

Informal financial services in a peri-urban setting. A case study of Moletji district in the Northern Province

by

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ABSTRACT

The importance and potential of informal financing structures functioning alongside the formal financial institutions to serve the rural poor needs to be given emphasis.

Although several studies in South Africa have covered the origin and functioning of informal financial institutions they have not explored the way they operate. For instance, the Strauss Commission (1996) has conducted a broad study but only at the national level and did not examine in detail the functioning and implications of informal structures on the rural poor. So far there have been few detailed studies that attempt to determine the size of the informal financial institutions, the size of savings and loans, the membership, the rotation of savings and the use of loans or savings at the provincial and district level.

The thrust of this study is to analyse informal financial services in a peri-urban setting, with specific reference to the Moletji District in the Limpopo Province. Specific focus is on the informal financial services provided by burial societies, moneylenders, stokvels, local business people, family and friends. The study tests the hypothesis that in order to meet their financial needs the majority of the rural people depend for their loans and savings on the services provided by these informal financial institutions. The study compares the mode of operation of the different informal institutions, determines the use of credit and loans by clients, and, lastly, analyses the factors distinguishing the various groups of clients of the different informal financial services in the study area.

A descriptive analysis and an Analysis of Variance (ANOVA) were used to analyse the data collected in the study area. The results confirm that informal financial services exist not only in rural but also in peri-urban areas. Their popularity is ascribed to their flexibility

in meeting the needs of the clients. Services such as these do not require conventional collateral, they charge low or no interest, they have adequate information about their clients, and have developed innovative ways of reducing transaction costs. However some moneylenders particularly those who are not registered with the Association of Micro-lenders charge higher interest rate. The activities of member-driven financial services, such as stokvels and burial societies were found to include both savings and lending activities, whereas the non-membership driven financial services only focused on lending.

The results further reveal that most respondents prefer a particular informal financial service mainly because of quick service, i.e. the loan is readily available to the client. These findings are not in line with the general perception that the level of the interest rate is the determinant in choosing a particular financial service. It was found that respondents use loans and savings mainly for consumption rather than for production purposes.

The ANOVA results show that age, level of education, type of occupation and marital status are important determinants in the choice of a specific financial service whereas gender does not play a significant role in this. Clients of moneylenders, as compared to non-moneylending institutions such as stokvels, burial societies, family and friends, were found to be young, educated professionals who earn good salaries but who have growing financial needs. This category of clients meets the requirements of obtaining a loan from moneylenders and their level of education enables them to understand the conditions associated with such loans. In comparison with the other four informal financial services moneylenders were found to provide relatively large loans and charge higher interests

The clients of non-moneylenders, on the other hand, were found to be elderly, less educated mainly pensioners. Although borrowing from non-moneylenders involves minimal paper work such as the signing of a contract it is mainly based on mutual trust and confidence between the two parties.

The findings of this study raise a number of points deemed important for policy formulation in respect of the restructuring of financial services to broaden access to financial services. In order to make informed decisions, policy makers should have general information on the clients of each informal financial service providers and also the mode of operation of these providers.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND

There is increasing evidence of the existence of informal financial institutions in the rural, peri-urban and urban areas of South Africa (Strauss Commission, 1996a and 1996b; Lukhele, 1990; Preston-Whyte *et al*, 1991; Falkena *et al*, 1992; Coetzee *et al*, 1994). Although the perception exists that informal activities take place due to the unavailability of formal financial services, informal financial arrangements even exist in formal financial intermediaries between staff members (Von Pischke, 1991 cited by Coetzee *et al*, 1994). Examples of informal financial institutions that are common throughout the world are moneylenders, moneykeepers, burial societies, savings and credit unions and a host of other financial co-operatives and mutualistic groups which are not subject to regulation and control by Central Banks. Also, many people who borrow money, be it in urban or rural areas, do so from friends and relatives. The popularity of informal financial institutions in South Africa may be ascribed to their flexible response to the individual clients' situations. This is enhanced by the fact that in an informal setting the lender has ample and adequate information about the client. Therefore, in spite of the informality of the context, the problem of tracing defaulters is small and the risk is reduced.

Unlike in the formal financial sector, transactions are processed quickly in informal financial institutions. Customers of informal institutions do not need to go through the lengthy procedure that is required in formal institutions. Another difference is that in contrast to formal institutions, informal lenders will not prescribe the use of the loan, but allow borrowers to use it as they see fit. Most importantly, however, the informal institutions are autonomous and need not be strict on the provision of tangible collateral as a requirement for obtaining loans. As a result the majority of small-scale farmers and the rural poor who can therefore not access the formal financial sector depend on the informal sector for obtaining credits and loans.

Miracle *et al* (1980) indicates that the bulk of the African population makes little or no use of formal savings and lending institutions. One of the reasons for this reluctance may be ascribed to the fact that the rural poor do not know how these institutions operate. Another reason is that it is costly for rural people and communities to engage into transactions with the formal financial sector if they are located far from them. Coetzee (1994) indicates that the financial needs of the rural entrepreneurs, include the need for production credit needed to invest in enterprises, and consumption credit (also referred to as consumption-smoothing credit) in order to pay for the "working capital" of the household, such as food,

clothes and school fees. In addition, the rural poor need money for items such as payment of *lobola* (the money you pay for permission to marry a woman) and fixing a car.

During a preliminary survey to determine the existence and operation of the informal financial institutions in the areas surrounding Polokwane, the following were found: moneylenders, stokvels, burial societies, and family and friends (Kgowedi, 1997). This study focuses on the operation of these kinds of informal financial services in the Moletji district in Limpopo Province. The area is rural in the sense that people still practise their old traditional practices but it has some characteristics of an urban area such as a tarred main road, frequent transport to and from town and a factory centre.

1.2 PROBLEM STATEMENT

Several studies in South Africa have examined the origin and functioning of informal financial institutions. Sabapath (1994) finds that informal finance is heterogeneous and dynamic. This means that informal financial markets are diverse in character. It also entails that they differ in criteria for membership, the conditions for obtaining credit, and the use of the credit or savings by the client. He emphasises that there is a clear need to understand the nature of informal activities so that proper intervention mechanisms can be designed by the government and other role players in order to support these self-help endeavours of the rural poor. Each informal financial institution is unique in the sense that the people running informal financial institutions decide how the institution must operate. It follows that informal financial activities differ from district to district and province to province.

The Strauss Commission (1996a, 1996b) identifies a range of informal financial activities in the rural areas of South Africa but does not explore how they operate at retail level, neither does the Commission provide suggestions how increased access to rural financial services could be achieved (Coetzee, 1998). Adams & Fitchett (1992) as cited by Coetzee (1998) indicate that until the late 1970s, research on informal financial activities was notably absent from studies focusing on the rural financial market. This could be due to the fact that informal financial services are dynamic. Generally, there are but few detailed studies in economics that attempt to determine the size and scope of informal financial institutions and their significance in the economy (Montiel *et al.*, 1993). Adams (1989b) supports this when he mentions that anthropologists and sociologists have done the bulk of the research on informal finance in developing countries. In fact, hardly any research in economics has stressed the importance of documenting the size and scope of informal finance institutions, the changes over time of their impact on the rural economy, and factors such as the interest rates charged on the informal financial market, and the extent of exploitation of the clients by the borrowers. Recent studies in South Africa investigating

informal financial institutions in rural areas have tended to concentrate more on the social and gender related aspects of groups that engage in informal financial activities (Buijs & Atherfold, 1995). This study concentrates specifically on the financial and economic aspects of informal financial institutions.

In spite of the fact that these informal financial institutions seem to serve the majority of the rural poor, the perception exists that they are ineffective or unuseful and even undesirable. This study wishes to explore whether there is a foundation for this perception. The question is whether there is a difference in the operation of the various informal financial service providers. The study will also attempt to determine and describe the manner in which the credit/savings obtained from informal financial institutions are used. In addition the factors distinguishing between the various groups of clients of the informal financial institutions will be examined and determined. Since it will not be viable to investigate all informal financial institutions in the whole of South Africa, the choice was made to examine financial service providers in a peri-urban area, and in particular focus on the Moletjie District in Limpopo.

From the above it is clear that the problem statement is made up of three discrete sub-problems, namely

- the need exists to compare the mode of operation of the various informal financial service providers;
- the need exists to determine the clients' use of credit and savings obtained from the informal financial services;
- there is a need to analyse the factors differentiating the groups of clients of the various informal financial institutions in the area.

1.3. THE HYPOTHESES

Three hypotheses underlie this study. The first hypothesis is that the majority of the people do not have access to formal financial institutions. Therefore they depend on loans or savings obtained from informal financial service providers for their financial needs. The second hypothesis is that the products of informal financial services are tailor-made to meet the needs of their customers. As a result the objectives of the various informal financial services are not the same. The third hypothesis is that it is possible to differentiate between socio-economic factors distinguishing the different categories of clients that make use of specific financial service providers.

1.4 THE DELINEATION AND PURPOSE OF THE STUDY

This study is based on the informal financial service providers in a peri-urban setting. The area that will be studied is the Moletji district in Limpopo Province. The preliminary survey done on the operation of informal financial service providers in the vicinity of Polokwane indicated that some people from this district obtain loans from moneylenders who are located in Polokwane (Kgowedi, 1997). Due to a particular interest in studying the operation of moneylenders the district was selected to be able to trace the clients of moneylenders. It was also important to find out that given a choice to use formal financial institutions in town, will people in a peri-urban area still use informal financial institutions and why. Another reason for the selection of this area is that the villages studied are close to one another and this facilitated the researcher's access to informants and so thus the actual gathering of information.

The information generated by this particular study will contribute towards a further understanding of the functions of informal financial services in a peri-urban area and how these services assist customers in meeting their financial needs. This, in turn, might help relevant role players, in this case government and public finance institutions, to suggest appropriate interventions so as to make the existing informal financial services more effective and efficient.

1.5 OUTLINE OF THE STUDY

Chapter One covers the background of the study and also gives the objectives of the study. Chapter Two present a theoretical review of various financial systems. The focus of the discussion is on a comparison of the characteristics of formal financial services and informal financial services. Chapter Three describes the study area, the research methodology and the analysis of the socio-economic factors of the respondents and their access to sources of informal financial services. Also in this chapter the operation of each of these types of informal financial services is discussed. In the discussion the emphasis is on membership, on the conditions for obtaining credit, on the rotation of savings and the actual use of savings and loans by clients. In Chapter Four a quantitative analysis of the factors distinguishing the groups of clients of the various informal financial service providers in the study area is presented. This is done by using an Analysis of Variance (ANOVA) procedure. The analysis includes socio-economic factors, conditions of obtaining finance, income and expenditure. The study is concluded in Chapter Five.

CHAPTER TWO

THEORETICAL REVIEW OF THE FINANCIAL SERVICES

2.1 INTRODUCTION

This chapter presents a theoretical review of the formal and informal financial services with the purpose of discussing these two types of financial services. The idea is to give a background that will show how these institutions are related. The rest of the study will focus on informal financial services.

The basis for the discussion of the formal financial services is formed by tangible collateral requirements and clientele. In the discussion of informal financial services, the emphasis will be on the various kinds of informal financial services, information about customers, the accessibility of services, the requirement for collateral, and the interest rate charged. At the end of the chapter a comparison of the activities of the two types of financial services will be made in a tabular form using the same variables for both institutions.

2.2 FORMAL FINANCIAL SERVICES

2.2.1 INTRODUCTION

Formal financial services are those services, which are provided by institutions that are legislated and regulated. The formal financial sector is inter alia, composed of institutions such as commercial banks and insurance companies.

2.2.2 COLLATERAL REQUIREMENTS

Borrowing money from a bank can be difficult. Prospective borrowers have to meet certain conditions and requirements such as pledging collateral and filling in a great many forms before a loan can be approved. Makhura (2000) argues that strict collateral requirements deny the rural masses access to formal financial institutions.

The rural masses include small-scale farmers who often lack the assets or track record to substantiate their loan application. As a result the formal lending institution will perceive the granting of loans to such people as risky. An added factor is then that whenever formal lenders consider the cost of default to be high, they will seek to offset this risk by demanding collateral as a condition for the loan (Christensen, 1993).

2.2.3 CLIENTELE

Formal financing institutions prefer to deal with clients such as wholesalers because they have already established their credit-worthiness (Sabapath, 1994). According to Makhura (2000) formal lending institutions (commercial banks) are out of favour with the rural population, and these institutions, for their part, do not favour the rural poor as customers because they deemed not to be credit-worthy.

This, however, is not true for all lenders in the formal sector. Some banks that are merely serving as lending institutions have agents who reach out to the rural communities. Generally, these agents reside in the vicinity of the clients, and therefore they have access to adequate information about their clients, which makes the process of applying for a loan much easier.

To open a savings account with most formal financial institutions evidence of a steady job is required. Those who are then evaluated as credit-worthy by the bank may obtain credit. The main reasons for the failure of the formal sector to provide the rural poor with access to credit and saving are well documented in the literature (Besley, 1994; Stiglitz and Weiss, 1981 quoted by Coetzee *et al* 1994) and are highlighted below.

(i) Lack of information

As stated before, one of the reasons why formal financial institutions refrain from operating in rural areas is lack of information about their prospective clients. Such information includes, for example, information about the lender's repayment abilities and the viability of the project the loan is asked for. Lack of information increases the risk for the lending institution, and also increases the transaction costs for the lender. Because of inadequate information about potential borrowers the "wrong" client can be selected, and, therefore, the lender needs to add a risk premium to the interest rate charged. If lenders cannot at a reasonable cost distinguish good borrowers from bad, they may have to face the problem of "hidden information" (Bell, 1990). "Hidden information" means when particular characteristics of the borrower are not fully known to the lender. The problem of hidden information could result in a bad payer being selected for getting a loan or credit. This is known as adverse selection. Besley (1994) gives an example of a situation where the projects to which lenders' funds are allocated are risky and sometimes borrowers do not earn enough to be able to repay the loan.

(ii) Lack of Infrastructure

Lack of infrastructure refers to the limited technology to facilitate the flow of information. Christensen (1993), mentions that given the low level of communication and transport infrastructure in Third World countries, transaction costs are potentially very high,

especially in rural areas where the population is, generally, widely dispersed. The dispersed geographical spread of the population in rural areas increases the unit costs of delivering financial services, both to lenders and to borrowers. Christensen (1993, citing Binswanger *et al*, 1985) states that this has been one of the major factors in the reluctance of many formal financial institutions to expand their branches outside the larger urban centres. The lack of telephones and electricity for example in most rural areas will not make computers work. This has an implication on the length of time it will take to process the transaction. Again, the delivery of cash will require good tarred roads that are not available in the rural areas.

(iii) Co-variant risk

Poor people living in the same area usually have highly co-variant risk, that is, the individual risk is dependant on each others risk. In a sense it becomes a cumulative risk. This means they have a limited ability to insure one another, especially in times of drought, etc. Co-variant risk also includes changes in commodity prices, which usually affect an entire group of farmers at the same time. Suppose a group of farmers who are producing maize obtain loans from a formal lender, but during that season there is a drastic drop in the price of maize. This then means that all members of this group of farmers will be unable to repay their loan at the same time. Naturally, this addressing affects a formal lender that has its client base in the rural areas.

2.3 INFORMAL FINANCIAL SERVICES

2.3.1 INTRODUCTION

Informal financial activities are believed to be wide spread and it is assumed that they serve a broad spectrum of the population. The informal financial sector is understood to embrace both individuals and institutions whose existence and activities are, generally, not subject to direct control by the country's financial regulatory system and monetary and fiscal policies. However, Larson *et al* (1994) conducted a study of informal finance in Mozambique and discovered that informal financial market services are not totally exempt from regulation but are subject to some regulations such as found in the commercial code that governs contracts, promissory notes and mortgages. They are, however, not subject to monetary regulations such as interest rate controls and reserve requirements, nor to reporting and audit requirements.

The terms "informal," "parallel", "black", "underground", "fragmented", "unorganised" "segmented" and "curb" markets have been used to describe informal financial activities (Montiel *et al*, 1993). He maintains that a number of these labels, though, are clearly incorrect and misleading. For example, informal financial institutions are organised in the

sense that they often have an elected leadership and operate within a set of rules. Informal moneylenders keep accurate records of their customers and transactions. Furthermore, Adams (1992) finds that in the context of a wide spectrum of lenders and borrowers informal finance is able to tailor contracts to fit the individual's dimensions, requirements, and tastes.

2.3.2 TYPES OF INFORMAL FINANCIAL SERVICE PROVIDERS

Descriptions and discussions of the following types of informal service providers in South Africa were found in the literature:

(i) Moneylenders

Moneylenders are individuals or institutions involved in lending activities as part of their occupation. To attract the potential clients these groups and individuals operate under different names. For example, some people call moneylenders "Bomashonisa", a Zulu name for the 'people who make one bankrupt', since one concern about moneylenders is that they charge very high rates of interest. This can have the effect of trapping clients in debt because they can never fully repay, or because they have to take out additional loans from others in order to repay. Coetzee (1997) indicates that in agriculture these lenders are often fellow farmers or businessmen with surplus funds (savings). Some are professional moneylenders; for them it is their main occupation and a source of income.

In South Africa some moneylenders have registered with the Association of Micro-lenders. This entails that they subscribe to a code of professional conduct, which provides some guarantee to the borrowers. According to the Association, more than 100 moneylenders are registered in Polokwane. Those who are not registered are called "loan sharks". They are known for charging exorbitant interest rates of up to hundred percent. Sabapath (1994) indicates that moneylenders play a significant role in serving the credit needs of rural households, which have limited access to formal finance.

Timberg and Aiyar (1984) as quoted by Coetzee (1997) report that moneylenders usually lend to a mostly consistent group of borrowers. In Polokwane, for instance, some of the moneylenders are highly organised in the sense that they have regular clients who are given particular codes for identification and thereby reducing the transaction costs. Also, the moneylender permanently keeps their bankcards so that they can withdraw money on the pay-day. However this is now illegal.

During a preliminary survey done on the operation of the moneylenders in Polokwane, one of the moneylenders indicated that the majority of his clients are teachers and soldiers (Kgowedí, 1997). When one of the teachers was asked why he borrowed money from

moneylenders he said that teaching is a profession that expects an expensive lifestyle but that a teacher's salary is not sufficient to meet this standard of living. Many teachers resort to supplementing their income through credit obtained from moneylenders who usually provide quick service.

(ii) Stokvels

Stokvels represent types of rotating savings and credit associations (ROSCAs). This means that a group of people, for instance, neighbours, or people working at the same place, or members of the same family or the same church congregation, enter into an agreement to regularly contribute a fixed amount of money to a common pool (Spio *et al* 1995). This money will be rotated amongst the members according to set criteria. Throughout Africa the ROSCA has several names. In South Africa they are commonly called "stokvel" (Coetzee, 1998), but in Limpopo they are called "Mohodisano" in the Western Cape "gooi-gooi", and in the Eastern Cape "Umgalelo".

According to the National Stokvel Association of South Africa, which puts its membership at eight million (*Business Times*, October 2000) stokvels in South Africa collect about R1 billion a month of which about R350-million to R400 million is used for savings.

Falkena *et al* (1992) identify the following as the major features of the stokvel:

- A continuing pool of capital is created by the mobilisation of savings;
- The major consideration in the granting of loans to members is the character of the individual borrowers rather than their tangible securities;
- To a great extent the success of stokvels is dependent on the voluntary efforts of the members.

Operations are limited to the closed circuit of a stokvel's own membership, which is determined by a common bond. Normally, a stokvel will have elected "officials" to take care of the records if any, bank the funds where relevant, and perform other specific functions. These persons usually bear the titles of chairperson, secretary and treasurer, although sometimes an additional member is included as office-bearer.

(iii) Burial societies

Burial societies are formed by people from the same community to cover costs of burial of members in the event of death (Coetzee, 1997). Burial societies are a form of burial insurance, where not only the contributing members are covered, but also other members of their households. A preliminary survey conducted in Moletjie district indicated that almost every household in the villages belong to one or more burial societies (Kgowedi, 1997).

(iv) Family and friends

Family and friends provide loans to each other, which is also a form of informal financial service. Many of these loans involve no interest or collateral; they may be large or small; and may have open-ended repayment arrangements (Adams, 1989b). Loans between family members and friends are characterised by reciprocity for today's lender may be tomorrow's borrower.

(vii) Businessmen and shopkeepers

By 'businessmen and shopkeepers' is meant households engaged in trade and business activities; they include large merchants' as well as small shopkeepers. Lending money is a secondary activity to shopkeepers. Normally they have the advantage of adequate information about their clients because their clients live in the vicinity of their businesses, and have been clients for some time, so they know the clients well.

2.3.3 INFORMATION ON CUSTOMERS

The lending risk, in the main, results from inadequate information with respect to the borrowers' intention to default, and their ability to meet repayments in circumstances of adversity (Christensen, 1993). Informal lenders are more likely to have personal knowledge about those to whom they lend money. Sometimes, however, also moneylenders must invest effort into the screening of loan applications. In some cases, people who engage in informal financial activities have a long-term relationship. They may have stayed in the same township, village, or block, or attend church together. It follows repaying loans become a social obligation. Cuevas's (1989) study of informal financial markets in Africa found that information problems are minimal since members enrolled are people who have mutual confidence in each other.

2.3.4 ACCESSIBILITY OF SERVICES

Formal intermediaries for financial services are usually found far from remote areas and therefore it becomes impossible for people living in such areas to be served. In other words, the areas are deemed inaccessible. In contrast, De Lancy (1992) cited in Coetzee, (1997) reveals that many poor people perceive the formal institutions as inaccessible. This perception by the rural dwellers is based on lack of information on how these intermediaries operate. This inaccessibility pertains to services such as credit and savings. Location is only part of the problem: even a portion of the population near urban centres makes strikingly limited use of formal financial institutions (Miracle *et al*, 1980). Sabapath (1994) gives the following reasons for the use of informal financial services by the rural household:

- (i) Ease of obtaining loans, simplicity of procedure, convenience and personal attention and dependability.
- (ii) Facilities available closer to home and flexible hours of accessibility.

Adams (1989a) mentions that the most important advantage of informal financial institutions is that they provide the services close to the residence of the client, at a convenient market place, or where clients work. Most informal financial services are client-oriented. In contrast, formal intermediaries are often more concerned about their regulators, that is the central banks. This statement is supported by Larson *et al* (1994) who indicate that access to credit in informal financial markets includes low borrower transaction-costs. This is caused by the fact that the lender is located close to the borrower, especially in rural areas, which reduces the borrower's time and travel to obtain a loan, and thus the costs. They further mention that access to credit is also easier because of the longer hours of service provided, which includes weekends and evenings.

2.3.5 CONVENTIONAL COLLATERAL

One of the enigmas relating to the informal credit market is the significant quantity of credit that is frequently provided without any tangible asset, or asset substitute, as collateral (Swaminathan, 1991). Most rural poor do not have sufficient assets, which can be accepted by the formal lender as collateral and thus Makhura (2000) indicates that, in contrast to banks, the informal rural lender might require intangible collateral from rural borrowers. One of the reasons for the use of the informal financial system by rural households is that a personal guarantee is accepted as collateral (Sabapath, 1994). Also, different forms of reciprocity substitute for the lack of physical assets that would represent acceptable collateral for institutional lenders (Cuevas, 1989). It is a situation of "I help you today and you help me tomorrow".

2.3.6 INTEREST RATES

Rural households use the informal financial system because of low or zero interest rates on loans. The exception to this is formed by professional moneylenders (Sabapath, 1994).

According to Makhura (2000) family and friends can lend money at *negative interest*, that is, when a borrower repays in good faith, the lender gives something back as a gesture of goodwill. Transactions amongst friends and family members always involve reciprocal obligations: "I help you in time of need, and I trust that you will help me when I need it" (Coetzee, 1997). Adams (1989a) finds that great many studies compare interest rates on informal loans with those levied on formal loans without carefully considering the differences in the services purchased. His argument is that occasional borrowers of small

amounts, for example, may be willing to pay relatively high rates of interest on their loans procured from dependable informal lenders because their doing so may assure them of future access to emergency loans. Thus they essentially develop an accessible line of credit. As a result borrowers may ignore low interest rates of the formal finance institutions because they will not provide future additional services.

2.4 SERVICE CRITERIA OF FORMAL AND INFORMAL FINANCIAL SERVICES

This section briefly compares the formal and informal systems of finance in terms of the criteria they use to service their customers.

The services rendered by the formal financial institutions differ from those rendered by the informal financial institutions in many ways. Table 2.1 gives a summary of the financial services of both the formal and informal sector from a survey conducted in Mozambique (Larson *et al*, 1994).

Table 2.1. Comparing informal financial markets from formal financial markets.

Item	Informal financial markets	Formal financial markets
Interest rate	Positive real rates	Low or negative real rates
Loan size	Variable	Large
Length of loan	Short term	Medium or long term
Lender's transaction costs	Low	High
Access	Easy	Difficult
Hours of service	Convenient	Restricted
Guarantees	Varied	Standardised
Repayment schedule	Flexible	Rigid
Atmosphere	Personal	Intimidating
Loan approval and disbursement time	Few days	Months
Restrictions on use of funds	None	Targeted
Number of loan disbursements	One or two	Several
Borrower transaction costs:		
Travel time	Little	Considerable
Travel costs	Low	High
Paperwork	Minimal	Plenty
Other costs	None	Several

Source: Larson *et al* (1994)

From the above table it is clear that the advantages of the informal financial markets outweigh those of the formal markets. Borrowers will, obviously, not choose the formal financial sector to procure loans unless the client wants a large loan for a long period. A survey of 330 households in the peri-urban area of Maputo in 1991 found that few households made use of formal financial services (Larson *et al*, 1994). Loans obtained from the financial sector are used for various purposes. The study conducted by Zeller

(1993) in Madagascar reveals the use of formal and informal credits depicted on (Table 2.2):

Table 2.2. Use of formal and informal credits

Category of credit use	Informal (n=1355)		Formal n=245)	
	Mean share of amount used for ... of total amount borrowed (%)	Average amount used for ... (\$)	Mean share of amount used for ... of total amount borrowed (%)	Average amount for ... \$
1 Food	52.2	3.2	11.1	5.0
2 Health	5.5	0.3	1.3	0.3
3 Social events	4.3	1.1	0.5	0.95
4 School expenses	0.5	0.1	0.0	0.05
5 Farm implements and livestock	3.9	1.1	17.4	11.8
6 Farm inputs	11.3	1.2	57.4	31.7
7 Inputs for handicrafts, petty trade	7.9	3.5	3.5	2.4
8 Reimbursement of other loans	1.2	0.2	3.3	3.5
9 Other uses	13.2	1.3	5.5	3.9
Aggregate	100.0	12	100.0	59.6

Source: IFPRI/CNRE/DSA Survey 1992

The table above shows that the informal sector predominantly serves the borrowers' consumption needs whereas the formal sector mainly serves the clients' production needs (farm inputs). The implication is that borrowers do not expect to generate income from credit obtained from the informal sector, as is the case with the borrowers in the formal sector.

2.5 CONCLUSION

By discussing and comparing the informal financial services and formal financial services, this chapter has presented a broad picture of both financial services. Most of the literature indicates that the informal financial sector is more popular than the formal sector, especially in rural areas. The aim of this chapter was to lay a foundation for an intensive discussion of the informal financial institutions in the Moletjie district, the area under study. The subsequent chapters will provide empirical data obtained from the customers of informal financial services. The next chapter will give an exposition of the study area in terms of the geographic location, agricultural activities etc., and will describe the research methodology and the method for data analysis.

CHAPTER THREE

STUDY AREA AND RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter describes the geographical area, the agricultural activities, and the socio-economic and demographic characteristics of the respondents. It also provides a brief overview of the data and its sources as well as the methods of analysis used. The objective of this chapter is to give the reader the background of the study area and the general statistical framework for a descriptive analysis of the results based on the socio-economic dynamics of the respondents in the study area. The results of the analysis of the operation of each informal financial service provider are also presented. The focus on the conditions for informal financial services and the clients' use of credit or savings. Ultimately a comparison is made of the services provided by these different financial providers.

3.2 GEOGRAPHICAL AREA

The Moletjie district is located approximately 24-km north-west of Polokwane in Limpopo. There are 22 villages in the district. According to the 1996 census results, the average village population was 1652. The language spoken is Northern Sotho. The area is under the chieftainship of Chief Moloto. The largest villages are Bloodriver and Perskebult, which, in fact, are extensions of Seshego and form a natural cluster. As mentioned earlier, the area is peri-urban. Most of the villages have a nuclear type of settlement. This means that the households are close to one another. The villagers have access to water by means of communal taps in the streets. Electricity is well supplied.

The annual rainfall in the Moletjie district is 250-350 mm. The vegetation is characterised by scattered *Acacia Karoo* species. In terms of geology the soil is made up of unconsolidated and consolidated sedimentary strata. Soils that are marked by clay accumulation, a strong structure and a reddish colour, which are characteristics of good agricultural soil, are found in most parts of the area (Northern Province Department of Agriculture, 1999).

3.3 AGRICULTURAL ACTIVITIES

The system of land ownership in the district is communal, implying that the individual residents have the right to use communal land for cultivation and grazing. Mixed cropping is mainly practised under dryland conditions. Most of the respondents practise subsistence farming. There is little irrigated agriculture in the district. The average size of the fields is

about 2 hectares per household. Mostly maize, and to a lesser extent sorghum, are grown. In addition, extensive livestock farming, mainly cattle and goats, is practised. Because it clashes with the religious beliefs of a certain group of Christians only a limited number of households keep pigs. In terms of services provided by the Department of Agriculture, it must be stated that there are only a few extension officers assisting in the improvement of agricultural practises. As a result, imprudent grazing has led to overgrazing and to the deterioration of the natural environment. Because of the high incidence of theft, night-kraaling of animals is common practice.

3.4 NON-AGRICULTURAL ACTIVITIES

The rural non-farm economy plays a major role in employing people who cannot secure urban employment in the area. There is a small industrial centre next to the headquarters of the Chief. A local businessman owns the centre. Activities that take place at the centre include shoe repairs, pottery, radio and television repairs, knitting and battery charging. People who are engaged in these activities rent the stalls on a monthly basis. There are buses and taxis running on a regular basis to transport commuting villagers to and from their work places. The taxi industry appears to be a flourishing business.

3.5 RESEARCH PROCEDURE

This section outlines the research procedure with respect to data collection and gives an overview of the way the qualitative and quantitative analysis was done.

3.5.1 DATA AND DATA SOURCES

The survey was carried out in the Moletji district using a standard structured questionnaire that was piloted before data collection. The use of questionnaires as part of both qualitative and quantitative surveys is appropriate, and often the questionnaires yield useful information. Preston-Whyte (1982) cited by Buijs and Atherfold (1995) suggests, however, that it is virtually impossible to collect appropriate and sufficient data by using standard questionnaires alone. Therefore the questionnaire was complemented by semi-structured interviews and informal discussions with the respondents with the aim to elicit more and better information. The questionnaire was mainly structured to gather general information on stokvels, burial societies, moneylenders, local businessman and family and friends as informal financial service providers in the district. A preliminary survey conducted by Kgowedi (1997) on the modus operandi of the informal financial institutions in the vicinity of Polokwane suggested that these are the dominant informal suppliers of finance in the area.

The data was collected from the following thirteen villages: Chebeng, Mmotong, Komape, Makgofe, Moshung, Blood River, Hlahla, Mabitsela, Semanya, Phago, Matamanyane, Mabotja, Mokgokong and Perskebuilt. These villages were selected because of their proximity to Seshogo where the enumerator was based, another factor was that they are situated close to each other. This greatly facilitated the data collection. A total of one hundred and ninety-three (193) respondents were interviewed using a simple random sampling technique (Leedy, 1997). Since the population is mostly homogeneous, households were selected randomly in the form of a circle within the villages.

3.5.2 DATA ANALYSIS METHODS

The data collected from the study area were categorised and coded into a list of variables characterising the various types of informal financial services. Logistically, the data were entered into a spreadsheet (Excel) in preparation for descriptive and statistical analyses. The data were then transferred to and analysed with the Statistical Package for Social Sciences (SPSS).

The following factors that are assumed to distinguish the different groups of clients of informal service providers were statistically analysed: socio-economic factors, the reason for choosing a particular financial service, and expenditure and income of the respondents. The ANOVA method was used for the quantitative data analysis.

Analysis of Variance (ANOVA)

Analysis of Variance (ANOVA) is used to test significant indicators. Basically, the ANOVA attempts to determine the ratio of variance in the mean within and between groups (Paterson, 1939). Analysis of variance is called a univariate procedure because it is used to assess group differences on a single dependent variable. Certain assumptions are required for the correct application of this statistical technique. According to Norusis (1990) independent samples from normally distributed populations with the same variance must be selected in order to come to a valid analysis. When a statistical difference is found between the variance of one or more of the groups and that of the total sample, the hypothesis is proven false, and it can be proven that the sample sets were sampled from different populations (Morokolo, 2001).

This technique uses a *F*-statistic to assess the statistical difference between the means of the two groups on a single variable. The observed significance level is the probability of obtaining an *F*-statistic at least as large as the one calculated when all group means are

equal. If this probability is small enough, the hypothesis that all population means are equal is rejected (Norusis, 1990).

In the study this technique was used to determine whether or not the socio-economic factors, reasons for choosing an informal financial service, expenditure and income of the respondents are significantly distinguishing factors to differentiate the different categories of clients of informal service providers. The next section gives an exposition of the statistical analysis of the collected data.

3.6. SOCIO-ECONOMIC DYNAMICS OF THE RESPONDENTS

This section focuses on the personal particulars of the respondents. The emphasis is on household composition, education, occupation, monthly income and expenditure as well as the respondents' most recent providers of informal financial services.

3.6.1. PERSONAL CHARACTERISTICS OF THE RESPONDENTS

The gender composition of the respondents showed an almost equally balanced ratio with the female representation being slightly higher (52.3%) than the male (47.7%). This slight difference could be attributed to the fact that generally women look after the house and children whereas men are employed in town. The largest percentage of the respondents are married. The typical household consists of four members. The average age of the respondents is forty-four.

3.6.2 EDUCATION AND OCCUPATION

Table 3.1 below shows the educational profile of the respondents. Of the total number of respondents a mere fifteen percent had received no education or only at primary level.

Table 3.1. Frequency distribution of the respondents according to the level of education (N=193)

Education level	Frequency	Percentage (%)
Primary	28	14.5
Secondary	102	52.9
Tertiary	63	32.6
Total	193	100.0

The largest percentage of the respondents has achieved a secondary school qualification. This indicates that the rate of literacy in the area is quite high. The following table (3.2) gives a summary of the occupation of the respondents. The respondents who are

employed in the professional field (teachers, nurses, etc.) constitute 47.2 percent of the total.

Table 3.2 Frequency distribution of the respondents according to their occupations (N=193)

Occupation	Frequency	Percentage (%)
Professional	91	47.2
Blue-collar	57	29.5
Pensioner	29	15.0
Unemployed	16	8.3
Total	193	100.0

From the table it is evident that three-quarters of the people interviewed have a regular monthly salary. This includes those with have blue-collar jobs such as drivers, labourers and self-employed people. The pensioners form part of those who are unemployed. Generally, the unemployment level of the sample population is low. These results are not in line with the general problem of unemployment in the country. These higher levels of employment may have been caused by the proximity of the study area to Pietersburg and Seshego where many of the respondents are employed and also the availability of the industrial centre.

3.6.3 MONTHLY INCOME AND EXPENDITURE

The level of income determines an individual's standard of living. When the desired standard of living and the actual income do not match people will devise means to supplement their income and so improve their standard of living. The average monthly income of the individual respondent is R2224. The following table presents the analysis of the results of expenditure per item.

Table 3.3. Mean monthly expenditure of the individual respondent (N=193)

Item	Mean expenditure (R)	Percentage (%)
Loan repayment	325	28
Groceries	246	22
School fees	205	18
Transport	115	10
Instalment on clothing	113	10
Water and electricity	87	8
Instalment on furniture	44	4
Total	1128	100

Considering the above-mentioned average monthly income, this entails that the respondents spend R1128, on basic household needs. The respondents could use the income left to spend on other items or even to save. The low level of expenditure on water

and electricity can be attributed to the fact that some respondents are using firewood for cooking and heating of water. The amount spent on loan repayment is quite high. This means that the respondents are using the services of financial institutions in the area to supplement their income.

3.6.4 SOURCES OF INFORMAL FINANCIAL SERVICES

Table 3.4 gives an analysis of the sources of informal financial services that are used by the respondents. This pertains to the most recent financial services used.

Table 3.4. Frequency distribution of the respondents according to their sources of financial services (N=193)

Financial service provider	Frequency	Percentage (%)
Moneylender	83	43.0
Family & friends	50	25.9
Businessman	24	12.4
Burial Society	19	9.8
Stokvel	17	8.8
Total	193	100.0

According to the table above the respondents last borrowed money from a number of sources. Forty-three percent of the respondents borrowed from moneylenders and the rest borrowed from non-moneylenders. Even though respondents might have obtained their credits from other sources, all of them indicated they have more than once borrowed from family and friends in the past. Few people borrowed from stokvel and burial societies because the emphasis of these two financial sources is mainly on saving. The discussions in the following chapters will be based on the sub-samples presented in table 3.4 above.

Slightly different from the above scenario, Larson *et al* (1994) who did a study in Maputo found that nearly half (45%) of the households interviewed reported some form of informal credit within the last year: Of these 16% obtained loans from friends and neighbours, 14% had loans from family members, and 7% received loans from groups to which they belonged. About 2% reported loans from traders or suppliers. No one reported a loan from moneylenders. This situation could be attributed to the fact that moneylenders charge high interest rate there or there may not have been moneylenders.

3.6.5 REASONS FOR CHOOSING A FINANCIAL SOURCE

Normally people have their reasons why they choose a particular credit source. Table 3.5 indicates the reasons why the respondents used particular financial services.

Table 3.5. Frequency distribution of the respondents according to their reasons for choosing the financial source (N=191)

Reason	Frequency	Percentage (%)
Quick service	55	28.8
Only option	48	25.1
Convenience	35	18.3
Low interest	32	16.8
Know each other	21	11.0
Total	191	100

Two respondents did not want to respond to this question. The largest percentage of the respondents mentioned quick credit as the main reason for choosing the services of the particular credit source. Only about 16.8 % choose financial service due to low interest rate. This is contrary to the general perception that people choose a financial source because of low interest. However these reasons will be analysed in more detail in the following chapters.

3.7 INFORMAL FINANCIAL SERVICE PROVIDERS

It was shown earlier that respondents use a range of providers for financial services such as moneylenders, businessman, family and friends, stokvel and burial societies. This section deals with the analysis of the operation of informal financial service providers and the characteristics that distinguish those services from each other.

3.7.1 MONEYLENDERS

One of the more controversial informal financial services is formed by the so-called moneylenders. On the whole there is a perception that moneylenders are exploitative and that this is the reason why many people will not obtain credit from them. The Strauss Commission (1996) reported that though they have heard about "Bomashonisa" (moneylenders), many rural residents are not familiar with the financial services they provide, few have used their services, and only when they had serious financial difficulties, or needed to borrow initial capital for starting informal business. The survey in Moletji district indicates that contrary to what is indicated in the Strauss Commission report, they are more widespread. This study will include both moneylenders that are registered with Association of Micro-lenders and those that are not.

The next section will attempt to answer the following questions: How do moneylenders reach their clients? Who are their clients? What is the size of their loans? How much

interest do they charge? What are the requirements for obtaining a loan? How long is the repayment period? And what is the purpose of the loan?

Clientele

Moneylenders serve skilled, unskilled, employed and unemployed clients. The table below shows the responses of a sub-sample of 83 respondents who recently used moneylenders for financial services (Refer to table 3.4 for sub-samples). There are different ways in which moneylenders advertise themselves to their potential clients, as is shown in Table 3.6.

Table 3.6. Frequency distribution of the respondents according to how they have heard about moneylenders (N=83)

Methods	Frequency	Percentage (%)
Through an agent who came to the workplace	30	36.2
Told by somebody	26	31.3
Through an advertisement	24	28.9
Trough an agent who came to the house	3	3.6
Total	83	100

Within the sample population many of the clients heard of moneylenders through an agent who came to the firm or the organisation where people work. In the surveyed area the agents are spread all over. Each agent is allocated a village. This mostly is his home-village. Thus these agents possess reliable information regarding their clients and can so identify clients who are credit-worthy according to the standards of the moneylender he represents. An added advantage is that the agent will know where the potential client works. If a client is unable to go to the office of the moneylender they will bring money to the client after completion of the application forms that agents always carry on them. Each agent is paid a commission according to the number of clients obtained. Most of the clients of the moneylenders have a steady job. However it was found that in some instances pensioners and people who have small businesses also qualify to obtain a loan.

Obtaining credit from moneylenders

Coetzee (1997) found that moneylenders have comprehensive, almost perfect information on the credit-worthiness of their clients based on the long-term relationship they have had with them. In contrast, all the ten moneylenders interviewed during the preliminary survey to this study, required the following from a potential borrower: a steady job, a bank card, identity (ID) book and a bank statement covering the last three months (Kgowedi, 1997).

These are probably thirty day cash lenders. Apparently moneylenders are becoming stricter in providing credit. In this study it was found that most moneylenders require proof of employment, a salary slip and an ID book. All of them indicated that they require an ID book. Unlike with the loan sharks moneylenders do not keep ID books. They just take the ID number and make a copy of the ID book for their own records.

Characteristics of the typical loan

The following table gives an exposition of the characteristics of the typical loan obtained from moneylenders (table 3.7.). The size of loan that respondents borrowed from the moneylenders is just below R1000. This amount is relatively low. However, when one considers a repayment period of three months it still means a hefty repayment and if one wishes to borrow more the consequent monthly instalment for the said repayment period would become extremely high.

Table 3.7. Characteristics of the typical loan from moneylenders (N=83)

Condition	Mean
Size of loan (R)	911
Interest rate(%)	31
Repayment period (months)	3
Monthly payment @	398

The average interest rate charged by moneylenders for the credit obtained by the respondents the period of the loan is thirty one percent per three months. Surprisingly, the respondents did not know whether the interest rates were calculated on monthly or yearly basis. Interest rates in this market often tend to be high, especially when estimated on an annual basis (Montiel, 1993). Earlier on in this chapter it was already mentioned that clients do not seem to be influenced by interest rates, they are mainly interested in how quick they can obtain credit. And as a result, they do not consider affordability of repayment.

According to one of the moneylenders interviewed in Polokwane (Kgowedi, 1997) the moneylenders who are registered with the Association of Micro-lenders charge interest rates according to the recommendations of the Association, usually around 30 percent per annum. Furthermore, their interest rates are calculated on an annual basis and the repayment period is longer than that of other moneylenders. The registered moneylenders operate more or less like formal institutions in the sense that they are able to provide long-term loans. In contrast, moneylenders who are not registered with the Association do not have regulated rates, therefore they may charge up to 100% interest per month. Registered moneylenders usually lend up to half a person's take-home pay (Drum,

November 1997). In this study it became apparent that some of the respondents obtained credit from the non-registered moneylenders. This was proved by the high interest rate charged.

There are arguments in the literature about the interest rates charged by moneylenders. Those that argue that moneylenders exploit their clients so far fail to prove that this is generally the case, and also do not consider the costs moneylenders incur in providing the service (Coetzee, 1998). In this study most of the clients felt that the repayment amount was not so bad. It also became evident that clients actually do not compare the total amount repaid with interest with the size of the loan they obtained. What matters to them is the amount they pay at the end of the month.

Sabapath (1994) who did a study in Malawi found that the rates of interest charged also vary according to the amounts and tenure (conditions) of loans. He further stated that annualised interests are known to from 365% (1% per day) and more for very small loans for short terms, to 24% (2% per month), for larger amounts and longer duration. Bolnick (1992) who also did a study in Malawi argues that in the case of Malawi moneylenders do charge exorbitant rates on loans. He contends that the Malawian moneylender does not conform to the more positive picture of moneylenders in other countries. This is because there is lack of competition in the market. He does, however, base his argument on interviews with only two moneylenders in the urban areas of Malawi and no indications are given on what basis he generalises their profiles to those of all moneylenders in Malawi. In contrast to the situation in the rural and peri-urban areas in South Africa the moneylenders he describes do not have close contact with or detailed information on their clients. Their strengths lie in written contracts with their clients.

Purpose of the loan

The money borrowed by the respondents from the moneylenders was used for a variety of purposes. Most of the respondents used it to pay school fees but others used it to pay their accounts (Table 3.8)

Table 3.8. Percentage use of loans obtained from moneylenders (N=83)

Use of loan	Percentage (%)
School fees	34.9
Paying accounts	27.7
Consumption	18.1
Small business	10.8
Building materials	6
Agriculture	2.4
Total	100

Although all the respondents mentioned that they used their loans for the intended purpose, it would be difficult for moneylenders or anybody else to verify whether this was true, mainly due to fungibility of money. According to Yaron (1992) fungibility of money refers to a situation where borrowers can use borrowed funds for purposes preferable to them, regardless of the objectives promoted by policy makers. Very few respondents used their loans for agricultural purposes. When asked to express their views about the service rendered by moneylenders, only twenty five percent of the respondents felt that they couldn't survive without obtaining loans from the moneylenders. This could be a group of people who are trapped in debt spirals; they have continued high levels of indebtedness caused by various factors, such as overspending.

Conclusion

There is a perception that moneylenders are exploitative and as such they are generally not popular in the community. The results presented above indicate that most of the respondents obtain their loans from moneylenders despite the fact that they charge relatively high interest rates. It seems the public is ignorant about the cost of finance. This point was proven when some of the respondents did not know the amount of interest charged. They were only interested in paying "reasonable" monthly instalments. A high percentage of the respondents mentioned that they never had any problem with the moneylenders.

3.7.2 FAMILY AND FRIENDS

Family and friends as financial service providers differ from moneylenders in the sense that lending is not their business. They, however, provide credit to the majority of people in South Africa and elsewhere. In poor countries large volumes of loans are obtained from family and friends and relatives (Dasqupta, 1993).

Characteristics of the typical loan

The following table gives presents the characteristics of the typical loan obtained from family and friends.

Table 3.9. Characteristics of the typical loan from family and friends (N=50)

Conditions	Mean
Size of loan(R)	427
Rate of interest(%)	0
Repayment period (months)	3

The loans are typically short term. They require neither interest nor collateral. According to Christensen (1993) reciprocity rather than financial intermediation is the rationale underlying these transactions. Adams (1989a) also supports this notion. The repayment period may even be open-ended. The Strauss Commission (1996) found that credit is provided in the understanding that it will be paid back when possible. In some instances the loan may not be paid back. Cuevas (1989) argue that, sometimes even regardless of repayment performance, these loans are considered an obligation in the extended family structures of many cultures.

The use of loans

Most of the respondents mentioned that they used the loan for the intended purpose. The following table presents the use of loans obtained from family and friends.

Table 3.10. Percentage use of loans (N=49)

Use	Frequency	Percentage (%)
Small business	13	26
Agriculture	12	24
Household needs	11	22
School fees	6	12
House improvements	4	8
Instalments	3	6
Total	49	100

A larger percentage of the respondents use loans for running small businesses followed by agriculture. A small percentage is allocated for instalments.

Conclusion

Loans from family and relatives are the most common form of informal financial service both in terms of number and value of the transactions. The most common feature of these loans is reciprocity. The loans are based on trust and as such there is no collateral required. The next analysis is focusing on businessmen, as the informal financial service providers.

3.7.3 BUSINESSMEN/SHOPKEEPERS

'Businessmen/shopkeepers' in this case refers to owners of general dealers, supermarkets, bottle stores, butcheries, etc. Lending is not their main business, but they do sometimes lend money to their clients. Since their businesses are located in the communities, they have mutual relationships with their customers. The normal activities of

the shopkeepers provide a basis for overcoming many of the constraints to financial intermediation (Christensen, 1993). This type of financial service providers has not been explored enough by research in the field of rural finance. This section attempts to analyse the mode of operation of businessmen as financial service providers. The following table summarises the conditions of obtaining a loan from a businessman.

Characteristics of the typical loan

Most of the respondents indicated that businessmen keep a photocopy of the identity document (ID) of the borrower as security. Christensen (1993), however, argues that the potential loss of future borrowing opportunities for defaulting clients becomes a more effective collateral substitute given the importance of these agents as a source of credit. The proximity of businessmen contributes to reduction of the transaction costs of borrowing. Table 3.11 indicates the characteristics of the typical loan obtained from businessmen.

Table 3.11. Characteristics of the typical loan obtained from the businessmen (N=24)

Condition	Mean
Size of loan (R)	382
Interest rate (%)	14
Repayment period(months)	2

In general businessmen provide small loans with a low interest rate and a short repayment period. Some businessmen prefer to provide goods on credit payable at the end of the month, rather than providing their customers with hard cash. The transaction costs incurred in collecting borrower information and administering loans are low as these tasks are performed in the normal course of doing business (Christensen, 1993). Most of the respondents indicated that they have known the businessman they borrow from for more than five years, therefore the businessman does not have the problem of asymmetric (lack of correct) information about his clients. Loans obtained from businessmen are used for various purposes.

Use of loans

Table 3.12 illustrates the use of loans obtained from the businessman Christensen (1993) found that the loans are used for both consumption and production purposes.

Table 3.12: Use of loans obtained from businessmen (N=24)

Use	Frequency	Percentage (%)
Household needs	7	29.2
Agriculture	5	20.8
Small business	4	16.7
Account payment	4	16.7
Building material	3	12.5
School fees	1	
Total	24	100

The utilisation of loans for agriculture and household needs confirm the above findings that credit obtained from the businessman is used for both consumption and agricultural production.

Conclusion

This section illustrated the role that businessmen play in meeting the financial needs of the communities. Generally businessmen provide small loans with low interest rate since lending money is not their actual business. Borrowers take advantage of their proximity. Credit obtained from businessmen is used for both consumption and agricultural purposes. The next analysis focuses on burial societies, which operate in a totally different manner from businessmen although they also provide informal financial services.

3.7.4 BURIAL SOCIETIES

A burial society is a form of Rotating Savings and Credit Association (ROSCA) that has the primary objective of financing funeral costs. Members also benefit from the association, however, by obtaining credit at low or no interest. The following descriptive analysis covers membership, monthly contributions, and benefits of the members in the event of death and the conditions for obtaining credit.

Total number of members

The average membership of burial societies in the survey area is thirty people. In most burial societies it was found that only the main beneficiary is counted as a member. The children (minors) of the beneficiaries are not counted as members although they enjoy the same benefits as the parents in the event of death. The main beneficiary is allowed to put names of parents, including the in-laws and other close relatives to be covered by the burial society. Similarly Buijs & Atherfold (1995) who did a study in Zwelitsha (King

William's Town) found that members are allowed to put down the names of close relatives, parents, siblings and children whose funerals will be catered for through the burial society.

Criteria for membership

Membership of burial societies is voluntary, but burial societies may have many members (up to 1600) who might live in different areas (Bähre, 1997). There is no specific number of members and burial societies differ with regard to their criteria for membership.

Table 3.13. Frequency distribution of the respondents according to their criteria for membership (N=19)

Criteria for membership	Frequency	Percentage (%)
Residence	14	73.7
No criteria	3	15.8
Kinship	2	10.5
Total	19	100

Membership of burial societies is determined by different factors (Table 3.13). Most of the respondents (73.7 %) indicated residence as the main criteria for membership. Buijs & Atherfold (1995) also found that most of the participants of burial societies in Zwelitsha (Eastern Cape) live in adjacent streets. In the survey area it was observed that people who use kinship as a criterion for membership are those who share a clan name or surname. According to the findings religion and education are not determinants of membership of burial societies in the Moletjie district. Members make contributions to ensure the smooth running of their association.

Monthly contributions

All the respondents who belonged to burial societies indicated that they pay contributions on a monthly basis. Considering their average monthly contribution of R50 and an average membership of 30, the total contribution is R1500. The money is deposited in the bank account of the society. A certain amount depending on the benefits paid by the society will be withdrawn in the event of the death of a member. In the case study done by Buijs & Atherfold (1995) in the Eastern Cape it was found that the treasurer keeps transport fees of R2,00 per member, which are added to a monthly contribution of R20,00. They further mentioned that the transport fees are paid for the members who need to travel to different places to attend a funeral since members have relatives who live in different areas.

Benefits for membership in the event of death

One of the things that the burial societies are striving to do is to service their members in the event of death. The majority of the respondents (73,7%) indicated that in the event of death of a member, the society provides an ox, tent, pots, firewood and a coffin for the member's funeral. It is customary to slaughter an ox and prepare food and large quantities of traditional beer during the funeral (Lukhele, 1990). Buijs & Atherfold (1995) indicated that members of burial societies are not given cash in the event of the death of a member but instead groceries are bought. Apparently people prefer to belong to a burial society that covers all the basic requirements of a funeral. If a resident of the neighbourhood does not participate in the burial society, the neighbourhood will not assist when a death in the family occurs (Bàhre, 1997). Some burial societies also provide credit to their members as indicated below.

Characteristics of the typical loan

The activities of some burial societies are more than assisting members in the event of death. There are also situations where members may obtain credit from the society at no or low interest rate. The characteristics of the typical loan obtained from burial societies are analysed below.

Table 3.14. Characteristics of the typical loan obtained from burial societies

Condition	Mean
Size of loan (R)	300
Interest rate (%)	10
Loan Repayment (in months)	2

The average size of loan that the respondents obtained from burial societies is very low in comparison to the credit obtained from other credit sources like moneylenders. Logically it would be risky to lend members a large amount of money because the primary objective of the burial societies is to assist with funerals in the event of death of a member. After all, no one knows when death will come and for that reason there must be enough funds at all times. That may be the reason why the repayment period is short (2 months). The average interest rate that is charged for obtaining credit is relatively low (10%). In fact, some burial societies do not charge interest rate at all.

The use of credit

Table 3.15 summarises the analysis of the purpose for which credit is obtained from burial societies.

Table 3.15. Percentage use of credit obtained from burial societies (N=19)

Use of credit	Frequency	Percentage (%)
Fix a car	6	31.6
Agriculture	6	31.6
Household items	3	15.8
School fees	2	10,5
Instalments	1	5.3
Small business	1	5.3
Total	19	100

Most of the respondents used credit for fixing their car and for agricultural purposes. It must be noted that this is the only case where a relatively higher percentage of the respondents indicated that they used credit for agricultural purposes. The reason for this could be that most of the members of burial societies are mature parents who are involved in farming.

Management of burial societies

The burial societies in the study area are run by executive committees that are made up of two to three members. Ten percent of the respondents mentioned that their executive committee is composed of a chairperson, a secretary and a treasurer. (Buijs & Atherfold (1990) state that the burial societies they investigated have an executive with a chairperson who chairs all meetings, a secretary who takes the minutes and a treasurer who keeps the funds of the society. In case there is no treasurer in the executive, the secretary performs these duties.

Most of the respondents mentioned that their executive's term of office is one year, a few stated that the executive stays for two years in the office. A constitution or set of rules governs burial societies. Monthly meetings are held in which financial matters and other general issues are discussed.

The importance of burial societies

Lukhele (1990) stressed that burial societies act as a substitute family for the bereaved and address the need for proper burials to give us dignity as a people. He further stated that they enable the underprivileged and the "oppressed" to declare that we may be poor but we lay our bones in dignity". They bind communities together so that the welfare of others becomes as important as one's own welfare (Dandala and Moraka, 1990, as cited by Bähre, 1997).

Today a burial means that one has to provide for food, cooking utensils, buy a cow and there are many other costs to be made. All those costs added up entails that approximately R10 000 is needed for a burial; this is true for both urban and rural areas. Naturally, for the unemployed the costs of a burial are near impossible to meet. The majority of the people who are employed and have funeral plans (aside from burial societies) also belong to the burial societies. In fact, burial societies form a social security system where money can be saved or put together to meet (part of) the costs. Furthermore there is work to be done on the day of the funeral, and the help needed will come from other society members. If one does not belong to a society there will be very few people who are willing to assist.

Conclusion

The aim of the analysis in this section was to change the perception that burial societies merely serve the purpose of financing a funeral. The results in this section suggest that burial societies also offer loans to their members although in small amounts. In most cases these loans are used by members to provide for household needs and assist in the purchase of what is necessary to cultivate the fields during the growing season. It is clear that burial societies, indeed, are part of the fabric of society. The next service provider that will be discussed is the stokvel. The stokvel also has two types of financial services, however its operation differs somewhat from burial societies.

3.7.5 STOKVELS

Stokvels represent a type of savings association where a group of people makes monthly contributions to a common pool. The primary activity of the stokvel is saving, however members can also obtain credit at a reasonable interest rate. To most people stokvels are convenient because they require no administrative costs and are based on the mutual trust of the members. The following sections describe the operation of stokvels by focusing on the criteria for and the composition of membership, the rotation of the pot, the use of the savings and the conditions of obtaining credit.

Criteria for membership

There are various factors that determine membership of a stokvel. Table 3.16 indicates these.

Table 3.16. Frequency distribution of the respondents according to the criteria for membership (N=17)

Criteria for membership	Frequency	Percentage (%)
Locality	13	76.4
Occupation	2	11.8
Religious affiliation	2	11.8
Total	17	100

The largest percentage of the respondents (76,4%) who are members of the stokvels state that locality as the main qualification for membership is used, whereas 11,8% maintain that occupation and religious affiliation are used as qualifications. Larson *et al* (1994) found that in Mozambique a *xitique* (ROSCA) consists of a relatively small number of members (from 4 to about 40 members) who share a common bond such as belonging to the same family, gender, ethnicity, shared work place, or are living in the same neighbourhood. It is easier for people who work together or stay together to meet and discuss issues of shared interest. Buijs and Atherfold (1995) argued that membership of the association might be organised on the basis of kinship affiliation. Individuals are accepted on personal recommendation of a member (Falkena *et al*, 1992). Membership to stokvels is voluntarily, but members are expected to be honest and reliable at all times. Wilson and Mafeje, (1963) as quoted by Preston-Whyte *et al* (1991) reported on variation of age, background and rural home residence, employer as well as gender as some of the features that describe the membership of stokvels. The analysis of the composition of stokvels in terms of gender can be seen in table 3.17.

Composition of membership

The results of table 3.17 suggest that the majority of the respondents belong to stokvels that are composed of men only.

Table 3.17. Frequency distribution of members according to gender (N=17)

Gender	Frequency	Percentage (%)
Men only	7	41.2
Both men & women	6	35.3
Women only	4	23.5
Total	17	100

Contrary to this scenario, the findings of Buijs and Atherfold (1995) indicate that an important element in the various rotating credit associations that were studied in their research in the Eastern Cape is that membership is often exclusively female. Reasons given for the state of affairs are that men are not "trustworthy" and that there is prevalence

of alcohol and tobacco consumption among men and as well as the general reluctance of men to confide details on their income to women (wives or girl friends).

Lukhele (1990) mentioned that because of the common bonds, some stokvels have been in existence with more or less the same membership for ten years or even longer. Slover, (1991) quoted by Coetzee, (1997), who based his writing on research in Zaire, remarked that no two groups (stokvels) are similar. These groups can differ in terms of the type of members, rotational schedule and how this is decided on, the number of members, etc. In the surveyed area the average membership of stokvels is ten. It seems members have much information about each, which is mainly due to the fact that they either stay in the same locality or work together. This mutual information may help in reducing disciplinary problems among the members. Somewhat different from the above scenario in terms of number of membership, Von Pischke (1995) found that stokvels as means of ROSCA consist of no more than 30 members who know each other well.

Rotation of savings

Von Pischke (1995) reported that stokvels create pools of funds that are usually difficult for individual members to assemble, which is an incentive to become a member. All the respondents who belong to stokvels mentioned that they meet once a month. In those meetings each member contributes an average amount of R200 that is awarded to one individual. If association members default in their contribution they are usually given a period of grace before their names are added to a blacklist (Buijs and Atherfold, 1995). In this study the respondents did not mention any problem of defaulting members. Members who cannot attend meetings make their contributions in advance. The following table shows the rotation of savings amongst the people interviewed:

Table 3.18. Frequency distribution of the respondents according to criteria used for rotating savings

Payment first criteria	Frequency	Percentage (%)
Alphabetical order of names	9	53.0
Date of joining	5	29.4
Drafted a list	3	17.6
Total	17	100

Most of the respondents rotate the pot according to the alphabetical order of their names. Considering the membership of ten, the total amount of contributions would be R2000. The average amount of a purse (the pot) an individual receives is R1250; therefore there is a certain amount of money that remains as a reserve. Some stokvels do not have a reserve. The details of how this money is utilised will be explained later in the chapter. The stokvel

meetings are organised by the committee, which is composed of only a chairperson and a secretary. There is a set of formal rules that govern the stokvel. For example members shall be fined an amount of R20 for every meeting they fail to attend. The money goes into the reserve of the association.

The person who receives the hand (purse or pot) becomes the owner of the stokvel for the occasion. Stokvels remain one of the ways for people in the rural communities to access savings. To add flavour to this type of association, more than 80% of the respondents indicated that a party is thrown when a member receives a purse. The latter is the owner of the house where the party is held. All the respondents mentioned that refreshments such as soft drinks are sold at a party and the profit goes to the recipient of the purse. In support of the above findings, Bähre (1997) reported that in Cape Town, the term 'stokvel' refers to a ROSCA where the fund is used as an investment in a party. At the party, which last for a day, an entrance fee is charged and liquor, mostly beer is sold. The profit made is for the member who receives the purse.

Non-members are also invited, however they are expected to buy refreshments at a gathering (party) Lukhele (1990) indicates that women organise these parties in such a way that members take turns in receiving money from all the other members in the group.

Most stokvels distribute the pot in alphabetical order, but some use the date of becoming a member and others use a member's date of birth. When every member of the stokvel has received a hand, the cycle is completed and the ROSCA disbands or reorganises (Sabapath, 1994). This last applies to the area under study. Thus the last recipient in the cycle has the same savings as he or she would have had by saving in a solitary fashion, however no interest has accumulated, while at the same time social gains have been achieved (Miracle *et al*, 1980). Coetzee (1998) indicates that a member of the ROSCA getting the contribution early on is more like a borrower, while a member receiving contributions at the end of the cycle is more like someone saving.

Use of savings

The respondents use savings accumulated through stokvels for a variety of purpose (Table 3.19). The largest percentage of the respondent's, about 71% used their savings for household needs. In a few instances the savings helped to improve agricultural production.

Table 3.19. Percentage use of savings by the respondents (N=17)

Use of savings	Frequency	Percentage (%)
Household needs	12	70.6
Anything	4	23,5
Build a house	1	5.9
Total	17	100

On the other hand Falkena *et al* (1992) reported that on a rotational basis the savings pool is awarded to an individual member who thereby obtains money to finance a burial, purchase consumer durables, arrange a social function, which may include hiring a venue and supplying other members of the stokvel with food and liquor, purchase a house and finance a business venture.

Characteristics of the typical loan

In the study area stokvels lend money to their members only. The money that is used for this purpose comes from the reserve fund of the stokvel. Cuevas (1989) also found that the fund money contributed is either kept by the treasurer at home, deposited in a savings account, lent as "emergency" fund, or a combination of these. The advantage is that all members of a stokvel open up a source of credit and perhaps this is cheaper than would otherwise have been available to them (Miracle *et al*, 1980). Table 3.20 presents the characteristics of the typical loan obtained from stokvels in the study area.

Table 3.20. Characteristics of the typical loan obtained from the stokvels (N=17)

Condition	Mean
Amount last borrowed (R)	876
Rate of interest (%)	16
Monthly instalment (R)	540
Repayment period (months)	2

The amount last borrowed is high in comparison with the amount borrowed from the burial societies. Although the rate of interest seems to be reasonable, the monthly instalments are high. It must be noted that some stokvels do not charge interest rate. Lukhele (1990) also found that stokvels could borrow money at a low interest rate. According to Sabapath, (1994) and Von Pischke (1985) membership is generally taken very seriously and to default on a payment is a great stigma. A defaulting member does not only lose the opportunity to remain in the association but may also be shunned by other members and will experience the loss of social ties that accompany the membership.

The use of loans

The following table summarises the analysis of the use of loans from stokvels.

Table 3.21. Percentage use of loans obtained from stokvels (N=17)

Use of loan	Frequency	Percentage (%)
School fees	6	35.3
Instalments	5	29.4
Household needs	4	23.5
Agriculture	1	5.9
Small business	1	5.9
Total	17	100

The loans obtained from stokvels are mostly utilised for basic household needs such as school fees. Only a small percentage was utilised for agricultural purposes and for starting a small business.

Advantages of stokvels

Stokvels have a number of advantages and disadvantages for communities. Four advantages of stokvels contributing to their popularity should be highlighted (Lukhele, 1990):

- (i) Stokvels are trustworthy, approachable and sympathetic to the needs and difficulties of members. They help in emergency situations when money is needed quickly, because they are flexible and accommodating.
- (ii) They can be applied in diverse social circumstances, have diverse group characteristics and function in diverse countries.
- (iii) Through participation in stokvels, financial and social support is ensured. Stokvels offer entertainment and a place for socialising with friends. A member receives a contribution at a gathering where refreshments and food are provided.
- (iv) Membership of stokvels makes capital available to people who would not, otherwise, qualify for loans from formal financial institutions. This increases a person's financial mobility.

In addition to the social gains, people who belong to the same stokvel support each other, for example in the event of weddings and deaths. Frequently members become intimate friends. While stokvels remain one of the few ways for people in poor communities to access savings, more and more high-fliers are using stokvels to branch into other investments like unit trusts. Although some members confessed that they are not disciplined enough to manage their budgets well, therefore savings from stokvels help them to accumulate assets.

Disadvantages of stokvels

Despite the advantages attached to informal financial arrangements, such as flexibility, the functioning of stokvels is limited by the following factors (Falkena et al, 1992):

- (i) The mobilisation of savings takes place among small groups of individuals who know each other well. Stokvels are unable to transfer funds over long distances or even to meet demands outside the members' immediate environment.
- (ii) Many stokvels do not have the expertise to take account of the impact of inflation. Since the savings are not necessarily invested in inflation-ledge instruments, they are eroded over time. Consequently, those members who receive the first pool of contributions will be better off than those who are rewarded only after having contributed for year.
- (iii) Often stokvels do not have access to training facilities or to legal assistance in the case of a dispute. Stokvels are treated as homogenous institutions, but, although they may use similar funding mechanisms, their activities and the nature of their risks may differ considerably. All members contributing to a stokvel have equal rights to the pooled funds. Thus, in turn, each member will receive payment from the savings pool. A major problem is the long time that elapses between payments to the same individuals. Being paid out once such payment could provide start-up capital, but it would be near impossible to obtain working capital on a continuous basis from stokvels.

In this study it was observed that some of the stokvels failed along the way (before the cycle is completed) as a result of disputes. This type of the situation becomes unfortunate to the member who would still be waiting for his turn. The savings kept by the treasurer at home is less secure than if it was deposited at the bank although none of the respondents mentioned a case of theft of the savings.

Conclusion

The advantages of stokvels in terms of providing financial services outweigh the disadvantages. Like the burial societies, the activities of stokvels include both saving and lending although the main activity is saving. Other similarities between stokvels and burial societies are: both of them are member-driven, both provide loans to the members only, both use locality or residence as a qualification criterion for membership.

The following differences between stokvels and burial societies were noted. Stokvels provide a larger loan than burial societies do. Furthermore, the interest charged by stokvels is more than that of the burial societies. Loans obtained from stokvels are used

mainly for school fees whereas loans obtained from burial societies are mainly used for agricultural purposes.

3.8 SUMMARY AND CONCLUSIONS

This chapter has provided an exposition of the area surveyed, data and its sources as well as methods used to analyse data. The informal financial service providers in terms of the characteristics that distinguish each provider's unique mode of operation from the others were discussed. Also, an analysis was done on the ways households, including subsistence farmers in the peri-urban setting, benefit from the financial services rendered by these providers. Table 3.22 lays a foundation for the quantitative analysis in the next chapter by comparing the informal financial service providers according to the characteristics of the typical loan obtained from them.

Table 3.22. Comparison of the characteristics of the typical loan obtained from informal providers of finance

Condition	Money-lenders (N=83)	Stokvel (N=17)	Family & friends (N=50)	Businessmen (N =24)	Burial societies (N=19)
Size of loan (R)	911	876	427	382	300
Interest rate (%)	31	16	0	14	10
Repayment period (months)	3	2	3	2	2

According to the results presented in table 3.22 moneylenders provide the largest loans. The reason for this could be that unlike other informal financial service providers lending is their business therefore they will try to meet the financial needs of their clients as much as possible. Although they charge relatively high interest rates, moneylenders are popular in the communities where the survey was conducted. The repayment period of all the service providers is almost the same, that is, 2 to 3 months. The short repayment period means that clients have to pay high instalments. The next chapter gives a quantitative analysis of the factors distinguishing the clients of informal financial service providers in Moletjie district.

CHAPTER FOUR

ANALYSIS OF FACTORS DISTINGUISHING THE CLIENTS OF MONEYLENDERS AND NON-MONEYLENDERS

4.1 INTRODUCTION

The previous chapter provided a descriptive analysis of the modes of operation of informal financial service providers in the Moletji district. The findings indicate that most of the respondents receive their loans through moneylenders. A rather high percentage of the respondents indicated that they choose their financial service providers on the basis of them providing quick service. On average the monthly income of the respondents' households is R2224 whereas total household expenditure on selected items is R1128. Of the five informal financial service providers, moneylenders provide the larger loans although they also charge higher interest compared to other informal providers.

This chapter explores the analysis of the factors distinguishing the clients of the informal financial service providers in the study area. A comparison will be made of moneylenders and non-moneylenders. Larson *et al* (1994) studied the advantages for borrowers of financial services from informal providers to those from formal financial providers. He found that most of the borrowers chose informal financial services because of easy access, variable loan size, flexible repayment schedule, personal atmosphere, low level of transaction costs, varied guarantees, convenience and the very short period needed to obtain loan approval. On the other hand Zeller (1993) applied a univariate probit model to analyse the determinants of applications for informal credit. He found that the probability of applying for informal credit significantly increases with the age of applicant, with his education level, occupation and the position of individual in the household. Gender of the individual did not affect the application process of the individual.

4.2 EMPIRICAL PROCEDURE

The aim of this section is to distinguish the client of the financial services on the basis of individual socio-economic factors, the reasons for choosing the financial service, expenditure and income. For the empirical analysis the factor variables are formed by the choice of financial service provider, be they semi-formal or non-formal financial services. In this regard the category of non-formal financial service providers are defined as those that are not regulated by government. Their services are based mainly on mutual trust they

have with their clients and include membership-driven providers (stokvel & burial societies), family & friends, and local business people. The category of semi-formal financial services are mainly made up of moneylenders refers to those that are partly regulated and have established contracts for their clients.

In this study, the Analysis of variance (ANOVA) was run on a SPSS program to compare distinguishing characteristics. Three sets of the results are presented relating to: socio-economic factor, reasons for using informal financial services, and income. The procedure highlights the factors that are assumed to distinguish the clients of informal financial service providers in the study area. ANOVA provides F-tests of the difference in the means of the two groups compared. Furthermore, it provides means and standard errors for each variable. It also provides the sum of squares and the mean of squares between groups and within groups. The latter will not be used in this study. The same technique was also used by Morokolo *et al* (1999) to analyse the behaviour and motivations to save of resource-poor farmers. ANOVA is used to test the null hypothesis that the socio-economic factors of clients of moneylenders and non-moneylenders positively influence the choice of a financial source. A list of variables created is attached as appendix B. The results of other group comparison are attached as appendix C.

4.3 SOCIO-ECONOMIC FACTORS DISTINGUISHING THE CLIENTS OF MONEYLENDERS AND NON-MONEYLENDERS

The characteristics of clients of moneylenders are compared with those of non-moneylenders. The non-moneylenders include stokvels, family and friends, burial societies and local businessmen. It is anticipated that clients of moneylenders will possess more formal properties since the moneylenders are regulated to some extent. The results of table 4.1 suggest that all factors, with the exception of gender, significantly distinguish between the clients of moneylenders and non-moneylenders. The factors age, education and occupation are significant at the 10% level of probability whereas marital status is significant at the 5% level of probability. The clients of moneylenders tend to be young professionals on average (38 years old) who are more educated than those who use non-moneylenders. The average age of this last group is 48.

Table 4.1. Mean comparison of the socio-economic factors distinguishing the clients of moneylenders and non-moneylenders.

Factor		Moneylenders	Non-moneylenders	F-stats
N		83	110	
AGE		38	48	29.136***
Gender	Male	0.4940 (0.0552)	0.4636 (0.0418)	0.173 ^{NS}
	Female	0.5060 (0.0552)	0.5364 (0.0477)	0.173 ^{NS}
Education	Primary	0.0121 (0.0534)	0.2455 (0.04122)	23.044***
	Secondary	0.3737 (0.0534)	0.6445 (0.0458)	14.986***
	Tertiary	0.6145 (0.0538)	0.1091 (0.02986)	76.024***
Occupation	Pensioner	0.0000 (0.0000)	0.2636 (0.0422)	29.408***
	Blue-collar	0.1084 (0.034)	0.4364 (0.0475)	27.699***
	Professional	0.8795 (0.036)	0.1636 (0.0354)	194.154***
	Unemployed	0.0121 (0.0121)	0.1364 (0.0328)	10.015***
Marital status	Married	0.6386 (0.0531)	0.4909 (0.0478)	4.222**
	Single	0.3614 (0.0531)	0.5091 (0.0478)	4.222**

F-statistics are ANOVA tests; Significance level (1% = ***, 5 % = **, 10% = *)
Not significant = NS. The values in brackets represent the std. Error.

Another reason for their preference for moneylenders could also be that education correlates with being employed, which is one of the criteria for loans from moneylenders, and thus this group automatically qualifies as moneylender clients. Moneylenders prefer to provide professionals with credit because they meet their requirements such as having a bank statement, a bankcard and a permanent job. It must be noted that some moneylenders have established contract papers that clients have to complete before they are given credit, although these contracts are not as complicated as those used by the formal sources of credit, such as banks. Incidentally, this is another reason why those with little or no education would go for non-moneylenders where there are no written conditions but where the loans are mainly based on trust and confidence in the borrower. It is to be expected that people who stay with their partners spend more than those who are single. It follows that people with partners borrow relatively large amounts from moneylenders. The

gender of the clients does not significantly distinguish between the groups of users of the various informal financial services. This is in line with Zeller's (1993) findings. This particular finding rejects the null hypothesis that gender as a socio-economic factor of clients would positively influence the choice of a financial source.

4.4 CONDITIONS OF FINANCE DISTINGUISHING THE CLIENTS OF MONEYLENDERS AND NON-MONEYLENDERS

Borrowers have different reasons for choosing a particular informal financial service. Among the reasons, borrowers use certain services because of their convenience, low interest and quick service. In some instances they use a particular source because it is the only option. The results presented in table 4.2 suggest that the reasons "quick service" and "know each other" distinguishes the clients of moneylenders and non-moneylenders and are both significant at the 1% level of probability whereas low interest is significant at the 10% level of probability.

Table 4.2. Mean comparison of the conditions of finance distinguishing the clients of moneylenders and non-moneylenders.

Reason	Moneylenders	Non-members	F-stats
N	83	110	
Convenience	0.7590 (0.0472)	0.7273 (0.0426)	0.246 ^{NS}
Low interest	0.6145 (0.0538)	0.4818 (0.0478)	3.373*
Quick service	0.5663 (0.0547)	0.0727 (0.0248)	79.156***
Know each other	0.0000 (0.0000)	0.1545 (0.0346)	15.015***
Only option	0.2289 (0.0464)	0.2636 (0.0422)	0.303 ^{NS}

F-statistics are ANOVA tests; Significance level (1% = ***, 5 % = **, 10%= * Not significant = NS. The values in brackets represent the std.Error.

The reasons "only option "and "convenience" are not significant. However, most of the respondents (75%) chose to obtain credit from moneylenders mainly because they are more convenient than non-moneylenders. Convenience in this case might have to do with the size of the loans that the moneylenders offer. On the other hand, the group of clients who use non-moneylenders as the only option is larger than those who use moneylenders. This could be attributed to the fact that non-moneylenders are more considerate and more accessible: they lend money at any time of the day whereas most of the moneylenders operate during office hours.

4.5 MONTHLY INCOME AS A FACTOR DISTINGUISHING THE CLIENTS OF MONEYLENDERS AND NON-MONEYLENDERS

The monthly expenditure of individuals depends on their income. More often than not people exceed the limits of their income and as a result they need to borrow money in an attempt to augment their income. The results in table 4.3 indicate that the variable monthly income significantly distinguishes the clients of moneylenders and non-moneylenders at the 1% level of probability. Other forms of income do not significantly distinguish the clients of moneylenders from those of non-moneylenders.

Table 4.3. Mean comparison of the monthly income as a factor distinguishing the clients of moneylenders and non-moneylenders

Item		Moneylenders	Non-Moneylenders	F-stats
<i>N</i>		83	110	
Income	Monthly Income	3053.1325 (131.1625)	1574.8491 (128.3719)	63.304***
	Other Income	286.7470 (40.8466)	229.9091 (34.5708)	1.136 ^{NS}

F-statistics are ANOVA tests; Significance level (1% = ***, 5 % = **, 10%= *)
Not significant = NS. The values in brackets represent the std.Error.

Monthly income influences the choice of lending institution. Table 4.3 indicates that the average monthly income of the clients of moneylenders is higher (R3 053) than that of the non-moneylenders (R1 575).

4.6 CONCLUSION

This chapter presented a quantitative analysis of factors distinguishing the clients of moneylenders from those of non-moneylenders by using the Analysis of Variance (ANOVA) procedure. The results confirm that age, level of education, type of occupation and marital status are important determinants for the choice between the financial services of moneylenders and non-moneylenders. Being male or female did not distinguish the users of moneylenders and non-moneylenders. It was also found that income influences the choice of a moneylender. The clients of moneylenders are younger, earn more and are better educated than those of the non-moneylenders.

CHAPTER FIVE

CONCLUSION AND DISCUSSION

5.1 CUSTOMISED SERVICE

The results of the study confirm that informal financial services are heterogeneous and flexible, that is, they provide a variety of services that are customised to meet the needs of the clients.

5.2 ADMINISTRATION

The results further negate the perception that informal financial services are unorganised (no formal form of organisation). Users of these services, and this is especially true for membership-driven services, have elected committees to lead them, and they are governed by a set of rules. They also keep records of the transactions.

It was illustrated in the descriptive statistics that forty-three percent of the sample population obtained their last credit from moneylenders and twenty-five percent last borrowed from family and friends. A conclusion could be that moneylenders are more popular than other service providers, thus one recommendation is that policy interventions should attempt to enhance the performance of these service providers rather than merely impose strict regulations on them.

5.3 COST OF BORROWING

Few respondents actually borrowed from a stokvel, burial societies and local businessman. Stokvels and burial societies were more used as a savings mechanism. Fifty-five percent of the respondents mentioned quick service as the main reason for choosing an informal financial service.

Normally one would think that the interest rate would be the determinant of the choice of financial service. This study did not show interest rate as a primary factor. Morokolo (2001) also found that the level of the interest rate is not an important factor in decisions where to save or get loans. Rather, other factors having to do with immediate consumption needs are pertinent. Most of the respondents did not actually know how much interest was charged on their loans. This could be an indication that people do not bother about the cost of finance in interest terms. It could also reflect a lack of education in the sense that

non-educated people find it difficult to have a mathematical overview of money matters. Continued buying on instalments, which create a spiral of debt, may also be an example of this. In order to avoid exploitation by the financial service providers the public needs to be educated on the cost of finance and interest rates.

5.4 FUNCTIONING OF INFORMAL FINANCIAL SERVICES

Informal financial services, especially the ROSCAS, do not seem, to function optimally in terms of administration. This is particularly so when they serve a great number of members. They also do not normally supply long-term loans. Of the five types of informal financial services studied, it was found that moneylenders provided the largest loans (R912 on average) and burial societies provided the lowest (R300 on average). It was also found that moneylenders established some form of contracts for clients whereas non-moneylenders base the provision of loans on trust and confidence in the borrower.

The activities of membership-driven institutions (stokvel and burial societies) include both saving, which is the main focus of the institution, and lending. In contrast, the moneylender's business is to merely lend money and generate profit by charging a high interest rate. Since the informal financial services do not supply large loans, most of the borrowers use the funds for basic household needs (consumption) rather than for production purposes or other initiatives to generate income. The use of loans or savings for agricultural purposes was not as popular among the respondents.

5.5 SOCIO-ECONOMIC DETAILS OF CLIENTS

The clients of moneylenders tend to be young professionals who have received more education than the clients of non-moneylenders. Since moneylenders have established contract forms to be completed before a loan can be granted, it follows that educated clients would understand these conditions better than those who are not educated. Clients of membership-driven financial services are generally older, and less educated, and often pensioners. One of the reasons for this could be that obtaining financial services from these institutions does not require documentation to be completed. But also, when one gets older, one begins to be concerned about death, hence the membership of burial societies of many pensioners. The increased rate of AIDS-related deaths does not seem to have had an influence on the membership of burial societies. The reason for this seems to be that most young people believe that their parents who are members of the societies will bury them, if need be. Most females tend to use family and friends to obtain loans rather than approach other institutions.

Rural financial policies that seek to improve access to financial services for the rural poor should consider categorising the clients according to these socio-economic factors.

5.6 FACTORS AFFECTING CHOICE OF FINANCIAL SERVICES

The results in this study suggest that socio-economic factors such as age, education, occupation and marital status significantly affect the respondents' choice of financial services, that is, choosing between moneylenders and non-moneylenders. It was found that the gender of an individual does not affect his or her choice of a financial service. These results concur with the findings of Zeller (1993) who did a study on the participation of rural households in formal and informal credit markets in Madagascar. For policy formulation on rural financial markets these factors should be considered.

The ANOVA results of the conditions of financing distinguishing the clients of moneylenders from those of non-moneylenders revealed that low interest, quick service and knowing each other are significant at the 10% and 1% levels of probability, respectively. Most of the respondents chose to obtain credit from moneylenders because they are more convenient than non-moneylenders. Convenience in this case could mean the size of loans and the speed of service that the moneylenders provide.

5.7 CONCLUDING REMARKS

It is clear from the study that informal financial intermediaries in Moletji district offer valuable financial services to the community. Although this study focused on a peri-urban area, it would be safe to say that these informal financial services provide a complementary service to the formal institutions, and will, thus, continue to serve both the urban and rural people. The physical and institutional infrastructure needs to be improved in the rural area for the existence of the formal financial services.

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APPENDIX A
QUESTIONNAIRE

INFORMAL FINANCIAL SERVICES IN A PERI-URBAN SETTING: THE CASE OF MOLETJI DISTRICT IN THE NORTHERN PROVINCE

Village Name Questionnaire No

Date

CIRCLE THE NUMBER OF YOUR CHOICE

1. GENERAL HOUSEHOLD INFORMATION

1.1 Personal particulars of the respondent

- 1.1.1 Sex : male =1 female=2
- 1.1.2 Age: 0 -10 yrs = 1
11-19 yrs = 2
20-25 yrs = 3
26-30 yrs = 4
31-49 yrs = 5
50-64 yrs = 6
65+ yrs = 7
- 1.1.3 Highest standard passed: none = 1
primary (grade 1 to grade 7/std 5) = 2
secondary (std 6 to matric/grade 8-12)= 3
certificate/technical = 4
diploma/college or technikon = 5
degree/university = 6
- 1.1.4 Occupation: none = 1
pensioner = 2
driver = 3
labourer = 4
Farmer = 5
Self employed = 6
Professional = 7
- 1.1.5 Marital status: married = 1
single = 2
widowed = 3

1.3.5 If yes, name the type of account.

1 = savings 2 = current 3 = cheque 4 = transmission
5 = specify

1.3.7 Do you have insurance policy?

a. Specify type :

none	= 1
education plan	= 2
life cover	= 3
investment	= 4
annuity	= 5
all of the above	= 6

b. What is the monthly premium? (R).....

2. OBTAINING CREDIT

2.1. When was the last time you applied for loan (credit)?

1 = 1999 2 = 1998 3 = 1997 4 = 1996 5 = 1997
6 = specify

2.2. Where did you apply for that loan?

1 = commercial bank	2 = co-operative	3 = businessman
4 = money lender	5 = stokvel	6 = burial society
7 = family & friends	8 = specify	

2.3. Why did you choose that credit source?

only option	= 1	convenience	= 2	low interest rate	= 3
quick credit	= 4	know each other	= 5	no or low interest	= 6
buy basic things	= 7	no reason	= 8		

2.4. Which of the other financial suppliers mentioned in 2.2 did you ever use to obtain credit?

2.4. Why do you dislike others?

high interest rate	= 1	broke	= 2
require security	= 3	not want to bother other people	= 4
no quick cash	= 5	accessibility/others could not help	= 6

3. INFORMAL SUPPLIERS OF FINANCE

3.1 Stokvels

3.1.1 What is the amount of the loan? R.....

3.1.2 What is the repayment period? (months).....

3.1.3 What was the interest on loan ? (%)

3.1.4 What was the monthly instalment? (R)



- 3.1.5 What was the purpose of the loan?
instalments = 1 school fees = 2
household needs = 3 agricultural purpose = 4
small business = 5 clothing = 6
pay other loans = 7
- 3.1.6 Mention the requirements for obtaining the loan:
membership = 1 no other loans = 2 trustworthiness = 3
- 3.1.7 Did the loan help you improve agricultural production?
yes = 1 no = 2 not applicable = 3
- 3.1.8 How many members were there?.....
- 3.1.9 Is the qualification for membership determined by one or more of the following criteria?
1 = age 2 = kinship 3 = ethnic affiliation 4 = locality
5 = occupation 6 = education 7 = religious affiliation 8 = place of work
- 3.1.10 How is the composition of the membership?
1 = women only 2 = men only 3 = mostly women
4 = mostly men 5 = both men and women
- 3.1.11 How often is the member allowed to be granted a loan?
1 = once 2 = twice 3 = thrice 4 = as many as possible
5 = as long as you have a good record
- 3.1.11 How often do you meet?
monthly = 1 once in 6 months = 2 in times of need = 3
- 3.1.13 What is your monthly/weekly contribution? (R)
- 3.1.14 What do you discuss in a meeting?
general issues = 1 how to make more money = 2
problems = 3
- 3.1.15 How many members are there?.....
- 3.1.16 When does a member receive his/her purse?
monthly = 1 annually = 2
- 3.1.17 How do you decide who should receive the first payment?
alphabetical order of surnames = 1
order of the dates members joined the stokvel = 2
drafted list = 3
- 3.1.18 How much does an individual receive? (R).....
- 3.1.19 Is a party thrown when a member receives a purse?
1 = yes 2 = no
- 3.1.20 Are any forms of refreshment or entertainment found?

- 3.2.7 How much was the interest rate? (%)
- 3.2.8 Was the interest rate calculated on monthly or annual basis?
1 = monthly 2 = annually 3 = do not know
- 3.2.9 Was the interest rate reasonable?
1 = yes 2 = no 3 = may be
4 = not applicable
- 3.2.10 How long was the time expected for repayment of that loan (in months)
- 3.2.10 Explain how you used the loan:
accounts = 1 school fees = 2 small business = 3
agriculture = 4 building material = 5 household = 6
- 3.2.11 Was the loan used for its intended purpose?
1 = yes 2 = no
- 3.2.12 If no, what was its intended purpose?
not applicable = 1 accounts = 2 school fees = 3
small business = 4 agriculture = 5 building material = 6
- 3.2.14 What was your monthly / weekly payment of the loan? (R).....
- 3.2.15 What do you think would have happened to you if you could have failed to repay the loan?
property repossessed = 1 arrested = 2 beaten = 3
confiscation of ID & bank card = 4
- 3.2.16 How long did it take for your loan to be approved?
hours = 1 weeks = 2 days = 3
- 3.2.17 Was the loan all-right to pay or was it too much?
1 = yes, all right 2 = no, it was difficult
3 = not so bad 4 = not applicable
- 3.2.18 What is the distance from your place of stay to that of the money-lender? (km).....
* How much is the transport cost? (R)
- 3.2.18 How often do you borrow money from the moneylenders?
1 = every month 2 = once in two months
3 = once in six months 4 = once a year
- 3.2.19 Is the moneylender running his business from his office or house?
1 = office 2 = house
- 3.2.21 Did the interest rate of that particular moneylender change in the past months?
1 = increased 2 = decreased 3 = constant
4 = don't know

5 = through an agent who came to my house

3.3 Burial societies

- 3.3.1 How many members constitute the society?
- 3.3.2 What is the criterion for membership?
1 = residence 2 = kinship 3 = religion 4 = education
5 = no criteria
- 3.3.3 What are the benefits for membership?
1 = cow , tent, pots and firewood 2 = cow only
3 = groceries 4 = coffin
- 3.3.4 How many members within a household may join a burial society?
1 = 1-5 2 = 5-10 3 = no limit
- 3.3.5 How much do you contribute? (R).....
- 3.3.5 How often are contributions made?
1 = monthly 2 = annually 3 = in the event of death of a member/child
- 3.3.6 Are you still taking new members?
1 = yes 2 = no
- 3.3.7 If no, explain why.
1 = we are enough 2 = more people give problems
3 = not applicable
- 3.3.9 How much is the joining fee of new members? (R).....
- 3.3.10 By what criteria are they selected?
1 = voting 2 = hard work 3 = trustworthiness 4 = not applicable
- 3.3.11 What is the term of office of the officials?
1 = one year 2 = two years 3 = three years
4 = four years 5 = five years 6 = throughout
- 3.3.12 Is there a constitution or set of formal rules?
1 = yes 2 = no
- 3.3.13 How often do you meet?
1 = once a month 2 = every weekend
3 = once in two months 4 = in the event of death of a member.
- 3.3.14 What are the common items for discussion during these meetings
1 = financial matters 2 = other general issues
3 = not applicable
- 3.3.15 Do you belong to more than one burial society?
1 = yes 2 = no

3.3.16 If yes, how many do you belong to?

- 1 = one 2 = two 3 = three 4 = four
5 = five.

3.3.17 Complete the table on membership to other burial societies.

Membership	Criteria for membership	Monthly contribution	Benefit
1			
2			
3			
4			
5			
6			

3.3.18 How much loan did you obtain?.....

3.3.19 How long does it take for a member to receive credit after application?

- 1= days 2 = hours 3 = weeks

3.3.20 How much is the interest rate? (%).....

3.3.21 What is the time expected to repay the loan? (months)

3.3.22 Explain how you used the credit from the burial society.

- 1 = school fees 2 = instalments 3 = household items
4 = fix a car 5 = agricultural purpose

3.4 Family and friends

3.4.1 How much did you borrow from your friends/family? (R).....

3.4.2 What was the repayment period of the loan? (months).....

3.4.3 What type of security was needed?

- 1= none 2 = other

3.4.4 How much was the interest on loan?(%).....

3.4.5 How long did it take for the loan to be available? (Days).....

3.4.6 Did you get the amount you requested?

- 1 = yes 2 = no

3.4.7 If no , why?

- 1 = only amount available 2= expected to repay the existing loan
3= not applicable

3.4.8 What was the purpose of the loan?

- 1 = school fees 2 = fix the house 3 = instalments
4 = agriculture 5 = medication 6 = a function

APPENDIX B LIST OF VARIABLES CREATED AND DEFINITIONS

AGE:	Age of the individual in years
GEN:	Gender of individual (0 = female, 1 = male)
PRIMARY:	= 1 when education = 1 & 2 = 0, otherwise.
SECONDARY:	= 1, education = 3 & 4 = 0, otherwise
TERTIARY	= 1 when education = 5 & 6 = 0, otherwise
OCCPEN	= 1 when occupation = 2 = 0, otherwise
OCCNON	= 1, when occupation = 1 = 0, otherwise
OCCBLUE	= 1, when occupation = 2 & 4 & 6 = 0, otherwise
OCCPROFF	= 1, when occupation = 7 = 0, otherwise
MARPART	= 1, when marital status = 1 = 0, otherwise
MARALON	= 1, when marital status = 2 & 3 = 0, otherwise
REASOPT	= 1, when reason for credit = 1 = 0, otherwise
REASONCON	= 1, when reason for credit = 2 + 7 = 0, otherwise
REASONLOWI	= 1, when reason for credit = 3 + 6 = 0, otherwise
REASKNOW	= 1, when reason for credit = 5 = 0, otherwise
REASQUIC	= 1, when reason for credit = 4 = 0, otherwise

APPENDIX C ANOVA RESULTS

Table 1 : Mean comparison of the socio-economic factors distinguishing the clients of family & friends and non-family & friends

Factor		Family & friends	Non family & friends	F-stats
<i>N</i>		50	143	
Age		42	44	0.546 ^{NS}
Gender	Male	0.3000 (0.0655)	0.5385 (0.0477)	8.740***
	Female	0.7000 (0.0654)	0.4615 (0.0418)	8.740***
Education level	Primary	0.2600 (0.0626)	0.1049 (0.0257)	7.386***
	Secondary	0.6400 (0.0686)	0.4895 (0.0419)	3.391*
	Tertiary	0.1000 (0.429)	0.4056 (0.0412)	16.954***
Occupation	Pensioner	0.2600 (0.0626)	0.1119 (0.0264)	6.514**
	Blue-collar	0.4000 (0.0610)	0.2587 (0.0367)	3.581*
	Professional	0.0800 (0.0388)	0.6084 (0.0410)	52.333***
	Unemployed	0.2600 (0.0267)	0.0209 (0.0120)	32.193***
Marital status	Married	0.2600 (0.0626)	0.6573 (0.0398)	26.707***
	Single	0.7400 (0.0626)	0.3427 (0.0398)	26.707***

F-statistics are ANOVA tests; Significance level (1% = ***, 5 % =**, 10%= *)
Not significant = NS. The values in brackets represent the std.Error.

Table 2: Mean comparison of the socio-economic factors distinguishing the clients of member-driven financial services and non member driven financial services

Factor		Member-driven sources	Non-member driven sources	F-stats
N		36	157	
AGE		53	40	32.905***
Gender	Male	0.5556 (0.0839)	0.4586 (0.0398)	1.098 ^{NS}
	Female	0.4444 (0.0541)	0.5414 (0.0398)	1.098 ^{NS}
Education level	Primary	0.2500 (0.0731)	0.1210 (0.0261)	3.968*
	Secondary	0.5556 (0.0839)	0.5223 (0.0399)	0.129 ^{NS}
	Tertiary	0.1944 (0.0669)	0.3567 (0.0383)	3.534*
Occupation	Pensioner	0.3333 (0.0796)	0.1083 (0.0248)	12.233***
	Blue-collar	0.3056 (0.0778)	0.2930 (0.0364)	0.022 ^{NS}
	Professional	0.3333 (0.0798)	0.5032 (0.0400)	3.415***
	Unemployed	0.0277 (0.0277)	0.0955 (0.0234)	1.767 ^{NS}
Marital status	Married	0.6667 (0.0796)	0.5287 (0.0399)	2.261 ^{NS}
	Single	0.3333 (0.0796)	0.4713 (0.0399)	2.261 ^{NS}

F-statistics are ANOVA tests; Significance level (1% = ***, 5 % = **, 10% = *)
Not significant = NS. The values in brackets represent the std.Error.

Table 3: Mean comparison of the conditions of finance distinguishing the clients of member driven financial services and non-member driven financial services

Reason	Member-driven sources	Non-member driven sources	F-stats
N	36	157	
Only option	0.3333 (0.0796)	0.2293 (0.0336)	1.694 ^{NS}
Convenience	0.6667 (0.0796)	0.7580 (0.0342)	1.267 ^{NS}
Low interest	0.2222 (0.0702)	0.6115 (0.0611)	19.472***
Quick service	0.0277 (0.0277)	0.3439 (0.0380)	15.362***
Know each other	0.5556 (0.0839)	0.4586 (0.0398)	3.428*

F-statistics are ANOVA tests; Significance level (1% = ***, 5 % = **, 10% = *)
Not significant = NS. The values in brackets represent the std.Error.



Table 3: Mean comparison of the monthly expenditure and income as factors distinguishing the clients of member driven and non-member driven financial services

Item		Membership Driven Sources		Non-membership driven source		F-stats
		N		N		
Income	Monthly Income	35	2035.4286 (248.2373)	154	2266.9091 (117.8731)	0.713 ^{NS}
	Other Income	36	394.1667 (79.6365)	157	222.2930 (26.3319)	6.617 ^{**}
Expenditure	Groceries	36	252.7778 (26.0452)	157	244.6497 (10.8437)	0.099 ^{NS}
	School fees	36	314.1667 (54.2545)	157	180.0000 (16.8145)	9.469 ^{***}
	Furniture	36	26.3889 (12.8307)	157	48.3439 (7.4615)	1.716 ^{NS}
	Water & electricity	36	75.2778 (8.8055)	157	89.2229 (4.2015)	2.052 ^{NS}
	Transport	36	100.6944 (14.1872)	157	118.3822 (6.8886)	1.236 ^{NS}
	Clothing	36	115.5556 (18.3677)	157	112.8846 (7.1704)	0.024 ^{NS}
	Loan Repayment	36	285.1429 (39.1445)	157	334.8280 (23.9703)	0.844 ^{NS}
	Total Expenditure	35	1136.7143 (842.2276)	155	1127.2387 (53.3891)	0.05 ^{NS}

F-statistics are ANOVA tests; Significance level (1% = ***, 5 % = **, 10% = *)
Not significant = NS. The values in brackets represent the std.Error.

Table 4: Mean comparison of the monthly expenses and income as factors distinguishing the clients of the businessman and non-businessman

Item		Businessmen		Non-Businessmen		F-stats
		N		N		
Income	Monthly Income	24	1198.7500 (132.1414)	165	2373.1758 (115.9320)	14.475***
	Other Income	24	172.9167 (54.7540)	169	265.9172 (29.0750)	1.353 ^{NS}
Expenditure	Groceries	24	192.5000 (19.5071)	164	253.7870 (11.0194)	4.122**
	School fees	24	76.2500 (27.3783)	164	223.3136 (19.0397)	8.109***
	Furniture	24	12.5000 (9.1535)	164	48.7574 (7.2957)	3.388***
	Water & electricity	24	66.2500 (5.6406)	164	89.5148 (4.2250)	4.143**
	Transport	24	53.5833 (14.1042)	164	123.8166 (6.5323)	14.985***
	Clothing	24	66.2500 (17.0338)	164	120.1190 (7.1826)	7.203***
	Loan Repayment	24	223.6250 (35.9879)	164	340.3631 (23.0958)	3.468*
	Total Expenditure	24	690.9583 (87.0059)	166	1192.3133 (55.2402)	11.291***

F-statistics are ANOVA tests; Significance level (1% = ***, 5 % = **, 10%= *) Not significant = NS. The values in brackets represent the std.Error.

Table 5: Mean comparison of the monthly expenditure and income as factors distinguishing the clients of family & friends and non-family & friends

Item		Family & friends		Non Family & friends	F-stats	
		<i>N</i>	50	<i>N</i>	143	
Income	Monthly Income	47	1423.9194 (202.3867)	142	2488.8732 (116.9026)	20.678***
	Other Income	47	139.0000 (36.2612)	142	294.6853 (32.7042)	6.877***
Expenditure	Groceries	50	196.6000 (20.6518)	143	263.4965 (11.1530)	8.868***
	School fees	50	91.2000 (16.4841)	143	244.8252 (21.7665)	16.235***
	Furniture	50	9.0000 5.2857)	143	56.5734 (8.4001)	10.667***
	Water & electricity	50	64.1600 (7.1588)	143	94.4755 (4.3039)	12.962***
	Transport	50	89.2000 (13.9285)	143	124.1329 (6.6739)	6.258**
	Clothing	50	41.2245 (10.0662)	143	138.1119 (87.5162)	49.091***
	Loan Repayment	50	58.4000 (10.6046)	143	419.9155 (23.2875)	82.476***
	Total Expenditure	49	556.0204 (57.9915)	141	1328.0993 (56.6916)	57.112***

F-statistics are ANOVA tests; Significance level (1% = ***, 5 % = **, 10%= *)
Not significant = NS. The values in brackets represent the std.Error.

Table 6: Mean comparison of the conditions of finance distinguishing the clients of family & friends and non-family & friends

Reason	Family & friends	Non Family & friends	F-stats
<i>N</i>	50	44	
Only option	0.0600 (0.0339)	0.3147 (0.0310)	13.636***
Convenience	0.9200 (0.0388)	0.6783 (0.0392)	11.848**
Low interest	0.7400 (0.0627)	0.4685 (0.0418)	11.529***
Quick service	0.02800 (0.0388)	0.3566 (0.0402)	14.840***
Know each other	0.1200 (0.0464)	0.0769 (0.0223)	0.851 ^{NS}

F-statistics are ANOVA tests; Significance level (1% = ***, 5 % = **, 10%= *)
Not significant = NS. The values in brackets represent the std.Error.

APPENDIX D
 MAP OF MOLETJIE LOCALITY IN LIMPOPO

