

**Informal finance for the middle and high income individuals in South
Africa: a case study of high budget "stokvels" in Pretoria**

by

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DEDICATION

I dedicate this work to my parents Edmund (RIP) and Leah Kibuuka.

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**INFORMAL FINANCE FOR THE MIDDLE AND HIGH INCOME
INDIVIDUALS IN SOUTH AFRICA: A CASE STUDY OF HIGH BUDGET
"STOKVELS" IN PRETORIA**

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ABSTRACT

This study was undertaken to investigate the major reasons behind the use of informal financial services by middle and high-income individuals in South Africa with specific reference to rotational savings and credit associations, locally known as *stokvels*. The ultimate aim was to recommend ways in which banks and other formal financial institutions could aptly address the financial needs of these individuals. The study was conducted in Pretoria, which is situated in the Gauteng province of South Africa.

The data for this research was mainly gathered through two focus group discussion techniques, namely: the discussion guide and product attribute raking (PRA). Two mini questionnaires were also used to collect personal information from the participants.

The research revealed three major categories of high-budget *stokvels* namely: the generic, targeted saving and investment *stokvels*. The main users of these *stokvels* are black males and females with a monthly income of R11 500 or more. They are typically individuals of 31 to 49 years of age. They are highly educated individuals holders of qualifications equivalent to a university degree or higher. Further analysis of the participants in this sample revealed a tendency for the *stokvels* to be formed along gender, workplace/colleague and kinship lines.

The study shows that in addition to social fulfilment, the major financial need satisfied by these *stokvels* is saving to accumulate a lump sum for a birthday party, holiday or consumer goods and to take advantage of investment opportunities.

The study identified the following specific reasons behind the participation in high-budget *stokvels*; to take advantage of collective/forced saving, avoid financial charges, low returns on small amounts of individual savings in banks and social fulfilment.

The findings highlight the formal financial institutions' lack of awareness for the need to profile, design appropriate products and delivery systems for the black middle and high-income clients in South Africa. The study also shows that banks do not really understand this clientele. The study findings necessitate profile targeting, achievable through on-going and comprehensive research in the product and service requirements of this clientele. The suggested research will enable formal financial institutions to improve service provision, as well as to identify and design products for this clientele.

The study calls for the following changes in formal financial institutions:

- Increased investment in self-service banking.
- Bank staff should be trained to sensitise them to the financial, social needs and expectations of this clientele.
- In addition, banks should strive to accelerate the employment of staff fluent in several indigenous languages and increase use of indigenous languages in formal financial institutions.
- Banks and formal financial institutions in general, should endeavour to design products and product delivery systems that address the social needs of clients.
- Increased investment in social responsibility and visibility of formal financial institutions in black townships.

Finally, the study recommends that if formal financial providers are to participate in this lucrative market, it is imperative that they emulate the principles on which informal financial institutions such as high-budget *stokvels* operate.

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1. INTRODUCTION

1.1 BACKGROUND

The financial sector, through the provision of financial services plays a central role in enhancing economic growth and development. Porteous (2003) points out that better access to savings and credit can enable household sustainability, as well as enterprise creation and can stimulate higher demand for goods and services in the economy as a whole. Hawkins (2004) argues that associated with increased access to financial services, are social benefits to the country such as reduced theft and better economic linkages to rural and deprived communities. Lack of access to banking services affects households' ability to receive government transfers, to make payments or to accumulate cash surpluses for planned expenses or emergencies. Lack of adequate saving facilities specifically, may result in low-income households resorting to expensive, short-term debt.

The South African financial sector is characterised by a world class-banking sector, operating side by side with a highly diverse informal sector. The Financial Sector Charter (2003) identifies some of the challenges facing the South African financial sector:

- It is characterised by the presence of a few very large institutions. Many of the smaller and foreign institutions have exited in recent years.
- The national levels of savings and investment are inadequate to support sustained economic growth and individual financial security.
- A large pool of funds circulates outside the formal financial system in institutions such as *stokvels*, informal traders and in other short-term savings.
- There has been inadequate response by the sector to the increasing demand for access to financial services.

- The sector has not effectively provided credit to entrepreneurs, particularly black businesses.
- There are low levels of black participation, especially black women, in meaningful ownership, management and high-level skilled positions in the sector.

The formal sector consists of banks (commercial and public), insurance companies and the capital market companies. The major participants in the commercial banking sector are large banks. The public retail-banking sector is mainly composed of the Land Bank, Post Office Bank and provincial development financial institutions. The formal financial sector is governed in its operations by laws, for example the Banks Act of South Africa.

These few and very large commercial institutions in the formal financial sector mainly cater for the educated, regular income-earning individuals and medium to large businesses. This sector is not readily accessible to the majority of the poor. Porteous (2003) reveals that the low income category (Living Standard Measures, LSM, one to five) into which the 65% of the adult population falls, constitute 78% of the adults that do not utilise banks or “the unbanked” and that an intriguingly high percentage of unbanked people (21%), who previously had bank accounts, abandoned them¹. In number terms, this translates into about 13.7 million adults currently unbanked (of these, 3.7 million adults were previously banked but dropped out of the formal banking system). Hawkins (2004) quotes a figure of about 50% of adults in the country that do not have access to formal financial services.

International comparisons revealed that South African banks charge relatively higher fees on transactions than banks in other countries (Falkena *et al*, 2004). Hawkins (2004) and Falkena *et al* (2004) found that low- and middle-income consumers and small enterprises carry higher per unit cost of banking than more prosperous clients. This group of consumers (low-and middle-income) are therefore subjected to fewer options at higher prices. These high charges reduce access of poorer individuals to banking facilities,

¹ The South African Advertising Research Foundation- SAARF- (2005) categorises LSM 1 as a group that earns a monthly income of R879 per family and LSM 5 as earners of monthly income of R2, 427 per family (based on data collected over the period: July 2003 to Sept 2005).

which undermines their access to the economic opportunity in general, increases their cost of living and enhances their vulnerability.

Based on the tacit exclusion of poor people from banking institutions, policy changes in South Africa and the pressure for black economic empowerment, it comes as no surprise that members of the formal financial sector voluntarily committed the sector to increasing access to financial services for the previously disadvantaged through the Financial Sector Charter of 2003 (Financial Sector Charter, 2003). The target group includes black people (especially women), workers, youth, people with disabilities and people living in rural areas. The focus is on enterprise development particularly black owned Small and Medium Enterprises (SMEs), black companies and black women-owned enterprises. One of the envisaged ways to achieve this goal is through the National Bank Account (now known as the Mzansi account) that grew out of the Financial Sector Charter in 2003. The National Bank Account/Mzansi account is designed to make access to banking cheaper and easier for the “unbanked” South Africans (Business Day, August 2004).

The existence of the informal financial sector in South Africa is well documented (Lukhele, 1990; Coetzee, 1997; Verhoef, 2001; FinMark Trust, 2002; Kgowedi, 2002; Financial Sector Charter, 2003). Informal finance derives from the grassroots and is a bottom-up demand of the poor for appropriate financial services (Schreiner, 2000). This sector is highly fragmented and consists of suppliers who are not subjected to laws, taxes and other regulations (DGRV, 2003). As Schreiner (2000) notes, in the informal financial sector cash and goods in the present are exchanged for promises of cash in future through contracts or agreements conducted without reference or recourse to the legal system. This sector consists of money lenders, burial societies, *stokvels*, rotating savings and credit associations (ROSCAs), relatives and friends. Taxi drivers (together with friends and relatives) are also recognised as being part of informal transfers of money and goods from friends, relatives or business associates in urban areas to those in rural areas and *vice versa*. G:enesis (2003) notes that these transfers also take place across South Africa’s borders to neighbouring countries.

South Africa has a large informal financial sector. The Financial Sector Charter (2003) acknowledges that a large pool of funds circulates outside the formal sector, including but not limited to funds held by *stokvels*, informal traders and other forms of short-term savings. Based on the ESKOM consumer survey of 1998 and from the information provided by National Stokvels Association of South Africa (NASASA), Coetzee & Cross (2002) estimated that by 1999/2000, the informal financial institutions had a retail outreach of R400 million in loans and a R1, 7 billion in savings. It is estimated that the total investment in *stokvels* alone is R5, 6 billion annually (FinMark Trust, 2002).

Operators providing credit in the informal financial sector largely do not operate out of offices; usually maintain few or no records, reducing the processing time of transactions. This sector tends to provide funds for short-term purposes and most of the transactions are carried out with notable flexibility with regard to interest rates, debt structure collateral requirements and qualification process (Waldron, 1995). This flexibility in the informal financial sector and the close working relationship that exists between lenders and borrowers enables borrowers to minimise transaction costs to levels much lower than those of formal institutions.

This may in part provide an explanation for the popularity of informal financial institutions among the rural and urban poor. However, recent studies on informal financial institutions have revealed the existence of informal financial institutions that cater for the not so poor. Porteous (2003), reveals that as high as a third of the fully banked people in South Africa support informal financial institutions. Verhoef (2001) reports the existence of several high-budget informal institutions (specifically *stokvels*) in Gauteng province. Like other *stokvels*, their membership is still based on trust but the contributions required from members are considerably higher, ranging between R200 and R20 000 per month.

This phenomenon is contrary to the initial belief that informal financial institutions are set up to cater for the poor. Geertz (1962) believed that ROSCAs were “middle rung” institutions in the process of development, created for the poor in rural villages in Third

World countries and were to disappear when advanced banking and lending systems came into play. Light (1996) inadvertently echoes the same idea by indicating that if poor inner city Americans would start up ROSCAs of their own, they would find it much easier to save, to buy homes, to become financially literate and to start up businesses. The existence of these institutions (high-budget *stokvels*) forms the basis of this research.

1.2 PROBLEM STATEMENT

A number of studies have acknowledged the existence, revealed the activities and forms of informal financial institutions in South Africa (Verhoef, 2001; Kgowedi, 2002; FinMark, 2002). Verhoef (2001) in particular, revealed the existence of high-budget *stokvels* in Gauteng province but the reasons behind their existence were never probed since this was not the subject of her study.

For a long time, it was believed that informal financial institutions and specifically *stokvels* were institutions for the poor and unemployed, as echoed by several writers among them (Geertz, 1962; Lukhele, 1990). However, the findings in Verhoef (2001) defy earlier beliefs. This is unexplained, since members of high-budget *stokvels* are likely to have access to formal financial services.

The presence of these *stokvels* therefore raises a number of issues that constitute the three components of the research problem, namely:

- Firstly, there is a need to identify the reasons behind the preference by high-income individuals for these informal financial institutions in presence of a wide range of formal institutions and product offerings on the market.
- Secondly, there is a need to determine whether this phenomenon is a response to the nature and type of financial packages offered by the formal financial institutions as compared to those in the informal sector. Are the products offered in the informal sector more suited to these individuals' needs?

- Lastly, there is a need to establish whether the services and service delivery systems offered by these informal financial institutions encompass an intangible component or aspect important to these individuals, which may be lacking in the formal financial systems.

The information generated from this research will be useful as a guide for formal financial institutions to design more suitable products and delivery systems for this class of users.

1.3 RESEARCH METHODOLOGY

The data gathering methodology for this research is based on an extensive literature review combined with primary data collection by means of key informant interviews and two focus group discussion data collection techniques, namely discussion guide and product attribute ranking. Two mini questionnaires, one for each participant and the other for the founder(s) of the group, were also used during the data collection process.

1.4 DELINEATION OF STUDY

This study focuses on the use of informal financial institutions in the greater Pretoria area² by high-income individuals with special reference to *stokvels*. The areas chosen have a high incidence of this type of informal institutions. These areas are in reasonable proximity of each other, which reduces the cost and time for this research. In addition, because these are highly mobile individuals, this research will be limited to groups whose activities are largely controlled in the Pretoria area. These groups have at least a half of its membership either residing or working in this area.

² The city of Pretoria was renamed in 2005, it is officially known as the City of Tshwane. The names Pretoria and Tshwane in this study refer to the same geographical area.

1.5 OUTLINE OF THE RESEARCH

The research report is divided into five chapters. Chapter one deals with the introduction, background and the problem statement of the study. Chapter two presents the literature review on the informal financial systems in South Africa. This chapter also provides a historical overview of *stokvels*. Chapter three describes the study area, the research methodology used and data collection methods. In chapter four, an analysis of the results is carried out. The results of the qualitative interviews are summarised and the main points of interest are highlighted and discussed. Chapter five concludes the research by summarising the main findings and providing recommendations for the improvement of financial service provision to the middle and high-income individuals.

1.6 CONCLUSION

In this chapter, a brief description was given of major characteristics of the South African financial sector and the differences in the mode of operation of the formal and informal institutions. The purpose of this study was also specified. The last part of this chapter described the structure of the study. The objective of this chapter was to provide the foundation for a detailed analysis of informal financial institutions, which is presented in the chapter two and onwards.

2. REVIEW OF INFORMAL FINANCIAL SERVICES

2.1 INTRODUCTION

A review of informal financial services is presented in this chapter. Informal financial services and institutions as they occur in South Africa are discussed, in relation to those in the rest of the world. This is intended to give a comparative perspective on characteristics and mode of operation. The remainder of the chapter focuses on ROSCAs (*stokvels*), the variation as they occur in South Africa and the importance of aspects such as social capital in the establishment and continuity of ROSCAs. The terms ROSCAs, and *stokvel* are used interchangeably throughout the discussion and are explained in detail in the last section of the chapter.

2.2 A GLOBAL OVERVIEW OF INFORMAL FINANCIAL SERVICES

The term “informal finance” is difficult to define (Callier, 1990). It covers a broad variety of institutions and mechanisms. The common denominator appears to be that these institutions provide finance outside the control of state authorities. Informal financial service providers therefore literally include or refer to those suppliers who do not fall under the jurisdiction of monetary laws, taxes and any other forms of financial regulation as indicated by Mohane *et al* (2000). Isaksson (2002) cautions that the unofficial status of these services should not be interpreted as being unimportant and marginal, they could amount to as much as 20 to 30 percent of the gross domestic product in some countries. These institutions are heterogeneous in character and their mode of operation. Bolnick (1992) as cited by Isaksson (2002), reports that in some countries certain informal financial activities are illegal, while in others they are legal to various degrees.

Informal financial institutions are widespread around the world. Buddhadasa (1996), points out that they are found practically in every nook and corner in the world and at most socio-economic levels of society. Informal financial services were initially thought to be a phenomenon in the developing nations but are documented in both developing and

developed nations, in Asia, throughout Africa and the Caribbean, in the United States of America and the United Kingdom.

Kropp *et al.* (1989) as cited by Schrader (1996) in their attempt to distinguish between formal and informal finance according to the markets they serve, identify the following distinguishing features:

- The first feature is that the target group of formal financial services is the upper stratum, the non-poor segment in the population, such as employees in the formal sector, which is composed of private enterprises and state institutions. Although it is accessible to both the upper and lower strata, it is the lower strata of the population that is the main user of informal financial services.
- The second feature is that formal institutions operate in a highly integrated market, in contrast to the informal institutions whose markets are segmented with different agents/institutions.
- Lastly, both institutions to a large operate independently from one another, with different agent/institutions, clients, modes of operation and interest rates.

Attempts to explain the existence of informal finance reveal two main views. The first view is based on the argument that the informal financial sector is a reaction to policy distortions or financial repression (Fry, 1995 as cited by Isaksson, 2002). The argument put forward is that the informal sector is more efficient since it is not subject to regulation. The second view maintains that the informal sector has a comparative advantage in some market segments, especially where acquisition of information is costly for the formal sector (Adams, 1992 as cited by Isaksson, 2002).

Several propositions have been put forward in an attempt to explain the popularity of informal financial services. Schreiner (2000), Matin *et al* (2002) and Genesis (2003)

identify the following major attractions and advantages informal institutions offer their users, as compared to institutions in the formal sector:

- Informal institutions offer a disciplined environment for saving. Once the initial decision to join a savings club has been made, withdrawal can only take place at the end of the cycle, otherwise one faces peer pressure or even sanctions should he/she pull out.
- Unlike most formal institutions, informal financial institutions offer individuals a chance to save in small instalments, which particularly suit the poor.
- There is convenience and absence of formalities. This implies that no forms are completed. This eliminates reliance on documentation, which in turn removes literacy constraints and reduces the waiting period for processing a transaction, as well as transaction costs. The financial services are usually provided near users' residences or place of work and may even be available outside official working hours.
- The largest proportion of transactions takes place between parties that are well known to each other and those who live or work in the same vicinity. This reduces the information asymmetry and transaction costs faced by both parties in the deal.
- The transactions are usually carried out within familiar communal networks. This eliminates the feeling of intimidation and discomfort experienced in bank branches due to unfamiliar surroundings, exposing personal problems to strangers (privacy concerns) and the frequent use of languages in which users may not be able to fluently express themselves.
- There is reciprocity in borrowing. This serves as a kind of access to a liquidity-guaranteeing function, which is especially important to business operators. In addition, it continues to build social collateral and this is the same as a two-directional over-draft facility.

- Most transactions in the informal sector take place “free from official eyes” and since the institutions are not registered, no government taxes are payable. This creates a form cost-cutting opportunity to the users.

Beside loans, the informal financial sector provides several services to participants. The regular contributions made by members constitute a form of forced savings. Once saved, the funds cannot be easily accessed, as is the case with bank accounts in the formal sector. In addition, the members are compelled by the rules to remain in the saving scheme until the end of the cycle and leaving the group before the full cycle is complete, could initiate peer pressure and social sanctions.

Other services provided by the institutions in the informal financial sector include insurance and knowledge. Insurance provision by these institutions takes place through a network of exchanges between participants based on the principle of reciprocity. Therefore, a loan or a gesture in kind from a member(s) to another member(s) puts the beneficiary under obligation to pay back when the other party is in times of need (the principle of reciprocity is not restricted to member-based institutions). *Matin et al* (2002) highlight the fact that the effectiveness and the scale of informal insurance are narrow. The ability of a substantial number of poor households to handle even localised covariate shocks such as floods is very limited. Informal insurance for specific roles such as death (burial societies), however, work well and have a higher outreach than non-specialised ones. This possibly explains why burial societies form the largest proportion of informal institutions in South Africa (FinMark Trust, 2002).

Informal financial institutions, especially ROSCAs, are also educational institutions (Light, 1996). Members of a ROSCA often discuss with each other what they plan to do with the lump sum. If a member is planning to buy a refrigerator, for example, the whole group will discuss which brand to buy and where to buy it. Business intentions are also often discussed among members and advice offered to those who need it. *Miracle et al* (1980) point out that advice on business acumen from the formal financial sector would be of little help to informal sector members, since the white-collar formal sector

employees tend to be unfamiliar with the problems and constraints faced by many of those that operate in the informal sector. Johnson (2004) observes that women based ROSCAs enable participants to learn how to speak properly in public and the older women educate the young women on how to handle things in their homes and discuss problems with their husbands.

Johnson (2004) further points out another dimension of being a member of a *stokvel*, which is status and personal dignity acquired in member's community. A woman's ability to buy a dress with the ROSCA's payout and dress smartly enables her to gain self-esteem and mix freely with richer people. Similarly, Verhoef (2002) interestingly notes in South Africa's case that, *stokvels* enhance and secure members' social and economic status because of the characteristic trustworthiness ascribed to members.

Lastly, the informal financial sector also provides a money transfer service to its participants. Genesis (2003) notes that these money transfers constitute an important source of income for families and relatives of migrant and immigrant workers in South and Southern Africa. Money and goods from friends, relatives or business associates in urban areas may be transferred through a taxi driver, a friend or relative to those in rural areas and *vice versa*.

It is worth noting that the distinction between informal financial services providers and their users is often fuzzy since they are often one and the same. Isaksson (2002) explains that due to the reciprocity nature of the transactions, the borrower can sometimes become the lender and *vice versa*. Matin *et al* (2002) further caution that in this type of financial sector, the distinction between savings, credit and insurance is often difficult to make.

2.3 TYPES OF INFORMAL FINANCIAL INSTITUTIONS IN SOUTH AFRICA

Many versions of informal financial services for the poor exist in South Africa. They are either individual or group-based. Individual services normally provide credit and savings facilities to individual clients. DGRV (2003) contends that the bulk of the informal

financial transactions occur in group-based activities. The following are the major forms of informal financial services in South Africa:

2.3.1 Money lenders

According to the Microfinance Regulatory Council (2005), informal money lenders (microlenders) in South Africa consist of informal township and rural lenders. Informal money lenders are not registered with the Microfinance Regulatory Council (MFRC) and as their names suggest, they are mainly found in townships and rural areas of South Africa. The township and rural lenders' business is based on trust and their clientele are mostly people from the neighbourhood, friends and family. They normally operate from their homes, at work or from their cars. Loan applications are quite simple, with heavy reliance placed on either personal knowledge of the borrower or a strong referral by an existing client.

2.3.2 Family and friends

A large number of financial transactions (lending/borrowing and money transfers) take place between members of the same family or even between friends. Coetzee (2001) points out that the transactions may carry zero or low interest and that these transactions take place on a reciprocal basis.

Money is transferred if the friend or relative is travelling to the area where the beneficiary is residing. Friends and relatives usually transfer the funds for free if the sender has a close relationship to the individual, with a small fee payable if telephone calls have to be made or extra travelling has to be done to reach the recipient (Genesis, 2003).

2.3.3 Taxi drivers

In addition to friends and relatives, taxi drivers play an important role in informal money and goods transfers from urban to rural areas. Most of these transfers are made from

friends or relatives working in urban areas to folks in rural areas, however parents residing in rural areas often make money transfers to their children attending school and tertiary institutions or who are seeking employment in urban areas. These remittances are largely a result of the highly mobile labour force that is characteristic of South and Southern Africa. The transfers may be domestic (within South Africa) or across the border to neighbouring states (G:enesis, 2003). G:enesis (2003) and Lubove (2004) indicate that these cross border money transfers may involve illegal activity such as cross border money laundering, could violate exchange controls and might even encourage illegal immigration.

2.3.4 Traders/merchants

These include shopkeepers and business people. The traders supply goods on credit to trusted clients who have a good track record of debt repayment. This can happen in the context where a wholesaler provides goods on a line of credit to retailers and retailers provide goods on credit to the clients (Coetzee, 2001). Isaksson (2002) refers to this kind of credit as tied credit because it is linked to the purchase of a physical product. According to Kgowedi (2002), lending is a secondary activity to traders and merchants. They have the advantage of having adequate information about their clients because their clients live in the vicinity of their businesses and transact with them regularly.

Coetzee (2001) further points out that only a small number of clients usually benefit from this credit facility with the majority paying cash. This is because lending is not the major activity of traders. The benefit to the trader is realised in the increase in sales that purchases on credit facilitate.

Traders may also provide a cheque-cashing facility to their clients on a limited level. When a client opts to make use of this facility, a fee based on the value of the cheque is charged against the cheque amount. The most preferred cheques are from government and reputable companies, but personal cheques from creditworthy clients may also be accepted.

2.3.5 *Saving groups*

Saving groups are common in developing countries. Coetzee (1997) reports that these groups are usually formed with a common objective. Contributions from members which may be on a regular or irregular basis, are deposited with the group leader as part of saving for a particular purpose. Adams (1992) as cited by Coetzee (1997) differentiates between groups that save for specific individual purposes and those that save for communal purposes. A group may save for a communal cause such as the building of a church or a school for example, whereas for individual purposes, a member may save with a group to raise funds to pay children's school fees at the beginning of the year.

2.3.6 *Neighbourhood/ Township society*

Township societies are similar to burial societies, which are discussed in more detail in a later section, except that there is no monthly premium paid. Neighbours form a 'block' in which they are registered by paying a nominal fee of between R2 and R5. When a death occurs in a family, a volunteer goes around from house to house of registered members in the block, with a list collecting a set amount which may range between R2 and R10 (Genesis, 2004). This money is then handed over to the bereaved family. Those who default on payments for three successive deaths in the block are removed from the list and do not get contributions when a death occurs in their own families.

2.3.7 *Sports clubs*

Supporters of a sports team form sports clubs in which they contribute to finance sport related expenditures. These contributions, which are often nominal in nature, are made by members to cover transport and entertainment costs on days that their teams play a match. Sports clubs are usually formed, not so much to jointly partake in sports, but to finance the activities of the supporters of the club (Coetzee, 1997).

The entertainment expenditure, for which contributions are usually made in these clubs, includes refreshments and an occasional braai (barbecue) to celebrate a win after a match. In instances where a match is held far from the locality of the supporters, a member's residence is often chosen where the match is then watched on television. The contributions in such instances are used for the purchase of drinks, which are consumed during and after the match.

2.3.8 Pawnbrokers

Pawnshops are a worldwide phenomenon, commonly found in urban areas. These financiers usually provide loans for small periods (Coetzee, 2001). Clients present an article as collateral, usually personal property, against which they receive a loan. The size of the loan granted is based on the value of the article. The loan sizes tend to be less than the value of the property presented as collateral. As Work-at-Home (2002) notes, brokers do not lend more money than they think they can get if the pledged item is not redeemed and has to be disposed off usually 30% less than real value.

Pawnbrokers usually accept a variety of articles as collateral, such as jewellery, electronic equipment and silverware, to mention but a few. The client regains ownership of the article after the loan and interest on the loan are repaid. The onus is therefore on the pawnbroker to store and maintain the article in its original condition (Coetzee & Cross, 2002). In situations where the client fails to repay the loan on an agreed date, the pawnbroker may sell the article to recover the loan amount. Coetzee *et al* (2001) further point out that because of the collateral arrangements, pawnbrokers usually need no or little information on their clients.

2.4 STOKVEL (ROSCA)

2.4.1 Introduction

In this section a definition of the ROSCA concept is provided. The section also provides a global overview of ROSCAs, with special emphasis on their existence and mode of

operation in South Africa. The importance of social capital in the formation of groups and institutions such as *stokvels* in communities is also highlighted and discussed.

2.4.2 *Stokvels as a concept*

Several definitions of ROSCAs exist in the literature. Mrak (1989) as cited by Callier (1990) defines a ROSCA as a group of people who know and trust each other and who agree to contribute a fixed amount at regular intervals to a fund. This fund is given in its entirety to a different member of the group at each group meeting and there is no interest to be paid. The order of rotation is determined in different ways, but mostly by negotiation, by lottery or by the credit worthiness of the participants.

Coetzee (1997) describes the operation of *stokvels* as follows; normally the member who receives the contribution is responsible for hosting other members, providing refreshments and food at a gathering of the ROSCA. This member will however, sell the refreshments and food to the others. Non-ROSCA members, or members of other ROSCAs, may also be invited. Lukhele (1990) indicates that the understanding is that the receiving member reciprocates in attending gatherings of the other ROSCAs and thus the buying of refreshments and food.

ROSCAs provide an important benefit to their members; the average saving time for a member is reduced to 50% of what it would take an individual to save in isolation. A *stokvel* is therefore a traditional form of banking, employing informal rules and sanctions (Ayse, 2000).

Von Pischke (1992a) as quoted by Coetzee (1997) identifies three characteristics of ROSCAs that he believes contribute to their popularity, namely:

- a. ROSCAs are very flexible institutions. They can be applied in diverse social circumstances, have diverse group characteristics and operate in diverse countries (both in rural and urban settings).

- b. ROSCAs result in low transaction costs and positively influence terms and the way financial transactions are structured. ROSCAs also minimise risks for participants.
- c. Lastly, they minimise influence from non-members in the financial affairs of members.

Literature on ROSCAs in the rest of the world describes them as an ancient phenomenon. The earliest forms of ROSCAs are those described by Dekle and Hamanda (2000) to have existed in Japan between 1338 and 1467. Besson (1995) estimates that the oldest ROSCAs may be about 400 years old. In the Caribbean, they are believed date back at least to the sixteenth century, when Yoruba slaves carried them from West Africa as part of their institutional luggage or institutional capital (Seibel, 2001).

In South Africa, ROSCAs are referred to by different names depending on regional locations such as *stokvel*, *gooi-gooi*, *umgalelo*, *mahodisana* and *umshayelano*. In the rest of the world they similarly have different names: they are known as *hui* in China (Tsai, 2002), *tanda* in Mexico, *ho* in Vietnam (Light, 1996), *gamaya* in Egypt and *ekub* in Ethiopia (Seibel & Damachi, 1982). Perhaps the name, that most captures ROSCAs's principle is *Tano Moshiko-ko* in Japan, which literally means a "trustworthy community" (Dekle & Hamanda, 2000).

2.4.3 Social capital and ROSCAs

The capability of individuals and groups to form and operate *stokvels* has often been closely associated to the availability of what social anthropologists refer to as social capital (Ayse, 2000). Bourdieu (1985), as quoted by Portes (1998) describes social capital as the aggregate of the actual or potential resources, which are linked to possession of a durable network of more or less institutionalised relationships of mutual acquaintances or recognition. It is the accumulation of obligations from others according to the norm of reciprocity. Social capital manifests itself in many areas of life, including those involving

friends and families, school committees, ethic, religion and community groups, occupational groups, firms, governments and other institutions (Productivity Commission, 2003).

Social capital stems from four sources: values and morality, bounded solidarity, reciprocity exchanges and lastly, enforceable trust (Pones & Sensenbrenner, 1993 as cited by Ayse, 2000). These values enable participants to act together more effectively to pursue shared objectives and directly facilitate cooperation for mutual benefit (Putman, 1995 & Kawachi *et al*, 1997 as cited by Aldridge *et al*, 2002). Putnam (1995) as cited by Falk & Guenther (1999) argues that amongst these four values, trust is the core element of social capital. It adds to the resilience of social bonds between familiars and is capable of creating links with the less familiar.

Verhoef (2002) believes that the need to establish a social network of trusted friends to replace the kinship network of traditional areas and the drive to fight poverty resulting from loss of traditional means of production (land) were the major shared objectives that facilitated the creation of *stokvels* among black South Africans. Without any substantial physical collateral, trustworthiness guaranteed access to credit and a suitable saving environment through a *stokvel*.

Social capital facilitates information sharing and reduces transaction costs associated with coordination mechanisms of institutions, such as contracts and bureaucratic rules (one should expect additional costs of monitoring, negotiating and litigation for a group of people with no social capital). By reducing transaction costs, social capital improves efficiency and performs an economic function that further facilitates formation of institutions like ROSCAs (Fukuyama, 1999).

Social capital complements rather than competes with other forms of capital. Giorgas (2000) supports this view and observes that social capital is particularly important in overcoming deficiencies in other forms of capital. Like other forms of capital, there is a cost in the production of social capital. It takes time to cultivate relationships, especially

those predominantly based on trust. Grootaert (1998) rightfully notes that the amount of social capital produced is in part a function of the opportunity cost of time and the expected return from social capital.

Social capital, when further compared to the other forms of capital is intangible (Coleman, 1990 as cited by Portes, 1998). Portes (1998) further points out that whereas economic capital is in peoples' bank accounts and human capital is inside their heads, social capital inheres in the structure of their relationships. To possess social capital, therefore, a person must be related to others and it is those others, not him/herself that is the actual source of his/her advantage. Ostrom (1999) as cited by Sobel (2002) additionally observes that in contrast to most forms of physical capital, social capital appreciates with use. This implies that making repeated use of network of relationships within a community increases trust and therefore social capital, which facilitates group and ultimately *stokvel* formation.

These relationship factors are often over looked in formal financial systems. Rowlands (1995) argues that one of the most persistent 'Western' ideas about circulation of money is that it has abstract and egalitarian consequences that dissolve 'traditional' social relationships. People have a strong desire to maintain a strong social and particularly gendered discipline on the circulation and consumption of money.

In line with earlier discussion, it is therefore argued that social capital does play a role in the formation and maintenance of solidarity in group-based informal financial institutions and therefore it is an important consideration in this investigation that includes non-tangible motivation for the use of high-budget *stokvels*.

2.4.4 ROSCAs in South Africa

The name *stokvel* in South Africa is believed to have developed from the stock fairs (auctions), of the nineteenth century English stock farmers in the Eastern Cape (Lukhele,

1990; Verhoef, 2001). It became common for the black workers from neighbouring farms to set their next meetings on the stock fair days. The repeated use of the name stock fairs by the black farm workers is believed to have coined the word *stokvel* as a pronunciation derivative. By the 1930s *stokvels* were regular occurrences in African townships in these areas and elsewhere.

The *stokvel* is more common in urban than rural areas of South Africa. Coetzee (1997) believes that this may be because of the dispersed nature of settlement in rural areas and the more consistent cash income in the urban areas. FinMark Trust (2002) reports that the majority of *stokvel* users are black South Africans as indicated in Table 2.1.

Stokvel membership in South Africa by sex is 57% female and 43% male (FinMark Trust, 2002). The explanation for this differential participation of the sexes in *stokvel* activities possibly lies in cultural and past political issues in the country. Black people, specifically black women, did not have access to physical collateral such as land and buildings, which are required for collateral by formal financial institutions, hence had to rely on institutions that utilise collateral substitutes such as *stokvels*. Reputation is an example of such a collateral substitute.

Besson (1995) stresses the importance of reputation as an important aspect for the operation of ROSCAs and thus emphasises social capital as an important basis for *stokvel* initiation. Reputation, Besson (1995) further argues rests on personal worthiness and fear of loss or anticipated loss of one's reputation in society acts as a sanction against defaulters.

Gahadassi (2004) describes reputation as an interlinked contract since it links the future access to credit to current behaviour. Light and Pham (1998) refer to this kind of social collateral as “extra-legal sources of creditworthiness” that expands the circle of the creditworthy beyond what banks can offer. ROSCAs for this reason can lend a young

person on the social collateral provided by parents who, though not obliged by law, are known to stand surety for that young person's debt. Although ROSCAs accept social capital as collateral, the participants should in addition have a dependable income; they cannot serve a person with neither.

The *stokvel* culture is steadily permeating through to other population groups in South Africa, most notably the white population group (refer to Table 2.1). The breakdown of Apartheid and its structures such as the Group Areas Act has led to an increase in interaction between different races. The new political and economic dispensation has also facilitated movement of black South Africans from the black townships to formerly white-only suburbs and work places. It can be postulated that this movement has resulted in an increase in the levels of interaction between white and black South Africans and aided the carry over of black cultural and social institutions such as *stokvels* into the formerly white spheres of life, extending the *stokvel* frontier to cultures in which they were not common before.

Table 2-1 Population group of stokvel member

Race	Population percentage
Black	94
White	3
Coloured	2
Indian	1

Source: FinMark Trust (2002)

ROSCAs and their varieties in South Africa

ROSCAs appear in four distinct forms as a result of evolution from the generic type in South Africa. Verhoef (2001) identifies the following phases of evolution and the resultant varieties of ROSCAs, all of which are still represented in South Africa today:

The first type, the general savings clubs, was mainly composed of African women meeting at regular intervals to make regular fixed contributions, which would be given in full to one of the members. Members were mainly poor women who needed to augment low incomes. The lump sum would be used to purchase subsistence items such as food and clothing or expensive items that members could not afford, unless they paid cash (Verhoef, 2002).

The second type is burial societies. Burial societies developed to deal with the trauma of death in a distant place far from the traditional areas. Burial societies therefore, emerged to ensure the full ritual of death, mourning and burial according to custom. The requirements for participation (for membership) in burial societies were similar to those of savings clubs, but their sole purpose was to provide for funerals.

Ngwenya (2000) as cited by DGRV (2003) defines a burial society as a relatively autonomous, historically distinct mutual aid local institution, which may be occupational or gender based, and whose goal is to provide social relief and support (both material and non-material) to a member or member's family experiencing conditions of distress due to a death.

Although most burial societies are established by persons with some common tie, such as kinship, neighbourhood, place of origin and religious denomination, burial societies may also be diverse and inclusive in membership, cutting across social and physical boundaries of place, occupation, educational level religious orientation and ethnic affiliation (DGRV, 2003).

Lukhele (1990) adds that, in addition to providing the money for a coffin and funeral ceremony, burial society members also supply the food required to feed the guests, assist the bereaved family with domestic work and attend the traditional night vigil in honour of the deceased person. Burial societies are therefore a form of insurance and mutual support association.

Burial societies are governed by their unique constitutions, which specify the monthly premiums. These premiums in turn determine the financial cover available for the member(s). In a members' meeting, held once every month, the treasurer collects the monthly premiums and presents the financial report for ratification by the members. This financial report indicates members who are in arrears and who according to the constitution, may not qualify for benefits in the event of death (Matlala, 2003).

Burial societies are more popular than *stokvels* in South Africa. FinMark Trust (2002) indicates the following membership for informal financial institutions (by proportion of total population) in South Africa: 28%, 12% and 60% for burial societies, *stokvels* and other informal institutions respectively. Kgowedi (1997), as cited by Kgowedi (2002) reports that in the Moletji district in the Limpopo Province, almost every household in the village belongs to one or more burial societies.

Burial societies are borne out of the very real sense of community spirit (Ubuntu) and are based on the principle of reciprocity. There is a strong sense of 'if you help me in my time of need then I will help you' financially, emotionally and physically (Genesis, 2004). Verhoef (2002) attributes the birth of burial societies in urban South Africa to the above-average demand for funeral arrangement caused by the high mortality rate among labourers resulting from unsanitary living conditions, dietary changes and disease epidemics during the initial period of black urbanisation through initially the migrant system. Burial societies have a strong social capital element as argued earlier.

Over and above the economic and social support function of burial societies, membership of a burial society has always had a socio-cultural significance (DGRV, 2003). Burial societies play an important role in African societies because in these communities, burials constitute an important part of culture. In the black communities of South Africa (Zulu, Tsonga, Xhosa, Tswana or Sotho), as Verhoef (2001) points out, caring for the dead is of exceptional traditional and spiritual importance. A great deal of importance is attached to providing for one's funeral and being buried with dignity. A pauper's funeral is considered a dishonour to the departed ancestor and a disgrace to the bereaved family,

which should be avoided at all cost. This is also appears to be the case with other black African cultures all over the African continent.

In South Africa, women form the largest proportion of membership in burial societies. DGRV (2003) contends that this is because women bear most of the burden in African households. G:enesis (2004) alternatively suggests that this may be due to the nature of the help expected at the time of the funeral, which is perceived to be ‘women’s work’.

New trends in burial societies have occurred in recent times with some burial societies extending their participation to weddings, confirmations and unveiling of tombstones. This development has not gone down well among some members in these societies. The dissatisfaction stems from the fact that, the monthly premiums are the same for all members regardless of how many dependents are registered under them (G:enesis, 2004). This leads to larger families being paid out more often than the smaller ones.

The rise in the number of early deaths due to HIV/AIDS and the associated rise in death benefit payouts in the recent years have brought the financial sustainability of burial societies under the spotlight. Melzer (2003) argues that HIV/AIDS poses the most significant risk to the financial sustainability of burial societies in South Africa. In agreement, G:enesis (2004), further notes that no real plans have been made by burial societies to counter the HIV/AIDS risk and attributes this lack of planning to the members' resistance or disinterest in discussing future scenarios regarding HIV/AIDS.

The third type is the investment clubs. These are most common amongst educated people with more stable and higher incomes in the urban areas. The club would pool their contributions to make loans, with interest available to members or non-members in order to accumulate funds through interest revenue. The club is then dissolved at the end of the year and the pool is divided amongst the members.

In addition to these known typologies, a more recent development is the so-called high-budget *stokvel*. High-budget *stokvels* are composed of relatively large numbers of

individuals. These individuals have a regular high income with high social standing and credibility in the community. Contributions may range between R200 to R20 000. Most of the members operate outside the formal sector such as taxi operators (Verhoef, 2001). Contributions are used for purchase of expensive consumer goods, for example to purchase taxi vehicles.

Although participation of the affluent in the activities of ROSCAs is documented both in South Africa and internationally, comprehensive studies on the activities of high-budget *stokvels* are currently not available. It is the high-budget *stokvels* that will be explored in more depth in this study, as it is the nexus of the interaction of tradition and the developed financial sector. Many questions are unanswered in terms of why affluent people will belong to these institutions while they should have easy access to commercial banking services.

2.5 ANALYTICAL FRAMEWORK

In reference to the issues raised in the problem statement and the preceding literature review, it is important that the following aspects regarding high-budget *stokvels* and their membership are addressed in this research:

2.5.1 Profile of participants

The participants' profile is important in establishing a clear understanding of the people who participate in high-budget *stokvel* activity. The aspects of the participants' profile to be analysed are the income levels and other related demographic factors such as race, sex, age and level of education.

2.5.2 Motivation behind stokvel membership

This aspect identifies the reasons for participating in high-budget *stokvel* activities. It also focuses on the benefits accrued by members of these institutions.

2.5.3 *How do high-budget stokvels function?*

There is a need to understand how these groups are maintained (held together) and the forces at play during the group's life cycle. To this end, the levels of social capital (values and morality, bounded solidarity, reciprocity exchanges and enforceable trust) and its influence on the activities of these institutions will be gauged. The level for each group will be measured from the presence or absence of reciprocal exchanges and the group's level of trust. For example, presence or a perceived need for a written constitution in a group indicates a lower level of trust, whereas absence of written constitution in a group exhibits a higher level of trust. Other indicators to be used will among others include the number of social activities undertaken as a group or how a group responds when a member experiences a moment of happiness or distress (a measure of bounded solidarity). All these activities indicate the degree of togetherness in a group.

2.5.4 *Challenges and suggested improvements*

The perceived challenges faced in *stokvel* operations and the motivation behind *stokvel* membership provide a deeper understanding of the reasons why these institutions continue to thrive in the presence of a world-class financial system. One would expect people to avoid inadequately performing institutions.

In the quest to provide financial services, specifically designed for a targeted clientele, the challenges and suggested improvements (in formal financial institutions) allude to important areas that need attention in formal financial institutions.

2.6 CONCLUSION

The discussion of the informal financial institutions in this chapter was intended to give a broader understanding of the variety, the mode of operation of these institutions, as well as the reasons behind their popularity in the developing world. It has provided a detailed description of *stokvels* in South Africa and the analytical framework to be followed in this research. It has also highlighted the persistence of informal finance in the presence of

first world financial systems. This chapter also laid the foundation for the study of the research area. The following chapter will provide a detailed discussion of the study area regarding geographic location, population size and economic activities and will describe the research methodology and method of data analysis used in this study.

3. STUDY AREA AND RESEARCH METHODOLOGY

3.1 INTRODUCTION

The aim of this chapter is to describe the geographical aspects, socio-economic activities of Greater Pretoria (City of Tshwane), the geographical focus of the study. The chapter's additional aim is to provide a brief overview of the data collection methods used in the study.

3.2 CITY OF TSHWANE: GEOGRAPHICAL AREA AND SOCIO-ECONOMIC ACTIVITIES

Pretoria is the administrative capital of South Africa and lies about 50 km north of Johannesburg. The City of Tshwane is composed of 13 council areas (refer to map 3.1), covering an area of 2 199 square kilometres with a population of about 2,2 million people (City of Tshwane, 2005).

The economic activities in the city focus on the tertiary sector rather than on the primary and secondary sectors (Top300, 2005). Although the city is primarily administrative, there are important industries especially iron and steel. The City of Tshwane has automotive assembly plants, machine shops and flourmills (Infoplease, 2005).

The Greater Pretoria is therefore a city of science and technology, knowledge and industry. It has a highly developed technology and research sector. The city boasts four universities and a number of scientific institutes (World Facts, 2004).

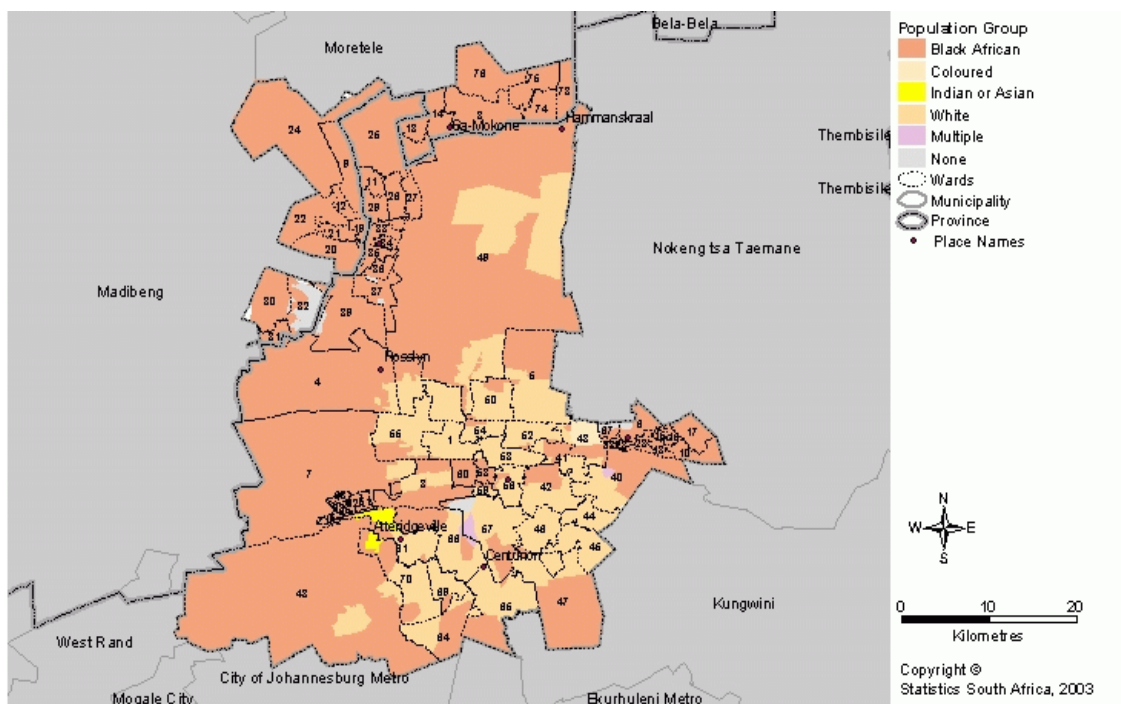
The existence of two economies (the affluent and the poor) also noted by Mbeki (2003), a general characteristic of the South African economy, is evident in the city; small-scale manufacturing and trading dominating the local economic activities in less affluent areas, whereas the service industry is dominant in the affluent areas.



Map 3-1 Area constituting the city of Tshwane

Source: City of Tshwane Municipality (2004)

Although Pretoria has undergone many changes over the past ten years following the new democratic dispensation, it will take some time before the city loses its Apartheid character. These changes are reflected in the repeal of the Group Areas Act, which specified residential areas according to race and the increased integration (socially and professionally) among individuals belonging to similar income classes in different population groups. The integration in residence for individuals with similar income classes although noticeable, is not yet complete. Generally, the population group that was initially residing predominantly in an area before the dispensation is still in the majority in residence. The dominant population group in each ward in the City of Tshwane is shown in map 3.2.



Map 3-2 Dominant population group per ward in the City of Tshwane

Source: Statistics South Africa (2001)

Table 3.1 shows that the dominant races by composition in the City of Tshwane are black Africans and whites, which constitute 66% and 30.3% of the population respectively. Coloured, Indian and other racial groups, put together constitute less than 5% of the population.

Table 3-1: Approximate population distribution by race in Tshwane Metropolitan

Race	Population percentage
African	66.0
White	30.3
Coloured	1.5
Indian	1.4
Others	0.7

Source: Statistics South Africa (2001)

Since the black and white population, groups also constitute the largest membership of *stokvels* in South Africa, a comparison of the socio-economic characteristics of the two population groups are used to describe the study area. When compared, the socio-economic characteristics of the two dominant population groups in the City of Tshwane tend to follow the ethnic settlement pattern illustrated in Map 3.2 and are deeply rooted in the past legacies of apartheid. This pattern conforms to figure 3.3 and is also reflected in the wealth indicator summary as reported by the FinMark Trust (2003)³. It follows that better access to formal financial services, low unemployment levels, higher incomes and the resultant affluence directly correspond to areas where the white population is in the majority, the reverse is applicable for the areas where black South Africans are the dominant population group. Referring to Table 2.1 again, one would logically expect the *stokvel* numbers and participation in *stokvel* activities to also follow the above pattern, implying less *stokvel* activity and numbers in the regions where the white population group is the majority in residence. High-budget *stokvels* dominate other *stokvel* types in these areas, the opposite being applicable to the areas where the black population is in the majority.

Figure 3.3 shows the monthly income distribution by population group in the City of Tshwane. It reflects a highly skewed income distribution between the two dominant population groups. The percentage of the black population noticeably dwindles as the incomes increase from the R1 606-R3 200 group upwards. This trend is captured by the characteristic inverted v-shape in the graph shown in figure 3.3. The majority in the black population earn between R0-R3 200. The income distribution in the white population group on average follows a v-shape, indicating that the number of people in this population dwindles as incomes fall and increases as incomes rise.

³ FinScope (2003), Wealth Indicator Summary: A. Black South Africans primarily fall under LSM 1-5, they are the most impoverished but with the largest households. B. Coloured South Africans primarily belong to LSM 6-7. C. Almost half of Indian South Africans belong to LSM 6-7, but are wealthier than coloured. D. White South Africans, vast majority fall under LSM 8-10.

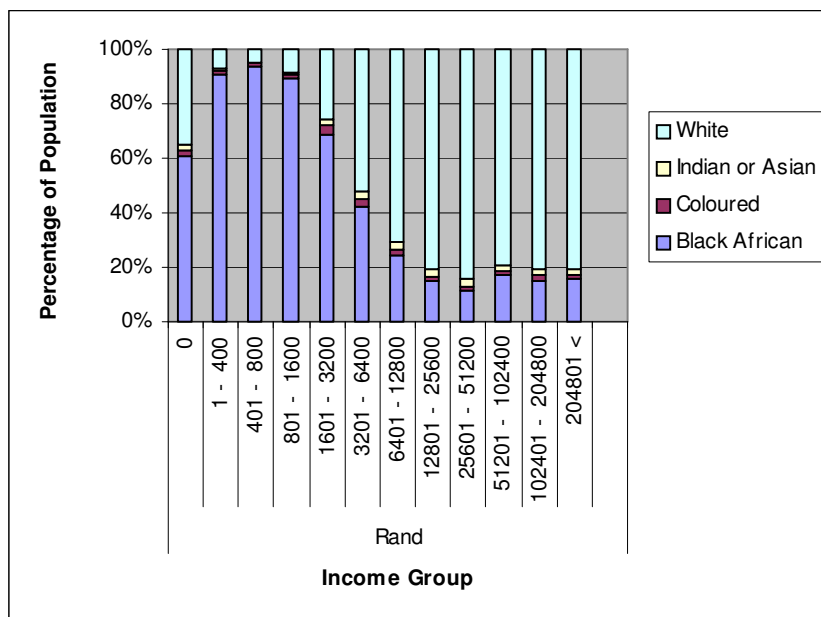


Figure 3-3 Income distribution by population group

Source: Statistics South Africa (2001)

The employment situation in the study area is illustrated by figure 3.4 below. About 654,482 residents are in employment, which represents 46.1% of the population. Unemployment in the area stands at 21.6%, which amounts to 306,033 residents. A total of 32.3% of the population in this area is economically inactive.

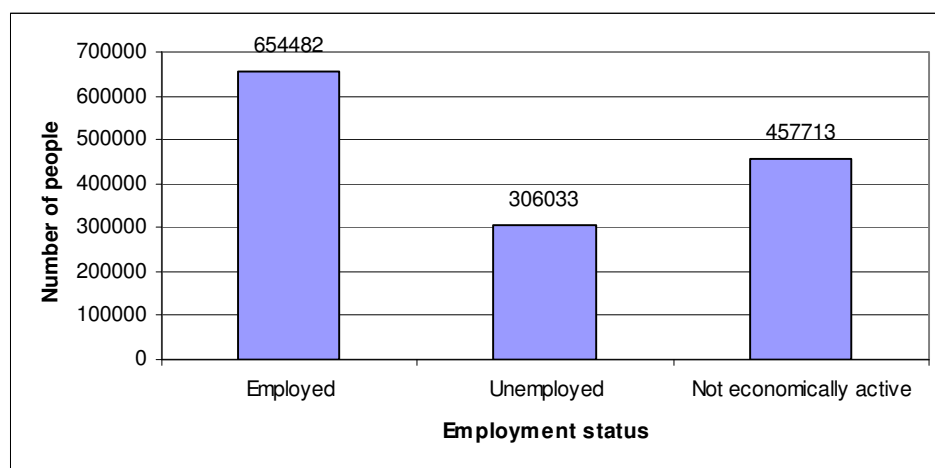


Figure 3-4 Employment status in Tshwane Metropolitan

Source: Statistics South Africa (2001)

3.2.1 Why are the socio-economic characteristics important to the study?

The above socio-economic characteristics of Tshwane influence the number, type/variation, membership characteristics (age, sex, number, and ethnic composition), level of financial contribution and distribution of high-budget *stokvels* in the study. Since the socio-economic characteristics of the population are embedded in the sample, they have a direct impact on the study findings. Based on the national trends in *stokvel* activity discussed in section 2.4.4, high-budget *stokvel* activity gauged by *stokvel* numbers/membership is likely to be more frequent in the black African population relative to the white community in Tshwane. In addition, since high-budget *stokvels* represent a progression in *stokvels*, there is a high likelihood that black individuals continue participating in *stokvel* activity even after attaining affluence. The employment statistics indicate the potential membership of high-budget *stokvels* in Tshwane. Due to the higher financial contributions required in high-budget *stokvels*, it is expected that participation in these *stokvels* in Tshwane, is mainly from employed individuals (shown in figure 3-4).

3.3 RESEARCH PROCEDURE

The information required for this research concerns the participants' participation in high-budget *stokvels*, as well as their participation in the formal financial sector. The information consists of the participants' perception of the financial sector in South Africa and thus, is best obtained through qualitative data collection methods. Group-based research techniques, suitable for a group of five to eight participants, are the basis of data collection in this study. The techniques, described in detail in the next section, were selected due to the techniques' ability to facilitate collection of a detailed and relatively large amount of data in a short time. An audio tape recorder, where permitted by the group, was also used in recording these discussions.

To accommodate a basic level of quantitative information that will help to profile the respondents', two mini questionnaires were also used to collect additional data. The first questionnaire, which was privately completed by each participant at the beginning of every session, was used to gather personal/ confidential details such as income from

every participant. The questionnaire also included some questions extracted from the discussion guide. The inclusion of these questions was also intended to obtain each individual's perception and response to a standardised set of questions across the sample regarding the formal and informal financial sectors in South Africa. This was then compared with the group responses as a means of data validation.

The second questionnaire was specifically designed for the founder(s) of each *stokvel*. The purpose of this questionnaire was to obtain their reasons and goals for initiating these *stokvels* and whether in their opinion, these goals had been achieved.

The data from the above two methods was also supplemented, where possible, with personal interviews with the founder and or any willing members of the *stokvel* management committee. Key informant interviews were also conducted with members of *stokvels* that rarely met.

3.3.1 Research methods

MicroSave-Africa (2003) developed and described in detail several qualitative market research techniques with which to structure focus group discussions, two of which are utilised in this research (one participatory rapid appraisal (PRA) technique and the standard focus group discussion guide). The two techniques are briefly described below.

- *Product Attribute Ranking* (PAR). This technique is used to assist the researcher to obtain first-hand, the participants' opinion on a number of key elements/criteria/ attributes in financial services and indicates the relative importance of each element. Product Attribute Ranking enables a researcher to understand the clients' satisfaction or dissatisfaction with the elements of financial institutions. Elements/attributed are listed and ranked by participants. A table with the elements appearing in order of importance is then compiled indicating reasons for importance obtained from follow up questions to the participants.

- *Focus Group Discussion Guide* (FGDG). In this technique a moderator utilises a discussion guide with open-ended questions to stimulate free discussions amongst a group of participants. The moderator poses a question to the group; the group then provides a response from which the moderator tactfully nudges the group into a discussion about the issue. It is advisable for these discussion sessions to be audio or videotaped for future reference, but care should be taken to reduce the extent of intrusion on the proceedings. This technique forms the basis of data gathering in this study.

3.3.2 Data gathering

The above qualitative techniques were used to collect data from the 13 groups that were involved in this study. Although effort was made to randomly sample the groups in the study area, due to the limited information on the whereabouts of high-budget *stokvels* and their members, a relatively small number of high-budget *stokvels* were accessed. In addition, it was also found that members were reluctant to freely divulge information due to suspicion of outsiders (they are very close-knit institutions). The groups interviewed were accessed on a referral basis. This referral was usually from an individual or an outsider, with a close relationship to one or more group members.

3.4 CONCLUSION

The aim of this chapter was to provide a detailed description of the geographical and socio-economic aspects of the study area. This was intended to create a clear picture of the main characteristics of this region and to provide a foundation for the following discussion of the high-budget *stokvels* in chapter four. This chapter also described the methods used for data collection in the study. The analysis of data and discussion of the results follow in chapter four.

4. HIGH-BUDGET STOKVELS IN PERSPECTIVE

4.1 INTRODUCTION

In this chapter, the results of the group discussions are analysed, presented and discussed. A brief description of the socio-economic dynamics of the respondents is also included to provide a profile of the participants. The objective of this chapter is to highlight the key issues obtained from the analysis of the data gathered. These factors are important because they form the basis for the recommendations and conclusion of this study.

A total of 75 respondents from 13 groups and representing a total membership of 159 were involved in this research. Due to the logistical difficulties associated with getting the groups together during weekdays and the fact that members make their contributions after they have received their salaries, most of the group discussions were conducted on either the first Saturday or Sunday afternoon of the month. The venue for the group discussions depended on where each group met for the contribution and social gathering. Nine groups in this study met at the receiver of the contribution's residence, which in this case provided the venue for the group discussion. The discussions for the remaining four groups were held in a restaurant (for three groups) and a member's office.

4.2 RESULTS AND ANALYSIS

4.2.1 Socio-economic dynamics of the respondents

This section focuses on the socio-economic characteristics of the respondents. The characteristics analysed in this section are the race, gender, age, level of education, source of employment and family income of the respondents.

Race

Only two population groups, black (87%) and white (13%), were represented in this study. There were no mixed race groups identified in the study. One *stokvel* group had a white membership, the rest being black participants. The reality of *stokvels* under the

white population group, reflected here by only one group, may well have been based on curiosity value, but indeed, it must be something more as this group has been going for more than five years. It is argued that the participants do find benefit in this activity as reflected by the longevity of this group.

Gender

The gender composition of the respondents reflected an almost equal distribution with 50.7% female. Only one group of those interviewed had a mixed gender composition. The remaining groups were either only male or female in composition. Although most participants perceived the single gender nature of their groups as a coincidental result of association, one exclusively female group felt that this was due to disciplinary problems associated with mixed gender groups. One participant in this group felt that lack of reliability and trust among males was the main reason for not having any males in her group. Both these factors, she believed, threatened group unity.

The tendency for groups to be formed along gender lines confirms Rowland's (1995) observation that people have a strong desire to maintain a strong social and particularly gendered discipline on the circulation and consumption of money.

Age

As shown in Table 4-1 below, the majority (73.4%) of participants were in the 31 - 49 age group. This group was followed by the 26 - 30 and 50 - 60 age groups, which represent 13.3% and 10.7% respectively. There was only one participant in the 18 - 25 age group. This age distribution can partially be ascribed to the expectations from the life-cycle hypothesis, which postulates that people save for their own retirement and that they accumulate savings during their active years in order to consume those savings during their retirement (Bentzel, 1985). However, as we will see later, many other aspects do play a role.

Table 4-1 Frequency distribution of respondents according to age

Age group	Frequency	Percentage (%)
18-25	1	1.3
26-30	10	13.3
31-49	55	73.4
50-60	8	10.7
65+	1	1.3
Total	75	100.0

Level of education

Table 4-2 below shows the educational profile of the participants. The majority of the participants were holders of a postgraduate qualification (44%), while only 4% had no formal qualification. A large percentage of participants (about 81 %) were holders of a post-matric qualification. This shows that most of the participants in these *stokvels* are well-educated people. This age distribution mirrors the expectations of the human capital theory; higher qualifications entail greater skills, which in turn command bigger wages (Nafukho *et al*, 2003). Disposable incomes rise as a result of bigger wages, and hence the ability to participate in high-budget *stokvels*.

Table 4-2 Frequency distribution of respondents according to education

Level of education	Frequency	Percentage (%)
None	3	4.0
Middle school	2	2.7
Secondary	9	12.0
Certificate/college/technikon	3	4.0
Diploma/college/technikon	9	12.0
Degree/University	16	21.3
Postgraduate qualification	33	44.0
Total	75	100

Source of employment (employer)

The participants' sources of employment are shown in Table 4-3. The majority of participants (34.7 %) were employed in government service. This was followed by employment in private companies at 28.0%. These two employer categories account for about 63% of the respondents' source of employment. The self-employed (22.7%) form the third most represented employer category. Pensioners and others such as housewives form the second lowest groups. The lowest form of employment among participants is the non-governmental organisations (NGOs) at 2.7%.

Table 4-3 Frequency distribution of respondents according to Source of employment

Employer	Frequency	Percentage (%)
Self-employed	17	22.7
Pensioner	4	5.3
Private company	21	28.0
Government	26	34.7
NGO	2	2.7
Other	5	6.6
Total	75	100

Family monthly income

Table 4-4 shows the income levels of the participants. Most of the participants (58.6%) have a household income of more than R18 650 per month, which corresponds to LSM 10⁴. Surprisingly, several participants (14.7%) earning below R4050 (LSM 5 and below) also participate in these saving groups. The participation of individuals that belong to LSM 5 and lower LSM groups further shows presence of specific product and service needs, which they seek and are only obtainable from the *stokvel* groups servicing their financially much better off counterparts.

⁴ The South African Advertising Research Foundation- SAARF- (2005) categorises LSM 10 as a group of individuals that earns a monthly income of R18 650 or more per family

Table 4-4 Frequency distribution of respondents according to family monthly income

Level of family income	Frequency	Percentage (%)
Below R4050	11	14.7
R4051-R6450	3	4
R6451-R8430	2	2.7
R8431-R11 500	4	5.3
R11 501-R18 650	11	14.7
Above R18 650	44	58.6
Total	75	100

4.2.2 Further analysis of selected socio-economic characteristics

This section focuses on three selected classes in the socio-economic characteristics of the sample, which were discussed in the preceding section. The classes selected for further analysis are the 31 - 49 age group, above R18 650 income group and the self-employed group. The first two classes have been selected because they constitute the largest classes in their respective socio-economic characteristic. The self-employed group has been selected for two reasons; firstly, because at 22.7 % it represents a significant number of participants and secondly, because the group represents an enormous challenge to formal financial institutions regarding financial services provision. The aim of the further analysis is to provide a better understanding of the individuals who constitute these classes in order to facilitate informed decision-making in formal financial institutions.

The 31 - 49 age group

A further analysis of the 31 - 49 age group, in Table 4-5 below reveals that female participants constitute 60% of the participants in this age group. In this age group, the highest numbers of participants are postgraduates (49%) and the lowest number belongs to the middle school category (3.6%). A total of 90.3% of the participants are holders of a post-matric qualification.

Government is the leading employer of this age group, followed by private companies. These two employers account for about 71% of the participants' sources of employment. Less than 2% of the participants are employed by NGOs.

Sixty percent of the participants in this age group earn more than R18 650 a month. About 17% of the participants earn an income between R11 501 and R18 650 a month, making this class of earners the second largest income class in the 31 - 49 age group.

Table 4-5 Analysis of the 31 - 49 age group

N=55

Gender (%)		Qualification		Source of Employment		Family Income (R)	
Male	Female	Category	%	Category	%	Category	%
40	60	None	5.5	Self-employed	23.6	< 4050	12.7
		Middle school	3.6	Private company	29.1	4051-6450	3.6
		Secondary school	5.5	Government	41.8	6451-8430	3.6
		College certificate	5.5	NGO	1.9	8431-11500	3.6
		Diploma	12.7	Others .e.g House wife	3.6	11501-18650	16.5
		Degree	18.2			>18650	60.0
		Postgraduate	49.0				

The self-employed group

A detailed analysis of the self-employed category is shown in Table 4-6 below. Males in the 31 - 49 age range dominate this group. They constitute 76.5% of the self-employed group. No particular qualification category is in the majority in this group, but the diploma and postgraduate groups account for the largest number of participants.

Table 4-6 Analysis of the self-employed group

N=17

Gender (%)		Age		Qualification		Family Income (R)	
Male	Female	Category	%	Category	%	Category	%
76.5	23.5	26-30yrs	17.6	None	11.8	< 4050	47.1
		31-49yrs	76.5	Middle school	5.9	4051-6450	5.9
		50-64yrs	5.9	Secondary school	17.6	6451-8430	5.9
				College certificate	5.9	11501-18650	5.9
				Diploma	23.5	>18650	35.2
				Degree	11.8		
				Post-graduate	23.5		

The above R18650 income group

Table 4-7 below shows that females in the 31 - 49 age range, dominate the R18 650 group. They constitute 63.6% of this group. The most common qualification category in this group is the postgraduate level (63.4%). The participants with no formal education, middle school and college certificates are in the minority in this group, with 2.3% in each category. This trend conforms to the human capital theory discussed earlier.

Table 4-7 Analysis of the above R18 650 group

N=44

Gender (%)		Age		Qualification		Source of Employment	
Male	Female	Category	%	Category	%	Category	%
36.4	63.6	26-30yrs	6.8	None	2.3	Self-employed	13.6
		31-49yrs	75.0	Middle school	2.3	Pensioner	9.1
		50-64yrs	15.9	Secondary school	11.4	Private company	27.3
		>65	2.3	College certificate	2.3	Government	38.6
				Degree	18.2	NGO	2.3
				Postgraduate	63.4	Others .e.g Housewife	9.1

4.2.3 Group characteristics

Stokvel characteristics identified

Based on the way they operate, (such as frequency of meetings, amount and frequency of contributions, how the contribution is handled, level of trust and objective of establishment), the following *stokvel* typologies were identified among the groups involved in this research:

Generic stokvels

The groups in the first typology are the generic ROSCAs. Six groups belonging to this typology were identified in the sample. The members of these groups hand the total contribution over to a pre-determined member, normally the host of the group's gathering/meeting. The contributions in generic ROSCAs are therefore not saved in a formal financial institution. The hosting of the gathering is conducted on a rotational

basis, until all the members are covered. The groups' meetings, held once a month, are usually hosted at the residence of the receiver of contribution (as mentioned earlier) or at an upmarket restaurant.

The potential members in this typology are subjected to a thorough screening process before admission into the group. One member's statement clearly illustrates this point, "*I operate rather like a Federal Bureau of Investigation (FBI) agent when investigating a potential member*". The potential members are screened for the following qualities: Trustworthiness, friendliness and income stability. Since income stability requires that the salary amounts and payment dates are known in advance, these groups contain very few self-employed individuals (there were only five self-employed members in this category).

The level of trust present and required in these groups is higher than in the other typologies identified. The majority of members are very close friends, business associates or relatives. The rotational basis, on which the benefits are received, requires that all members honour their promises to contribute for the duration of the saving cycle. Failure on the part of any member(s) to pay the monthly contribution, leads to the disruption of this rotational system. For this reason, reliability and trustworthiness are very important in these *stokvels*. Because of the high level of trust in this category, there seems to be no need for a written constitution (none of the groups had a written constitution).

Generic *stokvels* had the highest contributions in this study and their contributions ranged from R250 to R6 000 on a monthly basis. These contributions are fixed to an agreed amount throughout the year and can only be raised at the beginning of the overall cycle, normally a year. Membership is usually limited to 12, to tally with the number of calendar months in a year. It is difficult, and for certain groups not practised, for a new member to be admitted into a group in the middle of the year.

Although saving is an important motive in the formation of these groups, most members cited the pleasure and satisfaction of meeting family or friends as the most important

reasons for joining a group. These groups are understandably very wary of outsiders on their meeting days, since cash is changing hands on these occasions.

Targeted saving groups

The second typology identified is the target savings group. Members of a targeted savings *stokvel* deposit the entire group's savings in a formal financial institution for the duration of the saving cycle. Group meetings are held more frequently than those in the generic ROSCA (on a fortnightly basis in some instances). Each member deposits his/her contribution in the group's bank account and presents proof at the group's meeting. Their contributions, which range from R250 to R1 000 per member, are lower than those in the other typologies. Although a minimum regular contribution is specified, a member is free to contribute more than the minimum. With contributions varying from member to member, the benefits shared (at the end of the year) are not uniform but rather dependent on the level of contributions received from a member.

Because the withdrawal of a member from the group does not lead to the loss of any other member's contributed funds, reliability and trustworthiness are less emphasised in these *stokvels*. This leads to a more relaxed screening process for potential members in these groups. Consequently, compared to generic ROSCAs, targeted savings *stokvels* enjoy a lower level of trust among their membership. This shown by the fact that the two groups belonging to this category that participated in this research, had a written constitution.

Although the participants engage in a number of social activities as a group, these groups' most important purpose appears to be collective saving. Financial penalties for transgressing agreed upon rules are more common and heavier in targeted saving groups. In one group, for example, the penalties payable for coming late were R50 and R30 for talking on a cellular phone during a meeting.

Investment clubs

Members of this typology rarely meet as a group, but communicate regularly by phone or electronic mail. They are more sophisticated than the previous groups. The participants in these groups are highly educated individuals, in the top echelons of management in government and private institutions. These are the *stokvels* of the eloquent and exude all manners of exclusivity.

Some of the groups have been running for a long time. They were initiated at common places of work or residence in the past and some members had moved to other regions due to promotion or purchase of residential properties in higher income areas. In one instance, a group formed about ten years ago (in 1996), still had more than a half of its membership residing around Pretoria, whereas others had moved to other provinces of South Africa. None of the members had withdrawn their contribution in the ten years of existence of this group. The group's savings have grown to several hundreds of thousands of Rand. Money is deposited in a central account, managed by a remunerated financial consultant and was being invested in various financial instruments. All groups in this category were governed by a formal constitution. The monthly contribution ranged from R250 to R1500 per member.

The participants in these groups prefer to call their groups, investment *stokvels* or clubs. Five groups in this research operated in this fashion.

A further analysis of stokvel typologies

Table 4-8 shows that there is a general similarity in the trends exhibited by the socio-economic characteristics of the participants in generic *stokvels* and investment clubs. Since these two groups together account for 81% of the respondents, the trends identified in their socio-economic characteristics conform to the general trends identified earlier in the sample. For instance, although gender participation varies across the *stokvel* typologies, females dominate the membership of both generic and investment *stokvels*.

They constitute 69.7% and 53.6% of each group respectively. On the contrary, male participation is dominant in targeted saving *stokvels*, 100% in this sample.

Participants with a postgraduate qualification are more attracted to generic and investment *stokvels*. They are the majority in these groups. Investment clubs have the highest number of postgraduates (68%) and about 36% of the participants in generic *stokvels* are postgraduates. The most significant education level categories in targeted savings *stokvels* are diploma and postgraduates.

Government and private companies are the key employers for the members of the generic and investment *stokvels*. Approximately 79% of all participants in targeted savings *stokvels* are self-employed. About 60% of the earnings in generic *stokvels* and 82% of the earnings in investment clubs are attributable to the R18, 650 family income group.

The highest average contribution, in the three *stokvel* variations, is R1 810 and is found in generic *stokvels*, whereas the lowest average contribution of R408 is a characteristic of targeted savings *stokvels*. Looking at the income levels and source of employment for these three groups again, 60.2% of generic *stokvel* and 82% of investment club members belong to the highest income group (above R18650). Since their principle employers are government and private companies, those in the former and latter groups have a more reliable source of income. The opposite applies to the majority of targeted savings *stokvel* membership. The self-employed generally have lower disposable and less reliable incomes. With higher disposable and more reliable sources of income, those participating in generic *stokvels* and investment clubs can afford to make higher monthly contributions. These contribution levels are out of reach for their counterparts in targeted savings *stokvels*.

Finally in a nutshell, the main participant in generic and investment *stokvels* is a black female of 31 - 49 years of age, with a postgraduate qualification, employed by government or a private company and earning an income of more than R18 650 a month.

The main participant in targeted savings *stokvel* is a black male of the same age, a diploma graduate, self-employed and earning an income of less than R4 050 a month.

Table 4-8 Comparison of major socio-economic factors across the stokvel variations

	Members	Female	Major age group	Major qualification group	Key employer (s)	Major family income group (R)	Average contribution (R)
Generic <i>stokvel</i>	33	69.7%	31-49 (57.6%)	Postgraduate (36.3%)	1.Govt. (30.2%) 2.Priv.Co. (27.2%)	>18650 (60.2%)	1810
Targeted savings <i>stokvel</i>	14	Nil	31-49 (78.6%)	Diploma (28.6%)	Self-Employment (78.8%)	<4050 (57.0%)	408
Investment club	28	53.6%	31-49 (89.2%)	Postgraduate (67.8%)	1.Govt. (57.0%) 2.Priv.Co. (39.4%)	>18650 (82.0%)	564

4.2.4 Participant responses and findings

Focus group discussion guide

The following findings and analyses from the focus group discussion guide are categorised according to the applicable aspect in the analytical framework specified in section 2.6. This technique was applied to eight groups in the sample.

Motivation behind stokvel membership

All participants felt that *stokvels* were a warm and user-friendly way of saving. They cited the fact that theirs are associations with people with whom they can get along well, friends or relatives that they could trust and rely on in many aspects of life. Many were proud and very protective of the “*stokvel* culture” and felt they were carrying on a tradition of their ancestors, and believed *stokvels* were a continuation of African culture.

This is reflected in responses to the questions on how the groups were started and the main objective(s) of initiating these groups. Participants stated that their groups began as

an idea initiated by one or two friends, colleagues or relatives, who felt that they could start a group that could raise funds to satisfy their various financial needs, while providing a vehicle for interaction on social level at the same.

Although saving was an important reason for participating in a group's activity, most participants stated that it was not always the main or the only reason for doing so. For instance, according to the participants, the main reason for participating in the generic ROSCA was social interaction. Those in investment *stokvels* felt that savings was their main objective for participation.

Participants in investment *stokvels* further mentioned that their *stokvels* offered them a chance to utilise the economies of scale by pooling their resources as friends in a *stokvel*, to invest on stock markets and take advantage of the Black Economic Empowerment (BEE) opportunities. They argued that an equivalent amount, if borrowed, would attract high charges and interest from a bank.

How do high-budget stokvels function?

As mentioned in the analytical framework, there is a need to understand the forces that hold these groups together. Social capital is an important aspect to be measured in this regard and its levels or components (values and morality, bounded solidarity, reciprocity exchanges and enforceable trust) discussed by Pones & Sensenbrenner (1993), as cited by Ayse (2000), provide a means for its estimation.

When asked what other activities they engaged in as members of the group, a range of activities was mentioned. These included barbecues (braais), attending a member's birthday, weddings, group holidays and psychological support to members in times of distress.

Similar group activities were again mentioned when the participants were asked what their savings group offered them that banking institutions did not. Most groups cited the

importance of meeting family and friends, the bonding that their groups create among members. These social activities indicate presence of and a high level of bounded solidarity.

There was a strong sense of ownership and belonging to the *stokvels* among members. The fact that they set their own rules regarding the ownership and operation of the *stokvels* makes them feel in control of their institutions.

The participants perceived trust originating from friendship or family as the major basis of their groups. This was also expressed when they were asked what qualities they would look for in a potential member. Participants mentioned trust as the most important quality but also stated a steady job, reliability and friendliness as other attributes that would work in favour of a potential member.

The importance of trust to the stability of high-budget *stokvels* was further reinforced from the responses the participants gave when they were asked what would make them drop out of their savings group. Many pointed out that they would drop out of their group if something happened to their friendships or if they lost their jobs. As one participant in an investment *stokvel* put it, *“If something were to happen to our friendship that could lead to loss of trust, cheating or if I lost my employment, I will drop out”*. The statement further illustrates that even though mutual support is very important in high-budget *stokvels* and indeed in informal financial institutions in general (some participants in this study expressed willingness to pay the contribution of colleagues with financial problems in the short run), employment is a prerequisite for the admission and continued participation in high-budget *stokvels*.

Lastly, the following participant's response summarises the critical role of social capital in initiating and keeping these groups together, *“The bank is not my friend, I cannot have a drink with the bank and the bank cannot attend my wedding. My group serves as social grease that oils our friendship”*.

Challenges and suggested improvements

Responding to what challenges they faced and the changes they would like to see in their *stokvels*, many respondents felt that there were just minor changes required and challenges faced. This is because *stokvel* rules and activities are designed, tested and adjusted over time according to the members' needs.

Participants expressed a desire to increase the contributions and or meet more frequently if resources and time allowed. The same changes were also mentioned in the questionnaires. Most of the members of a group operating in Mabopane, for example, felt that the changes required in their *stokvels* were minor and could easily be effected if the policy environment regarding *stokvels* remained the same. According to this group, any changes in government policy to influence how *stokvels* are run, would lead to the dilution of this well tested and centuries old African tradition of assisting each other in a collective spirit. This sentiment is reflected in the following response from a member of this group *"We do not need government intervention because this is our traditional way of saving and government always hijacks and spoils things"*.

They tend to compare banks and what they have created in the *stokvels* and contend that sloppy customer service and high financial charges by banks were among the most important issues. They complained about high bank charges and low interest payable on savings, as compared to that charged on loans.

This response from one of the participants captures the general feeling in the groups interviewed, *"My group does not charge me interest or transaction charges. My group knows me and will know when I have a family or financial problem, which could make me fail to make my contribution. They will not repossess my property. We do not follow someone else's rules. We set our own rules, rules that suit our conditions"*.

In addition, the respondents, lamented that banks treated them as "just a number" and did not take into consideration that each individual had specific needs that had to be accommodated in the financial packages offered by banks. The participants also strongly

felt that the products offered by banks were limited and inflexible. Unit trusts were particularly pointed out as having unpredictable returns, with many hidden charges and as one product that they were particularly unhappy with.

The participants also cited long queues, poorly trained bank personnel, rigid language policy and the complexity of opening an account as sources of their dissatisfaction with banks.

In response to what changes in banks would encourage them to save with banks as individuals, participants mentioned their desire for higher interest payments on savings, a reduction in the hassle involved in the opening of an account, being treated with respect and shorter queues. Other changes mentioned were fast and efficient service and better-trained consultants.

Product Attribute Ranking (PAR)

The participants were requested to list and rank attributes associated with either formal financial institutions or high-budget *stokvels*, together with their reasons for satisfaction or dissatisfaction with the attribute. This technique was conducted on five groups. The list and rank of reason/ attributes is provided in Table 4-9. The respondents ranked customer service as the aspect they consider to be of the greatest importance to them. This was followed by the financial charges attached to bank transactions. They were not satisfied with the prevailing situation in the formal financial institutions regarding each of these aspects. In one group, under customer service for example, the participants highlighted the possible breach of confidentiality and security that often result from speaking to a consultant through a second party (a stranger in some instances). This breach, they further explained, occurs in instances where clients are unable to express themselves in the languages commonly used in banks (Afrikaans and English).

Social activities and forced saving were ranked third and fourth respectively. These are key aspects typical of high-budget *stokvels*, and informal finance in general, but lacking

in banks. Product variety/flexibility and electronic banking were ranked ninth and tenth respectively.

Table 4-9 Ranking of attributes in financial institutions.

Attribute	Rank	Comments
Customer service	1	This is the most important attribute because the participants live a very busy life. The participants want a fast and efficient service. They demand to be treated with respect by well-trained and helpful staff. They also want to be spoken to in a language they use to greet the customer consultant. The participants feel good customer service is lacking in banks.
Bank charges	2	These are the charges associated with all financial transactions conducted in a bank. Participants feel that the bank charges are unreasonably high. They need lower charges for deposits/withdrawals and should not be charged at the same level as corporate clients.
Social activities	3	Social activities in <i>stokvels</i> are important to participants because they get to know each other better through parties and joint holidays. They also receive personal, business and professional advice through these social meetings. It was perceived that banks are lacking in this aspect.
Access to/Forced saving	4	This is a vehicle through, which members can obtain a lump sum to spend on an item of their choice without having to take a loan from a formal institution (is therefore seen as solution to high interest rates on loans). Banks lack this aspect.
Number/proximity of bank branches	5	Participants want to see more branches in locations where black people live. They prefer a bank that has a branch in the proximity of their residence or place of work. Participants are not happy about the current situation.
Interest on savings	6	The participants would like to see a higher interest being paid on their savings. It is perceived as being too low, relative to what charged on a bank loan.
Collective saving /saving with people	7	In addition to acting as a facilitator for forced saving, the participants perceive collective savings as a way to assist fellow members with money as they wait for their turn to receive the contribution. This aspect of <i>stokvels</i> is not available in formal financial institutions.
Interest on loans	8	These are perceived as being very high and exploitive (this was also mentioned as the main reason to save in groups to avoid taking loans from banks). They call for lower interest on loans.
Product variety/flexibility	9	Participants were requested to compare their financial needs with the products available in the formal financial institutions. The participants perceive the product choice in formal financial institutions as limited and inflexible. The participants need choice of products that are flexible.
Electronic banking	10	The participants who use this facility mentioned that it makes life easier by saving time, reduces contact with unfriendly bank staff and because it attracts low bank charges. These are the reasons they prefer this facility to making physical visit to a bank branch.

Analysis of questionnaire responses

The responses from the mini questionnaires completed by group members and *stokvel* founder(s) for each group were largely similar and reaffirmed those in the group discussions. The similarity between participants' responses in the questionnaires and

groups' responses is particularly reflected in responses to the questions why participants chose to save this money in a *stokvel* and not individually in a bank and what changes participants wanted to see in banks to entice them to save this money as individuals there. These responses correspond to the specific reasons for participation in high-budget *stokvels* and areas of dissatisfactions/changes suggested in formal financial institutions respectively. Their responses are summarised below:

Motivation behind stokvel membership

The participant responses⁵ ranged from taking advantage of forced/collective saving (33.9%), avoiding bank charges/ because there are no financial charges in *stokvel* (21.4%), enjoy *stokvel* social activity (16.1%) to you get a lump sum (10.7%). With the exception of the high frequency that forced/collective savings was mentioned in the questionnaires, a similar trend of attribute importance is identifiable in the PAR. The high frequency attached to forced/collective saving in the questionnaires may be a result of the absence of group pressure. Group pressure influences and may lead to a compromise in individual choice/opinion. In their individual capacity, some participants got the chance to indicate their personal opinion, resulting in this inconsistency.

Challenges and suggested improvements

When the participants were asked what would entice them to save their individual contribution in a bank, the following responses were given: lower charges and interest in banks (38.5%); banks should treat customers with (more) respect (24.5%); better interest paid on savings (17.5%); shorter queues (9%); reduction in number of forms to fill when opening a bank account (7%); and flexible bank working hours (3.5%). Customer service (44%), as measured by the summation of its constituents (customer service, respectful treatment to customers, shorter queues, fewer forms to open an account and flexible working hours) was the most frequently mentioned source of dissatisfaction in formal financial institutions. The level of importance attached to customer service as reflected in the questionnaires, equalled that reflected in the product attribute ranking.

⁵ Are expressed as a percentage of the total responses for each question.

Summary of common aspects raised across all groups

The basis for the triangulation of the results from the various data collection methods used in this research is the key issues contained in the participant responses derived from the three data collection methods. Table 4.10 below shows a summary of the five most important aspects concerning the formal and informal financial institutions raised by participants across all groups.

Table 4-10 Common attributes across all groups

Factor/Aspect	Comments
Bank charges	Charges on all transactions in banks are perceived as being unreasonably high. Participants are not happy about the situation.
Interest rates	Charged and received on credit and savings, are not attractive to participants. They would like to see higher interest payable on savings and lower interest payable on loans.
Social interaction/Activities	Group activities are very important to participants. Absent in banks and enjoyed in <i>stokvels</i> .
Products	Participants need a wide variety of products. They should also be flexible. There is a limited range of products in banks.
Customer service in banks	Length of queues, respect to customers, language policy and good consultant product knowledge. Participants are not happy with customer service, which is perceived as poor in banks.
Forced/collective savings	Participants highly value this attribute of <i>stokvels</i> and believe they would not be able to save this money on their own.

4.3 CONCLUSION

The study identified three typologies of high-budget *stokvels*, which operate in Pretoria namely; the generic, targeted savings and investment *stokvels*. Members of high-budget *stokvels* form close-knit groups, rather like families, that save together and engage in a number of joint social activities. The study further reveals that by facilitating frequent contact among members, social activities provide a vehicle through which members get to know each other better and in this way, play an important role in unifying a group. These social activities are lacking in the product and product delivery systems in formal financial institutions.

The study also reveals that the main users of these *stokvels* are black individuals of 31 - 45 years of age. Generally, both sexes participate equally in high *stokvel* activity but women in the 31 - 49 age group dominate the membership of the generic and investment *stokvels*. Men of the same age group dominate the membership of targeted savings *stokvels*. There is a tendency for high-budget *stokvels* to be formed along gender, workplace/colleague and kinship lines.

Lastly, the study shows that social capital, especially the trust component, is a key player in the formation and maintenance of high-budget *stokvel* groups. Reduction in any component of social capital in a group directly threatens the unity and therefore continuity of a group. Generic *stokvels*, due to the disruption to a group's continuity and loss of members' contributions that result from the failure of members to pay their contributions, demand and exhibit the highest level of trust among all *stokvel* typologies.

5. A GUIDE FOR FORMAL FINANCIAL INSTITUTIONS

5.1 INTRODUCTION

This chapter provides the summary of the main findings. These findings lead to specific recommendations, which are designed to guide informed decision-making in formal financial institutions concerning the service and financial product design for middle and high-income individuals in South Africa. The aim of this chapter is to summarise and conclude the study.

5.2 SUMMARY OF RESEARCH FINDINGS

The research reveals the following points of interest regarding high-budget *stokvels*:

5.2.1 *Profile of participants*

Generally, both sexes participate equally in high-budget *stokvel* activity, but there is a tendency for groups to be formed along gender, workplace/colleague and kinship lines.

Across the three *stokvel* typologies, the profile of the main user is a black individual with about the same probability of being a male or female, earning a monthly income of R11 500 or more. The main users are typically 31 - 49 years of age and highly educated individuals with an equivalent of a university degree or higher.

Based on *stokvel* typology, the main participant's profile is similar for both generic and investment *stokvels* but different for investment *stokvels*. Black females dominate participation in generic and investment *stokvels*, whereas black males dominate the participation in targeted savings *stokvels*.

In addition, it should be noted that 22.7% of the participants are self-employed. Nationally, this is a large and difficult market for formal financial institutions to enter.

The results provide an obvious point for financial institutions to enter the SME market, closely related to the targeted savings *stokvel* and the key aspects.

In summary, the main participant in the generic *stokvels* and investment clubs is a black female of 31 - 49 years of age, with a postgraduate qualification, employed by government or a private company and earning an income of more than R18 650 a month. By comparison, the main participant in targeted savings *stokvel* is a self-employed black male of the same age, with a diploma certificate and earning an income equal to or less than R4 050 a month.

5.2.2 Motivation behind *stokvel* membership

The main reasons given for participation in a high-budget *stokvel* varied according to the *stokvel* typology. The respondents in generic *stokvels* felt that, although saving was an integral part of their associations, the main reason for their participation was social fulfilment. On the contrary, in targeted savings *stokvels* and investment clubs, financial gains from savings and investment took the upper hand over social fulfilment as reason for participation.

The focus group discussions identified a broad categorisation of the reasons cited for participation as follows: Social activities, saving for general purposes and saving specifically to take advantage of future investment opportunities.

On a personal level, the reasons given for participation as analysed from the questionnaires are; to take advantage of collective/forced saving (33.9%); to avoid high cost of banking (21.4%); for social and psychological fulfilment (16.1%); and to raise a lump sum for a holiday, birthday party or to buy household goods (10.7%). Two advantages were mentioned for collective/forced saving: It provides the opportunity and discipline to raise a lump sum of money, while at the same time avoiding the high interest rates charged on bank loans.

5.2.3 *How do high-budget stokvels function?*

The research shows that high-budget *stokvels* provide more than savings to these individuals. Social interaction, a key component of high-budget *stokvel* activities, is very important to their members.

The research also identifies social capital as a critical factor in the formation and maintenance of these groups. This means that for a *stokvel* group to function properly, it should possess reasonable levels relating to values and morality, bounded solidarity, reciprocal exchanges and enforceable trust. Deterioration in the levels of any of these aspects of social capital in a group directly threatens its stability. A group will for example disintegrate if trust is lost amongst its membership. A participant's response when asked, what would make him drop out of his group serves to illustrate the point, "*If something were to happen to our friendship that could lead to loss of trust, cheating or if I lost my employment, I will drop out*".

5.2.4 *Challenges and suggested improvements*

The challenges encountered as a result of being a member of a high-budget *stokvel* were generally perceived to be minor in nature. The perceived challenges mentioned were low members' contributions, inadequate number of meetings held during the year, gossiping, coming late to meetings and late payments by members. To counter these challenges, the suggested changes ranged from raising financial contributions made by each member to meeting more regularly. This is because as mentioned earlier, *stokvel* rules and activities are designed, tested and attuned to the members' needs.

The research revealed the following sources of dissatisfaction associated with banks:

- Customer service and bank charges ranked highest in this research as being the greatest sources of dissatisfaction for high-budget *stokvel* members. About 44% of the responses from the participants described the level of customer service in banks as unacceptably poor. The specific aspects of customer service mentioned were not

being treated with respect (24.5%), long queues (9%), cumbersome requirements for opening a bank account (7%) and inflexible working hours (3.5%). In short, the respondents' message regarding customer service is that the slow service resulting from long queues and poorly trained bank employees, a biased language policy and disrespectful employees are the major sources of customer distress. As a result, individuals in these groups point out that they prefer to perform their banking or financial transactions electronically, rather than making personal visit to the bank.

- Approximately 39% of the responses described bank charges as being exploitive. There was a general feeling of exploitation and being taken for granted by the banking institutions among high-budget *stokvel* users.
- The focus group discussions further revealed that banks are perceived as inflexible, in terms of choice of financial products on offer for this class of users. It is also felt that banks are not adequately responding to the varying needs of these individuals, specifically the emerging black middle class.

The participants voiced their desire for the following changes in formal financial institutions: Lower bank charges; higher interest payments on savings; a reduction in the hassle involved in the opening of an account; being treated with respect and shorter queues. Other changes mentioned were fast and efficient service and better-trained consultants.

5.3 RECOMMENDATIONS

The following statement from a participant; “*My group does not charge me interest or transaction charges. My group knows me and will know when I have a family or financial problem, which could make me fail to make my contribution. They will not repossess my property. We do not follow someone else’s rules. We set our own rules, rules that suit our conditions*”, sums up the prevailing feelings and the state of affairs regarding financial services provision to this clientele. The statement also provides a reference point for the recommendations regarding the provision of financial services for this clientele.

The following are suggestions to guide the formal financial institutions in the provision of products and services required by high-budget *stokvel* users:

5.3.1 Profile specific targeting

The participant's statement above and others quoted elsewhere in this study, necessitate a change in the way banks and other formal financial providers conduct business, with specific reference to the target market profiled in this study. The statements demand that financial institutions should listen to the needs of their clients, respect and get to know this client base better.

To achieve these objectives, it is recommended that banks and other formal financial providers conduct on-going and comprehensive research into the needs of this class of users. This research will assist banks to identify and design products specifically tailored to these clients' needs. This study revealed, for example, that members in several groups (mostly in generic and targeted savings groups) saved for group holidays and/ or parties during the festive season. Financial products that allow for a part of or the whole deposit to be locked up for a period (until the date of the planned activity) for these particular purposes, would appeal to the participants in these groups.

Alternatively, a joint venture between a bank and a travel agent or major retail store to offer discounts to members of a *stokvel* group, is a step in the right direction. For example, a well designed and promoted joint venture between a major bank, say ABSA bank, and a major tour agent or airline (Flight centre/South African Airways) to avail discounted air tickets to *stokvels* saving with ABSA, will attract savings from all high-budget *stokvel* typologies to this bank. The venture is beneficial to both parties in the following ways; the bank and travel agent/airline gain access to large volumes of business and therefore gain financially. Most importantly however, the bank gets the opportunity to attract funds from generic *stokvels*, which were formerly circulating outside the formal financial system (group contributions in generic *stokvels* are not deposited in banks).

For access to the majority of clientele operating in generic and investment *stokvels*, the suggested study should seek to address the social and financial/investment needs of the black female professional with the following profile:

- Aged 31 - 49 years.
- Employed in a government department or private company.
- With a monthly income of over R11501.
- A holder of an undergraduate degree and above.

The suggested study is important because the above profile constitutes the majority of the participants in these groups and high-budget *stokvels* in general. Many of the participants in generic *stokvels* and all of those in investment *stokvels* showed dissatisfaction with the flexibility, affordability and minimum initial amount of investment required, during the group discussions.

For the financial institutions interested in gaining access to members of targeted saving groups and the SME-clientele, the above-suggested study should focus on finding ways to address the social and financial/investment needs of the self-employed black male with the following profile:

- Aged 31 - 49 years old.

- With a monthly income of less or equal to R4 050.
- A holder of a diploma certificate or lower qualification.

The suggested studies were beyond the scope of this research.

5.3.2 How does the formal financial institution evolve to benefit?

Poor customer service was cited in 43% of the participants' responses. It is perceived as the major short fall in banks. This calls for better training of bank staff. The purpose of the training is to sensitise them to the needs of this group of clients. The focus of the training should be on the cultural (what is considered proper, acceptable and unacceptable business etiquette from the African perspective) and social needs of the black middle and high-income persons. This will increase efficiency and improve customer satisfaction.

Formal financial institutions should portray a comfortable and user-friendly environment - a place where these individuals are free to use their mother tongue when performing financial transactions, treated with respect and spend less time in queues. The research revealed that although this clientele is fluent in both English and Afrikaans, as a matter of principle, would like to conduct their financial matters in a language of their choice (usually mother tongue).

It is suggested that as standard procedure in banks and other formal financial institutions, clients should be asked about their language of choice and where possible be served by a consultant fluent in this language (financial institutions should, in the long run, strive to employ and train staff proficient in several indigenous languages).

With 9% of the respondents complaining of long queues in bank branches, and bearing in mind that a large percentage of these clients are highly educated people (81.3% are holders of a post-matric qualification), it would be in the interest of the banks to increase investment in self-service facilities in their product delivery systems. This need was reflected by the desire and preference this clientele has for Internet banking as a product

delivery system. Banks should for example, look into the possibility of investing in more self-service desktop computers in their branches. This will reduce the waiting time and the length of queues for those transactions where it is not necessary to see a consultant, such as national electronic money transfers.

Seven percent of the participants complained about the number of forms a client is required to complete when opening a bank account. There is a need to streamline the application process involved in opening a bank account. The focus should be on reducing the number of application forms that a client is required to complete in this process and the overall time from submission to the finalisation of the application.

The Competition Commission Report (2006) reveals what most consumers suspected and complained about all along, that the bank charges and fees charged by the formal financial institutions in South Africa are among the highest in the world. Lack of transparency on the side of these institutions, regarding how these financial charges and fees are structured, is a major cause of concern among consumers and government alike. It is hoped that the planned further inquiry into the level and structure of charges by the Competition Commission will result into a cost respite for the public. It is recommended that formal financial institutions provide their full cooperation to this investigation.

Formal financial institutions, especially commercial banks, should emulate the "*stokvel* culture" which is a reflection of the African culture as opposed to the Eurocentric focus being followed at the moment. The African social system entails sharing, doing things together (communalism), collective or consultative decision-making, knowing your neighbours and those in your community personally, friendliness and genuine respect for those older than yourself.

The statement, "*The bank is not my friend, I cannot have a drink with the bank and the bank cannot attend my wedding. My group serves as social grease that oils our friendship*", reflects banks' continued failure to address the social needs of the rapidly growing number of black middle and high-income individuals.

It is recommended that the product delivery systems in formal financial institutions be redesigned to address the social and community requirements of their client base. This requires increased visibility and involvement within the black communities served by these institutions. Although the current electronic and other media advertisements are effective in reaching a large number of people, formal financial institutions still portray the image of being detached from the black communities that support them and are perceived thus by this clientele.

In accordance to the "*stokvel* culture", formal financial institutions should also be sensitive and partake in the activities marking the happiness and sorrow of their clients. Sending a representative to attend the funeral of a client, for example (banks and insurance companies are always informed of the death of a client), improves the bank and insurance company's social image in a community. Cheaper and more convenient alternatives of achieving the above objective include a formal financial institution sending electronic birthday wishes via cell phone/electronic mail and a bouquet (a wreath in case of a funeral) for a client's birthday. Other suggested forms of involvement, on a community level, include donations or sponsorships for community infrastructure (constructing playgrounds, civic centres and stocking community libraries).

5.4 CONCLUSION

The findings show that banks are perceived as deficient in the provision of financial products that address the social, savings and investment needs of the black middle and high-income earners.

The findings reveal that the major complaints from high-budget *stokvel* users are the poor quality of service, the high cost of banking, inflexible and limited product range and inappropriate delivery systems in formal financial institutions. The preceding factors, the desire to engage in social activities and unmet savings/investment needs are jointly responsible for the participation of middle and high-income individuals in *stokvel* activity. Middle and high-income earners therefore participate in high-budget *stokvels*

activity to take advantage of collective/forced saving, avoid the high cost of banking/ low returns on individual savings in banks and for social, as well as psychological fulfilment.

The findings further reveal that all high-budget *stokvel* activities are a balance between two components, namely the savings and social components. Members of each group determine from the onset which of these components will dominate the group's activities. In the process, typologies in high-budget *stokvels* are defined. For example, the targeted savings and investment *stokvel* typologies are more inclined towards the savings than the social component where as the opposite applies to the generic ROSCA. Individuals keen on the savings component are more attracted to the investment and targeted saving *stokvels* than to the generic ROSCAs. The reason behind the preference for investment and targeted saving *stokvels* is to reap the benefits associated with saving in numbers such as lower bank charges, better interest paid on larger group savings fund and being able to raise funds without having to borrow from a bank (avoid interest charged on loans).

The study's findings show that banks and formal financial institutions in general, do not really understand this clientele. The findings highlight the formal financial institutions' lack of awareness of the need to profile, design appropriate products and delivery systems for the black middle and high-income clients in South Africa. These findings necessitate profile targeting, achievable through on-going and comprehensive research in the product and service requirements of this clientele. The suggested research will enable formal financial institutions to improve service provision, to identify and design products for this clientele.

The study calls for the following changes in formal financial institutions:

- Increased investment in self-service banking.
- Training to sensitise staff to the financial, socio/cultural needs and expectations of this clientele. The staff training should result in an environment in which these customers feel valued, an environment that emulates the *stokvel* culture.

- Increased employment of staff that can speak several indigenous languages and the increased use of indigenous languages in formal financial institutions.
- Transparency in the way bank/financial charges are calculated or determined.
- Streamlining of the application process involved in opening a bank account, with the aim of reducing the amount documentation and overall time from application to approval.
- Banks and formal financial institutions in general, should endeavour to design products and product delivery systems that address the social needs of clients.
- Increased visibility and social responsibility in black townships.

Finally, high-budget *stokvels* as indicated by the sentiments voiced by the participants, do encompass social and psychological support, which together constitute an intangible aspect that is not available in formal financial institutions and which these individuals seek and acquire from the informal sector.

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7. APPENDIX A: GROUP DISCUSSION GUIDE FOR HIGH-BUDGET STOKVELS

<i>Welcome</i>	
<ul style="list-style-type: none"> • Thank you for coming – we are very grateful for your time. • We are from the University of Pretoria. We are here to collect data that will assist us to understand the operation of informal financial services especially stokvels and why people use them. The data will be used in the writing of a thesis that will be submitted as part of my postgraduate studies. • You are one of the 13 saving groups that have been chosen to participate in this study. • Let me start by introducing my colleague then myself and we will request you to introduce your selves. • My colleague will prepare a nametag for each of us. The recorder you see with my colleague will record these discussions to help me remember the important issues that you mentioned. These records will not be shared by anybody else and your identity will be kept confidential. I will also request you to fill in a short questionnaire to tell me about yourself (remember not to write your name). We trust that you will feel free to express your opinions about the financial institutions and the products offered openly. 	
Core questions	Probes
<p><i>Warm-up Questions</i></p> <ol style="list-style-type: none"> 1. How did your group start (who initiated it)? 2. What was the main objective of starting this group (purpose of the stokvel)? 3. How is your group run regarding rules and regulations (governance)? 	<ol style="list-style-type: none"> 1. How often do you meet and how much do you contribute? 2. How many are you in your group? 3. Do you have more women or men in your group? Why? 4. Do you have a constitution governing this stokvel? 5. How do you select your officials? How many officials do you have? 6. Do you accept new members? If yes, what qualities would you look for in a potential member? 7. What do you do if a member does not pay his contribution?
<p><i>Stokvel Specific Questions</i></p> <ol style="list-style-type: none"> 1. What other savings product are available to you? 2. Why do you choose to save with a stokvel and not individually with a bank? 3. What would lead you to drop out your stokvel? 4. What are the challenges facing this stokvel? 5. What would you suggest as improvements to your stokvel? 	<ol style="list-style-type: none"> 1. If used what level of satisfaction do you attain from their use? 2. What does this savings group offer you that your banking institution does not? 3. Apart from savings, what other activity do you do together as members of stokvel? 4. What changes would you like to see in banking institutions that would attract you to save this money there?

8. APPENDIX B: MINI QUESTIONNAIRE TO ASCERTAIN THE SOCIO-ECONOMIC PROFILE OF HIGH-BUDGET STOKVEL MEMBERS

Do not fill in the grey area

FOR OFFICE USE	
Stokvel Name.....	Questionnaire No.....
Date.....	

Please draw a circle around the number that is applicable to you e.g. Female. 1

1. Sex: Male.....1 Female.....2
2. Age: 18-25yrs.....1 31-49yrs.....3 65+ yrs.....5
 26-30yrs.....2 50-64yrs.....4

3. Please indicate the highest qualification obtained:

- | | |
|---------------------------------------|--------------------------------------|
| None.....1 | Certificate/ college/technikon.....5 |
| Primary (grade 0-6/up to std 4).....2 | Diploma/college/technikon.....6 |
| Middle school (std 5-7/grade 7-9)...3 | Degree/ University.....7 |
| Secondary (grade 10-12 Matric)...4 | Postgraduate qualification.....8 |

4. Form of employment:

- | | |
|-----------------------|----------------------------|
| Self-employed.....1 | Government.....4 |
| Pensioner.....2 | NGO.....5 |
| Private Company.....3 | Other e.g. Housewife.....6 |

If other, please specify.

.....

5. Level of family income (Monthly):

- | | |
|---------------------|------------------------|
| Below R4050.....1 | R11 501-R18, 650.....5 |
| R4051-R6450.....2 | Above R18 650.....6 |
| R6451-R8430.....3 | |
| R8431-R11 500.....4 | |

6. Do you have a bank account? Yes/No.....

7. Please indicate, with a tick in the box after each entry in the table on the following page, which other financial products you use (you may tick more than one box).

Saving account with Post bank.		Endowment policy with Insurance company.	
Saving account with a bank.		Shares with company listed on Stock exchange.	
Cheque account with a bank.		Government bonds.	
Other accounts with a bank e.g. unit trust, fixed deposit etc.		Other Products (specify).....	

8. Is this the first time you have joined a stokvel? Yes/No.....

9. If yes, what attracted you to join this stokvel? Kindly ignore this question if your answer in question 8 is No.

.....

10. Do you participate in any other group savings scheme other than this one?

Yes/No.....

11. If yes why?.....

.....

12. What problems do you face as a member of this stokvel?.....

.....

13. What changes would you like to see in your stokvel?.....

.....

14. Why did you choose to save this money in a group (stokvel) and not in a bank?.....

.....

15. What Changes would you like to see in banking institutions that would make you save this money in a bank?.....

.....

9. APPENDIX C: MINI QUESTIONNAIRE FOR LEADERS OR FOUNDERS OF GROUPS

Do not fill in the grey area

FOR OFFICE USE Stokvel Name..... Questionnaire No..... Date.....

1. In your opinion, what were the major reasons for the formation of this stokvel?.....

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2. Do you feel you have achieved your goals? Yes/No.....

3. If No, in which areas do you think you have fallen short of your initial expectations?.....

.....
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.....
.....
.....

4. In your opinion, what are the strengths and weaknesses of this stokvel?.....

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