

# Fact Sheet

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The BOP Learning Lab



## Stokvels - More than credit unions

With significant numbers of South African citizens struggling to support their families and lacking access to formal financing options, the role of informal savings mechanisms – commonly known as stokvels – should not be underestimated. Stokvels come in many forms and have different goals, but their main focus is always to allow their members to save money towards large expenses. Stokvels fulfill a social as well as a financial role, creating bonds between neighbours and friends, and helping to establish trust within communities. They remain largely informal, and despite a number of attempts, neither the private nor the public sector have succeeded thus far in establishing any effective collaboration with them on a significant scale. Yet according to some research, an estimated R 44 billion (ca. US \$ 4.4 billion) worth of savings are held in stokvels, presenting opportunities for retailers, financial services companies, and also the public sector.

### 1. Background and context

In the 19<sup>th</sup> century the word stokvel, or “stock fair”, used to describe rotating cattle auctions of English settlers in the Eastern Cape. Stokvels also provided a forum for farm workers to socialize, gamble and occasionally pool money together to purchase livestock<sup>2</sup>. Members contributed the same amount into a collective pot, from which each could then draw in turns.

According to some researchers, two

specific cultural factors help explain the popularity of stokvels in South Africa. One is the overarching value system of “Ubuntu”, which amongst others puts a strong emphasis on mutual support and solidarity within communities. The second factor has to do with specific funerary customs in many of South Africa’s traditional African cultures.<sup>3</sup> Holding elaborate and large funerals for departed family members is often considered an essential duty for families, regardless of their financial status.

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## Some Key Figures (2012)

- 811,830 stokvels
- R 44 billion of savings
- 11.4m members

## Geographical distribution

24% in Gauteng  
20% in Limpopo  
14% in KwaZulu-Natal

## Per usage:

Saving stokvels - 43%  
Burial societies - 22%  
Grocery stokvels - 16%

Source: "Stokvels - a hidden economy"  
African Response Research, 2012

The crippling costs associated with such funerals and the social and cultural pressure to give departed family members what is considered to be a respectful send-off, makes membership of a burial society essential for a very large number of adult black South Africans.

According to research conducted in 2012 by African Response, 11.4 million South African adults, participating in 811,830 stokvels, save around R 44 billion per year (see box).

The principle of pooling savings and allowing members to draw cash in turns is not unique to South Africa, and in fact similar **Rotating Savings and Credit Associations** (ROSCAs) exist around the world, as is illustrated for instance by the existence of *Tontines* in French-

speaking West Africa, *Susus* in Ghana, *Arisans* in Indonesia and *Committees* in India and Pakistan. These structures present many of the same features as stokvels.

## 2. Regulations and representative bodies

The Bank Act (1990) and the National Credit Act (2006) constitute the main legal framework that, in theory, governs stokvels. The Bank Act recognizes stokvels as legal entities, and limits the maximum level of deposits for a stokvel to R 9.99 million (ca. US \$ 1 million). The National Credit Act puts a ceiling on interest rates for loans, currently at 32% per annum. In practice, however, the vast majority of stokvels are informal structures and such regulations are difficult or even impossible to apply. However, internal regulations bind the members together and are, according to anecdotal evidence, strictly enforced.

The **National Stokvel Association of South Africa** (NASASA), based in Johannesburg, is the main representative body of stokvels and has, on occasion, negotiated on behalf of member stokvels with banks, insurance companies and commercial firms<sup>4</sup>.

## 3. Catering for different needs

The basic *modus operandi* of a stokvel involves a number of individuals voluntarily joining, then meeting at regular (usually monthly) intervals to socialize and contribute membership fees which

are saved, or used as per the agreed upon objectives<sup>5</sup>.

Stokvels vary greatly in terms of size and complexity. Many are essentially informal clubs of a dozen or so friends pooling money together, with only basic record keeping and never more than a few thousand rands of deposits. Others are large operations with formal meetings, articles of incorporation and formal rules of conduct.

Regardless of size and complexity, stokvels always have a stated purpose, similar to an investment mandate for investment funds. According to African Response, 43% of stokvels are general savings stokvels, while another 22% are burial society stokvels. A further 16% can be classified as grocery stokvels. The remaining 19% are a mix of school fee stokvels, birthday stokvels, investment stokvels and other goal-specific credit unions<sup>6</sup>.

## 4. Model

As stokvels fulfil as much a social role as a financial one, they are not necessarily profit-orientated. Mutual support and regular meetings play the key role, while opportunities to get higher interest rates on savings seem to be considered a secondary objective, if at all.

In several studies<sup>7</sup>, the high level of **social capital** created by stokvels is cited as the main reason why these saving groups are not substituted by traditional banking services and continue to flourish in the recent

## Notes:

1 "Informal savings groups in South Africa: investing in social capital" Margaret Irving, 2005, cited in "Stokvels - a hidden economy", African Response research, 2012

2 "Stokvels in South Africa: Informal savings schemes by Blacks for the Black community", Andrew Khehla Lukhele, 1990

3 <http://www.legalcity.net/Index.cfm?fuseaction=RIGHTS.article&ArticleID=6673659>

4 Stokvels in South Africa: Informal savings schemes by Blacks for the Black community", Andrew Khehla Lukhele, 1990

5 ibid., p7

years, despite increasing levels of financial inclusion, as defined by having a “formal” retail bank account.

### *Social aspect*

Stokvels are increasingly using modern technology and formal banking services: some have websites and allow prospective members to join online.

The average number of members per stokvel varies per stokvel type. Burial stokvels tend to have larger membership numbers, averaging about 33 people. This might also reflect the high cost of burials. Investment, birthday, grocery and saving stokvels have fewer members with an average of 15, 12, 19 and 17 members respectively<sup>8</sup>.

Stokvels meetings are normally held in a member’s home. The exception are burial stokvels which have a larger percentage of meetings outside the members’ home<sup>9</sup>, due to larger numbers of participants. Typically meetings are social occasions where the host provides beverages and food, allowing people to share news, discuss opportunities and request assistance from others.

### *Financial aspect*

The size of the regular (most often monthly) contribution is decided collectively by the members.

## Stokvel



The pooled amount is made available to participants in different ways.

If for example, there are 12 people in a stokvel, each making a monthly contribution of R 500, the total pooled amount of R 6,000 becomes available to one member, once a year.

Another way of disbursing the pooled cash is to make a one-off pay-out in equal increments at the end of existence of a particular stokvel. This approach is typically applied for savings stokvels linked to particular events such as Christmas or Easter.

In some cases, additional features may in be added to a stokvel, complicating the contributions and disbursement schedules. Members can for instance be allowed to borrow money from the stokvel in case of emergencies, usually with tight credit conditions attached:

a typical monthly interest rate would be 30% (incidentally, far above the theoretical legal limit of 32% per annum prescribed by the National Credit Act).

This leads to the issue of record keeping and accounting. Typically, one stokvel member is designated as treasurer. Increasingly, larger stokvels now hold bank accounts as entities, with two or more members having joint signatures.

In many instances, though, participants still keep their savings in physical cash in their own home, bringing it to stokvel meetings each month to be counted in the presence of others. In essence, this makes the stokvel an incentive for personal financial discipline. The stokvel plays the role of an “invisible hand” that regulates trust within the community and discourages individuals from letting the stokvel down.

To unfamiliar eyes, stokvels may

6. “Informal savings groups in South Africa: investing in social capital” Margaret Irving, 2005

7 “Stokvels - a hidden economy”, African Response research, 2012, p.9

8 Ibid, p9

9 <http://www.fin24.com/Savings/Get-Saving/Stokvels-Social-element-critical-20130628>

10 ibid., p. 11

## Bank accounts held by stokvels:

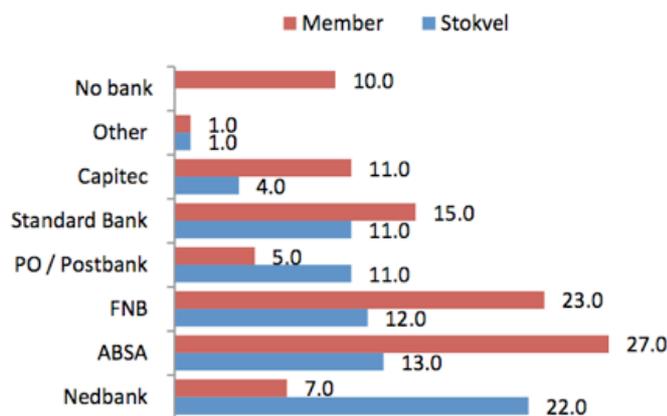


Figure 2: banking institutions used by stokvel members. Source: "Stokvels - a hidden economy", African Response research, 2012

look like surprisingly complex financial instruments in communities that are often unbanked or may be perceived to have low levels of financial literacy. However, an insider's perspective shows that the concept goes much deeper than simply serving financial needs, and is an important regulator of social relations (see Figure 1). This difference in perception very often makes it difficult for banks and other formal businesses to understand stokvels.

## 5. Typical profiles of stokvel members

The widespread belief that stokvels are generally run by women seems to be contradicted by recent research, which estimates that around 42.6% of stokvels are male-dominated. In some provinces, such as Gauteng, Mpumalanga and North West, the

majority of stokvels are run by men. Gender differences also play a role in the stokvel's goals: investment stokvels, for example, tend to be run by men, while grocery stokvels tend to be more female-dominated.

Almost 70% of South Africa's stokvels are operated along a north-eastern arch around the country: Gauteng (24% of the total), Limpopo (20%), KwaZulu Natal (14%) and the Northwest (11%)<sup>10</sup>.

## 6. Banks and stokvels

South Africa's largest retail banks, ABSA, FNB and Standard Bank and Nedbank have all tried, with differing degrees of success, to develop savings products aimed the stokvel market. The cost of banking seems to be a major driver in the decision of stokvel members to open a bank account.

According to the survey results released in 2012, Nedbank has the highest market share of stokvel bank accounts (22%), followed by ABSA (13%), FNB (12%), and Postbank (11%).<sup>11</sup>

**Nedbank's** Club Account, which has no transaction costs, has proved to be popular with a large number of stokvels, which have also been attracted by market-related tiered interest rates on offer (the higher the account balance, the higher the interest rates).<sup>12</sup>

**Abisa** also offers a Club Account, however with no account-linked card, impeding stokvels' ability to conduct transactions. The draw card here is that ABSA offers accidental death coverage as well as a family funeral cover included in its package.<sup>13</sup>

**FNB** offers a Stokvel Account with free withdrawals and deposits, together with an automated messaging service to inform members of transactions.

The **Standard Bank** Society Scheme is only free of charge when the balance of the account is at least R 5,000. The incentive is a draw in which a group gets a chance to win a cash prize of R 5,000 twice a year or R 50,000 by the end of each year. All accounts that contain more than R 5,000 automatically participate in this draw.<sup>14</sup>

11 Nedbank website

12 ABSA website

13 Group saving bank accounts" Maya on money internet magazine, 13.01.2013

14 Boxer stores website

## 7. Opportunity for private and public sectors

In addition to banks, retailers have also been looking at understanding the needs and expectations of stokvels, and tapping into the savings by offering stokvel members targeted incentives. Some wholesalers, such as Metro Cash & Carry or Massmart, offer special discounts to stokvels. They target advertising directly at stokvels, for instance by offering free transport and delivery when the total purchase is above a certain amount, or further assistance when it comes to paying off expensive items.

According to one study, conducted by The Post, a magazine, independent wholesalers account for 23.3% of purchases by grocery stokvels, followed by retailers Shoprite (20.7%) and Spar (10.6%).

Boxer, a specialised retailer catering specifically for the low-end market, markets a Stokvel Club. Members of this club can save with a club card, and automatically receive a publication called "Our Stokvel", which aims to "educate and empower Stokvel Clubs". In addition, Boxer runs a social trust that assists stokvels with legal and financial questions.<sup>15</sup>

The private sector is not alone in seeking to leverage the assets held by stokvels. Government is considering, through the South African Post Office, to make government bonds available as vehicles for investment aimed specifically at stokvels. In addition, the National Stokvel Association of South Africa (NASASA) is trying to encourage government to provide more specific incentives to cooperatives, which are similar to stokvels, in order to provide funding for SMEs and micro-enterprises.

None of these ideas have yet come to fruition, but the fact that NASASA is lobbying on behalf of its members seems to indicate that stokvels are gaining visibility as

significant stakeholders in the financial services landscape in South Africa.

## Conclusion

Despite the large sum of money circulating in stokvels every year, informal saving schemes are not given enough attention by the formal sector. With an estimated membership of 11.4 million South Africans, and collective savings pools worth R 44 billion, stokvels could help leverage investment in low income communities in more efficient ways.

The financial institutions trying to enter the stokvel market, and the public sector trying to harness savings through bond offerings, may be focusing too much on monetary incentives, neglecting the stokvels' social drivers. In order to succeed, both private and public sectors should understand the depth of the phenomenon and consider the distinctions between group savings and the traditional banking. Since stokvels are built on trust, businesses need to stress personal relationships and improve direct communication with stokvel members to fully exploit their potential.

It is important to emphasise and take into account the complex culture of stokvels and develop the holistic approach towards them.

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