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**INFORMAL SAVINGS GROUPS IN  
SOUTH AFRICA: INVESTING IN  
SOCIAL CAPITAL**

Margaret Irving

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The Administrative Officer  
Centre for Social Science Research  
University of Cape Town  
Private Bag  
Rondebosch, 7701  
Tel: (021) 650 4656  
Fax: (021) 650 4657  
Email: kforbes@cssr.uct.ac.za

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SOUTH AFRICA: INVESTING IN  
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Margaret Irving graduated from UCT in 2004 (Honours, economics) and is currently completing an MA in economics.

# Informal Savings Groups in South Africa: Investing in Social Capital

## Abstract

*Informal savings groups (ISGs) provide an important means of consolidating financial resources in poor communities. However, this paper takes the view that the benefits to participation extend beyond conventional economic gains, and membership decisions should thus be viewed in the broader context of the joint accumulation of social and financial capital. The introductory section reviews the existing social capital literature and contextualises the work of Uhlener (1989) on relational goods in this framework. The importance of social capital in establishing informal social security networks and systems of mutual insurance is highlighted, with a particular focus on the division of social responsibilities as a root cause for the differential formation of these networks by gender. As yet, there has been no systematic study of the role and functioning of ISGs, with the existing literature predominantly in the form of case studies. There is some evidence to suggest that the view that holds stokvels and ISGs as synonymous is inaccurate. This contributes to the considerable inadequacy of existing datasets for drawing reliable conclusions on savings behaviour. As a consequence, this paper is qualitative in its approach, using the social capital paradigm developed previously together with information gathered from a focus group to construct an expanded understanding of why these groups continue to flourish alongside formal financial institutions.*

## Introduction

Conventional wisdom holds that ‘stokvels’ or informal savings groups (ISGs) are simply a means for the poor to mobilise financial resources in the absence of developed financial markets. Given the large volume of informal savings generated annually by ISGs - the Unilever Institute (2003) estimates this figure

at R5.61 billion<sup>1</sup> - the financial aspect of these associations is undoubtedly significant. However, in the South African context, this focus overlooks an important question: why do they continue to persist alongside a sophisticated formal financial sector? This paper addresses this issue, arguing that the non-pecuniary returns to participation in the form of social capital are perceived by those who choose to participate as in excess of the lost interest that members may sacrifice by not banking their funds.

The first section reviews the existing social capital literature and contextualises the work of Uhlener (1989) on relational goods in this framework. The importance of social capital in establishing informal social security networks and systems of mutual insurance is highlighted. A broad classification of *stokvel* types is considered before outlining the reasons conventionally cited for participation. The social capital paradigm is then applied to construct an expanded understanding of why these groups continue to flourish alongside formal financial institutions. A simple model of savings decisions is developed to consider the impact of excessive bank charges, financial illiteracy and the value added by social interaction. ISGs are argued to be a particularly important form of social support for women. Evidence for the preceding theoretical analysis is provided by the results of a focus group conducted with an ISG group from Khayalitsha, discussed in the final section.

## **An Overview of Social Capital Theory**

A commonly accepted view of capital is any asset capable of producing income (Bannock, Baxter and Davis 1992:56). While this definition is appropriate within traditional microeconomic theory which holds income as a useful proxy for welfare, it is somewhat limiting in a framework that regards the maximisation of well-being rather than simply income or wealth as its ultimate objective. It is the contention of this paper that in order to adequately understand individual behaviour, it is necessary to invoke this broader conceptual paradigm. As such, capital is perhaps better understood as a productive resource that is acquired as a consequence of investment.

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<sup>1</sup> This is noted as a conservative assessment in light of other studies that have suggested this amount to be in excess of R20 billion, not entirely implausible given estimates that almost every second black adult in South Africa participates in an informal savings scheme (Unilever Institute 2003), and savings propensity is high amongst *stokvel* members (Verhoef calculates average savings rates at 10% of income (2001b:535)).

While physical capital is embedded in tangible objects and human capital within actors themselves, ‘social capital refers to the connections among individuals – social networks and the norms of reciprocity and trustworthiness that arise from them’ (Putnam 2000:19). However, Putnam’s definition is but one of a multiplicity. His conception is frequently criticised for being too narrow, given his assertion in earlier work that it is applicable only in horizontal networks (in which power is equally distributed between actors) and not in vertical (hierarchical) networks (Grootaert 1998:2).

The intangible nature of social capital has given rise to the suggestion that it should be understood as the social component of human capital. Glaeser, Laibson and Sacerdote interpret individual social capital as ‘a person’s social characteristics – including social skills, charisma and the size of his Rolodex – which enables him to reap market and non-market returns from interactions with others’ (2001:4). However, such a classification is not entirely accurate either: while the benefits of social capital may be experienced at the individual level, it is not an individual-level attribute, as production and consumption require interaction between two or more agents.

Coleman, often identified as the ‘father’ of social capital theory, offers a broad interpretation of social capital as a type of resource available to an economic actor through her relationship with others, and defined by its function:

It is not a single entity but a variety of entities with two elements in common: they all consist of some aspect of social structures, and they facilitate certain actions of actors – whether personal or corporate actors – within the structure (1988:98).

Aside from being somewhat vague, this all-encompassing approach ironically restricts analysis considerably: it captures almost all elements of social interaction and thus allows little scope for the possibility that the production or use of certain ‘social goods’ such as friendship or trust (see the discussion on relational goods below) is actually facilitated by social capital rather than constituting a component thereof.

Drawing on elements of these definitions, social capital in the context of this paper is understood as social networks formed as a result of the relationship between two or more people, as well as the norms that define the structure of these interpersonal interactions. This implies that social capital provides the

means by which social resources such as trust become accessible to individuals. A pipe may serve as a conduit for water, oil and a number of other substances, many of which prove valuable as goods in their own right or in turn are important inputs in other production processes. Networks of social capital may be understood in this light but with one important distinction: they *may* be wholly or in part responsible for the creation of those resources that are conveyed through their channels.<sup>2</sup>

Networks also play a significant role in reducing the costs associated with acquiring information, and thus promote efficiency. While the production of information does not necessarily require interaction, channels of social capital provide an important means for its dissemination, from the recipe for a good cake to the recommendation of a reliable electrician or news of a job opening at a local factory. In some situations, networks may also be an input in the information creation process. This is perhaps most clear in the case of reputation, where production requires repeated interpersonal exchanges across social networks.

Putnam distinguishes two key dimensions along which social capital formation occurs: 'bridging' (inclusive) and 'bonding' (exclusive). Bridging social capital is outward-focused, tending to unite people across diverse social cleavages and promoting information diffusion and linkages to external assets such as job opportunities. Conversely, bonding social capital is introspective and reinforces exclusive groupings, allowing for the mobilisation of solidarity (2000:22-23).

The formation of these networks cannot be achieved through normal methods of individual investment argue Antoci, Sacco and Vanin, since many of the benefits of social capital are not privately appropriable (2002:3). However, this allusion to social capital as a public good is somewhat misleading: since by definition social capital requires interaction, returns cannot *technically* be captured by an isolated individual, but experiencing any significant benefits is contingent upon a degree of personal investment. As such, social capital should not be viewed as a public good, but rather, as Dasgupta (in Fukuyama (1999)) argues, a private good that is subject to both positive and negative externalities.

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<sup>2</sup> This alleviates much of the chicken-and-egg problem inherent in such definitions; for example, while it is possible that the pre-existence of trust between a group of individuals may result in the formation of a formal network (such as a savings club), this trust could only have been recognised and employed as a useful resource when expressed through some formal or informal connection (for example if the individual members work together). This allows for feedback effects between social capital and other social goods.



Social capital may thus be over- or under-produced, but individual incentives to expend resources in its creation are certainly present.

## The Theory of Relational Goods

In keeping with the objective of extending cost-benefit analysis beyond monetary terms, the relational goods model outlined by Uhlener (1989) is of particular relevance in allowing for the examination of social psychology in an economic framework. This paradigm provides a useful starting point for meaningful discussion of ‘investment’ in social capital. Relational goods such as friendship or social approval are dependent on reciprocity in interpersonal interactions, and cannot be acquired by an isolated individual:

these goods arise as a function of a relationship with others. The relational goods can only be ‘possessed’ by mutual agreement that they exist after appropriate joint actions have been taken by a person and non-arbitrary others ... The identity of the ‘other’ in the relationship matters (*ibid*: 254).

For a good of this nature, utility is a positive function of both personal consumption and consumption by others.<sup>3</sup> This makes classification on a public-private goods continuum difficult – individuals have an incentive to participate in the production of relational goods since enjoying their benefits requires interaction, and more than non-rivalrous, consumption is in fact (increasingly) jointly beneficial. Production and consumption of relational goods are frequently indistinguishable (Antocci, Sacco and Vanin 2002:3).<sup>4</sup> Defining states like friendship in Uhlener’s framework highlights their importance as an end rather than simply a means to achieve some other outcome or the by-product of an alternative economic process.

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<sup>3</sup> In this sense, the relational goods model bears some similarity to models that attempt to map utility functions as interdependent.

<sup>4</sup> Corneo and Jeanne’s (1999:711-712) discussion of ‘socially provided private goods’ – ‘goods that are directly obtained by people from their social environment’ rather than traded in a market – reflects a number of parallels with Uhlener’s theory.

An examination of trust as a relational good is particularly pertinent in the context of the broader focus of this study. Following Dasgupta, trust is viewed here in the context of, ‘someone forming expectations about those actions of others which have a bearing on her choice of action, when that action must be chosen before she can observe the actions of those others’ (2002:8). It essentially involves an evaluation of the character and incentives of another during a decision-making process.

Some authors including Putnam (2000) consider trust a norm, which suggests it should be regarded as a part of social capital under the given definition. However, a norm is understood here as a generally recognised standard of behaviour, and since trust is not a directly behavioural quality, it cannot be viewed as such. To qualify this perspective: excluding trust as a form of social capital does not overlook its much-vaunted value as a resource, but rather seeks to highlight how norms are important in the strengthening of bonds of trust, and networks are important for its distribution.

Many accounts show trust to be rational based on the importance of building and preserving a reputation in repeated interactions (see, for example, Good 1988), however the relational goods model suggests that attaining the trust of others may in part be an end in itself rather than simply a means to ensure a smoothly operating market. Whatever the rationale, trust and reputation play an important role in counteracting moral hazard in informal credit markets. While the absence of collateral in most poor households exacerbates the problems of imperfect credit markets (Dasgupta 1995:153), the trust inherent in family and community networks limits the extent of this problem by providing clearer information than would be available to the formal lending sector as to the reliability of potential creditors and the level of risk involved with their projects.<sup>5</sup>

## **Social Capital as a Vehicle for Mutual Insurance**

Where risks are relatively independent across households (as in the case of death and some illness), mutual insurance or informal risk-pooling provides a degree of protection against unexpected contingencies. In considering the importance of

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<sup>5</sup> There is considerable work in the micro-credit/group-lending field to suggest that the success of projects relies on the trust and information inherent in some social networks to reduce moral hazard through peer monitoring (see for example Hermes, Lensink and Teki 2000)

mutual obligation inherent in networks, Putnam distinguishes between specific and generalised reciprocity. The former refers to cases where a proportional and conditional joint commitment exists between two or more individuals; a case of 'I'll do this for you if you do that for me.' Generalised reciprocity is unconditional assistance offered by an individual on the understanding that should the need arise, similar aid would be offered in return (2000:21-22). Dasgupta highlights the importance of this norm in traditional agricultural villages:

You come and help in my field when I fall ill, fully expecting that you in turn will be helped by me should you fall ill. Should it happen that you are ill longer than I was when you helped me, I would not cut short my help to keep it commensurate with the help you gave me. This is because, for all I know, the next time I may be ill for an even longer spell and will need more help from you (1993:208).

The success of mutual insurance based on a norm of generalised reciprocity relies heavily on trust, as mutual assistance without threat of punishment for deviation from the agreement may provide an incentive for one or both parties to renege on their commitment. Adverse selection is a well-documented source of potential failure in conventional insurance markets, and is theoretically no less so in social insurance settings, since situations of asymmetric information imply that an individual cannot know with certainty how friends or family will actually react in a time of need. Trust again serves as a means to mitigate this risk. The threat of punishment for contravening the relatively loose understanding implicit in informal mutual insurance arrangements includes social sanction and the loss of reputation, with networks of social interaction providing the means by which information about an individual's reputation may be rapidly disseminated.

## **Social Capital, Gender and Social Security**

While there is a substantial literature on the individual fields of social capital and gender in economics, relatively little work has been done in examining their interaction. In light of experimental studies which find that women have greater regard for others and are more effective in applying social sanctions to elicit cooperation, it is unsurprising that they generally function better in groups than men (Barr and Kinsey 2002). This conclusion has further support from Eckel and Grossman (1998) who find that women are less selfish than men. It is

difficult to ascertain whether this results from a relative preference of women for the consumption of relational goods, or differential internalisation of certain norms of behaviour that allow for greater efficiency in the production of social capital.

In a review of existing literature on social capital inequalities, Lin (2000) observes that the types and distribution of this resource vary by gender. Although both men and women are typically involved in a similar number of social groups, men are more likely to participate in large organisations with economic links, while women tend to associate in smaller organisations focussed on domestic and community affairs. Women's networks also present a far greater diversity and concentration of kin ties.

Findings of this nature have generally been used in support of the hypothesis that women are substantially disadvantaged in the job market due to relatively limited commercial and professional ties; 'women's social capital' is often not associated with the traditional 'economic' benefits conferred by links in the spheres of business and politics. While this provides valuable insight and undoubtedly serves as an illustration of one manner in which labour market disadvantage is perpetuated, the perspective it presents is decidedly narrower than demanded by a holistic approach to welfare.

In many senses, differential social capital networks should be seen as a symptom rather than source of inequality. An alternative view recognises the importance of women's attempts to acquire resources that serve as a form of social security. With limited time, energy and money to spend on productive activities, social capital may be regarded as an important investment in household well-being by expanding the social safety net. Broadly defined, social security may be viewed as:

any kind of collective measures or activities designed to ensure that members of society meet their basic needs (such as adequate nutrition, shelter, health care and clean water supply), as well as being protected from contingencies (such as illness, disability, death, unemployment and old age) to enable them to maintain a standard of living consistent with social norms (Getubig 1992, in van Ginneken 1996).

This understanding encompasses both formal and informal social safety nets. Women are often excluded from the former networks, as eligibility for

unemployment and health insurance, maternity leave and employer-sponsored pensions is contingent upon full-time formal employment. This implies that for many women, informal networks are essential for the provision of social security (Kasente 1998). An examination of the 2003 *Labour Force Survey* reveals the extent to which this holds in South Africa: while structural deficits in the economy mean that unemployment rates are high for all groups, the rate for women is consistently higher than that for men across all races (for blacks the official (strict) rate of unemployment is 37.4 percent as against 30.4 percent), while among those employed, close on 25 percent fewer women work in the formal sector.

Surveys across developing countries suggest that it is women who have a more extensive network of community ties and are frequent participants in reciprocal relationships that provide essential practical and psychological support. This community 'embeddedness' is often attributed to a gendered division of labour that assigns responsibility for domestic affairs to women (Molyneux 2002:177-178). Women, especially in Africa, are more likely to allocate their financial resources to servicing collective needs than is the case for men (see evidence cited by Anderson and Baland 2002). In the South African context, Duflo (2000) finds that state pensions have a significant impact on the nutritional status of girls when received by a woman in the household, while there is little impact in the case of a male recipient.

South Africa's welfare system provides means-tested support for the young (the child grant), the elderly (the old age pension) and the disabled (the disability grant). No significant income support is provided for adults of working age who cannot find employment. For such individuals, it is possible that informal social capital networks have become crucial for survival. Coleman has shown that access to government welfare programmes reduces the dependence of individuals on informal structures of social capital (1988: 103). The converse is likely to be the case in South Africa.

# Informal Group Savings as Social Capital

## A Typology of *Stokvels*

Much of the literature on informal savings in South Africa analyses so-called *stokvel* groups. The term is believed to be a corruption of the word ‘stock fair’, referring to cattle auctions held during the nineteenth century by English settlers in the Eastern Cape. Black farmers and labourers in attendance at these fairs would exchange ideas, engage in gambling and sometimes club money together to purchase livestock. This gradually evolved into savings schemes organised around structured gatherings of small groups of 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 (Schulze 1996:78, Verhoef 2001b:523-524).

As yet there has been no systematic study of the role and functioning of *stokvels*.<sup>6</sup> The existing literature is predominantly in the form of case studies, and what exactly constitutes a *stokvel* is open to considerable debate. Despite a multiplicity of colloquial understandings, many studies simply invoke a definition generalised from the particular kind of *stokvels* examined or rely on Ardener’s (1964) characterisation of rotating savings and credit associations (ROSCAs) – see below. This *ad hoc* approach makes for somewhat confusing reading and reflects a degree of inconsistency between theory and reality – ‘*stokvel*’ and ‘informal savings group’ are not synonymous terms.<sup>7</sup> While this problem of definition stems in part from a genuine absence of clear boundaries in operation and function between the various types of groups, it is useful to outline five broad *stokvel* categories. Unless otherwise noted, this discussion relates specifically to the South African literature.

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<sup>6</sup> The literature cites a number of alternative names by which *stokvels* are known, including *gooi-goois* (‘to throw’), *kuholisana* (‘to draw wages’), *mahodisana* (‘to pay back to each other’) and *umgalelo* (‘to pour’) (Moodley 1995:362, Thomas 1991:291–292).

<sup>7</sup> For example, Moyo *et al* adopt an expansive definition of *stokvels* that encompasses even clubs whose members rotate days on which they purchase alcohol for each other (2002:12).

## **Rotating Savings and Credit Associations (ROSCAs)**

In her seminal work on the comparative dynamics of ROSCAs in a number of countries, Ardener adopts the following definition: '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' (1964:201).

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 pool (Verhoef 2001b:534). The magnitude of contributions appears to vary widely. Some ROSCAs practice a policy of 'doubling', whereby a member may pay more than the standard contribution during a given rotation. This is done in expectation of reciprocity on the part of the recipient, who is expected to match the contributor's generosity at the appropriate point in the rotation. Such extra payments are generally made after careful consideration of the financial positions of both members (Bujis 2002:35).

Interestingly, some authors note a reluctance on the part of ROSCA members to take up the first places in the rotation, an unexpected outcome given that those who receive the fund first effectively obtain an interest-free loan. This reflects two possibilities: some members may wish to persuade their friends to 'double', while the more risk-averse prefer to have funds available to them throughout the year in case of emergency (*ibid*:37).

## **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. Returns on the former are considerably higher (Coetzee and Cross (2001) report interest charges in excess of 80% p.a.), although this partly serves to compensate for the risk of default on these loans. Some groups insist that members borrow an amount to be repaid at interest from the collected pool. The latter variety means that the ASCA serves as both a credit and banking facility for members (Burman and Lembete 1995:36).

Interest earned is either divided, or set aside to deal with emergencies (Moodley 1995:363). ACSAs 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 1996:79). Though not explicitly cited in the literature, another incentive for groups of this nature may be to minimise bank charges and maximise interest received where larger deposits are subject to higher rates of interest.

## Burial Societies (*Makgotlas*)

Particularly prominent among *stokvels* that purport to mobilise savings for a specific purpose is the burial society or *makgotla*, which assists households with funeral costs. While these organisations serve essentially the same role as savings and investment *stokvels* in providing for a particular life-cycle need (a view adopted by Lukhele (1990) and Verhoef (2001b)), their specificity of function has translated into separate treatment in some accounts (for example Schulze (1996)).

The high cost associated with customary African funerals leads many individuals insure themselves with multiple burial societies (Thomson and Posel 2002).<sup>8</sup> 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. A traditionally important element of the funeral feast is also a discussion among elders and relatives of how the household should be reconstructed and the roles of the departed reassigned. A more expensive feast may be seen as granting greater import to this meeting (*ibid*:10-13, Lukhele 1990:17), although the extent to which this remains a reality in an increasingly urbanised and modernised society is questionable.

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<sup>8</sup> Roth describes a typical township funeral:

‘Respondents reported attendance at [prayer] meetings as ranging between 200 and 600 people. After the prayer meeting, mourners travel to the cemetery in taxis paid for by the deceased’s household. At the cemetery, the opulence of the funeral is revealed. Some respondents hired red carpets to lead mourners to the gravesite. Others bought arches of flowers to mark the path to the gravesite; some had both ... The gravesite is often adorned with poster-sized photographs of the deceased. Frequently a tent is erected beside the graveside for mourners. All respondents expressed a desire to be able to purchase the most expensive coffin possible. The coffin itself is typically shrouded in wreaths of flowers’ (2000:10).

This is usually followed by a funeral feast during which several sheep or a cow are slaughtered and served as part of a substantial meal to mourners. Additional costs to the family include board and lodging for relatives who have traveled long distances and occasionally an ‘after tears party’ at which a variety of alcohol is served (*ibid*:10).



Associations generally enforce regular contributions, especially where members belong to a formal insurance policy that covers the group as a whole. While this mitigates the risk of being unable to meet costs should there be an irregularly large number of funerals in a given time, it also removes much of the flexibility with regards to payments necessary in a low-income environment with high unemployment.

Where no formal scheme is subscribed to, proceeds are generally banked, and a given amount paid out or specific costs met on the death of a member or an approved beneficiary. Most societies appear to allow each member to name around ten beneficiaries, who are not restricted to being close family (Thomson and Posel 2002:84-87). This aspect of informal burial societies is an important accommodation for many black households which extend well beyond the nuclear family.

## **Entertainment *Stokvels***

Many ROSCA-type groups have a social element whereby the recipient of the pool is responsible for hosting a gathering that other members pay to attend. This appears to have given birth to a new form of *stokvel*, which has as its focus generating rather than saving money. The most elaborate of such gatherings involve the printing of invitation cards to notify individuals other than members about a *stokvel* meeting. An entrance fee is charged and food and drinks are sold at a profit. Loud music is played to entertain guests and attract passers-by to the gathering (Lukhele 1990). The host may generate considerable earnings over and above the amount raised by standard *stokvel* contributions - these groups are thus distinct from ROSCAs in that the primary source of income is not savings. Group size is generally small to allow each member to act as host at least twice a year (*Financial Mail* 1988:32). In entertainment *stokvels*, harsh penalties may be imposed on members who fail to attend meetings and in extreme cases, expulsion may result, as no-shows result in loss of income for the host and violate the norm of reciprocity on which these groups are based (Verhoef 2001b:535).

However, other references in the literature to such parties are limited, and reported social gatherings are considerably tamer than those described by Lukhele. Members and their visitors may make a generous contribution towards the food and refreshments provided by the host (generally the recipient of the

pot). In lieu of monetary offerings, those in attendance may instead purchase useful household items such as crockery or cutlery (Bujis 2002:37, 39).

## **Purchasing Power Groups/Cooperative Buying Societies**

The term *stokvel* may also refer to groups that pool money in order to save through bulk purchases, especially of groceries (Lukhele 1990:25-26). While such arrangements are frequently cited in casual discussion of *stokvels*, they are all but ignored in the literature, perhaps because their existence presents no particular insight into economic or social behaviour beyond the obvious.

## **An Overview of Informal Savings Group Logistics**

While elements of social interaction may still be an important component of entertainment *stokvels* and purchasing power groups, it is the specific aim of this paper to examine the interplay between the mobilisation of social and financial resources. In order to avoid perpetuating the potential confusion associated with the use of the term *stokvel*, the terms ROSCAS, ASCAs and burial societies are henceforth described as informal savings groups (ISGs).

Membership ranges from a handful of people to several hundred, especially in the case of investment clubs and larger burial societies. A little over a fifth of participants in fieldwork undertaken by Verhoef in Gauteng belonged to ISGs of ten members or less, while more than half those surveyed had fewer than twenty members in their association (2001b:534). Size is generally determined by the logistics of managing the group.

Depending on literacy levels, savings groups may possess a formal constitution outlining rules and procedures. The majority appear to have such a document, and a similarly large number keep minutes of proceedings at meetings (Verhoef 2001b:534, Moodley 1995:364). Where written records are not kept, there is generally a strict rule that all members should witness the handing over of contributions (Bujis 2002:34). Officials are commonly elected, among which are usually a chairperson, secretary and occasionally an organiser who is responsible for ensuring smooth running of social events (*ibid*, Verhoef 2001b:534) Many also employ some form of sanction for transgressing

commonly understood rules, most often fines imposed for late arrival or speaking out of turn (Bujis 2002:33-34).

## ***Stokvels* and Surveys**

As noted, existing research on informal savings predominantly takes the form of case studies, and while providing an interesting basis for comparison, even attempts to integrate these studies cannot provide sound generalisations on the characteristics and behaviour of members. Data from broad-based surveys provides a potential source for such research, but the formulation of questions in these is generally inappropriate for identifying trends in individual savings behaviour.

A significant limitation stems from the failure of surveys to capture varying interpretations of the term *stokvel* and the vastly differing nature of groups that categorise themselves under this label. More to the point, presuming that these surveys intend to capture people's participation in informal savings networks, the generic *stokvel* may actually exclude those who do not wish to identify with the extravagant parties of entertainment groups. It is thus possible that a question probing whether a respondent 'saves' in a '*stokvel*' may be viewed as inherently nonsensical. The Khayelitsha-Mitchell's Plain (KMP 2000) dataset provides a clear example of this, using the terms '*stokvel*' and '*gooi-gooi*' (a generic used to describe ROSCAs and ASCAs) interchangeably (refer to Appendix A). While the literature focuses on ISG savings as prevalent among blacks, an examination of the KMP data shows '*stokvel*' savings as far more widespread among the coloured than black community. This may likely (though not conclusively) be attributed to imprecision of definition.

Both the *October Household Survey* (OHS 1999) and the *SALDRU Project for Statistics on Living Standards and Development* (PSLSD 1993) attempt only to identify the existence of a '*stokvel*' saver at the household level (Appendix A). Aside from the definitional issue, this essentially makes an examination of relationships between individual-level factors and ISG membership impossible.<sup>9</sup>

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<sup>9</sup> An additional source of bias may result from the existence of 'elaborate privacy conventions' adopted to prevent the acquisition of knowledge about household finance (Coetzee and Cross 2001). Further, the PSLSD may actually give a distorted picture of debt

*Table 1: Participation in church and community organisations (% of respondents involved in church or community activities)*

|                        | <i>Church groups</i> | <i>Community groups</i> |
|------------------------|----------------------|-------------------------|
| Burial society members | 26.36                | 22.81                   |
| All other participants | 23.31                | 12.32                   |
| <i>Stokvel</i> members | 28.44                | 20.91                   |
| All other participants | 23.93                | 15.72                   |

*Source:* KMP survey (2000).

However, some tentative conclusions may be drawn from the limited existing evidence. A cursory examination of black savers in the KMP dataset reveals women to predominate, with females constituting close on 70 percent of ‘*stokvel*’ and 60 percent of burial society members. Members were also more likely to participate in church and community organisations. Support for these findings is discussed later in this paper.

## **Savings, Poverty and Banking**

*The great irony of being poor is that you are too poor to save, but too poor not to save.*

- Stuart Rutherford

In a cross-country analysis of poverty, Rutherford (1999) argues that the poor are confronted with the need to spend large amounts on numerous occasions. These expenditures may be classified into three categories. The first is life cycle needs - those occurrences that can largely be predicted, and in a South African context could involve the birth of a child, the payment of *lobola* (bride-wealth), home-building and funeral expenses. This division would also incorporate education, the advent of old age and regular festivals such as Christmas. Emergencies constitute the second category and necessitate spending as a result of unforeseen events. These may be divided into personal emergencies such as unemployment, illness or the death of a breadwinner, and impersonal emergencies including political unrest, forced removals or floods. Finally, certain expenditures may improve quality of life by facilitating the purchase of costly consumer durables, or allow individuals the opportunity to purchase productive assets or invest in a new business.

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by failing to distinguish between *stokvels* that enforce borrowing by members and *stokvels* who lend for profit.

The requisite cash balances are generally obtained through the sale of assets, borrowing money (frequently at high rates of interest), or the adoption of some mechanism to convert a flow of small and often irregular savings into significant amounts (what Rutherford terms ‘basic personal financial intermediation’). It is the latter which is the particular concern of this paper, though it should be noted that if savings is understood in the conventional sense of income less consumption, credit is simply borrowing against future savings. Both serve the essential function of providing an individual with an amount in excess of that which she could expect to earn beyond subsistence in a short time period.

## **Informal Savings in the South African Context**

Various explanations have been proposed to account for the reluctance of black savers to utilise formal sector banking instruments. These include racist attitudes on the part of predominantly white management under apartheid (Ebersson and Ryan 1991)<sup>10</sup>, the image of austerity associated with formal institutions, as well as the failure of banks to offer services in the vernacular (Cross 1987). However, such arguments do not adequately explain why ten years into democracy ISGs are still preferred to banks, or indeed why individuals choose to save collectively rather than under the mattress. This is a fundamental shortcoming of the existing South African literature on informal savings, which largely points to the benefits of participation but neglects to explicitly address why alternative instruments are not employed.

Ardington and Leibbrandt observe that to a large extent ISGs and formal financial services are complementary (2004:2), however the datasets used in their research do not allow for evaluation of the qualitative aspects of this relationship. In light of the possibility that individuals use bank accounts solely for transmission, withdrawing most available funds almost immediately (Verhoef finds that almost 90 percent of *stokvel* participants also have a personal bank account, but draw on this facility infrequently, with only 2.3 percent using an account to earn interest (2001b:537)), there is evidence that individuals perceive these networks as having value in excess of their savings function.

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<sup>10</sup> The authors quote a senior building society executive as saying, ‘Frankly, we don’t want the gumboot brigade in our banking halls’ (1991:39).

A closer examination may be facilitated by the introduction of a simple model. An individual willing to put aside an amount  $M$  for  $n$  time periods faces the following savings options and related payoffs at time  $n$ :

**1. 'Hoard' the money**

$$U_H = nM$$

**2. Save in an individual bank account**

$$U_{IS} = nM + i_{IS} - C_{IS} \quad \text{where } i \text{ refers to interest received and } C \text{ to bank charges}$$

**3. Save in an ASCA**

$$U_{AS} = nM + i_{AS} - C_{AS} + S_{AS} \quad i_{AS} \geq i_{IS}^{11} \text{ and } C_{AS} \leq C_{IS} \text{ and } S \text{ is the NET social benefit to participation}$$

**4. Save in a ROSCA with  $n$  participants each contributing  $M$ , and receive the pot in rotation  $k$ <sup>12</sup>:**

$$U_{RS} = (1+\delta)^{n-k} nM + S_{RS} \quad \text{where } \delta \text{ is a positive constant reflecting the individual's per period discount rate (preference for obtaining the pool sooner)}^{13}$$

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<sup>11</sup> As noted, interest offered on banked amounts is a positive function of the amount invested, while interest rates on informal sector loans are considerably in excess of that offered by banks on savings

<sup>12</sup> Exponential discounting is assumed here for simplicity.

<sup>13</sup> An alternative to using  $\delta$  here would be to use the lowest interest rate at which the individual could obtain credit (either in the formal or informal sector). However, this approach would not give due weight to the importance of the individual's subjective valuation of the money made available to them.

If the magnitudes of all right hand side variables are treated as subject to the individual saver's perceptions, it is possible to appreciate the variety of processes which may have produced the savings behaviour evident in black communities today.

This simple framework fits well with existing models designed to explain the persistence of ROSCAs.<sup>14</sup> Besley, Coate and Loury (1993) propose that the primary purpose of these groups is to save for the purchase of indivisible durable goods where credit markets are inaccessible. In this light, independent individual savings would be inefficient, as acquisition of the good would be considerably delayed for all members in the rotations (except the last) relative to a ROSCA set-up. This is evident from (4) above, where:

$$(1+\delta)^{n-k}nM > nM \text{ (for } n \neq k)$$

and is supported to some extent by the South African literature which records the growth of *stokvels* as a means to avoid the steep interest rates charged on hire purchase goods (Lukhele 1990:25).

## **Financial Literacy and Miscalculation of the *i* and *C* Variables**

There undoubtedly remains a residual undercurrent of mistrust in banks, especially high bank charges for services that clients often do not see or understand. It is thus possible that savers, whether accurately or not, view bank charges as in excess of interest received ( $i_{IS} < C_{IS}$ ), making individual savings the least desirable of the available options. One bank client complained, 'I think we are losing a lot of money by simply banking it' (Unilever Institute:2003). Importantly, the dismantling of discriminatory legislation does not imply a concomitant increase in financial literacy. Forty-seven percent of the unbanked market does not trust ATMs (*ibid*), while Thomson and Posel report the following error in computing monthly burial society contributions:

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<sup>14</sup> Much of the existing literature on informal savings relates to ROSCAs. A large part (though not all – the Besley, Coate and Loury study serves as a notable exception) may be applied to understanding phenomena that occur in both ASCAs and burial societies.

We used to pay R117 [a month]. It is only last year that we paid R87. We are supposed to pay R500 for the whole year towards that funeral cover, so we realized that paying R117 meant paying more than required, so we had to rectify that mistake (2002:109).

If simple calculations of this nature prove troublesome, it is unlikely that more complex concepts such as interest and inflation are adequately understood by potential bank patrons, who arguably lack the requisite skills to make informed savings decisions.

## **The Role of Social Capital in Savings Decisions: the S Variable**

In their study of a Kenyan slum, Andersen and Baland suggest that ROSCAs are formed as a means for wives to protect their income against immediate consumption by their husbands (2002:964-965).<sup>15</sup> While this model of intrahousehold conflict is the dominant theme of their analysis, they also consider the possibility that participation may be viewed as a means for relatively wealthier households to resist demand for financial support from less wealthy relatives in a socially acceptable manner (*ibid*:988). Both of these social defence mechanisms may ultimately be regarded as a positive product of social capital incorporated in the S variable.

Indeed, apart from monetary need, social support and protection for children or family is most commonly cited as a reason for joining an ISG (see, for example, Verhoef 2001b:537), and it is largely the accumulation of such social benefits that sets formal institutions and informal savings groups apart. A similar set of alternatives is faced by those who wish to invest in funeral insurance, and who must examine the tradeoffs between the certainty of payouts in formal schemes, and the flexibility in payment and social support offered by somewhat more risky informal burial societies. Additions to S are accrued through the formation of networks of social capital and the associated production and consumption of relational goods.

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<sup>15</sup> Ardener cites a number of studies in which women keep ROSCA participation secret from their spouses in developing world settings as diverse as Lebanon and Cameroon (1995:15-16).



There is considerable support for this hypothesis. Keswell (2003) cites evidence to suggest that membership of a network has a significant positive impact on employment prospects. Burman and Lembete find that women participating in ISGs were aware of the interest they were forfeiting by not banking their savings. They regarded the loss of this income as more than offset by the gain in relational goods, such as the opportunity to network with those working in the professional sector (1995:42-43). Members also observe the importance of ISGs in breaking down social barriers between professionals and those with limited formal education (Bujis 2002:40).

The formation of such networks between women from diverse social backgrounds speaks to Putnam's concept of bridging social capital; however bonding social capital is perhaps a more important element of these interactions. Involvement in an ISG enforces discipline in savings, and members often contrast the ease with which money can be withdrawn from a personal bank account against the necessity of fixed monthly ISG contributions that cannot be 'withdrawn' except at predetermined times. Here, the ISG may be seen as an important network for the production of another relational good: the motivation to work towards a shared collective goal. These binding networks also provide a channel for the flow of relational goods such as companionship and a sense of belonging.<sup>16</sup>

Indeed, existing studies suggest that membership of ISGs in South Africa is deeply embedded in a perceived cultural identity.<sup>17</sup> One respondent lamented, '... in banks there is no *ubuntu*' (Verhoef 2002:24), and this is perhaps the crux of their continued predominance over banks: the ability to reinforce a sense of community in an otherwise detached urbanised setting. The South African government (1997) explicitly recognises the importance of *ubuntu* in contemporary society:<sup>18</sup>

Each individual's humanity is ideally expressed through his or her relationship with others and theirs in turn through a recognition of the

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<sup>16</sup> Thomson and Posel record a study that reports one interviewee as belonging to ten burial societies - he apparently 'enjoyed going to the meetings for social reasons' (2002:88).

<sup>17</sup> For a comparative account of the role of culture in an individual's choice of savings instrument, see Carpenter and Jensen's (2002) study of formal and informal savings mechanisms in Pakistan. The authors find literacy and income to be the most important influences on instrument choice, but observe that formal banking suffers a number of shortcomings in accommodating cultural norms.

<sup>18</sup> However, it is unclear how variable notions of this concept are across groups and location.

individual's humanity. *Ubuntu* means that people are people through other people.

The act of saving may thus be regarded as having societal value in addition to personal benefits. Those with savings are able to support those in need, borrow securely and loan money to others if necessary (Verhoef 2002:26). ISG participation may thus be understood as an important signal employed by an individual to demonstrate that she is fulfilling her moral and cultural obligations. While direct monitoring of how payouts are spent is rare, many women's clubs encourage spending directed at improving household well-being (Bujis 1998:60). Further, *ubuntu* is central to the principle of reciprocity on which most ISGs rely for sustainability.

Geertz presents an interesting cross-country analysis of ROSCAs, in which he argues that these groups should be seen as intermediate institutions of development; socialising mechanisms that allow groups to adjust their cultural framework to modern or 'non-traditional' economic processes. In many lights, his perspective appears applicable in explaining the emergence of ISGs in rapidly urbanising black communities:

The rotating credit association ... reflects two contrary forces. There is a movement toward an increased segregation of economic activities from non-economic ones; while at the same time, there is a directly contradictory attempt to maintain the dominance of the traditional values over those developing economic activities ... It is these contrary forces that the association is able, at least in many cases, to balance in such a way that severe disturbances of social equilibrium are avoided, even in a situation of fairly rapid social change (1962:260).

However, South Africa should instead be regarded as a case study to counter this proposition: formal financial institutions develop alongside flourishing ISGs, which, despite rising levels of education, do not appear to be diminishing in importance among most black communities. Indeed, the integration of some ISGs into the banking arena through packages specially designed to target group savers is a hint that participation yields more than simple economic returns, and should be regarded as an indicator of the importance of the social element of these groups.

## Gender Bias in the Production of Social Capital through ISGs

The literature on social capital and gender discussed previously anticipates the presence of an unbalanced division of membership within ISGs - participants are overwhelmingly women (Verhoef 2001a:267). It is argued that their higher discount rates make men less successful in informal savings endeavours: there is a clear 'unwillingness [on the part of men] to forego spending available cash for future benefits' (Bujis 2002:31).<sup>19</sup>

With high rates of unemployment, men are generally regarded as more mobile than women who are integral to the preservation of household structure. The ease with which they may 'escape their debts' means that men are viewed as less desirable ISG members (Bujis 1998:62). This suggests that more mobile individuals are unlikely to receive a positive reaction to their attempts to integrate themselves into social capital networks, providing an interesting variation on Glaeser, Laibson and Sacerdote's (2001) view that investment in social capital is lower for individuals subject to increased mobility.

Further, women simply appear to prefer single sex societies: 'We found women to be more responsive than men. Men always want to rule ... Men would bring problems or join us for other reasons like eating our money and jolling' (respondent in Thomson and Posel 2002:95-65). Many women stress the importance of ROSCA and ASCA payouts as a means to independence from 'frequently unreliable or uncooperative men who had fathered their children' (Burman and Lembete 1994:41). This problem is exacerbated by the largely inadequate formal social security net available to women.

Historically, ISGs became central to the survival of black women in adjusting to the urban environment and meeting subsistence needs with low and irregular incomes. The burden of caring for the family was (and in many cases still is) generally perceived as the woman's responsibility (Verhoef 2001a). A natural means by which to generate extra income was through beer-brewing, traditionally the domain of African women. The growth of *shebeens* was encouraged by the absence of entertainment alternatives in black areas under the

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<sup>19</sup> There is considerable cross-country evidence to suggest that women's savings discipline is greater than that of men, for example, it is an empirical fact that women have higher repayment rates in group micro-credit projects (see for example Molyneux 2002, Abbinf, Irlenbusch and Renner 2002).

*Group Areas Act*. Subject to frequent raids and arrest, black ‘*shebeen* queens’ came to rely increasingly on their ISGs for security when subjected to police harassment:

When a *stokvel* member was arrested, the others would help with the home and children until the member came out of jail. In this way, *stokvels* became more than just organizations for the circulation of money and evolved into comprehensive support systems for members in times of hardship (Lukhele 1990:7-8).

The ISG may thus be regarded as a mutual insurance arrangement through which individuals create support networks on which to draw during unforeseen crises. Aside from the possibility of changing the order of rotation in ROSCA-type groups to facilitate individual needs, participants appear to operate on a system of reciprocity in offering non-pecuniary resources to assist one another in times of difficulty.<sup>20</sup>

Burial societies present an interesting hybrid of social and financial insurance. In examining the burial society as a mutual assistance scheme, Thomson and Posel (2002) argue that its effectiveness should be judged not by its financial ‘soundness’ but rather by the degree of reciprocity between members. When shortages arise, rather than folding completely, some burial societies revert to ‘collection societies’, taking collections as required from members to subsidise necessary expenses while attempting to reaccumulate funds. Flexibility in payment and the high levels of reciprocity prevalent among members are important components of burial societies’ success.

## **Accounting for Relational ‘Bads’**

Despite overwhelming evidence of positive benefits, an individual’s decision to join an ISG would require balancing these benefits with a number of disincentives to participation. Some reports suggest rivalry between ISGs and traditional church groups:

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<sup>20</sup> Schulze records cases where *stokvels* pledge mutual support should members suffer damages to their house or crops (1996:81); Keswell similarly highlights a number of non-pecuniary benefits conferred by participation, including mutual assistance with childcare, household and agricultural activities (2003:14).

‘church people criticise these associations because they become well-known and better-known than the church, and then people lose their interest in the church and become more active in the work of the association.’ The problem here may relate to the amount of money involved and the feeling among church officials that sums that would previously have gone to church funds may now be used to support RCAs [rotating credit associations] instead (Bujis 2002:40).

Where ISG membership is based on church affiliation, this is unlikely to be problematic. However, where this is not the case, it is probable that these social conflicts have a negative and stressful impact on participants. Such by-products of social networks may be viewed as relational ‘bads’. Tensions between families and burial societies as to who should adopt a dominant role in organising proceedings were also documented by Thomson and Posel:

‘Sometimes when [the burial society members] come to do their job, they get clash with the deceased family ... They fight ... And the burial society don’t want the family’s involvement ... We want us to be the only ones working. And those clashes can be ugly’ (2002:100).

Members also expressed considerable dissatisfaction with the manner in which burial societies reinforced tendencies among black communities to hold lavish funeral ceremonies and feasts beyond their means. Dr Molefe Tsele, General Secretary of the South African Council of Churches, observes that funeral catering, feasts, luxury caskets and equipment hire are ‘absolutely not African tradition’ (Unilever Institute 2003).<sup>21</sup> Many families felt the conspicuous consumption at funerals was necessary to maintain face – there was concern that mourners might ‘gossip if the coffin was an inexpensive one’ (Roth 2000:13).

The *overall* impact of the S variable in the above model may also be negative, for example where sharing personal financial information is regarded as a social

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<sup>21</sup> A respondent in Thomson and Posel expresses similar sentiments:

Respondent: I don’t know if it comes from the whites or what. And we compete too much about who cooks better salads, how were salads in that funeral and that funeral.

Interviewer: What can be done to reduce the costs?

Respondent: We can adopt the style we had in the olden days. If you die, we must use a cow skin to bury you. And we should not have all these foods (2000:92).

taboo. Further, given that many of the social benefits of ISGs are related to their role as insurance mechanisms, the positive component of  $S$  may diminish in size as an individual's wealth increases and she is better able to manage negative shocks using her own financial resources. The risk of default by a group member also detracts from the attractiveness of group saving, as do limitations on flexibility in accessing cash once an agreement has been entered into. A negative value of  $S$  characterises the situation where an individual would choose to save individually, despite potentially larger monetary payoffs from ACSA participation.

It is important to re-emphasise that the  $S$  variable in the above models refers only to the individual's *perceived* social benefits and costs; there may be a number of externalities to participation. Campbell *et al* (2002) notes that membership of a *stokvel* is associated with significant sexual health risks: members consumed more alcohol, women were more likely to have had a casual partner in the last year, while young men exhibited greater probability of being HIV positive.<sup>22</sup> Further, the inefficiency that accompanies the obligations inherent in consumption smoothing arrangements where households are compelled to share windfall gains in exchange for social insurance is noted by Keswell (2003:25). It is possible that ISG participants may not factor fully into the decision-making process alternative and more productive uses of such gains.

## **Explaining the Interplay between Social and Financial Resources**

Having established that ISGs have both an important financial and social aspect, it remains to briefly consider exactly why the *interaction* of these elements is perceived as valuable. Could an individual not just save in a bank and acquire a stock of social capital through alternative community activities? In attempting to justify this linkage, Ardener observes that within ROSCAs:

The 'social' element 'sugars the pill' of crude economic materialism; moreover it has practical functions. The money, time and energy spent on socializing, far from being 'wasteful' or 'uneconomic' may be an

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<sup>22</sup> However, since her sample population was selected from a group consisting overwhelmingly of women attracted to the area by the prospect of finding an employed boyfriend from the neighbouring mine compound, this link may well be spurious.

essential requirement for justifying membership and thus the financial viability of the ROSCA (1995:8).

Further, it is arguable that an individual's commitment to a regular monetary contribution serves as an important screening device in identifying those who are genuinely dependable in situations of crisis. A community organisation cannot offer such a strong test of trustworthiness: verbal promises are not as reliable as active fulfilment of a monthly obligation. This element of commitment may well be higher in ROSCAs than ASCAs as a consequence of incentives to select members who are less likely to pose moral hazard problems, a result which would be reflected through the assignment of a higher value to  $S_{RS}$  than  $S_{AS}$ .

Within the South African context, ISGs have been argued to possess cultural significance through the perception that participation in some way fulfils the moral obligations imposed by the system of *ubuntu*. A less positive perspective may regard their evolution as partly a product of the deficit of social activities available to black communities under apartheid. With an established equilibrium, it becomes difficult to achieve the same goals through different means as a consequence of social inertia.

## **A Virtuous Circle: Social Capital and Sustainability**

Coleman suggests that ROSCAs are unlikely to operate successfully in urban areas as a consequence of the deficit of social organisation and social capital (1988:102-103). There may be some substance to this claim: using data from the United States, Glaeser, Laibson and Sacerdote have shown the rate of investment in social capital to decline with an increase in expected mobility (2001:21-22), a characteristic typical of urban life. However, Ardener considers the possibility that ROSCAs may act as an important replacement for family ties as a consequence of the attenuation of kin networks in urban situations (1995:9). The continuing importance of ISGs in South African townships provides support for this proposition.

High savings rates are achieved as a consequence of the peer pressure inherent in the ISG system. In her study of a community in Grahamstown, Bujis notes:

Participants in Rhini are more inclined to default on their furniture, clothing or other hire purchase accounts than on their association contribution. This is because the other accounts are private contracts between the company and the customer, and are not visible to neighbours and friends. By contrast, an individual's economic and social reputation within the community is at stake with regard to association payments (1998:62).

Members are typically selected on the basis of known reliability and affiliation with existing members. This is illustrative of the simultaneous use and production of social capital networks in forming ISGs. Ebersohn and Ryan observe: 'Only a fool would join a *stokvel* with people you do not trust ... Deals are sealed with a handshake and the knowledge that you can rely on your friends' (1991:37). Occasionally, membership is restricted by demographic variables, notably church connections, age (a proxy for 'respectability') and gender. Using religion as a basis for membership is seen as a means to establish shared values (Moodley 1995:364).

The relationships established over these networks means that to default on an ISG payment would be akin to committing social and economic suicide. 'It's an abomination to default,' notes Lukhele (*Financial Mail* 1988: 32). Default rates are generally low (see, for example, Verhoef 2001b). Apart from social sanction, 'being too poor to borrow can be worse than net indebtedness' (Cross 1987:88). Expulsion from an ISG means that an individual is unlikely to be able to find an alternative line of credit, thus preferring to borrow from local moneylenders, *mashonisas* (literally translated, 'the one who kills') rather than default on a contribution (*Financial Mail* 1988: 32).

While the rate of interest here is considerable, it is argued that for many small businesses, high interest rates do not pose as severe a problem as the lack of credit (*Financial Mail* 1988:33). Compared with the formal banking sector, ISGs are subject to lower overheads and administrative costs. Most importantly, their ability to assess with relative accuracy the creditworthiness of loan applicants means that they are able to mitigate adverse selection problems and are thus well-suited to providing for the credit needs of the informal sector (Bujis 1998:57-59).<sup>23</sup>

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<sup>23</sup> So as not to idealise the standards of repayment, it is noted that social pressure to pay one's obligations is not *always* a sufficient incentive. Bujis reports that some associations in larger cities are alleged to have their own lawyers, suggesting that as membership size increases, it



# A View from the Inside: The Bambanani Women's Group

*'With the gooi-gooi, everything is possible.'*<sup>24</sup>

To obtain an independent assessment of the ideas thus far presented in this analysis, a focus group was conducted with twelve women who participate in a ROSCA-type ISG. Members are all employed as researchers and translators in the Khayalitsha community, and were able to expand upon personal experience based on insight they had obtained while working. The women were insistent that their status as colleagues and as a savings group be separated, noting that the principal criteria for membership was ability to contribute the requisite monthly sum.<sup>25</sup> However, the notable absence of members from outside their employment circle suggested that this criterion served as an important filter for reliability.

At the start of the session, the women commented that they regarded '*stokvel*' as describing a *shebeen* rather than a group of fixed membership,<sup>26</sup> and thus preferred the term *gooi-gooi*. That many banks continue to use '*stokvel*' generically to describe ISGs reflected a common theme of the discussion, in which formal financial services were portrayed as out of touch with the needs of black communities. The women all have a personal bank account but reported making little use of this facility due to high bank charges - 'they are eating our money.' One participant complained, 'this is called a savings account but at the end of the day there is no money ... you put in R5000 and when you come back you find there is R500.'

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becomes easier for individuals to evade their responsibilities (2002:36). The threat of physical coercion is also a means to minimise default: 'One informant's association from time to time calls on a certain policeman ... to help recover money owed to them, and this is usually done without any paperwork on the part of the police services.' (Bujis 1998:62)

<sup>24</sup> All quotations in this section reflect comments made by focus group participants

<sup>25</sup> The women did point to the problems inherent in saving with others who were not well-known, especially the risk of 'insider robberies' where members who knew the time and place at which the payout would occur would 'organise *skollies* to rob the money' from the recipient of the pot.

<sup>26</sup> A possible reason for this association is the historical linkage between *stokvels* and *shebeens* as described earlier in this paper.

However, their response to a thought experiment in which they were asked how they would save their money if there no bank charges was enlightening: there was a clear consensus that they would still save in a *gooi-gooi*. Their explanation provided considerable support for the theory of these savings groups as primarily a means to acquire the cash for ‘lumpy’ durables. On receiving the pot, ‘you know you can do something important about that money’. Among the most commonly cited uses for the accumulated sum was the purchase of furniture and house-building. ‘You can take that money straight to the builders,’ reported one respondent who claimed she would otherwise struggle to obtain the requisite cash: ‘you would have to save forever.’

When asked their opinion on why ROSCA-type groups are more common in developing than developed world settings, the idea that ‘rich people’ are more capable of providing for their families and dealing with misfortune emerged as participants’ dominant response. The flexibility accorded to members in adjusting the order of rotation depending on need corresponds to Keswell’s (2003) view of the *stokvel* as an insurance mechanism to assist households with consumption smoothing.

The benefits of relational goods produced as a consequence of the formation of this network were also highlighted. Sharing the common goal of savings discipline, providing mutual support, and the development of friendships over time were all cited as reasons for participation. ‘It brings so much,’ commented one of the women.

No restrictions are imposed on how payouts are spent, although it is possible that there is some subconscious pressure to act responsibly. One participant expressed the wish ‘that they can spend that money wisely.’ Given the traditional importance of the Eastern Cape in Xhosa culture, the emphasis placed on visiting relations and buying land in this area following receipt of *gooi-gooi* savings may point both to the group’s function in consolidating networks of bonding social capital by affirming cultural identity, and the manner in which such savings allow for the fulfilment of perceived cultural obligations.

Within the group, payment was understood to work on a reciprocal basis whereby failure to contribute during a particular round would translate into the defaulting member receiving a smaller pot at her turn in the rotation. Hypothetically, ‘at the end of the day some could just get an envelope with nothing.’ However there was a clear ethic of mutual support reflecting aversion to this outcome - ‘you must report if you don’t have money so each and every

one can help you.’ This appeared to be driven in part by a commitment to ensuring that all members received the full financial benefits of participation, as well as a wish to assist the defaulting member to avoid potential embarrassment. The women did report cases of other *gooi-goois* that repossess goods from members if they are unable to make payment: ‘some they take your TVs, some they take your bed, some they take whatever.’

Negative elements of participation included criticism of *gooi-goois* by churches (‘especially the gospel ones’): ‘if you do the *gooi-gooi*, they say it’s like Lotto, it’s like gambling.’ Whether this reflects a misunderstanding by these churches of the functioning of *gooi-goois*, or rather, as suggested previously, resentment of the large cumulative sums that pass through the hands of members rather than church coffers is unclear. While noted as a drawback to membership, this apparently does not serve as a serious deterrent. The women also highlighted the role of burial societies in reinforcing the expense of funeral services: ‘We are forgetting about our culture and what it means a long, long time ago. We are making a funeral more like a wedding now.’

Differential approaches to finance by gender emerged as another important theme. Women were portrayed as being ‘responsible’ spenders, while:

men use their money on cigarettes, girlfriends and *shebeens*. At the end of the week ... you will see men having eight beers and that man did not even go to his house. But that woman is being paid only R50 a day, but you find [her] coming to Shoprite on a Friday and her family is having food on the table.

The notion of a gendered division of social welfare provision was also reinforced: ‘the responsibility of the man are more lighter than the woman.’ That *gooi-goois* were predominantly women was attributed to the greater weight they gave to ‘budgeting’, with men’s participation in these groups largely limited to those with ‘big money - especially taxi drivers.’

In light of the Anderson and Baland hypothesis discussed previously, the group’s immediate reaction was that many women do keep *gooi-gooi* membership secret from their husbands for fear that the amount saved may be appropriated upon payout. Interestingly, this rapidly changed to a defense of their respective spouses, suggesting that the relatively low rates of secrecy cited

in Keswell's (2003) study (25 percent) may reflect a similar sense of obligation on the part of the women interviewed to protect their husbands' reputations.

## Conclusion

Will [ISGs] be the foundation of black capital accumulation in the same way that SANLAM mobilised Afrikaner capital in the thirties. Will they be absorbed by existing financial institutions which now look at them with hungry eyes, waking to the fact that mountains are made up of grains of sand? Or will another path emerge from their history as people's institutions? (Stanford 1991:35)

This paper has examined the extent of complementarity between these financial and social roles. In so doing, it has sought to build a more realistic view that regards the development of social capital as in part an investment in the production of relational goods. Implicit in this theory is the suggestion that individuals do not form relationships solely to improve their long-run financial position, with companionship and consolidation of a sense of personal identity being significant incentives to participation in groups. The persistence of ISGs despite the availability of formal sector financial services, while in part a consequence of the failure of banks to adequately address the needs of the poor in South Africa, reflects the importance of these groups as informal social insurance networks. In particular, this suggests a serious deficit in the availability of formal social security for women.

The perspective developed here should be seen as congruent to existing theories rather than as an alternative. Further analysis of ISGs requires that existing broad-based surveys be redesigned with greater sensitivity to definitional issues and the importance of obtaining individual-level data.

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# Appendix A: Extracts relating to *stokvels* from surveys

## 1. October Household Survey (1999)

What was the total household income in the last month, including wage, salaries, government grants, private pensions and all other sources of income?

- Savings account*
- Stokvel savings*
- Pension savings*
- Unit trust*
- Cash loans*
- Life insurance*
- Other savings*

Does this household, or a household member, own any of the following financial assets?

- Family member*
- Neighbour*
- Cooperative*
- Bank*
- Land Bank*
- Government agency*
- Stokvel*
- NGO*
- Money lender*
- Farmer*
- Other lender*

2. Project for Statistics on Living Standards and Development  
(SALDRU 1993)

**Interviewer:** Ask all households to provide a summary of expenditure in the food and non-food categories listed in the grid below.

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <i>How much did the household spend in the last month?</i> | <i>How much is usually spent in a month?</i> | <i>How much was spent in the last month?</i> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|----------------------------------------------|----------------------------------------------|
| <input type="checkbox"/> Groceries (including toiletries and household essentials)<br><input type="checkbox"/> Food eaten out<br><input type="checkbox"/> Holidays<br><input type="checkbox"/> Cars and other vehicles (including hire purchases and lease agreements)<br><input type="checkbox"/> Furniture, including hire purchase agreements<br><input type="checkbox"/> Clothing<br><input type="checkbox"/> Payments to domestic servants and gardeners<br><input type="checkbox"/> Insurance (including life, short-term and funeral policies)<br><input type="checkbox"/> Savings (including retirement annuities and <i>stokvel</i> contributions) |                                                            |                                              |                                              |

**Interviewer: Introduce by saying:** "I am going to read through a list of possible lenders. As I read through the list, please indicate whether or not money is owed to that source."

|                             | <i>Is anything owed to _____?</i> | <i>How much is owed to _____?</i> | <i>What is the monthly payment?</i> |
|-----------------------------|-----------------------------------|-----------------------------------|-------------------------------------|
| <i>Stokvel/Credit Union</i> |                                   |                                   |                                     |

3. Khayelitsha-Mitchell's Plain Survey (2000)

Do you give money to a *stokvel* (or *gooi-gooi*) each month?  Yes  
 No

If yes, how much each month ?

|   |
|---|
| R |
|---|

## Appendix B: Areas examined during focus group

### □ What do you understand by the terms:

- *stokvel*
- gooi-gooi
- umgalelo
- kuholisana
- mahodinsa

- Are they all the same thing? How much variation is there within each type (for example, do you consider a group that collects R50 from each member to be the same “kind” of club as a group that collects R5000 from each member?)
- *How* are they different (presumably some are simply terms used by those who speak different languages)? What is their primary purpose – social or economic?
- Which would you think most people participate in?
- What kind of social activities are associated with each? Do non-members ever attend these gatherings? How do the finances of the social aspects operate?
- What “type” of person do you think would typically be a member of each if you see them as different (typical characteristics, such as marital status, age, no. children, gender, religious affiliations and more “personal” attributes like adherence to traditional values, “image” consciousness, aversion to risk etc.)?
- How do religious people respond to the various types of *stokvels*? I have read that there is sometimes some rivalry between *stokvels* and church groups. Have you ever seen evidence of this? If so, why do you think this is?
- Which would (do) you participate in? Why?

### □ The logistics

- How many people are part of your *stokvel*? How did you choose them? Would you let any new members in (how rigid is membership)? Why (not)?
- How much do you contribute and how often?
- How do you decide who gets the money (order of rotation)?
- Does your *stokvel* lend money to members?

- Does your *stokvel* lend money to other people? If so, how does this work (amounts, checking credit, interest rates, etc.)?
  - What do people who *borrow* money from *stokvels* mostly use it for?
  - Does anybody have special positions (eg. treasurer, secretary, president)? If so, how did you decide who would hold these positions.
  - Do you have a written constitution/agreement?
  - Do you keep written records of payments/contributions?
  - Do you have any fines (eg. for people who don't attend meetings?)
- Why do you save in a *stokvel* and not a bank/Post Office/by yourself?
- If your reasons are social ... surely there are other forms of social interaction. Why do you choose to mix money and pleasure?
  - Some researchers say that people save in *stokvels* because there is a sense of “*ubuntu*” in how money is handled in these groups. Do you think this is true?
  - Do you realize that you can earn interest if you put your money in the bank.  
If so, what makes the *stokvel* worth sacrificing this?
  - Do you think most *stokvel* savers are aware of the interest they are losing? If so, why are *they* prepared to lose out?
  - If you could choose your position in the rotation (i.e. when you collect the group sum), which spot would you choose and why?
  - Do you think most people understand that R20 today will buy less than R20 in one year's time?
  - Do you personally (on an individual level) use a bank at all?
  - Do you think that if people understood banks better they would be more likely to save in a personal account rather than join a *stokvel* (or do they serve different purposes)?
  - Would you always choose to save in a *stokvel*? Are there any circumstances under which you might choose a different form of savings? *Attempt to examine the link between income and stokvel savings.*
- Do you think that in general women or men are better savers (or are they both the same)? Why? *Explore the link that women are ultimately more “responsible” for household welfare and thus face more constraints on how their money must be spent.*
- Is there a difference between how men and women spend their money in general? If yes, why do you think this is?

- Do men and women participate in *stokvels* for the same reasons (this may be closely linked with the above expenditure question!)?
- Do some women keep their participation in a *stokvel* secret? If so, why (fear that their partners may appropriate the money, or possibility their efforts may be scorned)?
  
- ❑ Why do you think people need to/want to save?
  - What do you think most people use their savings for?
  
- ❑ There have been some studies that show that many women think that being part of a *stokvel* is “essential” to their survival
  - Do you feel this is the case for you? Why (not?)
  - If NOT: why do you think these women say this ... is it a weak understanding of what they are saying on the part of the researcher ... or do you think some *stokvel* members genuinely feel this way?
  
- ❑ What kind of problems do *stokvels* face?
  - Is it risky to save in a *stokvel*?
  - Have you heard of any cases where people have defaulted on payments? What happens?
  - Is there ever any threat of physical intimidation to pay, or is pressure mainly applied through social sanction?
  - Do you think those who receive the payout at a given *stokvel* meeting might be more susceptible to being robbed? Have you heard of cases like this?
  
- ❑ Do you think *stokvels* will be around in the future? *Should* they be around in the future? Are *stokvels* valuable? Why?
  - Is there anything you think the government should be doing to help *stokvels* to flourish?
  
- ❑ Why do *you* think there are no informal savings groups like *stokvels* in America or England?
  
- ❑ What about burial societies?
  - Are you a member of a burial society. Why (not)?
  - How many people do you think are members of burial societies?
  - Do you think most members are men or women? If you think there is a difference, why might this be?

- Why do people join (is it simply to save money for a funeral or is there substantial social pressure ... or is it genuine a social support base)?
- How do you feel about the elaborate funerals that are held for people? Do they follow tradition ... or are they a more modern interpretation of customary last rites?
- *Why* are funerals so elaborate?
- What role do burial societies usually play at funerals?
- Do you think this is a positive role? Or do they exert too much influence?



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## The Centre for Social Science Research

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The CSSR is an umbrella organisation comprising five units:

The Aids and Society Research Unit (ASRU) supports quantitative and qualitative research into the social and economic impact of the HIV pandemic in Southern Africa. Focus areas include: the economics of reducing mother to child transmission of HIV, the impact of HIV on firms and households; and psychological aspects of HIV infection and prevention. ASRU operates an outreach programme in Khayelitsha (the Memory Box Project) which provides training and counselling for HIV positive people

The Data First Resource Unit ('Data First') provides training and resources for research. Its main functions are: 1) to provide access to digital data resources and specialised published material; 2) to facilitate the collection, exchange and use of data-sets on a collaborative basis; 3) to provide basic and advanced training in data analysis; 4) the ongoing development of a web site to disseminate data and research output.

The Democracy in Africa Research Unit (DARU) supports students and scholars who conduct systematic research in the following three areas: 1) public opinion and political culture in Africa and its role in democratisation and consolidation; 2) elections and voting in Africa; and 3) the impact of the HIV/AIDS pandemic on democratisation in Southern Africa. DARU has developed close working relationships with projects such as the Afrobarometer (a cross national survey of public opinion in fifteen African countries), the Comparative National Elections Project, and the Health Economics and AIDS Research Unit at the University of Natal.

The Social Surveys Unit (SSU) promotes critical analysis of the methodology, ethics and results of South African social science research. One core activity is the Cape Area Panel Study of young adults in Cape Town. This study follows 4800 young people as they move from school into the labour market and adulthood. The SSU is also planning a survey for 2004 on aspects of social capital, crime, and attitudes toward inequality.

The Southern Africa Labour and Development Research Unit (SALDRU) was established in 1975 as part of the School of Economics and joined the CSSR in 2002. SALDRU conducted the first national household survey in 1993 (the Project for Statistics on Living Standards and Development). More recently, SALDRU ran the Langeberg Integrated Family survey (1999) and the Khayelitsha/Mitchell's Plain Survey (2000). Current projects include research on public works programmes, poverty and inequality.

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