

# **Social capital in voluntary savings organisations in South Africa in historical perspective**

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*My stokvel makes me feel great, I have a backbone!*

Mama Shiburi (Hillbrow)

## ***Samevatting***

Informele spaarorganisasies het histories 'n belangrike ondersteuningsrol gespeel in veral die swart gemeenskappe van Suid-Afrika. 'n Wêreldwye verskynsel van roterende spaar- en kredietorganisasies het ontstaan om in die daaglikse kredietbehoefte van mense buite die banksektor te voorsien. Die behoefte was beide monetêr en sosiaal. Hierdie studie ondersoek die voorgesette rol van stokvelle in die moderne Suid-Afrikaanse omgewing. Die studie wys dat netwerkverbinding onderling sosiale kapitaal skep op grond waarvan mense in hulle behoeftes aan krediet, lewensonderhoud en persoonlike ondersteuning in tye van nood en behoefte, voorsien. Vertroue, wedersydse kommunikasie en ondersteuning, word beskryf as sosiale kapitaal. Die stokvelorganisasies verteenwoordig die manifestasie van die voortgesette belangrikheid van dié soort sosiale organisasie in die lewens van mense in alle sosiale strata. Stokvelle het deur die geskiedenis deur onderlinge besparing sosiale sekuriteit geskep en beskikbaar gemaak aan mense wat nie toegang tot normale bronne van krediet gehad het nie. Die navorsing in hierdie studie wys egter uit dat daardie sosiale kapitaal steeds in die moderne samelewing die grondslag gebly het vir groepsbesparing en kredietverlening.

## **Introduction**

*It is much easier to describe and be precise about the formal rules that societies devise than describe and be precise about the informal ways in which human beings*

*have structured human interaction. But although they defy (...) neat specification and it is extremely difficult to develop unambiguous tests of their significance, they are important.*<sup>1</sup>

The investigation of the new institutional economics into the role of institutions in shaping economic behaviour and economic development, has opened up the wider consideration of other non-economic determinants of economic behaviour. The interesting dynamic of cultural and social determinants of economic behaviour, has stimulated extensive discourse on the nature and role of social capital in economic behaviour.<sup>2</sup> This paper investigates the prevalence of a specific kind of social capital amongst African people in South Africa in the twentieth century, namely voluntary savings organisations (stokvels) - a very specific manifestation of social capital. These organisations are informal mechanisms of cultural organisation to contribute to social security and personal empowerment.

The study of informal savings organisations in South Africa emerged from socio-anthropological analysis of the African community strategies of adaptation to the modern western urban environment.<sup>3</sup> This paper explores the prevalence of such traditional cultural social strategies in modern day South Africa. Field work during the first decade of the twenty-first century, was substantiated by extensive publications in the new magazine *MOVE* on the persistence of these informal structures of social and economic behaviour. The concept of social capital as developed the last two decades, assists in understanding the persistence of traditional cultural institutions in the westernised urban cities of South Africa.

Robert Putnam explained social capital as "... features of social organisation, such as trust, norms, and networks, that can improve the efficiency of society by

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1 DC North, *Institutions, institutional change and economic performance* (Cambridge, Cambridge University Press, 1990), p. 36.

2 P Bourdieu, 'The forms of capital', JE Richardson (ed.), *Handbook of the theory and research for the sociology of education* (New York, Greenwood Press, 1985); JS Coleman, "Social Capital in the creation of human capital", *American Journal of Sociology*, 94, pp. S95-S120; J Farr, 'Social capital: A conceptual history,' *Political theory*, 32(1), pp. 6-33; M Granovetter and R Swedberg(eds.), *The Sociology of economic life* (2<sup>nd</sup> edition), (Boulder CO, Westview Press, 2001); RD Putnam, *Bowling alone: The collapse and revival of American community* (New York, Simon & Schuster, 2000); RI Rotberg, *Patterns of social capital: Stability and change in historical perspective*, (Cambridge, Cambridge University Press, 2000); PW Laird, 'Pull' networking and success since Benjamin Franklin (Cambridge, Cambridge University Press, 2006).

3 See G Verhoef, "Stokvels and economic empowerment: The case of African women in South Africa, c. 1930 - 1998", B Lemire et al. *Women and credit. Researching the past, refiguring the future* (Oxford, Berg Publishers, 2001), pp. 91-116; G Verhoef, 'Savings and survival in a modern African economy', *Historia*, 46(2), pp. 519-542.

facilitating co-ordinated actions.”<sup>4</sup> Keck and Sikkink<sup>5</sup> see the social networks as ”forms of organisation characterised by voluntary, reciprocal and horizontal patterns of communication and exchange.” These networks can include local social movements or informal institutions or organisations which make people’s lives more productive through social ties.<sup>6</sup> James Coleman defined social capital as “... the set of resources that inhere in family relations and in community social organisation and that are useful for the cognitive or social development of a child or young person”.<sup>7</sup> Knack and Keefer (1997)<sup>8</sup> joined the search for quantifiable indicators of the macro-economic consequences of social arrangements, such as voluntary social organisations. Their estimates were that an increase in the level of trust by 10 percent, could improve economic growth by as much as 0,8 percent per year. (Their estimates were based on an analysis for the period 1980-1992). The mechanisms behind this economic effect of social capital are institutions and technology. In the specific case of African voluntary savings organisations, the persistence of this informed structure of human interaction (in DC North’s words), has offered a very distinct form of survival and subsistence management in South African society. This paper explores the development, manifestation and persistence of social capital through voluntary savings organisations amongst the African people, predominantly women, in South Africa. Attention is paid to the operations of community organisational life, community volunteerism, informal socializing and social trust as indicators of social capital at work in the cultural economy of urban African people. Dramatic changes from a rural agricultural based traditional subsistence economy to the twentieth century urbanised industrialised economy, demanded fundamental adjustments in human interaction. One of the strategies developed by urbanised Africans, was to engage in urban wage labour to provide in material needs. This was supplemented by the mobilisation of social capital in a variety of informal activities and organisations to sustain themselves. In such fundamental circumstances of change and transformation, societies often devise mechanisms to maintain a link with their past through the integration of practices of culture and systems of values and beliefs that inform their codes of behaviour in the new environment. Similar strategies were devised by urbanised Africans

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4 R Putnam, *Making democracy work; Civic traditions in modern Italy* (Princeton, Princeton University Press, 1993), p. 167.

5 See M F Rota, “Is Social Capital Persistent?..”, LSE Working papers, 103/07, 2007, p.1.

6 R Putnam, *Bowling alone...*, p. 19.

7 JS Coleman, *Foundations of Social Theory* (Cambridge MA, Belknap Press,1994), p. 300.

8 See M F Rota, “Is Social Capital persistent?”, LSE Working papers, 103/07, 2007, p. 3.

since the early 1920s and perseverance of those organisations are prevalent in the current urban as well as rural environment in South Africa.

The aim of this article is to explore the operation of social capital among members of stokvels in South Africa in the twenty first century. Why do these organisations prevail? Are they sustainable? The approach is not purely that of rational economic theory, since informal savings organisations are not just rational economic actions. These organisations serve both social and economic purposes. It is a consequence of a lack of economic security that organisations emerge on the strength of social capital to supplement individuals' economic and social needs. The stokvels are social institutions utilising social capital, to serve social and economic needs. These organisations constitute behavioural responses to social and economic insecurity. In the context of this paper, social capital, that is 'the assets based on personal connections and connectability'<sup>9</sup> reside in the stokvel, which provides guaranteed access to financial resources, social networks and a sense of community. Social capital is 'traded or exchanged' for access to tangible and non-tangible assets of the stokvel – trust, support, credit, financial resources. The question investigated in this research is why the stokvels still constitute such a visible presence in South African society? How do they sustain themselves? The hypothesis is that these informal voluntary savings organisations persist because they perform primarily an invaluable social security function, and furthermore also a secondary economic function, which are not offered by modern financial intermediaries. Financial institutions are not social or welfare institutions, but businesses that maximise return on shareholders' capital. Stokvels perform a social function relying heavily on social capital to create the desired social utility.

This article briefly explains the international phenomenon, the different forms of informal voluntary savings organisations in the African community, incentives for participation in such organisations and finally, how, why and in which forms these organisations prevail in South Africa.

### **The international phenomenon of ROSCA's**

The international literature on ROSCA's identify them as specific to

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<sup>9</sup> PW Laird, "Putting social capital to work", *Business History*, 50(6), November 2008, p. 685.

developing countries and a phenomenon characteristic of communities in transition towards modernisation. Besley et al. state: "Rotating savings and credit associations (ROSCA's) are a widely observed institution for financial intermediation. They are found all over the world, particularly in developing countries..."<sup>10</sup> while Calomiris and Rajaraman also regard ROSCA's as "... financial institutions widely reported in the developing world."<sup>11</sup> Levenson and Besley state, "It is well-known that informal finance is an important source of access to credit and savings opportunities in low-income countries."<sup>12</sup> Timberg and Aiyar state that informal financial markets account for much of the business credit in developing countries,<sup>13</sup> and Van den Brink and Chavas start their analysis of ROSCA's, with the following scenario, "...Imagine an individual somewhere in Africa faced with the problem of financing a major purchase."<sup>14</sup>

The consensus is clearly that the phenomenon of informal financial organisations originated in developing countries and "...that informal credit markets are not competitive or that they will become less and less important as formal credit markets develop." These organisations are perceived to be characteristic of developing and low-income countries. The perception emerged that such informal organisations developed where formal financial institutions were not well developed, eg in Taiwan, where the financial structure was underdeveloped but the personal savings ratio was high (20% for a prolonged period),<sup>15</sup> or in Sub-Saharan Africa "where financial and insurance markets are still underdeveloped."<sup>16</sup> It is also generally accepted that such credit and savings associations are vital to people otherwise excluded from formal financial institutions.<sup>17</sup> The more recent case studies also reflect

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10 T Besley, S Coate and G Loury, "Rotating savings and credit associations, credit markets and efficiency", *Review of Economic Studies*, 61, 1994, p. 701.

11 CW Calomiris and I Rajaraman, "The role of ROSCA's: lumpy durables or event insurance?", *Journal of Development Economics*, 56, 1998, p. 207.

12 AR Levenson and T Besley, "The Anatomy of an informal financial market: ROSCA participation in Taiwan", *Journal of Development Economics*, 51, 1996, p. 45.

13 TA Timberg and CV Aiyar, "Informal credit markets in India", *Economic Development and Cultural Change*, 33, 1984, p. 43.

14 R van den Brink and J Chavas, "The microeconomics of an indigenous African institution: The rotating savings and credit association", *Economic Development and Cultural Change*, 45 (4), 1997, p. 745 - 746.

15 R van den Brink and J Chavas, "The microeconomics of an indigenous African institution...", *Economic Development and Cultural Change*, 45 (4) 1997, p. 746.

16 W van Ginneken (ed.), *Social security for the excluded majority. Case studies of developing countries* (Geneva, International Labour Organisation, 1999), p. 21.

17 J Jütting, "Strengthening social security systems in rural areas of developing countries" (Bonn, Zentrum für Entwicklungsforschung, Universität Bonn, Discussion Paper 9, June 1999); E Thorbecke: "Impact of State and Civil Institutions on the operation of Rural Markets and Non-market Configurations", *World Development*, 21(4), 1993, pp. 591 - 605.

the persistent strong presence of people in the informal sector in informal financial organisations. This corresponds with Jütting's findings that the larger the informal sector, the less able the organised formal social security system will be to provide for the informal sector and thus the higher prevalence of informal structures to perform such functions.<sup>18</sup> The typology of informal savings organisations as characteristic of developing countries, resulted in a strong focus on rural areas of developing countries, but Van Ginneken has shifted the emphasis more towards the urban based informal sector, which provides a better reflection of the prevailing situation in South Africa.<sup>19</sup>

The study of informal voluntary savings organisations in South Africa has not been systematic, but scattered case studies. Studies on the initial period of African urbanisation corresponded fully to the general international understanding of the nature and purpose of such organisations. Recent studies on the role and function of those structures in the modern South African environment, reflect more on the difference in manifestation and functioning from the international experience. South Africa is not simply a developing or low-income country, since it has a strong and sophisticated first world sector. A developing component does nevertheless exist in the South African economy, but the economy could not simply be lumped together with that of other developing countries. Cognisance must be taken of the impact of the existing sophisticated sector of the South African economy on the prevalence of such informal savings organisations.

Furthermore, the financial system in South Africa is highly sophisticated and can not be compared with the financial intermediaries in the rest of Africa, or Sub-Saharan Africa. Despite the existence of a wide range of financial intermediaries to serve the needs of the population, informal savings organisations persist. Furthermore, participants in informal voluntary savings organisations in South Africa are not excluded from banking services, as the reporting in *Move* indicate. This phenomenon needs explanation. It is also not correct to state that only people with low or irregular income participate in these informal savings organisations in South Africa. In South Africa saving by private households was approximately 3% of GDP in 2000,<sup>20</sup> (which is substantially lower than the 20% identified by Levenson and Besley in

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18 J Jütting, "Social security systems in low income countries: Concepts, constraints and the need for co-operation", *International Social Security Review*, 4 (53), 2000.

19 W van Ginneken, "Promoting productivity and social protection in the urban informal sector", The International Project on the urban informal sector (Geneva, ILO, 1994/95), 1996.

20 South African Reserve Bank, *Quarterly Bulletin*, 215, March 2000, p.14.

Taiwan), while savings in informal organisations, according to the case studies undertaken for this research as well as the reporting in Move, reflect a much higher personal savings ratio. This will be discussed below.

An analysis of the current manifestation of informal savings organisations in South Africa reflects both a continuation of some historic trends as well as the development of new manifestations.

### **Voluntary savings organisations in South Africa – differences in form and function.**

Informal savings organisations in South Africa are known as “stokvels”, which refers to the ROSCA-type of savings organisations. The international literature on Rotating Savings and Credit Associations (ROSCA’s) explains the general phenomenon as well as similar experiences in various parts of the world.<sup>21</sup> The first manifestation of voluntary organisations in South Africa goes back to the nineteenth century. Today these voluntary organisations co-exist within and interface with a sophisticated modern financial system. The powerful forces of social capital assist in explaining the sustainability of these relationships.

Stokvels constitute a wide range of organisational forms. Some are only rotating savings organisations and some burial societies to provide for death. In other publications<sup>22</sup> these informal savings organisations were collectively described as “stokvels”. Members of such organisations themselves sometimes differentiated between burial societies and stokvels, because of the element of “partying” or lavish social activity often associated with stokvel gatherings as opposed to the meetings of burial societies.<sup>23</sup> The literature is nevertheless clear on this matter: the earliest manifestations of such informal voluntary organisations were stokvels, organised to facilitate social interaction, saving

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21 T Besley, S Coate and G Loury, “The economics of rotating savings and credit associations”, *American Economic Review*, 83(4), 1993, pp. 792 – 810; T Besley, S Coate and G Loury, “Rotating savings and credit associations, credit markets and efficiency”, *Review of Economic Studies*, 61, 1994, pp. 701–719; CW Calomiris and I Rajaraman, “The role of ROSCA’s: Lumpy durables or event insurance?” *Journal of Development Economics*, 56, 1998, pp. 207–216.

22 G Verhoef, “Informal financial service organisations for survival: the case of African women and stokvels in urban South Africa, ca. 1930–1998”, *Enterprise and Society. The international Journal of Business History*, 2, (2), 2001.

23 G Verhoef, “Stokvels and Economic Empowerment...”, B Lemire, G Campbell and R Pearson(eds.), *Women and credit. Researching the past, refiguring the future.*



and access to a lump sum of cash.<sup>24</sup> When the urbanised communities had to deal with the trauma of death distant from the traditional lands, burial societies developed to facilitate the full ritual of death, mourning and burial according to custom.<sup>25</sup>

Urbanised Africans displayed a high savings propensity. Men who performed wage labour in the urban centres were motivated to send money home to build up the homestead. There was a traditional saying that “the man on whom the ancestors smile, is the one who looks ahead and builds up his homestead.”<sup>26</sup> Savings took the form of hoarded cash at first, in some cases saved at the Post Office, but the desire for social interaction and mutual support gave rise to ROSCA-type of saving through stokvels. African women in the urban areas often met to drink tea, and gradually established a network that was soon used as a savings organisation. Women made regular monetary contributions, which was allocated to the host member. Women’s stokvels met regularly to address their needs for social interaction, social support, subsistence and credit, since they rarely had access to financial institutions. Carrying the burden of maintaining a family while having an irregular and/or low income brought African women to integrate stokvels firmly into the African society as a means to supplement earnings utilising social networks. Members of stokvels relied on social capital to forge a survival strategy in the urban environment.

As the urban environment changed for African communities, so did their needs, and the organisation of, motivation for, and function of stokvels were adapted to give rise to different kinds of informal voluntary organisations. Four major categories can be identified: savings clubs, burial societies, investment and credit groups, and high-budget stokvels.<sup>27</sup> The first two categories were predominant during the early 1930’s and later 1940’s, while the latter two categories were more recent developments testifying to higher and more stable income levels.

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24 AK Lukhele, *Stokvels in South Africa: Informal saving schemes by blacks for the black community* (Johannesburg, Amagi Books, 1990), p. 4; E Thomas, “Rotating credit associations in Cape Town”, E Preston-Whyte and C Rogerson (eds.), *South Africa’s informal economy* (Cape Town, Oxford University Press, 1991), p. 291; WG Schulze, “The origin and legal nature of the stokvel: Part 1”, *South African Mercantile Law Journal*, 9, 1997, pp. 20–21.

25 See G Verhoef, “Stokvels and economic empowerment...”, B Lemire et al. *Women and credit. Researching the past, refiguring the future*, G Verhoef, ‘Savings and survival in a modern African economy’, *Historia*, 46(2), pp. 96–97.

26 P Mayer, *Townsmen or tribesmen* (Cape Town, Oxford University Press, 1971), p. 249.

27 A detailed explanation of these different categories can be found in G Verhoef, “Stokvels and economic empowerment...”, B Lemire et al. *Women and credit. Researching the past, refiguring the future*, G Verhoef, ‘Savings and survival in a modern African economy’, *Historia*, 46(2).



The earliest stokvels were general savings clubs, which rotated pooled funds to members on a mutually agreed basis. Membership was usually relatively small, ranging from five to six to between twenty and twenty-five people, though instances of memberships of up to eighty people were recorded.<sup>28</sup> The agricultural migrant work force soon extended these stokvel organisations from their origins in the Eastern Cape to the mining and industrial workers on the Witwatersrand. By the 1930s, African women were following men into urban areas, when the exclusively female *mahodisanas* (informal voluntary savings organisation amongst trusted women) were formed. In the mid-1930s, women made up almost the total membership of stokvels in Rooiyard, a slum area in Johannesburg.<sup>29</sup>

Burial societies constitute the second type of stokvels that developed. High mortality among urban labourers resulting from unsanitary living conditions, dietary changes, and disease epidemics increased the need for funeral provision. An African funeral was an expensive occasion, it was expected that the deceased should be buried with honour and pride (implying expensive coffins and funeral arrangements, as well as a meal for all the funeral guests) where the deceased's forefathers were buried. Funeral costs also soared as a result of the transportation costs to return the body of the deceased to often-distant ancestral lands. In the urban communities burial societies ("*makgotlas*") were established as essentially dedicated stokvels with the primary objective of assisting urban Africans with funeral costs. Burial societies secured the traditional practice of a dignified funeral despite social and economic dislocation through urbanisation and industrialisation. In the various ethnic African communities—Zulu, Tsonga, Xhosa, Sotho, or any other group—caring for the dead by means of a funeral is of exceptional traditional and spiritual importance.<sup>30</sup> The move to the cities did not erode that strong belief, not even among those Africans who eventually accepted the Christian faith. Almost without exception members of current stokvels have indicated that provision for death constituted a primary motivation for the existence of their stokvel. For this very personal need members rely heavily on the social capital

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28 The Zakheni ladies; Club in Soweto consists of 60 members (*Move*, 12 September 2007, p. 8); the Rock of ages stokvel in Soweto consists of 40 members (*Move*, 13 July 2007, p. 7); the average of membership of stokvels in Soweto is between 10 and 15 members.

29 E Hellman, "The importance of beer-brewing in an urban native yard", *Bantu Studies*, 8, 1934; E Hellman, *Rooiyard: A sociological survey of an urban native slumyard* (Oxford, Oxford University Press, 1948).

30 "Key role for burial societies", *Black Enterprise*, 21, 1989, p. 54; "Burial societies have a role to play in economic empowerment", *Black Enterprise*, 27, 1989, p. 12; H Kuper and S Kaplan, "Voluntary associations in an urban township", *African Studies*, 3, 1944, p. 185; E Bähre, "Wij zullen onze beenderen in waardigheid begraven", *CAhier*, 4(1), 1995, pp. 26-28

of the organisation to facilitate the complex funeral needs.<sup>31</sup>

The third type of stokvel that developed among Africans was the investment stokvel. These stokvels emerged much later with the growing affluence of Africans in urban communities. Members were required to make relatively high regular contributions. Investment stokvels resemble cooperative societies, except that the total pool of savings is not necessarily paid out to members at the end of a meeting.<sup>32</sup> Accumulated funds are saved (banked) with the common goal of investing in capital projects, purchasing an expensive large commodity, or investing in a business venture, property, or equity. Goals of such stokvels can range from purchasing a refrigerator or a stove, to more ambitious ones such as purchasing shares in a hotel or buying land to erect an office block. These stokvels can offer an opportunity to obtain “seed capital” to finance small businesses. In serving as a source of credit, investment “stokvels” differ from ordinary stokvels, though lending is not their most important function but rather an additional role facilitated by the larger pool of funds. Over time, as Blacks have accumulated more cash, investment stokvels have moved beyond being only a means of accelerating consumption toward facilitating long-term investments in capital goods, property, and financial instruments.<sup>33</sup> The interesting observation is that these more wealthy members do not resort to more sophisticated investment products offered by other modern financial intermediaries, but still use the social capital of the trusted stokvel to guide investment decisions or purchases of substantial value.

The last category of stokvels is a more recent development and represents the most explicit change in the organisational structure of modern stokvels from the earlier savings clubs. High-budget stokvels consist of a large membership (a hundred members or more), all of whom are of high social standing and credibility in the community. Contributions can vary between R200 and R2,000 per month and payouts vary between R7,000 and R15,000 per month. Regular payouts are not made on a rotating basis, but depend

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31 Consult eg. “Itekeng Social Group”, *Move*, 29 August 2007, p. 9; “Masisizaneni Club”, 18 July 2007, p. 7; Mulanga”, 13 April 2005, p. 8.

32 The “Elegant ladies club” requires a R2000-00 monthly contribution from members, who are described as “... smart career women.. employed in the corporate and government sectors.” See *Move*, 1 Augustus 2007, p. 11.

33 P Smets, ‘Community-based finance systems and their potential for urban self-help in a new South Africa’, *Development Southern Africa*, 13(2), 1996, pp. 179-180; S Burman and N Lembete, “Building new realities. African Women and ROSCA’s in Urban South Africa”, S Ardener and S Burman(eds.), *Money-go-rounds. The importance of rotating savings and credit associations for women* (Oxford, Berg Publishers, 1996), pp. 36 –37; P Franks and S Shane, “Building commerce through co-operatives”, *Indicator SA*, 6(1/2) 1989, p. 110; E Thomas, “Rotating credit associations in Cape Town...”, pp. 277-299; WG Schulze, ‘Stokvels. Part 1; People’s insurance,’ *Journal of Business Law*, 4(2) 1997, p. 79.

on the dates set for allocation by the board, which is the supreme decision-making body in a high-budget stokvel. It consists of ten to twenty founding members who enjoy an elevated status and control the stokvel's functioning. Membership is based on trust, but ordinary members perform a distinctly minor role. The board determines payout dates, which can depend on the creditworthiness of the recipient or the personal "value" of a member to board members. Given the large membership and somewhat arbitrary selection basis, members can make their regular contribution, as determined by the board, but despite requesting the opportunity to be the recipient, may wait up to five years before a pool is allocated to them. High-budget stokvels present an opportunity for corruption and the misuse of power, but they also provide an opportunity to make a lot of money. Men dominate these stokvels, probably because of the higher risk involved.<sup>34</sup>

The ordinary stokvels, whether known by that name or by the variety of vernacular terms, and burial societies, were familiar phenomena in urban African communities from the early 1930s. The investment stokvels and high-budget stokvels were more recent developments of the late 1960s and early 1970s and are currently a more frequent phenomenon.<sup>35</sup> The traditional stokvel and burial society are today still the dominant voluntary savings organisation category in African communities.

The next section of the paper will focus on the reasons why people still belong to stokvels in the modern world. These motivations will allude to the social generic assets in these organisations which explain their prevalence.

### **Incentives to join informal voluntary savings organisations.**

The formation of stokvels constitute a distinct strategy to mobilise social capital towards social support and material security. Most of these voluntary organisations were women's only structures, because men seemed to display an unwillingness to forego spending of available cash for future benefits. Women also often commented that men were not "trustworthy," a perception that might relate to the greater instability of men and to "the prevalence of alcohol and tobacco consumption among men as well as the general reluctance of

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<sup>34</sup> WG Schulze, "The legal nature of Stokvels, Part 1", p. 26; S Burman and N Lembete, "Building new realities", p. 25; E Thomas, "Rotating credit associations in Cape Town", pp. 299-300.

<sup>35</sup> See *Move*, 1 Augustus 2007, p. 11; 23 May 2007, p. 8; 21 November 2007, p. 10.

men to confide details on their income to women.”<sup>36</sup> In recent research by Molefe an interviewee of a burial society responded : “ If men join... they would want to control us women. We say no to men. We can do things for ourselves and we don't depend on men. Here we are proud and successful, in fact it is women who help these men as they drink their money instead of contribute to the societies.”<sup>37</sup> The survey of stokvels in *Move* recently testified to a growing number of male only stokvels<sup>38</sup> and a rising number of mixed gender organisations.<sup>39</sup>

The history of stokvels is a history of social displacement and adjustment to new employment opportunities in urban areas as well as new social and material needs. Social displacement in an unfamiliar, artificial, and constrained environment strengthened the need for supportive networks.<sup>40</sup> Membership of stokvels emerged from and established relations of trust with people of either the same ethnic group or religious affiliation or just trusted friends residing in the same street of the township. The first incentive for participation in stokvels was to establish a social network of trusted acquaintances to replace the kinship network of the traditional areas. Members use social capital to establish the network, which in turn strengthens the network to provide in future needs. The social capital functions as a guarantee of access to other assets which may be troublesome to obtain. Reference is here made to trust, community support and certainty that are not accessible through ordinary savings products at modern banks.

The basis of the mutual trust for membership of the early stokvels reflected either an ethnic or religious bond. It was recorded that the Tswana women were most active in creating sstokvels in urban areas of the Transvaal. These women moulded the stokvels along the Tswana traditions and culture by observing them as “Manyano Christian sisterhood” organisations.<sup>41</sup> These organisations displayed distinct ethnic as well as religious bonds as the basis

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36 G Buijs and G Atherfold , *Savings and money-lending schemes: How rotating credit associations help poor families* (Pretoria, Human Sciences Research Council, 1995), pp. 2-5, 35 – 46.

37 SP Molefe , *Welfare provision by selected self-help organisations*, p. 211.

38 *Move*, 21 November 2007, p. 8, Majakathata Investment Group is all male; *Move*, 11 April 2007, p. 9, All Nations Burial Club is all male.

39 *Move*, 3 August 2005, p. 9; 8 November 2006, p. 14; 11 April 2007, p. 8; 18 July 2007, p. 10; 29 August 2007, p. 9; 23 January 2008, p. 9; SP Molefe, “Welfare provision by selected self-help organizations: An exploratory study” (PhD., University of the North, 1989), p. 211; WGG Warnecke, *Burial societies, African religion and the church*. (M.Th Dissertation, University of Natal, 1994), pp.40 – 41; A Lukhele, *Stokvels in South Africa*, pp. 6, 25, 38.

40 H Kuper and S Kaplan, “Voluntary associations in an urban township”, pp. 178, 186; G Buijs and G Atherfold, *Savings and money-lending schemes*, pp. 8, 70-72, 75.

41 AK Lukhele, *Stokvels in South Africa*, p. 6.

of urban solidarity. Other case studies identified the predominance of Sotho people in stokvels in the Western Native Township of Johannesburg during the 1940's. A strong sense of national solidarity existed amongst the Sotho people, who were known to be very efficient workers.<sup>42</sup>

Stokvels provided moral support, resembling the closely knit traditional communities. They generated a strong sense of solidarity among members and resembled the functions of a provident society for those in need—not only for the member, but also for the family of the member. The African concept of “*ubuntu*”, which literally means that a person/man is only a person/man through others, embraced caring for each other's well-being in a spirit of mutual support. “Ubuntu” is the humanistic African cultural ethic, based on the human being and connections between people. It is a collective consciousness, a shared experience of eg. deprivation or poverty, which leads people to provide mutual support. No single person can satisfy individual needs but can as a member of a collection of persons. “Ubuntu” signifies the group, especially on issues relating to survival.<sup>43</sup> Stokvels served to bridge tribal and ethnic divisions through ‘Ubuntu’ towards a network of social support.<sup>44</sup> This has remained a powerful incentive up to the present: in Thohoyando this peculiar form of social capital was explained as: “We encourage and support each other.”<sup>45</sup>

Since pass laws prohibited women from coming to urban areas, perhaps to join their husbands, they were sometimes arrested for failing to produce a valid passbook to legitimise their presence in the area. Women were also sometimes arrested for brewing and selling beer without a license. When in jail, stokvels provided a safety net, offering moral and material support to them and their families. In this respect “stokvels” bridged tribal and ethnic divisions among urbanized African women, who carried the heaviest burden of family maintenance.<sup>46</sup> In Soweto members of the Zakheni stokvel explained the reason for its existence as , “...it's all about commitment and

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42 H Kuper and S Kaplan, “Voluntary associations in an urban township”, pp. 180 – 181.

43 A Burger, (ed.), *Ubuntu: cradles of peace and development* (Pretoria, Kagiso Publishers, 1996); J Broodryk. “Managing the ubuntu way: four teats of a cow”, *Management Today*, 14(3), 1998; L Mbigi, and J Maree, *Ubuntu. The spirit of African transformation management* (Knowledge Resources, 1995); JH Smit, M Deacon and A Schutte, *Ubuntu in a Christian perspective* (Potchefstroom University for CHE, Potchefstroom, 1999).

44 E Hellman, “The Native in the towns”, I Schapera (ed), *The Bantu-Speaking Tribes of South Africa; An Ethnological Survey* (Cape Town, Maskew Miller, 1950), pp. 411 and 431; S Burman and N Lembete, “Building new Realities”, pp.27, 39, 40; E Thomas, “Rotating credit associations in Cape Town”, p. 292; *Black Enterprise: Stokvels gain momentum as millions are mobilised*, vol. 14, 1988, p. 31; *Black Enterprise: Formation of NASASA*, Vol. 28, Dec/Jan 1990, p. 45.

45 *Move*, 13 April 2005, p. 12.

46 E Hellman, “The Native in the Towns”, p. 411; S Burman and N Lembete, “Building New Realities”, pp. 27, 39, 40; A Lukhele, *Stokvels in South Africa*, pp. 7 – 13.

sisterhood.. we don't just meet, we visit each other regularly.. Trust, tolerance and perseverance are what brought us to where we are today..."<sup>47</sup> This testimony reflects the existence of social capital that is utilised to guarantee survival, both social and economic.

Equally important as part of the social refiguration in urban areas, was the desire for social interaction and leisure. Distribution of contributions coincided with a party since the earliest stokvels - whether it was Christian tea parties, parties serving traditional beer, or parties consuming Western alcoholic beverages. A whole subculture developed around "stokvels": lavish parties, flamboyant names, rhythmic music, and sometimes violent and criminal behaviour. Indeed, the unacceptably noisy, violent, criminal, and immoral behaviour in some cases, contributed to a rejection of stokvels by certain members of the Black community. Despite some reservations, stokvels are a powerful social support network for many African people, especially women.<sup>48</sup>

Despite the strong social incentives toward participation in stokvels, these motives can never be divorced from the key economic reasons for participation. The second incentive for participation in stokvels, is that of dealing with poverty or subsistence needs as a result of the loss of access to the traditional means of production, i.e. land. Kurtz argues that the formation of ROSCA's represent an adaptation to a condition of poverty or relative deprivation, where adaptation is seen as a process by which a population alters its relationship to the socio-physical environment in which it exists in order to reproduce itself and survive.<sup>49</sup> First generation urbanised Africans struggled to secure income stability, especially women dependent on the informal sector. In the township women transferred their managerial skills in the household to informal economic activities to generate an independent income to provide for their families. "For the women, previously engaged in domestic labour, the choice of living in the township, and the desire to construct and maintain a household meant a change in the nature and purpose of earning an income. Working as a young domestic had been about breaking free, accumulating some sort of dowry, and supplementing parental income at home. Work now became necessary to help construct and support the women's own

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<sup>47</sup> *Move*, 12 September 2007, p. 8.

<sup>48</sup> G Verhoef, 'Stokvels and economic empowerment...', p. 101.

<sup>49</sup> DV Kurtz, "The Rotating Credit Association: An Adaptation to Poverty", *Human Organisation*, 37 (1), Spring 1973.

households.”<sup>50</sup> Women engaged themselves in domestic work, they brew and sold traditional beer, in street selling of vegetables and basic groceries and they took up sewing and mending of clothes. These activities supplemented the earnings of the husband, or provided the only source of income to widowed women, or women deserted by their husbands.<sup>51</sup>

Participation in stokvels bridged the earnings gap in the following ways:

- Participants would gain access to the savings pool at some time in future. The accumulated pool could be utilised for numerous purposes: supplementing earnings to facilitate subsistence, buying durable goods (electric stoves, refrigerators, sewing machines), clothing, pay school fees, pay for traditional ceremonies, make a journey home to the traditional homestead to visit the family, etc.<sup>52</sup> Initially African women also sometimes utilised the access to cash from the stokvels to start up their own informal businesses, such as shebeens (taverns), laundries and sewing enterprises (for both individuals and businesses), small grocery shops selling basic necessities to the townships, and dairy shops selling milk. Stokvels could thus augment meagre incomes to relieve poverty and reduce risk factors.
- “Stokvel” meetings rotated amongst the members. At such meetings each would pay an entrance fee or buy something to drink (tea, drinks) or to eat. Meetings thus ensured an additional source of income apart from informal economic activities.<sup>53</sup> This was a modest practise in the ordinary savings clubs, but a major source of revenue in the high-budget stokvels. Together with the expected future access to the stokvel pool, this practise served as an “insurance” to members, since they expected to receive entrance fees in future and could plan accordingly.
- Poor people with low and irregular income found it difficult to establish creditworthiness and obtain access to credit, but the propensity for savings among African people explained the prevalence of stokvels as source of credit. Stokvels was a mechanism to mobilise limited savings that would otherwise lie idle in the absence of access to more formal mechanisms of saving. The exceptionally strong adherence to the ethic of stokvels meant virtually no defaults on repayments, since default would mean that an individual would

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50 B Bozzoli, *Women of Phokeng. Consciousness, life strategy, and migrancy in South Africa, 1900 – 1983*. (Johannesburg, Ravan Press, 1991), p. 134.

51 G Verhoef, ‘Informal Financial Service Institutions for Survival...’, *Enterprise and Society*, 12(2), 2001, pp. 260 – 262.

52 G Buijs and G Atherfold, *Savings and money-lending schemes*, pp. 46, 75, 76; E Bähre, “Wij zullen onze beenderen”, p. 23; H Kuper and S Kaplan, “Voluntary Associations in Urban townships”, pp. 185 – 186; E Hellman, “The Native in the Towns”, p. 411.

53 S Burman and N Lembete, “Building new Realities...”, p. 35; B Bozzoli, *Women of Phokeng...*, pp. 142 – 145; A Lukhele, *Stokvels in South Africa*, p. 9.



forfeit future access to credit. Kurtz argues that participation in ROSCA's could be interpreted as an adaptive mechanism, which provided an alternative to participation in the mainstream of the urban society. Poor people sought solutions to problems not met by existing institutions, because the people were not eligible for those services, could not afford them or were suspicious of them.<sup>54</sup> Stokvels developed into self-styled guarantees of access to credit, a powerful incentive for women to participate.<sup>55</sup> Women's informal-sector activities meant that they did not qualify for formal banking services nor could they obtain access to credit from those institutions.<sup>56</sup> The informal voluntary savings organisations acted as "hidden banks" or "financial intermediaries" by bringing together savers and borrowers of money.

Access to credit had been compromised by a low and irregular income stream and a lack of collateral in the form of fixed property. Township dwellings were inappropriate as security to financial institutions, yet until 1994 Blacks were prohibited from owning fixed property outside townships. Furthermore, as a rule, few Black people maintained bank accounts or savings accounts at the Post Office or in building societies. The majority of Black people were unfamiliar with Western banking practice and to illiterate Black people, banks were intimidating. Consequently, they were also unfamiliar to the bank officials, who regarded lending to Black people as placing their fiduciary responsibility at risk. Moreover, the relatively small loans that Blacks required were of no interest to the banks, because the cost of administering such micro-loans was too high. Stokvels or *mahodisanas* offered Blacks a more congenial

and better understood form of savings than Western-style banks.<sup>57</sup> Stokvels provided security for a personal line of credit among trusted friends. Non-default on loan repayments and on regular contributions would ensure future credit. It was observed that "being too poor to borrow can be worse than

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54 DV Kurtz, "The Rotating Credit Association...", pp. 51, 55 - 56.

55 This has been observed as a general phenomenon in voluntary savings organizations world wide, see World Bank, *The Microfinance revolution*, (Washington, World Bank, 2001), pp. 156, 157.

56 P Smets, 'Community-based Finance Systems', pp. 178 - 179; S Ardener and S Buman (eds.), *Money-Go-Rounds*, pp. 4 - 5, 7 - 10; Also see Shared Interest: *South Africa 2006: Challenges for the future*, South Africa Delegation Briefing Paper, November 2006, pp. 2, 11.

57 H Kuper and S Kaplan, 'Voluntary associations in townships,' p. 185; L Tager, "Legal Aspects of Stokvels", Unpublished paper, Centre for Business law, University of the Orange free State, 1994, p. 6; BJ Moore and GA Schoombee, 'Bank Credit to the informal sector: Challenge And Reward', *Development Southern Africa*, 12, 1995, pp. 347-348; L Moodley, 'Three Stokvel clubs, in the Urban Black Township of Kwa Ndangezi, Natal', *Development Southern Africa*, 12(3), 1996, p. 363; E Thomas, 'Rotating Credit Associations', pp. 292, 301.

net indebtedness.”<sup>58</sup> Women would borrow, therefore go into debt, simply to establish a record of meeting stokvel commitments. Borrowing from a stokvel removed the impersonal and intimidating experience of applying for bank credit. The use of stokvel credit then fed back into savings: borrowing meant repaying, and wanting to borrow followed from former savings discipline.

Although banks have developed extensive advertising campaigns to encourage stokvels to open bank accounts recently, stokvels remain a source of savings motivation and access to accumulated funds. The entire reporting series on stokvels in *Move* since 2005, was sponsored by ABSA and several stokvels indicated that they held their savings in bank accounts.<sup>59</sup> Banks have not replaced the secure stokvel environment as a source of borrowing and saving.<sup>60</sup>

Stokvels enhanced and secured members’ social and economic status because of the characteristic trustworthiness ascribed to members or the value of social capital accessed through these voluntary savings organisations. These voluntary savings organisations constituted and nurtured social capital which formal financial institutions could not provide. Stokvel membership established creditworthiness for poor people, especially women, which formed a vital element of the strategy to deal with relative deprivation or poverty. Stokvel members were known to be generous and reliable, characteristics which enhanced their social standing and respect within and outside stokvel circles. Women did not enjoy equal status to men’s in the traditional culture. Outside that environment they were only gradually building up such standing.<sup>61</sup>

- Another strategy to deal with poverty was to acquire the discipline to save, since savings fostered a sense of security in an insecure environment. This constituted the vital insurance function of informal savings organisations and links up with the need to establish creditworthiness: the ability to save secured a form of insurance against predictable and unpredictable calamities, either by utilising own savings or by borrowing from the stokvel. Borrowing would have been impossible had the individual not yet displayed the ability to save. For this reason members of such voluntary associations would go into debt in order to save, i.e. to make the required regular contribution to the stokvel. (This

58 C Cross, “Informal lending”, *Indicator SA*, 4(3), 1987, p. 88.

59 See *Move*, 13 April 2005, p. 12; 23 May 2007, p. 9; 22 November 2006, p. 46.

60 E Aryeetey, “From Informal Finance to Formal Finance in Sub-Saharan Africa: Lessons from Linkages Efforts”, *Paper presented to African Finance for the 21<sup>st</sup> century. IMF Institute in collaboration with Joint African Institute*, Tunis, 4-5 March 2008, p. 1, 6-7.

61 S Ardener, “The Comparative Study of Rotating Credit Associations”, *Journal of the Royal Anthropological Institute*, 94, 1964, pp. 216, 220, 222.

can be compared to modern day 'contractual' savings.)<sup>62</sup> The burial societies provided for future death needs. Security was also indispensable in case of ill health, fire or natural disasters destroying property, theft of possessions, etc. Saving was not only for future calamities, but also for future consumption, eg. of durable goods, investment etc. As one stokvel member remarked simply, "One can afford things that one normally cannot afford."<sup>63</sup> The important function of ROSCA's was to assist members to save money towards competing demands, whether from the member's own desires or from external demands.<sup>64</sup> People could also save in Post Office accounts, or savings accounts in banks, but, as stated above, they were not well disposed towards the formal banking institutions. Members rather relied on trusted social capital to secure access to future consumption.

Another reason for opting not to save in the formal sector was the relative ease with which a person could default on save or withdraw from savings. Non-saving involved no social or economic sanction, whereas non-performance in terms of stokvel rules, would completely erode the social and economic security or insurance networks established to facilitate adaptation to poverty and urbanisation.

The lengthy analysis of the incentives to people to join stokvels, or the reasons behind their participation in stokvels, is to confirm that people were and still are motivated not only by rational economic decisions, but also by social considerations attributable to the search for security in uncertain non-traditional environments. Emphasis is, not on the economic rationality of stokvel membership, nor the efficiency of 'investments' in such organisations, but rather on the prevalence of stokvels as social capital in African communities in transition from the traditional rural subsistence sector to urbanised wage labour communities. The prevalence in recent times testify to the persistence of trust, norms and networks in enhancing the efficiency of current social and economic interaction. Members of the Botsalano Social Club in Attridgeville stated: "the trust and respect we have for each other keeps us together and we are always there for one another emotionally and physically."<sup>65</sup> The Tsoseletso Women's Club admitted that "... respect, trust and honesty are what keep our

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62 H Kuper and S Kaplan, 'Voluntary Associations in an Urban Township', p. 186; S Ardener, "The Comparative Study of...", p. 218.

63 P Franks and S Shane, "Building Commerce through Co-operatives", in *Indicator SA*, 6 (1/2), 1989, p. 111.

64 H Kuper and S Kaplan, "Voluntary Associations in an Urban Township", p. 183; H Shipton, "The Rope and the Box: Group Savings in the Gambia", pp. 28–29, D Adams and D Fitchet (eds.), *Informal finance in low-income countries* (Boulder, Westview Press, 1992).

65 *Move*, 11 October 2006, p. 43.

group strong”.<sup>66</sup> The social capital of the network is the source of strength.

The important new dimension of social capital observed in stokvel operations throughout the history of their existence in South Africa and as will be illustrated in the recent surveys, is that social capital operated as assets based on personal connections and connectivity, but also generated the formation of new social capital. The stokvels emerged as a consequence of social capital, but also in a reciprocal manner, fostered the development of new social capital. These social networks were instrumental in providing social security and economic support to people in circumstances of transition and displacement. The social capital of stokvels ensured access to resources of that network, that would under other circumstances would not have been accessible. The sophisticated financial sector in South Africa did not offer a complete substitute to the resources, both social and economic accessed and generated through stokvels’ social capital.

### **Informal Savings Organisations in South Africa today**

Field work was undertaken between February 2001 and January 2002 in townships in Gauteng province and Mpumalanga province of South Africa. A total of 205 interviews were conducted with members of stokvels and burial societies. (Some respondents distinguished between these two organisations). Respondents represented people from Black townships, both from middle class residential areas as well as informal settlements in those townships, people from urban flat residential areas and people from rural areas in Mpumalanga. These findings were corroborated by the recent survey results published in *Move on stokvels in different parts of South Africa in 2006 and 2007*.

The distribution of informal savings organisation in the original survey, was as follows:

- 27,33% were pure savings organisations
- 15,32% were savings and loan funds
- 47% were burial societies
- 10,39% were investment funds

The profile of these respondents, was the following:

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<sup>66</sup> *Move*, 7 November 2007, p. 85.

- 58,5% of respondents earned less than R1 000-00 per month, or have irregular incomes. Considering a slightly higher level of earnings, 71,2% of respondents earn less than R2 000-00 per month. (US\$/R exchange rate 11/12/08 : US\$10.13=R1.00 ; R1 000-00 = US\$ 101,30 and R2 000-00 = US\$ 202.60)
- Approximately 85% of respondents contribute up to 10% of monthly earnings to savings in informal savings organisations and another 8,2% contribute between 10% and 20% of monthly earnings to such savings organisations. This means that a cumulative percentage of approximately 93% of the respondents contribute up to 20% of monthly earnings to informal savings organisations.
- Participation in stokvels is a long term affiliation: 52,4% of respondents have been involved in some form of informal savings organisation for up to 5 years and more than 47% have been participating for longer than 5 years. This long term association with stokvels was confirmed in the recent *Move* survey.<sup>67</sup>
- The most prevalent informal savings organisations were burial societies (54%), while 42% of the organisations were savings and loan funds. The recent survey published in *move* corroborated this characteristic.<sup>68</sup> Only about 4% of these organisations are investment funds. Market research in 1989 has indicated that 29% of all informal savings organisations were burial societies, but this research was not comprehensive or representative of the urban and rural population.<sup>69</sup>
- People belong to more than one informal savings organisation : 32% of respondents were members of more than one informal savings organisation. In the recent survey published in *Move*, respondents testified to membership of at least two stokvels, one burial society and one savings club.<sup>70</sup>
- Saving through informal savings organisations is not the exclusive mechanism of saving of respondents: 81% of the respondents indicated that they were saving in other ways as well.
- Participants in informal savings organisations are not unfamiliar with the banking sector in South Africa : 85,4% of the respondents had their own bank accounts and 80% of the informal savings organisations kept their accumulated fund in a bank account. The use of formal bank accounts has become general practice, as corroborated in the recent survey published in *Move*.<sup>71</sup> The interesting aspect is though, that approximately 18% of respondents indicated that the accumulated savings fund is either kept in cash with a member or in another location.

Comprehensive country-wide representative research on the existence and

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<sup>67</sup> *Move*, 13 June 2007, p. 7; 13 April 2005, p. 8.

<sup>68</sup> *Move*, 18 June 2007, p. 70; 16 May 2007, p. 8.

<sup>69</sup> Markinor Market Research, Randburg, 1989.

<sup>70</sup> *Move*, 8 November 2006, pp.13-14.

<sup>71</sup> *Move*, 11 April 2007, p. 8; 24 October 2007, p. 83.

functioning of the informal savings organisations must still be undertaken, but the latest market research survey of the prevalence of such organisations in South Africa has indicated that 33% of the African population above the age of 16 actively participate in informal savings organisations.<sup>72</sup> The significance of the observations from the recent case studies, is that they confirm the persistent functionality of traditional savings mechanisms in modern westernised societies. The extensive reporting in *Move* shows that the network (stokvel) facilitated access to resources, remain a vital aspect of both rural and urban Africans' survival strategies. An all male stokvel stated in response to the question why they started their stokvel, that, "...most of us are self employed and it is not easy to save on your own."<sup>73</sup> A comparison of the incentives for participation in informal voluntary savings organisations since the first half of the twentieth century in South Africa, with recent case studies, indicate the strong continuity of traditional patterns of saving and credit.

Case studies undertaken in the Eastern Cape,<sup>74</sup> in the Western Cape,<sup>75</sup> and in Natal,<sup>76</sup> have indicated that stokvels constitute the instruments of Africans' adaptive communal response to conditions of poverty and relative deprivation. Members relied on the social capital ties to devise their adaptive strategies. Stokvels provided support to women struggling to uphold their subsistence responsibilities and assisted with family care in the urban areas. The ties among members facilitated the accumulation of cash and a guaranteed access to credit in the absence of full participation in the formal banking sector.<sup>77</sup> These organisations helped members to save for special events (eg. weddings, Christmas parties, initiation, burials); they saved to buy goods in bulk or to pool buying power to bargain for discount prices; or saving was directed at basic consumption, eg. they assisted members with the purchase of ordinary daily subsistence goods such as groceries. These actions were performed in the communal environment, i.e. saving as groups and not as individuals, despite the divorce from the traditional sector where factors of production had been

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72 Market Research Africa Market Survey, November 1995.

73 *Move*, 8 November 2006, p. 14.

74 See G Buijs and G Atherfold, "Savings and money-lending schemes ...," Co-operative Research Programme on Marriage and Family Life (Human Sciences Research Council, Pretoria, 1995).

75 See E Thomas, "Rotating credit associations in Cape Town", in E Preston-Whyte and C Rogerson (eds.), *South Africa's Informal Economy*. Cape Town 1991; E Bähre, "Wij zullen onze beenderen in waardigheid begraven", *CAhier*, 4(1), 1995.

76 See L Moodley, "Three Stokvels in the Urban Black Township of Kwa-Ndangezi", Natal, *Development Southern Africa*, 12, 1996.

77 See *Move*, 31 October 2007, p. 84; 21 December 2005, p. 10; 11 April 2007, p. 9.

owned communally. The stokvel presented the social capital network, which encouraged saving which again enabled members to borrow from the stokvel,<sup>78</sup> i.e. to receive the pool at a stage when other members still had to wait until later in the stokvel cycle to obtain access to the pool. Receiving the pool (i.e. borrowing) meant reciprocal saving in order to remain part of the saving cycle and thus have the “guarantee” that future credit will be accessible through the stokvel. This behaviour illustrates the functionality of social capital in filling ‘structural holes’ (according to Burt’s conception of social capital<sup>79</sup>), but also the generation of new ties, or social capital as assets that could be exchanged in future to ensure consumption.<sup>80</sup>

The field work as well as the extensive reports in *Move* since 2005, confirm these observations. Stokvels did and still offer a social support network and financial empowerment through the access to a savings pool and credit. These organisations perform an empowering function by incentivising disciplined saving and independent provision for future needs.

The first reason to join stokvels was and still is to establish social support networks of trusted friends. Despite more than six decades of urban residence, respondents indicated that the association with trusted friends remained an important consideration for participation. Roughly 40% of respondents were seeking association with friends and people they could trust when engaging in savings activities. The economic incentives made up about 60% of the reasons for belonging to an informal savings organisation. An example of the importance of trusted friend was given by Ronnie Shibe of Daveyton : “ To me to belong to a stokvel, it is not only a question of saving money. It is also to be with friends and share ideas.”<sup>81</sup> Another respondent stated: “ This stokvel boosts me financially. Fellow members become part of my family.”<sup>82</sup> Phudi Mathe of the Millenium Women’s Club declared that, “ the stokvel helped me save, making friends and self empowerment. It is a time to go

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78 See *Move*, 16 August 2006, p. 6. Members of the Abangani Social Club make loans to members at a fixed interest rate. Members sign an agreement when taking the money and repayment, penalties are introduced, as forfeiting all contributions made as well as groceries purchased by the club.

79 RS Burt, *Brokerage and closure: An introduction to social capital*. (Oxford: Oxford University Press, 2005), pp. 3-9.

80 G Verhoef, ‘Nationalism, social capital and economic empowerment: SANLAM and the economic upliftment of the Afrikaner people,’ *Business History*, 50(6), pp. 695-713. Here the development of multi-tier social capital is illustrated.

81 Interview, R Shibe (Community member Daveyton, Personal collection/G Verhoef (Researcher) February 2001.

82 Interview, J Seloga (Community member Daveyton, personal collection)/G Verhoef, February 2001.



out with friends.”<sup>83</sup> Noli Majozi of the *Masimambisane Society* in Zondi, Soweto, responded : “ It means I’m not alone to meet the challenges of this earth. Every Monday I meet with my neighbours, helping one another to live a good life and secure the future for children.”<sup>84</sup> Mr Willie du Plessis motivated his participation in “stokvels” as follows : “It is a place to save together with friends. It means I plan and save for the future together with my friends for the future.”<sup>85</sup> It was in the flat area Hillbrow where Richard Sekokotla responded to a question of the function of the “stovel” to him : “ It established my No. 1 friends...I’m acceptable to the society.”<sup>86</sup> In Daveyton Twenty Cenenda explained the importance of her “stokvel” by saying that, “...it eases the burden of life... I have people to expect support from in time of need. It adds value to one’s life as members of the stokvel are reliable in their contributions in cash or kind.”<sup>87</sup> Rosina explained the importance of the “stokvel” to her : “ Stokvel make it easy for me to be able to save money for myself with people who lives around me...it gives me peace of mind knowing that I have people I trust with my money.”<sup>88</sup>

These responses of trust and friendship on the basis of mutuality and reciprocity were echoed in numerous reports in *Move*: “We decided to form this group to help one another through the hard times, like when there’s been a death in one of our families.”<sup>89</sup> or “ We socialise, exchange ideas and try to instil a skill of saving. We also help each other to prosper from the little we have, and encourage one another to share with the community”<sup>90</sup> and “it’s all about commitment and sisterhood. We’re almost like a family now because we don’t only meet for the club meetings, we also visit each other regularly.”<sup>91</sup>

The need to establish a social security network through informal savings organisations remains an important incentive for participation. In responding to questions pertaining to the goal for joining a stokvel or their expectations of membership (in other words, what did members want to exchange their social capital assets for in future?),

- 35,75% joined to provide for death and funeral needs

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83 Interview, P Mathe (Community member East Rand, personal collection)/G Verhoef, March 2001.

84 Interview, N Majozi (Community member Zola, personal collection)/G Verhoef, March 2001.

85 Interview, W du Plessis (Community member Yeoville, personal collection)/G Verhoef, March 2001.

86 Interview, R Sekokotla (Community member Hillbrow, personal collection)/G Verhoef, February 2001.

87 Interview, T Cenenda (Community member Daveyton, personal collection)/G Verhoef, February 2001.

88 Interview, Rosina (Community member Soweto, personal collection)/G Verhoef, November 2001.

89 *Move*, 29 August 2007, p. 8.

90 *Move*, 18 June 2007, p. 69.

91 *Move*, 12 September 2007, p. 8.

- 26,55% joined for social support
- 26,4% joined with the specific goal of saving for a specific purpose
- 8,3% joined for investment purposes
- 3% joined to be able to buy expensive goods

These responses show a preoccupation with social support, especially in times of death. Material needs were important, but were secondary. The reports in *Move* since 2005 reflect a persistent search for social support networks through these voluntary organisations in order to achieve material goals – saving to buy furniture, groceries, pay children’s school fees, purchase property, buy automobiles etc. In the modern sophisticated South African urban environment with sophisticated financial intermediaries, the action of saving through a stokvel maintained its attraction for the social network function they offered. The stokvels are literally social capital at work.

At 47% burial societies were the most frequently formed stokvels in the field work research. Earlier surveys had put burial societies at 29% of total informal savings organisations. In 1995 it was estimated that burial societies contributed around 66% of total informal savings turnover and in 1998 it was estimated that an average of 28% of members of informal savings organisations, belonged to burial societies.<sup>92</sup> In the series on stokvels in *Move* since 2005 more than 90 percent of the stokvels were formed with either the exclusive or the additional intention to provide financial assistance for funerals. As had been the case when these societies were first established, the primary purpose of burial societies is to ensure a “proper” funeral, i.e the funeral must be well attended, the coffin and undertaker services must be first class and guests must be well catered for. The element of reciprocity is important here: members of the burial society take care of the funeral arrangements themselves to ensure high standards in funeral services, but also to provide moral support to the deceased’s family. The members of the Masisizaneni club stated: “We support each other during funerals. We lend emotional support and also help with cooking.”<sup>93</sup>

The responses of burial societies’ members underline the exceptional importance of death provision. Twenty Cenenda responded : “ the society is necessary for socialising and celebrations, .. funerals are made easy by stokvel members who contribute financially as well as in kind by helping in tent

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92 G Verhoef, ‘Stokvels and economic Empowerment...’, pp. 99 – 100.

93 *Move*, 18 July 2007, p. 7. This stokvel consists of 23 members who make a monthly contribution of R100-00 each; See also *Move*, 13 April 2005.

erection, slaughtering and catering for guests.”<sup>94</sup> In Diepsloot ( an informal settlement north of Johannesburg), Samariah Mathebula explained : “ When my father-in-law died, he had to be buried by the municipal council due to a lack of funds. Since then I realised the need for one to belong to a burial society.”<sup>95</sup> Gladys Mblentse explained : ‘ I can not save for burial purpose because I’m struggling in life. The burial society means security and knowing my family won’t suffer or have difficulty in burying my body.”<sup>96</sup> Shadrack Mekgoe from the Malapo Polokane burial society said, “...this burial society means a lot, it is security that my family will get a decent burial.”<sup>97</sup> Isaac, a member of the Sizanani burial society in Jabulani, Soweto, described the burial society as “...security to my family.”<sup>98</sup>

The burial societies do not only provide for the member alone, but for the family of the member. Although insurance companies have developed funeral policies for the African community, some burial societies rejected them as “... not allowing the person to cover their entire family with a small premium,”<sup>99</sup> and not allowing access to funds upon need.<sup>100</sup> Some burial societies have nevertheless taken out funeral policies, but this has not been the general case.

The case studies confirmed that these informal organisations also performed a important economic function to members. Despite the existence of a sophisticated banking system in South Africa, the stokvels are an important source of easily accessible credit. A disillusionment with banks persists, while the stokvels were experienced as a guaranteed source of credit. These sentiments were expressed by several interviewees. In Alexandra Lydia Moloi said, “My money could not be enough, I also need assistance from the stokvel.”<sup>101</sup> Lydia Serato Maseko confirmed, “...it is for financial assistance in time of need... a lump sum of money to use in need...”<sup>102</sup> M. Molotsi explained, “...when I need a loan from the bank, it is a long procedure, compared to my stokvel.”<sup>103</sup> In Kathlehong Neo Mokutu frankly responded, “ ...our stokvel

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94 Interview, T Cenenda/G Verhoef, February 2001.

95 Interview, S Mathebula (Community member Diepsloot, personal collection)/G Verhoef, April 2001.

96 Interview, G Mblentse (Community member Alexandra, personal collection)/G Verhoef, March 2001.

97 Interview, S Mekgoe (Community member Soweto, personal collection)/G Verhoef, November 2001.

98 Interview, Isaac (Community member Jabulani, personal collection)/G Verhoef, March 2001.

99 *Move*, 24 October 2005, p. 45.

100 *Move*, 2 August 2006, p. 8.

101 Interview, L Moloi (Community member Alexandra, personal collection)/G Verhoef, February 2001.

102 Interview, LS Maseko (Community member Alexandra, personal collection)/G Verhoef, February 2001.

103 Interview, M Molotsi (Community Member Soweto, personal collection)/G Verhoef, March 2001.

gives immediate access to funds.”<sup>104</sup> In an informal settlement area, Etwatwa, an anonymous respondent said, “...the stokvel helps me when I don’t have money.”<sup>105</sup> Jeaneth Manyike explained, “...I don’t have money, but I can get money when I’m really in need of it...”<sup>106</sup> Nomsa Matlombe expressed her dependence on her “stokvel” when responding, “...They help me out in times of financial difficulties...it has become part of me, and leaving it will be a mess...it means a lot,... I’d rather have it than any other thing.”<sup>107</sup> Solly, an unemployed man from Benoni, said, “...I can’t get a loan from the bank because I’m unemployed, but I get a loan from my stokvel.”<sup>108</sup> These responses underline the reliance on these informal savings organisations as a source of credit outside the formal financial structure. The interviews in *Move* show that this reliance persists up to the present. The Siyanqoba Society explained this dependence on stokvel credit as follows: “Our main aim is saving money. We loan money to members and they pay it back with 20% interest within three months. The rest of the money goes to our bank account and we divide it at the end of the year.”<sup>109</sup>

A substantial part of this dependence stems from the lack of trust in the banking sector. A number of respondents have explicitly voiced discomfort or dissatisfaction with the banking sector. In Daveyton Thabo Matlala said, “...stokvel is for social reasons – bank is for an individual”,<sup>110</sup> while an anonymous respondent in Daveyton expressed utter frustration, “... bank charges are frustrating!”<sup>111</sup> A similar view was expressed by another anonymous respondent, “...in banks there is no ubuntu... I am who I am because of some (members).”<sup>112</sup> Lydia Moloji said that, “...a stokvel is more exciting and there are no charges to pay.”<sup>113</sup> Shadrack Mekgoe responded, “...banks have too many restrictions as to when and how much you can draw.”<sup>114</sup> In Zola, Soweto, Mpho was explicit, “...banks are expensive, the stokvel does not have interest rates, that makes it worthwhile, ...banks have a lack of access to my cash.”<sup>115</sup> Some respondents did not want to deal with banks because they could

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104 Interview, N Mokutu (Community member Kathlehong, personal collection)/G Verhoef, April 2001.

105 Interview, Anonymous stokvel member, Etwatwa, personal collection)/G Verhoef, January 2001.

106 Interview, J Manyike (Community member Dube, personal collection)/G Verhoef, January 2002.

107 Interview, N Motlombe, Community member Pimville, personal collection)/G Verhoef, January 2002.

108 Interview, Solly (Community member Benoni, personal collection)/G Verhoef, March 2001.

109 *Move*, 16 May 2007, p. 8.

110 Interview, T Matlala/G Verhoef, February 2001.

111 Interview, Anonymous respondent Daveyton/G Verhoef, February 2001.

112 Interview, Anonymous respondent Hillbrow/G Verhoef, February 2001.

113 Interview, L Moloji/G Verhoef, February 2001.

114 Interview, S Mekgoe/G Verhoef, November 2001.

115 Interview, M Zola/G Verhoef, November 2001.

not get loans when they applied,<sup>116</sup> and another respondent did not think he would be able to access his funds in a bank should he need it in an emergency, “...you can plan for a wedding, but you cannot plan for death.”<sup>117</sup> Bank charges are often perceived as excessive,<sup>118</sup> and the interest earned not enough to compensate for the inconvenience of accessing the funds at the bank.<sup>119</sup>

The most frequently expressed reason for participation in informal voluntary savings organisations is that people are motivated and disciplined to save regularly. They experience a sense of achievement and that they are doing something for their community. In response to the question why he did not rather save in the bank, Eric Dlamini said, “...no, no, it is not motivational.”<sup>120</sup> Saving as a group was easier: “...People should join the stokvel as to get help from members to save money, because it is sometimes difficult to save money as an individual.”<sup>121</sup> Respondents have repeatedly emphasised the savings discipline fostered by “stokvels” : “...it helps me minimise my spending budget... it means saving to the last cent for a particular target / item.”<sup>122</sup> Erinroy Mathabela explained the value of the the “stokvel” to him as, “... make me able to be disciplined and use the money wisely to the need it was intended, since I know I don’t get it often.”<sup>123</sup> The group incentive is important : “...It means banking together with close friends, it means I have to be disciplined in managing money.”<sup>124</sup> People are still using bank accounts, “... I do save in the bank, but this (stokvel) is a better way, because I’m forced to contribute every month.”<sup>125</sup> Sister Xoliswa from the Thusanang Saving Scheme in Kathlehong responded, “...I grew up being supported by the money my parents saved through stokvels, so it has become a way of life in the township. It is a way of saving with the people I live with, it means assisting one another to achieve our personal goals.”<sup>126</sup> In Meredale south of

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116 Interview, Mapala/G Verhoef, February 2001.

117 Interview, S Maseko/G Verhoef, November 2001.

118 Interview, Anonymous respondent Alexandra/G Verhoef, February 2001.

119 Interview, Gqobhasi (Diepkloof community member Soweto, personal collection)/G Verhoef, November 2001.

120 Interview, E Dlamini/G Verhoef, February 2001.

121 Interview, T Salamina/G Verhoef, September 2001; similar responses given by N Kinini (Community member Diepsloot, personal collection)/G Verhoef, September 2001.

122 Interview, N Matlombe/G Verhoef, November 2001; Mumsy’s Kitchen Party, Kathlehong (personal collection)/G Verhoef, March 2001; N Selepe (Community member Kathlehong, personal collection), G Verhoef, March 2001.

123 Interview, E Mathabela (Community member Malelane, personal collection)/G Verhoef, August 2001.

124 Interview, L Nkosi/G Verhoef, March 2001.

125 Interview, Anonymous (Representative of “The Society Club”, Alexandra, personal collection), interview G Verhoef, February 2001.

126 Interview, Sister Xolisaw (Community member Kathlehong, personal collection)/G Verhoef, March 2001.

Johannesburg, an educated man responded, "...I grew up and studied using stokvel money... saving with friends have disciplined me a lot. It means I am always covered."<sup>127</sup> The act of saving is considered a valuable contribution to society, because those who have saved, would have something to give to those in need, they would be able to borrow and they would be able to provide loans : Monde Jawaai declared, "...Joint savings create responsibility, commitment and a sense of belonging to our communities. To save promotes self-development. ...In future we will be able to buy shares off-shore." <sup>128</sup> Saving contributes to the well being of the whole family, "...I need to save for my family,"<sup>129</sup> "...It helps me to support my family, my brother is at university because of this stokvel," <sup>130</sup> and Peggy Ngobeni responded, "...I need this stokvel to save for education for my children. This stokvel has helped me save for education of my children and to support my family."<sup>131</sup> Several respondents quoted other motives for saving: to meet the year end expenses,<sup>132</sup> to save for the provision of housing,<sup>133</sup> to run small businesses,<sup>134</sup> etc. The savings discipline was thus regarded as a valuable contribution to community life, because it is not only a way of saving for specific purposes, but also "...a significant way of creating unity amongst friends, it creates closeness and togetherness, a special unity based on the understanding and respect of the needs of others".<sup>135</sup> Cognisance of this community dimension was expressed vividly by Sello Meso: "The stokvel helped me gain friends and money for support. Again it made me famous as a community supporter."<sup>136</sup> This exact same sentiment has been echoing through the recent *Move* reports on stokvels: "we motivate one another."<sup>137</sup> "...we try our best always to be there for each other,"<sup>138</sup> "...We've discovered that formalising our structure will help us to achieve our vision of helping the community," <sup>139</sup> "Vukani... means 'wake up'. We wanted the women in our community, and the women

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127 Interview, T Meredale (Men's Boys Club, personal collection)/G Verhoef, April 2001.

128 Interview, M Jawaai (Community member Yeoville, personal collection)/G Verhoef, February 2001.

129 Interview, L Chuma (Community member Diepsloot, personal collection)/G Verhoef, January 2002.

130 Interview, A Phadziri (Community member Alexandra, personal collection)/G Verhoef, February 2002.

131 Interview, P Ngobeni (Community member Alexandra, personal collection)/G Verhoef, February 2002.

132 Interview, C Masetle (Community member Soweto personal collection)/G Verhoef, November 2001.

133 Interview, Mmasatholo, (Community member Kwa Xuma/G Verhoef, researcher), September 2001; Interview, Motslema, (Community member Bushbuckridge/G Verhoef, researcher), August 2001.

134 Interview, Anonymous respondent, Mpumalanga, personal collection)/G Verhoef, August 2001; BSTwala (Community member Malelane, personal collection)/G Verhoef, August 2001.

135 Interview, S Rikhotso (Community member Kathlehong personal collection)/G Verhoef, March 2001.

136 Interview, S Meso (Community member Soweto personal collection)/G Verhoef, March 2001.

137 *Move*, 14 November 2007, p. 86.

138 *Move*, 31 October 2007, p. 86.

139 *Move*, 18 July 2007, p. 69.

of South Africa, to wake up and do something for themselves and stop depending on their partners.”<sup>140</sup>

## **Conclusion**

No reliable estimate exists on the size of informal savings flowing outside the banking system in South Africa. The informal sector consisted of approximately 2,7 million people in 2000,<sup>141</sup> but by November 2008 informal employment was calculated at 7,6 million or roughly 35,8% of the labour force.<sup>142</sup> In the past it could be assumed that a substantial proportion of participants in informal voluntary savings organisations were engaged in the informal sector in one way or another. A lack of comprehensive research exists to map out the exact distribution between informal sector participant and formal employed participants. A fundamental understanding of the rationale behind membership of stokvels is necessary to enhance their operations in society. The banking sector has attempted to address the phenomenon of the unbanked sector<sup>143</sup> of the population and by 2007 all four of the large banking groups had developed ‘club’ accounts to address the needs of stokvels.<sup>144</sup> The study of informal savings organisations in the rest of the world, as well as the limited number of case studies on the South African experience, made an invaluable contribution towards an understanding of the operation of social capital in stokvels in the African community. The history of informal voluntary savings organisations in South Africa corroborates much of the evidence with respect to such organisations in other parts of the world, but the current manifestation amidst relative strong economic growth and westernisation in the urban environment, requires a review of the applicability of those perspectives.

The explanation for the persistence of these organisations must be sought in the operation of social capital in them. The network among members constitute an indispensable asset which can be exchanged for future assets, social and economic. These assets include future funeral provision, future consumption of goods, luxury and ordinary, availability of credit,

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140 *Move*, 24 October 2007, p. 83.

141 This calculation is based on statistics released by Statistics South Africa's October Household Survey, Statistical Release PO 317, 31 July 2000, Tables D and 4, p.11 and addendum.

142 Statistics South Africa: PO211.1: *Quarterly Labour Force Survey*, 25 November 2008, p. 6.

143 A survey by Finscope in 2005 indicated that about 535 of South Africa's adult population was excluded from formal financial services and does not have a bank account. See R Knight, 'South Africa 2006: Challenges for the Future,' South African Briefing Paper November 2006, *Shared Interest*, New York, p. 11.

144 *Move*, 28 March 2007, p. 9.