SPII
STUDIES IN POVERTY AND INEQUALITY INSTITUTE

Building up knowledge to break down Poverty

POLICY BRIEF 5

Why do stockvels persist alongside a sophisticated formal financial sector in South Africa?

MAY 2014 • BRIAN MATHEBULA

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Initial impressions from the Social Protection and Local Economic Development (LED): Graduation Pilot Project

EXECUTIVE SUMMARY

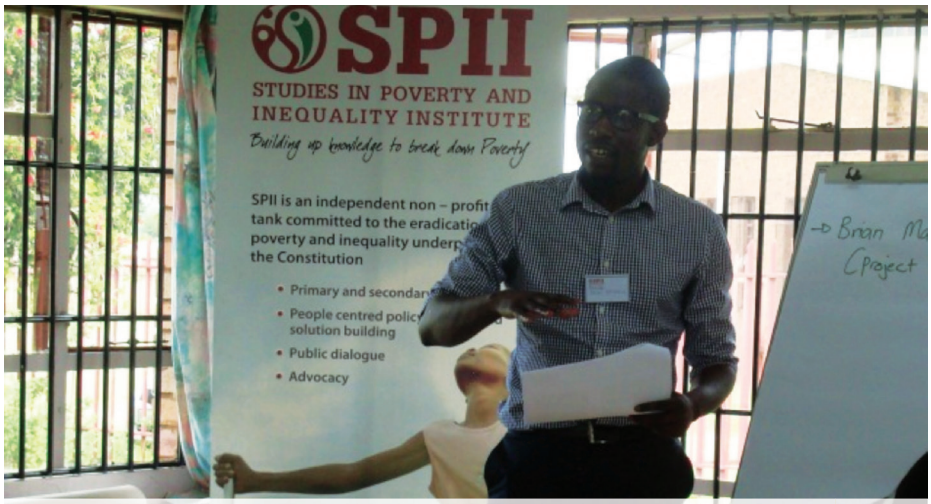
In his 2013 Budget Speech, Minister of Finance Pravin Ghordhan stressed the importance of inculcating a savings culture amongst South Africans. The low levels of savings among South Africans have led the National Treasury to institute extensive reforms to the retirement funds, effective 1 March 2015. The National Treasury (2013) argues that this reform is aimed at helping 'vulnerable people such as farm or domestic workers who don't have pension savings. The intention is to create compulsory savings vehicle for their retirement, thereby reducing the burden on the government over time in terms of social grants' (National Treasury, 2013)

The Studies in Poverty and Inequality Institute (SPII) is in its seventh month of the Social Protection and Local Economic Development (LED): Graduation Pilot Project.[1]

One of the key objectives of the project is to inculcate and encourage a savings culture among project participants, and this brief provides initial impressions with regard to the use of formal financial sector services, as compared to informal savings platforms such as stockvels. Part of the project is to observe current behaviours with regard to financial services, both formal and informal. Critical to this enquiry is whether South Africans found a 'better' suited platform that takes into account the excessive bank charges, low financial literacy and better social interaction. Despite the sophisticated formal financial sector, risky stockvels and informal savings platforms persist to provide 'the most preferred and suited' savings platforms for many low-income households in South Africa.[2]

BACKGROUND

The Studies in Poverty and Inequality Institutes (SPII) 'Social Protection and Local Economic Development: Graduation Pilot' focuses on five[3] varied and focused interventions targeting



Pictured: Brian Mathebula, Researcher at SPII explaining the savings incentive scheme

[1] Please visit www.spii.org.za for detailed description of the project.

[2] A 2013 report by FinMark titled *Understanding the challenges and opportunities in promoting savings among low income individuals in Lesotho, Malawi and South Africa* found that a majority of low-income households preferred stockvels as platform to save money.

[3] 1. Life Skills training, 2. Basic Business Management Training, 3. Financial Literacy Training, 4. savings incentive scheme and 5. weekly monitoring and mentoring by fieldworkers.

the enterprise owner. The savings component focuses on promoting and inculcating a culture of savings amongst project participants. International research shows that formal savings play an important role in facilitating economic security and the stepping stone for the poor to climb up the economic ladder in societ[4].

For centuries, societies around the world have sought different platforms to save money (Arko-Achemfour, 2012). Reasons for saving include saving for future events, other occasions and unforeseen circumstances. In their 2012 report Investigate the vehicles for banking the unbanked, (Jenker, Pieterse, Gasa, Zwane, Mazibuko, & Naidoo, 2012) states that there are over 13 million South Africans who are either not serviced or are under-serviced by the banking sector. People who are financially excluded are referred to as the 'unbanked'[5].

The Financial Sector Charter makes a commitment for greater financial inclusion of the previously unbanked, and its main objective is to increase the number of South Africans using and having access to formal financial sector services.[6] By December 2008, over 6 million adult South Africans opened new bank accounts, and in 2008, the number of people with bank accounts increased from 13.2 million to 20 million. This was seen as a clear indication of the need for formal-sector services. The question that arises is: What is it that people use these accounts for? The success of Capitec Bank in providing formal financial services to low-income households has also led to increased interest by the 'Big Four'[7] in terms of targeting low-income households in South Africa (Jenker et al, 2012).

In the absence of formal financial-sector services for the poor, many have resorted to an informal savings mechanism, commonly known as stockvels[8]. Stockvels or informal savings groups (ISGs) are simply a means for the poor to mobilise financial resources in the absence of developed financial markets (Irving, 2005). Historically, stockvels can be traced back to English settlers in the Eastern Cape (EC) and it is believed that the word stockvel is a corruption of the word 'stock fair'. Stock fair refers to cattle auctions held during the 19th century by cattle farmers in the EC. During those auctions, black farmers were in attendance and at these fairs they would engage in gambling and sometimes club money together to purchase livestock. This gradually evolved into saving schemes organised around structured gatherings of small groups or people, who would meet regularly at the house of a member to socialise and make payment into a rotating fund. The host would receive the sum of these contributions.

South Africans use a variety of savings providers and products, which include commercial banks, but the stockvels are the most preferred savings platform for many South Africans. Income affects where people save, with higher-income individuals predominantly using formal institutions and those on a lower income mainly using informal financial services.[9]

Pictured: Representative from Nedbank during the Financial Literacy Training

[4] The research is however, especially pronounced in children but can extend to other vulnerable groups in society such as women and conclude that savings contribute to women's empowerment and independent decision making.

[5] 'Unbanked' commonly refers to people who do not have access to formal financial sector services, and more importantly, it goes beyond the access to a formal bank account. Rather, it stresses the ability of people being able to engage in the financial system and develop a transactional profile that will ultimately assist in their ability to access credit and generate long-term wealth.

[6] The Mzanis Account was recommended as the appropriate formal bank account for those who were previously unbanked, and it significantly increased the number of adult South Africans with a bank account. In 2014, this bank account has ceased to exist amongst South Africa's major banks.

[7] In South Africa, the 'Big 4' refers to established banks such as Standard Bank, First National Bank (FNB), ABSA Bank, and Nedbank.

[8] Other alternative names for stockvels have also being cited, including gooi-goois ('to throw'), *kuholisana* ('to draw wages'), *mohodisana* ('to pay back each other') and *umgalelo* ('to pour').

[9] A 2013 Report by FinMark Trust, *Understanding the challenges and opportunities in promoting savings among low income individuals in Lesotho, Malawi and South Africa.*

Stockvels are major players in the South African economy for most of the black majority, with women making up the bulk of members.[10] This is a result of the lack of access to the formal financial service sector, which includes credit, particularly for those who operate in the informal sector, according to (Arko-Achemfour, 2012).

In their research on the financial lives of the poor (Centre for Social Research (CSR), 2005) found that:

- "Many households (67 % of the sample) have a bank account, byt these tend to be used for transaction rather than as a means for long term savings accumulation(CSR, 2005)
- "Stockvels are intended as savings for specific item, event or time such as Christmas or school fees" (CSR, 2005).
- "There is a gap in household financial portfolios for the savings instruments geared towards unexpected events" (CSR, 2005)

A typology of stockvels	
	Definition
Rotating Savings and Credit Associations (ROSCAs)	"An association formed upon a core of participants who agree to make regular contributions to a fund which is given, in whole or in part, to each contributor in rotation' (Ardele, 1994).In the South African context, payments are made mostly in cash with in-kind contributions generally in the form of groceries that are added to the cash" (Verhoeff, 2001).
Accumulated Savings and Credit Associations (ASCAs)	These groups extend their activities beyond simple savings mobilisation to obtain interest on contributions through informal lending or the investment of collective capital in a bank account. Interest earned is either divided, or set aside to deal with emergencies (Moodley, 1995). ASCAs may also act as 'investment clubs', banking the collected pool until an amount sufficient to purchase an income-generating asset such as land or a taxi has accumulated (Schulze, 1996).
Burial Societies	Particularly prominent among stockvels that purport to mobilise savings for a specific purpose is the burial society. The high cost associated with customary African funerals leads many individuals to insure themselves with multiple societies (Thomson and Posel, 2002). Prominent among the reasons cited for these elaborate ceremonies is the need to rest the soul of the deceased, and to appease and show respect for the spirits.
Purchasing power groups/cooperative buying societies	The term stockvel may also refer to groups that pool money in order to save through bulk purchases of groceries (Lukhele, 1990)

[10] A 2003 Unilever Institute study estimated the value of Stockvels at R5.1 billion and Old Mutual and African Response studies estimated the value of stockvels to be at R44 billion in 2011.

APPROACH AND RESULTS

The SPII, a not for profit organisation (NPO) based in Johannesburg, South Africa is currently in its seventh month of the 24-month contextual adaptation of the Bangladesh Rural Advancement Committee (BRAC) graduation model.[11] SPII's Social Protection and Local Economic Development: Graduation Pilot Project' links the means-tested[12] Child Support Grant (CSG) and local economic activity by targeting small, micro and survivalist enterprises in the informal economy that have a recipient of the CSG within households. South Africa's social assistance programme is the monthly, revenue-funded, non-contributory state-funded social grant cash transfer system.[13] Project participants receive interventions such as life skills training, basic business management skills, financial literacy, matched incentive scheme and weekly mentoring from trained fieldworkers (referred to as enterprise coaches) over the 24-month period. The full description of the contextual adaptation of the BRAC graduation model is available at www.spii.org.za.

The financial literacy[14] intervention places emphasis on understanding how the formal-sector financial services operate and on the importance of saving. Imperative to this intervention is exposing project participants to available formal-sector services and safer platforms that are available for saving money.

Despite introducing the project participants to available formal-sector financial services to save money as part of the financial literacy intervention and the savings incentive scheme initiative, there is still reluctance to use these services. Although some participants were willing to open a new bank account, there was heavy inclination towards the use of stockvels. A project participant, who owns a fast-food shop, told her enterprise coach during the weekly visit how delighted she was to have attended the financial literacy workshop, where she learned the importance of savings. During the workshop, she noted that she was able to meet other women who were interested in saving, and

> **'We were sitting in one group during the training workshop, which is where we decided we wanted to be wise with our money and stop eating profits'** *(Household no. 12)*

Project participants during the financial literacy training

[11] Please visit www.brac.net to read more about the BRAC graduation model.

[12] In 2012/2013, the means test for CSG was R2 900 to R34 000 p.a., if single, and R5 800 to R69 000 p.a., if married.

[13] FinMark (2013) found that that constitutes a stable and regular source of income for many low-income individuals. However, with regards to savings, they seem to be having a mixed effect on savings behaviour.

[14] In conjunction with the Financial Literacy Training, SPII provides an incentive scheme whereby savings by business owners will be rewarded by awards of mobile phone prepaid airtime vouchers. When project participants save consecutively over a period of three months, their savings are matched through airtime.

Pictured: International visitors to the Pilot site

since then they have formed their own stockvel scheme, called 'Monday Blues', consisting of pilot-project participants. The name of the stockvel resonates to the fact that the members, five at the moment, are required to contribute R30 every Monday, hence 'Monday Blues'. The money is collected by the youngest member of the group, who records all the payments made in a book. The stockvel is aimed at assisting each member to display the necessary discipline with regard to their commitment towards saving and the growth of their businesses.

The project participant also belongs to another stockvel, which was formed among other street traders and which gives her a lump sum of R8 000, when it is time for her to get her payment. This stockvel is made up of 16 street traders that contribute either R250 to R500 on a monthly basis, and she states that traders contribute according to their level means, as she explains it: 'Batho ba patala hoy aka moo ba kgonag ka teng, ke ka hong ba bang ba ntshang R250, ha babang ba ntsha R500' (People pay according to what the can afford, hence some contribute only R250, while others contribute R500).

She also has two other stokvels, which are mainly for buying groceries at the end of the year, with ten other ladies in the area. Despite their knowing about banks, the majority of project participants prefer stockvels as the platform for saving, as one puts it: 'Stockvels provide more assurance in terms of getting the correct amounts saved or invested without having to worry about bank charges and handling fees'.

RECOMENDATIONS AND POLICY OPTIONS

- A great deal of research is being done around the value of stockvels in South Africa; however, more research is needed, especially qualitative research on why low-income households do not prefer the use of formal financial services, compared to the risky informal savings groups.

- Stockvels foster greater social interaction and this is an avenue that has not been explored in terms of the financial inclusion agenda. There is a need to leverage on the success of stockvels and there is also a need to harness the lessons from stockvels in designing greater financial inclusion instruments/mechanisms.

- There is a need to strengthen the role of government and other regulatory bodies in fostering an improved access to a greater financial inclusion agenda. This needs to take into account the need for changing the way banks deliver their services for low-income households. Innovation in this regard should be encouraged or else the interventions will remain short-sighted in nature, without adequate consultation.

- What are banks in South Africa prepared to do to insure greater financial inclusion that goes beyond transactional accounts?

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