financially sustainable in the long-term. These programs enjoy support for their capability to help the poor help themselves by giving them a hand up, not a handout.

Microfinance was pioneered by the Grameen Bank of Bangladesh and since then there is hope that poverty can be alleviated by providing financial services to low income households. At the time of writing (Murdoch, 1999) there were eight to ten million households served by microfinance programs, and practitioners were pushing to try and expand this to 100 million households by 2005 which would mean five hundred to six hundred million people could benefit. The progress made towards that goal is reported in the following table:



**Table 2: Number of microfinance clients (Murdoch, 2004)**

End of year	Number of institutions reporting	Total number of clients (millions)	Number of “poorest clients” reported (millions)
1997	618	13.5	7.6
1998	925	20.9	12.2
1999	1065	23.6	13.8
2000	1567	30.7	19.3
2002	2572	67.6	41.6
2005		100?	

Microfinance is also said to have a female orientation, attributed to women's higher levels of poverty and women's responsibility for the household well being. Targeting women as clients of microfinance programs was found to be an effective method of ensuring that the benefits of increased income accrue to the general welfare of the family. At the same time, women themselves benefit from the higher status they achieve when they are able to provide new income (Mweenda & Muuka, 2004).

### **2.2.2 Challenges of Conventional Microfinance**

There is considerable agreement that microfinance is an important poverty alleviation tool for any economy but traditional microfinance has been argued to be unsustainable without the help of donor organisations. There are also claims that microfinance does little for the poorest of the poor even though these are supposed to be the target group for assistance. The World Bank rural financial services team questions the sustainability of MFIs based on the fact that poor people tend to use loans to meet basic needs such as food and shelter rather than to invest in income generating activities (Hartungi, 2007).

Makina & Malobola (2004) report that there is evidence that highlights that the impact of MFIs has been reported to be inconclusive and controversial. Three strands are apparent, one which argues that microfinance has had beneficial and economic social impacts, another that argues the opposite view and cautions against too much optimism by alluding to the negative impacts brought about by microlending, and a third strand which takes the middle of the road stance by acknowledging beneficial impacts but also stating that microfinance does not assist the poorest.

Short (2000) reports that although MFIs have had some success in overcoming many of the structural barriers that have militated against the provision of financial services to the poor, only limited progress has been made in the lower levels of the poverty spectrum. The reason for this failure is that MFIs are essentially product rather than customer-led in their approach to business. Their main focus is regarded as being on institutional rather than customer requirements, which is seen through offering highly standardised products to a market which is perceived homogenous, but which in reality is highly variable in its constituency (Megicks, Mishra & Lean, 2005).

According to Lieberman (2001) most MFIs are NGOs often providing an array of social services and focusing on microfinance as a social intervention or poverty alleviation tool without thinking about achieving commercial viability. Most of these MFIs are therefore not viable financial institutions which mobilise domestic savings or even raise commercial funds. In addition these MFIs are largely dependent on donors to subsidise their operations. Because of this current structure of the microfinance industry it cannot meet the demand for microfinance in the world.

Murdoch (1999) argues that lending to the poor is doomed to failure because costs are too high, risks too great, savings propensities too low and too few households have much to put up as collateral. Even though there are high repayments rates these have rarely translated into profits as most microfinance programs continue to be subsidised directly through grants and indirectly through soft terms on loans from donors. Those microfinance programs that are breaking even are not serving the poorest clients.

### **2.2.3 Microfinance in South Africa**

South Africa has a fairly well-regulated and sophisticated financial sector which encompasses the banking, insurance and securities industries. There is a historical bias towards the formal banking sector which has resulted in a lack of appropriate credit instruments for poor people. The microfinance industry attempts to fill this gap left by the formal banking sector; and it is composed of credit, savings and insurance institutions. Microcredit providers in South Africa are part of either the formal or the informal economy (Daniels, 2004).

The microfinance sector was formally established in South Africa in 1992 when an Exemption to the Usury Act that removed interest rate ceilings on small loans under R6,000 with a repayment period of less than 36 months was issued by the state. The industry grew rapidly, providing the impetus for a second Exemption to the Usury Act in 1999, where revisions to the amount of small loans were increased from R6,000 to R10,000. The Micro Finance Regulatory Council (MFRC) was also established to manage the sector, and new regulations for governing the way microloans would be administered and repayments collected were added (Daniels, 2004).

On 01 June 2007 a new act, the National Credit Act (NCA) was implemented. The NCA replaces the Usury Act and its Exemptions. According to this Act the MFRC is replaced by another body called the National Credit Regulator (NCR). The NCA defines maximum interest rates and charges that can be levied on loans and holds the credit provider liable for reckless lending. It is still too early to determine the effect of the NCA on the formal microfinance industry and how this will impact on the informal sector (National Credit Act, 2006).

Nancy Barry, the president of Women's World Banking, argues that although South Africa has one of the most sophisticated financial markets and infrastructure, there is little genuine microfinance activity currently taking place. She says that if you are lending to people and there is no evaluation of the business cash flow or your clients don't even have a business; that is considered consumer lending and not microfinance. The intention for microfinance must be that the majority of the money lent will go towards whatever activity the lender is engaged in that provides them with an income (Davel, 2007).

Baumann (2001) states that South Africa faces the same challenges in microfinance as the rest of the world but that most attempts to provide 'traditional' microfinance services to economically marginalised households in South Africa will fail as they will not reach the poorest of the poor effectively without subsidisation. A cause of this is that in South African conditions the gap between the earning and borrowing power of the poorest of the poor and the cost structures of conventionally conceived microfinance initiatives is simply too big.

Baumann (2004) argues that individual microcredit is too expensive for very poor households in South Africa and that focus should be on other alternatives. Meagher (2002) states that MFIs in South Africa are not authorised to take deposits, hence they cannot offer savings vehicles to clients. They therefore face significant challenges financing their operations.

Even though there are many challenges to providing microfinance to poor households, they are still in need of microfinance services to help them manage their inherent scarcity of cash, and they can benefit from microfinance services designed specifically for their savings and credit needs, for example, safe, cheap regular means to save that do not involve an expensive taxi trip to the ATM. The prevailing tendency to assume that poor households require broadly the same type of financial services as the rest of society is incorrect (FinMark Trust, 2007).

Richardson (2000) argues that one of the most misunderstood concepts of poverty alleviation is the relationship between income, wealth and savings. The focus of many traditional microfinance programmes has been credit-oriented with the belief that loans will provide poor people with a means to generate more income. There is little mention made of wealth, or the difference between what you earn and what you save. Ardington *et al.* (2004) claim that perverse access to credit can be a source of vulnerability for poor households as they become over-indebted.

### **2.3 The Importance of Savings**

Whilst there is little doubt that microfinance has brought benefits to the poor in terms of transformations in traditional exploitative structures, Edward & Olsen (2006) argue that these transformations occurred very early on and appear to be associated more with regular savings than with access to credit. Murdoch (1999) argues that there have been experiences which have shown that many relatively poor households can save in quantity when given attractive savings vehicles and suggests that one way to address the borrowing constraints faced by the poor may be to address savings constraints instead of addressing just the credit side. He goes further by saying that long-term indebtedness to moneylenders who are the only access to credit that the poor have can entrench rather than relieve poverty.

A discussion on *Savings Operations for Very Small or Remote Depositors* concluded the following according to FinMark Trust (2007):

- The poorest of the poor do not need credit or do not need credit all the time, but they all need savings facilities.
- Savings and loans are not opposites but are simply alternative ways of turning strings of small deposits over time into usefully large sums at intervals. Experience has shown that whether poor clients are saving up in a savings account or are repaying a loan what helps them most of all is a convenient, flexible and reliable opportunity to make variable-value deposits/repayments in a safe and understandable environment, in order to access lump sums when required.

- Savings services to the poor can be delivered on a sustainable basis by connecting savings and credit together and by keeping the system simple, locally controlled and limited in scope.

In traditional societies, women have been found to spend most of the earnings they control on household needs, particularly for the children. Traditionally, women often take the responsibility of managing the household finance and ensuring future livelihoods whether they are generating income or not. Saving is also regarded as a woman's skill in many poor communities because a rigid gender-based division of roles exist, which explains why the majority of members in savings schemes are women (Kajimo-Shakantu & Evans, 2007).

#### ***2.4 The Focus on Women***

From the 1970s, women's movements in a number of countries identified credit as a major constraint on women's ability to earn an income. This sparked an interest in the degree to which poverty-focused credit programmes and credit cooperatives were actually being used by women. In the 1990s a combination of evidence of high female repayments rates and rising influence of gender lobbies led to increasing emphasis on targeting women in microfinance programmes (Mayoux, 2000).

Buvinić (1997) argues that there is much to gain by reducing the impoverishment of women in developing countries. She further argues that not only can there be no substantial easing of world poverty until the international community focuses on female well-being as a goal and widens women's economic opportunities, but in this age of

shrinking foreign aid budgets, investing in women offers policymakers the highest economic and social returns at the lowest cost. The differences in the way that men and women prefer to spend scarce resources in poor households suggest that the income that poor women earn can yield higher health or social benefits than that earned by men.

Rose (1992) argues that microfinance has a female orientation because there is a widespread perception that women are more responsible than men because they have a greater awareness of the needs of family and are thought to be less likely to squander loans on unproductive consumption. There is also a belief that poor women are doubly oppressed by virtue of both their poverty and their subordinate status to men in their households and this is said to be reason enough for women to want to see their groups succeed (Johnson & Rogaly, 1996).

Underlying the current debate there are three paradigms on microfinance and gender. This research is written from the perspective of the financial sustainability and the poverty alleviation paradigm together and not so much from the feminist paradigm.





**Table 3: Paradigms on microfinance and gender (Mayoux, 2000)**

	<b>Financial sustainability</b>	<b>Poverty alleviation</b>	<b>Feminist empowerment</b>
<b>Underlying development paradigm</b>	Neo-liberal market growth	Interventionist poverty alleviation and community development	Structuralist and social feminist critique of capitalism
<b>Strategy</b>	Setting up financially self-sustainable microfinance programmes which increase access to microfinance services for large number of poor people, including women.	Microfinance as a part of an integrated programme for alleviation of poverty and vulnerability and increasing wellbeing for the poorest households.	Microfinance as an entry point for women's economic, social and political empowerment.
<b>Instruments</b>	Setting of interest rate cover costs, separation of microfinance from other interventions to enable separate accounting, programme expansion to increase outreach and economies of scale, ways of using groups to decrease costs of delivery.	The importance of small savings and loan provision, group formation for community development, methodologies for poverty targeting and/or operating in remote areas.	Gender awareness and feminist organisations
<b>Reason for targeting women</b>	Efficiency considerations because of high female repayment rates and contribution of women's economic activity to economic growth.	Because of higher levels of female poverty and women's responsibility for household wellbeing.	Gender equality and women's rights.
<b>Definition of empowerment</b>	Economic empowerment, expansion of individual choice and capacities for self-reliance	Increased wellbeing, community development and self-sufficiency	Transformation of power relations throughout society
<b>Main focus of gender policy</b>	Providing the framework for equal access for women	Increasing women's participation in self help groups.	Gender awareness and feminist organisation
<b>Definition of sustainability</b>	Programme financial self-sufficiency	Establishment of local level participatory institutions for long-term community self-reliance and self-determination for the poor	Development of self-sustaining participatory women's organisations linked to a wider women's movement for transformation of gender relations.
<b>Definition of participation</b>	Participation as a means to increased efficiency through consultation for 'market relevance', group formation for self help to decrease costs of service delivery and some participation in decision making to increase commitment and innovation.	Participation as an end in itself, increasing skills through consultation in decision-making, group formation for community development and development of self-owned and self-managed people's organisations.	Participation as an end in itself to enable women to articulate their collective interests and organise for change in gender relations.
<b>Underlying assumption</b>	Increasing women's access to microfinance will automatically lead to economic empowerment without other complementary interventions or change in the macro-economic growth agenda.	Women's empowerment, household level poverty alleviation and community development are inherently synergistic, increased well-being and group formation will automatically enable women to empower themselves.	Women's empowerment requires fundamental change in the macro-level development agenda as well as explicit support for women to challenge gender subordination at the micro-level.

## **2.5 Rotating Credit and Savings Associations (ROSCAs) and Stokvels**

A ROSCA is defined as a group of individuals who make regular, financial contributions for the creation of a fund. An ASCrA is another similar scheme where the money is paid in only once at the outset and from the available amount members take loans at an interest rate. Due to interest repayments the volume of the ASCrA account increases even though the principle of compound interest is not applied. As a result members have better chances of borrowing larger sums of money and the members' savings also increase (Thieme, 2003). At an agreed time, usually on an annual basis, ASCrA members divide the proceeds.

Bouman (1995) states that ROSCAs and ASCrAs are similar as the main purpose of both is to provide savings and lending services. Both are voluntary, autonomous and membership-based organisations which have their own objectives, rules and organisational patterns. They are also both self-sufficient and self-regulating, and have installed their own control mechanisms which make them independent from legal, fiscal, and financial authorities.

Verhoef (2001) states that in most respects *stokvels* display the general characteristics of ROSCAs in that they are formed on the basis of voluntary association of mutually trusted parties which require regular contributions. Because *stokvels* are savings mechanisms to meet life-cycle needs, non-compliance with mutually agreed-upon arrangements is punished.

For purposes of this research ROSCAs, ASCrAs and *stokvels* are taken as similar and these three names will be used interchangeably.

### 2.5.1 Definitions

The basic definition that is used in literature is based on Ardener (1964) who refers to an association formed upon participants who make regular contributions to a fund which is given in whole or in part to each contributor in turn. The two elements of regularity and rotation are seen as the essential criteria distinguishing these institutions from a range of other mutual benefit institutions available (Ardener, 1995). This definition is however seen as too narrow for this research in that it does not take into consideration new developments where regularity or rotation might not be present yet the association fulfils the same purposes.

Buijs (1998) and Gugerty (2003) use slightly different definitions which talk about a group of locally organised members who meet at regular intervals to contribute to a fund which is given in turn to one or more members. In other instances part of the fund is used to loan out money at interest to members and non-members to generate income for the association. Vonderlack & Schreiner (2002) describe those who have yet to receive the pool as savers and members who have already received the pool are debtors.

The following characteristic terms of *stokvels* are given by Verhoef (2001):

- They are formed for pecuniary gain and include organisations that are purely savings-based and those that are profit-oriented;

- it is assumed that members act in their own best interest;
- contributions are fixed and regular;
- funds are distributed that members benefit equitably; and
- membership is voluntary.

Tsai (2000) argues that if someone needs a larger amount of money than he or she can accumulate individually, it makes sense to solicit modest contributions from a network of friends, relatives and neighbours – with the institutional promise that each contributor will in turn receive a share of a similarly large sum of money.

### **2.5.2 Prevalence**

ROSCAs are found in countries with vastly different levels of economic development, from the very poor economies and even in some countries which are at advanced stages of development. While they are often found where credit markets are non-existent, they are also found in more developed economies, usually among sub-groups who have been traditionally excluded from traditional mainstream financial Services (Verhoef, 2001).

Ardener (1964) and Thieme (2003) both claim that ROSCAs are found all over the world and have existed for at least the last two centuries. They are said to combine the Western ideas of credit and savings with the warmth and concern of traditional associations. They are said to be remarkable for their wide distribution, their variety of forms and functions, and their durability in situations both of high financial insecurity and of prospering industrialisation. Furthermore, whilst ROSCAs are popular among

the poor and in fluctuating economic conditions; they also thrive among some relatively affluent economic strata (Ardener, 1995).

Bouman (1995) and Gurgerty (2003) argue that ROSCAs are among the oldest and most prevalent savings institutions found in the world and play an important role in savings mobilisation in many developing economies. Verhoef (2001) states that the earliest *stokvels* were savings clubs which rotated pooled funds to members on a mutually agreed basis. Membership of these early *stokvels* varied, but most were relatively small, ranging from five to six to between twenty and twenty-five people.

Ardener (1995) found that familiarity with the banking system was found not to prevent the use of banks by members of ROSCAs. ROSCAs therefore challenge the notion that the formal and informal economies operate as totally independent. Tsai (2000) agrees and states that differential access to local financial institutions is seen as a better predictor of ROSCA participation than a country or locality's overall level of economic development.

ROSCAs are said to represent an adaptive response to poverty or relative deprivation among both rural and urban populations in industrialised, stratified societies such as South Africa. They provide an alternative to the mainstream, which generally excludes the poor. In many urban and suburban areas well-developed commercial banking and savings institutions exist side by side with flourishing ROSCAs. However, members of ROSCAs often do not have access to these institutions, or if they have access they just see other advantages of ROSCAs (Buijs, 1998).

Klonner (2002) states that in certain urban settings ROSCAs have been formalised into big businesses where a company will run auction ROSCAs. These companies will collect the contributions and pay the winner of a ROSCA where members are not even aware of defaults or late payments by other participants. Large ROSCA fund companies are said to run as many as 10,000 auction ROSCAs simultaneously. In India there apparently has been a steady growth of commercial ROSCA funds to the extent that there is legislation that regulates this part of the financial sector.

### **2.5.3 Organisational Features**

#### ***2.5.3.1 Gender-based membership***

Burman & Lembethe (1995) say that some ROSCAs have members of both sexes whilst others have members of only one. They vary greatly in size and to a lesser extent in mode of operation. These authors found that those that had only women members were in most cases by deliberate choice of members in that they specifically excluded men. They said that they preferred it that way simply because they felt that men can find it difficult to work with women in that they may feel that they are being controlled. Another group felt that women understood one another better.

According to Tsai (2000) women are more likely to participate in ROSCAs for reasons stemming from the socially constructed, gendered attributes that render women better able than men, first, to make credible commitments in loan repayment, secondly to express agency in certain economic domains, and thirdly to incur lower social costs in accessing female-dominated social networks.

Verhoef (2001) asserts that savings in the *stokvels* were relatively large and frequent and that women make up the majority of the members. Women generally prefer women-only *stokvels* because men convey unwillingness to forego spending available cash for future benefits. Women also commented that men were not trustworthy. Burman & Lembethe (1995) found that many women stressed the usefulness of ROSCA money in freeing them from reliance on frequently unreliable or uncooperative men who had fathered their children.

Burman & Lembethe (1995) found that far from being the resort of the poorest in the community, *stokvels* were available to those who had a job or a regular source of income to meet contributions without fail. In the 1991 Markinor study reported by Verhoef (2001) income differentials were not found to be a strong indicator of participation in *stokvels* and 25 percent of participants were found to belong to more than one *stokvel*. The primary reasons for participating in *stokvels* were, in order of priority, to provide for funeral costs, to save for larger purchases, to attend social events and to invest in business. The study also established a strong positive relationship between income and *stokvel* membership, substantiating the view that improved income and standard of living correlate with persistent participation in *stokvels*.

#### 2.5.3.2 Social Capital

Coetzee & Cross (2002 -3) state the first requirement for any group to operate successfully appears to be social capital which is the webbing of interpersonal connectivity that allows group members to trust each other and to predict each others'

behaviour. Burman & Lembethe (1995) concur and state that apart from gender, the criteria for membership were influenced primarily by the requirements of trustworthiness and ability to pay – or at least an inability to vanish into thin air. All the clubs required that new members be recommended by an existing member. Members either worked together or lived near other members, so there was contact between them even without formal meetings.

Tsai (2000) found that ROSCAs tended to be popular among tightly knit groups of people who combine their resources for mutual financial assistance in the absence of ready access to official sources of credit. The selection criteria for membership were along the lines of gender, ethnicity, kinship, age, occupation, residential origin or some socially meaningful combination of these factors.

Buijs (1998) states that the fact that formal record-keeping is not required makes ROSCAs to have much lowered administrative and transaction costs as there are low overheads since the officials are unpaid and no facilities are built or rented. The costs of processing or recovering a loan are similarly low and as members of the group can easily access the creditworthiness of the applicants as the borrower has to be known to at least part of the group.

Vonderlack & Schreiner (2002) agree with this view and say that ROSCAs are common among poor women because they offer low transaction costs, which are kept low because the ROSCAs are formed among people who know and trust each other and who already meet regularly or live or work close to each other. There is also pressure to save because failure to do so reduces the pool for the other members.



Burman & Lembethe (1995) also found that each member was required to at least have one close friend in the group, and the operation of the club depended on close friends taking responsibility for contacting each other when necessary. Schreiner (2000) argues that ROSCAs tap into sunken investments in social capital to screen members and enforce contracts. As a result of the relationships, even without collateral the default rate is very low because the groups are generally homogenous and the members often know each other from work, home or some other place and they interact freely with each other.

For Gugerty (2003) default is quite low in ROCSAs because the information and enforcement advantages held by residents of a close-knit community allow groups to screen out poor risks through peer selection and to monitor other group members' level of effort. This informational advantage is backed by the power of social sanction as the group members have the ability to exclude defaulters from community networks that provide insurance and access to local resources.

### *2.5.3.3 Trust and the Issue of Default*

Members of a ROSCA can rely on a nil default rate as there is an overriding priority that is given to meeting ROSCA obligations which result in the comparative rarity of default which is a notable feature of these associations. The disgrace and humiliation which can fall on a defaulter is much feared. Whilst a defaulter can lose material possessions, also of importance are the serious consequences for any defaulter if lost trustworthiness leads to exclusion from further participation in ROSCAs, particularly where they are securely embedded in the local and economic system (Ardener, 1995).

Ardener (1995) further states that an important element in the stability of ROSCAs is that it is in the interest of most or all the members to ensure that there are no defaulters as defaulters threaten the system and a failed ROSCA damages the reputation of an entire group. To avoid ruining the group's reputation becomes an issue for the group, even to the point of the organiser lending money to a contributor unable to meet due, or another member helping, or the defaulter may be permitted to pay late or to borrow from a hardship or loan fund to which members have contributed. To avoid the shame and the social and economic deprivation arising from default, resort may be had to money-lenders, sale or pawning of assets, or even to malpractice in order to find ROSCA contributions.

Burman & Lembethe (1995) found that some women were bemused when asked what would happen if someone did not pay her contribution as it was clearly unthinkable, given the basis of trust on which the clubs were formed and the strength of public opinion in the township.

Organisers recruit members on the basis of personal traits and characteristics, to avoid problems of default. Mutual trustworthiness and personal friendship are the most important membership qualifications. There is an importance placed on members being in daily contact so that they can keep a close eye on one another and lessen the risk of defaulters. It is for this reason that personal ties (residential, church or occupational) are seen as important factors in membership criteria. The factor of trust is said to be the most important aspect of membership, explaining why few men are accepted as members of women ROSCAs (Buijs, 1998).

Membership is based on personal relationships and trust and this element of trust plays an important role in the functioning of both ASCrAs and ROSCAs. One key principle is the use of peer group pressure to guarantee repayments. In order to qualify for a loan in this group anyone who takes a loan or receives money is obliged to bring a guarantor (Thieme, 2003).

Buijs (1998) argues that although members of these associations are aware that they risk losing their savings if fellow members default on their contributions, various steps are taken to try and ensure that this does not happen. These include putting new members at the end of the rotation cycle; giving parties at each other's homes so that members may meet and reinforce solidarity; and issuing receipts. Buijs (1998) found that in South Africa legal contracts are never established and that trust is relied upon to avoid default. The low default rate was found to be of vital importance to the success of these informal credit unions and participants were more inclined to default in their furniture or clothing accounts than on their association contributions.

#### 2.5.3.4 Decision on Rotation

On the surface, ROSCAs appear to be equitable mechanisms of saving, however, with some analysis it becomes evident that the first member to receive the fund becomes a debtor to all the other members and remains one until the last contribution has been made, the last member to receive it becomes a creditor to all the other members throughout, while the other members move in turn from being creditors to debtors. The advantages to all members are therefore not equal. All the members except the last to receive the fund get interest-free loans of decreasing magnitude for decreasing

periods, and all but the first give interest-free loans of increasing magnitude. This feature makes the method by which the order is determined is therefore of much importance (Ardener, 1964).

Various groups determine the order of rotation in different ways but it is always on the basis of a pre-arranged principle. Tsai (2000)'s research in China found that the basic type of ROSCA specified a fixed monthly or semi-annual contribution to the pot by all members, typically a group of friends or neighbours, and then the pot was rotated on an interest-free basis so that each ultimately received back the same nominal amount. Another popular form was the "dice-shaking" association because the highest roller of two dice in each meeting would receive the pot.

Another type identified by Thieme (2003) and Tsai (2000) was the auction association since the order of pot recipients was determined by secret bidding, whereby the member who bid the highest interest rate received the pot. The interest that is paid by the winner is added to the future pots. Tsai (2000) also reports of contemporary associations which charge higher rates of interest to those who receive the collective pot early in the rotating cycle, while those who waited until the latter months would end up as net recipients of interest payments from all the other members who had already collected.

#### 2.5.3.5 Meetings, Records and Payments

Strict mutually accepted rules of operation are said to be characteristic of *stokvels*. These rules include regular meetings, fixed contributions, compulsory attendance and

agreement prior to the order of rotation for payouts from the savings pool, which is sometimes stipulated in a formal constitution. There is a claim that these clubs terminate their existence upon completion of a single cycle and a new *stokvel* is established among the same group of trusted parties (Verhoef, 2001).

The regularity of ROSCA contributions usually implies that there are meetings held at the time when the contributions are to be paid. A feature of all ROSCAs meetings in the Burman & Lembethe (1995) sample was the receipt of contributions from members and the handing over of money to the person whose turn it was to receive it.

Burman & Lembethe (1995) report that most clubs kept no records at all except whatever notes members might have made for themselves. Although no formal records of payment were kept, the organiser almost always kept own records. The organiser kept a list of the order of rotation. Most associations had a fixed payment date and members either paid in person or gave their contributions to the unofficial organiser. In others there was even a constitution that laid down that the member who was to be paid must receive the money by a certain date of the calendar month, and members took the time limit very seriously.

Thieme (2003) claims that the rules of the game are written down, and records and accounts are audited. She claims that these schemes have a chairperson who is the key person and who ensures that the rules are applied and is ultimately liable for any losses. The chairperson is said to be supported by a secretary and a treasurer. The schemes have strict and regular meeting schedules, standard contributions and standard fines for non-payment. The meetings are usually run at the same location

and they take place at fixed days and hours and they generally take place a week after most people have got paid.

Tsai (2000) also argues that even though ROSCAs give the appearance of being rather informal, association members take the rules quite seriously and in many cases record the specific operating procedures on paper in a contractual form such that all members are required to sign their names.

#### **2.5.4 Reasons for popularity of ROSCAs and *Stokvels***

In the study by Burman & Lembethe (1995), when asked whether they thought ROSCAs were useful institutions all interviewees without exception approved of them. Reasons for this support proved to be varied.

##### ***2.5.4.1 Forced Savings***

The most cited reason according to Burman & Lembethe (1995) was financial considerations, though frequently linked with social considerations. Some interviewees thought ROSCAs were the best way to save money because the social pressures imposed by a club made it virtually impossible to default on payments. The fact that one could not withdraw money on impulse, as could be done from a bank or a building society account was also seen as a reason for support.

These savings are said to make the purchase of larger items possible without resort to hire purchase while other women indicated that both their lifestyles and their self-esteem had been augmented. For some women saw payouts as a way of

supplementing their regular salaries for things like end-of-year Christmas functions or for their children's new school year (Burman & Lembethe, 1995). According to Verhoef (2001) *stokvel* meetings presented poor people with a revenue-generating opportunity because the organiser could charge an entrance fee or sell liquor or tea to the members and non-members and could thus augment meagre incomes and relieve poverty.

According to Thieme (2003), these groups were also found to have the ability to quickly mobilise contributions for sudden financial crises such as deaths or hospitalisation. These groups also make it possible for members to have access to a large sum of money than when saving individually. Verhoef (2001) says that the insurance function of *stokvels* is that they provide guaranteed access to funds for future necessities. Participants said that they would not have the willpower to save on their own and that by putting regular contributions into a savings club they knew they would be able to meet their commitments.

Because of the saving aspect of these groups, the members are encouraged to save regularly and thus accumulate savings, which they would not be able to do alone. Members were found by Miracle, Miracle & Cohen (1980) to appreciate the discipline of regular saving, and the group was also found to benefit from lending skills and contacts of more able members. Lending out sums at interest provides an incentive for members to join, not merely to save, but also to make money. Buijs (1998) also believes that it is important that they keep money in local circulation rather than channelling it to the formal system where they would not have control over what it is used for.

#### 2.5.4.2 Access to Credit

Burman & Lembethe's (1995) interviewees stressed that the savings themselves, the possibility of loans from the ROSCA or of the club, all gave additional security in times of unexpected financial demands. Verhoef (2001) states that to illiterate Black people banks were intimidating and *stokvels* offered them a more pleasant and better understood form of savings than Western-style banks. They also provided security for a personal line of credit among trusted friends. The use of *stokvel* credit then fed back into savings as borrowing meant repaying, and wanting to borrow followed from previous savings discipline. Participation in *stokvels* therefore represents one of the adaptive responses by Black South Africans to conditions of poverty and relative deprivation.

*Stokvels* are also said to provide a mechanism to mobilise limited savings that would otherwise lie idle to provide credit for poor people with low and irregular income who find it difficult to establish creditworthiness and therefore obtain access to credit. *Stokvels* are said to have developed guarantees of access to credit which was a powerful incentive for women to participate because their overwhelmingly informal-sector activities meant that formal banking institutions did not want their business (Verhoef, 2001).

Credit obtained through *stokvels* is said to be expensive, however the most important consideration for poor people is access to credit and not its cost. Access to credit suited to the needs and convenience of poor Black South African women is therefore of greater importance than making credit cheaper. In addition, accelerated



accumulation of savings are said to enable *stokvel* members to buy in bulk and to negotiate discount on goods which is perceived to improve their standard of living (Verhoef, 2001).

Verhoef (2001) states that in the modern South Africa where Black South Africans have been integrated into the first world industrialised economy to a substantial degree participation in *stokvels* has increased among the lower income groups as well as in middle- and high-income groups. Women's *stokvel* activities empowered them by supplementing limited earnings, guaranteeing access to credit when needed and by providing start-up capital for new informal enterprises.

Buijs (1998) says that membership of one of these clubs gives a woman a source of funds on which she can draw in an emergency and which might not be available to her elsewhere. For this author poor people are most likely to be in need of emergency credit, and least likely to be able to obtain credit from sources such as banks, thus members may draw on association funds in times of need as well as receiving pay-outs on a rotational basis. Membership in ROSCAs therefore enables poor women, who might be without formal wage employment, to maximise their resources and safeguard what little cash they have. Schreiner (2000) states that ROSCAs can act as informal insurance and that they can help members raise big sums sooner than if they saved by themselves.

#### 2.5.4.3 Social Considerations

Verhoef (2001) asserts that *stokvels* play more than a financial intermediary role within the Black communities, a role they continue to play despite the existence of a sophisticated financial structure in South Africa. The socio-cultural dimension of *stokvels* provides security and support that no bank can provide, as well as guaranteeing vital support to poor women.

On being asked whether the women were aware that they were forfeiting interest by putting their money into ROSCAs rather than a bank or building society they reported that they were aware, an important reason why women ROSCA members were prepared to forego interest from their savings, where applicable, was the social role of clubs, which was a common answer and often had financial implications too. Some interviewees emphasised that they valued their clubs as forums in which to collect advice from other members on how to save and use money constructively (Burman & Lembethe, 1995).

Ardener (1995) the speed with which ROSCAs can usually react to their members needs can rarely be matched by distant, impersonal banking systems. ROSCAs also permit some flexibility and frequently can meet the challenge of acute financial pressure, recession or inflation. For example, when times are tough the rotation can be extended by increasing the periods between the payments.

Ardener (1995) says that it is possible to claim that participation demonstrates a member's social responsibility, which may be a key element in their success. The

purely social element is highly valued by many who join ROSCAs. In all these situations friendship networks are a resource, because 'social collateral' is a prerequisite not only for successful entrepreneurs but often for social and economic survival. Burman & Lembethe (1995) found that socialising of various types played an important role in all the clubs that had meetings.

Verhoef (2001) claims that the social purpose of *stokvels* is said to at least be as important as their economic purposes. *Stokvels* are said to provide moral support and generating a strong sense of solidarity among members. They are said to enhance and secure members' social and economic status because of the trustworthiness ascribed to members, the members are known to be generous and reliable, enhancing their prestige within and outside *stokvel* circles. Lending support and status are said to remain very important functions of *stokvels* and contributing to women's participation.

The need for savings had been first attempted through hoarded cash and in some cases money was even saved at the post office but the desire for social interaction and mutual support gave rise to a ROSCA-type saving through *stokvels* (Verhoef 2001). Thieme (2003) says that these groups are multifunctional organisations which offer their members more than just financial support, they disseminate other information such as housing, employment opportunities or simply provide a place to socialise.

Buijs (1998) concurs and says that among poor women, both wage earners and self-employed, membership of a RoSCA is a support mechanism in their search for income earning activities and a means of maximising their resources. Membership provides them with a supportive environment in which they can enjoy socialising at the regular

meetings, and also make important contacts which assist them in their business and childcare activities. In most instances membership is said to assist in maintaining social contacts, which helps the member in times of difficulty, and also provides social contacts in situations where kin is not always available.

Ardener (1995) states that the social and economic benefits of ROSCAs commingle until they are eventually inseparable. The economic is said to underpin the social, while simultaneously the social supports the economic. The economic and the social benefits are therefore the same. The obligation to pay ROSCA dues is seen as justly eclipsing all other demands. It is seen as a moral, or traditional, or even religious duty not applicable to other debt payments. It is apparent that the rewards of ROSCAs are simultaneously material and immaterial; which is perhaps their strength.

### **2.5.5 Uses of ROSCA and Stokvel Proceeds**

Ardener (1995) states that women use their ROSCA accumulation for food for their families as well as to buy necessary household equipment. The proportion of their ROSCA capital accumulations which women spend on house-building and entrepreneurial activities has received less prominence than their expenditure on perishable and durable consumer goods. Tsai (2000) found that savings associations were sometimes organised within the work unit as a form of social insurance in case of emergencies, and for financing expensive consumer products.

Burman & Lembethe (1995) found a few clubs which had clearly enunciated views on how the payouts should be spent, or even imposed actual restrictions. Miracle *et al.*

(1980) found that in rural South Africa members used their funds for immediate expenses or to support business ventures, rather than to repurchase consumer durables. The most widely reported use for the money collected through a ROSCA was for personal needs, most often normal daily expenditures such as clothing, food, shelter and payment of school fees.

Tsai (2000) found that at the peak of their popularity, contemporary ROSCAs were no longer structured as conventional ROSCAs and their funds were not being used for investment and production purposes, the lure of collecting high returns on contributions became a "profit-making" end in itself, attracting people from all walks of life. As in many other contexts where women dominate small-scale commerce, ROSCAs are the primary source of grassroots finance in these counties; they are part of everyday life in the female-dominated market places.

### **2.5.6 Some Problems of ROSCAs**

The success of these groups depends on the members' continued participation and there is a risk that people will stop contributing to the fund and some participants risk losing their money.

Another problem is the rigidity of fixed monthly contributions as excess money over and above the agreed amount is not accepted. If a member has excess incomes that she wants to save she cannot save it with the group, and these excess incomes will end up being consumed and fail to be converted into savings (Seibel & Shresta, 1999).

The order of rotation in ROSCAs is another disadvantage for members as the money does not necessarily come at a time when it is needed. Buijs (1998) maintains that these *stokvels* are more likely to act as a 'personal line of credit' than as a means of providing a lump sum as it often happens that rotational payments do not coincide with the members' need for cash.

If they are used for credit, the high interest rate that is sometimes charged for borrowing also makes these schemes unattractive as it could be as high as microlenders in certain instances. These schemes can therefore perpetuate debt and dependency as it has been found that people borrow from one source to repay another (or to make interest payments), often finding themselves tied into an expanding network of credit dependency because of the high interest rates (Thieme, 2003). Cross (1987) however argues that credit borrowed from the scheme incurs minimal interest charges (which were between 10 -20% monthly, as compared to moneylenders who charged on average 40%, at the time of the research).

The popular critique of ROSCAs when they collapse is when they start treating them as a means to make money the social element is overwhelmed by the profit motive and capitalist greed self-destructs. This is the dark side of a practice that is supposed to be based on mutual assistance, most entrepreneurs participate in them for business purposes, and most of the time the participants' desire to maintain this source of credit (and the social ties that they rely on) overrides the temptation to default or abscond with the collective pot. In practice, ROSCAs represent both an expression of mutual assistance and a means for personal/household profit (Tsai, 2000).

## **2.6 Conclusion**

Microfinance has been recognised as important in the alleviation of poverty and the empowerment of women. It has also been acknowledged that traditional microfinance might not be the most appropriate solution for developing countries due to the high transaction costs and is donor driven. For developing countries to harness the power of microfinance MFIs will have to be sustainable and be able to give the benefits of microfinance without relying on donors or government subsidies.

Another challenge is that formal microfinance institutions are not able to reach fast enough the most rural areas and an alternative solution to their financial needs is necessary. Indigenous forms of microfinance such as ROSCAs could be the solution for the microfinance problem in these areas as they are self-sufficient and do not rely on donors.

Given the strong interdependence between members of ROSCAs, it is hardly surprising that they – and particularly women's ROSCAs – should serve as vehicles for women's support for each other. Seeing that the clubs also empower women by helping them to become to some extent economically independent of their husbands, families and boyfriends, and to create social standing for themselves within the community, they are a natural vehicle for liberating and strengthening women in a very patriarchal society. (Burman & Lembethe, 1995).

The remainder of this report focuses on the functioning of *stokvels* as an alternative form of microfinance.

## CHAPTER 3: RESEARCH QUESTIONS

### **3.1 Introduction**

The literature review has indicated that microfinance is considered a powerful poverty alleviation tool. It has also shown that there are some challenges that make conventional microfinance unsuitable for polarised societies like South Africa where the costs of providing such services is just too high. As a result the big financial institutions in South Africa are not heavily involved in microfinance because they have no incentive to be. Highlighting these challenges indicated the need for alternative forms of microfinance.

Chapter two also highlighted the reasons given in the literature for microfinance's focus on women. The literature also indicated that ROSCAs are prevalent institutions all over the world and that they have a variety of features which make them successful. It has also been indicated that these institutions, called *stokvels* in South Africa are quite popular and that there is R5.61 billion invested in *stokvels* annually and indicated their popularity in the Black communities throughout the LSMs.

### **3.2 Research Questions**

This research explores *stokvels* as an alternative form of microfinance in South Africa. The following research questions will be asked in order to investigate *stokvels*:

#### **Research Question 1**

What features of *stokvels* make them successful?



## **Research Question 2**

Why do people who have access to formal financial institutions choose to be members of *stokvels*?

## **Research Question 3**

Is gender an important membership criterion? Why?

### **3.3 Conclusion**

This chapter identified the research questions to be asked in order to identify the features that make *stokvels* successful and the reasons why some people who have access to formal financial institutions prefer them. The literature highlighted the fact that there is a gender preference for *stokvel* membership and this question was also asked.

The research questions will be discussed during the focus group interviews that will be conducted, as described in chapter four which details the research methodology.

## CHAPTER 4: RESEARCH METHODOLOGY

### **4.1. Introduction**

This chapter covers the research method adopted to answer the questions raised in Chapter three. It includes the approach taken to identify the appropriate population, the data collection process and the approach taken to the data analysis. Limitations of the research method are also discussed.

In order to explore the functioning of *stokvels*, exploratory qualitative research was conducted through the use of focus group interviews. Exploratory research is usually conducted to clarify ambiguous problems where there is a high level of uncertainty about the nature of the problem. It helps diagnose the dimensions of a problem so that successive research projects can be undertaken successfully (Zikmund, 2003). This research is one such study where the author is exploring *stokvels* as alternative microfinance institutions.

### **4.2. The Research Method**

Qualitative research is considered suitable for this study because the aim of the research is depth understanding. One of the major features of qualitative research is that it focuses on naturally occurring, ordinary events in natural settings, so that there can be a strong handle on what real life is like. The influences of the local context are not stripped away in qualitative research, they are in fact, taken into account, making the possibility for understanding latent, underlying, or non-obvious issues stronger (Miles & Huberman, 1994).

Denzin & Lincoln (2003) assert that qualitative researchers study things in their natural settings and attempt to make sense of or to interpret phenomena in terms of the meanings people bring to them. Bryman (1988) agrees and states that the most fundamental characteristic of qualitative research is its express commitment to viewing events, actions, norms, values and anything else to be studied from the perspective of the people who are being studied. For him the strategy of taking the subject's perspective is expressed in terms of seeing through the eyes of the people being studied.

Henning, Van Rensburg & Smit (2004) state that in a qualitative study the "variables" are usually not controlled as the research wishes to capture exactly this freedom and natural development of action and representation. It aims to understand and also explain what the phenomenon being studied is about. These authors claim that understanding should not be placed within the boundaries of an instrument designed beforehand as this would limit the data to those very boundaries. Chipp (2007) agrees and states that qualitative research does not pre-define anything, that the respondent is considered to be an equal partner as they are considered to have equal access to potential knowledge.

Bryman (1988) argues that qualitative research displays a preference for what he calls contextualism in its commitment to understanding events and behaviour in their context. Closely linked to contextualism is holism, another theme of qualitative research which entails an undertaking to examine social entities as wholes to be explicated and understood in their entirety. The emphasis in qualitative research is on the need to interpret what is going on in terms of an understanding of the whole

society and the meaning it has for the participants. The basic message that qualitative researchers convey is that whatever the sphere in which data are being collected, we can understand events only when they are situated in the wider social and historical context.

#### **4.2.1 Focus Group Interviews**

The type of qualitative research undertaken for the study was focus group interviews. Bryman (1988) states that focus group interviews are a form of unstructured interviews with more than one subject. He states that these group discussions are loosely structured around a series of key topics and questions to allow for a degree of flexibility. These discussions have the advantage of bringing to the surface the differences amongst the participants and the contradictions within and between their replies.

Patton (2002) describes a focus group interview as an interview with a small group of people on a specific topic. Groups are typically six to ten people with similar backgrounds who participate in the interview for one to two hours. He agrees with Bryman (1988) by stating that the focus group interview is first and foremost an interview with a twist in that unlike a series of one-on-one interviews, in a focus group participants get to hear each other's responses and to make additional comments beyond their own original responses as they hear what other people have to say.

Zikmund (2003) agrees with both authors that a focus group interview is an unstructured, free-flowing interview conducted with a small group of people at the

same time. It is not a rigidly constructed question-and-answer session but a flexible format that encourages discussion. The interviewer is usually called the moderator and it is best conducted with a group of six to ten participants discussing a single topic. The group is encouraged to discuss the subject amongst themselves. Focus groups are said to allow people to discuss their feelings, anxieties and frustrations as well as express the depth of their convictions in their own words. The discussion should ideally proceed at the group's initiative

The object of focus group interviews is to get high-quality data in a social context where people can consider their own views in the context of the view of others. The focus group is said to afford the opportunity for multiple interactions not only between the interviewer and respondent but among all participants in the group. The focus group is therefore not a collection of simultaneous individual interviews, but rather a group discussion where the conversation flows because of the nurturing of the moderator, whose role it is to moderate or guide the discussion (Patton, 2002).

There are many advantages to conducting focus groups, including the fact that they are relatively brief, easy to execute, quickly analysed and inexpensive. Interactions among participants enhance data quality as participants tend to provide checks and balances on each other, which weeds out false extreme views (Zikmund, 2003). Focus groups make it easy to identify information about the functioning of groups, making the focus group the ideal method for the current study.

The flexibility of the focus group to discuss numerous topics and gain insights into the issues is another reason the focus group is preferred. The focus group allows for

closer scrutiny in different ways including observers who can check consistency of interpretations. The ability to conduct a number of interviews at the same time remains one of the best advantages of conducting focus group interviews (Zikmund, 2003).

The power of focus groups resides in their being focused; the topics are narrowly focused, usually seeking reactions to something. The groups are focused by being formed homogenously. The facilitation is focused, keeping responses on target. Interactions among participants are focused, staying on the topic (Patton, 2002).

The major limitation of conducting focus groups is that the success is highly dependent on the moderator and his or her ability to facilitate the session. Because in one group there are a number of people being interviewed, if the moderator fails to establish rapport with the group and promote adequate interaction, there is a lot of valuable information that is lost than if this happened on a one-on-one interview (Zikmund, 2003).

Patton (2002) also states that facilitating and conducting a focus group interview requires considerable group process skill beyond simply asking questions and that the moderator must manage the interview so that it's not dominated by one or two people and so that those participants who tend not to be highly verbal are able to share their views. Another problem according to Patton (2002) is that it is possible in a focus group that those who realise that their viewpoint is a minority perspective may not be inclined to speak up and risk negative reactions.

#### **4.3. Population and Unit of Analysis**

The population of relevance includes all the *stokvels* that are available in South Africa. Figures about the size of the population were discussed in chapter one. The South African Deputy Minister of Foreign affairs, Ms Sue van der Merwe in 2006 stated that the membership of *stokvels* was around 3.5 million people (South African Consulate General).

The unit of analysis is the *stokvel*.

#### **4.4. Sampling**

The sampling technique was nonprobability sampling where the selection of sampling units was quite arbitrary. Convenient sampling was used for this research where the first groups that were able to meet during the time when the researcher was available and met the criteria were interviewed. Convenience sampling was used because of the limited time and funds that were available to collect data.

The following was used as selection criteria for the schemes that were interviewed:

- They had to have been in existence for a minimum of five years and were still functional at the date of the interview, and there was reason to believe that group would continue to exist into the future.
- The majority of the members (more than half) have to have been around from the beginning of the group.

Qualitative research employs small samples so that the respondents can provide a depth of information. Three focus groups were conducted. Two of these were typical

ROSCAs and one was an ASCrA. Even though these two schemes have different *modus operandi*, it was believed that they have become similar in their purpose of provision of savings mobilisation that a combination was not seen as a problem. A separate focus group for each of the *stokvels* was conducted as Zikmund (2003) suggested that homogenous groups work best.

In the three focus groups conducted, two groups had five participants each and one had eight participants. Even though the literature suggests a minimum of six participants, the results from the groups that had five participants each were considered because the author believes that there was enough participation as all the members of the groups seemed to share similar ideas about the functioning of the group. The one group with five participants was also small such that five participants represented more than half the complement of the group.

#### **4.5. Data Collection**

The three focus groups were conducted at the homes of the organiser of the ROSCA or ASCrA. Appointments were scheduled with the three groups in advance and all the focus groups were tape recorded and then transcribed. All the focus groups were conducted in Venda, Limpopo province, but in different areas. The focus groups were conducted in vernacular and translated at a later stage.

The following was the schedule for the focus groups:



**Table 4: Focus Group Schedule**

	Focus Group 1	Focus Group 2	Focus Group 3
<b>Date</b>	09 August 2007	09 August 2007	10 August 2007
<b>Place</b>	Vuwani	Mutale	Lwamondo
<b>Time of group</b>	09h00	17h00	14h00
<b>Number of participants</b>	Five	Five	Eight
<b>Total number in group</b>	Twelve	Seven	Eight
<b>Type of <i>stokvel</i></b>	ROSCA	ASCRA	ROSCA
<b>Years in operation</b>	± 25 years	± 7 years	± 17 years
<b>Profile of group</b>	Public servants, mostly teachers	Employed both in public and private sector.	Unemployed and self-employed
<b>Literacy levels</b>	Literate, minimum teacher's diploma.	Highly literate, some national diplomas.	Mostly illiterate, few high school

The questions that were asked are attached in the moderator guide in Appendix A. In constructing the moderator guide reference was made to the questionnaire by Ardener (1964). The conversation was guided by the participants, therefore the questions asked and the order of the questions varied.

#### **4.6. Data Analysis**

Miles & Huberman (1994) state that the most serious and central difficulty in the use of qualitative data is that the methods of analysis are not well formulated. Patton (2002) agrees that there are very few agreed-on methods of analysing qualitative data, in the sense of shared ground rules for drawing conclusions and verifying their sturdiness. He argues that the challenge of qualitative analysis lies in making sense of massive amounts without a well-formulated method of analysis. Because each qualitative study is unique, the analytical approach used is unique. Qualitative research depends, at every stage, on the skills, training, insights and capabilities of the researcher. Qualitative analysis therefore depends on the analytical intellect and style of the

analyst. The human factor is both a great strength and a fundamental weakness of qualitative inquiry and analysis.

The method of analysis used in the study was content analysis which refers to searching text for recurring words or themes. It refers to analysing text in the form of interview transcripts, diaries or documents rather than observation-based field notes. More generally content analysis is used to refer to any qualitative data reduction and sense-making effort that takes a volume of qualitative material and attempts to identify core consistencies and meanings. The core meanings found through content analysis are often called patterns or themes (Patton, 2002).

Zikmund (2003) describes content analysis as involving the obtaining of data by observing and analysing the content of the interviews. It involves systematic analysis, as well as observation, to identify the specific information content and characteristics of the message. Content analysis studies the message itself and its objective is to obtain a description of the manifest content of communication.

Welman, Kruger & Mitchell (2005) describe content analysis as a quantitative analysis of qualitative data. The basic technique is said to involve counting the frequencies and sequencing of particular words, concepts or phrases in order to identify themes. In this research the relative frequencies of the themes was extracted and recorded.

#### **4.7. Assumptions**

The following assumptions were made by the researcher when conducting the focus groups:

- ASCrAs and ROSCAs will produce the same kinds of themes on the reasons for their success and the reasons for popularity.
- The groups were homogenous that even though some focus groups were not attended by the full complement there will be enough valid information to proceed.

#### **4.8. Limitations**

The following are identified as possible limitations of this research project:

- Whilst it was useful to conduct focus groups, richer data could have been collected through a combination of focus group interviews and in-depth interviews. This could raise some insights into the negative side of these groups which the members found difficult to talk about in the group setting.
- Groups of men should also be researched to determine whether the same success factors are present.
- To gain a better understanding of the features which make *stokvels* a successful alternative to traditional microfinance it would be useful to conduct more focus groups in various areas of South Africa.
- Focus groups are complex and therefore require a lot of skill from the researcher. The moderator in this research was inexperienced.
- Convenience sampling has a risk of self-selection bias in that the groups that were available could have been the ones who wanted to tell their story.

- Even though qualitative research acknowledges the influence of the researcher, in this research the researcher was involved in almost all the stages which could mean her influence was much heavier than accepted. She conducted the focus groups, transcribed the tapes and translated the transcripts herself. A different person in one of these stages (probably translating) might have broken the heavy influence of the researcher.
- As this is qualitative research the results cannot be generalised.

#### **4.9. Conclusion**

This chapter gave details of the methodology that was followed in this study. The chapter explained that an exploratory qualitative study was conducted in the form of focus group interviews. The chapter further defined the population, the sampling method and the sample. The data analysis method was described and the chapter ended up by giving the assumptions made and some limitations of the methodology.

Chapter five presents the results from the focus group interviews.

## CHAPTER 5: RESULTS

### **5.1. Introduction**

In this chapter the research findings are presented. The sample is firstly described and some characteristics of the sample given. Results are presented first by a brief discussion of the uses of *stokvel* funds, which was not one of the research questions but needed to be asked to understand the importance of the *stokvels* to the women. The rest of the chapter presents the results in the order of the research questions as presented in chapter three.

### **5.2. Sample Description**

The sample comprised of three ROSCAs. These groups have been in existence for a period of seven, fifteen and approximately twenty-five years respectively. Only one group had a 100% attendance rate at the focus groups, whilst the one group had attendance of 41% and the other group had a 71% attendance rate. Focus groups were conducted with all three groups using a moderator guide.

All of the groups were based in the Limpopo province in Venda, a predominantly rural area. The focus groups were conducted in vernacular and tape recorded with the permission of the participants, transcribed and then translated into English.

All participants of the focus groups were women. For all three groups gender was a membership criterion. One group had one male member who had joined before they made this decision and they did not see a reason for excluding him as he was met all

the other criteria. They stated that should he not be able to continue they would replace him with a woman. The age groups of the participants varied from early 40s to late 60s. The participants' schooling varied from very little schooling to very educated, including a participant with no schooling at all and also one who had an honours degree plus two post-graduate diplomas. Of the people who participated in the focus groups, two groups comprised of members who are employed in the formal sector and one group comprised mostly of unemployed people and some whose income came from informal activities.

Most participants had bank accounts; all the participants who were formally employed used them extensively as they had their salaries paid into their bank accounts monthly. Only three participants did not have bank accounts and they all were in the group where the members were either unemployed or informally employed. Only one group had a *stokvel* bank account.

### **5.3. Uses of Stokvel Funds**

This question was asked to enable the researcher to understand the worth of the *stokvels* in the women's lives. There was some pride with the participants when they explained to the researcher what they have been able to achieve with their *stokvel* money.

They reported that they used their *stokvel* funds for a variety of uses, all of which were not day-to-day consumption. The most widely cited use was children's education,

followed by building houses, buying of big items such as furniture and also to buy things for resale or use in the generation of income.

During analysis themes were identified based on the literature.

## 5.4. Content Analysis of Focus Group Results

### 5.4.1 Features of *stokvels* that make them successful

The respondents were asked what in their opinion were the reasons that their *stokvel* had been in existence for a long time and had been successful. Table 5 below details the key elements identified by the members are critical to their success.

**Table 5: What makes the *stokvel* successful?**

Response	Frequency
Organisation/Structure <ul style="list-style-type: none"> <li>• Rules</li> <li>• Roles</li> </ul>	24
Compassion about each other's situation & mutual assistance	19
Trust	15
Social Capital <ul style="list-style-type: none"> <li>• Work together</li> <li>• Live together</li> <li>• Know each other some other way</li> <li>• Personality traits</li> </ul>	11

Table 5 shows that the most important factor attributed to the success of *stokvels* was the fact that it was a structured association with rules that could not be broken and various roles allocated to different members to make sure that the *stokvel* continued as planned. The issues around the organisation of the *stokvel* was mentioned 24 times across the three focus groups. Compassion and wanting to help one another were also seen as critical in ensuring the *stokvels* success, as was trust and also selecting the right people to be members of the *stokvel*.



**Table 6: Comments for success factors of *stokvels***

Feature	Frequency	Comments Made
Organisation/ structure <ul style="list-style-type: none"> <li>• Rules</li> <li>• Roles</li> </ul>	24	<ul style="list-style-type: none"> <li>• The money has to get to its owner on the day that we meet, all of it.</li> <li>• If you don't have the money to contribute you must go and loan money elsewhere but it is not possible that you miss your contribution.</li> <li>• There is a procedure that we follow at every meeting</li> <li>• We have a secretary and this job has to go to different people every cycle because we don't want to rely only on one person.</li> <li>• There is an understanding that the money cannot be borrowed, and you cannot say you are sorry you don't have it this month, we need the money on a specified date and we do not enter into discussions.</li> <li>• There is a book and we write everything down and we go according to that.</li> </ul>
Compassion & Mutual assistance	19	<ul style="list-style-type: none"> <li>• If you take the money to the bank you are not helping when there are people around you who can use that money.</li> <li>• We have to make sure the money is safe even if it's in the owner's hands, crime rate is high.</li> <li>• If two people have equally compelling reasons to start, they will agree between themselves to share the pot both times.</li> <li>• I have to have a heart of compassion for you, I am giving you money and you'll bring it back with no interest.</li> </ul>
Trust	15	<ul style="list-style-type: none"> <li>• There is trust and understanding amongst us</li> <li>• Trustworthiness is the first criteria to join</li> <li>• My debt is my own; it's not possible that I cannot pay into the pot because of other debt when someone is waiting for it.</li> <li>• No one changes the agreements we have made because they are binding.</li> </ul>
Social capital	11	<ul style="list-style-type: none"> <li>• We all live here; we know each other very well it is as if we are related.</li> <li>• The person's mannerisms are important</li> <li>• You choose people that you know who won't give you headaches and excuses.</li> </ul>

#### 5.4.2 Reasons for choosing *stokvels* over formal mechanisms

When asked of the reasons they chose to participate in *stokvels* instead of using formal mechanisms they gave the following reasons:

**Table 7: Reasons for choosing *stokvels***

Response	Frequency
Forced savings/peer group pressure	11
Relationships	9
Flexibility of <i>stokvels</i>	9
Access to funds	6



Participants mostly reported the fact that the *stokvel* forces them to save as the reason that makes *stokvels* superior to banks. This forced saving was also as a result of not wanting to disappoint fellow group members as one's actions would affect other's wellbeing, linking to the issues of mutual assistance and compassion highlighted in answering research question one.

Some of the comments that were made regarding the reasons above are:

**Table 8: Comments made for choosing *stokvels***

Feature	Frequency	Comments Made
Forced savings/ peer group pressure	11	<ul style="list-style-type: none"> <li>• If you take the money to the bank you can go take it out and use it bit by bit</li> <li>• We all still have to contribute a monthly amount, loan it out and we can only split it at the end of the year.</li> <li>• We would get paid and just use all the money immediately. Even if you say that you are putting it into the bank you go take it bit by bit. Here in the <i>stokvel</i> you cannot take it, it has disciplined us a lot.</li> <li>• In the bank you can put in a notice for 32 days and go and take your money. In the <i>stokvel</i> there is no notice</li> <li>• When you are alone you will use it, it's not binding.</li> </ul>
Relationships	9	<ul style="list-style-type: none"> <li>• This <i>stokvel</i> is not about money, it is also about the relationships that we have and we don't want to break them.</li> <li>• Importantly we agree that a person must use their money for important things, don't waste your money. Even though we don't tell you what to do with your money we advice each other to do something important, don't take your money and not know what you did with it.</li> <li>• If there is fine money we use it for food. We buy cooldrink and bread and we eat and we are happy.</li> </ul>
Flexibility	9	<ul style="list-style-type: none"> <li>• We contribute R2000 or R3000 depending on what the person can afford to bring back.</li> <li>• The term of the loan is as long as you want until end of the year when we split the proceeds, the longer you keep the money the more interests you pay; you can pay interest only for as long as you wish.</li> <li>• We don't want to know whether you build a house or you pay off your debts, all we know is that you are getting your money.</li> </ul>
Access to funds	6	<ul style="list-style-type: none"> <li>• I needed it because I get little money, when you have little money and the <i>stokvel</i> plays for you, you get a lot of money. You can do things with the money.</li> <li>• We agreed because we know it helps, when you get money, let's say you get R500, you use R300 for the <i>stokvel</i>, you consume R200, when it comes back you can do things with it, you can then buy a table for the house.</li> <li>• If I need a R3000 to take my child to school no one will give it to me, but each of these women are willing to give me R500 so that it all adds up.</li> </ul>

#### 5.4.2.1 Attitude towards formal institutions

The members' attitudes towards formal institutions, especially banks, was inferred from responses to some of the other questions asked.

**Table 9: Attitude towards formal institutions**

Response	Frequency
Know how to use it to advantage	4
Too expensive	3
Ambivalent	2
Aspirational	2
Don't want to use formal institutions/lack of information/access	1

The most frequently occurring theme was that the group members knew how to use the banks, even though there were some members who seemed to not have complete understanding of how the bank works. With those group members who did not have regular incomes the bank was an aspirational institution for when they will be able to have some money left over. The bank was also mentioned to be expensive by some members who also felt that they used the bank only because they had to.

**Table 10: Comments made about formal institutions**

Know how to use it	4	<ul style="list-style-type: none"> <li>We also have another club where we contribute R1000 others R500 and we put it in a 32-day fixed deposit account, we give notice in December so that we can share the money in January. We ask the bank to work out the interest for us.</li> <li>We have a bank account, where we put money at the end of the year or if there is no one who wants to loan the money.</li> </ul>
Too expensive	3	The <i>stokvel</i> does not have charges, you get all your money with no deductions.
Ambivalent	2	<ul style="list-style-type: none"> <li>There is no help that we want from the bank, even taking our money there we are forced because there is nothing we can do. If you put your money in the bank they will charge you to death.</li> <li>If we loan a person R2000 we get 30% interest, R600 per month until a person pays the principal debt. But if you take R2000 and deposit it in the bank you will not get R600 interest, all you will get is the bank having taken their charges.</li> </ul>
Aspirational	2	<ul style="list-style-type: none"> <li>When the money comes you can see that I can use half and the other half I'll bank.</li> <li>It would be great because then you can bank it, because at that time the money that you would give to the pot you would buy other things with. The pot that you receive you take to the bank.</li> </ul>
Don't want to use/lack of information/access	1	<ul style="list-style-type: none"> <li>I have plans for my money, if it's left over I'll save it in my own way, the one that I want to use I'll use. Now the plan of putting money in the bank will disturb my own plans.</li> </ul>

### 5.4.3 Importance of gender in *stokvels*

**Table 11: Importance of gender**

Response	Frequency
Independence	5
Men undesirable members	3

The issue of independence that resulted from being members of *stokvels* came up more often, but it does not explain why they prefer women only as members.

**Table 12: Comments made about gender and *stokvels***

Independence	5	<ul style="list-style-type: none"> <li>• Even when we go to church there are trips to places, I don't worry because my husband did not send me money.</li> <li>• Because even if you have a husband he leaves, for the whole year you don't get money for food from him. If I am contributing to the <i>stokvel</i> and I'm continuing to make clothes I get a little money and continue to survive. When he comes back he finds that the household is doing well and there is now a house.</li> </ul>
Men do not make desirable members	3	<ul style="list-style-type: none"> <li>• Men are trouble, if he says he doesn't have the money what are you going to do? If he sees the money you will not see it. Men will take you out of your budget. They are difficult. You can't reach an agreement with a man. A man cannot enter into an agreement with women, they must do their own thing. He must agree with other men and do their own thing.</li> </ul>

### 5.5. Conclusion

The purpose of the research was to explore how *stokvels* work and how they serve the microfinance needs of the participants. The results indicate that there are indeed certain features of *stokvels* that are considered critical by the members in ensuring that they are successful. The fact that the *stokvel* is an organisation with rules that every member takes seriously and follow to the letter is seen as the most important, and this is enabled by the fact that as these people know each other they believe that the *stokvel* is about helping one another. The type of person who is invited to be a member of a particular *stokvel* is therefore seen as important as this should be

somebody that is trustworthy. The social capital amongst them helps the members keep each other in check and enables them to know what to expect from each other.

The reasons that members choose to participate in *stokvels* are varied, critical being forced savings through peer pressure as well as the relationships and advice that is received at the *stokvel*. The flexibility of the *stokvel* in being allowed to save money for any needs, kept members with these informal institutions. The motive behind the *stokvel* is to make available funds that would not otherwise be available and this was acknowledged by the members as a reason that makes the *stokvel* more attractive. The attitude and knowledge of the *stokvel* members towards formal institutions varied, many members knew how they worked and some had limited information.

*Stokvels* fulfil certain functions in their members' lives, some of them social and others financial. Savings is provided to a large extent whilst there is a mixed reaction towards the lending function of *stokvels*; as a result this is used to a lesser extent. The insurance function was mentioned both directly and indirectly.

On the question of whether gender was a membership criterion all the groups stated that men were not desirable members. Another issue that came up often regarding gender is how the *stokvels* made the women independent and able to run their own lives without having to rely on their husbands specifically or on men in general as a few of them did not have husbands.

The next chapter discusses the research results in detail through an analysis of the research questions posed in chapter three.

## CHAPTER 6: DISCUSSION OF RESULTS

### **6.1. Introduction**

This chapter combines the key observations identified in the literature reviewed in chapter two and the research results presented in chapter five.

### **6.2. The Sample**

The groups that participated in this study satisfy the definitions by Buijs (1998) and Gugerty (2003) which is a group that contributes at regular intervals and one or more members take turns to receive the pot or they loan out money at interest to grow the fund. This is slightly different from Ardener (1964) who states that rotation is an important criterion. Only two of the groups met the rotation criterion.

Only one group was consistent with Buijs (1998) who states that members of ROSCAs often do not have access to formal institutions. These members did not have regular incomes and therefore did not accumulate enough money to save and did not qualify for loans from formal institutions. Two groups participated fully in the mainstream financial institutions.

The groups were consistent with Burman & Lembethe (1995) who claim that *stokvels* are available only to those who have a job or a regular source of income to meet contributions without fail. Whilst there was one group with people who were not formally employed, they all had some source of income, whether from government pensions, family members or their own informal productive activities.

### **6.3. Uses of Stokvel Funds**

The uses of *stokvel* funds according to the research showed that the members used it for non-consumption purposes, in line with Burman & Lembethe (1995) who state that members revealed a variety of uses and many of them quite serious.

The research was also consistent with Buijs (1998) who states that large sums of money are accumulated such that people buy a house or a car. The research found one group each receiving up to R30,000. One member of this group bought a car valued at approximately R54,000 when she had negotiated to receive the pot last in one rotation and became the first recipient in the next round. She had ended up with R60,000 at the end of the two months.

Shreiner (2000) states that with ROSCAs members can raise big sums sooner than if they had saved by themselves. This was supported by all the groups which appreciated the availability of more money than they would have been able to raise by themselves, they felt that they were able to do things using the *stokvel* money that they would not be able to do on their own, as seen in this participant's comments, "*if I have to take my child to school and I need R3000 loan from a person, will he give it to me? But if each of these women give me R500 then I can take my child to school.*"

### **6.4. Research Question 1**

#### ***What features of stokvels make them successful?***

This research shows that there is a variety of important criteria that makes these *stokvels* successful including the fact that this is an institution with rules that are

followed by all members. *Stokvel* members see their membership as helping each other. The goal for them that makes them not default, more than receiving money is the fact that others are relying on their contributions. The issue of trust came up as critical, and this determined the kinds of people recruited into the *stokvel*. Social capital in the form of them working together or living together and the personal characteristics of the individuals are also seen as important in making the *stokvels* successful. Members indicated that *stokvels* that lack these features are not operational for a long time.

#### **6.4.1. Organisation**

The fact that this is a structured institution that has rules that have to be followed to the letter was mentioned most often during these groups. This issue of being structured is consistent with Tsai (2000) who states that even though ROSCAs give the appearance of being rather informal, in actual fact the members take the rules quite seriously. In the groups interviewed however there was no requirement of members signing their names to show commitment to the rules as Tsai (2000) claims.

Even though there were no formal contracts the members took their verbal agreements as binding, as one participant mentioned *"It's successful because we have agreements, and there is no one who goes and changes what we have agreed. Stokvel is a contract, it's binding, we agree how we want to work, you see, and agree, and what has been agreed cannot be unbound"*.

Some of the groups' rules were consistent with Thieme (2003) who states that the group meets regularly and at the meeting the fund is allocated. Some of her assertions however do not fit with the groups' functioning, for example, even though there are rules and there is a book, in the book the rules are not written as Thieme (2003) claims. The only thing that is written in the book is the order of the rotation as well as recording how much money was contributed by each member of the *stokvel* at every meeting. One group also recorded those people who were late and therefore had to pay fine money.

All the *stokvels* interviewed were consistent with Burman & Lembethe (1995) who state that the organiser always kept a list of the order of the rotation and that most associations have a fixed payment date. All groups also had a fixed payment date, as one of the participants stated: *"Yes, we even put a date for the next month's meeting. We must have a calendar at the meeting. We meet monthly, once a month, the last week of the month, around the 22<sup>nd</sup>, we wait for the state pensioners to get paid"*.

The structure of the *stokvels* also included roles played by the various members, but not to the extent that Thieme (2003) suggested in that there is a chairperson supported by a secretary and a treasurer. All the *stokvels* interviewed had one 'formal' role which people had to rotate in doing; the role was called secretary in one group and coordinator in the other two groups. When asked why they rotated the one group responded *"We swap, if it's one person what happens when that person is not able to come, won't we do anything then? It must continue and there must be someone else who knows how to continue"*.



#### 6.4.2. Compassion and Mutual Assistance

The issue of compassion and understanding each other's situations was very important in all the groups, and the two rotating *stokvels* reported that they determined the order of rotation by listening to each other's reasons and agreeing amongst themselves. The members felt that they were more willing to stick to the rules because they knew that there was somebody whose situation they understood who relied on their contribution. When asked what they do if there are disagreements one group stated: *"We have to understand each other; the one must feel sorry for the other and weigh their reasons"*. The other group said that if they could not decide between two people's compelling reasons the two individuals would have to work out an arrangement, *"The two of us agree, when it comes to me I'll share the money with her, and when it goes to her she'll share the money with me"*.

None of the groups interviewed used the methods suggested by Tsai (2000) of dice shaking or auctioning to determine the order of the rotation. There were also no variable contributions, all the groups contribute the same amount to every participant so there are no higher interest rates or reduced contributions based on the point in time that a member was receiving the pot. This issue became important in the accumulating *stokvel* when there is not enough money to lend and there are two members who need to loan, they felt that *"If there is not enough money we'll give everyone less than what they requested so that everyone can get something"*.

Buijs (1998) also states that it is important that the money is kept in local circulation, which is what these groups also mentioned. When they were asked why they didn't

take their money to the bank, one group stated *"If you take the money to the bank you are not helping when there are people around you who can use that money"*.

#### **6.4.3. Trust**

The literature states that trust is the most important in these associations, the NASASA definition of *stokvels* (in Scheepers, 2007) states that it is an association based on trust. The groups interviewed seem to agree with this notion as all of them said that trustworthiness is what they look for when they were looking for members *"We check that the person is trustworthy, it must also be a person that we know; we must know their mannerisms"*. Burman & Lembethe (1995) also confirms this point when they say that trustworthiness and inability to vanish into thin air are important characteristics.

Buijs (1998) also talks about trust and states that mutual trustworthiness and personal friendship are the most important membership qualification. In the three groups interviewed it was found that mutual trustworthiness was seen as very important, even though the members did not refer directly to personal friendships, as one member stated *"We've been together for a long time we have become like relatives; we know each other very well"*.

#### **6.4.4. Social Capital**

The characteristics important to their success of *stokvels* interviewed are consistent with the literature. Tsai (2000) states that ROSCAs are popular amongst tightly knit groups of people who combine their resources for mutual financial assistance. In all

the groups conducted the members either worked together or lived together and they had known each other many years before participating in the same *stokvel*.

The one recruiter in one group even stated "*I was looking at people that will not give me problems, people who won't say I don't have money to give you after we have given them the money. You first check the type of person you are inviting*".

Gugerty (2003) states that these associations have low default rates because of the information and enforcement advantages held by residents of a close-knit community which allows groups to screen out poor risks through peer selection. This is said to give an informational advantage that is backed by the power of the social sanction. One of the groups mentioned that in the event of a default, which they have never had, they would socially blacklist the defaulter and she would never participate in any *stokvel* again. All the groups stated that they had never had a default because they know the people in the *stokvel*. Two of the groups did not even want to answer this question; they kept asking the researcher what she meant when she asked about a person not contributing. The groups felt that this was not a possibility, very much like Burman & Lembethe (1995) who state that the women in their sample were bemused when asked the question of default.

## **6.5. Research Question 2**

### ***Why do people who have access to formal financial institutions choose to be members of stokvels?***

In answering this question the issue of forced savings and peer group pressures came out most strongly, with members believing that the flexibility that the banks give them is not a benefit they want. They also valued the fact that the *stokvels* being close to them and personal would be flexible to their needs and also gave them relationships and a platform to learn from other women about household issues. When asked what kind of assistance they would like from the banks all the groups felt that they needed no help from the bank, however their responses varied from seeing the bank as something to aspire to which will mean they have enough to save, to using the bank because they have no choice.

#### **6.5.1. Forced Savings**

This came up as the most important reason for preferring *stokvels* over formal institutions, more specifically banks. This is consistent with Burman & Lembethe (1995) who stated that ROSCAs were seen to be the best way to save money because the social pressures imposed made it virtually impossible to default. The fact the one could not draw money on impulse was seen as important by these authors and was reiterated by all the groups, with one group saying " *Without the stokvel we would get paid and just use all the money immediately. Even if you say that you are putting it into the bank you go take it bit by bit. Here in the stokvel you cannot take it, it has disciplined us a lot*".

The groups agreed with Miracle (1980) who stated that members appreciated the discipline of regular saving as they accumulated savings which they would not be able to do alone. Verhoef (2001) had also stated this point when she said that participants would not have the willpower to save on their own. This was especially true with the two groups of employed members who receive regular incomes and not so much with the group of unemployed members.

### **6.5.2. Relationships**

With regard to relationships the research was supportive of the literature which stated that members were prepared to forego the interest they could get in the formal institutions because of the social role of clubs as mentioned by Burman & Lembethe (1995). The two rotating groups were asked if they were aware they could get interest at the bank. They both said that it was not about the money, that it was about helping each other and also giving each other advice on how to use the money. This is also consistent with the Burman & Lembethe (1995) studies which said that the members valued the clubs as forums in which to collect advice from each other. One group stated: "*Importantly we agree that a person must use their money for important things, don't waste your money. Even though we don't tell you what to do with your money we advice each other to do something important, don't take your money and not know what you did with it. That's why it's not failing, because we advise each other*".

In contrast to Burman & Lembethe (1995), not all the groups made socialisation an important part of the meeting. Whilst all groups advised each other on how to use the money, there were no social gatherings accompanied by food, only one group would

serve drinks once in a while when they had collected enough fines from the latecomers. One group met at the bank and just collected the money, whereas the other two groups met at members' homes, but there was no expectation of food or drink.

One group stated that there was so much money being contributed that they were afraid to have a social gathering because they would be alerting the thieves where the money is. This issue of security which makes them not want to socialise came up with two of the groups, but it did not appear in any of the literature reviewed.

Thieme (2003) states that these groups are multifunctional organisations which offer their members more than just financial support in that they disseminate information such as housing and employment opportunities. Whilst in the groups interviewed employment information was not specifically discussed, all the groups agreed that information about housing and other household necessities was discussed at the meetings. One group even felt that it was their duty to determine what the person intended to do with the money before their turn so that they could ensure that it was being put to good use once it came. Another group even said "*This stokvel is not about money, it is also about the relationships that we have and we don't want to break them*".

The groups were consistent with Ardener (1995) who states that it is in the interest of all the members to ensure that there are no defaulters because defaulters threaten the system and a failed ROSCA threatens the reputation of the entire group. One participant even commented "*We don't allow a person to ask for the pot, it causes a lot*

*of problems, that's why you see that most stokvels don't last a long time. Because everyone keeps asking, and everyone gets desperate, and if we all stop contributing then the stokvel doesn't survive".*

### **6.5.3. Flexibility**

Seibel & Shresta (1999) argue that one of the problems of ROSCAs is that the monthly contributions are fixed and excess income cannot be saved through them and would end up being consumed. This was found to be true with two of the *stokvels* and not with the one which allowed members to contribute either R2000 or R3000 depending on whether the person who is receiving the pot will be able to return the same amount. The two groups with fixed contributions do not see this as a problem; they appreciate the discipline of being able to plan and knowing exactly how much they should put away for the *stokvel*.

Ardener (1995) argues that the speed with which ROSCAs can usually react to their members needs can rarely be matched by distant, impersonal banking systems. This was found to be true in the groups interviewed where even though there was a prohibition on changing the rotation order, in case of emergencies all the groups would help the member in need, especially with funerals. Two of the groups put money aside in a different fund to assist with funerals and they would also go and physically assist at the funeral, usually with cooking for the people attending the funerals.



#### 6.5.4. Access to Funds

Buijs (1998) states that the prospects of earning additional interest on their money through lending is an incentive for members to join these associations. This was found to be true with one group, which even stated "*We know that if we loan a person R2000 we get 30% interest which is R600 per month until a person pays the principal debt. But if you take R2000 and deposit it in the bank you will not get R600 interest, all you will get is the bank having taken their charges*".

The other two groups were however both against the issue of lending money for interest, stating that the purpose of their *stokvel* was to give the owner the pot on the same day and they wanted nothing to do with borrowing. Both these groups were not interested in the interest that could be earned if they loaned out the money. The one group mentioned "*When we give you your money today there is no one who will come to you and say loan me the money because the money comes directly to you, so that you can use for whatever you want*".

Burman & Lembethe (1995) state that these savings made the purchase of larger items possible without resort to hire purchase. This was reiterated in all the groups, with one group having a member who bought a brand new car cash through the *stokvel* money. The other groups also mentioned of buying expensive furniture and other household items without having to take credit. The one group had mostly unemployed people who do not have access to credit but who all reported that they had built houses one room at a time without having to go to the moneylenders because of the *stokvel*.



The groups also support Tsai (2000) who states that if someone needs a larger amount of money than she can accumulate individually it makes sense to solicit modest contributions from a network of friends. One group said the reason they started the *stokvel* was *"I needed it because I get little money, when you have little money and the stokvel plays for you; you get a lot of money. You can do things with the money, even this house I used the stokvel money to build"*.

None of the groups used the *stokvel* meetings as revenue-generating opportunities as claimed by Verhoef (2001) who said that the organiser could charge an entrance fee or sell liquor.

These groups did not operate in the way that Thieme (2003) says that they have the ability to quickly mobilise contributions for sudden financial crises. Two of these groups did not allow swapping turns and they did not want to entertain the reasons, even if one had an emergency they would only get their money when it was their turn. One member said *"That's not how it works in stokvel, you will fight that's why you see people not going on for years. You cannot ask for the pot because everyone is waiting for their money"*.

#### **6.5.5. Attitude towards Formal Institutions**

During the interviews the members' attitudes towards formal institutions were investigated, though this was not reviewed in the literature. The attitude ranged from using the banks because they felt forced (ambivalent) and using it when they felt they could get some kind of help. Two of the groups which comprised employed people all

had bank accounts which they used regularly as their salaries were paid into these accounts. These members used more than one financial instrument in that some of them had accounts with more than one bank and they also had more than one type of account with the bank.

Even though the groups largely felt that their *stokvel* was better than the bank, they still used the bank when it suited them. One group that contributed the largest amount of money used the bank as their meeting place even though they had not communicated with the bank to alert them of what they were doing. They all knew what time they needed to meet and they walked into the bank and exchanged money and left. They felt that the bank provided the security that they need whilst exchanging such large sums of money.

The two groups of employed people believed the bank to be too expensive. The group that gives out loans felt that the bank would not give them the same amount of interest as they are currently getting from their clients if they saved the money in the bank. This group also felt that the banks were missing opportunities in that they made lending decisions for the poor based on what works in their other markets.

*"The bank wants a person with a basic salary and proof that the person can pay them their money back. Just like an old woman who earns state pension or a person that sells at the market, the bank will never give them money. But if they come to us we will give them money. The bank has a problem of undermining people. We don't look at where the person works."*

In the one group where there is no easy access to banking facilities due to the fact that they are unemployed banking was an aspirational service, they would like to have enough money that they can bank some of it. They mentioned how they believed that after they have done everything they need to do in their households they would bank the *stokvel* money. In the same group there were some people who did not entirely understand how the bank would serve a purpose and they felt that the banks would disturb the normal workings of their home-made institutions like *stokvels* and therefore did not want anything to do with the bank. One member said *"Bank, why would I want a bank? No, I'm fine as I am, because if I am contributing, as it is I am a single parent, I am both man and woman. I have plans for my money, if it's left over I'll save it in my own way, the one that I want to use I'll use. Now the plan of putting money in the bank will disturb my own plans, I know how my things are going to pan out in my head. Sometimes I see that I have made a mistake and I calculate how to correct my mistakes, I plan better than you who is educated, my plan is in my head"*.

The main issue with the formal institutions was that the groups felt that they do not want to pay for similar services that they could get from a *stokvel* free of charge. The groups also did not appreciate the mechanisms that formal institutions like insurances have to protect themselves against fraud, as the one group who had an equivalent of a funeral insurance mentioned *"In addition to the normal club, we have a funeral policy where we pay R50 per person. It's more about helping each other, it's like insurance. But the difference is that when you claim, we don't check whether you killed the person or how they died, as long as you were paying premiums for that person, we'll give you your money. Now with a real insurance they'll first check how a person died and what were the causes"*.

## **6.6. Research Question 3**

### ***Is gender an important membership criterion? Why?***

#### **6.6.1. Independence**

The issue of gender revealed that women find that *stokvels* give them financial independence. While this issue is consistent with the literature, it does not explain why women groups preferred women only in their *stokvel* groups.

The research agrees with Ardener (1995) who states that ROSCAs are a way that women seek to empower themselves through mutual support. Two of the groups agreed that the *stokvels* give them the financial freedom and power to make decisions on how they want to use their money.

The research further supports the literature that suggests that the interest shown by women members of ROSCAs in the purposes to which each puts her savings exemplify the notion that the association is of mutual benefit, that since each member has contributed to each lump sum all have an interest in seeing that it is wisely spent (Ardener, 1995). All the groups agreed that they gave each other advice on how to spend the money even though they did not prescribe because they wanted to be sure that one uses their savings in important things, *"Importantly we agree that a person must use their money for important things, don't waste your money. Even though we don't tell you what to do with your money we advice each other to do something important, don't take your money and not know what you did with it"*.

Johnson & Rogaly (1996) state that there is also a belief that poor women are doubly oppressed by virtue of both their poverty and their subordinate status to men which is reason enough for women to want to see their groups succeed. This was repeated by one group who felt that the *stokvels* have to be successful so that they don't have to be reliant on men to survive, as one participant put it "*When you see us having built houses, most of us have no husbands, I am the man as you see me. If I don't use my time-table in my house then it will be like I'm a child playing house*".

The research was consistent with Makina & Malobola (2004) who state that programs were found to lead to improvements in the economic welfare of households and increased the empowerment of women. All the groups agreed that they were better off with their *stokvels*, but the one group of mainly unemployed people had seen the biggest improvements in that most of them said that they had built their houses and taken their children to school using the *stokvel* money, and that they did not have to rely only on their husbands or the state for money. The one participant put it this way, *It helped me a lot I took my children to school, the my husband saw what I was doing and he started to help*".

#### **6.6.2. Gender-based Membership**

Rose (1992) states that there is a perception that women are more responsible than men because they have a greater awareness of the needs of the family. This was echoed by all the groups, one group even stated "*Have you ever seen a successful household with a man only and no woman? No, can he have a household alone? But a*

*woman will even be able to take children to school, especially if you work together as a group like we have done".*

Kajimo-Shakantu & Evans (2007) say that women take the responsibility of managing the household finance and ensuring future livelihoods whether they are generating income or not. This was consistent with all the groups where all the women felt that they were responsible for their households and they would make sure the households are well taken care of, whether their husbands are there or not, as in the following quote: "*Because even if you have a husband he leaves, for the whole year you don't get money for food from him. If I am contributing to the stokvel and I'm continuing to make clothes I get a little money and continue to survive. When he comes back he finds that the household is doing well and there is now a house".*

Burman & Lembethe (1995) found that women believed that men would not be comfortable in women groups. In the groups interviewed there was a kind of mistrust of men when they spoke about money. One group had one male participant and they said that they would not invite more men because they thought that the men would disclose who was getting the pot, which was a security risk. One group said that it was not possible for a man to make an agreement with a woman and honour it and that this was the reason they did not want men in their groups "*You can't reach an agreement with a man. A man cannot enter into an agreement with women, they must do their own thing. He must agree with other men and do their own thing. He says give me the pot so I can fix my car. He won't give it back to you, when you ask he hits you. When a man sees money he's seen something else. A man is a difficult human being".*

### **6.7. Summary of the Discussion on the Research Findings**

The research's support of the literature was mixed, supporting some literature and contradicting others, confirming that whilst many things are the same around the world, others are unique. Even though these institutions seem very simple they are adapted to suit the purpose of their members.

The fact that the *stokvels* are structured tells of how it is often assumed that informal institutions do not have rules that are followed. From a formal perspective there is an assumption that informal means no rules and every one does as they please. All the *stokvels* interviewed showed that this is not the case, even though the rules are not written down they are taken very seriously by all members, and there is no need to enforce them because members put the needs of each other first. This brings out the often talked about phenomenon of 'Ubuntu' in the African communities – being humane, assisting one another.

The issue of forced savings was ironically coupled with the groups stating that they use the *stokvels* because it is flexible to their needs, implying that the banks are being flexible on something that the members do not require. One still wonders if the issue is that the banks are missing where to be flexibility or if they prefer the *stokvel* because of the personal contact and the fact that they know and can see the person they are helping.

It was therefore not surprising that even though all the groups mentioned the availability of money as the reason they participated in the *stokvel*, it was not

mentioned as frequently as helping each other or the relationships that they built in the *stokvels*. The relationships in this study were however not about parties as most literature suggested, they were about advising each other so that the women can see each other develop.

Overall the *stokvels* have been supporting the microfinance needs of the members and therefore acting as microfinance institutions. The irony is that they are as successful as they are because they work in the community and they start from the members' needs to be assisted and assist each other, which makes it difficult to identify how formal institutions can play a role.

The next chapter ties together the results and discusses some recommendations to stakeholders.



## CHAPTER 7: CONCLUSION

### **7.1. Introduction**

The research explored *stokvels* as alternative, sustainable and self-sufficient MFIs which close the gap between the demand and supply of microfinance in South Africa. The study identified the reasons that *stokvels*, which were believed to be popular in the past because Blacks in South Africa did not have access to formal financial institutions, remain popular long after the demise of apartheid. The study revealed the features of *stokvels* that are said to make them successful, and reasons for the membership of *stokvels* by people who have access to formal financial institutions. The research also investigated if there was a gender preference for *stokvel* membership and the reasons thereof.

The study aims to provide learning points to formal institutions so that they can provide meaningful financial services to the market of *stokvel* participants. In the process they will meet their commitment to the FSC of providing retail services to the majority of the population, thereby contributing to the development of the economy.

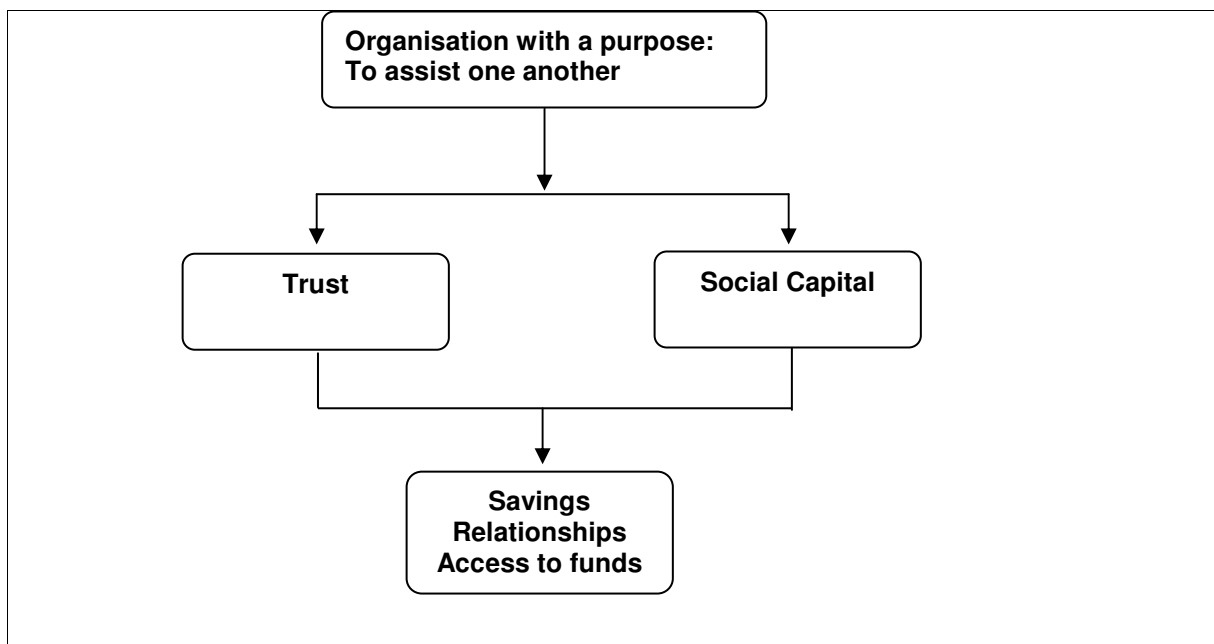
### **7.2. Summary of Research Findings**

The study confirmed what the literature on *stokvels* and ROSCAs says, in that there were specific features that are seen as critical for *stokvels* to be successful. The research revealed that far from the *stokvels'* success being just about the money, or the socialisation that is so prevalent in the literature, the success can be attributed to the structure and purpose of the *stokvels*. All the participants understand and are committed to that purpose, therefore they ensure that they adhere to the rules.

The purpose of the *stokvels* studied is to help one another progress and develop, and the ingredients critical to the success of this organisation are trust and ensuring that the right person is recruited. The right person for the *stokvel* is one who will buy into the purpose of helping one another and adhere to the rules.

Figure 6 depicts a diagrammatical representation of the findings discussed above:

**Figure 6: What makes *stokvels* successful?**



The research also highlighted shortfalls of formal institutions which keep *stokvels* popular. The first of these was the fact that the *stokvel* is a forced saving mechanism which works through peer pressure to ensure that members do not disappoint one another. The proximity of the *stokvel* to the members means that it is personal and therefore can respond to the members' needs, flexibly. This flexibility is delicately balanced with the discipline of saving without access to funds. In addition, members form relationships and educate each other on various topics during *stokvel* meetings.

There is a group of people who participate in *stokvels* because they do not have access to formal institutions. This group uses *stokvels* to meet their financial goals. The *stokvels* are seen as vehicles for independence and empowerment for women as it gives them the freedom to make their own financial decisions. The groups studied confirmed that men make undesirable members for women's *stokvels* and the success of their *stokvels* is due to the fact that they only recruit women members.

### **7.3. Recommendations to Financial Institutions**

This research has shown that *stokvels* are being used as vehicles for development and are considered MFIs by their members. The reasons that *stokvels* are successful is that they are simple and are focused on one purpose, helping each other progress through savings. It was seen in this research that these women take pride in the fact that they have helped each other move to higher standards of living.

Any institution that wants to be involved in these people's financial matters has to remember this principle.

#### **7.3.1. Simple products focused on communal benefits**

Any product that these people will buy will have to be simple and focused on doing good for the group. Products that make them operate as individuals will not succeed, because they take pride in seeing each other progress.

### **7.3.2. Village Bank Concept**

Village banks are self-sustaining financial institutions that are owned, financed and managed by the community. The right partnership with a commercial bank is an essential element in the success of village banks. There are reports of village banks in South Africa (Nigrini, 2002), however, there are no reports of any in Venda where this research was conducted. Village banks in this place could be started, as partnerships between banks and *stokvels*.

### **7.3.3. Balance Flexibility with Discipline**

*Stokvels* believe that banks are too lenient in allowing them to access money that they had committed to saving before that time. On the other hand, they believe that the banks are not flexible enough to give them the benefit of the doubt when they require assistance. This balance can only be achieved if banks stop using the checklist and start using people to assess whether the person really needs access to their savings, or whether the person should receive a loan. *Stokvel* membership should be used as a criterion for assessing credit applications instead of just the old payslip.

### **7.3.4. Consultants in the Community**

The only way that the banks will get to know enough about how to balance discipline with flexibility is to consult the *stokvel*-type institutions in the communities. The unemployed members of *stokvels* have organisational and managerial skills that they use to ensure that the *stokvel* remains successful. Banks should use these people as consultants on decisions regarding which loans to approve and which savings products people are looking for, without taking them out of their communities. This

should not require the person to take an expensive trip to the bank everyday, the bank should go to the community.

### **7.3.5. Financial Literacy Education**

There is still a lot of misunderstanding and misinformation that goes on with people in poor communities on the role of financial institutions. To them the bank is some institution that has benefits for certain people. Representatives of these institutions should go into the communities and meet with *stokvel* members and give financial literacy education. These can be conducted as focus groups to understand what is known and understood, and then educate. The benefit for the members is that they will learn that the bank is not to be feared, and the bank will be trusted. A bank is an institution and the question is 'How do you trust an institution?' The *stokvels* have proven that this is possible: if you trust people you work with in the institution and know that they have your best interests at heart, you trust the institution. What banks need is to be trusted. If the bank is trusted then it may be trusted to look after whatever money the members have.

### **7.3.6. Special Packages**

Members do not want to use the bank for the same benefits that they can get from the *stokvel* for free. Banks must, therefore, make sure that they offer packages which have more benefits. Two of the *stokvels* who participated do not have bank accounts, and the one that has a bank account, rarely uses it. If there was something in the bank account that *stokvel* members wanted they would use them. For example, if the bank says that the *stokvel* has to keep a certain minimum balance, say R500 and then they

qualify for a funeral policy, the members would make sure that they take this up because it means something to them. Financial institutions should treat the *stokvels* as partners.

#### ***7.4. Recommendations for government***

##### **7.4.1. Forced Savings**

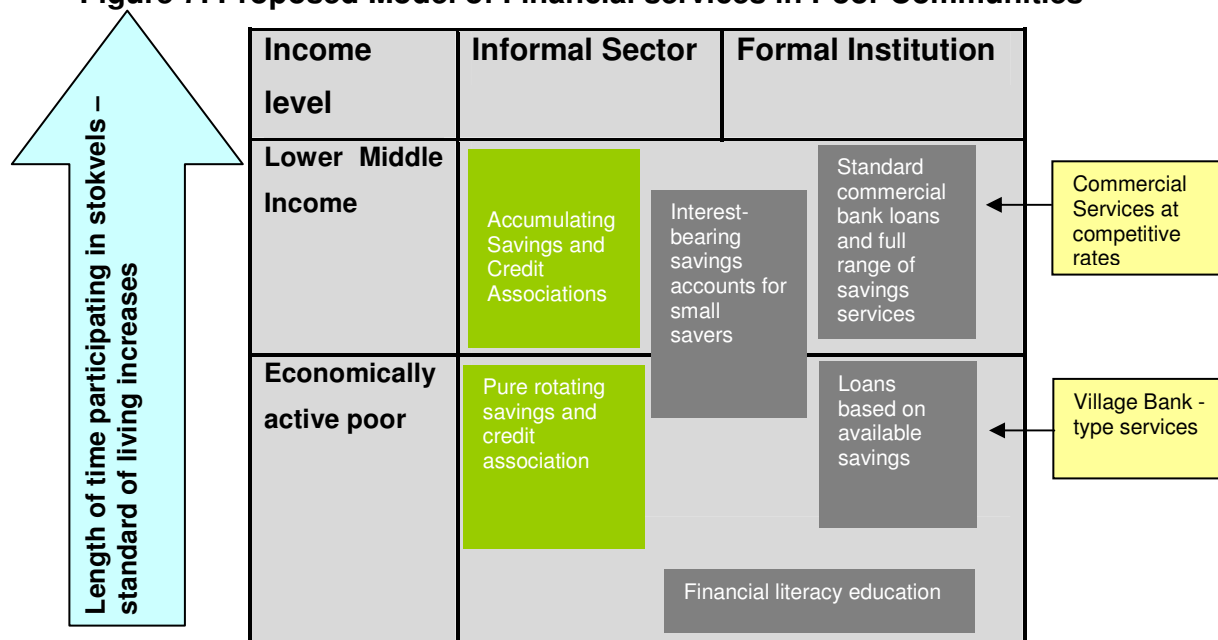
*Stokvels* are successful because members appreciate the forced savings aspect. Policy makers should consider having forced savings from the salaries of those who are employed. These savings should be different from the retirement savings that are currently available in that a percentage should be accessible for certain uses, for example, 80 percent of the available savings can be used to purchase a house. This means the more savings one has, the more a person can do with their money.

#### ***7.5. Recommendations for Future Research***

- This research needs to be conducted using a combination of focus groups and in-depth interviews to ensure that not only the positive aspects of *stokvels* are explored.
- It will be important to conduct the focus groups with men to identify differences in the success factors, if any.
- *Stokvels* in various parts of South Africa need to be studied to identify general success factors.

Figure 7 has been adapted from Robinson (2001) and the research results and proposes the services that members of *stokvels* require at different income levels.

**Figure 7: Proposed Model of Financial services in Poor Communities**



The model proposes that as people participate in *stokvels* for an extended period of time their standard of living starts to increase. At lower income levels and when they start participating in *stokvels* people require village bank-type services. It is only when they have a higher level of income, or when their living standard has increased because they have been participating in *stokvels* for a long time that their demand for commercial services starts. Even at this level, however, the commercial services offered have to be at competitive rates.

Both levels of income however, require savings services, but these services are required only above a certain level of income when people can afford to put some money away. At the lowest level of income formal institutions can be involved in these people's lives by offering them financial literacy education so that at the time when they can afford to use the services they have the knowledge.

## **7.6. Conclusion**

This research has made it difficult to classify the use of money into consumption or production activities only. All the participant groups did not use the money for day-to-day consumption, though most of them agreed that they did not use the money for productive purposes. They used *stokvel* money for building of houses and taking their children to school, especially tertiary institutions. In the Black communities it is believed that children have to look after their parents and in paying tertiary institution fees so that the children can be well educated and have good jobs, parents are in a way securing their own futures, because their children will look after them.

If the line between consumption and production is not clear, can we apply the international definition of microfinance as per Nancy Barry's definition in chapter two? The definition states that microfinance is about money used for microentrepreneurial activities only. In this research whilst the members of *stokvels* did not all use the money for microentrepreneurial activities, some had enterprises which are home based, which makes it difficult to differentiate between the money used for business and the money used for households needs. Even those who did not use the money for productive purposes did not use their money for day-to-day consumption.

This study has challenged assumptions about *stokvels*, and they have shown that there is a gap that is left by financial institutions in servicing people in rural communities, so much so that they have created their own MFIs. There are opportunities for developing the economy through learning from these people who have created their own instruments, that work.



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## APPENDIX A: MODERATOR GUIDE

1. How did this group start (Who started it, when, what process did they go through)?
2. Why did the initiator decide on the *stokvel* and why did the people who were asked to join agree to join?
3. How were the members selected? How do new members join now?
4. How does it operate (is it rotating or accumulating)? How much money is contributed?
5. How do they decide on who gets the pot? How do they handle disagreements regarding rotation?
6. Do they have regular meetings where the money is contributed or is it transferred into bank accounts?
7. When and where do they have their meetings? Why? What happens if a person cannot make the meeting?
8. What if a person does not have money to pay that month? What happens if a person wants to stop being part of the *stokvel*?
9. What do they do with the money when they receive the pot? How did they meet these needs before they were members of the *stokvel*?
10. What do they see as most important in making the *stokvel* successful? What problems do they encounter?
11. Can men be part of this *stokvel*? If not, why not?
12. How can a bank help them?
13. Are they aware that banks have products which serve the same purpose where they could get interest on their savings?