The Stokvel Sector: Opportunities and Challenges

By 2009, stokvels (community-based savings clubs) were playing a substantial role in the South African economy. A 2003 study entitled ‘Stokvels: Making Social Cents’, conducted by the University of Cape Town (UCT) Unilever Institute of Strategic Marketing, found that black adults in South Africa invested approximately R12 billion[a] a year in stokvels, burial societies, *mogodisanos*[b] and saving blocks.[1c]

The UCT study revealed that, at the time, 2.5 million South African adults (that is 9% of the adult population of the country) – and one in every two black adults – belonged to a stokvel (burial societies excluded). One year earlier, a 2002 survey conducted by Futurefact[d] had reported that there were 3.5 million stokvel members, and had estimated the reach of burial societies to be much higher – 89 000 societies, with 8 million members.[2]

Further research in 2007 by the financial services group Old Mutual (OM) had indicated that “grey money holdings” – OM’s term for informal savings circulating outside the formal financial sector – had grown to R33 billion over the last decade. It was black communities’ savings, which were held through stokvels, that accounted for the majority of grey money.[3]

Thus, as a group, stokvels presented an apparently attractive market for private sector organisations. According to two key role players in the industry – Andrew Lukhele, founder president of the National Stokvels Association of South Africa (NASASA), and Santy Mokgoatsane, business development manager of the Stokvel Company, which had also been set up with the intention of organising and empowering stokvels – there was a need at the same time for certain stokvels to organise themselves more formally so as to create wealth for themselves – either as formal financial institutions or as small businesses that had the potential to grow.

The Stokvel Phenomenon

Lukhele defined a stokvel as “a type of credit union, or communal buying group, in which a group of people enter into an agreement to contribute a fixed amount of money to a common pool weekly, fortnightly or monthly, to be drawn in rotation according to the rules of the particular stokvel”.[4]

[a] About R5.6 billion was invested in stokvels annually, and R8.4 billion in burial societies.
[b] “In the case of a *mogodisano* scheme, however, a group of people get together under certain rules and contribute some money to one person’s account in a particular month. In the following month, all members contribute to the account of another member in the group, and the procedure is repeated until every member in the group has benefited.” (*www.reservebank.co.za*).
[c] Note that the term ‘stokvels’ is used in this study as the umbrella term for all hybrids of informal savings schemes, including burial societies.
[d] FutureFact is an ongoing multidimensional South African research project – a joint venture between researchers, planners, analysts and futurists. (*www.eighty20.co.za*).

This case was prepared by research associate, Stephanie Townsen, with lecturer, Dr Thabo Mosala. It is intended for classroom use only. It is not intended to demonstrate effective or ineffective handling of a business situation.

Traditionally, a stokvel received contributions from its members, and paid each member in rotation until everyone had received a payout. After this, the stokvel would dissolve and a new one would form. During the lifetime of some stokvels, members were allowed to draw loans from the pool for emergencies, such as school fees. All members eventually benefited from these loans, because of the interest rates charged and fines for late payments. In some stokvels, members would not take turns to receive a payout, but everybody would save up for a specific event such as Christmas. (See **Exhibit 1**). All the money plus interest would then be withdrawn and distributed, and a new fund would be started the following year.

Groups met regularly – weekly, fortnightly or monthly – at individual members' homes and, in those stokvels that distributed funds at each meeting, the host of the party would be the recipient of the stokvel income. Some took the form of ladies' social club meetings, with a tea party for which members would dress up. Other, bigger stokvels offered live entertainment and music. At these meetings, drinks and other refreshments would be for sale, providing additional income for the host, with the understanding that he or she would support the other members in forthcoming parties by buying food and drink from them. (See **Exhibit 2**).

Thus, there was a social as well as a financial benefit to being a stokvel member.[5] A further benefit was the savings that could be negotiated for stokvel members, because of their ability to buy in bulk for their parties.

The generic name for stokvel and similar self-help saving systems was "Rotating Savings and Credit Associations" (ROSCAs). They were found worldwide under different names: *arisans* (Indonesia), *hui* (Vietnam), *partner* (Jamaica), *pasanaku* (Bolivia), *susu* (Ghana), *tontine* (Mali), *gamaivah* (Egypt), *ko* (Japan), *arisan* (Indonesia), *tanda* (Mexico) and *chikola* (Kenya).[6] In South Africa, "stokvels" was an umbrella term for social, burial and savings clubs, which in turn operated under various other names in different regions; for example, *mahodisanas* in Sotho-speaking regions, meaning "to make payback to each other"; *chita* among Hindi-speaking Indians in KwaZulu-Natal; or *gooi-goois* in the Western Cape – derived from the Afrikaans word "gooi", meaning "to throw", in this context meaning "lumping money together".[7]

In its 2005 study, 'Investigating the Financial Lives of the Poor', the Financial Diaries project[e] identified the various savings instruments used by the poor and found that, next to keeping savings at home, stokvels and savings accounts were the most popular ways of saving among the poor in South Africa.[8]

Traditionally, stokvels were dominated by women, as were many of the social gatherings – but mixed and male-only groups were beginning to emerge. FinScope 2003 defined the profile of the typical stokvel member as mainly female (60%). The majority of the members (96%) were black, and 65% of the members were urban-based, with over half of all stokvel members living in Gauteng and KwaZulu-Natal (KZN). Most members (76%) were relatively poor, falling in the LSM1 to LSM5 categories.[9] However, the Unilever study conducted by UCT found that most members were in the middle to upper LSM categories (LSM6 to LSM10), that the average age of participants was between 25 and 49 years (peaking at 35 to 49 years), and that 74% of stokvel members owned their own property.[10] According to FinScope 2003, contributions to stokvels in the LSM1 to LSM5 categories were typically between R50 and R100 per month[11], while the UCT study found the average monthly contribution to be R181. According to NASASA, stokvel members' savings amounted to about R400 million a month.[12]

The UCT findings provided evidence that stokvels were no longer confined only to the poor or rural South African, but that black executives in urban areas participated in very sophisticated stokvels,

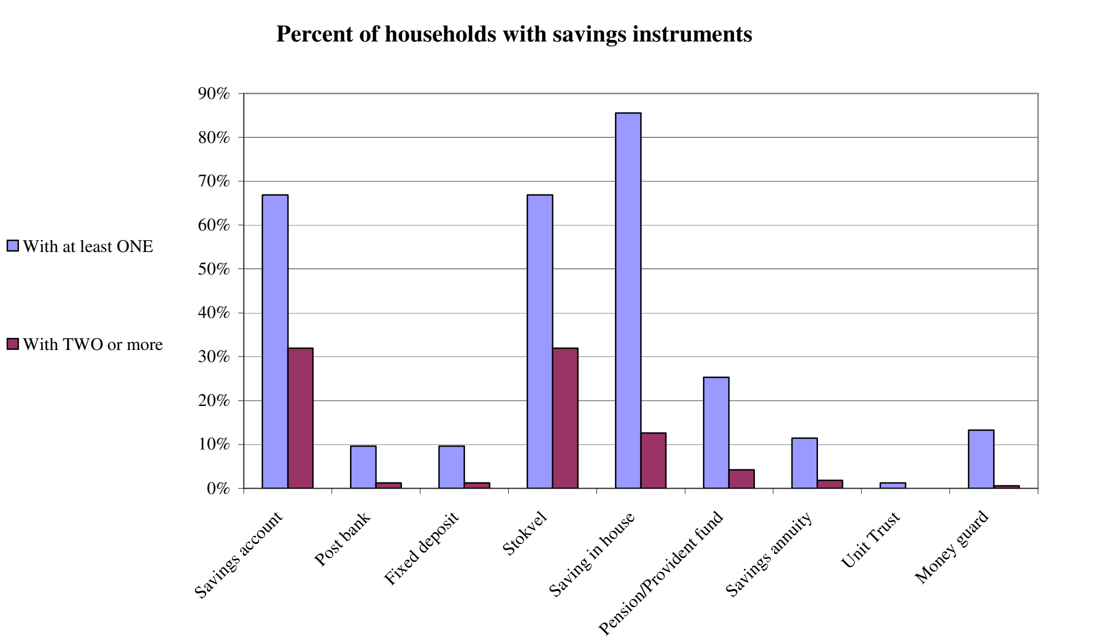
[e] The Financial Diaries project was conducted by the FinMark Trust, an organisation advocating for the extension of formal financial services to the poor.

which generated significant income.[13] Moreover, according to the study, this sector was so powerful that it “touched every industry in SA, either directly or indirectly”.[14]

Origins in SA

With access to formal financial services being difficult for people in poorer, black communities, informal financial services had long played an important role in these communities. The typical South African stokvel had been in existence in black rural and urban communities for many decades. The name “stokvel” originated from the term “stock fairs”, as the rotating cattle auctions of English settlers in the Eastern Cape during the early 19th century were known. These fairs were a lively place for interaction, socialising and gambling among black farmers and labourers. These gatherings later spilled over into meetings of a similar nature in the black communities as a whole, and were no longer associated with stock fairs.[15]

Figure 1 Savings Instruments Used by the Poor



Source: Financial Diaries: ‘Investigating the Financial Lives of the Poor’, 2005 (*www.financialdiaries.com*)

Almost a century later, thousands of black workers had migrated to the Transvaal province (now Gauteng) to work in the gold mines. As a result of poor living conditions, the death rate increased rapidly. The mine workers regarded funerals as very important, because of the traditional African belief that death reunited people with their ancestors. However, the high cost of burials prevented them from being able to hold proper funerals. To help members meet these costs, they started burial societies.[16]

Behind this practice was the tradition of *ubuntu*[f], which meant that members of society looked after each others’ needs. “Trust is the other side of the *ubuntu* coin, which is probably best translated as a ‘common humanity’,” said Professor John Simpson, head of the UCT Unilever Institute of Strategic Marketing.[17] Stokvels were, indeed, built on trust. Although membership was voluntary, new members were introduced on personal recommendation only, and characteristics such as honesty and reliability were key because, in most cases, there were no formal contracts. Therefore, groups would often form

[f] Simplistically speaking, *ubuntu*, an ancient African word, means “humanity to others”, or “I am what I am because of who we all are”' (*www.hanselman.com*).

within families or among church members.[18] For this reason, few members were ever inclined to break a stokvel chain.

In their book, *Banking on Change: Democratising Finance in South Africa,* researchers David Porteus and Ethel Hazelhurst found stokvels to be similar to micro businesses.[19] They noted that stokvels were convenient for their members, that they operated very efficiently, and that members made up to 33% return on their investment from micro-lending and fundraising parties, in some cases.[20]

Over the years, other informal financial organisations such as micro-credit organisations, buying aids and savings clubs had also emerged. Moreover, after 1994, the ANC-led government started to reconstruct South Africa's economy so that it would benefit all South Africans. Accordingly, from 1994 to 2009, the delivery of financial services to the previously unbanked in SA underwent a radical change.

The South African Financial Sector Charter (FSC) – a transformation charter in terms of the Broad-based Black Economic Empowerment (BBBEE) Act – came into effect in January 2004. In terms of the charter, banks, among other institutions, agreed to redress social and economic inequities in the country and broaden the skills and asset base of the whole economy.[21] Banks thus started to provide services to the unbanked and the low-income sector in an effort to encourage them to save, among other things. Before the FSC came into effect, just on 51% of the South African population had a bank account. In 2008, the FinScope South Africa 2008 study found that almost 63% of adult South Africans had a bank account. The table below showed that the "sheer numbers in growth came mainly from the black population".[22]

Table 1 Growth in Bank Accounts in South Africa Between 2006 and 2008

	2006	**2007**	**2008**
Total	51% (15 869 000)	60% (19 040 000)	63% (20 000 000)
Black	45% (10 700 000	56% (13 500 000)	57% (14 000 000)
White	91% (3 150 000)	95% (3 350 000)	94% (3 400 000)
Coloured	53% (1 600 000)	54% (1 600 000)	61% (1 855 000)
Indian/Asian	58% (500 000)	75% (650 000)	84% (780 000)

Source: *www.finmarktrust.co.za*

Yet, despite this, Lukhele noted that there remained a general mistrust of banks amongst the poor, because they had for so many years regarded banks as ruthless capitalist organisations that would exploit the poor.[23]

Categories of Stokvels

The simplest form of stokvel did not generate additional income by extending loans and charging interest, nor did it hold any assets – it merely helped members to save. Other stokvels offered a range of services including rotating credit and savings, funeral insurance and social activities. The UCT study identified eight different categories of stokvel, admitting that there was a certain degree of overlap between them. Some of the categories would also include *Umgalelo* clubs[g], which differentiated themselves from other stokvels by their religious nature. At these stokvels, meetings opened with a prayer and liquor was prohibited.[24]

The categories of stokvel included the following[25]:

- the **contributions stokvel,** a traditional savings scheme in which members contributed a fixed amount of money to a common pool weekly, fortnightly or monthly. Members would receive the lump sum on a rotational basis, and they were free to use the money for any purpose;
- the **basic stokvel,** which differed from the contributions stokvel in that it could also function as a savings scheme that paid out for specific events, such as for a death, or at Christmas;

[g] Umgalelo clubs were generally found in the Western Cape.

- the **grocery stokvel,** which collected the grocery or cash coupons that members received from supermarket chains when they bought provisions for the stokvel parties throughout the year, and distributed these coupons at the end of the saving period;
- the **purchasing stokvel**, which collected pool money on a regular basis and used it to purchase big items that could be used by the group to generate an income – for example, such as a marquee that could be rented out to the community for use on special occasions;
- the **family stokvel**, which invested the money in formal bank accounts or financial services. The money was paid out according to the needs of the family, but generally the funds were used for buying land or cars, for business investments, or for deposits on bank loans;
- the **investment group**, which invested money in order to benefit from the interest. When an investment paid out, the money was split but, in some cases, part of it would be kept back for reinvestment;
- the **party stokvel**, which arranged street or jazz parties, often with live entertainment. An entrance fee would be charged, and food and drink would be on sale. Members then shared in the profits. Some of these stokvels grew into sophisticated businesses; and
- the **borrowing stokvel** (quite rare in South Africa, according to FinMark Trust), which lent money at high monthly interest rates (between 20% and 50%) to members and sub-members from its regular pool money.

Makgotlas or **burial societies** also played an important role in the community. They could be informal or relatively formal funeral schemes, but were not offered by the formal financial sector. A burial society provided "informal insurance" to help the family to transport the body to its traditional home and pay for the funeral. These burial societies also provided practical support for the family during the preparations; for example, by helping to prepare food. The societies operated in a similar way to stokvels, and collected monthly fees. In some burial societies, members had to wear a uniform, and a new member could only benefit after a three-month waiting period.[26] The 'Stokvels: Making Social Cents?' study, however, revealed that the burial society market also had its share of shady funeral schemes, run by black entrepreneurs who exploited the poor by making enormous profits.[27]

Challenges

Although defaulting on payment was not a common occurrence, unforeseen factors such as unemployment, illness or death could have an impact on stokvels, and the economic crisis of 2008/2009 also began to impact the stokvel sector. A black consumer insights agency, Foshizi, reported on a survey that was conducted in late 2008 that 54% of the respondents, who were members of stokvel groups, complained that other members in their stokvels were starting to miss payments.[28]

Finally, HIV/AIDS was also taking its toll. The UCT study pointed out that the rising number of deaths from HIV/AIDS would have an increasingly negative effect on the future of burial societies.[29]

The National Stokvels Association of South Africa (NASASA)

Under the apartheid dispensation, party stokvels had to endure much police harassment because of the liquor sales at such parties. Taverns and shebeens had to be licenced to sell liquor, but often stokvels were perceived as being shebeens, and people would be arrested for selling liquor illegally. In effect, NASASA was born in 1988 out of the necessity to assist stokvels in this matter. For many years, the organisation fought on behalf of stokvels, to allow them to be differentiated from taverns and shebeens because of their rotating nature. A building that housed a tavern had to comply with certain requirements, which NASASA felt could not, in all fairness, be applied to the individual stokvel houses. The stokvels believed the problem was, in fact, aggravated by tavern owners, who had feared the unwelcome competition. NASASA managed to solve the matter after 1994 under the new dispensation.

Founded by Andrew Lukhele, Thabo Sithenjwa and Mokgoatsane, NASASA was a national, self-regulating umbrella body for all stokvels – including burial societies and other informal savings clubs.

It was registered as a Section 21 (non-profit) company and served by appointment of the Minister of Finance on the Standing Committee for the Revision of the Banks Act. By 2009, NASASA had 150 000 individual members from 11 000 groups nationwide. Members and affiliates were required to agree to operate their stokvel according to a code of conduct drawn up by NASASA.[30]

NASASA defined its role as that of a "representative body, acting as an intermediary between members and Government, the business sector and organs of civil society, endeavouring to promote the culture of ubuntu to the formal sector whereby members gained recognition for their role in society" (see **Exhibit 3**).[31] For example, NASASA had also taken on the role of pointing out business opportunities to their members. Yet, despite the organisation's good intentions, some stokvel members had been angry with Lukhele for promoting stokvels to the formal sector. Lukhele recalled that some stokvels accused him at the time "of taking the people's concept to the white people". Lukhele believed that this was because they were trying to protect what was theirs, and did not have the vision to see what benefits could come their way if stokvels received the recognition they deserved.[32]

In the past, NASASA members had been required to pay a subscription fee (R30 per year), but this changed in 2004 when the organisation was restructured. The idea was to scrap subscription fees in favour of allowing members to profit as shareholders from the activities of NASASA's business arm, NASASA Relations Company (Pty) Ltd. The company's shares were controlled by the NASASA Trust, of which the members were beneficiaries. The objective of the company was to partner in business deals with stokvel suppliers, and for members eventually to share in the profits of the business deals. In the meantime, until the profits were realised, NASASA received funding from development agencies such as USAID and the Independent Development Trust (IDT).[33]

Lukhele noted that, as a non-profit organisation, NASASA was not in a position to raise the necessary money to buy into a company, but it was often invited to participate in BEE deals, for example, because of its grassroots membership profile.[34] Many of the BEE schemes were funded using special purpose vehicles (SPVs), where third parties financed the deals on behalf of NASASA.[35]

Regulatory Framework

After the first democratic elections in 1994, the South African Reserve Bank (SARB) realised that it was in its best interests to support and encourage informal community-based saving groups, and released a document in 1996 outlining the government's position on stokvels (see **Exhibit 4**).

The document issued warnings about certain illegal pyramid schemes posing as stokvels, which had mushroomed in the 1990s. These schemes were easily identified for offering unusually high returns on investments – up to 300% – and typically made the payouts from members' subscriptions, without having sufficient reserves. A case in point was the Sun Multi Serve scheme. This scheme posed as a stokvel until the Registrar of Banks froze its funds on discovering that it held R40 million in funds, which was above the limit of R9.9 million that was stipulated by the Banks Act. Several other schemes collapsed around this time, costing unsuspecting "investors" R80 million during 1996 alone.[36]

In an effort to stamp out pyramid schemes, NASASA and other organisations advocated stricter measures or legislation to protect the public. Lukhele had proposed the founding of an Institute for Informal Finance to educate and advise stokvel investors and organisers, and possibly to have regulatory powers. To date, nothing has come of the idea, and, in one way or another, NASASA filled the educational role that Lukhele had envisaged.

On 1 December 2006, the SARB introduced further legislation pertaining specifically to stokvels. This amendment to the Banks Act (Act 94 of 1990) defined what constituted a stokvel. (See **Exhibit 4**). In terms of this definition, stokvel activities were seen as falling outside of the definition of a bank.[37] This meant that stokvels were viewed as legal, self-governing entities, operating outside the regulations covering banks. They were, therefore, allowed to take deposits from their members only and, in 2009, contributions to stokvels were not allowed to exceed R9.99 million a year. Any stokvel exceeding this amount would be required to register as a mutual bank[h] and would then legally fall under the Mutual Banks Amendment Act, 1994 (Act 25 of 1994). Stokvels also had to affiliate themselves with NASASA.[38]

Formal Services Provided to the Stokvel Market

Financial Services to Stokvels

Before the founding of NASASA in 1988, the only formal financial institution to target stokvels had been Perm (a building society that was incorporated into the Nedbank group in 1995, rebranded as Permanent Bank and then fully integrated into Nedbank activities in 2005).[39] In 1984, Perm – known as the poor man's bank during the 1960s, identified stokvels as a massive industry. The building society had noticed an increase in the number of group savings accounts being opened, finding that 2 500 groups had already opened accounts with the organisation. The groups had an average balance of R2 500 – more than R5 million in total. After subsequent in-depth research, Perm developed a customised account in 1988 called the Club Account, which catered for the needs of stokvels. The features of this account formed the backbone of similar accounts that other banks started to offer soon thereafter.

Based on what stokvel members had indicated they would like in an account, the Club Account included the following features:[40]

- as the balance grew, the rate of interest grew;
- interest was capitalised monthly;
- there was no minimum balance – members could draw every cent out of the account without closing it, and could then start saving afresh from a zero balance;
- there were no service charges;
- every club was given a savings book, so that members could keep track of their balance;
- there was no limit on the number of withdrawals; and
- the stokvel itself stipulated which members were authorised to sign for withdrawals.

The Club Account became hugely successful, so much so that within two years – by the end of 1990 – more than 44 500 accounts with a total balance of more than R96 million had been opened.[41] Lukhele used the media to create awareness regarding financial products for stokvels, and convinced Perm to sponsor NASASA's regular column – the "Stokvel Corner" – which appeared in *The Sowetan*, a newspaper with a readership of close to one million people at the time.[42] Lukhele noted that the relationship turned out to be a very beneficial for all three parties: *the Sowetan* readership increased, Perm's Club Account clientele grew, and NASASA became known to the stokvel market.[43]

Since the first forays of Perm into the stokvel arena, South African banks had become increasingly interested in having a share of this market and, by 2009, all the major South African banks were offering a customised savings product to stokvels. These included the Absa Club Account, the Society Scheme of Standard Bank, the FNB Stokvel Account (see **Exhibit 5**), the Nedbank Club Account, Bakgotsi of Postbank, and Club Save of Ithala Bank. Research commissioned by The Stokvel Company in 2007 found that Absa was the market leader, with 40% market share, followed by FNB with 18%, Ithala Bank with 12%, Standard Bank with 5% and Postbank with 3%.[44]

The banks all required stokvels to present their constitutions and to appoint a certain number of members as signatories (see **Exhibit 6**). The signatories had to comply with the Financial Intelligence Centre Act (FICA), and thus had to present proof of identity and a fixed address, among other things. Lukhele noted that, because some stokvels had a rather short lifespan, the banks had adopted different strategies to encourage stokvel members to keep their deposits in the bank for longer.[45] Standard Bank's Society Scheme, for example, waived the monthly management fee and bank charges on debit

[h] A mutual bank is a savings bank that is owned by, and operated for, the benefit of its depositors (*www.investorwords.com*).

transactions, and entered the stokvel into a monthly "save and win" competition if the account balance remained above R5 000. In 2008, Absa's Club Account started offering free accidental death cover for 10 nominated stokvel members, to try to ensure that groups stayed with Absa.[46] Moreover, Absa was the only bank that allowed a stokvel account to stay active for three months with a zero balance.[47] Both Absa and Standard Bank offered a stokvel constitution for their account holders to use free of charge.

Some formal financial services had met with mixed success in the stokvel market. When Standard Bank launched its Society Scheme in 1991 – a product that was very similar to other stokvel savings accounts – there was disappointment on the part of some black community leaders. While they were not unhappy with the new product, they wanted the banks to offer more investment products and services, at better interest rates. They felt that the banks were using the substantial funds in the stokvel accounts to promote white business, while stokvel members battled to get home or business loans. They requested that, at the very least, these funds be invested in the development of black communities and that financial institutions educate stokvels in financial matters. Simon White, CEO of The Stokvel Company, also accused the banks of having "old and tired products that added little or no value to the financial well-being of stokvels", and of taking them for granted.[48]

In 1993 NASASA, former financial services group the Board of Executors (BoE) Bank (which was bought by Nedbank in 2002) and FNB joined forces to develop a unit trust product called The People's Benefit Scheme. Lukhele explained that the product aimed to help groups make the most of their savings, and to provide them with banking track records and borrowing opportunities that the individual members could not achieve on their own.[49] In the end, however, the product did not take off, and was later discontinued. Lukhele believed this was because the product was probably "ahead of its time, too relevant too soon".[50]

In 2007, the Association of Units Trusts of South Africa started circulating a video to stokvels on the benefits of using unit trusts for long-term investments, in an effort to educate the market. In the same year, investment company STANLIB[i] launched a unit trust product for stokvels called Chuma. The capital was invested in the conservative STANLIB Cash Plus Fund, and the interest generated was then invested in a moderate risk product at a higher interest rate. The suggested minimum investment period was three years or longer, as the aim was to grow the money over the long term. Account holders could commit as little as R50 a month, or make a minimum lump sum investment of R1 000. There were no lock-ins, no penalties for early withdrawal and cash could be accessed in 48 hours. Lukhele recalled that Chuma was "welcomed as an effort that would challenge banks to design innovative products for the savings clubs".[51] However, by 2009, the product had achieved only marginal success, having attracted only about 100 clients, according to retail chief operating officer at STANLIB Wealth, Anthony Katakuzinos.[52] A contributing factor to the slow uptake of the product could have been that it was serving neither the more sophisticated stokvels – being too conservative for them – nor the other stokvels, which expected to reap benefits sooner to fulfil their needs. He added that, although STANLIB had made efforts to promote the product more effectively, marketing to stokvels was difficult because it required staff to spend hours over weekends attending stokvel meetings, with no guarantee of success. He concluded that a better understanding of the stokvel market would certainly benefit STANLIB hugely.[53]

Retail Sector Services to Stokvels

Various organisations in the retail sector saw opportunities in gaining the loyalty of the stokvel market. The large retail-cum-wholesale chain, Makro, for example, had been targeting stokvel groups since 2004 by offering large discounts on bulk buying for stokvel parties, or for other special events such as Christmas. Makro invited the groups to come and spend their year-end savings in its stores and, among other incentives, rewarded the three groups that spent the most money during the festive

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[i] STANLIB was formed in 2002 when Liberty Group Limited and Standard Bank Limited merged their asset and wealth management businesses (*www.stanlib.com*).

season with vouchers to the value of R250. Some stores even delivered the goods free of charge, to cater for the fact that some stokvels found it difficult to transport their bulky purchases. Makro reported in 2007 that its relationship with stokvels had "yielded more sales than had been expected".[54]

Grocery manufacturing organisation Unilever had a special interest in the market, as indicated by its association with UCT's research into the stokvel sector. The company made its products available at a discount through the retail chains to stokvel groups, and offered cash vouchers with purchases worth more than R5 000, for example.[55]

However, in 2009, Shoprite's brand manager, Bridget Goldfeder, said that Shoprite was battling to reconcile its own profit-driven objectives with the objectives of those stokvels that were worth R250 000 or more, and which wanted to use their wealth to negotiate substantially lower prices. Goldfeder asserted that their demands left no margin for Shoprite and said that, while the group wanted stokvel business, the best it could do was to offer smaller discounts to the smaller stokvels.[56] To this end, Shoprite campaigned mostly in the festive season, using the *Stokvel Times* to reach this market, and in KZN, where most of its market was located.

Other retailers had also seen opportunities in the stokvel concept – essentially starting stokvels to assist customers to purchase big items, such as cars. A case in point was a car financing scheme put together by i-Save and Eagle Corner, a large Ford and Mazda dealership. Their concept was directly based on what stokvels such as the Birthday Girls Social Club did in saving towards a down payment on a car. In 2002, the two organisations set up a consortium-based vehicle collective-purchasing system. It brought together groups (or consortia) of 120 members, which each had the common goal of buying a car. They allocated two new vehicles to members every month by means of a draw, and these were then handed over to the members who tendered the highest number of instalments in advance. At the end of the 60-month period, each member would have taken ownership of a new vehicle, and the consortium was disbanded. In this way, people who would not ordinarily qualify for a loan from a formal financial institution had the opportunity to purchase their own car. No interest was payable, and instalment adjustments were made as and when car prices increased. John Landey, MD of Eagle Corner, pointed out that this kind of car financing accounted for about 20% of Brazil's new vehicle sales.[57]

Soon after Eagle Corner's initiative, DaimlerChrysler started a scheme called Dream Drive, with 60 members. Each month, the group divided the cost of a new car between its 60 members and purchased a new car for one of its members. No deposit was required, and no interest was necessary.

The impact of the National Credit Act (NCA) of 2007 on these stokvel-type finance schemes was as yet unknown, but what was more certain, according to Lukhele, was "that the forms and activities of these informal savings schemes are subject to continuous experimentation".[58]

Opportunities for Stokvels in the Formal Sector

Lukhele believed that there were a number of opportunities that stokvels could take advantage of in the formal sector, and that these opportunities would help to move stokvels "out of the nursery" and into prosperity.

Cooperative Opportunities

Since 1994, the government had instituted a number of initiatives aimed at alleviating poverty by making funds available for small, medium and micro enterprises (SMMEs). One initiative of the Department of Trade and Industry (DTI) was the Co-operative Incentive Scheme, which aimed to help cooperatives whose members were poor and lacked skills. A cooperative had to be made up of no less than five people, and had to aim to meet the common needs of the group. It could be involved in any kind of small business, such as sewing or hairdressing. The DTI's scheme contributed a minimum amount of R10 000 and a maximum amount of R300 000 to qualifying cooperatives.[59]

Although cooperatives were businesses, Lukhele regarded them as being similar in nature to stokvels. To him, a cooperative was a form of a stokvel: the difference being that cooperatives were legal entities and enjoyed legal protection and support from the government. He believed that becoming a cooperative could be a means for stokvels to migrate to the next level, and venture into small business.[60] His view was that stokvels would probably be suited to becoming either primary or secondary financial services cooperatives. Primary financial services cooperatives provided financial services to members only, and secondary financial services cooperatives provided finance to primary cooperatives.[61] An example was a savings and loan cooperative, where members pooled their savings and made loans to each other, which was in line with the activities of stokvels such as the Mamello E Tswala Katleho Society. Every weekend, the members gathered and contributed R200 to the pool. Members were then allowed to borrow money from the pool at a 30% rate of interest, and the saved money was shared every six months.[62]

In his address at the International Co-operatives Day celebrations on 5 July 2008, the Minister of Trade and Industry, Mandisi Mpahlwa, indicated that he agreed with this point of view. He called stokvels "a formidable economic force" and encouraged them to become involved in cooperatives in all sectors of the South African economy.[63]

In this regard, Lukhele believed that there were opportunities for stokvels to turn themselves into village Financial Service Cooperatives (FSCs), or village banks for short. Village banks had to register as cooperatives, having been exempted from the requirements made of banks under the Bank Act. A village bank took the savings of its members and deposited them at a commercial bank. The commercial bank afforded the village bank all the normal services – including investment advice – at better rates than it could provide services to, say, a thousand or more people individually. Once a village bank had accumulated savings over time, it could start providing credit to its members, earning interest on the repayments. The government meant for village banks to be vehicles for economic empowerment and to benefit the whole community. This meant that, for a village bank to be successful, the community had to be committed to supporting it and using it, and be able to run it efficiently.[64]

Interaction with the Public Sector

NASASA had tried to take advantage of opportunities to work with the public sector, but these had not worked particularly well for the organisation and its members. In 2004, NASASA had seen an opportunity for its members, when the South African Post Office invited private contractors to tender for the supply of cellular products and services on behalf of the Post Office. To this end, NASASA Relations Company entered into a partnership with cellular retailer Glocell and created a company called NASASA Cellular. NASASA Cellular was appointed as the exclusive provider to sell and market cellular services and products via the Post Office's network of 2 664 branches. Lukhele maintained that, as shareholders of NASASA, its members would have benefited substantially from this deal. They would have had access to Postbank (a division of the Post Office), very good cellphone benefits and emergency rescue benefits. No other banking network reached the unbanked as well as Postbank did, and it would have won those stokvel members over who were still distrustful of the bigger banks.[65] However, the deal failed when the Post Office reneged on its agreement with NASASA Cellular and signed up with MTN, Cell C and Vodacom instead.

In the same year, Lukhele also tried to convince the government to open up investment in its RSA Government Retail Bond to stokvels. The Bond was reasonably affordable to the middle- to upper-income groups. Lukhele's proposal was unsuccessful, but he believed that this did not mean that other similar future opportunities could not be adapted for groups.[66]

Opportunities in the Private Sector

Lukhele noted that stokvels were not that quick to spot a business opportunity for themselves. This meant that they were slow to take advantage of such opportunities. A case in point was Inzalo, the black economic empowerment deal announced by petrochemical company Sasol in 2008, which made provision for stokvels and other groups to subscribe to shares in conjunction with the state-owned National Empowerment Fund (NEF). Sasol had teamed up with stockbroker Legae Securities, to provide stokvel members with the necessary financial education and advice. Sasol representatives had visited some stokvels by invitation, and explained to them the advantages of long-term investments. However, a stokvel member remarked that to raise the money was never a problem, but to change old habits was. Many members had become accustomed to receiving payouts each December, and to convince them to convert to long-term investments was challenging.[67]

The Sasol initiative was not alone in the challenges it experienced. Lukhele observed too that early black empowerment deals that had favoured stokvel participation did not fare too well.[68] Only about 445 stokvels bought shares from Telkom in 2003. Very few had bought MTN's shares. Despite the fact that the NEF made ample provision for stokvels to buy shares, only a few stokvels and burial societies took up the offer, with the result that they were only allocated a 1.5% stake in MTN in the end.[69]

At the same time, attempts by stokvels to get involved in the formal sector had not met with substantial success. In 1994, NASASA became a co-founder of Real Africa Investments (RAIL) – one of the first BEE companies to list on the JSE – when it bought a 6% stake in the organisation. At the time, NASASA had had to raise the necessary funding from Futuregrowth, a social responsible investment fund operated by Southern Life. Lukhele explained that the benefit of acquiring these shares rested in the fact that members, in effect, became part-owners of the insurance company, African Life Insurance, and might be able to influence the development of products that would better suit them as a group.[70] However, in 1997, NASASA had to sell its shares to repay Futuregrowth, and RAIL itself folded in the late 1990s.

The Stokvel Company, founded in 2006 – and with 3 400 stokvels as members – also aimed to unlock opportunities for its members and endeavoured to help stokvels to understand the "economic dynamics" entailed in generating their own income, according to general manager, Santy Motgoatsane.[71] Its ventures thus far had also met with mixed success, however.

A partnership between The Stokvel Company and Vuyo Support Services resulted in a company called Stokvel Car Rental (Pty) Ltd. The car rental company targeted the stokvel market and, using Hertz as a supplier, offered reduced rates to all stokvel members.[72] It operated during 2008 from Sandton and the OR Thambo International Airport in Johannesburg. However, the business closed down in January 2009 because of misuse of the vehicles, and failure on the part of its customers to pay the required excess in the event of accidents.[73]

The company also had plans to venture into the property market, and to educate its members about property and prepare them for buying their own property in future. The Stokvel Media, a division of The Stokvel Company, had had more success with a quarterly magazine for stokvels called *Stokvel Times*, which it launched in 2006 in a joint venture with the Results Media Group. The company communicated to stokvels via the magazine, and the private sector used it as a vehicle to advertise to stokvels.

A start-up company of The Stokvel Company, called Techno Spaza, spearheaded by Simon White, had also been actively involved in identifying new business opportunities for stokvels. White sold his house and received funding from Blitec shareholders, with whom he had a former connection to start up Techno Spaza. Its most recent partnership was with Standard Bank and Metropolitan Life in 2007, for a portal called stokvelonline. To allow stokvels to have ready access to the portal, the company planned to open its first Techno Spaza Support Centre in the township of Atteridgeville, in the east of Tshwane. In April 2009, however, the company was still looking for partners to fund the scheme, which would cost in the region of R6 million.[74]

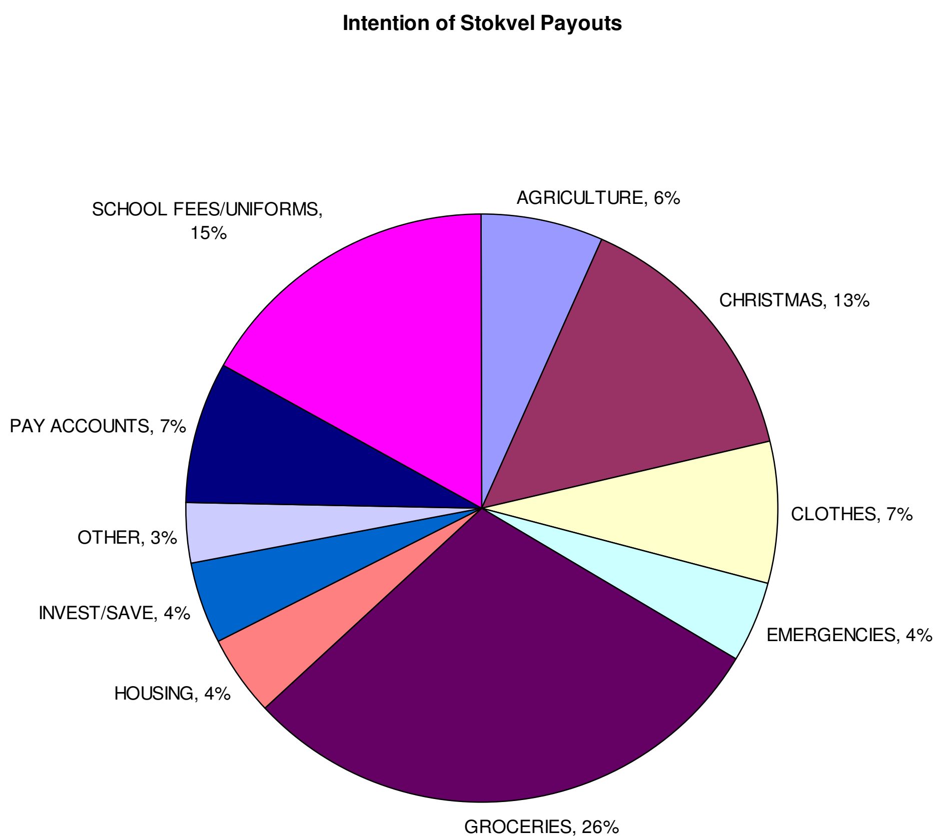
The aim behind the portal was to give stokvels access to conferencing facilities where they would be able to meet, listen to speakers and hear about success stories; and to provide them with Internet technology. The idea behind using Internet technology was to allow for learning to be shared – particularly financial market learning; to make stokvels attractive to the younger generation; and to expose the stokvel market to the information technology (IT) sector in general. Stokvels could also identify new partners and business opportunities through the portal.[75]

The spaza would be owned by the company, but it would sell a percentage to a stokvel group in a particular community to operate as a business and generate income for itself through, for example, advertisements on the site and by charging an annual subscription fee to parties interested in premium information about the stokvel market.

Conclusion

Thus, in 2009, the stokvel sector remained largely rooted in its informal origins, proving to be reluctant to venture into more formal activities and to provide challenging opportunities for private sector organisations wishing to take advantage of the opportunities the sector presented. Whether stokvels would make the move "out of the nursery" to any great extent was still unclear. At the same time, private sector companies wishing to offer products and services to this sector had yet to get the formula consistently right. Lukhele believed that greater understanding of the underlying dynamics of stokvels and the power of the social interaction between members was needed for this to be possible.[76] The UCT study agreed, adding that the approach of the private sector had been too Eurocentric thus far, and needed to take greater heed of the role of group affinity and network marketing in this sector.[77]

Exhibit 1 Usage of Stokvel Savings



Source: Financial Diaries, 'Investigating the Financial Lives of the Poor', 2005, available *www.financialdiaries.com* .

Exhibit 2 Invitations to Stokvel Parties as Advertised in Newspapers

Welcome to M-NET Host: Bra Dan Venue: 1809 Block UX Mabopane When: 18-22 Dec 1989 Admin: The real thing	**Welcome to Levison's** Host: Chippa Ngema Venue: 1288 Emndeni South When: 9 April 88 onwards Admin: Enjoy in style
Here Comes T-Connection Who: Pitso Makololo Where: 8480 Zone 6 Diepkloof When: 9 April 1988 onwards Admin: Feel the music	**Welcome to Palazzo Pitti** Sponsor: Nobantu Nqolobe Cabin: 620 Chiawelo Extension Date: 16 April 88 Admin: Dress to kill
Let's Enjoy With Stock Exchange Doctor: Khanyi Surgery: 120A Zone 5 Meadowlands Appointment: 23 April 88 Admin: Enjoy the bulls and bears	**Welcome to Lacoste** Accused: Victor Trial: 3 March 89 onwards Court: 366 Mlaba Street, Vosloorus Admin: Get down
Welcome to Benetton Host: Santy Venue: Block F, Mamelodi West When: 11 March 89 onwards Admin: Uniting all colours	**Bank with Bob Save** Host: Dan Ngobeni Where: 12398 Koni Str, Daveyton When: 17 March 89 Admin: Enjoy your savings
Win with Zola Budd Host: Joe Venue: 8 Maokeng Section, Tembisa When: 24 March 89 Admin: Run the distance	**Welcome to Black Chain** Host: George Masilo Venue: 626 Tavern, Daveyton When: 18 March 89 onwards Admin: Support the black rand

Source: courtesy of NASASA, 2009

Exhibit 3 Aims and Objectives of NASASA

- To serve as the mouthpiece for all stokvels affiliated to NASASA.
- To promote a positive perception of the stokvel movement in the community as being an integral part of the economic mainstream, and as a potential creator of jobs and wealth.
- To research, formulate and implement development plans in order to improve the operational efficiency and effectiveness of stokvels.
- To help stokvel members to promote the stokvel concept as a valuable self-help scheme.
- To arrange better deals with shops and other suppliers, such as furniture stores, hotels, supermarkets and liquor stores.
- To provide an educational counselling service for members on a variety of subjects, such as housing, financial management and legal advice.
- To provide training for members to enable them to operate in a professional and profitable way, including education and training on different forms of investments, and to negotiate on behalf of members for better deals with financial institutions.
- To work in close cooperation with other business bodies to stimulate skills among members.
- To serve as a marketing vehicle to facilitate the interface between black informal financial schemes and all interested parties.
- To assist and to encourage stokvel members in starting business ventures and cooperatives.
- To initiate, promote or oppose legislation which affects stokvels.
- To create a spirit of belonging and togetherness among all stokvels in South Africa by organising regular educational and other functions for members.
- To create our own financial institutions that will correctly and relevantly serve the needs of our communities.

Source: courtesy of NASASA

Exhibit 4 Ministry of Finance: Government's Position on Community-based Savings Schemes, 15 January 1996

In a country with a relatively low savings rate and a large community operating and relying on the informal financial sector, it is prudent and vital for government to support and encourage informal community-based savings. It is against this background that community schemes such as social, burial and savings clubs, commonly referred to as “stokvels”, have been recognised by Government. Hence, legislation pertaining to stokvels has been introduced. In this regard, it may be of interest to note that South Africa may have been the first country in Africa formally to vest the aforementioned schemes with legal status.

Government is, however, aware that there are so-called savings schemes purporting to operate on the “stokvel” principle, but which are not savings schemes in the traditional sense. The basis for the sustainability of these schemes, unlike in the case of “stokvels”, relies on recruiting new members. In order to pay higher returns on the “investments” of members, the investments of new members are used to pay the promised returns of each previous membership level. In order for everyone to profit, an unlimited supply of willing investors has to be introduced to the scheme continuously as new members. Therefore as soon as there is a decline in membership, new members, and existing members who have not yet qualified for any distribution, will have to wait that much longer for their turn, or may even lose their contributions. In fact, it is at times questionable whether these organisations are in a position to refund contributions if so required. It is also not clear whether members are made fully aware of these risks when they enrol.

Operating a scheme under the aforementioned conditions is, and will remain, in contravention of the Banks Act. “Stokvels” have been granted legal status under the provisions of the Banks Act and may therefore lawfully conduct business within this country, provided that such schemes are operated within the scope and ambit of the enabling legislation.

Government is mindful of the fact that schemes may have operated in the past in contravention of the Banks Act, unbeknown to the Office for Banks and may thus have escaped prosecution. The Government of National Unity is, however, committed to protecting depositors by ensuring compliance with the legislative control measures in future. This is all the more important in the case of the schemes described above, in that it is often the unsuspecting investors, who do not understand the risk involved or the complex and, at times, very vague payout ratios, that stand to lose their capital.

In view of Government’s commitment to encouraging savings, and in order to give an opportunity to those who may unwittingly have transgressed the law, all existing community savings schemes that do not already comply with the existing legislation are urged to convert themselves into societies and/or associations that comply strictly therewith. To this end, the National Stokvels Association of South Africa (“NASASA”) has been invited by Government to assist the Office for Banks in facilitating the normalisation of the schemes which currently fall outside the legal framework, in consultation with its members. The recent proliferation of the type of savings scheme described above, and a review of the legislation by the Office for Banks, tend to indicate that certain shortcomings may exist with regard to current “stokvel” legislation. Consequently, in an effort to make the law more user-friendly on the one hand, and more specific on the other with regard to the type of schema that would be allowed, the Office for Banks and Government are currently consulting with the various stakeholders, including NASASA, to find a satisfactory solution.

APPENDIX: Why schemes such as those described above (referred to in this document as "non-stokvel" schemes) cannot fall into the accepted boundaries of a stokvel

Stokvels generally enable people from within a particular group to save, and in addition to being afforded a turn to receive the contributions of all members of the group, members satisfy their need for social interaction, sharing and belonging. In recognition of the social and economic upliftment role of stokvels, credit unions and employees' savings clubs in the South African environment, the Registrar of Banks, on 4 January 1994, with the approval of the Minister of Finance, issued a Government Notice whereby such schemes could henceforth lawfully conducted their respective operations within this country, provided that such "stokvel" schemes are operated within the scope and ambit of the contents of the relevant Government Notice.

In order to qualify lawfully as a stokvel, a common bond has to exist between the members of a scheme. A common bond exists between members of a specific group that may be described as a stokvel and that:

1. Is a formal or informal rotating credit scheme with entertainment, social and economic functions. In a stokvel, people enter into an agreement periodically to contribute a fixed amount of money to a common pool. This money, or a portion thereof, may be drawn by members, either in rotation or in a time of need. Under the "non-stokvel" schemes, a person may "invest" a single fixed amount with the scheme for a limited period and qualify for a payout of sometimes up to three times the "investment".

2. Fundamentally consists of members who have pledged mutual support to each other towards the attainment of specific objectives. Stokvels go to great lengths to admit only reliable and trusted members, following personal recommendations, since continuity is crucial to the working of a stokvel. This is why stokvels are often formed by neighbours, members of the same community or members of a church congregation. Any member of the public throughout South Africa may become a member of "non-stokvel" schemes by simply paying a membership fee. Owing to the method of operation of such "non-stokvel" schemes, the recruitment of new members in large numbers is crucial to their viability.

The rules of a legal stokvel are such that no member, at any time, albeit subject to any such notice as may be prescribed in the rules of the group, may withdraw the full amount of such member's contributions. Two culturally proven schemes are the "mogadisano" and "letsima" schemes. In the case of a "mogadisano" scheme, a group of people get together under certain rules and contribute some money into one person's account in a particular month. In the following month, all members again contribute into the account of another member in the group, and the procedure is repeated until every member in the group has benefited. In the case of a "letsima" scheme, there is no physical flow of cash.

In "non-stokvel" schemes, a member is entitled, after a period of time, with prior notice, to withdraw his/her total contribution plus "interest". In terms of the provisions of the Mutual Banks Act, the minimum required capital to register as a mutual bank is an amount of R10 million. It was therefore felt, that any "stokvel" of which the subscriptions exceeded R9.99 million would be required to register as a mutual bank.

Having regard to the aforegoing, it should be reasonably clear that the activities and methods of operation of "non-stokvel" schemes preclude them from being regarded as a stokvel. Government would therefore urge such "non-stokvel" schemes, in their own interests and those of their members, to convert themselves into structures that comply with stokvel legislation, or, alternatively, to register formally as banks or mutual banks.

Source: South African Government Information, Issued by the Ministry of Finance, 1996, available *www.gov.za*
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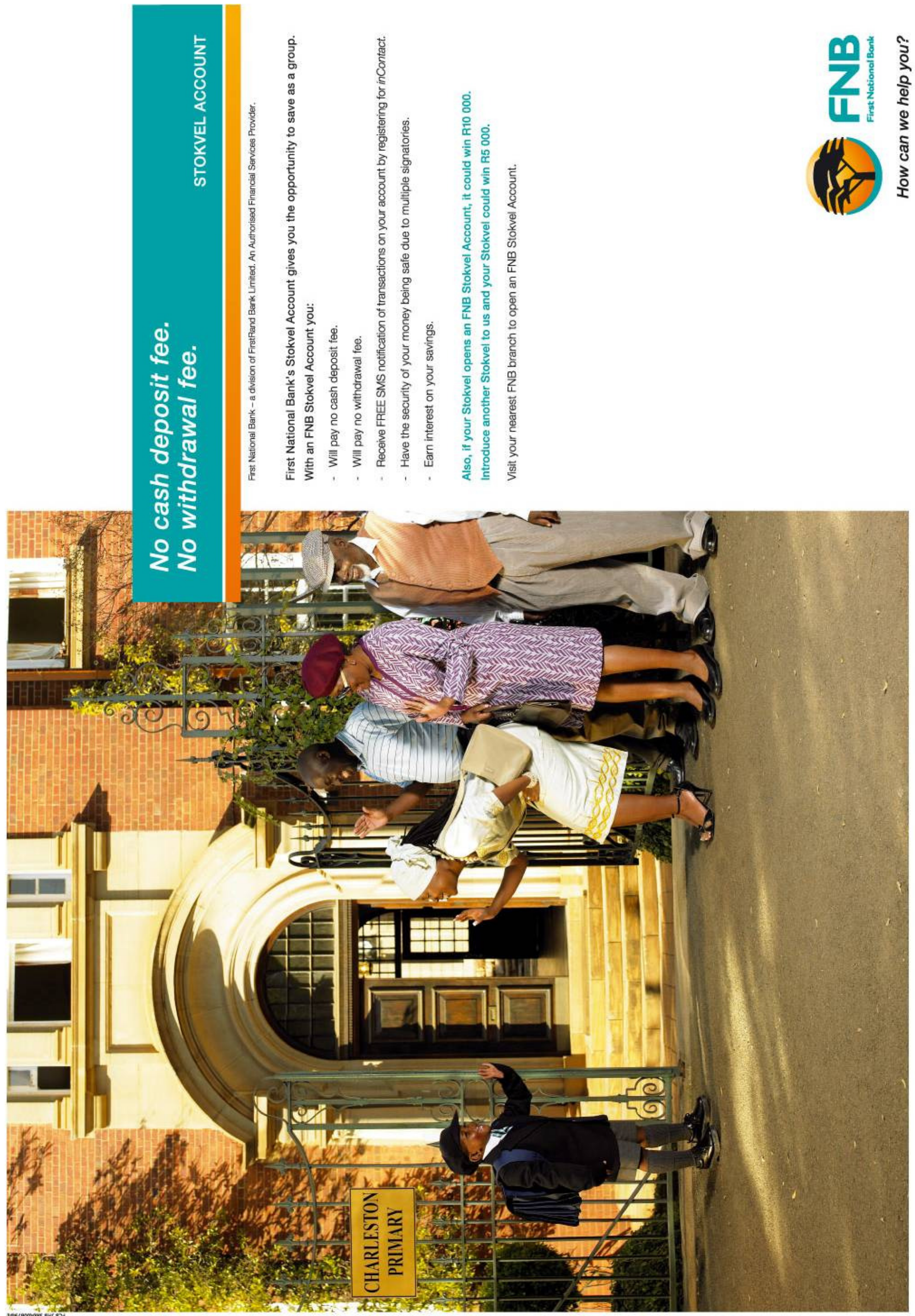
Exhibit 5 Advertisement of the FNB Club Account



Source: courtesy of FNB, 2009.

Exhibit 6 Example of a Stokvel Constitution

The name of the stokvel is…………………………………………………………………………..

Aims and Objectives

- To promote personal and group development and friendship among members.
- To save money and eventually look for business opportunities for the club.
- To contribute money for the following:
  1. ………………………………………………………………………………………..
  2. ………………………………………………………………………………………..
  3. ………………………………………………………………………………………..

Membership

- Membership will be limited to ………… members (number of members).
- Members will supply the club with their full personal details (ID number, date of birth and residential address).
- Members must obey the club constitution.
- Should a member die, his or her family members will not automatically become members of the club.

Stokvel Executive

The executive committee will consist of the following positions:

Chairperson, whose responsibilities are:

- To lead and prepare the agenda for meetings.
- Make sure rules are followed.
- Approve money withdrawal with other executive members.
- Explore opportunities for growing the club.

Secretary, whose responsibilities are:

- Keep accurate record of the club's activities, namely minutes, correspondence and membership register.
- Maintain communication to make sure all members are informed of all activities of the club.
- Have signing powers with the chairperson and the treasurer.

Treasurer, whose responsibilities are:

- Keep accurate account of all the club's finances and present copies of all the deposit slips.
- Collect money or deposit slips at every meeting.
- Have signing powers with the chairperson and the secretary.
- Keep up-to-date with financial charges and banking products that could be beneficial to the group.

Other Committees

Stokvel members shall appoint other working committees such as:

- Disciplinary committee.
- Business development committee.

Meetings

- Meetings will be held every ……… (day of the month), from ………. to ……… (time).
- A minimum of ……… members will be required for a meeting (number of members).
- Non-members will not be allowed to sit in the meetings.
- Special meetings will be called when necessary by the executive committee.

Joining Fee

- Each member must pay ……….. as a non-refundable joining fee.
- A new member must pay ……….. as a non-refundable joining fee.

Contributions

- Each member will contribute R……. per month.
- If members contribute different amounts, the minimum will be R……… and the maximum R………

Benefits

- Money will be divided amongst members on: day/……... month/…………… year/…………..
- The following benefits will be due to a member in the event of a membership being terminated……………………………………………………………………………………................
....
....

Beneficiaries

If a member dies, any money they are owed will go to their family.

Code of Conduct

- No member will use the name of the club for personal business purposes or personal gain.
- Each member will be expected to conduct him or herself in a socially acceptable manner at the meetings.
- Members must dress in a socially acceptable manner or wear the club uniform if there is any.

Meeting Attendance

- If a member is unable to attend a meeting for whatever reason, he or she must send an apology in writing.
- Should a member fail to attend three consecutive meetings without a good reason such as illness or being away, she will have to face a disciplinary committee.

Banking

- The money in the organisation must be deposited into a bank account or must go to a beneficiary.
- The chairperson, secretary and treasurer will have signing powers to release money from the bank.

Club Closure

- In the event that the club closes, any extra funds and assets of the club will be shared amongst members according to each member's contribution to the club.
- Liability and debts will also be shared equally in the club if such debt is made by the club.

Change of Constitution

- Members can change the constitution if there is a majority vote.
- Changes in the constitutions must be announced …………… days prior to the meeting.

Source: constitution drawn up by Busi Skenjana as published in *Move!,* 28 February 2007.

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