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# Availability and distribution of risk capital: how stokvels can help fill the financing gap for SMMEs in South Africa

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**2020**
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# Availability and Distribution of Risk Capital: How Stokvels can Help Fill the Financing Gap for SMMEs in South Africa

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A research report submitted to Wits Business School in partial fulfilment of the requirements for the degree of Master of Management in Finance & Investments

Supervised by Prof Kalu Ojah

**March 2020**

# ABSTRACT

Small, Medium and Micro Enterprises (SMMEs) in South Africa operate in an environment where access to finance is severely lacking, particularly in the start-up and growth phases of these businesses. Formal financial markets continue to exclude SMMEs from accessing finance due to collateral constraints and credit histories requirements. These small businesses often resort to the informal finance sector as an alternative for much needed finance; however, this sector is synonymous with exorbitant rents that often cripple many of these SMMEs.

Within the informal market in South Africa exists an enormous capital source in the form of Stokvel savings. Therefore, the first question examined by this study is whether it is the availability of risk (venture) capital or its distribution thereof that results in this funding gap. The second question is the feasibility of Stokvels in South Africa being able to mobilise their savings pools into affordable loans to members for small business activities and through which fit-for-purpose vehicle (i.e., financial contracts and/or institutions) this could be facilitated. Cooperative Financial Institutions (CFIs) as formal regulated bodies that facilitate channelling savings into credit to its members were considered an appropriate vehicle to facilitate this flow of funds for the purposes of this study. The study used an inductive approach to gain an understanding of how CFIs have facilitated the flow of savings into investments for members. The study used both qualitative data, through interviews with CFI representatives, and quantitative research methods to collect and analyse assembled relevant data. A questionnaire was used to collect quantitative data from members of Stokvels.

The study found that owning a small business is not a factor in deciding whether or not to join a Stokvel that provides loans; thus, perpetuating the notion of informal savers' insistence on the traditional practices (emphasising social capital). It was also found that small business owners who are currently members of Stokvels, be it for social or savings reasons, welcome the idea of being members of a formal savings vehicle that would provide access to finance. CFIs are found to be successful at mobilising member savings, providing affordable and suitable financial products, enabling ownership of factors of production, and providing access to member small business loans

that otherwise would not have been provided by traditional banks. These vehicles have the potential to significantly contribute to reducing the funding gap experienced by SMMEs, by redirecting a supply of capital that already exists within the system. However, the main constraint in setting up this vehicle was found to be the requirement of getting 200 members that share a common bond. Interestingly, this study looked at a 'formal' vehicle that may facilitate the intermediation of this flow of funds, and deemed such model to be successful in the intermediation of member funds to the benefit and improvement of members' financial needs, but not necessarily the regulatory structure within which they operate. Therefore, this study provides a framework through which small businesses could mitigate or overcome this situation of lack of access to venture finance.

# DECLARATION

I declare that this research report is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Management in Finance and Investments at the Wits Business School. This work has not been submitted before for any degree or examination in any other University.



Tshepo Tau

31 March 2020

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# CHAPTER ONE
# INTRODUCTION

## 1.1 CONTEXT AND RATIONALE FOR THE STUDY

According to the National Association of Stokvels of South Africa (NASASA), the Stokvel economy is an estimated R49 billion a year, with over 811 000 Stokvels and 1.5 million members. This represents massive purchasing power in the context of the South African economy. In the South African context, the term 'Stokvel' refers to a variety of mutual benefit and savings societies (Verhoef, 2001), and in their general form, are typically known as Rotating Savings and Credit Associations (ROSCAs) across the World.

In terms of cross-country distribution, Gauteng is the province with the largest number of Stokvels followed by Limpopo, KZN and the North West. It is shown that the urban/rural split within these provinces that Stokvels are mostly concentrated in urban areas, with most provinces having at least 88% or above of those belonging to Stokvels being situated in such areas, and members are generally economically active members of society, with 83% of those interviewed being employed in some form or another (African Response 2012).

Within the 5 main types of Stokvels, Savings Stokvels accounts for the largest group of membership among respondents (43%), while Burial (22%) and Grocery (16%) are the next biggest. These have traditionally been the mainstay types of Stokvels that are belonged to (Lukhele 1990). However, Stokvels are undergoing an evolution; Birthday (9%) and Investment Stokvels (5%) are starting to become prevalent (African Response 2012). Although Investment Stokvels represent a small portion of the Stokvel population in terms of the number of members, they together with Savings Stokvels are found to register the highest average monthly rand contributions per member.

The use of proceeds from money generated via Stokvels in South Africa is different from the use of proceeds by poor people in areas such as Kenya, Ghana and Bangladesh, where a large percentage of funds from savings schemes are invested in Small, Medium and Micro Enterprise

(SMME) activity. The majority of Savings Stokvels in South Africa deposit cash in a bank account where it earns very little interest or proceeds are distributed to its members. However, the nature of Stokvels might be different to savings schemes in other African countries; that is, the presence of a significant amount of high Living Standard Measure (LSM) individuals (20%), coupled with the fact that the majority (83%) of members are gainfully employed shows that it cannot be assumed that those who participate in Stokvels are poor and economically inactive.

For purposes of this study, we will look at Savings Stokvels and Investment Stokvels, 43% and 5% of the total Stokvel population, respectively. There is a massive opportunity for Savings Stokvels to mobilise the proceeds from their Stokvels into income-generating avenues beyond the traditional bank accounts, more specifically into investing in SMMEs. Not only will this investment generate financial gains but it will help contribute to the dire need to bolster economic development, create jobs and alleviate poverty.

Given the nature of Stokvels, affecting social change stands out as one of its pillars. They seem best placed to provide financial services that recognize the associated risks faced by SMMEs, and would likely foster innovative investment into these businesses and projects. Small business owners could look into becoming members of Stokvels with aims of becoming Cooperative Financial Institutions (CFIs) or form such groups. As membership numbers grow and capital accumulates, they can reap the benefits of access to finance for their businesses. CFIs are typically financial institutions that are owned, managed and operated by members with the objective of providing traditional banking services for members. According to the Cooperatives Banks Development Agency (CBDA), one of the banks' problems in serving clients is that they don't have enough information on clients, so additional costs need to be priced-in for servicing them. In theory, in a CFI, within which members are the depositors and owners, there is a chain of trust, and the Cooperative is close to its members, thus it provides many advantages over banks. Firstly, members typically know one another and can vouch for each other. As shareholders and depositors into the CFI, the members have an interest in ensuring all funds lent out are repaid. In tightly knit communities, there is information on people that the credit committee can access to make good credit decisions.

South Africa has the lowest CFI penetration rate in the world at 0.06% compared to Kenya (13.3%), Rwanda (13.8%), Togo (26.7%), Korea (11.5%), Nepal (17.2%), the Caribbean region (56%), Australia (17.6%), Canada (46.7%), the US (52.6%), Ireland (74.5%) and the worldwide average of 13.5% (WOCCU, 2016). Over the recent years, there is a dip in the number of South Africa's CFIs and membership from 121 and 59,394 in 2011 to 26 and 24,722 in 2015, respectively (CBDA, 2015). However, the decrease in CFIs can be partly explained by the setting of the minimum membership and increase in membership share capital contribution to 200 and R100,000.00, respectively by the CBDA, forcing weak entities out of the market. This raises the question of whether the South African sector has reached the crossroads despite the global financial cooperative movement coming out of the global financial crisis stronger and unscathed or does it still have a future? (Mushonga, Arun and Marwa 2017).

Given the statistics from African Response (2012), that is, that Investment and Savings Stokvels generally see the highest average monthly contribution per member (R439 and R323, respectively) and that Savings and Investment Stokvels accounts for 43% and 5% respectively of the total Stokvel market. It can be inferred that, combining Savings and Investment Stokvels, on average, each group can save about R130 000 per annum, which is above the minimum required to register a Cooperative Financial Institution. This indicates that Savings and Investment Stokvels can achieve the scalability that will enable them to register a CFI.

There are currently only 22 cooperative financial institutions in South Africa. However, over a quarter of the population, predominantly blacks, have no access to banking services despite South Africa having the largest and most sophisticated banking industry in Africa. Financial cooperatives could contribute significantly to ensuring access to affordable financial services, which is critical in South Africa where nearly 10 million adults are excluded from the formal financial system and only 58% of adults are banked (Mushonga, Arun and Marwa 2017).

## 1.2 BACKROUND TO THE STUDY

### 1.2.1 Nature of the financing gap in South Africa

To analyse the nature of the financing gap in South Africa, we start by looking at the structure of the South African economy. The main structural factors affecting the entrepreneurial ecosystem of South Africa are, but not limited to, low growth; large firm dominance; the dual economy; and the education system (SABCMS, 2017).

South Africa's economy grew by only 0.8% as the country found itself in an economic recession in 2018, with growth projection for 2019 estimate of about 1.3% GDP growth. According to the World Bank, given population growth, Gross Domestic Product (GDP) per capita growth has been close to nil since 2014, leaving little room to reduce poverty. The country has been facing about a decade of low growth, whereas other emerging markets have achieved sizable growth in the same period.

The South African economy is dominated by large companies that prefer doing business with trusted suppliers that they have built a long-term relationship with, to doing business with startups that are new to the market. A large number of the working population is excluded from the formal economy. According to a 2017 report by the Allan Gray Orbis foundation on global leadership strategy, a majority of entrepreneurs from disadvantaged communities tend to suffer from a lack of resources due to their communities being underserved. The current market structure is not conducive to new market entrants, as there are structural barriers to market access for new entrants and small businesses, which contribute to their failure. South Africa is the most unequal country in the world, with a Gini coefficient of 0.63. The majority of the population lives below the poverty line perpetuated by a legacy of exclusion (via apartheid).

A survey done by the Global Entrepreneurship and Development Institute (GEDI), which interviewed entrepreneurs, investors, policy-makers and academics, revealed that the factors holding back the South African entrepreneurial ecosystem could be narrowed down to six areas, namely; finance of new and growing firms, access to markets, skills, education, networks and culture, and regulation (EESA, 2017). The above structural factors lead to a financing gap whereby entrepreneurs and start-ups are faced with a lack of funding for ongoing operations, future development of their businesses or projects that are not provided for by cash, debt, or equity.

In other African countries and other parts of the world, the rural folk normally have access to land, which they depend on no matter how poor they are. However, in South Africa access to land is a problem, which means that most of the economic activities have to be from the non-farming sector such as running cafes, street vending and hawking, running taverns, selling food, running communication centres, etc. (Arko-Achemfuor 2012).

### 1.2.2 Factors affecting entrepreneurship in South Africa

The 2018 Global Entrepreneurship Index (GEI), which ranks countries across the pillars of policy, infrastructure, entrepreneurial environment, education and finance, ranked South Africa at number 57 of the 137 countries (second only to Botswana in sub-Saharan Africa). The GEI is comprised of three building blocks or sub-indices measuring countries' entrepreneurial attitudes, abilities and aspirations. The 2018 ranking indicates that South Africa performs above the global trend line. In sub-Saharan Africa, South Africa scores highest in aspirations – an uncommon phenomenon globally for lower-income countries. In 2017, the GEDI recognized that South Africa performs better in entrepreneurial aspirations, innovation, high growth companies and internationalization. However, the pillars that hold back overall performance were identified to be largely a factor of the dual economy. South Africa has a score of 0.21 out of 1.00 in 'Risk Capital', which is its second lowest score after start-up skills. However, the institutional variable 'depth of capital markets' scored 0.86, which is very strong and one of the strongest in the world, suggesting that capital markets are not evenly spread over the whole country. The 'depth of capital markets' variable is a measure of the size and liquidity of the stock market, level of Initial Public Offerings (IPOs), Mergers and Acquisitions (M&A), as well as debt and credit market activity.

### 1.2.3 Mismatch of perceived investable deals versus availability of risk capital

According to the Bertha Centre for Social Innovation and Entrepreneurship, most investors indicate that there are not enough investable deals while entrepreneurs continually express the lack of risk capital available in the market. The biggest issues identified being the mismatch between the principles that investors use to find and assess deals, the state of readiness of many organisations, and the type of capital available, as opposed to what businesses are looking for. In

Africa, traditional equity deals are more difficult due to entrepreneurs' unwillingness to sell ownership, the lack of potential exits and the time needed to achieve an exit (Innovative Finance in Africa 2016).

A report by the Bankers Association of South Africa (BASA), shows that a total of 44% of SMMEs seek funding of up to R250,000.00 with a combined 73% seeking funding of up to R1 million; however, financiers mostly offer funding from R250,000.00 to R5 million, pointing to a mismatch between funding demand and supply.

Ayankoya (2016) in his study states that the availability of funds for entrepreneurial activities is not a problem in South Africa, but it is important that the requirement and the framework of accessing these funds be reviewed in such a way that people reduce the fear of failure. He also mentions that the barrier of entry and stiff regulations might be a challenge for both local and migrant entrepreneurs in South Africa.

### 1.2.4 Propositions emerging from major arguments in relevant literature

Moliea (2007) explored the operations of stokvels in order to identify features of stokvels that make them successful and why they remain popular in Black communities, even among people who have access to formal financial institutions. She found that the motive behind the stokvel was to make funds available that would otherwise not be available, and the members acknowledged this as a reason that makes the Stokvel more attractive and that savings were provided for to a large extent. However, there was a mixed reaction towards the lending function of Stokvels.

Arko-Achemfuor (2012) examined Stokvels as a source for financing SMMEs in South Africa and found that a lot of money is raised through the stokvels in the Naledi Local Municipality but almost all the money is used for household consumption. He states that "Stokvel members as actors in the society have this huge source of funding which they can use to address the challenging problem of funding SMMEs in their communities" and concludes that "It has not dawned on most of the members of stokvels that this is a potential source of funding for SMME's. A lot of the proceeds in other countries are invested in SMME activities but in South Africa the case is different". He

goes on to recommend that these groups should be encouraged to invest in entrepreneurial activities using the money generated through the Stokvels.

Stokvels are unable to use their considerable funds to develop into viable community-based financial and investment enterprises through which banking and insurance products could be distributed, according to Rakabe (2013). He states, "The stokvel sector could become a small-scale capital market through which marginalised businesses with demonstrable growth potential could raise financing. Other potential investment areas for Stokvels are the financing of low-cost housing and underwriting low-cost insurance". "Stokvels as a collective are significant in terms of their size and value and volume. Strategies that aim to tap into this buying power are in their infancy, or have not been followed through hence providing a wealth of opportunities for industry" (African Response, 2012).

## 1.3 PROBLEM STATEMENT

The research questions of this study stem from the current financing gap that still exists in the context of South African entrepreneurs not being able to source capital for their businesses be it either for working capital or for expansion needs. "The SMME sector in South Africa provides a compelling, largely untapped market opportunity for innovative funders who are able to develop new lending models and risk assessment tools tailored to address the challenges of this complex and burgeoning market" (FinFind, 2017). This report provides estimates of the SMME credit gap in South Africa of between R86b to R346b.

Traditional banks continue to underserve SMMEs, as the largest portion of the SMME sector is unable to access loans from the commercial banks due to lack of financial knowledge, collateral and credit history. Profit maximisation is the primary objective of banks, and consequently they view SMME financing as risky due to fear of default risk and lack of collateral. As entrepreneurs endeavour to create innovative products to meet the ongoing changing demands of the market, so should traditional funding models and products evolve to support these efforts. With this in mind, financial service providers will need to create variations to traditional loans that will be used to provide previously excluded businesses access to debt funds.

According to Tuomi and Neto (2013), difficulties in accessing venture (i.e., risk) capital were also highlighted, from both private and public sources, with very few firms being able to get preferential finance from the Industrial Development Corporation (IDC), the major public funder of start-up capital in South Africa. They find that the South African venture capital asset class is a very small component of the overall market for equity investments, compared to other similar sized countries. Molatlhwe (2016) states that although the local private equity industry has grown significantly and is well developed, it remains skewed towards later-stage investment activity with little investment in the venture capital market and that this skewness impacts negatively on entrepreneurship which is normally driven by venture capital.

A situation where there is a problem in obtaining finance exists while at the same time those who need the funds most for start-up and as working capital sit on millions of Rands in the form of the stokvel system (Arko-Achemfuor 2012).

There is currently a limited body of knowledge around these traditional savings schemes in the existing literature, with very few addressing using these as vehicles to close the financing gap faced by SMMEs and/or the question of 'how' this can be achieved.

## 1.4 PURPOSE STATEMENT

Therefore, the purpose of this study is to review the feasibility of informal savings groups, in the form of savings Stokvels, in South Africa mobilising their savings pools into income-generating assets in the form of affordable loans to members for small business activities or ventures. The study will also explore, through formalisation of these groups, which fit-for-purpose vehicle through which these flows of funds can be intermediated. The objective of this agenda is to curb the economically harmful effects of credit rationing and a general unwillingness to fund start-ups, which has resulted in an enormous financing gap faced by many SMMEs in South Africa and, thus, to promote financial inclusion, the creation of jobs and alleviation of poverty.

## 1.5 RESEARCH QUESTIONS

Specifically, the research intends to answer the following questions:

- Is the financing gap a result of risk (venture) capital not being available to fund South African entrepreneurs or is it a matter of risk capital not being adequately distributed to those who need it?
- How can an untapped capital source, in the form of Stokvel savings, be efficiently channelled to provide financing for the SMME sector where it is much needed?

## 1.6 RESEARCH OBJECTIVES

The research aims to address the following objectives:

- To explore the underlying factors that cause the financing gap experienced by SMMEs.
- To assess the feasibility of mobilising Stokvel savings through CFIs to close the financing gap.
- To propose recommendations to SMME owners to provide and access capital for small business activities or ventures.

## 1.7 OUTLINE OF THE REPORT

Below is the outline for the rest of the research report:

- Chapter Two is a review of the literature relevant to the study.
- Chapter Three describes the research design employed and the analysis methods used in the study.
- Chapter Four documents the findings of the qualitative data from interviews of CFI representatives.
- Chapter Five reports on the findings of quantitative data from the survey on Stokvel members.

- Chapter Six pulls the findings from both qualitative and quantitative data.
- Chapter Seven concludes the study.

# CHAPTER TWO
# LITERATURE REVIEW

## 2.1 INTRODUCTION

South Africa is faced with a dire situation in which SMMEs, which are seen to be critical drivers of economic growth in developing countries, are unable to secure funding in order to develop into viable businesses. The large failure rate of many SMMEs in South Africa can be directly attributable to the lack of funding available to entrepreneurs, which is a big constraint to growth of small businesses. According to Fatoki and Odeyemi (2010), South Africa's small business failure rate at about 75% is one of the highest in the world, with lack of finance being one of the primary reasons for the failure of SMMEs in South Africa. Start-ups can access funding either from personal wealth, family and friends, or from formal institutions such as commercial banks and/or private equity institutions. South Africa's high inequality and unequal distribution of wealth, with the majority of the population living below the poverty line, excludes the majority from being able to finance their ventures from personal wealth and family and friends. Financing from formal market-based institutions is also a huge challenge, with SMMEs being unable to secure finding from banks as a result of lack of collateral and credit history. Private equity in South Africa in the form of venture capital is also observed to favour later-stage businesses and, thereby, excluding start-up businesses.

Berry et al. (2002) states that "SMMEs comprise a broad range of firms, including established traditional family business employing over a hundred people (medium-sized enterprises), down to the survivalist self-employed from the poorest layers of the population (informal microenterprises)". However, he shows that although the higher end of the range is analogous to the Small and Medium population of developed countries, the majority of SMMEs in South Africa are concentrated at the very lowest end of this range, with these being primarily black survivalist firms. A South African SMME index report which surveyed the SMME funding environment in South Africa, revealed that; 63% of SMMEs reported the use of self-funding from personal savings, 20% reported investments and loans from family and friends, 12% from investments and

loans form private entities, 3% from personal loans and the remaining 2% from unspecified sources of finance (World Wide Worx in partnership with Xero, 2016).

Fanta et al. (2017) states that "the theoretical basis of the effect of credit on firm value can be borrowed from Modigliani and Miller's (1963) theory of capital structure, wherein they demonstrated that debt financing increases value of a business due to interest expense tax shield". Resulting from the same line of argument, we can postulate that access to bank credit increases business performance. Therefore, following on from Modigliani and Miller (1963) we can infer that SMMEs with access to credit can grow faster and achieve optimal size sooner, while those SMMEs with limited access to finance will remain stagnant and hence smaller in size. According to Makina et al. (2015), access to formal credit has a positive relationship with firm size as measured by number of employees.

The Total Early-stage Entrepreneurial Activity (TEA) rate, a central indicator of the Global Entrepreneurship Monitor (GEM) which measures the percentage of the adult population (18 to 64 years) that are in the process of starting or who have just started a business, has seen a considerable decline in South Africa's overall ranking since 2014 (Herrington et al, 2017). The TEA index is a leading measure of entrepreneurial activity in participating economies and therefore provides a benchmark for cross-national comparisons between economies. The persistent downward trend of South Africa's TEA rate and the wide gap between South Africa and its African counterparts is of considerable concern, as TEA rates in the African region are 2.5 times that of South Africa. According to the GEM, TEA rates tend to be higher for those countries with a low GDP per capita. The levels of early-stage entrepreneurial activity tend to decrease as a country's GDP per capita increases as economies are inclined to become less reliant on small enterprise creation to provide employment. Given South Africa's low GDP per capita, it's TEA rate should be much higher and (Herrington et al, 2017) demonstrates that South Africa should have a TEA rate in the order of 20% (three times South Africa's actual rate of 6.9%).

## 2.2 AVAILABILITY OF RISK CAPITAL

### 2.2.1 Formal markets

South African financial markets are among the best in the world, with the country ranked 11th out of 138 economies for the financial market development pillar of competitiveness according to the Global Entrepreneurship Monitor 2017 report. The country attains a top ten ranking for efficiency of the legal framework; and is ranked first for strength of auditing and reporting standards and protection of minority shareholders' interests (Herrington et al, 2017).

South Africa's public capital markets are substantial in relation to the economy, with the stock market almost twice the country's output and the currency, bond and derivatives markets being among the world's twenty largest by turnover (Hassan, 2013). According to the South African National Treasury (2017) debt management report, South Africa has a well-developed and liquid debt capital market, which remains an important source of funding for the national government, SOCs and corporates. About 1 690 debt instruments were listed on the Johannesburg Stock Exchange (JSE) as at 31 March 2017, a decrease from 1 750 instruments on 31 March 2016. The nominal amount outstanding increased to R2.4 trillion from R2.2 trillion during the same period, while the market value of the debt remained unchanged at R2.4 trillion in 2017 due to relatively higher market interest rates than the previous period.

The size of South African equity market, by market capitalization, reached R15.2 trillion by December 2017 (National Treasury, 2018). However, the Public Investment Corporation (PIC), an asset management firm wholly owned by the government of the Republic of South Africa and represented by the Minister of Finance, indicates that there is no correlation between the JSE and the real economy. "The All Share Index continues to grow, but the GDP growth has been pedestrian and, in some cases, contracting" (PIC, 2018). This provides motivation for a focus on unlisted investments to facilitate economic growth.

According to Molatlhwe (2016), private equity investment in emerging markets still lags that of developed markets, however, references the Venture Capital and Private Equity Country Attractiveness Index which confirms that South Africa is ranked the third most attractive after China and India as a private equity investment destination. The index also affirms that South Africa is the only African country that is ranked in the top 40 attractive countries for venture capital and

private equity investment. The growth of the private equity industry is evidenced by the increase in funds under management which was R171 billion as at 31 December 2018, representing a compound annual growth rate of 9.3% since 1999 as reported in the 2019 survey by the Southern African Venture Capital and Private Equity Association (SAVCA, 2019).

Pakgadi (2016) posits that larger firms typically attain credit in the public debt markets, while SMMEs are forced to depend on financial intermediaries, most commonly commercial banks. Ojah and Pillay (2009) also show that private lenders are more effective and efficient at monitoring firms due to their access to information on small and generally informationally opaque firms. A report by the National Credit Regulator (NCR), the regulator responsible for the regulation of the South African credit industry, revealed a total of R124 billion of new credit granted in 2017, with the commercial bank's granting R94 billion of that aggregate (NCR, 2017). However, the BASA shows the highest estimates of only around R14 billion of bank credit offered to SMMEs in 2013 by their institutions. BASA (2018) states that "this compares poorly to the R40,9 billion reportedly sought by just around 11,000 SMMEs on the Finfind platform in 2017, even taking into consideration the passage of time from 2013 to 2017".

Rajan and Zingales (1998) found that sectors that are relatively more dependent on external finance tend to develop disproportionately faster in countries with well-developed financial markets, and that "financial development has a substantial supportive influence on the rate of economic growth and this works, at least partly, by reducing the cost of external finance to financially dependent firms". However, in South Africa, this growth is possibly only exhibited in the first economy as a result of the dual economy which is validated by the hugely divergent living standards of the affluent and the poor. "The dichotomy is mirrored in the financial sector where, on one hand, there is a highly sophisticated system available to large firms and rich individuals and, on the other, there are many people who do not have adequate, if any, access to financial services" (Ojah and Mokoaleli-Mokoteli, 2010). Ojah and Mokoaleli-Mokoteli (2010) further acknowledge, "the financial sector in South Africa has developed in such a way that it has a globally competitive infrastructure but, at the same time, is unable to provide services to the majority of people in the country, least of all the poor". As much as the reduced cost of financing achieved from financial market development drives growth, it is ultimately the availability (or perception thereof) of

profitable investment opportunities that drive growth. This is supported by Rajan and Zingales (1998), who assert that various factors may cause changes in a country's opportunity set, and that financial market imperfections do have an impact on investment and growth.

### 2.2.2 Informal markets

The inability of SMMEs to access finance from formal credit markets results in them resorting to informal finance. Lin & Sun (2006) show that informal finance can be used as a remedy for the information asymmetry obstacle faced by many SMMEs. They posit that a credit market in which informal finance is eliminated, will result in an allocation of funds in some inefficient way and that the efficiency of allocating credit funds in an economy can be improved once informal finance is allowed to coexist with formal finance. However, despite informal finance's wide use among SMMEs, Fanta (2012) observes that it has no robust impact on firm performance as much as formal finance, which can be explained by the reason that informal loans are small and hence are mostly used for financing operations (working capital) rather than growth (expansion). Furthermore, informal lenders may charge exorbitant interest rates, which would serve to erode the profits of these small firms. "The result of our econometric analysis shows that informal finance negatively affects performance in Malawi, Mozambique, Zambia and Zimbabwe." (Fanta et al, 2017).

According to Siyongwana (2004), informal money lending institutions have served as a survivalist strategy for black South Africans. They are unregistered and thus operate independently from any regulatory body, while formal institutions are registered and their activities regulated. Verhoef (2001) observes that the burgeoning of the micro-credit industry in South Africa has seen women frequently utilize micro-loans, however, the interest rates are so high that the objective is defeated. Ojah & Mokoaleli-Mokoteli (2010) posit that "Informal moneylenders are often associated with exorbitant interest rates and extortion, however, despite such negative perceptions, they fill gaps in the microfinance sector by providing loans to individuals who are unable to access credit by any other means".

Due to commercial banks excluding the majority because they lack collateral and have poor credit histories, microfinance institutions have emerged as unconventional institutions with innovative

techniques, mechanisms and instruments to advance financial services to this segmented part of the economy (Thela, 2012). "In general, it is evident that South African SMEs are financially constrained and that some of them use informal finance to circumvent the harmful effect of lack of access to formal credit on their operation and growth" (Makina et al, 2015). They also find that the usage of informal finance is higher among new and young SMMEs, while mature and old businesses rely on formal finance.

### 2.2.3 Segmentation of the markets (The dual economy)

The notion of the dual economy refers to a systematic division of the two parts of the economy, the first economy (the developed or formal) and the second economy (the less developed or informal), which is a cause of and perpetuates the growing inequalities in the South African economy. Turok (2015) asserts that individuals who are confined to the second economy do not have access to the first economy, and are thereby marginalized and excluded from the opportunities available in the more prosperous part of the economy.

The lack of access to finance by small businesses in South Africa is a consequence of this structural divide, as these SMMEs find it difficult to access capital from the first economy. This produces considerable obstacles for upward mobility and the progression of SMMEs. "Other countries might have 'an integrated economy with differences', with a less productive part, where working conditions are poor, etc., however, what we have in South Africa is a real segmentation or gulf between the one part and the other" (Turok, 2015). Although this concept is, to some extent, an abstract or artificial distinction, the point is to show that systematic barriers prevent advancement from one part of the economy to the other. It can be argued that the main drivers of this divide are factors including ownership of capital and land, location, as well as human capital.

### 2.2.4 Government and developmental Funding

Initial documentation relating to government policy on SMME development is found in the 1995 white paper for the development and promotion of small business in South Africa, published by the Department of Trade and Industry (DTI). In this document, the department declared that they

believed that "the real engine of sustainable and equitable growth in this country is the private sector" (DTI, 1995), and that the department was committed to creating an environment in which business can thrive. According to the National Treasury's 2019 national budget review, South Africa's major development finance institutions had a gross loan book of R160 billion, with the Land Bank disbursing R2.4 billion, Industrial Development Corporation (IDC) R15.4 billion and the Development Bank of Southern Africa (DBSA) R11.9 billion in new loans in the 2017/18 reporting period (National Treasury, 2019).

The South African government has invested substantial resources towards greater access to finance for SMMEs. However, responses from the Enabling Environment for Sustainable Enterprises (EESE) survey reflects the great difficulty in small businesses accessing these funds that have been provisioned, with an overwhelming 84% of respondents stating that it would be either difficult (47%) or impossible (37%) to obtain finance from government support institutions (EESE, 2016). The survey results also reflected an agreement in the perception of the level of difficulty by SMME business owner respondents and informal business owners.

## 2.3 DISTRIBUTION AND ACCESS TO RISK CAPITAL BY SMMEs

Access to capital markets refers to the ability of SMMEs to raise capital, be it either in the form of debt or equity, for working capital or expansion needs. "The finding that access to finance is a key problem is a common feature of research on problems facing all entrepreneurs and is apparent in research done in both developed and developing countries". However, this problem seems to be more severe in South Africa with "almost 60% of the Global Entrepreneurship Monitor (GEM) experts identified problems accessing finance as a significant constraint for entrepreneurs in this country" (Herrington et al., 2017).

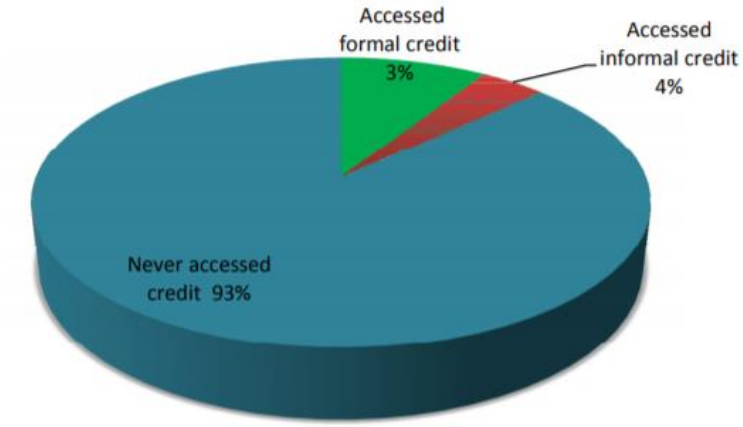
The highly unequal distribution of wealth and high unemployment rate in South Africa makes formal finance less accessible. According to OECD Economics Survey South Africa (2017), while credit scoring is well developed and formal lending is dominated by banks, bank lending to small and medium enterprises is very small in South Africa accounting for only 26% of total business

lending. Figure 1 shows that in 2015, approximately 93% of small businesses in South Africa have never had access to finance, either formal or informal.

The SMME sector in South Africa is a highly segmented market, which varies in terms of business size, geographic location and industry, and the stage of business growth impacts significantly on the perceived risk of lending. "While the potential opportunity of this large and growing market is appealing, the higher risks and costs associated with funding this sector remain a deterrent for funders" (FinFind, 2017).

The GEM identified market openness as a key factor that was holding back entrepreneurial activity in South Africa. The survey done by Herrington et al. (2017) suggests that market conditions are less than favourable to ensure ease of entry and low cost of entry for new and growing businesses, and a thriving competitive environment which is accessible to all, not just to a few large, established businesses.

**Figure 1: Access to credit by SMMEs**




*Source: The FinMark Trust (2015: 5).*

### 2.3.1 The collateral constraint

Traditional banks often require collateral, which is used as security against a loan. Hence, this would improve the chances of an SMME seeking funding to gain access to financing. Collateral

significantly reduces the risk of a loan provided by a funder by granting the funder a claim on the tangible assets without reducing the outstanding debt. Therefore, an SMME with little to no tangible assets would likely not be successful in accessing external finance. Herrington et al. (2017) state that due to start-up funding for small businesses often coming from personal savings or money from families, the youth; women and people in rural areas are likely to be particularly disadvantaged in their attempts to start small businesses. Arko-Achemfuor (2012), states that in most African countries and other parts of the world the rural folk normally have access to land which they depend on no matter how poor they are, however, in South Africa this is not the case as access to land is a problem. This lack of access to land, which could be used as collateral, serves only to disadvantage many Africans in gaining access to credit.

Regardless of the incentive behind financial institutions' need for collateral, it weighs significantly in the traditional lending practice. This results in most SMMEs not possessing sufficient collateral to secure funding, as the big four banks in South Africa practice traditional lending practices that insist on collateral as a requirement to provide funding and thus places most SMMEs at a disadvantage to accessing credit (Padiaychee, 2016). This presents a seemingly paradoxical situation whereby SMMEs require finance to purchase assets, however, it is the same assets they need to obtain this finance.

### 2.3.2 The Regulation, Legal and Business environment bottlenecks

At a macro-level, regulation plays a big role in SMME access to finance. According to a survey done by (SABCMS, 2017), most respondents who had identified regulation and red-tape to be a bottleneck hindering the South African entrepreneurial ecosystem, cited the burden that small businesses bear when trying to operate in a regulatory environment designed for large firms.

According to the World Bank doing business report 2020, which provides objective measures of business regulations and their enforcement across 190 economies and selected cities at the subnational and regional levels, South Africa ranks 139$^{th}$ on the ease of starting a business which is down from 131$^{st}$ in 2017. The starting a business index measures the number of procedures, time, cost and paid-in minimum capital requirement for a small- to medium-sized limited liability

company to start up and formally operate in each economy's largest business city (Doing Business, 2020). "South Africa should be the easiest country in Africa to start a business on account of its well-developed infrastructure - not the hardest" (SABCMS, 2017). Mylenko (2011) states that the ability to open and close a business is found to be an important factor associated with growth and that the legal frameworks and the overall business environment are also important factors affecting the level of SME financing. She finds, using information from the Doing Business database, a negative correlation between the number of days it takes to start and close a business and the value of SME financing.

The South African government's leading policy framework, the National Development Plan (NDP), outlines ways in which the country hopes to eradicate poverty and reduce inequality by 2030 and specifically highlights the importance of small businesses in their contribution to job creation and inclusive growth. "Among others, the NDP proposes that the regulatory environment be simplified in terms of business registration, tax, labour and local government" (Noko 2019), however, regulatory burden is still highlighted as one of the major growth obstacles for SMMEs. It has become evident in recent literature that the policy environment restricts the development prospects of business in the black community. Moodley (1995) posits that crucial to the development of those unable to gain access to credit is institutional and structural changes to the policy environment and regulatory framework governing small businesses and that linkages should be created between formal and informal sectors through an integrated institutional framework.

Another inhibitor of access to finance can be attributed to the increased bank market concentration and power. Cowling et al (2017) postulate that in a market dominated by large banks, market structure plays a role in such a manner that small businesses are less likely to access bank credit. This is supported by a study by Ryan et al. (2014, cited in Mushonga et al., 2018) who found that increased bank market power resulted in financing limitations for SMEs across 20 European countries.

According to Stiglitz and Weiss (1981), market equilibrium entails supply equalling demand and that if demand should increase, prices will rise until demand and supply are equated at the new equilibrium price, however, credit rationing implies an excess demand for loanable funds. This

access demand equilibrium in credit markets is explained by the fact that potential borrowers who are denied loans would still not be able to borrow even if they indicated a willingness to pay more than market interest rates or offered more collateral, as these conditions could increase the riskiness of the bank's loan portfolio. The increased risk could either be through discouraging risk-averse investors or result in moral hazard problems by encouraging borrowers to invest in riskier projects. Therefore, neither increasing interest rates above market rates nor increasing collateral requirements will necessarily be used to equate the supply of loanable funds with the demand for loanable funds.

### 2.3.3 Venture Capital and Angel Investors not meeting demand

The largest funding gap is observed to be from start-ups and micro businesses, which are the most underserved in the formal business market. Finfind (2017) finds that there is a large demand for SMME funding, with a high percentage from early-stage SMMEs, which should make servicing this market attractive to funders. Much of a small business' demand for credit is driven by its life-cycle stage, with early-stage businesses and start-ups being more dependent on credit while dependency on credit tends to taper off as businesses reach maturity.

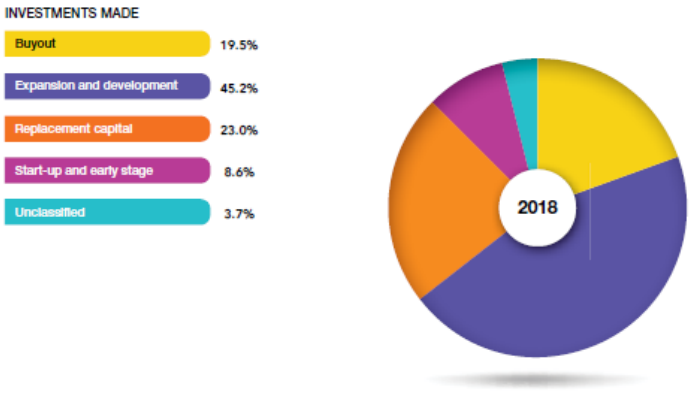
Ojah (2009) posits that the reason for the success of private equity finance in the United States is due to the ability to distinguish between right and wrong private equity market, particularly when the essence of the market is to support entrepreneurship and public enterprise creation. He suggests that venture capital and angel finance are the right kinds of private equity market in the African context as this form of private equity seeks to create and build businesses from the beginning.

Jones & Mlambo (2013), refer to private equity as later stage investments through the acquisition and financing of established businesses while venture capital is an earlier stage of financing for nascent businesses with limited or no track record. However, they find that early-stage Venture Capital funding is almost non-existent in South Africa. The surveys conducted by Jones & Mlambo (2013), revealed that "all respondents agreed that Venture Capital is important for enhancing innovation and economic growth (95%), job creation (85%) and social development (60%) and that private sector early-stage Venture Capital is lacking in South Africa (18 out of 19

respondents)". The results of this survey also echoed a general feeling that a substantial amount of private sector funds are available to venture capitalists, but they are commonly directed at the later stage than at the seed and start-up phases. It was also argued that although angel investors were a key funding option for early-stage ventures, actively investing angels are scarce and that they typically invest in businesses within their existing networks. The possible explanations for the lack of venture capitalists looking to fund early-stage investments in South Africa are that there are more than enough opportunities at the later-stage with a lot less risk and that fund managers are simply not interested in making small investments which would translate into small returns.

According to the Bureau for Economic Research (BER) (2016), a large majority of SMMEs in South Africa are concentrated at the lowest end, where survivalist firms are found. Recent literature on venture capital investments in South Africa has observed that there has been a shift in investments away from start-up funding, towards later-stage deals. "Deloitte and SAVCA (2009) reported that whereas approximately 40 per cent of the respondents (Venture Capital investors) were interested in seed or start-up capital and early-stage investments in 2005, this figure had dropped to approximately 23 per cent by 2008 and to less than 5 per cent by the third quarter of 2009. This was corroborated in a subsequent study by KPMG and SAVCA (2010) who reported that seed or start-up capital and early-stage investments declined from R1.134 billion in 2008 to only R280 million in 2009" (Portmann & Mlambo, 2013). Figure 2 shows the latest analysis of Venture Capital investments by stage based on cost of investment during 2018.

**Figure 2: Analysis of investments by stage based on cost of investments during 2018 (% of total)**

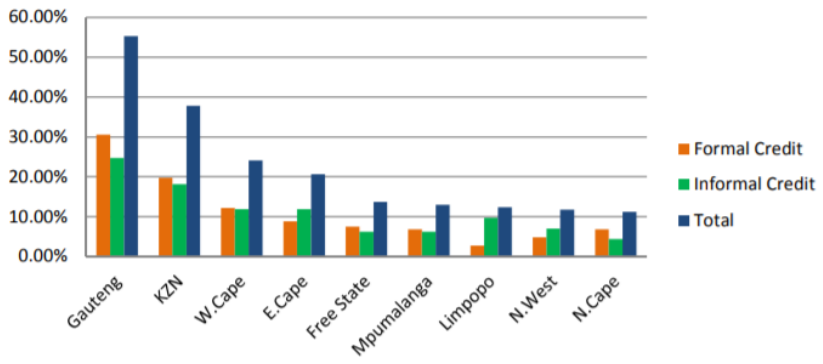


*SAVCA (2019: 18)*

### 2.3.4 Locational dimension

Access to finance is seen to have a locational dimension within the borders of South Africa. It is shown that there is a correlation between geographical area GDP and its level of access to formal credit, as provinces with higher GDP such as Gauteng, KZN and the Western Cape have a large proportion of SMEs with access to formal credit. On the other hand, SMEs in poorer provinces such as Limpopo and Eastern Cape largely rely on informal credit (Makina et al, 2015). Figure 3 shows the level of SMME credit, both formal and informal, by province. Fanta et al (2017) show that small businesses based in urban areas are more likely to access bank credit, which might be due to urban small businesses engaging in bankable business activities or due to the wider prevalence of banks in urban areas.

**Figure 3: Access to credit by province**




*Source: The FinMark Trust (2015: 13).*

According to the BER (2016), South African banks and lenders are more inclined to place resources in SMMEs in their later stages with the degree of these inclinations depending primarily on locational differences. Ojah & Mokoaleli-Mokoteli (2010) also noted that neither banks nor SMME-targeting institutions are capable of effectively and directly reaching most of the poor, although some non-profit non-governmental organizations have achieved isolated successes.

Moodley (1995) argues that the absence of banks in townships in general and rural areas in particular, make it difficult for small savers to enjoy the benefits of numerous banking services as these banks are primarily located in urban areas which may be a considerable distance away from these townships and rural areas.

## 2.4 THE STOKVEL ECONOMY

Verhoef (2001) asserts that Stokvels represent a variety of mutual benefit and savings associations, and which in their general form, are a typical ROSCA. Ardener (1964) prescribes that a ROSCA is "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". She further adds that the two elements of rotation and regularity are common features within the diversity of mutual benefit clubs and savings co-operative undertakings in developing countries. Kibuuka (2007) describes some of the characteristics of ROSCAs being that they lower transaction costs and positively influence the terms in which financial transactions are structured, contributing to their popularity. Lukhele (1990) defines a Stokvel as "a type of credit union in which a group of people enter into an agreement to contribute a fixed amount of money to a common pool weekly, fortnightly, or monthly".

These groups are one of the most commonly found informal financial institutions in the developing world (Anderson et al, 2008). "As community-based self-help organizations, they typically emerge in economically deprived societies where formal means of meeting financial needs are either inaccessible or do not exist" (Verhoef, 2001). Mukwevho (2017) observes that informal savings systems are strikingly popular in developing economies. Stokvels are, largely, the biggest and most important financial savings institution in the informal market, generating savings of about R49 billion a year in South Africa.

Within the borders of South Africa, there are many different kinds of Stokvels with variations mostly in the purpose for and use of savings. Moodley (1995) in her study found two main variations in the Stokvels, which she termed rotating savings clubs and fixed-fund organisations. The rotating savings clubs accumulated savings monthly and distributed the total funds to a single

member each month, whereby the fixed-fund organization only distributed the funds equitably every 12 months. “The stokvels studied fell into three groups: a rotating savings club and two fixed-fund clubs, one of which also lent money at interest to members” (Moodley, 1995). Through the years, these organisations have evolved as noted by African Response (2012) which revealed an evolution into Birthday as well as Investment Stokvels, which represented 9% and 5% of the total Stokvel population at that time. The traditional types of Stokvels in South Africa, being Savings, Burial, & Grocery Stokvels, represented 43%, 22% & 16% of the total Stokvel population respectively.

Stokvels have proven to be extremely flexible institutions and are tailored to whatever common purpose or goal of the collective. Verhoef (2001) also found that each of these ROSCA-style organisations had their own particular arrangements to suit the needs of the distinct ethnic communities they served in the different geographical regions in South Africa. Africans, in general and women in particular, in urban townships would establish Stokvels regularly in response to their needs and their lack of access to formal financial institutions. They would use Stokvels as “a mechanism to mobilize limited savings that would otherwise lie idle in the absence of access to more formal mechanisms, saving in order to take advantage of the gains of intertemporal trade” (Verhoef, 2001). These accumulated savings would also be used as a buffer against unexpected spikes in household expenses, to cushion familial risks due to illness, or to allow people to take advantage of unexpected investment opportunities (Vonderlack and Schreiner, 2002).

Verhoef (2001) asserts that Investment Stokvels resemble cooperative societies, with the exception that the total pool of savings is not paid out but rather banked with the common goal of executing a capital project, acquiring an expensive or large commodity, or investing in a business venture, property or equity. She further acknowledged the existence of High-budget Stokvels, which she described to consist of a large number of members of high social standing and credibility within the community in which they operated. The emergence of Investment and High-budget Stokvels emanated from the growth in wealth among urbanized Black people in South Africa. Moodley (1995) supports this in her study, noting, “there was a direct correlation between savings rate and income level”. This philosophy can be borrowed from Keynes’ (1936, cited in Modigliani, 1986) views on the theory of the consumption function as a determinant of aggregate demand concerning

income as a determinant of both national and individual savings. The theory expresses "consumption as a linear function of income with a substantial positive intercept" and "with savings seen as one of the many goods on which the consumer could spend his income" (1936, cited in Modigliani, 1986).

Keynes (1936) identified eight main motives for saving, or "objects of a subjective character which lead individuals to refrain from spending out of their incomes", as listed below:

1. "To build up a reserve against unforeseen contingencies" (the precautionary motive).
2. "To provide for an anticipated future relationship between the income and the needs of the individual or his family different from that which exists in the present" (the life-cycle motive).
3. "To enjoy interests and appreciation" (the intertemporal substitution motive).
4. "To enjoy a gradually increasing expenditure" (the improvement motive).
5. "To enjoy a sense of independence and power to things, though without a clear idea or definite intention of specific action" (the independence motive).
6. "To secure a masse de manoeuvre to carry out speculative or business projects" (the enterprise motive).
7. "To bequeath a fortune to posterity" (the bequest motive).
8. "To satisfy pure miserliness, i.e., unreasonable but insistent inhibitions against acts of expenditure as such" (the avarice motive).

Browning and Lusardi (1996) further reproduced these motives, with one additional motive:

9. To accumulate deposits to buy houses, cars, and other durables (the down-payment motive).

As can be seen from the literature, in their current form, the majority of Stokvels in South Africa seem only to satisfy the 'precautionary' and 'improvement' motives for saving. However, it would be imperative for these groups also to contemplate the 'intertemporal substitution' and 'enterprise' motives in order to facilitate financial and economic emancipation.

The enormous amounts of savings that materialize from informal financial markets are an indication of the significant propensities to save among individuals and the tragic failure of most formal financial systems in providing attractive deposit services. A study by Kibuuka (2007) found the reasons behind the participation in High-budget Stokvels to be; taking advantage of collective mandatory saving, avoiding financial charges, low returns on small amounts of individual savings in banks and social fulfilment. His study also highlighted a lack of awareness and understanding by formal financial institutions to profile and design appropriate products and delivery systems for these groups, and which in part explains the persistence of informal finance in the presence of first world financial systems. "Informal finance persists and often flourishes because it resolves important problems that are handled poorly or not at all by most formal financial systems" (Adams, 1989).

There are nearly no defaults on repayment from credit advanced in Stokvels, predominantly as a result of the resilient adherence to the ethics of such organisations. "Stokvels developed into guarantees of access to credit, a powerful incentive for women to participate, because their overwhelmingly informal sector activities meant that formal banking institutions did not want their business" (Verhoef, 2001). According to Adams (1989), ROSCAs resolve the lack of collateral and borrower information problems highlighted by commercial banks when accessing credit applications by enrolling only members who have mutual confidence in each other or by having organizers who guarantee the performance of individuals they enrol. However, Vonderlack and Schreiner (2002) argued that some participants who have already received a ROSCA pool might default on their debt by stopping contributions, which indicates a lack of protection of accumulated funds that may render these enterprises unsustainable. Hence, informal finance relies more on social ties for contract enforcement as opposed to public institutionalized means of law enforcement. Vonderlack and Schreiner (2002) assert that it would be worthwhile to combine the strengths of the informal savings schemes, being low transaction costs and assistance with saving discipline, with those of formal finance, being safety, positive returns and anonymity, amongst others.

Mukhwevho (2017) refers to a likening of Stokvels to an insurance policy against the costs of future consumption as opposed to savings for future investment to grow wealth. Du Plessis (2009) asserts that "Stokvels remain predominantly geared towards the stimulation of consumption rather than investment", and contends that although saving as a percentage of disposable income is high, such Stokvel savings are not utilized in a productive manner but rather directed to consumption. This is supported by Mukhwevho (2017), who affirms that informal savers tend to destroy financial assets through frivolous spending while participants in the formal financial markets typically use their funds to grow wealth. He further states, "notwithstanding the apparent benefits the formal stock investment market offers, informal savers remain loyal to their traditional practices, and this is due to emphasis on social capital".

## 2.5 FINANCIAL COOPERATIVES

Financial cooperatives are characteristically financial institutions that are owned and operated by members with the goal of providing traditional banking services for members. They bridge the financing gap by pooling members' financial resources for on-lending to the same members, and "enables members to break the poverty trap caused by lack of economic opportunities and low productivity due to lack of access to financial services" (Mushonga et al., 2018). The International Cooperative Alliance (ICA) (2007, cited in Becchetti et al. 2016) defines cooperative banks as "autonomous associations of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise, based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity".

Hasan et al. (2017) in a recent local banking structure study in Poland found that the presence of local cooperative banks facilitates access to banking services, boosts investments, and supports growth for SMEs. Mushonga et al. (2018) argue that, in contrast to traditional banks, Co-operative Financial Institutions (CFIs) with their member-focused deposit taking and loan granting are more efficient in generating borrower specific information, which addresses information opacity. "Counties in which cooperative banks hold a strong position are characterized by a more rapid pace of new firm creation" (Hasan et al., 2017). Stiglitz and Weiss (1981) posit that adverse

selection in credit markets is derived directly from imperfect information. CFIs as member-owned, controlled and operated organisations within a common bond are better placed to reduce informational opacity and high transaction costs which usually result in credit rationing in credit markets (Mushonga et al., 2018).

In recent years, there has been a decrease of South Africa's CFIs and membership from 121 and 59,394 in 2011 to 30 and 29,818 respectively in 2017, with the decrease being partly explained by the CBDA's prescribed minimum membership and share capital contribution at 200 and R100,000.00 respectively (CBDA, 2017). According to Mushonga et al. (2018) the regulation, which was implemented through the Co-operative Banks Act, which formed the Co-operative Banks Development Agency (CBDA) in 2009, may have been too harsh to small but growing CFIs, forcing them out of the regulated industry.

Since these organizations are owned and operated by members, their objectives are seen as maximizing services provided to members, which "suggests that profit maximization is not an appropriate objective, since there are no non-member suppliers or customers to exploit" (Fried et al., 1993). Given the social associations as well as the common bond of Stokvels, together with South Africa's history of financial exclusion, CFIs may be seen as one of the instruments for economic emancipation through the enabling of access to finance. However, Mushonga et al. (2018) also argue that the negative perceptions of the sector and low technology adoption have been identified as the biggest inhibitors to CFI performance, with CFIs generally not being perceived to be an alternative banking solution for a cross-section of the society but for the poor. He also posits that further outreach is tainted by the poor appreciation of the CFI model and its value proposition. With recent calls for more ethical and socially responsible banking and the drive towards impact investing, i.e., investing not only for financial gains but also to realize positive social and environmental returns, CFIs may play an important role in balancing the needs of the society, the environment and the economy.

Becchetti et al. (2016) found that "Cooperative banks display higher net loans/total assets ratios, lower shares of derivatives over total assets and lower earnings volatility than commercial banks" on a sample of 32 countries over the period 1998-2010. The 2007-2008 financial crises had

negative impacts on the majority of enterprises, with major banks requiring bailouts. However, Birchall and Ketilson (2009) found that financial cooperatives demonstrated resilience to the crises and remained financially sound, evidencing that the cooperative model is a sustainable form of enterprise able to withstand crises and thereby maintaining the livelihoods of the communities within which they operate. The World Council of Credit Unions (WOCCU) (2016, cited in Mushonga et al., 2018) unveils statistics of CFIs total assets reaching $1.8 trillion and serving 236 million members in 2016, a substantial increase from $1.2 trillion and 177 million respectively in 2007. According to Crear (2009) "not a single credit union, anywhere in the world, has received government recapitalization as a result of the financial crisis and they remain well capitalized", which is due in part to their commitment to member services rather than profit maximization and reasonable management pay packages and incentives that do not incentivize excessive risk taking.

## 2.6 SUMMARY OF ARGUMENTS

The theory on the availability and distribution of risk (venture) capital provides context for the study. The lack of access to finance for SMMEs and a tendency to resort to informal finance is well documented in the literature, although there is a large amount of capital circulating within the well-developed financial markets in South Africa. Stokvels have been able to accumulate large sums of savings; however, these pools of savings are generally used to satisfy consumption expenditure and as insurance against future costs. CFIs are able to provide affordable financial products and services; however, perceptions of this sector being for the poor, limit their current outreach.

# CHAPTER THREE
# RESEARCH METHODOLOGY

## 3.1 INTRODUCTION

The first research question relating to the availability and distribution of risk capital has been answered by way of the literature review. This current chapter provides a framework of the research design, in terms of the methodological approach, sampling, method of data collection and data analysis required to answer the last question relating to how the informal savings capital pool from Stokvels can be efficiently channelled to provisioning financing for the SMME sector.

This study applies an inductive approach whereby data collected will be used to gain an understanding of how CFIs have facilitated the flow of savings into investment activities of members. The inductive research process looks to permit facts and latent content to build a theory in a bottom-up process to knowledge creation (Mukwevho, 2017). "Using an inductive approach, the researcher frequently shifts directions and reanalyses matters as emerging results provide new insights" (Kondracki et al, 2002).

An exploratory study was chosen to be a fitting method to collect the requisite data, as the purpose of this research is to gain an understanding of how the South African SMMEs' financing gap can be reduced. This study applied both qualitative and quantitative analytical approaches, using two data collection techniques, namely interviews and a questionnaire. Following data collection, the study used thematic analysis for data analysis. To ensure the validity and reliability of research findings, the study employed the use of triangulation to test validity through the convergence of information from different sources.

## 3.2 DATA COLLECTION

Using a qualitative research design, the researcher may choose from a variety of data collection methods including observations, textual or visual analysis, interviews and focus groups. Interviews were chosen to be the most appropriate data collection method for this study given its objective of

gaining from experiences of CFIs in facilitating the flow of member funds into income-generating assets. This study collected primary data through interviews (see Appendix B) and a questionnaire (see Appendix C).

### 3.2.1 Interviews of CFI representatives

Gill et al (2008) state that "there are three fundamental types of research interviews: structured, semi-structured and unstructured". Structured interviews being, essentially, verbally administered questionnaires, with no variation nor follow-up questions to points that may require elaboration while on the opposite end of the spectrum, unstructured interviews being those that do not reflect any preconceived theories and executed with little or no organisation (Gill et al, 2008). This study employed the use of semi-structured interviews for data collection, which is a combination of structured and unstructured interview methods consisting of several key questions. It, however, also allowed for a divergence from the prepopulated questions in order to pursue a response or idea in detail. The intention was to enable the interviewer to draw out more information through probing to elicit deeper levels of meaning and clarity on the various themes of the research project (Ryan & Coughlan, 2009). An additional consideration for using semi-structured interviews was that they can be analysed in a variety of ways and are compatible with several methods of data analysis (Willig, 2008).

The use of open-ended questions in the in-depth interviews used in this study allowed the researcher to gain detailed information regarding the facilitators and inhibitors of CFIs in their process of financial intermediation. All interviews were conducted in the Gauteng province, mainly due to cost constraints but particularly due to the respondents' responses to interview requests. Five interviews were conducted with representatives of CFIs. The interviews were conducted at venues convenient to the respondents, including coffee shops and offices and places of business. Interviews were audio-recorded using a mobile phone and transcribed thereafter.

### 3.2.2 Survey of Stokvel members

This study used an additional data collection method in the form of a questionnaire. Questionnaires are a data-gathering tool, especially adept at collecting opinions and experiences of people as well as determining people's preferences on the issues under study (Montgomery et al, 2010, cited in Mukwevho, 2017). The intention of this additional primary data collection was in the interest of triangulation, defined as the mixing of data and methods in order for diverse viewpoints or standpoints to cast a light upon a topic and to help in validating the claims that might arise from a study (Olsen, 2004). Denzin (1978: 307) argues for an approach that examines research problems from multiple perspectives, including those of "multiple observers, theories, methods, and data sources", with the intention to overcome the "intrinsic bias that comes from single-method, single-observer, single-theory studies".

A questionnaire was sent out to individual members of Stokvels. The questionnaire intended to collect data on lending activity, if any, of these groups as well as the perceptions regarding joining or forming savings groups that provided for accessing business credit. The researcher collected responses from 56 respondents across the provinces of Gauteng and the North West, out of 75 questionnaires sent out.

## 3.3 POPULATION, UNIT OF ANALYSIS AND SAMPLING

The aim of this study is to assess and explore how the savings pools generated by savings and investment Stokvel groups can be channelled into the financing of SMMEs as well as explore the feasibility of CFIs effectively intermediating Stokvel pooled funds for the purposes of reducing the finance gap in South Africa.

CFIs, as formal regulated bodies that facilitate channelling savings into credit to its members, are for the purposes of this study considered the most appropriate model that can be used to channel large pools of informal savings into formal investment vehicles that can stimulate growth in an economy. Thus, this makes them a suitable population for answering the research questions of this study. For the year ending March 2018, the CBDA, which is the industry supervision body, had a membership of 22 active members. This will represent the population size.

The research is about how savings and investment Stokvels can be used to reduce the financing gap faced by SMMEs. Hence, Stokvels or other informal savings groups that have converted into CFIs provide prime examples of informal savings groups that have formalized into institutions that can provide credit to their members and will represent the sample. A purposive nonprobability sampling technique was employed. Purposive sampling is a non-probability sampling technique whereby elements or targets are selected because they satisfy specific inclusion and exclusion criteria for participation in the study (Daniel, 2012). This technique is employed because this study does not aim to generate results that will be used to create generalizations pertaining to the entire population, but rather will be used to gain insights into the effectiveness of these vehicles in provisioning credit to members that would have otherwise been excluded from traditional bank financing. That said, the unit of analysis is an official representative of the CFI.

## 3.4 DATA ANALYSIS

This study used thematic analysis method of data analysis. Thematic analysis is described as "a method for identifying, analysing and reporting patterns (themes) within data" (Braun & Clarke, 2006: 79). Themes within the data were identified using an inductive or 'bottom-up' process. "An inductive approach means that themes identified are strongly linked to the data themselves (Patton, 1990); as such, this form of thematic analysis bears some similarity to grounded theory" (Braun & Clarke, 2006: 83).

Coding of data is the process by which categories are identified (Willig, 2008), and is "essentially organizing communication content in a manner that allows for easy identification, indexing, or retrieval of content relevant to the research question" (Kondracki et al, 2002:224). Interview data was transcribed and the researcher familiarized himself with the data by reading and rereading the transcripts while noting down initial ideas. The tool the study used to scientifically exploit and analyse qualitative data was the NVivo 12 Pro software package (see Appendix D). The transcribed interviews were uploaded into NVivo 12 Pro, codes were developed and the coded data was arranged into themes. Frequent lower-level codes were identified in the early stages of the analysis, and as the coding process progressed, higher-level categories integrated lower-level codes into meaningful themes. Quantitative data was analysed using the SPSS statistics software package.

The questionnaire was developed on an electronic platform, namely the SurveyMonkey platform. The variables explored from the questionnaire raw data are, namely 'Stokvels that provide loans to members', 'small business owners who are members of a Stokvels' and 'willingness of small business owners to join formal savings groups that provide access to loans'. The relationships between these variables were tested to establish whether there is a link between informal savings raised through Stokvels and their potential to be channelled into capital to finance business ventures for small business owners.

# CHAPTER FOUR
# FINDINGS FROM QUALITATIVE DATA
# COOPERATIVE FINANCIAL INSTITUTIONS

## 4.1 INTRODUCTION

This chapter follows a systematic approach in documenting the findings from the interview data guided by themes. The findings in this section will use verbatim quotations from participants to ensure that the voices of interviewees are not lost and will be used to provide context and construe meaning.

## 4.2 FINANCIAL INCLUSION

The literature review reveals a bleak depiction of the South African lending environment for SMMEs, whereby lack of access to finance has become the norm. This has resulted in the exclusion of many SMMEs from the productive economy. Data collected from interviews indicates a general purpose of CFIs being that of financial inclusion. Singh and Roy (2015) define financial inclusion as the process of ensuring access to financial services as well as timely and adequate credit when needed by vulnerable and lower-income groups at an affordable cost by financial institution players. Yoshino and Morgan (2016) posit that "financial inclusion broadly refers to the degree of access of households and firms, especially poorer households and small and medium-sized enterprises, to financial services".

Respondents highlighted the theme of financial inclusion as well as a common need to provide products and services that cater for member's needs expansively across the interviews. Serving members' financial needs lies at the core of these institutions and there is little to no deviation to this mandate of assisting members with their financial needs, be it for personal or business. Ownership was also cited as a key incentive for members, together with being able to access finance. This is seen to remedy the general view that people face issues of not being understood by commercial banks in terms of the kind of products they want and need. It was echoed that the success of existing CFIs is being able to assist people that would have not been assisted by

commercial banks. The consensus from the respondents around the natural progression of these institutions was that of an ultimate goal to become Cooperative Banks. The main difference, from a regulatory point of view, between a CFI and a Cooperative Bank being that a CFI only requires share capital of R100,000.00 while a Cooperative Bank requires a minimum share capital of R1,000,000.00 to register with the South African Reserve Bank (SARB). The benefit of becoming a Cooperative Bank was noted by respondents as being that once registered you may officially refer to your institution as a "Bank".

These institutions have no ambitions of eventually becoming mutual banks or becoming commercial banks in the future. This is primarily due to the member-orientated ideals and the need for members of the community to maintain ownership of these institutions. There are a few differences between Cooperative Banks, Mutual Banks and Commercial Banks, in terms of minimum share capital requirement, membership structure and permitted client base. The reasons cited for not wanting to register as Mutual Banks or eventually register as Commercial Banks, is that once you become a Mutual Bank or Commercial Bank, your client base extends to the non-member public as well. It is noted that this introduces a risk of a drift in the original member-orientation and financial inclusivity mandates.

Although it has been argued in recent literature that microfinance institutions, in particular, experience mission drift as they start to cater for clients that are better off than their initial customers, Mersland and Strom (2010) did not find evidence of mission drift. However, the CFI representatives interviewed remain warry of this risk and maintain that they do not wish to convert into institutions that provide products and services for non-member clients. A CFI representative, in his response to the question of the purpose of the CFI, noted that:

> We want to unlock financial inclusion forever and continuously satisfy the needs of our members. (Participant 3).

This shows the commitment to maintain the structure of this type of institution in its purpose for being member first and not becoming a pure profit maximising institution synonymous with commercial banks. More specific mandates that came out of the interviews was: one respondent stating that their purpose is for providing project financing for member business projects received

through government tenders and another respondent stating that theirs was for saving in order to facilitate the acquisition of land and thereafter financing low-cost housing for members. A CFI representative stated:

> We have got one thing in common which is to see the people out of poverty. (Participant 4).

## 4.3 THE ROLE OF CFIs IN FACILITATING ACCESS TO FINANCE

### 4.3.1 Mobilisation of savings

The interviews with CFI representatives revealed that CFIs have been successful in mobilising member savings and on lending to those members that need credit. It is noted that a function of this success in the mobilisation of funds is due in part to the ability to achieve scale through attracting more members within the communities within which they operate.

> The CFI model is the easiest model to start a bank, it doesn't matter if you call it a cooperative or whatever, you just need 200 people, you need policies, R100,000.00 and you'll get a banking license, obviously following the other rules. (Participant 3).

The CFI representatives all responded in the affirmative to the question of whether they would encourage small business owners to form or join formal savings groups to facilitate the provisioning of their capital financing needs. Highlighting that as a group, they could save more and do more with a larger savings pool.

> Absolutely, number one; all small businesses somewhere at some time need funds and sometimes they do not meet the requirements from a bank. (Participant 3).
>
> Yes, of course. It is a powerful tool when taken seriously. I would encourage any small business to do that. (Participant 1).

### 4.3.2 The intermediation function

A CFI works exactly like a commercial bank in its intermediation function of facilitating the flow of funds, with the main difference being that the surplus and deficit savings units are exclusively the members and shareholders of the institution. Members will contribute monthly savings to the institution and would typically only request credit from the institution as and when they find themselves in a deficit position in order to meet their financial demands, be it for a personal or business need. CFIs provide products and services naturally found in a commercial bank like housing loans, car loans, personal and business loans; however, these products in the CFIs are developed to fit the particular needs of their member base in the way that they are structured. These products and services are designed to fill a gap in the financial needs of members who may want products specifically for children's school fees, to purchase income-generating assets or to finance business projects. These products and services are usually very affordable in their pricing so as not to indebt their members.

One of the reasons noted for CFIs being able to provide for products and services at low fees is that members either know each other as they stay in the same community, work for the same organisation or belong to the same association. This significantly reduces the lack of information that traditional banks additionally price into products to customers. The flexibility of these institutions in designing products specifically for members needs was highlighted as a key consideration that makes these vehicles attractive. The CFI model provides a vehicle to give people money or access to finance, without following the mainstream type of processes.

CFIs are synonymous with the relative ease of accessing credit, in particular, the right kind of credit. One respondent highlighted a period when some members were involved in bidding for government tenders, and how these projects required a certain amount of money to execute on before they could be paid. Commercial banks in most cases would not fund these projects, and hence the CFI developed a product to cater for this need. Another respondent stated that their group observed the terrible living conditions in their community, decided to form a CFI and started contributing towards buying land. In two years, they raised R4.5 million, which they used to buy three areas of land and have since created another product to enable the financing of low-cost housing on this land that is now owned by the members. They have currently raised R11 million towards this product of low-cost housing. This CFI also has a transactional account in anticipation

that members would need to pay each other for skills and services rendered during construction time.

> The successes of the CFIs are around the ease of getting credit from them, to the products that are being made to cater for their needs. (Participant 2).

CFIs also function like commercial banks in that they pay interest on deposits, charge interest on loans and maintain a net interest margin. However, it was noted in the interviews that in most CFIs, the interest on deposits is not paid to members but capitalised in order to maintain a large enough funding base to facilitate income generation. Credit applications from members are hardly rejected, due in part because policies are set up taking into account the particular credit needs of members and more importantly, member savings serve as collateral against the loan to be provided. It was noted in some CFIs that there is a general rule of thumb that CFIs use a one-to-three ratio in granting credit; meaning that members typically qualify for around three times their savings.

Although this is not a hard and fast rule, it was used as some sort of guideline. CFIs will also look at the viability of the business proposals before granting credit. CFIs also play a big role in providing for business cash flow needs, as participants highlighted that the timing of cash flow is often what results in the failure of many small businesses. The CFIs provide much needed cash flow when businesses are waiting on payments from suppliers for services already rendered. This finance assists members in meeting operational expenses while members await money from suppliers. A responded stressed the importance of assistance in cash flow for small businesses:

> Small businesses make money but the problem is when does the money come in against expenses? By the time the money comes in, your office will be closed and/or your car would have been taken away from you. Not when you belong to an organisation where you can run and say guys I need R5,000.00 now just to pay expenses while I am waiting for client X to pay me. (Participant 2).

### 4.3.3 Financial sustainability

CFIs deposits are typically differentiated between mandatory and voluntary deposits. The mandatory deposits are what buys members' shares in the institution and the voluntary savings

serve to facilitate continuous monthly savings and increase the funding base. Members have equal shares in the institution and have equal voting rights. There is usually a minimum required monthly deposit amount, members have an option to contribute over and above the required minimum amount, which will serve to increase the amount of credit they can receive as and when required, and increase their share of dividends should there be a resolution to pay such. Shares are locked in forever, and members only have the option to withdraw voluntary savings. Although it was highlighted throughout the interviews that there are very few cases where members request to withdraw savings and in most cases that this would be due to unfortunate incidents whereby a member passes away and the family claims their savings. On occasion, a certain amount of monthly deposits can be specified as non-withdrawable in cases where the group has resolved to set aside a sum of money for a project that will be undertaken by the group.

As with any financial intermediary, there is credit risk in the loan book of these institutions. Although there is a risk of members not paying back loaned funds, but because people within the CFIs all know each other, the reputational element significantly reduces the credit risk in the loan book. The credit risk is also reduced by member savings acting as collateral on member borrowings.

> For you to qualify for a loan, you have to have savings. We also do not want to create a culture where people just consume loans and do not necessarily save. (Participant 5).

The prescription from the Prudential Authority (PA) governing these institutions, being the SARB, is that they can only loan out seventy percent of their assets and one respondent posits that it is based on how the PA has studied the models in other countries. The reasoning behind this is noted as being that if seventy percent of your money is working for you, the returns generated on that should be sufficient to sustain your operational costs. These institutions were noted to keep around ten percent of deposits for liquidity reserves and are not allowed to loan out more than twenty-five percent of their assets to a single member.

Of the funds that are not allowed to be loaned out, CFIs in general place this excess funds in investment accounts with commercial banks as well as in unit trust investments. These investments are not allowed to be speculative. It was found that CFIs also invest excess funds in Financial

Cooperatives Retail Savings Bonds, which are issued by the National Treasury specifically for CFIs and Cooperative Banks. CFIs were also found to loan each other funds in what is similar to inter-bank loans seen among commercial banks. However, these inter-CFI loans are capped at 15%. The cap applies to all external loans for CFIs.

One of the benefits of the CFI model was found to be that there is no competition among CFIs. There is no competition because these institutions do not exist for profit-maximisation but rather seek only to serve member financial needs by providing appropriate, specific and affordable financial products and services.

> With the CFIs, it is like an open book; that is why when you go to Orenjekas they will give you what products they have and what they do. If you go to GIG, they will tell you the same, you go to Umnotho, they will share with you their products and services. (Participant 4).

## 4.4 FORMALISATION

### 4.4.1 Regulatory constraints

To register as a CFI with the CBDA, the applying institution must have at least 200 members and a minimum share capital of R100,000.00. The interviews revealed that raising the share capital is not an issue; however, a big constraint to registering is finding 200 people to become members of your group. An additional requirement concerning membership numbers is that the 200 members have to satisfy an acceptable common bond of association. A common bond is defined by the CBDA as a social connection among the members of the CFI or the chain of trust among members. The Banks Act Exemption Notice 620 of 2014 provides for three types of common bonds in the regulation, namely, work-based, associational or geographic. This was highlighted as a big constraint and has resulted in many applications being rejected by the CBDA.

> It is very difficult to find 200 hundred people that share a common interest. The easiest way people go around that rule is that their common bond becomes their geographic area. (Participant 3).

However, when this geographic area common bond is selected as a means to circumvent the rule, it becomes a problem later when they have to run the business itself and come across differences within the members. Although people live in the same area, they might have different personal and business needs, which then results in operational challenges. CFIs are also prohibited from investing more than 5% fixed assets.

The Cooperatives Banks Act no. 40 of 2007 introduced the rules that CFIs and Cooperative Banks had to have a minimum membership of 200 members as well as minimum share capital of R100,000.00 and R1,000,000.00 respectively. Prior to the Cooperatives Banks Act, CFIs were regulated by representative self-regulatory bodies approved by the Registrar of Banks under an Exemption Notice of the Banks Act of 1990. One such body was the Savings and Credit Cooperatives League of South Africa (SACCOL), which operated as an umbrella body that regulated savings and credit cooperatives, and was at the time affiliated with WOCCU. The introduction of these rules, particularly those of minimum membership numbers, was noted to have significantly halted the CFI movement. A large number of CFIs were deregistered due to not meeting the minimum required membership numbers. However, it was highlighted that most of these CFIs did not close shop, but are now operating outside of regulation. This indicates that the number of CFIs registered with the CBDA is by no means a true reflection of the number of CFIs currently operating in South Africa.

The interviews also revealed that there seems to be a concerted effort by the CBDA, whether admittedly or not, to reduce the number of CFIs in order to make managing them easier. By increasing the minimum required membership numbers per CFI, they would force smaller CFIs to merge. There are calls to self-regulate through industry representative bodies similar to those of the environment prior to the Cooperatives Banks Act 40 of 2007, as current regulation is seen to be restrictive.

> The controversial thing that we raised was to self-regulate. There are actually two or three bodies in other countries, which are self-regulating, and they regulate the industry. Yah, so they do not like it when we mention such things. (Participant 3).

To register as a CFI is also found to come with a requirement of certain skills within these groups, as the applying CFI needs to submit a business plan as well as draft savings and loan policies. Education and management skills were also identified to be a factor for success within these institutions.

### 4.4.2 Rationale and benefits of registration

Although the respondents mentioned that current regulation is restrictive to some extent, there was agreement on certain benefits to registration. One such benefit is the legal protection of these institutions through law enforcement rather than just relying on social ties for contract enforcement. Another being that it creates a sense of security for members' funds. It was also noted that there is an element of image for these institutions and the benefits that come with being able to refer to your institution as a 'Bank'. You are prohibited to use the word "Bank" to refer to your institution if you are not registered as a Cooperative Bank, Mutual Bank or Commercial Bank.

There is also government support for registered CFIs. The support is in terms of partnerships with government agencies such as the Small Enterprise Finance Agency (SEFA) and the Rural Housing Loan Fund (RHLF). The South African National Treasury also issues Cooperative Retail Savings Bonds, to which only registered CFIs and Cooperative Banks are authorised purchasers. This is in line with the government's commitment, through the Cooperatives Banks Act, to offer products, which support government's social responsibility, provide a secure, affordable savings vehicle and diversify savings instruments available to CFIs and Cooperative Banks.

## 4.5 CONCLUSION

CFIs are found to exist primarily for the purposes of financial inclusion, with the ultimate goal of economic freedom for their members. These institutions have been successful in mobilising member savings into income-generating assets in the form of loans to members as well as acquiring assets for the benefit of members. They have also proven to be financially sustainable institutions whilst serving their purpose of financial inclusion by providing access to affordable and appropriate financial products and services to members. Regulation is found to be an inhibiting

factor for this sector, which has resulted in the significant decrease of formally registered players in the sector. Notwithstanding these, there are benefits to operating within the boundaries of regulation as noted by the respondents.

# CHAPTER FIVE
# FINDINGS FROM QUANTITATIVE DATA MEMBERS OF STOKVELS

## 5.1 INTRODUCTION

This chapter describes the findings of the study derived from the data collected from members of Stokvels through a questionnaire. These results are in the form of descriptive statistics as well as inferential statistics, to formulate and test the interdependence of multiple variables. A frequency distribution is presented as well as chi-squared tests to determine relationships among variables.

## 5.2 DESCRIPTIVE STATISTICS: MEMBERS OF STOKVELS

The objective of this section was to describe the data collected from Stokvels members through a questionnaire that they were requested to complete through an electronic link. Figure 4 below shows the number of respondents that currently belong to Stokvels that provide loans to members. It is found that 77% of respondents' Stokvels do not provide loans. Figure 5 below presents the number of small business owners that are members of Stokvels. These groups have within them fewer members that own a small business (38%) compared to members that do not own a small business. Figure 6 below shows the number of respondents of Stokvels that would consider joining a formal savings group that provides loans to members. The majority of respondents (68%) would consider joining a formal savings group that provided access to loans. 48% of respondents also noted that both savings and social reasons were what motivated them to join a Stokvel, with only 5% stating that their motivation for joining a Stokvel was to access credit. It is found that 16% of Stokvel respondents save more than R2,000.00, and a combined 37% save more than R1,000.00 per member per month. However, the majority of these groups (60%) comprise of 10 members or less in a group.

**Figure 4: Does your Stokvel provide loans to members?**

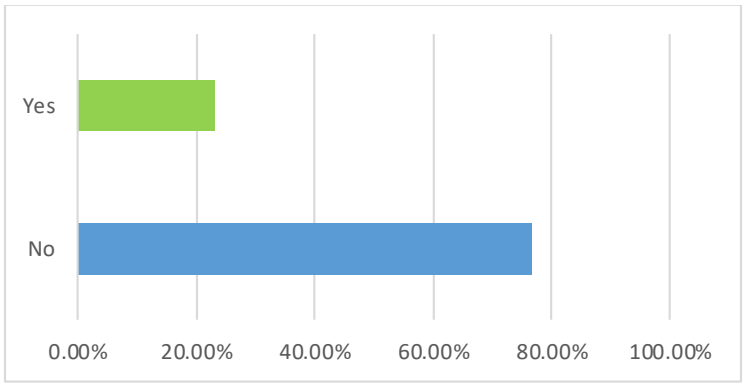



**Figure 5: Do you own a small business?**

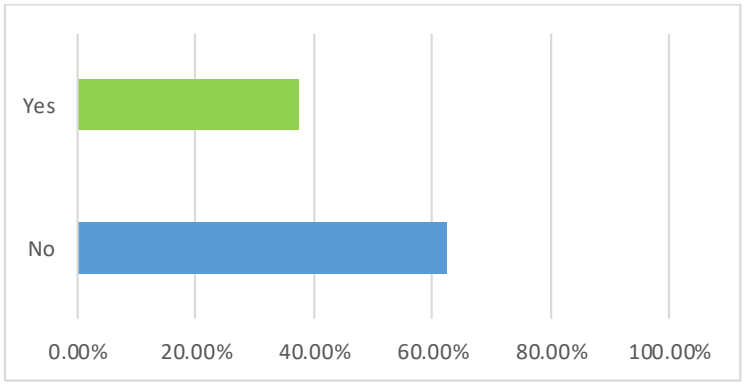
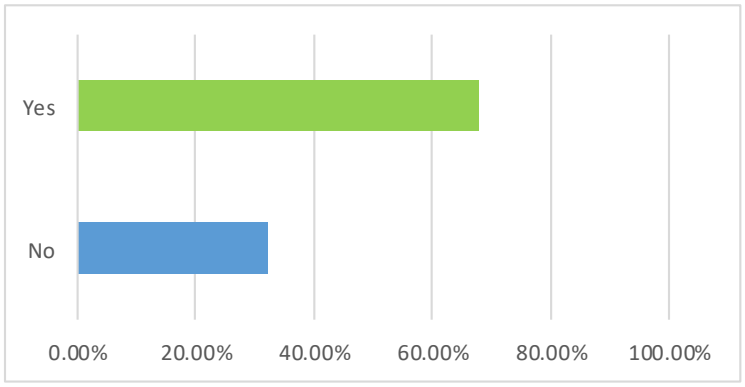



**Figure 6: Would you consider joining a formal savings group that allowed access to loans?**



## 5.3 STUDY RESULTS FROM HYPOTHESISED RELATIONSHIPS

### 5.3.1 Hypothesis One (H1): Stokvels that provide loans to members and small business owners

Table 1 shows a cross-tabulation of the association between Stokvels that provide loans to members and the proportion of members who own small businesses. Note: the hypotheses here are stated in the null form.

$H_0$: There is no difference in choice by small business owners between Stokvels that provide loans and Stokvels that do not provide loans.

Table 2 shows the results of the chi-sqaure test for (H1). The result is a chi-square value of 0.007 with a p-value of 0.935. Given that we have one cell that has an expected count less than five, we cannot use the Pearson's chi-sqaure test. Using Fisher's Exact test, we get a p-value of 1. This suggests that the relationship between Stokvels that provide loans to members and small business owners is insignificant. Therefore, we fail to reject the null hypothesis that there is no relationship between the choice by small business owners of a Stokvel that provides loans and a Stokvel that does not provide loans. This result shows that owning a small business is not a factor in deciding whether to join a Stokvel that provides loans.

**Table 1: cross-tabulation of the association between Stokvels that provides loans to members and small business owners**

| | | | Do you own a small business | | |
|---|---|---|---|---|---|
| | | | Yes | No | Total |
| Does your Stokvel provide loans to members? | Yes | Count | 5 | 8 | 13 |
| | | % within Do you own a small business | 23.8% | 22.9% | 23.2% |
| | | % of Total | 8.9% | 14.3% | 23.2% |
| | No | Count | 16 | 27 | 43 |
| | | % within Do you own a small business | 76.2% | 77.1% | 76.8% |

| | | | | |
|---|---|---|---|---|
| | % of Total | 28.6% | 48.2% | 76.8% |
| Total | Count | 21 | 35 | 56 |
| | % within Do you own a small business | 100.0% | 100.0% | 100.0% |
| | % of Total | 37.5% | 62.5% | 100.0% |

**Table 2: Chi-Square Tests (H1)**

| | Value | df | Asymptotic Significance (2-sided) | Exact Sig. (2-sided) | Exact Sig. (1-sided) |
|---|---|---|---|---|---|
| Pearson Chi-Square | .007[a] | 1 | .935 | | |
| Continuity Correction[b] | .000 | 1 | 1.000 | | |
| Likelihood Ratio | .007 | 1 | .935 | | |
| Fisher's Exact Test | | | | 1.000 | .591 |
| N of Valid Cases | 56 | | | | |

a. 1 cells (25.0%) have expected count less than 5. The minimum expected count is 4.88.

b. Computed only for a 2x2 table

### 5.3.2 Hypothesis Two (H2): Stokvels that do not provide loans to members, small business owners and willingness to join formal savings group that provide access to loans

Table 3 shows a cross-tabulation of the association between Stokvels that provide loans to members, small business owners and the willingness to join formal savings groups that provide access to loans.

$H_0$: There is no relationship between a small business owner that belongs to a Stokvel that does not provide for loans and his choice to join a formal group that provides loans.

Table 4 shows the results of the chi-sqaure test for (H2). The result is a chi-square value of 4.605 with a p-value of 0.032. This implies that there is a significant relationship between a small business owner that belongs to a Stokvel that does not provide loans and his choice to join a formal group that provides loans. We can therefore reject the null hypothesis. This result shows that

members of Stokvels that do not provide loans would consider joining a formal group that does provide loans given that they own a small business.

**Table 3: cross-tabulation of the association between Stokvels that provides loans to members, small business owners and the willingness to join formal savings group that provide access to loans**

| | | | | Would you consider joining a savings group that allowed access to loans? | | |
|---|---|---|---|---|---|---|
| Does your Stokvel provide loans to members? | | | | Yes | No | Total |
| Yes | Do you own a small business | Yes | Count | 5 | 0 | 5 |
| | | | % within Do you own a small business | 100.0% | 0.0% | 100.0% |
| | | No | Count | 7 | 1 | 8 |
| | | | % within Do you own a small business | 87.5% | 12.5% | 100.0% |
| | Total | | Count | 12 | 1 | 13 |
| | | | % within Do you own a small business | 92.3% | 7.7% | 100.0% |
| No | Do you own a small business | Yes | Count | 13 | 3 | 16 |
| | | | % within Do you own a small business | 81.3% | 18.8% | 100.0% |
| | | No | Count | 13 | 14 | 27 |
| | | | % within Do you own a small business | 48.1% | 51.9% | 100.0% |
| | Total | | Count | 26 | 17 | 43 |
| | | | % within Do you own a small business | 60.5% | 39.5% | 100.0% |
| Total | Do you own a small business | Yes | Count | 18 | 3 | 21 |
| | | | % within Do you own a small business | 85.7% | 14.3% | 100.0% |
| | | No | Count | 20 | 15 | 35 |
| | | | % within Do you own a small business | 57.1% | 42.9% | 100.0% |
| | Total | | Count | 38 | 18 | 56 |
| | | | % within Do you own a small business | 67.9% | 32.1% | 100.0% |

## Table 4: Chi-Square Tests (H2)

| Does your Stokvel provide loans to members? | | Value | df | Asymptotic Significance (2-sided) | Exact Sig. (2-sided) | Exact Sig. (1-sided) |
|---|---|---|---|---|---|---|
| Yes | Pearson Chi-Square | .677[c] | 1 | .411 | | |
| | Continuity Correction[b] | .000 | 1 | 1.000 | | |
| | Likelihood Ratio | 1.023 | 1 | .312 | | |
| | Fisher's Exact Test | | | | 1.000 | .615 |
| | N of Valid Cases | 13 | | | | |
| No | Pearson Chi-Square | 4.605[d] | 1 | .032 | | |
| | Continuity Correction[b] | 3.324 | 1 | .068 | | |
| | Likelihood Ratio | 4.878 | 1 | .027 | | |
| | Fisher's Exact Test | | | | .052 | .032 |
| | N of Valid Cases | 43 | | | | |
| Total | Pearson Chi-Square | 4.912[a] | 1 | .027 | | |
| | Continuity Correction[b] | 3.690 | 1 | .055 | | |
| | Likelihood Ratio | 5.301 | 1 | .021 | | |
| | Fisher's Exact Test | | | | .039 | .025 |
| | N of Valid Cases | 56 | | | | |

a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 6.75.

b. Computed only for a 2x2 table

c. 3 cells (75.0%) have expected count less than 5. The minimum expected count is .38.

d. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 6.33.

# CHAPTER SIX
# DISCUSSION OF FINDINGS

## 6.1 INTRODUCTION

The findings in Chapters 4 and 5 assist in providing insights and understanding about the savings and lending practices of both CFIs and Stokvels, as well as factors that enhance and inhibit the success of CFIs in their intermediation function. In other words, this chapter discusses the findings of the study derived from both the qualitative and quantitative datasets. The researcher depends entirely on these results obtained from the research field and avoids speculation.

## 6.2 SUMMARY AND INTERPRETATION OF FINDINGS

The discussion and interpretation of the findings of the study focuses on the research results of CFI and Stokvel practices. The purpose of this study was to evaluate the feasibility of savings Stokvels in South Africa mobilising their savings pools into income-generating assets in the form of credit extension to members for their business activities. The objective was to explore which fit-for-purpose vehicle can facilitate the intermediation of this flow of funds.

The member-oriented nature of CFIs provides for a relentless drive to provide access to finance for their members, with the common purpose of unlocking financial inclusion and seeing their members flourishing economically. They have proven to remain financially stable whilst operating within this mandate and have succeeded in mobilising funds through their ability to achieve scale by attracting more members within the communities within which they operate. These institutions function like a commercial bank in their intermediation function, however, they provide financial products and services at very affordable pricing and provide the 'right kind of credit' specific to member needs and goals.

A factor that contributes to the financial sustainability of these institutions is that there is very low credit risk in their loan books. This is as a result of the reputational element, whereby members know each other and don't want to be seen as not trustworthy or keeping to their commitments, as

well as the fact that member savings are used as collateral against credit advanced to those members. Another factor that contributes to the financial sustainability of these institutions is noted, as being that of an operating environment whereby no competition exists among CFIs, especially because these institutions are not overly preoccupied by profit-maximisation in their motivation.

The factors inhibiting the CFI sector are found to be related to regulation, particularly, that of being required to have a minimum of 200 members that satisfy a common bond among them before you can register as a CFI or a Cooperative Bank. However, there were benefits to formalisation that were highlighted, being legal protection through law enforcement, a sense of security for member funds, being able to refer to your institution as a 'Bank', as well as the advantages of receiving government support through partnerships with government agencies and access to Cooperative Retail Savings Bonds issued by the National Treasury.

SMME owners are found to be members of savings Stokvels, however, there is little evidence of them exploring the use of their Stokvel savings as a funding base for their business activities. The study found that owning a small business is not a factor in deciding whether to join a Stokvel that provides for loans. This confirms the current literature regarding the notion of informal savers' insistence on the traditional practices emphasizing social capital.

All businesses have capital needs, and in particular small businesses and start-ups are heavily dependent on external finance for operational and expansion needs. However, SMME owners are sitting on a pool of savings that could be used for financing their businesses. Although, the same business owners could use the rotational cash payment received from their Stokvels for business financing. These savings, if capitalised, have the potential of earning rents and capital appreciation and thereby serve to increase the group's pool for future financing needs.

The finding that just over 16% Stokvel respondents save more than R2,000.00, and a combined 37% more than R1,000.00 per member per month is also supported by the literature which asserts a presence of a significant amount of high Living Standard Measure (LSM) individuals that exists within the Stokvel population. The results however show that the majority of these groups

comprise of 10 members or less in a group. If these groups were to merge and attain a minimum membership number of 200, similar to that of CFIs, they would achieve incredible scale in a relatively short period as this savings pool generates income for them. It was revealed that one of the successes of CFIs is in the mobilisation of funds due to their ability to achieve scale through attracting more members within the communities within which they operate. The CFI interview respondents affirmed this by stating that they could save more and do more with a larger savings pool.

CFIs develop products and services to fit the specific needs of their members, designed to fill a gap in their financial needs. This purposeful approach to serving members is also synonymous with the literature on Stokvels, which posit that they are extremely flexible institutions that are tailored to whatever emerging purpose or goal of the collective. The findings also reveal that one of the reasons for CFIs being able to provide for products and services at low fees, is that the CFI member base is typically made up of people that know each other as they either stay in the same community, work for the same organisation, or belong to the same association. This is a characteristic similar to that of Stokvel members, which is an indication that should these groups transition to become CFIs, they would naturally be able to achieve low fees and be able to provide affordable financial services to members as this would significantly reduce the lack of information that traditional banks additionally price into products to customers. This dynamic, which also introduces a reputational element, whereby these people know each other will not want to be seen as not trustworthy and not committed to the group, significantly reduces credit risk. This will contribute to the financial sustainability of this cause.

Another factor that was found to contribute to the financial sustainability of CFIs is that member savings are used as collateral, applying a general rule of thumb to use a one-to-three ratio of member savings to credit advanced. This solves for an important gap, which was identified in the literature of the collateral constraint being a substantial factor in SMMEs accessing credit from commercial banks. The need for collateral in traditional lending practices weighs heavily on the decision to grant credit to customers. With SMMEs in South Africa having little to no tangible assets, they are excluded from gaining access to much needed capital for their business, which has

often resulted in their failure. The use of collateral in this form in the small business credit-extension process could serve to save many small businesses that would have otherwise failed.

This is a testament to the tenets of CFIs, and provides support for the suitability of this vehicle in facilitating the intermediation of the flow of savings into assets that work for the benefit of its members. This collateral also significantly reduces credit risk in the loan book of these institutions and encourages members to build up savings to facilitate the extension of future business credit needs whilst promoting a culture of saving. Still, within the theme of financial sustainability, it is found that there exists no competition among CFIs and therefore there is no threat of a flight of capital from one CFI to another. CFIs were noted as being open books with a strong willingness among them to share experiences, successes and lessons. CFIs are also found to loan funds to each other, i.e., from one CFI to another, which is a useful avenue to meet short-term liquidity demands.

It is noted in the literature that wide use of informal finance by SMMEs is used to circumvent the harmful effect of lack of access to formal credit on their operations and growth. However, it is stated that this informal finance has no robust impact on firm performance as much as formal finance due to the exorbitant interest rates charged which often cripple small businesses. It is found in the results from the data that CFIs play an important role in closing this gap, by providing affordable finance to members to assist in the operations of their small businesses at times when there are cash flow constraints.

It was disclosed in the interviews that it is difficult to find 200 hundred people that share a common interest as required by the CBDA for registration as a CFI or Cooperative Bank and this was noted to be the reason why a large number of CFIs were deregistered. However, although this was suspected to be due to an effort by the CBDA to reduce the number of CFIs in order to make managing them easier, this requirement does serve to enable most of these institutions to achieve scale through having more members, which results in these them attaining larger savings pools. Other regulatory burdens were seen to be those of not being able to raise more than 15% of external debt, including inter-CFI loans, and being capped at a maximum of 5% investment in fixed assets. The rationale from the CBDA on the 15% cap is that, for on-lending purposes, member deposits

are typically a cheaper form of capital than external credit and they cite a reason of an avoidance of a situation whereby capital and interest repayments are ultimately paid using member deposits.

However, the CBDA has disclosed that CFIs may apply formally to exceed the 15% limit for external credit given that the CFI is financially sound, manages a default rate below the 5% prudential threshold and meets the minimum capital adequacy requirement of 6%. It should be noted that the CFI would need to reduce the external credit to below 15% should they wish to apply to become a Cooperative Bank. The CBDA's stance on the 5% cap on fixed assets is to ensure that member deposits are not locked in fixed or illiquid assets, which could create liquidity problems for loans or member withdrawals should they be required. However, the use of member deposits to acquire land or property can be accepted if explicit agreement from members is received through a written Annual General Meeting (AGM) resolution. If CFI members decide to create a savings product to raise funds to purchase property, such savings should be ring-fenced and the CFI would need to submit to the CBDA before the purchase of the property.

### 6.3 A FIT-FOR-PURPOSE VEHICLE

There is an agreement among interview respondents to the benefits of formalisation, being those of legal protection through law enforcement as opposed to just relying on social ties for contract enforcement, a sense of security for member funds, and being able to refer to your institution a 'Bank'. Another benefit for Stokvels formalising through a CFI vehicle is that CFIs receive government support through partnerships with government agencies as well as government capital issuances designed specifically for CFIs and Cooperative Banks. This is supported in the literature as, Vonderlack and Schreiner (2002) postulated that it would be meaningful to "combine the strengths of the informal savings schemes, being low transaction costs and assistance with saving discipline, with those of formal finance, being safety, positive returns and anonymity, amongst others".

From the results of this study, we find that there is a market for access to finance. SMMEs need credit and there is currently a large pool of savings rotating in Stokvels. We found that small business owners who are currently members of Stokvels, be it for social or savings reasons, are

enticed to the vehicle of a formal savings group that would provide access to finance. This can fill the gap of the access demand equilibrium in credit markets, which has manifested itself in credit rationing, by injecting this large pool of informal savings into a supply of credit for SMMEs.

## 6.4 OPERATING OUTSIDE OF REGULATION

It is found that some of the institutions that were deregistered continue to operate outside of regulation, primarily due to their insistence in operating in groups much smaller than 200 members as well as a noted difficulty in pulling together 200 people with a common bond outside the bond of geographic area. It can be argued that some groups would prefer to operate in smaller close-knit associations as well as that other purposes may only accommodate for a small portion of a population within a certain geographical location.

Other considerations to the preference of operating outside of regulation may be the costs related to complying with regulation, be it through registration fees, payment for skills to create lending and savings policies or quarterly returns submissions required by the CBDA. The perceptions of this sector also play a role in the lack of growth in the CFI sector. It was found in the data from interviews that people are either not aware of this model, have negative perceptions of this model being for lower-income individuals, or perceive setting up these vehicles to come with great difficulty. The issue of negative perceptions tainting the potential of the CFI sector is also reflected in the literature.

Another finding from the interviews revealed a preference for the pre-Act era, i.e., before the Cooperatives Bank Act 40 of 2007 was introduced, whereby CFIs operated under representative self-regulatory bodies. This was attributed to regulation being seen as restrictive and therefore limiting the growth in the sector.

# CHAPTER SEVEN
# CONCLUSION

## 7.1 INTRODUCTION

Barring the regulatory constraints, this study has found that CFIs are (and would be) successful in mobilising member savings, providing affordable and suitable financial products and services, enabling ownership of the factors of production and providing access to member small business loans that could have otherwise not have been provided for by other formal financial institutions employing traditional lending practices. The chief restriction, however, of registering to operate as a CFI or Cooperative bank is found to be that of attracting 200 members that share a common bond.

## 7.2 PRINCIPAL FINDINGS

The major themes from the findings of Stokvel practices are found to be that a large amount of these groups don't provide credit to members, are largely socially oriented, and do have within them a population of small business owners (38% of the surveyed Stokvel members own a small business). An important finding, however, is that the large majority of members of these groups would consider joining or forming a formal savings group that provides access to loans.

Themes emerging from the findings of CFIs practices are those of financial inclusion, a general inclination to provide appropriate and affordable financial services to their members, help communities within which they operate, and provide ownership of the factors of production, all with the goal of economic emancipation.

## 7.3 IMPLICATIONS

The study has indicated a framework for a vehicle in the South African context to enable a reduction in the financing gap that is experienced by SMMEs in their pursuit for debt capital that is much needed in the start-up and growth phases of their small business. This research looked at

a vehicle to mobilise and capitalise on an already existing funding base, and how to redirect some of those savings into a supply of credit for SMMEs. Notwithstanding, this study looked at a 'formal' vehicle to facilitate the intermediation of this flow of funds, it is the CFI model itself that is highlighted to encompass the characteristics revealed of being successful in its intermediation of member funds to the benefit and improvement of members, and not particularly the regulatory field within which they operate. It should be drawn from the study these principles of the intermediation function, financial sustainability and financial inclusion tenets of these institutions to learn lessons on how small business owners can seek to remove themselves from this situation of a lack of access to finance.

## 7.4 LIMITATIONS OF THE STUDY

This study has some limitations primarily driven by time and cost constraints. The following are considered potential limitations to the study:

- The researcher was unable to gather data on deregistered CFIs. Inclusion of these institutions, which are found to still be in operation, would have added a diverse perspective to the inhibitors of regulation as well as preferences of operating within or outside of regulation.
- The survey questionnaire only reached members of Stokvels in the Gauteng and North West provinces predominantly through social connections of the researcher. (The Limpopo and KZN provinces are found to have the 2nd and 3rd largest population of Stokvels after Gauteng, with the North West having the 4th largest Stokvel population of the 9 provinces).

## 7.5 SUGGESTIONS FOR FUTURE STUDY

The lack of access to finance by SMMEs in South Africa remains an insistent issue and inhibitor to the growth and survival of small businesses, which are critical contributors to economic growth, increasing employment and reducing poverty in developing countries. This study makes a critical contribution to the literature on how the funding gap, as a result of excess demand equilibrium in credit markets, can be reduced by redirecting a supply of capital that already exists within the system. However, further research is recommended on:

- The viability of this CFI model operating outside of regulation by studying CFIs, which have been deregistered but continue to operate, would be enhanced.
- How these institutions manage their functions of mobilising savings into loans to members given their smaller membership numbers, which was stated as being the main reasons for them being deregistered, compared to registered CFIs.

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# APPENDICES

## Appendix A: Interview Consent Form

**Consent Form for: _____.**

I, _____, acknowledge that I understand the research and that the research has been fully explained to me. I also understand that the information which I give to the researcher will be used in the research report.

I further acknowledge that the researcher has promised me the following:

- That my participation in this research is voluntary
- That my personal details will remain anonymous throughout the research study as well as in the research dissertation
- That I can refuse to answer any questions which I feel uncomfortable with

I hereby consent to being interviewed for the research study "Availability and Distribution of Risk Capital: How Stokvels can Help Fill the Financing Gap for SMMEs in South Africa"

**I agree / I do not agree** to the interview being audio- recorded

_____ _____

Participant Researcher

_____

Date

## Appendix B:

## Schedule of Questions: semi-structured interviews for CFI management representatives

1. How long has the CFI been in existence?
2. What would you describe as the main purpose of your CFI?
3. What were the main challenges in registering as a CFI?

   3.1 Building up capital for the minimum requirement

   3.2 Attracting enough members for the minimum requirement

   3.3 Operational challenges

   3.4 Regulatory challenges

   *(Please elaborate on the specific challenge/s)*
4. Was the formation of the CFI born from an informal savings group/Stokvel?

   4.1 What was the initial motivation to start the Stokvel?

   4.2 What was the purpose of the Stokvel?

   4.3 Was the ambition to convert into a CFI from inception of the Stokvel or was this ambition realized as the Stokvel grew in capital and number of members?

   4.4 How long did the Stokvel exist before starting the process of registering as a CFI?

   4.5 How long did the process to register into a CFI take?
5. Does the CFI provide funding for member's business activities/ventures?
6. Is the funding provided in the form of debt only or does the CFI give equity financing as well?
7. What is the success rate of funding approved as a percentage of applications from members received?
8. What are the main reasons for rejecting member applications for funding?
9. What is the CFIs loan-to-asset ratio, i.e., approximately what percentage of total assets has been provided for member loans currently?
10. How big is the management team?
11. What is the average experience of the management team?
12. Would you encourage small business owners to join savings or investment Stokvels with the aim of converting into CFIs to facilitate the provisioning of their capital financing needs?

**Schedule of Questions: semi-structured interviews for management representatives of CFI representative bodies**

1. How long has your organisation been in existence and supporting CFIs?
2. In your experience, what would you describe as the main purpose of CFIs that you have worked with?
3. What are the main challenges that organized groups face when registering as CFIs?
   3.1 Building up capital for the minimum requirement
   3.2 Attracting enough members for the minimum requirement
   3.3 Operational challenges
   3.4 Regulatory challenges
   *(Please elaborate on the specific challenge/s)*
4. Do you find the current regulation/legislation around CFIs restrictive or conducive to current CFIs and in particular to new entrants?
   1. To existing CFIs
   2. To new entrants
   3. Which part of the legislation in particular would you consider restrictive &/ conducive.
5. What would you say are the successes (if any) of existing CFIs?
6. Are CFIs in general are living up to their mandates of financial intermediation in so far as being able to facilitate the flow of savings into funding for small business' and or personal loans that would have otherwise not been provided by commercial banks?
7. What is the success rate of funding approved as a percentage of applications from members received? Under which circumstances would CFIs general decline a loan application?
8. Generally, what is the average CFIs loan-to-asset ratio, i.e., approximately what percentage of total assets is provided for member loans?
9. Where do CFIs typically invest fuds that have not been loaned out yet?
10. How big of a factor is management experience in the success of a CFI?
11. In your opinion, are existing CFIs financially sustainable?
    If not, what can be done differently?
12. Have you assisted an informal savings group in the form of a stokvel into becoming a CFI?

1. Name examples
2. What were the biggest challenges in this process?

13. Would you encourage small business owners to join savings or investment Stokvels with the aim of converting into CFIs to facilitate the provisioning of their capital financing needs?
14. According to the CBDA, there is a dip in number of South Africa's CFIs and membership from 121 and 59,394 in 2011 to 26 and 24,722 in 2015, respectively (CBDA, 2015). In your opinion, what is the possible reason for this?

## Appendix C: Questionnaire on Stokvel members

Please choose 1 relevant option per question:

1. How old are you?

| | |
|---|---|
| Younger than 25 years | |
| Between 26 – 35 years | |
| Between 36 – 45 years | |
| Between 46 – 55 years | |
| Older than 55 years | |

2. How long have you been participating in your saving scheme?

| | |
|---|---|
| Less than 1 year | |
| 2 years | |
| 3 years | |
| 4 years | |
| More than 5 years | |

3. How many members comprise your savings scheme?

| | |
|---|---|
| Less than 10 members | |
| Between 10 – 30 members | |
| Between 30 – 50 members | |
| Between 50 – 100 members | |
| More than 100 members | |

4. Does your savings scheme provide for loans to members?

| | |
|---|---|
| Yes | |

| | |
|---|---|
| No | |

Select all relevant options that apply:

5. What motivated you to join a Stokvel / saving scheme?

| | |
|---|---|
| Savings for future bulk purchases | |
| Social reasons | |
| Both for savings and social reasons | |
| Savings for future personal investments | |
| Savings for business investment/funding | |
| Access to loans | |
| Other | |

If 'other', please specify:

……

……..

Please choose 1 relevant option per question:

6. How much do you contribute per month?

| | |
|---|---|
| Less than R500 | |
| Between R500 and R1000 | |
| Between R1000 and R2000 | |
| Greater than R2000 | |

7. Do you own a small business(s)?

| | |
|---|---|
| Yes | |
| No | |

8. Have you ever been declined for financing for your small business(s)?

| | |
|---|---|
| Yes | |
| No | |
| Not applicable | |

***Select all relevant options that apply:***

9. From which institution did you apply for financing?

| | |
|---|---|
| Bank | |
| Microfinance institution | |
| Informal (machonisa) | |
| Informal (other) | |
| Not applicable | |

If 'Informal (other)', please specify:

……

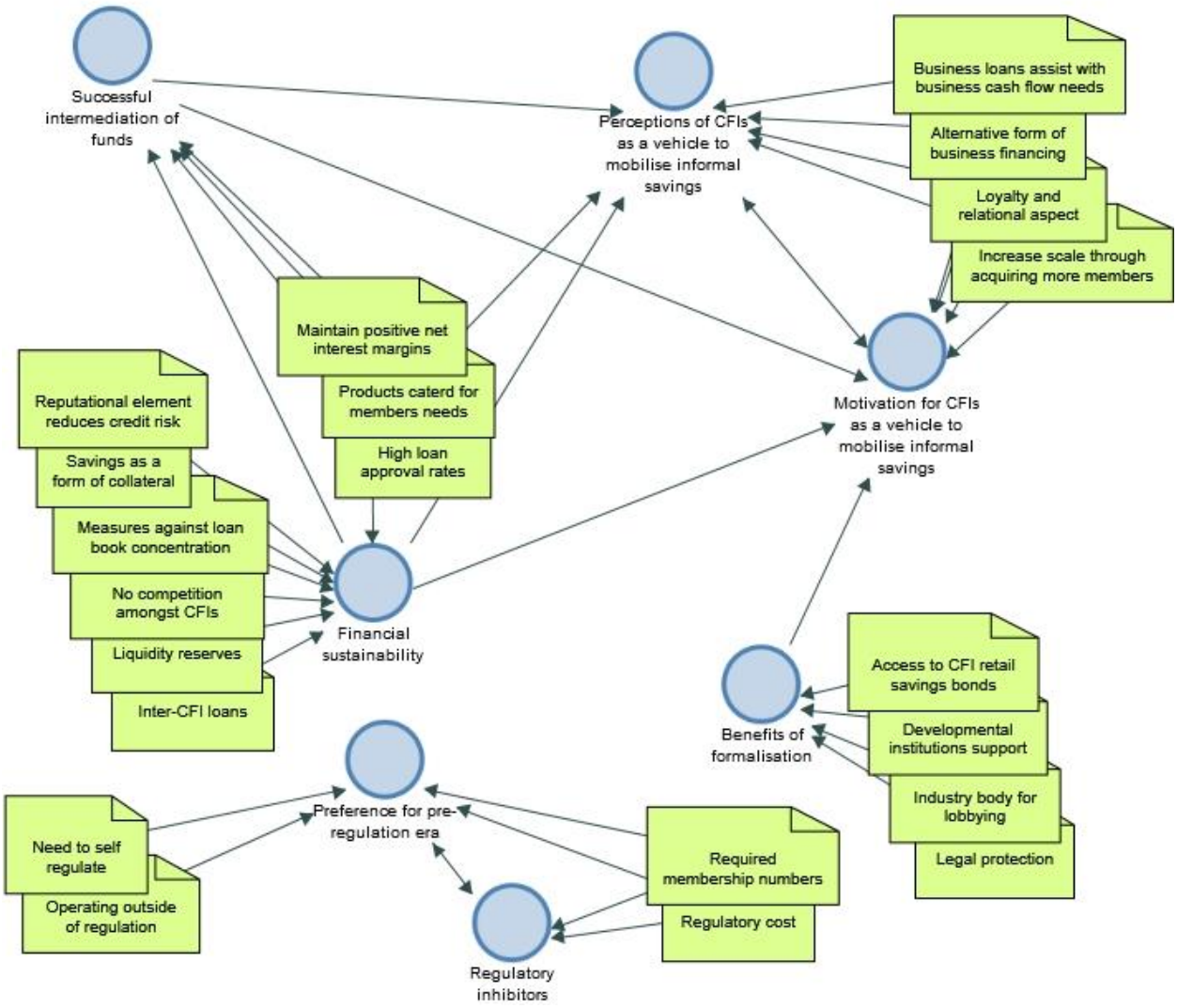
……..

10. Would you consider joining a Stokvel / savings scheme that allowed you access to loans?

| | |
|---|---|
| Yes | |
| No | |

## Appendix D: Thematic coding analysis

### Themes that emerged from coding analysis



## Codes that emerged from data to generate themes

