

FRAMEWORK FOR LINKING THE INFORMAL SAVINGS SUB-SECTOR WITH THE FORMAL STOCK INVESTMENT MARKET

By

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ABSTRACT

Global markets, especially emerging markets, reveal a presence of generally two types of financial saving and investment system, namely the informal financial system and the formal financial sub-sector. Often, the two systems of financial management are alienated from each other.

However, informal savings practices (parts of the informal financial sub-sector) are widespread particularly in developing economies, including those of Sub-Saharan Africa where the popular indigenous financial saving practices are the rotating credit and savings associations, an umbrella concept that incorporates various practices such as door-to-door deposit collections, Christmas grocery and savings clubs, burial societies, Chilimba, Motshelo, Susu, Etoto, Nyangi, round tables, and *stokvels*, amongst others.

The informal financial savings system is criticised for poor asset security, emphasis on social capital, poor financial returns, and high propensity for consumption. Indeed, wealth accumulated in these thrift funds are seldom invested in formal, financial investment market instruments that generate more than average returns, specifically equities (common stocks).

The formal common stock investment sector offers numerous benefits, and these include risk management, diversification, capital appreciation, opportunity for dividend receipts, a liquid market, professional stock investment management, and asset security amongst others. Therefore, in contrast to the constraints and investment drawbacks associated with the informal financial savings system, the formal financial stock investment platform offers prudent investors opportunities to reap relatively higher returns, and grow wealth. Notwithstanding the apparent benefits of

investing in the formal stock investment system, the majority of members of the informal savings market are estranged from the formal equity investment sub-sector.

This study investigated these two, contrasting financial savings and equity investment services platforms, with the objective of constructing a framework for linking the informal savings system with the formal stock investment market. The study used both qualitative (interviews and grounded theory) and quantitative research methods to gather and analyze primary data. The questionnaire was used to collect quantitative data, which was analyzed using various structural equation modelling tools, including descriptive statistics, correlations, and path modelling.

This study found that the alienation of the financial savings and stock investment platforms results in the exclusion of informal savings groups from equity investing opportunities. The framework for linking the two systems is anchored on several variables, namely a conscientious adoption of strategy to reach out to the informal savings groups, provision of equity investment education, an introduction of unorthodox marketing strategy. Further, the extension of financial investment products to traditional African savings communities constitutes a credible investment vehicle that improves their saving and financial investment performance. Moreover, a dignified treatment of indigenous savers by the formal financial sector and provision of asset security, positively influence and encourage informal savings groups to invest in the formal stock investment sector.

Overall, all these variables converge to form a path that links these hitherto separate financial systems, namely the informal savings market and the formal stock investment system.

DECLARATION

I declare that this report is my own, unaided work. It is submitted in fulfilment of the requirements of the Doctor of Philosophy degree in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in any other university.

.....
H S Mukwevho
February 2017

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In a way, this study is a significant highlight of a schooling career that formally started in 1981, in Vuwani, when my uncle Nditsheni Nemutudi Mukwevho taught me at home: "*ek hoor met my ore*" (I still remember that). I am grateful for the tutelage from all my assorted guardians.

To all of you, thanks indeed.

MEMORIAM AND DEDICATION

This is a memorial to my brother Aifheli Mukwevho.

It is dedicated to my mother Vho-Mukatshelwa Mukwevho; my
personification of love and resilience.

My beloved Lutendo Mukwevho, please follow on their footsteps.

“U lwa ri hu pikele u swika ri tshi fa”

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CHAPTER ONE

CONTEXT AND RATIONALE FOR THE STUDY

1.1 INTRODUCTION

This section outlines the major components of this study, namely research background, theoretical underpinnings, research problem and purpose statement. The objective of this study is to develop an investment-linked framework that has the capacity to improve the saving and investment returns of the informal savings market. This chapter commences by describing the informal savings market, and observes that this is a vibrant platform that many people on the margins of society use to save and grow their wealth. However, the informal savings market is challenged by a number of factors, namely emphasis on social relations (Akram & Routray, 2013), sub-par investment returns (Du Plessis, 2008), financial exclusion (Kuma, 2013) and a pronounced disjuncture with the stock equity market (Cahit & Salih, 2013).

This study examines the current literature in relation to the informal savings market. The results of various studies by economists (Verhoef, 2002; Mashigo & Schoeman, 2010; Kibuuka, 2006; Buijs, 1998) present a pessimistic view of this sector and conclude that the domain of the informal savings market should be improved. In most African countries, improvement came in the form of promoting financial inclusion, primarily by creating bank accounts for the unbanked (Katwalo & Muhanji, 2014) but some of these accounts were discontinued (Rolley, 2009), resulting in the poorest people remaining constrained in accessing financial services (Mukherjee, 2014).

Whilst the informal savings market encounters existential challenges, the formal investment market is thriving, and is characterised by better capital

(investment) security measures which ultimately enrich its participants. Piesse and Hearn (2005) suggest that informal savers are not necessarily part of the enriched participants, because there is muted participation of African retail investors in the stock market. There is therefore a significant gap between the informal savings sector and the equity-based investment market.

After exploring the literature gap, this study proposes a framework for linking the informal saving sector with the stock investment market. The objective of linking the informal saving market with the formal equity investment market is supported by Vonderlack and Schreiner (2002) who argue that, “informal savings mechanisms are useful, but they do not remove the need for formal investment services” (2002:605). However, for the formal financial services sector, linking with and assisting the informal financial community is a moral redemptive imperative.

A Harvard University finance professor Zingales (2015) observes that, “throughout history finance has been perceived as a rent-seeking activity” (2015:2), and the examples of malfeasance within the current financial services sector includes LIBOR fixing, outright rigging of regulations, fraud and profiteering – all at the expense of the common man. Similarly, Kay (2015) concurs that modern finance is charting its own mission drift, offering disproportionately little to the real economy. Therefore, the equity-linked informal savings framework – the main object of this study - is an intellectual contribution towards enabling the finance sector to reclaim its central, critical role in the market economy, with the potential to link all savers with high yield investments, uplift and grow the real economy.

1.2 BACKGROUND TO THE STUDY

1.2.1 The informal saving market

Anderson, Baland and Moene (2009) assert that informal saving mechanisms are exceedingly popular in developing economies. The systems of saving through traditional informal methods are practised in many frontier and emerging markets, including Kenya, South Africa (Verhoef, 2002), Bangladesh (Banerjee & Duflo, 2011), Nigeria (Akinrinola & Mafimisebi, 2010) and even by expatriate communities located in developed economies (Anderson, Baland & Moene, 2009).

Vonderlack and Schreiner (2002) argue that academic research on indigenous finance management systems has witnessed a refinement from the days when the description of these practices was mostly centred on the microcredit system. Microcredit is concerned with individuals borrowing largely to pursue entrepreneurial ventures (saving down), and microfinance relates to the use by individuals of traditional informal methods to save inflows to build wealth (saving up) (Vonderlack & Schreiner, 2002). This study is mainly about saving up (microfinance) and the many strategies traditional communities use to save fund inflows, including door-to-door deposit collections, annual saving clubs, rotating credit and saving associations (ROCSAS).

Anderson *et al* (2009) observe that rotating savings associations are very popular, and in Kenya 57.2% of households have at least one member participating in them, with financial contributions to these schemes amounting to 20.3% of total individual earnings and 13.6% of individual income. In the South African context these initiatives have been generally known as *stokvels* (Verhoef, 2002). Irvin (2005) argues that these saving schemes should be labelled as informal saving groups, a designation this study adopts.

According to Arko-Achemfuor (2012) and Mmegi (2014), the African practice of saving through co-operatives and informal saving group is well-established. In its genesis, African communities organized themselves to

provide service to each other on rotational basis – such as ploughing – and as the economy evolved, money was exchanged amongst the membership for saving purposes. The burial society is considered the first form of informal saving wherein members contributed money to fellow participants of the saving group upon death in order to assist with the cost of burial. Case, Garrib, Menendez and Olgiati (2008) note the rationale for doing so in South Africa is that financial expenses associated with burials and the related formalities are very high.

In the present day, informal saving groups take numerous forms and are in use across Sub-Saharan Africa (Steel, Aryeetey, Hettige & Nissanke, 1998). They include rotating credit and saving associations, burial societies, *Motshelo* (Botswana), *Njangi* (Cameroon), *Tshilimba* (Zambia), *Esusu* (Nigeria), *Round Tables* (Zimbabwe) and entertainment *stokvels* (South Africa, Lesotho and Swaziland). In essence, informal saving schemes are an arrangement whereby a group of people agree to form a saving club and they rotate in contributing to each member of the co-operative (Seibel, 1985; Kasseeah & Tandrayen-Ragoobur, 2014).

There are other recent forms of saving groups, including grocery and entertainment *stokvels*. With regard to the former, members of the saving group contribute towards the purchase of Christmas groceries, while in relation to the latter the saving club is formed by people who agree to arrange parties associated with conspicuous consumption of both liquor and food (Irvin, 2005). The host of the party charges participants to attend and encourages consumption to increase earnings. Mmegi (2014) reports that in Botswana, *Motshelo* is changing in character, and is evolving into a loan saving group, denoting that saving groups are becoming involved in the credit service business. The upshot is that African communities have always been practising a system of financial saving but it is not as developed as the modern formal financial system of investment. However

noble the informal saving schemes are, the African 'native' investment sub-sector has attracted a number of criticisms.

1.2.2 Criticisms of the informal saving groups market

Criticisms of the informal saving groups (ISG) market are mainly premised on two factors, namely poor security and modest investment.

Poor security: Vonderlack and Schreiner (2002) observe that at times some participants in these groups fail to honour the scheme's ethos and illegally abscond with funds. In some instances, some stokvel members do not contribute at regular intervals and subsequently default. In addition, some people steal the money that has been contributed. These factors indicate that financial contributions are not always adequately protected and this insecurity has the capacity to render these initiatives unsustainable (Sama & Casselman, 2013). Epstein and Yuthas (2011) aver that poor asset security may well be a corollary of mission drift.

Poor financial returns: It is believed that microfinance is a low-yield investment instrument. According to Du Plessis (2008), these informal saving schemes are operating well below their potential and as such fail to adequately serve the investment ideal. The former deputy chief executive officer of the Stokvel Company, Mr Vincent Musewe, highlights that stokvels are merely an insurance policy against costs of future consumption as opposed to a purposeful investment fund which grows investor's wealth. According to Du Plessis (2008), this conclusion is in part supported by the fact that burial societies constitute 50% to 60% of these saving activities, with the remainder largely reserved for food club expenses (for Christmas groceries) and group travel. Assessing the management of stokvel savings, Du Plessis (2008) observes that "stokvels remain predominantly geared towards the stimulation of consumption rather than investment" (2008:64).

The consumption imperative of burial societies has been criticised as being wasteful. Irving (2005: 25) describes a typical burial day in South Africa:

Respondents reported attendance at [prayer] meetings as ranging between 200 and 600 people. After the prayer meeting, mourners travel to the cemetery in taxis paid for by the deceased's household. At the cemetery, the opulence of the funeral is revealed. Some respondents hired red carpets to lead mourners to the gravesite. Others bought arches of flowers to mark the path to the gravesite; some had both... The gravesite is often adorned with poster-sized photographs of the deceased. Frequently a tent is erected beside the graveside for mourners. All respondents expressed a desire to be able to purchase the most expensive coffin possible. The coffin itself is typically shrouded in wreaths of flowers. This is usually followed by a funeral feast during which several sheep are or a cow is slaughtered and served as part of a substantial meal to mourners. Additional costs to the family include board and lodging for relatives who have travelled long distances and occasionally an 'after tears party' at which a variety of alcohol is served.

This vignette is a testimony to the consumption imperative rife in the African informal saving market. The said consumption objective is served at the expense of using saved financial resources to grow the investment portfolio. Indeed, this is a major difference between formal stock investment market and the informal saving subsector. Participants in formal stock investment financial system use their resources to growth wealth, whilst informal savers tend to destroy financial assets through frivolous spending. Notwithstanding the apparent benefits the formal stock market investment market offers, informal savers remain loyal to their traditional practices, and this is due to emphasis on social capital.

Emphasis on social capital: Adams (1992) observed from the analysis of the African informal savings clubs that an overwhelming number of members are not in these schemes with the intention to build wealth or

balance their investment portfolio. Moreover, few of the members are interested in long-term investments or in the formal stock investment market – as is the fact with modern financial institutions. Instead, most indigenous savers seek non-pecuniary returns. They are content to merely accrue social capital, thereby ensuring the continuation of indigenous saving culture as historically practised (Arko-Achemfuor, 2012).

Social capital benefit is defined as, “connections amongst individuals – social networks and the norms of reciprocity and trustworthiness that arise from them” (Irving, 2005:13). The suggestion is that social networking and cohesion are of greater importance than the financial benefits in the formation of an informal saving scheme or owning a share at the stock exchange. Akram and Routray (2013) find that there is a positive correlation between social capital and microfinance initiatives.

The role of social capital has been explored greatly (see Bourdieu, 1986), and its relationship with banking (Brownbridge & Harvey, 1998), but enquiry in this persists. In expanding social capital in informal finance and the role of social relations in informal finance, Adams (1992) introduces the metaphor of moneylenders as providers of healthcare (financial well-being). In low income economies, patients (borrowers) go to the doctor (moneylender) for healing (financial prosperity and wellness). Some never return, but others come back for more medication (loans) in order to continue with the healing process. Some patients perish (default), and in the process doctors (moneylender) sometimes get it wrong.

This prism thus suggests that informal finance is relational and rapport-based financial culture. It is anchored on relationships. Therefore, the reason informal savers show loyal faith regarding indigenous financial systems (notwithstanding the shortcomings) ahead of the formal stock investment market is the primacy of social capital.

1.2.3 The relationship between informal savers and the formal financial services sector

The paragraphs preceding this section demonstrate that notwithstanding the benefits that formal stock investment provides, African informal savers continue to show faith in the sector. Adams (1992) explored this reality and observed that a number of factors explain this issue, mostly access to and comfort with their traditions.

Research into the African financial investment domain reveals that most informal savers located at the margins of society do not have adequate access to quality financial services (Kistern, 2005). Financial economics literature argues that excessive consumerism and poor investment decisions can to a large extent be attributed to lack of access to quality (formal) financial services (Claessens, 2006; Van der Berg, 2012; Argent & Rolley, 2000). Adams (1992) observed that lack of access to formal financial institutions actually make informal savers show faith in their traditional saving systems. This is easy for informal savers to do: they understand the informal saving subsector, and are used to the process and the discipline associated with their financial practices.

The issue of market restriction in the formal financial service sector continues to be a matter that elicits debate. Chaia, Dalal, Goland, Gonzalez, Morduch and Schiff (2009) conducted research to gain a deeper understanding of the degree of access of poor people to finance among the world's population, as it pertains to the banking sector. According to their findings, 2.5 billion adults do not have access to formal banking services. In addition, the inquiry also established that 2.3 billion of those at the margins of formal banking services are located in developing and poor economies of Africa, Latin America, Asia and the Middle East. Chaia *et al* (2009) maintain that most conventional formal financial service firms actually avoid poor clients.

Gichuki, Mutuku and Kinuthia (2015) contend that formal banks find poor clients risky and less profitable and as a result banks discriminate against the poor through charging high service costs and failing to provide appropriate banking products that meet the needs of the poor.

However, there is a counterview in the South African financial context which argues that discernible efforts have been made to enable the unbanked population access to banking services. Some point to the success of Capitec Bank in securing the greater market share of the previously unbanked (Fisher-French, 2012). Furthermore, the Mzansi account initiative is seen as a leading initiative to bank the unbanked and extend financial services to the 'masses'. Mzansi is an initiative implemented by South African retail service banks to provide low income earners with a bank account.

At its height in 2010, the Mzansi account across all South African banks had over 5 million account holders (Ntingi, 2011). More recently this initiative has lost traction and the numbers of Mzansi account holders has reduced by 32% in 2011 to 3.4 million (Ntingi, 2011). In part, the reduction in Mzansi accounts is attributable to the stigma that equates holding a Mzansi account with being poor. New bank customers thus prefer to sign up for products other than the Mzansi account. As Argent and Rolley (2009) found out, the other reason for the poor performance of the Mzansi account is that banks are not encouraging clients to choose it. The lack of access to financial services, specifically banking, is widespread, and even special access programmes (like the Mzansi account) at times fail to realize the financial access objective.

The discussion on the South Africa-specific situation as well as Sub-Saharan Africa reveals that the sub-continent has high levels of financial exclusion and policy makers should be informed by Kumar's (2013) research on stemming marginalization from the formal financial services.

Kumar (2013) established that, in part, expanding financial services and bank branch networks to rural areas promotes financial inclusion. Bhanot, Bapat and Bera (2012) concur with the branch network density approach. The findings of the research criticise financial exclusion and conclude that the Post Office network in rural areas should simultaneously offer basic banking service to the unbanked.

The advantage of a Post Office is that in most countries the Post Office has an extensive branch network, and that while it may not currently provide advanced banking services – such as ATMs, credit cards and online banking services – it has the capacity to provide basic banking services, especially receiving deposits (asset security) and some investment products. Noteworthy, Bhanot *et al* (2012) specifically mentions that rural residents who receive financial information from a government entity or a member of the family (including a friend) are most likely to open a bank account.

Notwithstanding the various solutions offered by these cited scholars, it is evident that there is a gap between the informal saving market and the formal financial sector. Informal savings customers who are located in mostly rural areas have limited access to modern financial intermediaries, largely due to the fact that there is poor availability of financial institutions in their communities. As explained below, access to the equity investment houses by rural dwellers is also exceedingly limited, and this exclusion traces its origin to colonialism, economic policy and the role of elitism.

1.2.4 The stock exchange (market) in Africa

In examining the relationship between the stock market and the informal financial service market, the intention is to build a case that informal saving groups should consider moving beyond 'investing' all their savings on funerals, Christmas grocery purchases and other non-essential goods,

and instead invest in modern capital markets, specifically the formal stock market.

The stock market in Africa should be understood against the broader capital market context in the continent. Africa's capital market is still in its infancy, and this is attributable to the fact that colonial administrators in Africa did not prioritize the development of capital markets. Africa's development economist Mkandawire (in Mbeki, 2011) observed that most European colonial leaders managing African colonies were not keen on developing either the secondary economic sector or the African capital markets, since the view was that they were of no value for Africa, and that the market was too small.

In modern times, however, there is discernible growth of African capital markets. Capital markets comprise capital-raising activities through initial public offerings and further offers by listed companies as well as debt capital markets. The latter includes debt funding by African companies and public institutions. In regard to equity capital markets, Africa has more than 700 companies, recording more than US\$500 million in revenue, but only 40% of these are listed.

Van der Berg (2012) conducted research on the advantages of investing in bourses, paying particular attention to the Johannesburg Stock Exchange (JSE), which revealed that investment in the stock exchange over time is a good investment (saving) strategy. Van der Berg (2012) mapped a trend analysis of the performance of the JSE since 1987 and observed that a long-time equity investor would have seen such investments realize a 105% yield over a 25-year investment period, a performance which would have sufficiently absorbed adverse market downturns such as the 1987 Stock Market Crash, the 1998 Asian Contagion, the 2002 Dot Com Bubble, and the 2008 Sub-Prime Crisis.

Donwa and Odia (2010) analysed the Nigerian capital market, focussing on the relationship between the capital market and socio-economic development. The findings of the study revealed that capital markets have not significantly impacted on Gross Domestic Product. Similarly, Oluwatosin (2013) conducted a related study, analysing the relationship between Nigeria capital markets indices and the gross domestic product. The study found that major components of the capital markets have least improved the GDP, an indicator of a market in the early stage of expansion.

It can be noted that capital markets have had different impacts on an African country. Whereas Van der Berg observed a positive impact on the South African economy, in contrast Nigeria is yet to reap abundant benefits. Sakariyahu (2016) maintains that capital markets in Africa are still in infancy in various Africa markets, hence the apparent constrained impact on the Nigerian market. In fact, Sakariyahu (2016) raises the concern that Nigerian capital markets are adversely affected by corruption, illiquidity, are vulnerable to negative Africa sentiment and are yet to play a growth role in the economy.

Maxfield (2009) observes that scholars Bekaert and Harvey conducted a similar study in 1997 on the roles and benefits of the stock exchange market in the economy. The Bekaert-Harvey research was conducted across 18 countries and over several decades, and its findings established a positive correlation between stock market development and economic growth. Furthermore, the research observed that the stock exchange market particularly benefits from economic restructuring and equity market liberalization. The inference is that prudent investment in equity markets provides significant returns for investors. Notwithstanding the apparent benefits of a stock exchange, Africans have not always fared well in the stock exchange market.

1.2.4.1. Scarcity of bourses in Africa

For a prolonged period, including the current age of indigenous political self-determination, most African countries lacked a stock exchange. In 1992 there were only twelve bourses in Africa and since then the continent has added just eight new stock exchanges (Adjasi, Biekpe & Osei, 2011), with South Africa's Johannesburg Stock Exchange as the oldest, having been founded in 1887. A number of factors explain the scarcity of stock exchanges in Africa. For centuries, African territories were subject to colonial authorities whose agenda did not necessarily prioritize the growth of capital markets.

On assuming power during the decolonization project, most African governments preferred central planning and the socialist agenda did not advance the proliferation of capitalist structures and institutions (Piesse & Hearn, 2005). Piesse and Hearn further attribute the limited presence of bourses in Africa to a weak privatization drive. Privatization is constrained owing to the strength of left-wing lobbying activities, rent-seeking, and poor political will. The stock exchange market development agenda in Africa also suffered from pessimism.

Maxfield (2009) observes that some conservative economic theorists had prescribed to the notion that says that it is counter-productive for developing and least developed economies to establish stock exchanges, as they are unlikely to be competitive in the international bourse market and therefore will simply drain the fiscus. The inference is that the limited growth of bourses in Africa is in major part attributable to lack of politico-economic will and, in some instances, ideological chauvinism. The *status quo* was not maintained but was dismantled through the proliferation of stock exchanges in emerging markets.

1.2.4.2. The ascendance of stock exchanges in Africa

The late 20th century is a period characterised by the entrenchment of globalization, especially through the liberalization of trade and capital markets. As alluded to, this period also saw the growth of stock exchanges in Africa, in particular after 1992. Several factors were pivotal in the emergence of stock exchanges in emerging markets during this period. Mayfield (2009) asserts that there was an acceptance of the need to support the development of bourses. In contrast to the pessimism of old, it was generally conceded that the history of stock markets in developing economies is not as negative as presented by some ideological conservatives. Cahit and Salih (2013) expand on this contention, noting that pessimism was challenged by the relative success of the process of liberalization of capital markets in middle-income economies.

The burgeoning scholarship on the developmental state and the success of the newly industrializing Asian economies, in particular Asian Tigers, demonstrated the efficacy and inalienability of the role of government in national development and the role of capital markets in the economic development policy process. Buoyed by the supporting role of the state in national development (as exemplified by newly industrializing countries), international financial multilateral organizations and development organizations started to channel development aid to emerging markets, including Africa, with a specific mandate to create stock exchanges.

Agyei-Ampomah (2011) observes that, as an overlay, African governments also began to invest national economic development funds for the liberalisation of capital markets, and for establishing indigenous stock exchanges. Amongst others, the creation of bourses in Botswana (1989), Swaziland (1990), Zambia (1994), Uganda (1998), Tanzania (1998) and Mozambique (2008) is testimony to the new investment policy thinking regarding the role of bourses in Africa.

1.2.4.3. Weaknesses of bourses in Africa

Although the development of bourses is on the upward trajectory, they remain beset by a number of challenges. Piesse and Hearn (2005) observe that in general terms, and with the exception of the Johannesburg Stock Exchange, African bourses are small relative to their national economies. In addition, African stock markets are illiquid, have limited product range, are poorly regulated, are dominated by few stocks, and are impeded by short trading hours.

There is limited literature on the profile of retail investors in African bourses. Notwithstanding, Piesse and Hearn (2005) aver that there is little participation by indigenous African populations in stock trading. Instead, African citizens prefer to invest according to age-old African practices, in particular by buying biological assets such as livestock and agricultural commodities, and through participating in indigenous saving strategies. Du Plessis (2008) points out that these saving strategies include burial societies and a variety of rotating saving and credit schemes.

Piesse (2008) argues that native African investors have poor awareness of capital markets, in particular knowledge of the stock exchanges. African bourses have responded by engaging in awareness campaigns, but participation remains low due to stickiness of traditional saving practices as well as a low level of trust in capital markets and capitalist institutions. As a result, the major retail investor group in the domestic Africa stock exchanges is the new ruling elite that replaced the colonial ruling class. This replacement was effected through a post-colonial wealth redistribution strategy that fostered a limited privatization exercise that merely transferred assets from the colonial government to a group of new social elite (Piesse & Hearn, 2010). In addition, trading activities of most African stock exchanges are dominated by foreign equity investors whose

incursion into frontier markets is motivated by high yields (Cahit & Salih, 2013).

The main inference in the analysis of the evolution of stock exchanges in emerging markets, particularly in Africa, is that capital markets are structured in a manner that leads to financial investment exclusion. Ntingi and Hlatwayo (2010) observes that the proportion of Black investors – South Africa's native population – in the Johannesburg Stock Exchange is only 2% or R81 billion of the JSE's R5.2 trillion capital value. An enquiry by Chandler and Associates (2011) revealed that Black participation in equity investment was indeed low at only 8% in 2010. The conclusion is that the formal equity investment set up is largely an exclusive market whose evolution has resulted in the marginalization of mostly rural, informal saving, indigenous populations.

The foregoing suggests a number of permutations and, for the purposes of this study, the key point is that poor Black people at the margins of African society are not participating in the modern investment market, in particular the stock market. Ojah and Mokoaleli-Mokoteli (2010) observe that most of the members of the informal savings market become estranged from the formal financial investment sector. Those at the margins include the informal savings group market, comprised of predominantly Black female members and poor indigenous men, and they tend to be under-educated and under-employed, operating largely in the doldrums of the formal economy (Anku-Tsedde, 2014). In this review of the thrusts of various treatises on informal saving market, it is evident that the Africa informal saving sub-sector is maligned and not strongly linked with the formal investment market in relation to both banking and formal stock market investing.

1.2.5. Propositions emerging from major arguments of relevant literature

The informal saving market is popular in the context of African finance. Mashigo and Schoeman (2010) research on the informal savings groups (ISG) market established that in the South African market these structures are racial, and tend to follow an old methodology. According to the foregoing literature, the informal savings market is mostly 'the preserve of indigenous Black communities'. In the rest of the African continent almost all regions participate in various forms of indigenized and informal savings methods (Arko-Achemfuor, 2012). This community uses them to save and access credit in order to start small businesses.

Noteworthy, the conclusion of these research reports argues that all interested parties and stakeholders should assist informal savings market as it provides valuable financial services to mostly marginalized communities. The proposition is that informal saving instruments are widely used and are an inalienable component of the informal financial service system in mostly rural communities.

Kumar (2013) notes that financial exclusion remains pervasive, especially in emerging market economies. Financial exclusion manifests through poor access and lack of availability of formal financial services. Members of informal saving groups and other rural dwellers often find themselves excluded from the modern financial sector. Gichuki *et al* (2015) contends that formal banks use a range of strategies to effectively deny service to the constituencies in question, and the most popular tactics are exorbitant service fees, provision of products that do not meet the service needs of poor people, and sparse branch networks.

According to Piesse and Hearn (2005), poor people are also effectively marginalized from the equity sector due to multiple factors, including scarcity of bourses, lack income from which to invest, pessimism on the part of the colonial elite and the lengthy influence of socialist ideology (Maxfield, 2009). Even though Africa has witnessed a surge in the development of bourses, native Africans remain largely excluded and eclipsed by elite portfolio investors. Thus the proposition is that financial exclusion and equity investment marginalization is a perennial feature of the Africa financial landscape.

Lastly, literature analysis concludes on a proposition that informal saving practices are a poor investment path. In this regard, Irvin (2005) notes that these schemes concentrate mostly on maintaining old African practices of promoting social cohesion and that the aim is not to pursue the pecuniary ideal. Akram and Routray (2013) contend that there is a positive correlation between social capital and microfinance initiatives. In part this is motivated by the demographic engaging in informal saving initiatives, namely women and the elderly (Arko-Achemfuor, 2012). Against this backdrop, additional intellectual examination must be undertaken to improve microfinance in emerging markets.

1.3. PROBLEM STATEMENT

Communities have over centuries explored many different approaches to building wealth. In a number of developing markets, including African countries, informal saving practices have emerged as one of the methods of saving financial earnings (Ashraf, Hassan & Hippler III, 2014). However, it has been observed that wealth accumulated in these thrift funds is seldom invested in formal financial investment market instruments that generate more than average returns (Du Plessis, 2008). Indeed, social capital and other non-pecuniary concerns have appeared as the major motivations for engaging in indigenous saving strategies (Irvin, 2005; Akram & Routray, 2013). Proceeds from these saving schemes have often

been squandered, used to fuel consumption or to sustain less than ideal financial management behaviour (Serrano-Cinca & Gutierrez-Nieto, 2014). Thus, the lack of wealth-building intent is the leading feature of the informal saving market.

A number of factors contribute to explaining why funds that have been saved are simply consumed instead of being invested to build an expanding portfolio of wealth, and in so doing aid production and expand output. This problem is more pronounced in traditional communities whose economies are delinked from modern financial markets (Mashigo *et al*, 2010). Ojah and Mokoaleli-Mokoteli (2010) highlight the lack of interface between the first and second economies, and attributes this to a number of variables, including entrenchment of conservative, less inclusive financial and economic planning models.

High levels of financial exclusion, and in particular the absence of financial assets for informal savings groups in modern capital markets, is a lost opportunity for the economy - for both the indigenous savings sector and the stock investment streams. In this regard, isolationism leaves informal savers with limited avenues for investment on one hand. On the other hand, alienation leaves financial institutions poorer given current bank liquidity requirements brought on by the Basel III regulatory framework (Saffy, Chetty & Stoklosa, 2012).

Ojah, Gwatidzo and Kaniki (2010) observe that local financial resources are crucial and invaluable as sources of domestic business investment. On the basis of these arguments, this study suggests that there is a compelling need to link the two structures of the financial sector, namely the informal savings sub-sector and the formal stock investment market. This view is sustained by Vonderlack and Schreiner (2002) who counsel that “informal (financial) savings mechanisms are useful, but they do not remove the need for formal (investment) services” (2002: 65).

Little research exists that identifies a linking framework for harnessing and transferring proceeds from informal saving groups in traditional communities into the formal stock investments market. This study seeks to investigate these financial services platforms and subsequently construct a framework for linking the informal financial savings market with the formal stock investment market.

1.4 PURPOSE STATEMENT

Formally stated, the purpose of the study is to create a financial investment framework that links African informal savings practices with the formal stock investment market. The objective of the framework is to promote financial inclusion, thereby accelerate the elimination of investment boundaries that exist between the informal indigenous financial system and the formal financial stock investment market.

1.5 RESEARCH QUESTIONS

The following are the attendant research questions to be addressed:

1. What is the level of interface between the informal savings sector and the formal stock investment market?
2. How can the formal stock market improve financial performance of the informal financial savings market?
3. What can motivate the informal financial savings market to link with the formal stock market?
4. How can the informal savings market participants access the financial stock market?

1.6 THEORETICAL FRAMEWORK

This study is located within two complementary theories, namely asset-based development and information asymmetry. The theory of asset-based development is the intellectual contribution of Michael Sherraden (Ssewamala, Sperber, Zimmerman & Karimli, 2010). The essence of the theory is that the national development discourse should not only be viewed via the traditional economic prism (Ssewamala, *et al*, 2010). The traditional economic prism tends to be static and prioritizes analysis of macroeconomic ratios - such as gross domestic product (GDP), GDP per capita, and months of imports, amongst others. Instead, questions around national growth should also incorporate human capital development and should be about allowing all people in the society, especially those at the margins, opportunities to accumulate assets that can be exploited to further expand the asset base of the society in general (Lombe & Sherradan, 2008).

The asset-based school of thought is an outcome of the debates that have shaped the discourse of development economics, and is pointedly the rejection of the neoliberal market prescriptions of the Washington Consensus. The Washington Consensus is broadly anchored on austerity and restructuring of the economy through public policies that call for trade liberalization, significant reduction in social spending, and the removal of excessive bureaucracy (Quiggin, 2011). Criticism of the Washington Consensus is that it often harms vulnerable members of society, especially the poor, and can contribute to mass retrenchments in the labour market (Kaletsky, 2010).

Asset-based development is also an aggressive rejoinder to developmental aid as a supreme growth model. For most of the previous four decades, aid was en vogue as the main path to help grow depressed countries, especially those of newly independent African states (Moyo, 2009). An anti-aid scholarship has evolved over the years, with Dambisa

Moyo and William Easterly recently emerging as critical voices in this regard (Banerjee & Duflo, 2011). They contend that aid does not necessarily lead to economic growth but instead leads to dependency, and that aid money is used by corrupt elites as resources in dispensing patronage, which ultimately defeats economic creativity (Moyo, 2009; Banerjee & Duflo, 2011).

From this debate has emerged the capability approach, developed by Amartya Sen (Ssewamala, *et al*, 2010). Sen's argument is that poverty should be defeated because it robs people of their capacity to choose their life's desires, careers, the place to live in, the quality of their children's education, and quality of healthcare, amongst others (Banerjee & Duflo, 2011). Sen's capability approach holds that, in contrast to the austerity-themed Washington Consensus and its market fundamentalist variants, development policy should build capacity for each member of the society to enjoy freedoms, including economic freedom (Diepeveen, 2008).

These freedoms lead to appreciation of life, freedom from poverty, and reorient public institutions towards helping the poor in a bottom-up approach to development (Diepeveen, 2008). Empowerment emerges out of the community using every asset, however humble, and converting it into a profit-making venture. According to the asset-based development theorists, the asset in question may take the form of money, social networks, ancestral land, savings, social net provision, investment clubs and political capital (Loke & Sherraden, 2008).

Importantly, this school of thought emphasizes that asset-based development is not only about money as that is merely welfare state 'diktat' (Page-Adams & Sherraden, 1997). Instead, asset-based development is about investment that leads to personal empowerment, economic security, upliftment of the status of women, and children's welfare and security (Page-Adams & Sherraden, 1997). Asset-based

growth is related to the consciousness and inclination of a community to save and invest, and thereby increase their asset base, in order to better their lives and that of posterity. In simple terms, asset-based development is focused on service to humanity. This policy framework addresses the vicious circle where poverty engenders further poverty and disempowerment (Fujita, 2004).

This study is also premised on the theory of information asymmetry. Lofgren *et al* (2002) explains that the theory of information asymmetry has its roots in the research by Akerlof, Spence and Stiglitz. Karlan and Zinman (2006), who argue that the presence of information asymmetry in financial markets is not optimal and contributes to such ills as poverty, under-development and inefficiencies in the production process. Informal savers have limited information regarding financial stock investments, and as a result lose out.

Taken together with the theory of asset-based development, these theories suggest that financial markets should be accessible and transparent to allow investors, including those from peripheral and informal savings markets, opportunities to take the best possible decisions on where to invest their income for growth purposes. Simply stated, provision of additional instruments (investment frameworks and models) to link the informal and formal financial markets is a step towards mitigating the effects of information asymmetry in capital markets.

1.7 SUMMARY OF ARGUMENTS

This chapter sought to introduce major constituencies of this unfolding study, namely background to the understanding of the informal savings market, research problem, research questions, purpose statement and theoretical framework. It is stated that informal saving strategies abound, and that they are widely practiced, especially in developing economies. It is of importance to note that informal saving mechanisms are constrained

by disadvantages that include lack of asset protection, theft, and poor investment returns.

Meanwhile, barriers exist between the informal savings sector and the formal stock investment market – in part a manifestation of information asymmetry and marginalization of the informal financial sector. The consequence of this *status quo* is that the informal savings market continues to lag behind, denying participants (informal savings groups) good returns, and ultimately entrenching financial exclusion. As a result, the objective of the study is to link these two money management streams. Anchored on the theory of financial intermediation, the next chapter undertakes a literature review of this study.

1.8. BRIEF SUMMARY OF FINDINGS

This study found that African indigenous groups are widespread in Sub-Saharan Africa. Analysis of the membership profile of savings groups shows that all age groups participate in these practices, although those above 45 years of age are the most ardent participants.

This study observed two types of informal savings groups, namely for-profit and non-pecuniary agencies. The most popular strategy for generating revenue and profit for the for-profit groups is the microcredit business. The commercial savings groups are realizing significant levels of profit, but this income is seldom invested in the formal stock investment market. Instead, financial proceeds from these thrift funds are used for consumerist interests.

The leading factor in the wasteful management of financial resources accumulated in indigenous financial sub-sector is the separation between the formal financial system and the informal financial system. There is limited interaction between the two systems of financial management, saving and investment. Exclusion of the informal financial system is

explained by lack of strategy by the stock investment sub-sector for receiving investment mandates from informal savings groups. Similarly, poor service provision, financial means assessment, and discriminatory customer segmentation practices are some of the instruments used to entrench financial exclusion.

Using various methods, the results of the study suggest that various factors have the capacity to encourage and accelerate convergence of the two markets, namely the informal financial savings sub-sector and the stock investment sub-sector. In addition, improvements in the marketing strategies of the equity investment market towards the informal financial savings sub-sector, asset security, and development of appropriate investment products would remove the barriers and improve the linkage of the two markets. The elimination of boundaries enriches humanity and improves investment performance of previously marginalised communities, and this the manifestation of the authentic empowerment of people.

1.9 OUTLINE OF THE REPORT

The report comprises the following chapters:

- Chapter Two is a literature review component of the study.
- Chapter Three describes and analyses the research methods used by the study.
- Chapter Four is the documentation of the findings of the study from the qualitative instrument, namely interviews.
- Chapter Five reports on the quantitative findings of the study from the formal financial sector.
- Chapter Six captures the results of the study from the survey on the informal financial savings sub-sector.
- Chapter Seven converges and discusses all the research findings.
- Chapter Eight is dedicated to concluding this study.

CHAPTER TWO

LITERATURE REVIEW

2.1. INTRODUCTION

This chapter reviews the literature on how people at the bottom strata of society engage with financial savings and investments. Verhoef (2002), Grunewald and Baron (2011) and Singh and Bhar (2016) demonstrate that the informal savings system tends to find expression through microfinance frameworks. The chapter begins by locating the analysis of the informal savings and credit literature within the theory of financial intermediation. This is followed by the description of microfinance and thereafter identification of three types of microfinance institutions.

Microfinance firms (or banks) and institutions provide assorted services, including credit, saving and investment opportunities, insurance, and opportunities to start a business (Murdoch & Rutherford, 2003). As with mainstream retail banking, the microfinance industry experiences existential challenges, including malicious profiteering, mission drift, and poor credit management (Bi & Pandey, 2012). The lack of appropriate regulatory structures is at the centre of the challenges in this sector (Priyadarshee & Ghalib, 2011).

2.2 FINANCIAL INTERMEDIATION

The theory of financial intermediation provides an intellectual backdrop for the review of relevant literature. According to the theory in question, in a perfect market financial intermediaries will not be required. In such an environment the community of savers with surplus liquidity will engage directly with investors, extending loans to finance entrepreneurial ventures (Thaler, 2015). The ease of these transactions would naturally have

business advantages, including low cost of debt and possibly low fee structure. This will subsequently translate into improved profit margins for the entrepreneur (Acha, 2011).

The perfect market scenario is enhanced by the availability of full information amongst counterparties which promotes fairness, transparency and ethical behaviour (Lennartz, 2014). In such a context, entrepreneurs seamlessly and honestly declare all information and this allows all individuals to possess full knowledge of the financial circumstances of borrowers (Gogoski & Karadjova, 2014). With all these assumptions in place, Scholtens and Van Wensveen (2003) believe that the “perfect market is like heaven” (2003:10).

Acha (2011) offers a criticism of this ‘heaven’ and observes that the perfect market arguments have limitations that manifest through information asymmetry, incongruent needs of borrowers and lenders, as well as transaction costs. Firstly, transaction costs discourage direct borrowing as transaction parties need to take cognizance of costs associated with searching each other, verifying information, monitoring covenants and enforcing agreements. This critique suggests that the assumption of insignificant costs associated with a perfect market is fallacious. As an executive banker in his earlier life, in 1939 Joseph Schumpeter succinctly captured the high levels of monitoring needed for the transaction to be worthwhile:

... the banker must not only know what the transaction is which he is asked to finance and how it is likely to turn out but he must also know the customer, his business and even his private habits, and get, by frequently “talking things over with him”, a clear picture of the situation (Diamond, 1984:393).

The inference is that, notwithstanding the type of lending agency (whether individual or intermediary), borrowing arrangements naturally elicit high transaction costs. It is natural that as a market is being formed,

counterparties finding each other, and agreements being entered into, it becomes inevitable that costs will noticeably emerge and increase.

Allen and Santomero (1998) argue that the perfect market argument is an “extreme view [and is] clearly at odds with what is observed in practice” (1998:1463). Andries (2009) concurs that, in practice, the relationship between entrepreneurs and borrowers is not necessarily characterized by moral considerations, and may be clouded by information asymmetry. Ravi and Hong’s (2015) scholarship of the financial services sector explore the nuances of information asymmetry. Their analysis notes that in some instances there is a lack of honesty which may lead the lender to finance projects that have a high probability of default (adverse selection), and this course of action has dire consequences, including the possibility of insolvency judgments, sequestration orders - and these give rise to increase of financial cost burdens.

The inference is that the perfect market does not exist. As a result, Diamond (1984) concludes that financial intermediaries are created in the context of the non-existence of the perfect market, and that this takes place naturally when disparate savers group together and pool their resources under one firm to provide financial solutions to merchants with liquidity deficit. Leland and Pyle (1977) consider the creation of financial intermediaries as a measure intended to eliminate problems associated with information asymmetry. Wilful exaggeration and misrepresentation of material facts of a business contribute to imperfections in the market and expose intermediaries to potential losses and heightened credit risk. Sufi (2007) describes the adverse impact of information asymmetry in financial transaction, concerned that it renders an objective due diligence exercise impossible.

Financial literature (Benston & Smith, 1976; Wittenberg-Moerman, 2008) suggests that a financial intermediary is the market-maker who bridges the

gap between the seller and the borrower, thereby reducing transaction costs. Economies of scale allow intermediaries to reduce transaction costs. Financial institutions have a collective of researchers and analysts that routinely gather information and convert it into knowledge. Using storage and retrieval technology, such knowledge enhances credit risk management decisions, increases profitability margins, and helps intermediaries to stave off bankruptcy.

Scholtens and Van Wensveen (2000) advance a critique on the traditional concept of the theory of financial intermediation. The conventional proposition of the theory maintains that the lack of a perfect market gives rise to the emergence of intermediaries. Similarly, the elusiveness of ethical relations between individuals with excess liquidity and entrepreneurs with deficits in financial resources causes information asymmetry. This naturally entrenches the relevance of intermediaries.

Scholtens and Van Wensveen (2000) argue that this is not necessarily the case. As Torchia and Calebro (2016) observe, globalization, revolutions in information technology and stakeholder demands have enhanced transparency and increased information transfer, but such developments have not necessarily led to the extinction of intermediaries. In contrast, intermediaries have proliferated in the form of mutual funds, pension and retirement funds, insurance companies and depository institutions. Large corporations now engage in the money business directly without accessing it through banks. The growth in securitized assets is shifting the stock exchange to replace banks in order of importance.

The non-centrality of banks in a modern intermediary landscape is confirmed by Woodford (2010) who suggests that non-bank intermediaries are increasingly becoming inalienable providers of credit. Furthermore, Woodford (2010) points out that the traditional 'bank lending channel'

concept is no longer relevant as intermediaries are no longer funded mostly by deposits.

Notwithstanding the debate about the evolution of the theory of intermediation, the conclusion is that financial intermediaries are central agents in the affairs of communities (Di Bella & Al-Fayoumi, 2016). However, not all people have access to quality intermediaries, and this issue is evident in developing economies (Lamb, 2016). Chaia, Dalal, Goland, Gonzalez, Morduch and Schiff (2009) observes that 2.5 billion adults across the world do not have access to formal financial services and the most affected regions are Africa, Latin America, Asia and the Middle East. Verhoef (2002) maintains that females are most likely to be without access to modern financial services. Chaia *et al* (2009) attributes poor access to financial service firms to poor service quality, excessive costs, alienation and financial illiteracy. Thus, for the vast majority of poor people on the margins of society, the microfinance system is a highly valued source of financial services.

2.3. MICROFINANCE

The microfinance market refers to financial services institutions that are created with the intention of primarily serving clients at the bottom of the pyramid (Akula, 2008). The Muhammad Yunus-inspired brand of banking at the bottom of the pyramid elevates clients, often women and the poor, who mostly reside in marginalized communities, by providing them with concessional loans that facilitate their participation in microbusiness (Nanayakkara & Stewart, 2015; Hoque, Chishti & Halloway, 2011).

Regardless of the brand of microfinance being practiced, proprietors and shareholders of these financial services organizations benefit through numerous ways, mostly through social capital (Irving, 2005) and financial returns (Panwar & Carmody, 2011). Overall, microfinance services generally impact positively on the local economy by increasing commercial

competition, encouraging the expansion of the local market, and creating a cohort of business entrepreneurs from people who were previously not perceived as being capable of creating commercial value (Matin & Alam, 2004).

Other scholars (Le Saout & Daher, 2016; Hussain & Nargis (2008) make similar findings, arguing that the microfinance business is generally a positive development with the potential to impact positively on all stakeholders in the community.

The dominant character of microfinance institutions is that they are created mostly to serve poor people by providing them with small loans to start businesses and by creating opportunities for clients to save and invest surplus capital (Rasheda, Mafizur, Bhuiya, Monzur & Nghiem, 2016). Seen in this context, such a financial services model offers opportunities to integrate local indigenous communities with the formal financial services industry. Ultimately, traditional communities become a value-added financial system that enables poor, lower class communities to build an asset base, and grow wealth. A microfinance system is thus a crucial intervention that promotes local economic development. As explained below, various entrepreneurs have since emerged, executing assorted strategies of offering financial services via microfinance banking.

2.4. TYPES OF MICROFINANCE ORGANIZATIONS

Priyadarshee and Ghalib (2011) identify two broad forms of microfinance services organizations. One of these forms is what is commonly referred to as a not-for-profit financial services (microfinance) firm. This type has at least two manifestations, namely non-government organizations (NGOs) or Non-Bank Finance Companies (NBFCs) with the other form being the Self Help Group (SHG) bank linkage. This latter type is an amalgamation of a not-for-profit microfinance group and a commercial bank. Priyadarshee and Ghalib (2011) conclude that microfinance is the

preserve of mainly benign mercantilists, who at times work in partnership with commercial banks.

In contrast, Grunewald and Baron (2011) detect the emergence of another distinct type of microfinance bank. This is an institution that exclusively operates to make profit within the microfinance arena, hence the tag 'for-profit (microfinance) bank'. On the basis of works by Grunewald and Baron (2011) and Priyadarshee and Ghalib (2011), this study observes three distinct types of banks operating in the microfinance space, namely social banks (a not-for-profit microfinance firm), for-profit (microfinance) banks, and the Self-Help Group bank linkage model (hybrid).

Microfinance bank types emerge on the basis of how proprietors respond to the material conditions in a given market. Thus it is necessary to examine the reasons for their emergence. Nieman and Niewenhuizen (2009) contend that any enterprise in the market place is a product of market conditions. Ireland, Hoskisson and Hitt (2011) confirm that business models (i.e., types of banks) are manifestations of strategies that arise from the interaction of an entrepreneur with the environment. Below is an exposition of material conditions that led to the emergence of microfinance firms, and ultimately have led to the formation of the three microfinance bank types mentioned earlier.

2.5. CREATION OF MICROFINANCE BANKS: CAUSALITY

Analysis of assorted treatises in microfinance (Marku & Balili, 2016; Pinz & Helmig, 2015; Pop & Buys, 2015) reveal that entrepreneurship and market failure are the two major factors that have contributed to the emergence of microfinance institutions. In addressing the role of entrepreneurship, Murdoch and Rutherford (2003) maintain that saving, credit extension and subsequent creation of business ventures have always been part of human experience. However, in traditional societies these processes were not developed, but existed in rudimentary forms. For example, villagers

managed their finances by using such simple methods as dropping money into a home-based mud-bank, inserting money on the roof, or hiding their savings in undergarments (Murdoch & Rutherford, 2003).

In Venda, villagers saved money by storing it in mattresses or by inserting it into a calabash. As creative as these methods were, these money management methods were prone to adverse outcomes. For instance, the saving imperative could easily be undone by emotional spending owing to easy access and/or ill-discipline. Money stored in thatched roofs and mattresses could easily be lost through fires, theft or other unfavourable events.

These conditions attest to the fact that marginalized communities always had a need for formal financial services firms that could receive deposits and secure savings (Johnson & Williams, 2016). However, the need for enhanced financial service remained unfulfilled by formal banks. As a result, some microfinance banks emerged as a measure to close the gap, providing an opportunity for indigenous rural people to receive quality, consistent, convenient, secure and reliable financial services from organizations that could provide opportunities for poor communities to save and have their deposits protected (Murdoch & Rutherford, 2003). Therefore microfinance banks arose as a measure to offer traditional, marginalized communities enhanced financial services, asset protection, and safekeeping of deposits (Coates & John, 2015).

The other reason microfinance banks emerged was because the commercial banks that existed in some rural enclaves were applying banking culture and credit management frameworks that were incompatible with rural markets. Arora (2012) observes that microfinance firms that developed from this vacuum tailored their services to offer a unique suite of services required by their (mostly rural) customers. As a result of this development, financial economists argue that the emergence

of microfinance banks is in part the result of market failure (Sivramkrishna & Panigrahi, 2001). The financial services market was simply unable to adequately serve people at the bottom rung of the society. This is consistent with sentiments expressed by Stiglitz (2012) who reasons that the problem of underdevelopment and economic marginalization is attributable to the inability of market forces to competently provide opportunities for every person in the society. This failure leads to inequality and elitism.

Those who are served by this system tend to benefit (for instance through investment opportunity and asset security), whereas those not benefitting are excluded. According to Dias and Monteiro (2011) Grameen bank founder Yunus rationalises that microfinance banking is an extension of benevolent financial services for poor people; in effect a respect for human rights.

Dash, Jeevan and Mendonsa (2011) view this correction of market failure as the manifestation of universal access to financial services that is accelerated by the reduction of cost of service and the targeting of marginalized constituencies such as farmers, women and other destitute people. The conclusion is that entrepreneurship and the need to correct market failure led to the emergence of microfinance enterprises. Three major types of microfinance banks that emerged are social banks (social entrepreneurship), for-profit banks (commercial entrepreneurship), and the SHG-bank linkage (social-commercial nexus entrepreneurship). Below is the elucidation of the three types of microfinance bank models, beginning with social microfinance banks.

2.5.1. Social microfinance banks

For the purposes of this study, social microfinance banks refer to an organized financial services entity, informed by altruism that exists, to

provide banking services to mostly indigent communities. Simply stated, a social microfinance bank provides varying banking solutions without necessarily being motivated by the profit-maximizing imperative. The typical example in this category is the Grameen Bank, founded by Mohammed Yunus (Abbas & Shirazi, 2015; Al-Mubarak, 2014). Dias and Monteiro (2011) remark on its humble history, where its roots go back to 1976 when Yunus provided a \$27 loan to a woman bamboo weaver Sufiya Khatun after developing a micro-finance model whilst studying at a university. Arora (2012) considers Yunus a pioneer in the formalized microfinance movement, characterized by innovation, research and intellectual foundation.

Conscientious bankers (Smith, 2012) and some left-wing theorists (Mehrsa, 2015) consider mainstream commercial banks as being largely unfair, exploitative and particularly uncaring towards the poor. Worse, they generally perceive them to be discriminatory towards marginalized societies, and as such shun them (Farah, 2016). Owing to this perspective, social bankers consider benign microfinance as a human right, or an affirmation of human dignity (Dias & Monteiro, 2011). There is widespread for this benevolent approach to banking, hence accolades and plaudits for Yunus, including the Nobel Peace Prize.

Research indicates that these banks emerge from both organic processes and entrepreneurial methods. Insofar as organic processes are concerned, the beginning of such banks is humble. As alluded to, Grameen Bank's first loan was a mere \$27 to a destitute lady to start a business (Dias & Monteiro, 2011). Other banks in the social microfinance category emerged as a result of the consolidation of small microfinance non-governmental organizations. Audu and Achegbulu (2011) indicate that most Nigerian social microfinance banks started from a very small base, some with a capital reserve of just N500 000 (Nigeria currency) but they quickly grew, mainly through mergers. The conclusion is that social

microfinance enterprises are created to offer a social good. In contrast with the social genre of banking, below is the exposition of the for-profit microfinance banks.

2.5.2. For-profit microfinance banks

Some entrepreneurs entered the microfinance bank business informed by the desire to accrue financial profits. This study refers to these financial services firms as for-profit microfinance banks, and they exist purely as commercial enterprises. They are created with the intention to make money and realize profits whilst serving the lower income classes. Prahalad (2010) maintains that it is possible to run a profitable business enterprise innovatively for the poor. In the microfinance banking environment, a classic example of this model is SKS Microfinance, started by entrepreneur Vikram Akula in India (Grunewald & Baron, 2011). Much as Akula was inspired by Yunus and increased his knowledge about microfinance at Yale University, he sought to make his microfinance bank a purely commercial enterprise (Bellman, 2006).

For-profit microfinance banks are distinctly capitalist. Whereas equity of most pure social micro-finance banks is owned by peasants and borrowers, for-profit banks are owned by major players in the world banking industry. Major investors are the global financial institutions such as Standard Chartered Bank, Deutsche Bank, GE Money, Barclays or Citi Group. SKS received seed capital from leading United States venture capital firms Sequoia Capital, Quantum Limited, Kismet Capital. Early investors were leading Wall Street merchant banks, namely Goldman Sachs and Morgan Stanley (Grunewald & Baron, 2011).

The for-profit banking approach is not the preserve of SKS alone; other entities have also joined. India's Bhartiya Samruddhi began trading in 1997 and a number of formerly microfinance institutions graduated to being licensed to offer mainstream banking services, including the right to

receive deposits (Kazmin, 2015). There are also several similar financial enterprises in Kenya (Kenyatta, 2016).

Most of the for-profit mainstream banks are influenced and controlled by the organized banking industry that wanted to tap into the growing 'bottom of the pyramid story', operating off the mantra 'eradicating poverty through profits' (Prahalad, 2010). These mainstream bank investors have reasons to be bullish about entering this market. Panwar and Carmody (2011) report that of the seventy Indian microfinance banks, sixty-two had a positive return on assets ratio (ROA) and twenty of these banks reported a ROA over 4% in 2009/2010.

These are good returns when one compares this performance with that of mainstream commercial Indian banks. In the same period (2009/2010), the average return on assets of mainstream Indian banks was 2% (Panwar & Carmody, 2011). The financial results of microfinance banks are even more impressive when one considers that some global banks such as Bear Stearns and Lehman Brothers went bankrupt (Steele, 2014). The inference is that for-profit microfinance banking is a profitable entrepreneurial venture.

Bi and Pandey (2011) undertook a financial study comparing the performance of commercial banks and microfinance institutions. The results of this research revealed that, on average terms, both types of banks tend to perform similarly on debt-equity ratios, return on assets, and return on equity. However, the research noted one important exception: microfinance banks tend to expend more on operational expenses than conventional commercial banks. This is attributable to the fact that microfinance banks employ more staff members to execute many procedures. In contrast, commercial banks are increasingly relying in technology, including the creation of user-friendly applications (apps) to provide service to clients.

Notwithstanding, microfinance banks are a profitable venture, and equity holders are rewarded. Cognizant of the altruistic value of social banks and appreciative of the profit rewards of commercial microfinance banks, other entrepreneurs sought to combine the two types, and emerged with the self-help group bank model (SHG bank) detailed below.

2.5.3. SHG-BANK Link Model

The success of social microfinance institutions has over the years attracted the attention of established commercial banks, especially those with a nationalist philosophy. For these banks, financial services should uplift the lives of the poor. Informed by this ethos, some established banks have formed relationships with what is called a Self-Help Group (SHG). The SHG is a group of people who operate a rotating credit and savings association (rocsa), (Moon, 2011; Rasyid, Satriawan & Sugiyanto, 2015).

Accordingly, a commercial bank forms a relationship with this SHG, providing them with revolving loans and other financial services, including savings opportunities (Sivramkrishna & Panigrahi, 2001). Most scholars (Moon 2011; Sivramkrishna & Panigrahi, 2001; Langwangbe, 2014) acknowledge the NABARD bank as the pioneer of the SHG-Bank linkage model when it was established in 1992. NABARD may be considered the pioneer bank in this regard but other similar firms have emulated their approach. Murdoch and Rutherford (2003) observes that Bank Rakyat Indonesia, a government commercial bank, has created a similar unit that serves the bottom of the clientele pyramid by offering them loans and saving opportunities, including insurance. Bank Rakyat offers depositors 15% interest in a national savings programme (Murdoch & Rutherford, 2003).

There are a number of benefits to this arrangement for the SHG, including lower cost of debt, security of deposits, reliable sources of finance, and

opportunities to save. As with social banks, Sivramkrishna and Panigraam (2001) observe that this arrangement seldom leaves the commercial bank exposed and vulnerable. The loan recovery rate is high, in part due to training and an appropriate credit management system. Similarly, women dominate these schemes and this promotes accountability and repayment of loans. As in other microfinance institutions, the established commercial bank provides training and education on such aspects as financial management and promoting entrepreneurship (Dash, 2011).

Dash (2011) notes that the introduction of SHG, has made significant contribution to the culture of thrift and investment in these communities. The high success rate in the communities has a particular value in the SHG-bank link model. As more rotating credit and savings associations (rocsa) increase their saving rate, this motivates commercial banks to link with SHGs (Moon, 2011).

The other positive aspect of this model is that it encourages established commercial banks to open bank branches in rural areas. Arora (2012) saw a positive correlation between the growth of the presence of formal banks in rural communities and a high proportion of people having bank accounts. Whereas banks previously simply opened accounts, this time their approach was more benevolent and accommodating, rather than the banks simply 'playing just a number game' (Arora, 2012:65). This was facilitated by the opening of more bank branches, thus increasing access to financial services for rural communities.

2.6. FINANCIAL INTERMEDIARY SERVICES (MICROFINANCE)

The different bank types – social microfinance banks, for-profit microfinance banks or SHG-bank link models – all have as the primary objective the provision of assorted financial services. The most widely known service these banks provide is credit provision. In addition, these banks also provide services such savings, investment and insurance

services (Kazmin, 2015). Research reveals that most microloans are used to engage in business activities such as farming, pottery, photography and beauty parlours (Grunewald & Baron, 2011) and fishing (Olaoye & Odebiyi, 2011) amongst others. The choice of trade that microfinance clients make is informative. Their entrepreneurial ventures tend to be survivalist and involve leveraging indigenous knowledge systems, on-the-job learning, and exploitation of comparative advantages.

There is a widely held view that microfinance banks exist to offer loans prudently to promote business activities of marginalised people (Grunewald & Baron, 2011; Olaoye & Odebiyi, 2011; Akula, 2008; Qamar, Masood, Khan, Muhammad & Afzal, 2015). There is, however, a dissenting voice in relation to this orthodoxy on the expenditure patterns of debtors. Gehlich-Schillabeer (2008) counter that loans are not always used to finance business development but are often spent on domestic needs, such as food consumption (87%), cosmetic treatment (76%) and paying other loans (77%). These spending patterns do not increase productive capacity, but are oriented towards consumption. In the long term, financing consumption through loans leads to over-indebtedness and entrenches a poor savings culture, amongst others.

Two major strands of solutions have been implemented to mitigate against risk. First, leading microfinance banks have increased their product offerings. This is consistent with Chakravarthy and Coughlan's (2012) position that success at the bottom of the pyramid requires ingenuity and innovation. Low-income clients also prefer value and quality, hence the strategic shift towards expanding the products range. For example, Grameen Bank now has exposure in the telecommunications, energy, fisheries and education sectors through the creation of subsidiaries. Aggressive business development serves to manage concentration risk and also acts to increase revenue streams, a mitigating risk for non-performing loans.

The other solution was to diversify the types of loans. No longer would credit be extended only to start a business. In addition to mortgage needs and other social needs, Grunewald and Baron (2011) indicate that certain loans were designed to provide support (loans) for young entrepreneurs while other loans were designed to assist struggling members of the society such as the infirm and the homeless. The Grameen Bank experience is worth noting; it expanded its loan products to include basic loans, housing loans, education loans, village phone loans, micro-enterprise loans, beggar's loans, and also expanded savings and insurance products (Rahman & Nie, 2011). This is naturally the preserve of social microfinance banks whose *raison d'être* is the provision of universal access to financial services. In this instance, access includes quality of supply and service, reasonable cost of services, and availability of service choices (Claessens, 2006).

The extension of services across the microfinance sector suggests that these microfinance banks sought to grow the business in order to ensure that the enterprise is sustainable. Provision of other non-entrepreneurship-related loans also implies that social banks desire to be an all-inclusive one-stop financial institution for their clients. This is potentially a preventative measure to dissuade peasant clients from turning to unscrupulous loan sharks for loans that would cost them much higher fees. Social microfinance institutions are generally benevolent. Dias and Monteiro (2011) recount the fee structure for social loans: on average school debt attracts 5% interest rate and the house bond was levied 8% interest rate. Education is particularly encouraged in the social bank environment as it is considered a method for children of peasant entrepreneurs to shift out of poverty.

Microfinance banks originally set out to provide loans to the destitute in order for these people to start businesses. However, as the businesses

evolved and potential credit risks identified, solutions were sought which included expansion of product offerings and exposure in non-traditional service areas. The operations of microfinance banks are explained in more detail below.

2.7. BANK OPERATIONS

Insofar as human resources are concerned, Murdoch and Rutherford (2003) observe that microfinance institutions prefer to hire people who reside in the area where the bank operates. Most such banks operate in rural areas and therefore tend to employ rural dwellers. This is an anthropological approach to human resources selection, and it suggests that better educated people often struggle to interact with poor people.

Extensive human capital is required in the microfinance banking context because an overwhelming number of these institutions use what is called group lending. The hallmarks of group lending are community engagement, peer review, unique approaches to human capital management, cultural savvy and a thrift operations philosophy (Carson, Timothy, Gangadharan, Lata, Maitra & Pushkar, 2012). The model works through disparate people forming a small credit group. When a member wants credit from a microfinance bank, the member applies, the group assesses the application and, if found eligible, credit is granted. The group's acceptance of the application binds it to ensure that the member repays the loans. The objective is for the membership itself to monitor each other (Shankar, 2007).

The role of the microfinance bank is to identify people who should form this small group of entrepreneur debtors. Furthermore, the bank trains them in this model (group lending), especially how each member of the group should participate, ensure compliance with credit assessment procedures, and conform to the credit repayment strategy (Rahman & Nie, 2011). Often bank employees meet with a group once a week to collect

repayment money, and settle any issues emerging from the group (Augusburg & Fouillet, 2010). The process described herein is applied by both for-profit and social banks in various guises. In the SHG-bank link model, the commercial bank also defers credit management to this local micro-credit group. The bank or government is not involved in the decision-making process, but let members manage each other (Dash, 2011).

Bi and Pandey (2011) observe that operation models of microfinance bank business are expensive. Intimate relations with clients require hiring enough staff members. Operations costs also increase because this model requires education, training of personnel, and general outreach to the communities. Bi and Pandey's (2011) research indicates that it is much costlier to run a microfinance bank than a commercial bank because, "there is significant difference in the operating expenses to total assets ratio of commercial banks and microfinance institutions" (2011:118).

The thrust of community ownership of the credit processes demonstrates empowerment of people. In this model, rural dwellers are empowered to manage their own financial affairs, a feature that is rare in mainstream commercial banks. This has positive psychological attributes and affirms dignity. As the discussion below on loan repayment performance will attest, the financial skills transfer system is working well.

2.8. NON-PERFORMING LOANS: CAUSES

Microfinance institutions offer opportunities for rural local economic development, and further argue that most borrowers repay the loans. However, the literature suggests that some loans are never paid back. Non-performing loans are influenced by a number of factors, namely weather, the profit-making imperative and the poor self-sustainability capacity of banks.

2.8.1. Weather

Gehlich-Shillabeer (2008) observes that loans remain unpaid largely due to business bankruptcy and personal insolvency. The Asian sub-continent is often adversely affected by monsoons and flooding, and India, Pakistan and Bangladesh are known to bear the brunt of flooding and excessive rainfall (Shah, Singh & Mukherji, 2006). Inhabitants adopt various strategies to survive the floods, often by stockpiling food and by moving to higher ground. However, rains and flooding may last for long periods, resulting in resources and food items being depleted, and compelling people to depend on loans from friends and relatives to survive. Because of floods, relocations and reduced contact with bank officials, their microbusinesses collapse, leaving the people poor and indebted, often without opportunities to recover (Gehlich-Shillabeer, 2008).

2.8.2. Profit-making imperatives

Another reason that has contributed to the impairment of the image and questioning of the ethics of microfinance banks is the perceived shift in strategy. Murdoch and Rutherford (2003) observe that the early success of the Grameen Bank led to similar initiatives being established, often on the basis of people who were keen to realise profits and enjoy a higher socio-economic status. Porter (2008) observes that strategies tend to be emulated and successful products always have to compete with substitutes.

Priyadarshee and Ghalib (2011) observe that new entrants to the market may pursue strategy thrusts that deviate from the commonly accepted philosophy of micro-finance banks. The most concerning of these was a shift from a not-for-profit approach to a for-profit objective which manifested mainly by enticing clients to use credit to buy consumer

products. Deviant for-profit lenders influenced their clients' behaviour through 'aspiration paradox', a practice whereby borrowers accept more credit and utilise it frivolously on aspirational goods, fuelling excessive and unaffordable consumption only because credit is easily available. This means that easy credit was used for expenditure that did not promote business investments.

Conscious of this recklessness, Bi and Pandey (2011) observe that bank loans should have been offered only to clients with entrepreneurial objectives rather than for non-business purposes. This advice is appropriate because in some instances, aggressive micro-finance institutions teamed up with consumer goods companies to market consumer products. Television sets, cell phones and other non-essential goods became products of choice for microfinance participants (Priyadarshee & Ghalib, 2011). The inference is that poor credit management and adverse climatic conditions easily lead to non-performing loans (Rani, Jalbani & Laghari, 2012). Excessive delinquency in the system suggests a poor regulatory environment and weak oversight.

2.9. LOAN RECOVERY METHODS

Microfinance banks put in place measures to manage credit risks. Augusburg and Fouillet (2010) recollect that repayment of loans used to present challenges in the 1950s. Whereas the proportion of non-performing loans was previously 50%-60% in the 1950s and 1960s (Ashta & Fall, 2012), Augusburg & Fouillet (2010) discovered that repayments improved to above 95%, an enviable position in the context of commercial banks becoming insolvent during the global contraction in the past decade.

The methods used by microfinance banks to promote repayments are varied, and range from benign collection methods to somewhat punitive strategies. Augusburg and Fouillet (2010) detail the steps microfinance

banks take to ensure positive loan performance. The first is often a fine, and this is determined by the microcredit group. This is embarrassing to the defaulter, and likely to cause the offender not to repeat the offence.

If the offender does not correct his or her ways, a public announcement is made to publicize the offence, which tends to compel the borrower to make arrangements to pay. The other method is intimidation carried out by a 'recovery team'. One of the collectors described it thus: "If someone is unable to pay the instalment, we come in the village and can be rude to him. We try to intimidate him and it is also a warning to other clients" (Augusburg & Fouillet, 2010:342). Punitive collection methods do, however, cause a lot of harm for some borrowers unable to repay. They may be pressured into committing suicide or engaging in prostitution or crime (Augusburg & Fouillet, 2010).

In contrast, other lenders prefer a 'gentle' method of collection, and this denotes a practice of simply issuing another loan to the defaulter to enable him to pay for the previous loan.

Basu (1986) conducted a study on the relationship between social issues, in particular culture, and the development of the capital markets. A fundamental concession of his study is that in most markets, especially under-developed countries, capital market developments are adversely affected by credit defaults. Credit defaults and other related market ills such as fraud and the breaching of financial covenants are attributable to poor contract adherence norms.

A number of solutions can be sought for this problem, but he proposes "interpersonal conjectures and sanctions". These are forms of (non-violent) punishments that will prevent offenders from continuing their behaviour. The key lies in identifying suitable social sanctions that may correct offending behaviour. However, in some instances, the solution lies

in engaging in credit transactions with counterparties over which the creditor has control.

2.10. REGULATORY ENVIRONMENT

The microfinance industry has grown exponentially in a number of countries (Panwar & Carmody, 2011). However, such exponential growth has not been accompanied by quality regulatory architecture. There are often weak policy frameworks that do not adequately protect the vulnerable stakeholders in this market. As this study has already explained, certain practices are punitive and unethical, and as such unacceptable, and are indicators that the regulatory framework is weak. For Bi and Pandey (2012), however, the major concern is that in some instances, especially with aggressive for-profit entities, microfinance institutions lack transparency. This is in total contrast with the situation in mainstream commercial banking where there is generally an acceptable level of openness owing to the resurgence of monitoring in the wake of banks collapsing during the current global business downturn.

Notwithstanding the general picture of regulatory paralysis, there have been instances where some regulation of the microfinance banking sector has been effected. Often improvement has taken place incrementally, such as after incidents of malfeasance and related challenges. For example, regulations were imposed in the Indian state of Andhra Pradesh after a number of suicides resulting from an inability to pay their debts. The subsequent Andhra Microfinance Institutions Ordinance prescribed the set of people that could receive credit, the operational area, loan collection methods and credit limits (Priyadarshee & Ghalib, 2011). This represents a change coming from external actors, in this case local government authorities.

Regulation of the industry in Nigeria followed a similar route insofar as the role of government is concerned. In 2011 the Nigerian central bank

concluded a banking reformation process that required banks operating in Nigeria to implement the Basel II requirements. The reform process was not confined to the mainstream commercial banks but also included all microfinance banks. According to the new rules, microfinance banks operating in only one state are required to record N100 million capital reserves. Those banks operating with one branch only are required to have N20 million while those with a country-wide presence require N2 billion. In addition to strengthening the balance sheet of these banks and protecting the deposits of clients, the other effect was a creative impact on the micro-finance bank industry. Audu and Achegbulu (2011) observe that government regulation led to an increase in capital reserves and consolidation of microfinance institutions from 910 to 716.

Whilst critics could decry this intervention as being too late, Audu and Achegbulu (2011) rationalize that these reforms led to the consolidation and shaping of the microfinance banks. Importantly, the reforms led to the introduction of regulation to the industry. Nigerian authorities had reason to improve the industry, since Nkamnebe and Idemobi (2011) contend that 35% of the Nigerian population depends on formal banking services and 65% depends on the informal financial system, including microfinance institutions, loan sharks, credit unions, friends and non-governmental organizations.

The analysis of the Nigerian and the Indian regulatory frameworks indicates that authorities are mostly concerned about the respectful treatment of debtors, and that the regulatory framework prioritizes registration of microfinance institutions and adequacy of reserves. Despite the overall poor regulatory environment, the Economist's Intelligence Unit (2010) issued a ranking of countries on the basis of the regulatory framework.

Table 1: Economist Intelligence Unit Microfinance Rankings, 2010

Rank	Country	Score
1	Peru	74.3
2	Philippines	71.8
3	Bolivia	69
4	Ghana	64.9
5	Pakistan	64.8
6	Ecuador	61.3
6	El Salvador	61.3
8	India	59.1
9	Colombia	56.8
10	Kenya	55.0

Source: Panwar & Carmody (2011)

It is disconcerting to observe that markets that rank high in this index are not commonly associated with the microfinance industry. However, the presence of Ghana, India, Pakistan and Kenya bodes well for the industry as it signifies improvement of the regulatory front, albeit slow. Rahman and Nie (2011) concedes that most countries are still in the process of developing a regulatory framework, and this implies that the industry still has scope and prospects for growth.

With a poor regulatory framework in place, divergent perspectives on how profits should be realized, and the presence of non-performing loans in the system, the study concludes with the overall benefits of microfinance institutions.

2.11. BENEFITS OF MICRO-FINANCE INSTITUTIONS

Hussain and Nargis (2008) assess the economic success of microfinance institutions using Bangladesh as a case study, between 1998 and 2004. A number of positive attributes of microfinance institutions were observed.

Economic welfare improved in general terms; household earnings surged amongst regular participants, occasional and non-participant groups; and there was a shift in labour patterns as some people moved from agricultural employment to other sectoral opportunities. This observation was shared by Matin and Alam (2004) who identify the value of microfinance as the inclusion of the marginalized communities and the offering of opportunities to vulnerable communities through innovation.

Whilst Mahjabeen (2008) illustrate at length the employment creation of microfinance banks, micro-finance did not significantly increase national employment figures. This suggests that micro-enterprises that emerged did not grow fundamentally to require inclusion of additional human resources in the business. Hussain *et al* (2008) captures the unique contribution of microfinance: “it appears that the contribution of microcredit programme participation lies in helping the households at the lower side of the economic strata to keep up with the rest of the society possessing comparable initial endowments” (2008:19). Those at the bottom of the pyramid do not emerge as big business magnates but tend to remain at the entry level of wealth accumulation.

Hussain and Nargis (2008) reason that, at times microfinance ultimately promotes consumption, “sans investment in gainful economic activities” (2008:19). Indeed, as observed by this study, there are detailed accounts of unethical for-profit microfinance bankers promoting wanton consumerism. Thus, it can be argued that the impact of microfinance banking on the community depends on the type of entrepreneurship chosen between social banks, for-profit, and SHG-bank linkages. On the positive side, Arora (2012) observes that the infusion of microfinance in rural economies has increased the savings rate, led to greater awareness of financial services, and deterred some rural clients from utilising the services of loan sharks or depending on family for loans. The savings rate increased as people switched from traditional saving instruments such as

‘unregulated chit funds, saving with money lenders, jewellers’ enterprises, and lending others to save’ (Arora, 2012).

Just before concluding, it is crucial to observe that before colonialism encroached into Africa, indigenous communities had a financial saving culture, hence the existence of native financial saving practices such as *tshitokofela*, *djaggis*, *chilimba*, and *Motshelo* amongst others. Although there are benefits associated with these traditional saving funds, the advent of formal modern capital markets shows that these traditional financial practices are constrained by several factors, including weak profitability and poor security. Indeed, formal stock markets provide manifold benefit to investors, and this includes asset security, capital growth, and significant levels of return on investment. In view of these disparities, there is a need to bridge the two systems, especially so that informal savers may benefit from high returns and security attributable to the formal capital markets.

2.12 SUMMARY OF ARGUMENTS

The theory of financial intermediation provides intellectual context for the study. The microfinance industry has played a significant role in enabling poor people to engage in business and provide them with opportunities for financial inclusion. This section observed three types of microfinance organizations, namely the not-for-profit microfinance firm, the for-profit enterprise, and a hybrid financial services organization. A number of challenges constrain the seamless evolution of microfinance. The challenges to this industry are exacerbated by poor regulatory frameworks. The conclusion is that although the microfinance system is a financial intermediation process most accessible to poor people, it is burdened by assorted problems that undermine its capacity.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. INTRODUCTION

This study is located within the inductive research paradigm. The inductive research process seeks to allow facts and latent content to build a theory, a procedure that Kondracki, Wellman and Amundson (2002) describe as a bottom-up course to knowledge creation. The reason the research study is not applying the deductive approach is that it is susceptible to subjectivity, and is vulnerable to preconceived notions determining research findings. Similarly, drawing on the deductive research genre exposes the study to the risk of marginalizing new, latent information arising from data (De Casterle, Gastmans, Broyn & Denier, 2011).

This study applied quantitative and qualitative research methods, and used two data collection techniques, namely interviews and questionnaires, which are consistent with the inductive research approach. After collecting data, the study used data analysis tool called the grounded theory. The intention was to derive both manifest and latent meanings. Badru and Shaid (2011) suggest that research projects should use various strategies to ensure the validity and reliability of research findings. Based on triangulation, the research process included the use of multiple instruments to ensure credibility and reliability, and this includes numerous sources of data, assorted data analysis methods, peer debriefing and self-monitoring (Ali & Yusof, 2011). Below is the discussion on the data collection and analysis techniques the study adopted, beginning with interviews.

3.2. QUALITATIVE DATA COLLECTION: INTERVIEWS

This study collected primary, qualitative data through interviews and also through a questionnaire (Appendix D, Appendix E, Appendix F, and Appendix G). Interviews are part of a set of data gathering techniques found in qualitative research. Gill, Stewart, Treasure and Chadwick (2008) note that the qualitative research method also has within its sphere other data collection techniques; these include observation, textual and visual analysis, and focus groups. Botha (2011) views the qualitative research genre as a broad school that incorporates a long list of many more information collection tools: the case study method, personal experience, historical, ethnographical, interactional and visual texts or any material that explains the lived experience.

Interviews were deemed suitable to this study given its objective of obtaining experiences of people involved with financial savings and investments activities. Interviews are a data collection tool that creates new knowledge by analyzing contributions and experiences from interviewees. Thus interviews were considered appropriate in this study as the “purpose of research interview is to explore the views, experiences, beliefs and/or motivations of individuals on specific matters” (Gill *et al.*, 2008). Three types of interviews are explained below.

3.2.1. The structured interview technique

Gill *et al.* (2008) describes structured interviews as a form of verbal questionnaire that takes place informed by pre-determined questions. In structured interviews, the researcher acquires data with the aid of a set of questions that are posed to all interviewees without an option of variation (Kirkevold & Bergland, 2007). This description suggests inflexibility and posits structured interviews as the antithesis of ethnography. The ethnographic data acquisition method is “a friendly conversation into which

the researcher slowly introduces new elements to assist informants to respond” (Knox, Alan & Burkard, 2009: 567).

Not only are interview questions similar, and posed in the same order, but the role of the researcher in structured interviews is also regulated (Knapik, 2006). The researcher ideally distances himself from the interview process (Gill *et al*, 2008). This takes place in various ways, and the more popular way of maintaining distance is for the researcher not to prod, suggest ideas or help the interviewee negotiate interview questions. Distance adds an element of autonomy of thought, objectivity of the recalling process, and entrenches the enquiry within the inductive research base. Structured interviews is therefore a disciplined, regulated, standardized question-and-answer exchanges between a ‘distant’ researcher and an informant with the objective of gaining relevant research information. Below is a discussion on the unstructured interview approach.

3.2.2. Unstructured interview technique

Unstructured research interviews refer to the question-and-answer interaction between the interviewer and the interviewee, whereby the questions are open-ended and varied, and different interviewees are unlikely to face similar research questions (Marsvati, 2003). DiCicco-Bloom and Crabtree (2006) describe unstructured interviews as a typical tool for collecting research information whereby the interviewer engages in unstructured discussions with the interviewee.

The hallmarks of unstructured interviews are conversation, open-ended discussions, and personal engagement. Taking an anthropological approach, such conversations are probing and highly interactive, leading to the immersion of the interviewer into the world of the contact (Knox & Burkard, 2009). This process invariably requires the researcher to possess

social rapport-building skills that enable him to construct, deepen and manage relationships.

As the researcher interviews various interviewees, he compares the data he is acquiring with previously acquired data and on the basis of new information requirements may approach the next interview differently (Manuj & Pohlen, 2012). The researcher is therefore consistently interrogating the data being acquired, questioning emerging themes, and simultaneously commencing with rudimentary data analysis. The semi-structured interview – detailed below – is the convergent point of the structured and unstructured interview methods.

3.2.3. Semi-structured interviews

The semi-structured interview is an amalgamation of structured and unstructured interviews. Semi-structured interviews incorporate some features of unstructured interviews, and simultaneously benefit from the planned approach to interviews in accordance with features of structured interviews. The interview process is very detailed, and seeks to benefit considerably from the partnership that the interviewer creates with the interviewee (Kirkevold & Bergland, 2007).

Following from this, semi-structured interviews should therefore be seen as a conversation that ensues between the interviewer and the interviewee, guided by a schedule of questions posed in no particular order other than to maintain the dialogue (Knox & Burkard, 2009). The intention is for the interviewer to continue probing various themes of the research project, eliciting descriptions and impressions of experiences from the informant. Ryan and Coughlan (2009) encourage the use of open-ended questions as a method to reveal hidden experiences.

Of these three types of interview methods, this study used the mixed methods approach (Appendix D). There are distinct advantages that both structured and unstructured interviews offer this research project. In the structured method, the interviewer is a leader and as such decides on the themes, pace, and the closeness of the relationship with the interviewee (Marsvati, 2010). From the unstructured interview perspective, the interviewer is a co-producer of knowledge in conjunction with the respondent, within an exceedingly social context, and data is extracted from an informed respondent (Marsvati, 2010).

When these seemingly dissimilar attributes converge, they assist this study project to access data accrued from a scientific approach to information collection, informed by quality sources (interviewees) whose professional relationship with the interviewer allows for the extraction of value-adding responses. Thus, this study used the mixed interview method mainly for the value it afforded the research project.

3.3. QUALITATIVE DATA: POPULATION, UNIT OF ANALYSIS AND SAMPLING

The aim of this study was to create a framework that link the informal savings market with the formal stock investment sector. The population of the study are African informal financial savers and officials of the formal stock investment industry. Qualitative data was collected in part through interviews, and the said interviews were conducted in South Africa, Swaziland, Botswana, and Zambia. The countries in question were chosen according to the random sample.

The student researcher interviewed representatives of financial intermediaries in the cited countries, and this included bank managers, asset managers, equity analysts, investment officers, and stock exchange senior managers. Interviewees were chosen using to the simple random sample, and the intention was to increase the likelihood of each category

being represented in the results of the study. That said, the unit of analysis within the formal financial sector is an official representative of the formal equity and financial investment market.

In addition, the student researcher interviewed members of the society that save through indigenous African financial savings groups. The unit of analysis is the African informal financial saver based in typical Sub-Saharan African market, hence interviews were conducted with informal financial savers in South Africa, Swaziland, Botswana, and Zambia.

Worth noting, qualitative data was not only sourced through interviews, and in only those four cited countries. In addition to interviews, qualitative data was collected through a survey. Two surveys were constructed, and were used to collect both quantitative and qualitative data from both the informal savers and the formal financial sectors. Using the Qualtrics software (Appendix H), the survey collected qualitative data from Botswana, Ghana, Kenya, Lesotho, Namibia, Nigeria, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. Therefore, this study encapsulates experiences from several African markets.

3.4. QUANTITATIVE DATA: QUESTIONNAIRES

In the interest of triangulation, the study used an additional data collection method, namely the questionnaire, to collect quantitative data (Appendix E and Appendix F). Questionnaires are not entirely different from interviews; Montgomery, Skargard and Ansermino (2010) define a questionnaire as a data-gathering tool, especially adept at collecting opinions and experiences of people. Montgomery *et al* (2010) further states that a questionnaire is a uniquely qualified research method for determining people's preferences on the issues under study. Indeed, it is these benefits that motivated for the adoption of the questionnaire as the additional primary data collection tool for this study.

In assembling the required set of data, respondents were asked to clarify their positions on declarative statements. Labaree, Fourny, Jean-Philippe, Marin-Pache and Patrice (2004) suggest that respondents reflect their opinion on the said declarative statements on the basis of the Likert scale. Sett (2012) states that the scientific rigour of this exercise is important and should be followed with consistency, especially on the demographic profile of the sample, the total number of participants, age and professional outlook. The researcher therefore used a five-point Likert scale for this study.

The sample for the study included respondents in the formal and informal investment community. Respondents to this study communicated unique knowledge and experiences drawn from a range of African markets including Botswana, Ghana, Kenya, Lesotho, Namibia, Nigeria, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

Not only sampling and demographic elements are important, but also how the language is used in the construction of the questionnaire. Synodinos (2003) advises that the language used should be sensitive to the respondents, in that it should be easily understandable so that it enables respondents to respond meaningfully. This is facilitated by avoiding language pitfalls such as ambiguities, wrong syntax, and illogical sentence structures.

In using both interviews and questionnaires, Wisdom, Cavaleri, Onwuegbuzie and Green (2012) advise that the researcher should make a decision on the extent of integration (of data gathering techniques), 'time orientation', and the share of each method. This study integrated both the qualitative and the quantitative methods and ensured they enjoy equal share. Lopez-Fernandez and Molina-Azorin (2011) refer to this usage of mixed methods as "equal weight, simultaneous: (1)QUAL+QUAN (2011:1461).

Interviews were used as the primary exploratory data-gathering tool, and the questionnaires were used afterwards in order to corroborate or disprove the findings of the study. The data acquired through these methods was analyzed both thematically and interpretively, and the research findings were used to construct an investment integration framework. Below is the discussion on the research population, which also introduces the profile of the people from whom primary data was collected.

3.5. QUANTITATIVE DATA: POPULATION, UNIT OF ANALYSIS, AND SAMPLING

Blumberg *et al* (2005) refers to population in research as being, “the total collection of elements about which we wish to draw some inferences” (2005:228). This description is further explained by Rowley (2012) who asserts that population in research is a collection of people who are well-versed on issues about which the research is being undertaken. This study used “purpose sampling” (Rowley, 2012) to identify two groups of respondents in relation to the population of the study. One of the population groups is composed of people who save through informal saving practices. The other population group is composed of officials of formal financial investment sector. Therefore the population profile for the quantitative data is similar to the population profile used to source qualitative data.

Regarding the informal savings sector, the unit of analysis is somebody who saves through informal savings methods. A typical unit of analysis – an informal saver - practices at least one of various informal saving strategies, tends to be poorly educated, is a rural dweller, and is often a woman. In recent times, however, this profile is transforming; urban dwellers also increasingly participate more often in informal savings practices, as does men (Irvin, 2005).

In the formal stock investment market, the unit of analysis is an official of a financial stock investment economy – be it a fund manager, equity analyst, bank manager, asset manager, financial investment analyst, or an executive manager of a stock exchange. It was apparent that officials of financial services organizations tend to be highly educated, and are well informed on the formal financial stock investment sector. The geographic spread of the study was extensive – judging by the respondents to the survey, encompassing several African markets, including Botswana, Ghana, Kenya, Lesotho, Namibia, Nigeria, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. Lastly, all the survey questions were measured on a 1 – 5 point Likert scale, anchored from “strongly disagree” for 1 to strongly agree for 5.

3.6. DATA ANALYSIS METHOD

This study used grounded theory to analyze qualitative data. Grounded theory subsumes content analysis, and the aim of using this method was to ensure that the findings of the research are objective, valid and reliable. According to Mansourian (2006), grounded theory is a data analysis method developed by Glaser and Straus in 1967. Their objective was to apply the exacting standards of quantitative analysis to qualitative research projects by developing a systematic framework for doing data analysis. The Glaser-Straus creation is not necessarily a new product; grounded theory largely subsumes content analysis, and this is primarily observed in terms of the use of coding, inductive research approach, and the autonomy of data.

Content analysis – the forerunner of grounded theory - is highly regarded in social science as a data analysis technique. Seuring and Gold (2011) counsel that the “content analysis (technique) is suitable for analyzing various qualitative and unstructured data such as those collected during unstructured or semi-structured interviews” (2011:546). Content analysis is therefore an appropriate base for grounded theory and is relevant for this study because it (this study) using both interviews and the questionnaire to gather primary data.

Grounded theory is underpinned by a creed that advocates that research findings should emerge from data. Classic grounded theory prefers the results of the research findings to be a 'theory'. However, post-modern grounded theory asserts that the researcher should no longer be prescribed to solely produce a 'theory' as the end result of an enquiry. In this regard Denk and Kaufmann (2012) indicate that "some (researchers) will use grounded theory techniques to generate theory, others for the purpose of doing very useful description, or conceptual ordering" (2012:745).

Like most prescriptive concepts, grounded theory follows steps. It begins with research questions – which are primarily meant to ensure that the entire study is relevant (Bitsch, 2005). This allows the researcher to dispense with deductive protocols that are preoccupied with doing a study to confirm a theory. With the research agenda clearly defined, what follows is collection of data from both primary and secondary sources.

After data has been collected it is then systematically and scientifically exploited in order to elicit both quantitative and qualitative meaning (Woodcock, 2008). Exploitation of text involves the assessment and coding of the various components of data at hand. Components of the content can be words, phrases, theories, topics, concepts, adjectives, syntax and tenses (Kondracki *et al*, 2002). Since the components of data are myriad, the researcher has to decide which aspects of data must be prioritized.

Coding of data is the centrepiece of the selection process. As Kondracki *et al* (2002) explain, the objective of coding is "essentially organizing communication content in a manner that allows for easy identification, indexing, or retrieval of content relevant to the research question" (2002:224). This suggests that in grounded theory the researcher deliberately tries to bring an analytical order to the written text, simplifying complex, often chaotic collections of words. Without coding in place, the

collected data would remain meaningless, without order, and thus frustrate the research initiative.

In its quantitative outlook, grounded theory prescribes that analysts statistically calculate the usage of specific influential words and phrases. Reflecting on the reason for the mathematical character in content analysis, Spens and Kovacs (2006) observe that, "it is assumed that frequency indicates the importance of the subject matter" (2006:381). This implies that grounded theory requires evidence not only for explicit information content but also for latent content. An analyst is required to count repetitive words if such words have a bearing on themes and results of the study. Mayring (2000) notes that this granular procedure for analysis, is meant to ensure that qualitative research benefits from positivist traditions of analysis.

Content analysis can be understood as a three-step approach, namely summary, explication, and structuring. Seuring and Gold (2011) describe these stages as follows: Initially, the researcher summarizes the data into a simplified form so as to acquire elementary understanding of the information at hand. In a way, this is a sampling procedure as it delineates which information sources are relevant for the study (Blumberg *et al*, 2008). Similarly, summarizing is beneficial to the inductive research process as it highlights material facts that will form the major components of the study.

Grounded theory calls this process 'categorization'. Categorization of data is a breaking down of data into simplified units, which may be paragraphs, themes and ideas. This process helps the analyst to derive meanings, ideas, the narrative, and appreciate experiences (Mansourian, 2006). As these meanings emerge, the researcher engages in a continuous analysis mode where various categories and tacit meanings are compared. Comparative analysis may lead to the formation of new categories out of existing categories, and this demonstrates interpretive competencies.

After summarizing, structuring follows. This entails organizing the written data according to various components, such as words, concepts, topics (Kondracki *et al*, 2002) and other attributes such as syntax, themes, semantics and dialogue (Seuring *et al* 2011). Structuring elicits the use of coding, the defining character of content analysis. In a sense, structuring is the process whereby disparate components of analyzed data are put together, thereby forming intellectual substance.

Part of the structuring process is taking note of all emerging meanings. Mansourin (2006) calls this memo-writing. Memo-writing is thus a constituent of analysis of the core themes, and it is these core themes that ultimately lead to the findings of the study (Kaufmann & Denk, 2012). Grounded theory is thus a systematic way of objectively constructing a scholarly reality informed by data (Manuj & Pohlen, 2012). As the memos, core themes and core categories emerge from the data, the researcher is able to understand the unfolding picture and write up the findings.

Insofar as explication is concerned, two types of meaning emerge from the analysis process, namely explicit and inferred meaning. Mayring (2002) refers to explicit knowledge from transcription material as the primary content. Primary content is the clear, overt and relevant information that the researcher appropriates from the transcribed material. This type of information is not hidden and does not require any effort to discover. Spens and Kovacs (2005) refer to primary content as “empirical observations (facts)” (2005:377) that the researcher gathers from the written material.

As the analysis process deepens, rigorous interrogation of facts and concepts reveals yet another type of meaning, namely implied meaning. Mayring (2002) refers to implied meaning as latent content. As the analyst subjects the written material to exacting scrutiny, coding the interview transcripts, subjecting data to link analysis and drawing from the context of the data, new latent meaning slowly emerges. This is the revelation phase

of analysis and it enriches the results and findings of the study. Latent meaning is therefore a corollary that surfaces from the interpretive labour of an analyst.

The inference is that grounded theory applies the rigour of quantitative analysis in the qualitative context to ensure that analysis of data is not merely a rudimentary description of phenomena but a rich, scientific explanation of data. Notwithstanding the numerous advantages for the analysis process, it is worth noting that content analysis does not reflect causality but relationships (Kondracki *et al*, 2002). This implies that the qualitative results of this study do not necessarily demonstrate causality; instead the study produced a relational outcome, a creation of literal and interpretive meanings of data.

This study applied the grounded theory analysis technique to the latter. The student researcher began the analysis phase by transcribing all the interview transcripts. More than 80 interviews were conducted for this study. In the same vein, qualitative inputs from the survey respondents were harvested for analysis. As per the (grounded theory) prescription, the researcher student started by familiarising himself with the research questions, and this meant studying the original research proposal. The purpose of this exercise was to ensure that analysis does not result in irrelevant outcomes.

In grounded theory, identifying themes is a tool for the appropriation of both literal and implied meanings. Braun and Clarke (2006) describe thematic analysis as a “method for identifying, analyzing and reporting patterns (themes) within data” (2006:6). Themes are derived from research questions and they highlight important issues, often denoted by recurrence and repetition of primary data accessed from multiple sources. As Fereday and Muir-Cochrane (2006) note, the researcher identifies a theme by “careful reading and re-reading of data” (2006:82).

The tool the study used to scientifically exploit and analyze qualitative data was the ATLAS.ti software package (Appendix H). Interview transcripts and qualitative data sourced from the survey were uploaded into ATLAS.ti. Using the ATLAS.ti Software package, codes were developed, and coded data was arranged into themes. Analysis of these themes and supporting concepts and words were analysed. Data analysis revealed two types of meanings, namely literal meaning and lateral meaning. These meanings were compiled into various summaries.

These summaries were added together and expounded on, and appear in Chapter 4 as findings from the qualitative analysis. Noteworthy, findings from qualitative analysis are laden with plenty of quotations from the respondents. Verbatim quotations were carried into the study report to ensure that the voices of interviewees are not lost. Notwithstanding, such voices were analysed to provide context and decipher implied meanings.

This study used SPSS statistics software package to analyze quantitative data. As alluded to, the questionnaire was developed on an electronic platform, namely Qualtrics software. The student contacted various asset management and other financial investment service firms in assorted African markets, asking them to participate in the survey. The student was previously a senior country credit risk analyst at Rand Merchant Bank, and he used his contacts in various Sub-Saharan Africa financial markets, to send out the survey link.

Regarding the informal savers, the survey was distributed through an electronic Qualtrics link, and by hand. Regarding the latter, some hardcopies of the questionnaire were distributed by assistants. Data collection benefitted from participation of various African émigré communities residing and working in South Africa, particularly concentrated in Hillbrow (Johannesburg) and Sunnyside (Pretoria). Therefore, data

collection and analysis benefitted significantly from information communication technologies.

3.7. VALIDITY AND RELIABILITY: QUALITATIVE DATA

This study used various strategies to ensure validity and reliability of qualitative data. Golafshami (2003) argues that scholarly inquiry and documentation should adequately explain how research findings are credible. Badru and Shaid (2011) advise that research projects should use various strategies to ensure the validity and reliability of research outcomes. On one hand, reliability refers to the degree to which research content is consistent over time and observations can be replicated when data is engaged with anew (Said *et al*, 2011). On the other hand, validity refers to the extent to which arguments of the research project are accurate, truthful and backed by evidence (Ali & Yusof, 2011). Thus reliability and validity are concerned with strategies the researcher employs to ensure that the conclusions of the research project are accurate and objective and, furthermore, can be replicated if the same data set is re-evaluated.

This study employed several strategies to ensure that the findings and conclusions of the study are valid and reliable. First, the study used triangulation to enhance the quality of the research outcomes. Triangulation is the application of assorted research tools to achieve results. Lopez-Fernandez and Molina-Azorin (2011) states that triangulation helps a research project to “achieve a convergence of the results obtained via the quantitative and qualitative approaches, such that these results are more reliable” (2011:1461). Consistent with triangulation, the study collected primary data using interviews and questionnaires, and the research process applied intertwined data analysis techniques, namely the fusion of content analysis and grounded theory.

As Cronholm and Hjalmarsson (2011) advise, joint application of several research techniques mitigates the drawbacks associated with each

technique applied alone. With regard to the data analysis, “when properly applied, content analysis methods are both reliable and valid” (Kondracki *et al*, 2002: 226). The inference is that triangulation was used by the study as a quality management measure since it has multiple qualities that ensure objectivity of the research enquiry.

Ali and Yusof (2011) conclude that qualitative research projects require additional strategies to increase reliability and validity of findings. Below is a table which indicates techniques this study used to ensure objectivity, consistency and accuracy of findings.

Table 2: Description of steps taken to ensure reliability and validity of the research outcomes

Concept	Techniques the study used	Phases of research in which the technique occurred
<i>Construct validity</i> Objective: conformability	• Multiple sources • Key informants review • Chain of events details	Data collection Researcher's diary Data analysis
<i>Internal validity</i> Objective: credibility	• Triangulation • Peer debriefing • Self-monitoring	Data analysis Researcher's diary
<i>External validity</i> Objective: transferability	• Semi-structured interviews • Description of coding and analysis • Thick descriptions	Research design Data collection Data analysis
<i>Reliability</i> Objective: dependability	• Documentation of the process of enquiry • Explanation and clarification of theoretical position and biases	Research design

Sources: Riege (2003); Ali and Yusof (2011)

3.8. VALIDITY AND RELIABILITY: QUANTITATIVE DATA

Regarding quantitative data, this study used several tools to test for validity and reliability. Reliability assesses if data being exploited will produce similar outcomes on repeated experiments (Rajeh, Tookey, Olabode & Rotimi, 2015). This study used the Cronbach's Alpha Value and composite reliability to test reliability.

Validity assesses the extent to which such variables measure what they intend to measure. Simply stated, validity is concerned with analysing the credibility of the variables and the objectivity of the measurements thereof (Rajeh et al, 2015). This study used the Average Variance Extracted (AVE) and Inter-Construct Correlation Matrix to test for validity.

3.9. SUMMARY OF THE RESEARCH METHOD

This chapter began by recalling the aim and purpose of the study, which was the development of an investment framework that links savers from the informal financial section of the society with the formal stock investment market. In order to achieve this objective, the study was anchored on the inductive research tradition where facts and interpretive analysis build an intellectual model. It was indicated that interviews and questionnaires were used to gather data, and such data was analysed using the grounded theory as well as quantitative data analysis tool, namely the SPSS. Lastly, this chapter identified several strategies that were used to ensure the reliability and validity of the research outcomes.

CHAPTER FOUR

FINDINGS FROM THE QUALITATIVE DATA

4.1. INTRODUCTION

This chapter documents the findings of the study which are derived from data collected using the interview technique and a survey. Interviews were conducted with people who save through informal financial management strategies and officials of financial intermediaries in the formal financial sector. These interviews were conducted in South Africa, Swaziland, Botswana and Zambia.

This chapter also reports on the qualitative findings of the study from data gathered through a survey. A survey consisting of two distinct questionnaires was designed to collect both qualitative and quantitative data from participants of the African informal saving schemes and investment officials of equity investment firms. The survey questions of this study comprised the qualitative section of the questionnaire. This chapter thus represents views from several sub-Saharan African countries that participated in the survey, namely Botswana, Ghana, Kenya, Lesotho, Namibia, Nigeria, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

A number of traditional African financial saving strategies exist, including door-to-door deposit collections, annual saving clubs, burial finance societies, round tables, rotating saving associations, and stokvels. This study has adopted a grouping constructed by Irvin (2005) to classify these saving associations, namely the informal saving groups. The formal financial sector in African countries is dominated by banks, insurance companies and wealth management firms.

Recall that the aim of this study is to develop a framework for linking the informal financial saving sector with the stock investment market that is anchored on the inductive research approach. The inductive research process allows for facts and latent content to build a theory, a procedure that Kondracki, Wellman and Amundson (2002) describe as a bottom-up course to knowledge creation. The inductive approach is linked with the grounded theory method of data analysis, and it emphasizes that research findings and solutions emerge from data.

Informed by the inductive approach-grounded theory *nexus*, this chapter contains study findings that meld together to present a solution to the overriding research problem, namely the existing gap between African informal financial saving schemes and the formal equity investment sector. Data collected on the themes of this study to some extent address the problem of exclusion in the equity investment sector, and provide the building blocks for the framework for equity investing for the marginalised investor groups that are reliant on African traditional saving schemes. This chapter is therefore a qualitative representation of the framework for linking the formal stock investment market with the informal financial saving sector.

In documenting the findings, the chapter follows a systematic approach guided by themes. These themes are linked to research questions, and the discussions are concluded by reiterating the thrust of the solution (drawn from preceding data). The first theme to be discussed is the exclusion from equity investment market which is linked to the research question: “What is the level of interface between the informal saving market and the formal equity markets?” This research question is of the diagnostic kind, and seeks to ascertain the level of interface between the informal saving sector and equity investment activity in the formal sector.

Data from the field indicates that there is a low level of interface between the African indigenous saving system and the equity investment market. Reasons for equity investment exclusion are premised on perceptions within the equity investment market that the informal saving sector is poor and lacks sophistication thus leading to marginalization and self-exclusion. However, evidence suggests that as a collective, the African informal finance market is rich. As part of the solution, money managers need to reform their thinking to reflect this reality, and such a transformation should include the adoption of a business strategy that seeks an investment mandate from participants of informal saving associations.

The second theme relates to investment education, and this is linked to the research question: “What can motivate the informal saving market to link with the formal stock market investment sector?” Literature review (Bin Kalli and Al-Tamimi, 2009; Mouna and Jarboui, 2015) suggests that investment behaviour is a function of financial literacy. Informal savers and officials of formal equity investment intermediaries strongly suggest that investment education will trigger the financial management behaviour that prioritizes equity investing. The refrain from a Botswana-based portfolio manager was that ‘once we teach them, they invest’. The solution for encouraging equity investment behaviour for informal savers is therefore the provision of a stock investment curriculum, taught by individuals drawn from their community and delivered in their native language.

The third theme is concerned with the role of the formal equity investment market in improving the investment performance of informal saving groups. This theme is informed by poor yield accruable from informal saving practices and entrenchment of financial exclusion. The research question associated with this theme is: “How can the equity investment market improve financial investment performance of the informal savings market?” Literature, e.g., Van der Berg, 2012; Barney, 2009, from both developing and developed economies, note that of all asset classes,

households that invest in equities increase household wealth. Similarly, the respondents suggest that the formal equity investment sector will improve the investment performance of the informal saving sector by establishing relationships with communities with the aim of providing bespoke and value-added equity investment services.

The last theme is concerned with the methodology of access, and the research question is: How can the informal savings sector access equity markets? Discussions with respondents demonstrate that the solution lies in using intermediaries and institutions of equity investment.

The conclusion of this chapter summarises the findings around study themes and research questions, emphasising that this is the qualitative representation of the framework for linking the informal saving sector and the formal equity investment market.

4.2. FINANCIAL EXCLUSION

The literature review reveals that access to financial services is not equitable, and this is a manifestation of financial exclusion. Koku (2015) describes financial exclusion as, “those processes that serve to prevent certain social groups and individuals from gaining access to the financial system” (2015:655). Koku’s (2015) research findings conclude that financial exclusion is widespread in both developed and developing economies and that it is expressed through denial of access, excessively high prices for services, unacceptable conditions attached to the terms of service agreements, and self-exclusion.

Evans and Shakantu’s (2007) work on informal saving and real estate finance reveals that women are routinely denied access to formal financial services. Notwithstanding the fact that women-centred saving schemes are competently managed and adequately capitalized, Evans and Shakantu (2007) found that banks refuse group funds as collateral for

housing finance. Verhoef (2002) and Irvin (2005) note that informal saving groups are often disregarded by the formal financial sector. Gichuki, Mutuku and Kinuthia (2015) contend that banks and other financial services firms perceive poor clients as risky and not always profitable, and as a result they discriminate against poor people. This research output communicates the existence of financial exclusion, and the role played by variables such as class and gender.

Loureiro and Gonzalez (2015) explore the possibility of peer-to-peer lending as a solution to financial exclusion, and the research findings indicate that information asymmetry is prevalent in this sphere, which presents a barrier to peer-to-peer financing. Kostov, Arum and Annim (2014) investigated whether a special financial services solution such as the Mzansi account provides some remedy to financial exclusion. Kostov et al (2014) established that a special programme such as the Mzansi account does not always work, because account holders of the Mzansi account consider it a pre-entry account, “not meeting the aspiration of individuals aiming to climb up the financial services ladder” (2014:135).

In contrast, Bhanot, Bapat and Bera (2012) conclude that the effective intervention for resolving financial exclusion lies in equitable distribution of the financial services infrastructure. In this regard, offering basic banking services via the Post Office network in rural areas is the typology of the solution. The advantage of the Post Office is that it has an extensive branch network, and that while it may not provide advanced banking services – such as ATMs, credit cards and online banking services – it has the capacity to provide basic banking services, in particular receiving deposits (asset security) and distributing some investment products.

Piesse and Hearn (2005) maintain that there is little participation by the indigenous African population in stock trading, a reference to exclusion in the formal equity investment sector. Piesse and Hearn (2005) attribute

exclusion in the stock market to the fact that African stock exchanges are small relative to their national economies, with the exception of the Johannesburg Stock Exchange. In addition, the said research attributes exclusion in the equity investment sector to the fact that some African stock markets are illiquid, have little product range, are poorly regulated, are dominated by few stocks, and are constrained by restricted trading hours. Adjasi, Biekpe and Osei (2011) ascribe the poor participation of African retail clients in the formal equity investment market to the fact that there are few stock exchanges in the African continent, and few counters in those bourses.

Owing to financial exclusion, Ojah and Mokoaleli-Mokoteli (2010) aver that most of the members of the informal saving market are relegated to the less desirable financial investment sector space. Regarding the theme of financial exclusion, this study is guided by the research question: What is the level of interface between the informal saving sector and the formal equity market?

Data collected from interviews and the survey indicates that there is a low level of interface between the informal saving sector and the formal equity investment market. Respondents highlighted a number of factors attributable to the low interface and exclusion in the equity investment sector. These are poor knowledge of equity investing, entrenched alienation between the informal saving sector and the equity investing market, elite domination of equity markets, and the disregard of the informal saving market.

4.2.1. Disregard of the informal sector by the formal financial market

Respondents observed that the formal equity investment sector generally disregards the informal saving market. This disregard is not overt, but

manifests mainly through lack of quality and effective market strategy towards the informal saving sector.

Interviews with officials of financial intermediaries revealed that most equity investment service firms lack strategies aimed at drawing clients from the informal saving groups. A number of wealth managers interviewed in South Africa, Swaziland, Botswana and Zambia, as well as those who responded to the survey indicated that the informal saving sector is not their preferred client group for equity investing. The response below from a senior business development manager (Person A) of a Sandton-based asset management firm indicates the disregard of the informal saving sector by representatives of the formal equity market:

We haven't done anything in the informal sector at all from the investment perspective. But that does not mean that we won't - but where we are in our business cycle, it just hasn't presented itself.

Officials of equity investment intermediaries noted several reasons for not drawing assets from the informal saving sector. One of the reasons is that providing equity service to the informal sector will increase business operational costs. An asset manager based in Swaziland (Person B12), notes that he has one operational office in the capital Mbabane, but if he targets clients from the informal saving market located in rural areas, he will incur additional expenses for transport, human resources and office rental. He concluded that informal savers do not bring a sufficient quantum of money to make the business profitable, and explained that:

The other challenge that comes with going lower LSM [Living Standard Measure] or let me call it poor retail clients is that, just like commercial banks, retail clients require significant investment, human capital and distribution network. If I want to go fully-fledged retail and probably set up offices in major cities - I would not have one office in the country anyway. It is not profitable. (P4: Person B12.docx - 4:2-3)

The other reason is that informal savers are considered poor and lacking money to invest. According to interviewees in the formal financial services sector, the wealth management business has minimum financial investment requirements, and the majority of participants of informal saving groups do not meet those minimum financial investment requirements.

The minimum investment capital requirement varies significantly. An equity portfolio manager interviewee at a Lusaka-based asset management firm (Person R) informed the researcher that the minimum requirement at his firm is K150 000 (Zambian Kwacha). A respondent at a South Africa-based wealth manager (Person A) indicated that the minimum investment requirement at his firm is ZAR10 million. The quantum of minimum investment requirement suggests that asset managers prefer clients that bring significant sums, and such clients are often pensioners and high-net-worth individuals.

This study observes that it is not only wealth managers who disregard informal savers in relation to equity investments; banks also tend to overlook this sector. A bank manager in South Africa's Limpopo Province explained that: "banks complain that stokvel account wastes time" ("P1: Person B.docx - 1:2). A bank investment consultant in Elim, South Africa, similarly observed that he, "is not allowed to invest for stokvels" but is expected to target only wealthy individuals (P19: Person H.docx - 19:1). These remarks by officials of financial service firms suggest that the formal equity investment service sector generally disregards participants of informal saving activities because they are considered poor.

The disregard for the (Black) informal sector has contributed to financial investment injustice, and also contributes to situations of inequality in South Africa. According to the National Empowerment Fund (2014), a development finance institution owned by the South African government,

as of 2014, Black South Africans owned 3% of the market capitalization of the Johannesburg Stock Exchange (JSE), notwithstanding the fact that the JSE was established in 1887. The JSE chief executive officer, Nicky Newton-King contributed to this study, and disputed the NEF data, pointing out that, “the direct ownership number we (JSE) have for black people [is] 10%”. The major participants in the traditional informal financial saving system – Black South Africans – continue to be marginalized in large numbers from participating in local bourse activity. This suggests that since its inception the JSE has neglected to adopt strategies that promote formal stock investment inclusion.

Informal savers explained that they are being disregarded by the formal equity investment sector and that lack of investment opportunities contributes to their savings being utilised. This is because savings are easily accessible as they are stored in their homes, between mattresses, in thatch roofs and in metal cages. A female informal saver (Person G) residing in Mukula village, South Africa, told the study that due to lack of investment opportunities, she stores her savings at home and thereafter utilises the savings.

An informal saver who participates in *Chilimba* (Person G) – a form of informal saving practice in Zambia – indicated she also uses her savings if within reach, saying that,

Women prefer many things. Often we use the money for buying furniture for the house, generally do shopping, and once we start thinking like that there is not much thought paid to investing. (P18: Person G.docx - 18:1).

Similarly, an informal female saver in Swaziland (Person B10) explained how she sponsored a party with her savings, and revellers consumed a, “combination of whiskies, beers and ciders” (P2: Person B10.docx - 2:1).

This indicates that officials of stock investment intermediaries do not have a strategy for collecting investment money from informal saving groups,

and this, in part, explains why informal savers may often waste their savings in reckless consumerism – estranged from the formal equity investment sector. In addition to being disregarded, the limited interface between the informal saving sector and the formal equity market is precipitating the crowding out of retail stock market clients, as explained in more detail below.

4.2.2. The elite domination of equity markets and the crowding out effect

During the interview phase, the student researcher interviewed more than forty (40) officials of financial investment intermediaries operating within the formal equity sector. All the officials interviewed stated that the African stock market is dominated by institutional investors, followed by foreign portfolio investors, and that in an illiquid African equity market, this crowds out informal saving groups.

A portfolio manager in Swaziland (Person B14) explained that institutional investors dominate the market due to the fact that equity markets deliver high returns, and noted that:

When it comes to the investment space, your institutional clients who can be classified as your big earners are basically the likes of large corporates and also your public service pension funds. Those are types of companies that you find that are being the large ones in the equity investment sector. Your pension funds are the key ones. (P 6: Person B14.docx - 6:1)

This view was supported by other asset managers, including a portfolio manager at a Lusaka wealth management entity (Person R) and the executive manager of the Swaziland Stock Exchange (Person B15), who maintain that the African stock market is inequitably dominated by the elite institutional investors.

According to the general manager of a wealth management entity in Swaziland (Person B12), the African securities exchange market is a challenging environment for investors and, with the exception of the JSE, bourses are illiquid. As a result retail investors are marginalized from the stock market. The executive manager of the Botswana Stock Exchange (Person B3) concurred with this view and attributed lack of liquidity to the slow pace of privatization and the domination of the Botswana economy by government. As a consequence of these constraints, the Swaziland wealth manager (Person B12) indicated that institutional investors receive preference over retail investors, not least the informal savings groups.

A Swaziland wealth manager (Person B12) disclosed that the exclusion of informal saving groups in the local stock market is most evident during an initial public offering (IPO). During IPOs there is little engagement with retail investors (including the informal savings groups) and patronage networks tend to be the conveyors of information – a practice that restricts information flow to the retail investment sector. This suggests that in an environment where IPOs are rare and the bourse has few counters (the Swaziland Stock exchange has 6 counters), informal saving groups are disregarded by the equity investment market.

However, this practice is not universal, and does not exist in South Africa, Botswana and Zambia. An official at the Lusaka Stock Exchange (Person V) informed the study that the bourse has 39 counters and more recently during IPOs there is a concerted effort to encourage local retail investors, including informal saving groups, to buy equities. These claims were confirmed by the managing director of a Zambian wealth management firm and stockbroker (Person Q), who confirmed that his financial intermediary often engages in promotional campaigns targeting retail clients to buy equities at the Lusaka Stock Exchange. He explained that this strategy was noticeably successful during the IPO for Madison Financial Services in 2014. Many retail clients participated in the said IPO, including students.

In Gaborone, the executive manager of the Botswana Stock Exchange observed that it is during IPOs that unusually high levels of investment participation from retail clients is seen, and this is attributable to the publicity efforts carried out by the stock exchange. One such example was the listing of Choppies in 2012 which attracted enthusiastic participation of retail stock investors, resulting in 400% oversubscription.

Although there are no established practices of marginalizing retail stock investors in Botswana and Zambia, lack of counters results in early investors (often institutional investors) holding onto their stocks, and some have held onto securities ever since the bourses were created. Stock exchange managers in Swaziland, Botswana and Zambia informed the study that this practice benefits early investors (institutional investors and foreign portfolio investors) and permanently marginalises informal savers from equity investment opportunities. The chief executive officer of the Botswana Stock Exchange indicated that lack of liquidity is the major impediment to the stock investment market in Africa, and a contributor to low saving rates within the region.

On completion of the interview phase of the study, the researcher received two email correspondences from Botswana, from the executive manager of the Botswana Stock Exchange and a stockbroker (Person B4) attached to a Botswana stock broking firm. Their correspondence reiterated that in recent years, foreign equity investors have emerged as an important market player. The bourse executive manager particularly noted a growing interest in African stocks from international portfolio investors, while the stockbroker explained that the main reason international portfolio flows into the Africa markets are increased is high yields, the capacity to manage risk in some bourses, and the favourable sentiment of Sub-Saharan Africa as an attractive frontier market.

The key point is that although the African equity market provides extensive investment opportunities – albeit with liquidity concerns, the dominance of institutional investors and to some extent international portfolio investors combine to crowd out domestic retail investors, including the African informal savings groups. However, at times these informal saving groups choose to exclude themselves, as explained below.

4.2.3. Self-exclusion and the alienating effects of anthropology of the informal saving sector

Literature review by Koku (2015) indicates that some members of society choose financial exclusion. A number of informal savers disclosed that they are not likely to invest in the stock market because they are comfortable with the way African people have always been saving. A Mosotho member of an informal saving group (Person C, 41 years old) told the study that she saves through a rotating saving scheme, as had her forebears. This is testament to the strong level of loyalty to African traditional financial management practices.

This was emphasised by an elderly member of Mukula village (Person B18, >80 years old) who told this study that she chooses to save exclusively through her *four* funeral saving groups because of what they will do for her family when she passes on. She explained that she trusts her funeral saving groups will assist her family with financial resources during the funeral by, in part, buying a quality coffin, food and beer. She explained that her funeral saving group assisted her greatly with the burial of her late husband when he died in 1982. This suggests that participants of informal saving groups have a high level of confidence in their indigenous funeral saving initiatives.

An elderly member of the informal saving group in Mukondeni (Person B19, >85 years old) pointed out that she saves through both the funeral

saving scheme and a *stokvel* because she understands them very well, and as such she has no desire to invest in the formal equity market. She also mentioned all the benefits that these schemes have provided for her family, such as helping in the burial of family members, assisting with buying food and sending learners to school.

Respondents in the informal sector provided various reasons for why they are satisfied with traditional practices, and are therefore not motivated to engage the formal financial services sector. A 70-year-old informal saver in Satane, South Africa, explained that her main reason was to sustain social relationships and communal harmony.

The Zambian *chilimba* participant (Person P) pointed out that she takes part in informal saving clubs in order to save for Christmas-related expenditure and to be able to go on holiday. The chairperson of the Mbabane-Manzini Bambanani informal saving group (Person B7) told the study that he participates in order to save and consume proceeds especially during December and Easter periods – by going on holiday, throwing a party, or by just having fun. There is, therefore, a significant number of people who are comfortable with their informal saving practices to the extent that they choose to exclude themselves from the formal equity investment sector.

Regarding self-exclusion, the survey captured the following contribution:

But for me, the reason I'm not investing in the markets currently is the risk of losing my money. As much as I would like to receive big returns, I am also not willing to risk losing my money. That is why I prefer stokvel because you are sure you will receive the money that you put in although the return is insignificant.

However, some respondents explained that instead of investing in the formal equity investment market, they have reformed and evolved the informal saving practices and are therefore profitable within the traditional

African financial savings sector. According to an informal saving participant in Kanganama, South Africa (Person B21), the most popular method of generating income for members of saving clubs is the lending of the club money at a given rate. She informed the study that the lending rate ranges between 30% and 60%.

The chairperson of the Mbabane-based informal saving group called the Ambassadors (Person B13) explained that his saving group adopted the credit provision model and lends out money not just to fellow members but to local entrepreneurs as well. The tenure is short, between one and two months, at a lending rate of between 20% and 60%.

A Gaborone-based Motshelo investor (Person B6) informed the researcher that she had started her own initiative at the University of Botswana amongst students and that it is very profitable. Another participant in Motshelo (Person Y) added that this practice is profitable because debtors pay back the money. However, the Kanganama-based participant (Person B21) countered that some debtors do not honour credit obligations, leading to the non-performing loan rate of up to 30%.

Respondents emphasized that various loan recovery methods are used to compel debtors to settle accounts that are in arrears, including appealing to local traditional chiefs and civil courts (to compel delinquent debtors to pay up). Other credit providers use antisocial measures – such as harassment and threat of violence – to coerce debtors to honour their credit obligations.

Notwithstanding the pitfalls of non-performing loans, the general manager of a wealth management entity in Swaziland (Person B12) confirmed that the informal saving club-credit provision service is very profitable, and that a high profit margin therein is not likely to encourage informal savers to participate in the stock investment market.

4.2.4. The consequences of self-exclusion

This study observes that self-exclusion and commitment to specific anthropological practices of informal saving leads to the entrenchment of divisions and schisms between the informal saving sector and the equity investment market. A Sandton-based business development manager for a financial services firm (Person A) told this study that – as a white person – he does not understand African informal saving practices, and as a result his company does not provide equity investment services to the informal saving market. This disclosure is concerning because white-owned wealth management firms manage 96% of savings and investments in South Africa (Phillips, 2015).

A Black Botswana portfolio manager working for a traditional South African bank with a franchise in Gaborone, Botswana (Person B5) stated that the bank does not serve the informal saving community with equity investment products because the bank does not understand them (informal savers). This is despite the fact that in his previous role with a local Gaborone financial service intermediary, he used to provide equity investment service to the local indigenous financial community. The anthropological profile of indigenous saving practices, coupled with self-alienation from formal financial markets, is entrenching the gap between the formal equity investing market and the informal saving sector.

However, it is not only South African financial intermediaries that are dismissive of indigenous saving practices; some certain African financial investment intermediaries demonstrate contempt for indigenous investment market. Interviews with these entities revealed a limited interest in indigenous financial management practices. Afro-pessimism manifests in the description of the African informal financial sector as uncivilised, uneducated, backward, poor or unintelligent.

An official at the Swaziland stock exchange observed that “Swazis don’t read a lot.” (P5: Person B13.docx - 5:7.), implying that they are not informed. The executive manager of the Swaziland Stock Exchange (Person B15) characterised Swazi informal savers as simpletons, unsophisticated and not ready for equity investing, observing that, “at this stage I don’t think that those people are ready. You cannot make money if you going to come and demand your money in June after investing in January.” (P7: Person B15.docx - 7:8). He added that,

During the campaign people knew about stock exchange, but they felt it was beyond them. Individual people thought that it’s not a good idea. Its sounds like a complicated thing for rich people. (P7: Person B15.docx - 7:2)

A portfolio manager in Lusaka (Person S) dismissed participants of Chilimba, saying that, “they are usually not interested in making this type of investments, equity investing.”

It can be observed that class insularity combined with dismissive attitudes by intermediaries continue to entrench alienation of the indigenous saving class from the formal investment finance sector.

4.2.5. Solutions

As this study found, exclusion of informal saving groups from the equity investment sector is premised on the perception that participants of informal saving practices are poor. It revealed contempt for traditional African financial management practices, leading to alienation and self-exclusion.

Qualitative data suggest that as a collective, the informal saving market is lucrative, and according to research by Bryanston-based strategy consulting agency African Response (2012), the South African stokvel

market is worth R44 billion, excluding burial societies. Person B, a bank manager in Makhado, a rural town in Limpopo Province, South Africa, revealed that bands of informal saving clubs have emerged as profitable clients for his business. On average he opens 26 new accounts for informal saving groups a month, and each group deposit on average ZAR 8,000 per month.

The Chairperson of a Swaziland informal saving group called the Ambassadors (Person B13) explained that each club member received a share of the interest of about R19,000 in December 2014. A member of the Bambanani Stokvel (Person B7) based in Mbabane informed the researcher that, “in 2012 we made R92,000, and in 2013 we made at least about R119,000.” During the primary data collection phase, the researcher interviewed more than forty (40) members of informal saving groups and all of them receive money at maturity date at some point in a given year, a fact that underscores the popularity of the African indigenous financial management system.

Consequently, money managers need to transform their attitude towards informal saving groups, and this can be effected by adopting a business strategy that includes seeking investment mandates from participants of informal savings associations.

4.3 THE ROLE OF INVESTMENT EDUCATION IN EQUITY INVESTMENT AMONGST INFORMAL SAVERS

Literature review identifies financial literacy as a major determinant of investment behaviour and culture. Bin Kalli and Al-Tamimi (2009) conducted a study on the role of financial literacy on investment decisions. The research notes that individuals with financial education make quality investment decisions. In addition, it observes that financial literacy is affected by income level, workplace activity and educational level, thus

underscoring the importance of both formal and informal methodologies of acquiring investment education.

Research by Mouna and Jarboui (2015) support these views and observes that financial literacy plays an important role in investment portfolio formation and diversification. The study highlights that investors with limited financial literacy tend to lack diversification in their investment portfolio. Bhanot, Bapat and Bera (2012), discussing microfinance and financial inclusion, conclude that financial advice and education sourced from a family member or a government agency encourages rural communities to seek financial inclusion. The common factor is that financial literacy plays a role in financial management behaviour, and in some instances, it triggers the desire to seek financial inclusion.

The investment education theme is linked to another research question of this study: “What can motivate the informal saving market to link with equity markets?” During the interview phase, all interviewees indicated that a factor that will motivate the informal sector to link with formal financial services and induce indigenous savers to invest in equity securities is investment education.

A chairwoman of a South African stokvel that invests at the Johannesburg Stock Exchange (Person C) explained that her informal saving group, the Lihlulalakgotsi, took a decision to invest at the Johannesburg Stock Exchange primarily because its members possess significant levels of investment education and have proximity to the equity investment institutions.

Equity investment professionals across Africa – in Nigeria, Ghana, Kenya, Namibia, South Africa, Tanzania, Botswana, Zimbabwe, Lesotho, Mozambique, Swaziland and Zambia – observed that improvement in the saving and investment rate amongst participants of the informal saving

sector will be motivated by an increase in their level of financial literacy. The following survey entries from officials of financial intermediaries augment the call for education:

“These people need education.”

“They need education on financial management, and this will impact positively in linking them with equity markets.”

“Educate them on the risks and benefits of long-term investing.”

A portfolio manager based at a Gaborone wealth management firm (Person X) indicated that once her intermediary teaches people about investing, they eventually invest in equities and other related financial market products. The same phenomenon was observed in Nigeria. Tijjani, Fifield and Power (2009) observe that domestic share ownership was encouraged in Nigeria, and as a result stock ownership by Nigerian retail investors increased.

Although literature review and respondents concur that financial literacy is a prerequisite for individuals to make sound financial investment decisions, this study observed that most people who participate in the informal saving market are financially illiterate. A number of respondents from the informal saving community noted that they remain largely detached from the formal equity investment environment because they do not have adequate knowledge of modern wealth management tools. However, they intend to invest once they have knowledge of equity investment management.

The survey received the following comments from participants of traditional saving schemes regarding the need for investment education:

“I think all [people] saving [in African] practices should be registered and educated about how to save money”.

“They can educate us on how to raise our money if we are not claiming it for a long time and also provide us with information on how to benefit from our saving without using the saving”.

“Providing education on how we can benefit from investment”.

During the interview phase it became apparent that younger participants in the informal saving market – aged between 18 years and 40 years – have some level of education, mainly primary and secondary education. Notwithstanding their elementary education, most of the young respondents stated that they are largely divorced from equity investing. They contend that the main cause of ignorance in equity investing is the fact that the education they received at school does not introduce them to the financial investment curriculum.

In an interview, the Botswana stock exchange executive manager (Person B3) suggested that the education most people received is largely irrelevant, and as such does not foster prudent financial management:

I mean with due respect, I don't know why we are still teaching in our schools about people like Shaka Zulu, etcetera. It's good to teach them history, but now? I mean teach people about Shaka Zulu in this age of atomic bombs? Alternatively, what they should have been doing is that we have to at least bring in the concepts of financial literacy in the social studies that we learn. (P8: Person B3.docx - 8:1)

Information from interviews and qualitative data from the survey reveal four issues of importance around the theme of investment education, namely the target market, the learning environment, teaching methods and the curriculum of investment education. An informal saver (Person G) located in Venda, South Africa, disclosed to the study what she needs around the financial literacy-equity investment nexus:

First, knowledge of how the market works. Second, security of my money is very important. (P18: Person G.docx - 18:8)

4.3.1. Target markets

A Motswana interviewee (Person X) who is a portfolio investment manager at a pan-African asset manager with a franchise in Gaborone emphasised that investment education should be targeted at *all* the people who participate in the indigenous saving activities. However, she emphasised that senior citizens should receive special attention. This is because informal saving practices tend to be dominated by older members of the society, and this is a population group with little formal education.

A chief executive officer of a Black wealth management boutique firm based in Sandton, South Africa (Person D) observed that investment education should be extended to middle class participants of informal saving activities, and he particularly singled out bureaucrats such as nurses, teachers and artisans. The motivation for including middle class bureaucrats is that they lack relevant equity investment education and they participate in informal saving practices.

A Zimbabwean equity trader (Person F) advised that investment education should not be targeted only at people who are engaged in informal saving practices, but knowledge should also be shared with younger people, in particular school learners. He pointed out that the motivation for including pupils is to positively influence their financial investment culture during their formative years. In addition, the respondent motivated that children will grow up to make prudent investment decisions and simultaneously break down barriers existing between the formal financial sector and the informal financial market.

Qualitative data from the survey shows that officials of financial investment firms believe that investment education will trigger the transfer of excess liquidity from informal saving groups to the equity investment sector. Similarly, the responses from the survey distributed to participants of

informal saving activities revealed that informal savings groups need financial education in order to invest in equities. One of the respondents to the survey wrote about the need for, “general education on the function of the equity market.” Another respondent strongly advocated for “education on how investments works”. Therefore, qualitative data posits that investment education should be targeted at *all* members of the informal savings community.

4.3.2. The learning environment

Most of the respondents maintain that investment education should be delivered at a venue where members of the target group naturally congregate, and where they feel comfortable. The Zimbabwean equity trader (Person F) recommended that investment education should be carried out either in community centres, at the chief’s residence, or at the church. The Portfolio Manager of a wealth management business in Botswana (Person X) informed the study that her investment company successfully conducted investment education at schools and community centres.

In most African rural communities, school premises and church buildings tend to be used as venues for discussing society issues, and the latter serves as a communal source of solace and respite. A Limpopo, South Africa, bank investment advisor observed that the school environment is ideal for hosting investment meetings. He proceeded to explain how his bank conducts financial investment literacy exercises at school:

Let me say it's at school; automatically we will organise it (meeting) with the Headmaster of the school to do a formal representation. And at schools, sometimes they do have parents' meetings, so you can combine both of them: the parents at the other side and the teachers on the other side - together with the Headmaster; then you do the presentation, you educate them in all the aspects of investment. (P19: Person H.docx - 19:3)

Respondents emphasized the need to follow protocol at all times, including at the venues. According to the bank investment advisor (Person H) from Elim, South Africa, using school premises will require authority from the school management board, and using the premises of the traditional leadership will require conformity with ethnic norms and values. Respect for cultural values and community norms will increase the probability of success of the intervention.

4.3.3. The teaching methodology

Respondents indicated that the profile of the teacher as well as the method of training plays an important role in the success of the intervention. The investment business development officer at a Sandton financial services firm (Person L) indicated that the ideal teacher is somebody who is easily identified with the local people and who is culturally congruent with the target market.

A portfolio manager of a Botswana financial investment boutique firm (Person X) concurred with the aforesaid, noting that the ideal teacher is someone who is drawn from the target community. Engaging on this issue, some respondents from South Africa emphasised that the teacher should be of the Black race because the target audience is Black:

But if is a white man, who is a symbol of a black man's poverty, and if he comes and says: I want to upgrade you; you won't even accept it. You think: 'there is somewhere he wants to crook me'. So we are saying what I'm saying: let's get a black man to approach a fellow black man. (P17: Person F.docx - 17:6)

This point suggests that in an environment that has been previously marked by social conflict, ethnic and racial sensitivities should be observed. Most respondents indicated that strangers often intimidate the audience, and this has the capacity to undermine the objectives of the

learning programme – a point that underscores the role of anthropological affinities between the teacher and learners.

Some respondents expressed the view that government agencies should be the main sponsors of financial literacy initiatives. The executive manager of the Swaziland stock exchange (Person B15) indicated that his government already sponsors financial investment education, an initiative being carried out by the stock exchange jointly with the Swaziland central bank. The CEO of a South African wealth management boutique firm (Person D) recommended that government should take the lead in the training programme and contract specialized organizations to provide financial literacy education. He particularly discouraged the involvement of established financial firms in training as these may use the initiative to promote their own products.

Interviewees emphasised that learning material should be delivered in a simple manner. The Botswana asset manager (Person B5) indicated that simplicity is enhanced by a number of variables, including language and the pitch level. In this regard, learning should take place using a language that all those present easily understand. Words that have been borrowed and adapted from foreign languages should be explained thoroughly. The Zimbabwean equity trader (Person F) urged financial literacy instructors to “explain in their language, explain in the native language” (P17: Person F.docx - 17:5).

The training intervention should be pitched at an appropriate level. According to the Botswana asset manager (Person B5), the appropriate pitch is one that the audience is comfortable with. Although equity investing is probably a foreign concept for many people, African euphemisms could be used to illustrate a point. The Botswana wealth manager (Person B5) provided an example of a paraphrased vignette of

how an asset manager uses an African metaphor of cattle investment to illustrate equity investing to a group of African informal savers:

We say to informal savers that when an African family starts building wealth in the days of old, it starts with just one cow. This cow is an investment, and can be likened to shares bought at the stock exchange. Within a year the cow produces a calf, and simultaneously provides milk to the family. The little young calf is capital gains, and the milk is a dividend. Over time the natural process unfolds, and given security and feed, it results in the growth of cattle stock for the family. In like manner, long term equity investing and good stock choices result in equity investment wealth for the family.

The respondent indicated that this provided an example of a good pitch to indigenous African informal savers, and when facilitated using their native language, it has the capacity to realise gains. Furthermore, he informed the study that an appropriate pitch and the use of their mother tongue promoted a participatory teaching style. The participatory teaching style is rooted in a dialogue between the facilitator and the learning audience. A learning programme that allows for maximum participation by learners removes stigma, and when delivered in the mother tongue has a high probability of success.

The Zimbabwean equity trader (Person F) explained that the teaching methodology should be blended, using both traditional instruments and technology. For young people, and those who are adaptable, blended learning diffuses technology to facilitate learning, and this helps to maintain high levels of motivation, and optimise time and resources. The equity trader illustrated his point as follows:

With the eLearning thing, you can log in; it teaches you about investment, about retirement, it teaches you briefly about the markets, what's the stock market, what's the unit trust. (P15: Person D.docx - 15:6)

The same trader further noted that investment education should be delivered not just through theoretical pedagogy, but also through learning-by-doing as well, and this will be expedited using technology. He emphasized that learners should buy stocks and manage an investment portfolio using technology. The said training investment portfolio may be 'live' or a dummy, but the most important aspect is that investment education is being shared with the learners.

4.3.4. The investment education curriculum

Discussions with interviewees on what the content of the curriculum of investment education should be revealed a number of suggestions which all crystallise into three major learning themes, namely the philosophy of equity investing, the institutions and architecture of equity investing, and equity investment products. Informal savers emphasized that all they want is to know how equity investing works. An informal saver in a Limpopo village, South Africa (Person G), describes what she needs:

It is about general knowledge of equity markets. I have no idea where you begin with them and how you end with it. But I am sure that some education will take away lack of knowledge for us here in the village.

(P18: Person G.docx - 18:6)

The executive manager of the Botswana Stock Exchange (Person B3) explains what the financial investment literacy should contain:

They don't even know the value of money; they don't know about the returns. I mean that's the same concepts that we experience when we go around and teach people about stock market. It is so hard to teach people about stock market in this country because you start with basic knowledge of teaching people about interest, about saving versus investments and people cannot differentiate these two basic concepts in terms of the modern world; it is difficult for them to do that. (P8: Person B3.docx - 8:7.

According to the Zimbabwean equity trader (Person F), financial literacy interventions should engage on the philosophy of investing and contain a

critique of current practices. Currently, most people in the informal sector save primarily for social bonding, they do so for a short period and tend to spend the savings on frivolous expenditure during religious and social festivals (Irvin, 2005).

Wealth managers indicate that investment philosophy should emphasise the investment period. No longer should the indigenous community save for the short term, which is often less than a year. Instead, members of the indigenous community should invest for the medium to long term. Regarding tenure, the CEO of a Black-owned wealth management company in Bryanston (Person B3) advised that informal savers should be taught “to put aside some money for the long term which will basically increase their return potential for higher returns” (P8: Person B3.docx - 8:4).

Informal savers indicated that they would like to gain knowledge about institutions of equity investing, and that this is elicited by feelings of marginalization. Most people in the informal financial arena are financially excluded. Throughout the interview phase, this study was informed by informal savers that they have little knowledge regarding the stock exchange and other institutions of equity investing. For example, a Sowetan informal saver (Person K) indicated that the stock exchange ‘freezes’ money for its clients. Thus, according to a Sandton-based investment business development officer (Person L), the fundamental aspect of teaching is the exposition of the roles of stock investment institutions in the architecture of formal financial investing. He further indicated to this study that the main benefit of teaching about the institutions of equity investing was to remove intimidation and fear, as well as dispel notions that equity investing is for the elite, and that these institutions are not accessible.

Respondents indicated that teaching about institutions of equity investing should also include exposition of the regulatory authorities and their role of ensuring client protection. Some informal savers indicated that one of their major fears in equity investing is that financial investment intermediaries will steal the money. Regarding asset security, a respondent noted that he needed “assistance with people who steal savings or use the collected money.”

Still Within the context of investment and security, an informal saver in Botswana (Person Y) explained a case in Botswana, where a local diamond company listed on the main board of the Botswana stock exchange but went bankrupt later, leading to massive losses to local investors. In Swaziland this study was informed by the general manager of an asset management company (Person B12) about a Ponzi scheme that lost investors’ money. He cautioned that incidents of equity investment fraud undermine the equity investment system.

4.3.5. Solutions

Lack of investment education is the fundamental reason for the significant gap between indigenous African financial systems and the modern financial sector. As a number of respondents have informed the study, interest in and engagement with equity investment amongst participants of the informal financial sector will be triggered by the provision of equity investment education.

The target group for investment education comprises all people who participate in informal saving practices. Older people need to be given priority as they often do not possess elementary education, primarily as a result of apartheid and colonialism practices. School-going learners should receive financial investment education as well, and the intention is to encourage equity investment behaviour from an early age.

Investment education should be delivered where members of the community naturally meet, such as schools and community centres. Government and relevant agencies should be the main sponsors of the education intervention and teachers should be drawn from the community. The teaching method should be participatory and the language of instruction should be their mother tongue. The investment education curriculum should comprise the philosophy of investing, the institutions and architecture of equity investing, and information about equity products. The conclusion is that investment education is the motivating factor for linking the informal saving sector with the formal equity markets.

4.4. THE ROLE OF EQUITY MARKETS IN IMPROVING INVESTMENT PERFORMANCE OF INFORMAL SAVING GROUPS

Scholars have investigated determinants of saving rates in a society and, writing from the developing economy perspective, Samantraya and Patra (2014) reveals that, statistically, the gross domestic product, dependency ratio, interest rate and inflation determine the household saving rate. From the prism of a developed economy, Hondroyianis (2004) notes that fertility changes, dependency ratio, real investment rates, liquidity and public finances influence household saving rates.

Shoham and Malul (2012) use anthropological instruments to determine factors that impact on the saving philosophy. The results of the study note that culture plays a central role in determining saving behaviour. Shoham and Malul (2012) notes that in collective societies, people save because they do not want to be a burden to others in the future. The study observed that cultures that avoid uncertainty tend to save more than those communities where the fear of the future is low. In conclusion, Shoham and Malul (2012) note that China's 52 per cent savings rate reflects these cultural imperatives.

Van der Berg (2012) conducted a study on the relationship between saving behaviour and investing in equities in South Africa, paying particular attention to the Johannesburg Stock Exchange. The result of the study is that investing in the stock exchange over time is a good investment strategy. The study mapped a trend analysis of the performance of the JSE since 1987 and observed that a long-term equity investor would have seen the investments realize a 105 per cent yield over a 25-year investment period. A similar study by Barney (2009) reveals that although the United States has very low saving rates, households that invest in equities increase household wealth. These studies acknowledge the value of saving through the stock market in relation to traditional bank saving and wealth generation.

Maxfield (2009) recounts a study by Bekaert and Harvey (1997) on the roles and benefits of the stock exchange market in the economy. The Bekaert-Harvey (1997) research was conducted across 18 countries over several decades, and its findings established a positive correlation between stock market development and economic growth. Furthermore, the research observes that the stock exchange market particularly benefits from economic restructuring and equity market liberalization. Naceur, Ghazouani and Omran (2007) note the existence of reciprocal relationships between the financial sector and economic growth. The inference is that prudent investment in equity markets provides huge returns to individual investors, empowers the culture of saving, and correlates to national economic growth.

However, investing in equities is not automatic, especially for financially excluded groups, but at times requires external intervention and marketing. Eriksson and Hermansson (2014) conducted a study on the application of relational exchange theory in the financial services environment which indicates that investment behaviour of bank clients can be influenced by the relationship between the bank service advisor and

the bank client. Eriksson and Hermansson (2014) advises that bank service advisors should form strong bonds with clients based on trust and communication as this increases the likelihood of clients being receptive to new saving and investment proposals. This theme of saving rates and investment behaviour is linked to a research question of this study: How can equity markets improve financial investment performance of the informal savings market?

4.4.1. Flawed outreach to informal saving groups

Regarding the improvement of investment performance of informal savers, a management executive at the Swaziland Stock Exchange (Person B15) explained that his bourse had been marketing to communities since 1990. The purpose of such a marketing exercise has been to improve the lives of indigenous people through investing. Similarly, according to the management executive of the Botswana Stock Exchange (Person B3), public awareness campaigns are the preferred method for the Botswana Stock Exchange to improve the investment performance of informal groups. A respondent at the Lusaka Stock Exchange observed that the national securities exchange engages in public awareness activities in order to attract and retain retail investors from informal saving groups.

The respondent from the Lusaka Stock Exchange (Person V) indicated that the bourse uses the Zambia National Broadcasting Corporation's television channel to reach informal savers by publishing share prices and indices. Both the Botswana and Swaziland securities exchanges use the public broadcaster to inform and market their products, and the intention is to increase awareness and improve the investment performance of informal saving groups.

In addition to television marketing, the management executive of the Botswana Stock Exchange (Person B3) confirmed that the national bourse

advertises through the local newspapers. The Lusaka and Swaziland securities exchanges do not advertise through the newspapers but instead distribute promotional leaflets. They have also been engaged in promotions and in trade fairs to promote universal access and investment empowerment. According to the executive manager of the Swaziland Stock Exchange (Person 15) his securities exchange also reaches out to informal saving groups by sponsoring plays in schools. The common feature of these outreach initiatives is the preference for marketing through the media as a method of empowering the excluded market.

In the private sector, most respondents stated that they use strategies similar to those used in bourses, such as advertising through newspapers and television. In Swaziland, a portfolio manager of a bank (Person B14) explained that his firm is marketed through television and newspapers and has erected billboards in town next to taxi ranks. In Zambia an investment manager (Person R) indicated that they are using a similar strategy of ensuring public visibility through billboards in the suburbs. In contrast, a South African investment manager based in Sandton (Person A) confirmed that his firm does not advertise at all; independent financial advisors and other intermediaries refer business to them.

Notwithstanding these marketing campaigns aimed at inclusion and investment empowerment for the average consumer in the equity investing sector, respondents from the informal saving groups indicated that they have a low level of understanding of equity investing and that they do not participate in the stock market. Using the 'stock exchange' as a proxy for equities, every informal saver was asked the question, "Have you heard about a stock exchange?" The response from most savers was that they do not know the stock exchange nor do they engage in the equity market. Some gave responses that showed lack of knowledge. An informal saver (Person K) in Soweto observed that:

I did think about investing in equities, and invest at the stock exchange, but that thought never led to a material decision to take money there. The main reason is that money disappears at the stock exchange without a trace. (P22: Person K.docx - 22:1)

A number of respondents from both the informal saving sector and the formal equity market indicated that this lack of information explains poor investment performance by indigenous saving groups, and that a grand outreach programme by officials of equity intermediaries will not necessarily improve the investment performance of informal saving clubs.

With regard to the poor response to marketing drives, an informal saver respondent in Mukula, South Africa indicated that public campaigns by bourses are held in urban centres which exclude people in marginal and rural areas. She disclosed that although public radio stations make mention of equities, stock investment concepts are mainly in English and phrases that have been translated into the local language are confusing and unfamiliar. At the University of Botswana, a student informal saver (Person Y) indicated that he seldom listens to public radio stations because of poor branding and perceived ties to government. In Lusaka, a car washer and *Chilimba* saver (Person O) indicated that regardless of all the billboards in town and advertising through radio, he has not yet heard of equity investing.

Respondents from the formal equity sector indicated that they conduct good marketing exercises and that the poor response is due to ignorance. The executive manager of the Botswana stock exchange (Person B3) attributes possible lack of success of outreach campaigns to the fact that informal saving groups are poor partners. He indicated that members of informal savings groups do not read newspapers and in the event they read a newspaper, they read the sports section, focussing on soccer. Furthermore, the informal savings groups lack curiosity about business and formal investment finance. The executive manager of the Swaziland

Stock Exchange (Person B15) attributes the weakness of the marketing exercises to informal savers who believe that equity investing is complicated and not suitable for them. The respondent from the Zambia Stock Exchange (Person V) conceded that their outreach strategy is simply weak and that the institution should do better.

4.4.2. Relationship with the informal sector for investing

Discussions with equity investment intermediaries already investing for informal saving groups indicated that the ideal method of improving the investment performance of informal saving groups is not mass media marketing such as newspapers, television and billboards. According to these respondents, and consistent with Eriksson and Hermansson (2014), the equity market improves the investment performance of informal savers by prioritizing relationships-building with target groups and thereafter invests for them. The prerequisite of improving the investment goal of the informal investment sector is for the participants of the two streams of saving and investment to build a strong relationship of trust that leads to pecuniary investment business relations.

An interviewee from a Botswana wealth management firm who is a portfolio manager of a pan-African asset management company involved in this process (Person X) explained that equity investment service firms should develop a business development unit, led by an executive manager whose main role is exclusively to assist the investment performance of the informal saving market. She further indicated that the investment team as well as the executive manager should have a thorough understanding of how the informal saving system operates. Anchoring on nationalism, the Zimbabwean equities trader noted that the best methodology for improving the investment goals of informal savers is for Black-owned equity investment firms to initiate and maintain the said relationships with the aim of providing quality equity investment service.

A portfolio manager working for an international bank in Gaborone (Person B5) suggested a similar approach, noting that some officials of equity investment intermediaries should focus solely on clients from the informal sector. The creation of a specialised unit for a particular client base demonstrates the priority of business strategy to serve the financial underclass, and the employment of a dedicated executive serves to keep the business strategy alive at the executive level of the financial services corporation. The Botswana portfolio manager explained that the main role of the investment team is to visit targeted clients in their locale, meeting them in community centres, schools or royal courts and explaining how value may be added to their fund management.

Some respondents from the informal saving community explained that their investment performance will improve from exposure to equities. An informal saver located in Mukula village told the study that there should be a link between the two entities, and distance should be reduced for her savings to benefit through investment in equities:

This is because the stock exchange is far, far away from us – in Johannesburg, and we are located so far away here in the village. The stock exchange has to be part of us to make sense (P18: Person G.docx - 18:9)

This sentiment from a villager suggests that the equity investing fraternity assist the saving and investing performance of the informal sector by establishing a presence in areas where the target clients live, thereby enhancing proximity, even in a virtual form.

The expressed request of the villager for the institutions to be embedded within communities was not isolated. A member of Motshelo in Botswana (Person Y) observed that officials of equity investment intermediaries should conduct direct marketing just like insurance representatives who go around to the villages to meet with potential clients. In a similar manner,

an informal saver in Makwarela (Person J) explained that she had responded positively to a presentation by an insurance agent, and that she would respond positively to an equity investment agent as well.

Regarding the need for the presence of and assistance from officials of equity investment, the survey received the following comments from informal savers:

“More visibility to small groups and sharing of investment opportunities”.

“They can help us by taking our money and keeping it [invest] so that we (especially the person holding the money) do not spend or lose it”.

These entries suggest that proximity between formal equity sector (represented by marketing and investment agents) and the informal groups (represented by informal savers) will contribute significantly in empowering the saving groups to invest in equities, thereby improving their investment performance.

4.4.3. Results of proximity in the equity market improving investment performance of informal saving groups

Regarding proximity as an effective marketing and empowerment strategy, the chairwoman of a Johannesburg-based stokvel called Lihlutlakgotsi observed that closer proximity between her informal saving group and an asset manager was the motivating factor for transferring the saving group's money into the equity markets. She explained that in 2010/2011 she was studying for an MBA degree in South Africa and one of her professors who was a Chief Investment Officer at Bryanston-based Cannon Asset Managers enthused to the students about his contrarian investment fund called the Super Dog Fund. From this simple interaction (proximity) between a member of a stokvel (the interviewee, the student) and an asset manager (the business school professor), an informal saving group called Lihlutlakgotsi started investing in equities.

The chairperson of the Lihlulalakgotsi saving group confirmed that they are very happy with returns of over 30% per annum since 2012, and that equity markets improve the investment performance of informal saving groups by reaching out to the community and profitably managing their funds. Buoyed by the good performance of her saving group funds at Cannon Asset Managers, she told the study that Black people with knowledge of investment should visit Black villages, disseminate equity investment information and encourage stock investment for informal savings groups.

In Lusaka, Zambia, a female member (Person P) of a group participating in an informal saving activity called *Chilimba* was interviewed. She explained that she takes financial proceeds from her *Chilimba* and invests it at the Lusaka Stock Exchange. She further informed the study that although she is not literate in financial investment (she works in the human resources section), her interaction with the stockbrokers at the Lusaka bourse motivated her to buy equities with her *Chilimba* money. She has purchased shares in Copperbelt Energy Corporation and Madison Finance at the bourse and their performance increases the yield of her proceeds from the *Chilimba*. The inference is that assistance and closer interaction between participants of informal saving and officials from equity intermediaries play a key role in improving the saving behaviour and the investment performance of the informal financial management sector.

Survey responses from informal savers reveal that they believe that the formal equity sector has solutions for their saving and investment goals. They note that the equity market can assist in the following ways:

“By being more accessible and opening branches near villages.”

“They can invest our money in big companies so that we have monthly returns.”

“Saving our money for the year without having charges.”

“Help by saving and investing the little that we make.”

A client relationship manager at a Swaziland mutual bank (Person B11) confirmed that the theme of rapport-building, proximity and presence in communities informs the marketing strategy of her bank as a method of improving the investment performance of informal saving groups. She encourages a service-oriented mingling exercise as a strategy – a process that her mutual bank is already involved on. Consistent with this strategy, she indicated that her bank sends out investment teams to rural villages, and they carry out a number of activities, including investment education, helping villagers open bank accounts and guiding them to register for bank investment products. In addition, the investment team assists villagers with meeting regulatory requirements around money laundering and the ‘know-your-customer’ regime. She explained that the main purpose of guiding clients is to remove any feelings of intimidation and encourage familiarity with formal financial services.

Across South Africa, Zambia, Botswana and Swaziland, various respondents from investment firms already involved in this type of outreach confirm that people usually respond positively to stock investment empowerment-themed marketing. The Black CEO of a wealth management company based in Bryanston (Person D) explained that his company advertises through the South African Broadcasting Corporation radio station Motsweding FM and also visits communities in their churches and schools. He emphasised that as a result of their outreach programme, many people responded by having their assets managed by his company and because there is good intellectual capacity, the investment performance of informal savers is good.

From the survey, officials of investment recommended the following activities:

“Holding meetings and interacting with informal African communities.”

“Taking their assets, and investing them on their behalf.”

“[Provide] access to good counters and quality investment service.”

A portfolio manager of a Black firm based in Sandton (Person L) observed that his firm does not use traditional media outlets like radio stations and newspapers, but prefers to visit communities in the South African townships of Tembisa, Soweto and Alexandra. He noted that people usually respond positively and those who have responded have profitably invested in mostly collective funds and unit trusts.

Similar testimonies and vignettes were conveyed to this study by other asset managers in South Africa, Botswana and Zambia (Person F, Person B, Person X, Person B5) that proximity and personal relationships with clients at the bottom of the pyramid improve investment returns as opposed to merely reaching out to indigenous savers through newspapers and billboards.

4.4.4. Provision of equity products

A number of respondents opined that the formal finance sector will improve investment performance for informal saving groups by making value-added equity investment products widely available. According to the chief executive officer of a wealth management company based in Bryanston, Johannesburg (Person D), informal savings groups should be invested in all asset classes instead of the current situation wherein they are mostly on money market and morbid products like funeral insurance and death cover. He observed that these asset classes are weak, unable to consistently secure above-inflation returns, have expensive product service costs, and lack active management. In some markets blighted by the extortionist tax regime and where consumer prices are spiralling out of control, the weak products in question tend to realise poor yield.

Respondents described the ideal investment products that need to be made available to informal saving groups. According to Zimbabwean equities traders (Person F and Person L), the ideal products for informal

saving groups should allow for flexible tenure, zero minimum balance requirements, exposure to stocks, bonds and real estate, exposure to foreign stocks, active management of the funds, yielding above-cost returns and beating inflation, carrying zero penalties, and allowing for clients' emergency access to funds. According to the respondents, the provision of such a product profile communicates that the formal equity market is eschewing an insensitive approach to the informal market. Moreover, it is a demonstration of empowerment of the indigenous saving market.

Other wealth managers concur with product profile suggested by the Zimbabwean equity traders. A Johannesburg asset manager described a preferable product for informal savers as follows:

I think it's about time that informal investment side of the economy needs more structured product like unit trust or ETFs where people can get above inflation returns... ETF or unit trusts are liquid, you know it's available to you after 14 days. And if you are in a balance fund you get about 14, 15 per cent per annum you know; unlike getting 3 or 4 per cent for your saving account if you are lucky or a money market account. (P15: Person D.docx - 15:3)

Regarding provision of products, a contributor to the survey recommended "buying exchange traded funds or unit trusts." The executive manager of the Botswana Stock Exchange explained that equity products that meet this profile are already in the market; they merely need to be made available to the informal financial market. He further indicated that his bourse had developed Exchange Traded Funds so that retail clients – regardless of class and earning power – can participate. He commended the virtues of the ETF in his country, especially because anyone with a small amount of US\$10 can purchase a unit. In addition, it costs less than some shares; it is liquid, and since an ETF is tracking an index this means that performance risks are very low. According to the executive manager

of the Botswana Stock Exchange (Person D), these features of an ETF are the ideal product for informal savers.

The investment market also indicated that in some instances, new products should be created specifically for the informal saving sector. A portfolio manager in Botswana, Gaborone (Person X) told the study that her organization created an equity product called the Liquidity Fund which is equivalent to a bank call account, but with the difference that the Liquidity Fund is backed by equities, offers high returns, is flexible, and has active managers. Its flexibility allows informal saving groups like funeral saving groups to withdraw cash in the event of a funeral. As opposed to a typical bank money market account where the cost structure is expensive and unclear and penalties for early withdrawal are severe, the Liquidity Fund costs are clear, and there are no penalties for withdrawal. The respondent further observed that the service cost of a bank money market account ranged between 2% and 3%, and the cost of service for the Liquidity Fund was around 50 basis points.

The managing director of a Zambian wealth management firm and stockbroker (Person Q) emphasised that low priced affordable equities are available, these should be made available to informal saving groups, and the products should not be limited. His financial services firm provides access to shares at the Lusaka Stock Exchange to the informal saving market. The conclusion is that in addition to forming business relationships, the equity financial sector will improve the investment performance of informal savers by providing them with quality investment products.

4.4.5. Solutions

Exclusion from equity investing opportunities implies that investment performance of informal saving schemes is depressed. The role that the formal equity investment sector should play in improving investment

performance of the traditional African saving sector is to reach out and provide an equity investment service. Traditional media platforms such as newspapers, television and billboard advertising are not an adequate method for reaching out. Instead, stock investment intermediaries should pursue a personalised outreach programme, establish and sustain relationships of trust and eventually provide equity investment value to the informal market. Provision of equities products to traditional African saving communities constitutes investment value and improves investment performance.

4.5. INFORMAL SECTOR METHOD OF INVESTING IN EQUITY MARKET

Literature review reiterates the role of using intermediaries to access the equity market. Ho and Oh (2008) indicate that investors should use stockbrokers as they are well-positioned to receive instructions and conduct transactions on their behalf. In addition, Ho and Oh's (2008) research suggest that online stockbroking is popular and this is mainly because internet-based service is convenient and allows for an increased number of participants in the market.

Lee, Meredith and Marchant (2010) note that regardless of class, clients prefer quality service from equity brokers. The components of quality service are reliability and the ability to provide basic service timeously and accurately. Tijjani, Fifield and Power (2009) explain that domestic share ownership was encouraged in Nigeria and as a result, stock ownership by Nigerian retail investors increased. In addition, "shareholder associations sprang up while existing associations grew in size (Tijjani, Fifield and Power, 2009:7). They note that as the equity service provision surged, the stockbroking sector also grew. The discussion around intermediaries is linked with the research question: How can the informal savings sector access equity markets?

Investment professionals explained that informal savers should access the market by using equity investment intermediaries. The Botswana Stock Exchange manager (Person B3) informed this study that participants in the informal saving fraternity can choose to invest in the equities market through a group or as individuals. If investment is done through a group, they will need to formalize the group. A saving club is formalized through the signing of a charter of agreement and registration with relevant authorities, often regulatory agencies. This is to safeguard members' interests, secure their assets, and comply with anti-money laundering legislation.

The portfolio manager of a Stellenbosch-based asset manager indicated that those investing as a group should formalize the status, and the leadership of the group should access the equity market. He noted that an organised investment association makes the internal decision-making process quick and this allows for seamless communication between the equity intermediary and the leadership of the group. Once it is formally set up, the saving club needs to establish a relationship with an equity investment intermediary to equity products.

The process is the same for an individual investor from an indigenous saving scheme, who establishes a relationship with an intermediary and then starts to invest. The executive manager of the Swaziland Stock Exchange reiterates the role of the intermediary in accessing the market:

If you want to buy equity, you go through your stockbroker and give instructions that you want to buy a certain company or shares. (P7: Person B15.docx - 7:5).

The critical importance of the equity investment intermediary in the proposed framework augments the argument made by Eriksson and Hermansson (2014). Their research discussed themes of bank marketing, and emphasized that officials of financial services firms are crucial in the

financial investment process and influence the investment behaviour of clients.

4.6. CONCLUSION AND MAJOR THEME OF THE CHAPTER

This chapter reported the findings of the study from data gathered through interviews and a survey. Interviews were conducted with respondents from mainly four African countries, namely South Africa, Swaziland, Zambia and Botswana. Qualitative data from the survey reflected contributions from Zimbabwe, South Africa, Swaziland, Zambia, Botswana, Namibia, Nigeria, Ghana, Tanzania, Kenya, Zimbabwe, Lesotho and Malawi.

Respondents provided data on wide-ranging themes on aspects of stock investment exclusion of African informal savers; the role of investment education in reforming and enhancing financial behaviour of indigenous saving associations; the intervention of the formal equity investment sector in improving the investment performance of the informal financial sector; and the informal saving sector's method of accessing equity markets. The discussion of these themes and the review of literature fused to provide a solution for linking the informal saving market and the equity investment sector, consistent with the foundation of both the inductive research approach and grounded theory.

Regarding the framework for linking the informal saving market and the formal equity sector, the following are the principal learnings:

- There is limited interface between the informal saving sector and the formal equity market. The equity investment fraternity primarily serves the investment interests of institutional investors and to some extent, international portfolio investors, and disregards and crowds out the informal saving market, leading to self-exclusion.

- The perception of the informal saving market as poor is erroneous. On the contrary, the informal saving market is rich, and a change in perception should be reflected by a change in strategies to embrace indigenous savers as pecuniary constituencies of the wider financial system.
- The main reason people in the informal saving environment remain distanced from the equity market is that they lack knowledge about financial investments. As a result, respondents across the spectrum maintain that equity investment education will be the main driving force for linking the informal saving sector and the stock investment market.
- A number of African bourses and other traditional financial investment intermediaries promote universal access by engaging in marketing and awareness campaigns. However, effective interventions towards increased domestic retail investment participation and investment improvement rest on establishing and sustaining relationships and providing quality products and services to marginalized communities.

CHAPTER FIVE

FINDINGS FROM QUANTITATIVE DATA

THE FORMAL INVESTMENT MARKET

5.1 INTRODUCTION

This chapter documents the findings of the study which are derived from data set collected from officials of financial intermediaries in the formal financial sector. Results of the study are in different forms, namely descriptive statistics, correlations, and hypothesis tests. Three instruments, namely the Cronbach's Alpha value, Composite Reliability Coefficient, and Average Variance Extracted, provide frameworks for assessment of validity and reliability of the findings of this empirical study.

The data set derived from officials of formal financial intermediaries shows that there is little interface between the informal saving sector and the formal financial management market. Similarly, there is a dearth of effective marketing activities and knowledge transfer on equity investment towards the informal financial saving sector. There are also insufficient equity investment products available to the indigenous African financial market. The data set suggest that exclusion of informal savings groups from the stock investment market is entrenched.

Correlations and hypotheses tests shed some light on crafting a framework for bridging the gap and linking the informal saving sector and the formal financial investment market. Based on correlation and hypothesized data, there is a strong relationship between asset security, investment products, marketing at intermediaries, treatment at intermediaries and investment performance management. This suggests that security of savings, marketing, better treatment of people and provision of appropriate stock investment products by financial investment

firms would promote inclusion of informal savers in the equity investment market.

5.2. DESCRIPTIVE STATISTICS: FINANCIAL INVESTMENT INTERMEDIARIES

The descriptive statistics section focuses on statistical data derived from respondents that are attached to financial investment intermediaries. The objective is to describe the data, comment on distinct information therein and identify basic patterns that emerge that are of significance to this study (Hijazi, 2014). Such an exercise provides a foundational statistical picture on understanding the relationship between the formal financial sector and the informal saving sector.

Respondents to this study communicated unique knowledge and experiences drawn from assorted African markets including South Africa, Nigeria, Lesotho, Zimbabwe, Zambia, Kenya, Swaziland, Botswana and Tanzania. All the respondents to the financial investment intermediaries' data set have tertiary education qualifications and their job titles include portfolio manager, analyst, investment officer, manager, banker and financial advisor.

The financial investment intermediaries' questionnaire was divided into seven constructs, namely investment performance management (IPM), asset security (AS), investment education (IE), perceptions on the interface between informal and formal saving groups (PISI), marketing by intermediaries (MI), investment products (IP) and treatment of people at intermediaries (TPI).

The investment performance management (IPM) construct is composed of five items; it sheds light on financial investment management and further examines the quality of financial investment advice that officials of financial investment companies provide to informal savers. Three items

make up the asset security (AS) construct, and it probes the extent to which financial investment intermediaries protect the savings of informal savers. The investment education (IE) construct contains four questions that explore how financial investment firms carry out financial investment education. Three questions make up the investment products (IP) construct, and it explores the quality of financial investment products being marketed to informal savers.

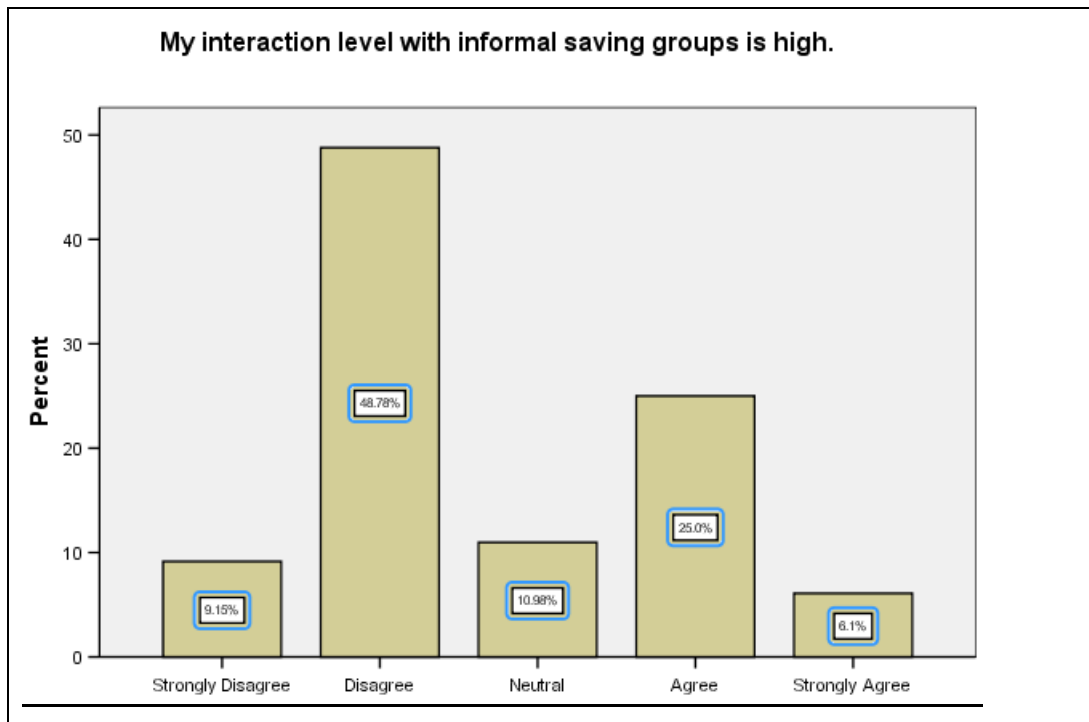
The perceived interface between the informal and formal savers (PISI) construct is largely ethnographic and has three items. It identifies the extent to which financial investment companies engage with informal savers in their environment. Similarly, the marketing by intermediaries (MI) construct has three items, and it examines the marketing and outreach strategies that financial investment firms use to promote their services to informal savers. Lastly, the treatment of people at intermediaries (TPI) construct has three items, and explores the treatment of informal savers at financial investment companies.

Below are graphs and succinct explanations of the results of descriptive statistics of the survey. All the questions were measured on a 1 – 5 point Likert scale anchored from “strongly disagree” for 1 to “strongly agree” for 5.

5.2.1 Investment Performance Management (IPM)

Figure 1 below reports the survey results of the theme: “My interaction level with informal saving groups is high”. The purpose of this theme is to gain understanding on the extent to which officials affiliated with formal financial intermediaries engage with members of informal saving groups. Data collected from interviews suggest that there is a low level of interface between the informal financial sector and the formal financial management system.

Figure 1: Interaction level between intermediary officials and informal savers



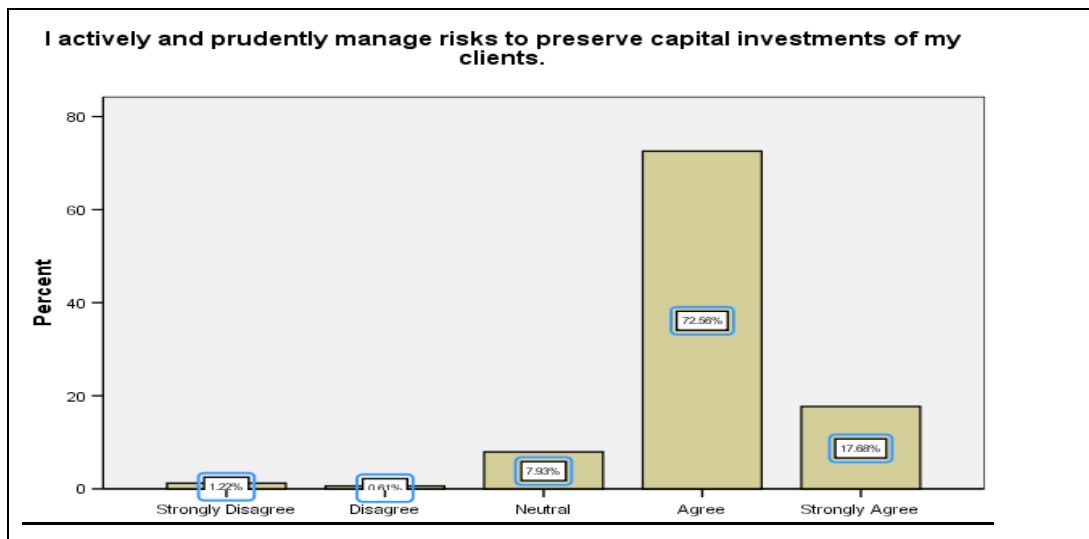
Most of the respondents disagree with the statement, represented by 48.78% of the total sample. These were followed by those that agree (25%), those who are neutral (10.98%), those who strongly disagree (9.15%), and finally those who strongly agree with the statement representing 6.1% of the sample.

This finding suggests that cumulatively 59.93% of respondents within the formal financial sector do not have a high level of interaction with informal savers. This is consistent with findings by Koku (2014), that formal financial management institutions exclude some members of society by using price, marketing strategies, and service risk analysis processes. The consequences of low levels of engagement between informal savers and formal financial investment firms are financial investment exclusion, financial illiteracy, and the entrenchment of poverty of those people that are already marginalized.

5.2.2 Asset Security (AS)

Figure 2 reflects survey results of the theme: “I actively and prudently manage risks to preserve capital investments of my clients.” The purpose of this theme is to obtain knowledge on how ethically and prudently the formal financial sector system manages clients’ financial assets. Data from the interviews established that clients of formal financial service firms have high confidence levels that their financial assets are being managed ethically

Figure 2: Risk management in the formal financial system



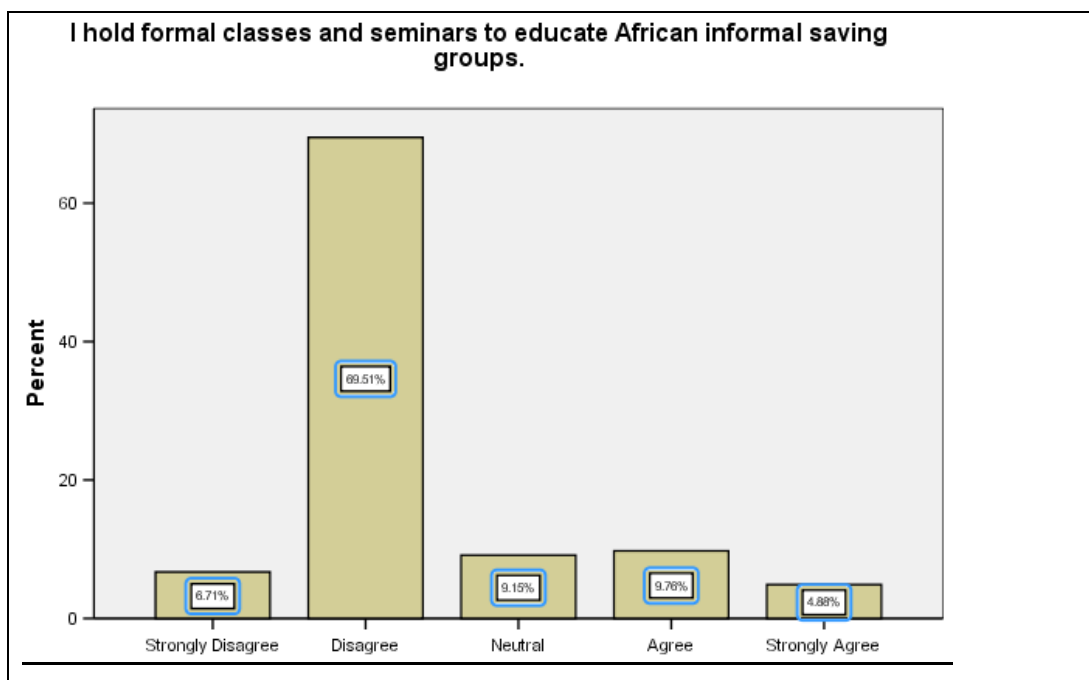
Most of the participants agree with the statement and are represented by 72.56% of the total sample. These are followed by those that strongly agree (17.68%), those who strongly disagree and disagree (1.22%) and (0.61%) respectively, and finally those who are neutral with the statement, representing 7.93% of the sample. This suggests that assets under management of formal financial investment service firms enjoy asset security. This is consistent with research by Saffy, Chetty and Stoklosa (2012) which indicates that regulatory improvement in the banking and financial services sector promotes client financial asset security. In contrast, Vonderlack and Schreiner (2002) observes that participants of rotating credit and saving schemes do not always enjoy asset security.

Against this background, informal savers are actually better off with their financial assets invested in the formal financial sector for greater security.

5.2.3 Investment education (IE)

The figure below reflects the survey results of the theme: “I hold formal classes and seminars to educate African informal saving groups”. The purpose of the theme is to establish whether officials affiliated with formal financial investment companies participate in financial literacy and investment education campaigns. The interviews found that *few* officials attached to financial investment organizations participate in public investment education initiatives.

Figure 3: Formal financial sector participation in public investment education



Results indicate that most of the participants disagree with the statement, representing 69.51% of the sample. These are followed by those that agree (9.8%), those who are neutral (9.1%), and those who strongly disagree (6.7%). Finally, those who strongly agree with the statement represent just 4.9% of the sample. Cumulatively, 76.21% of respondents

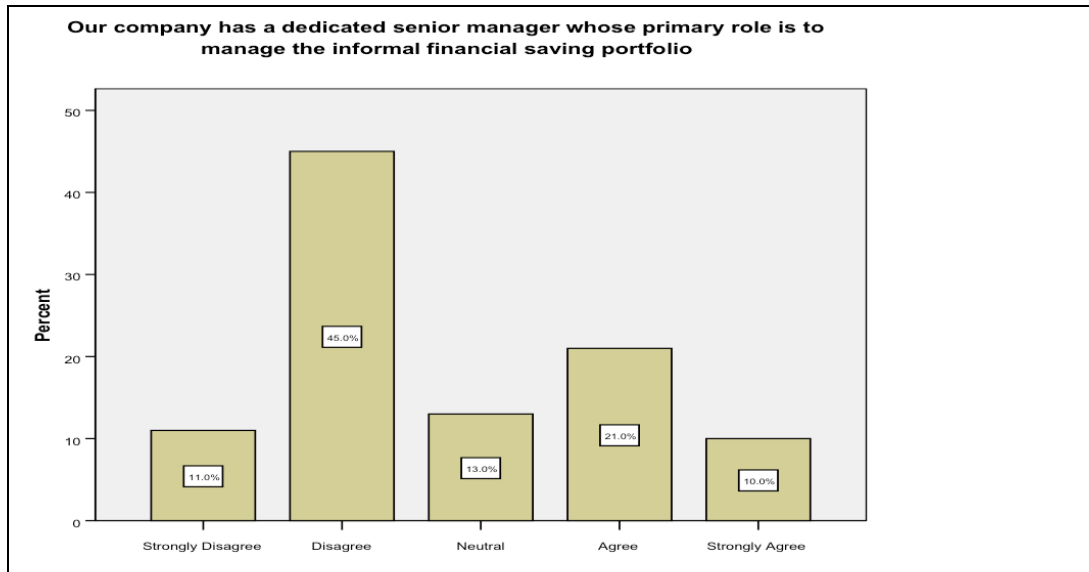
of the officials of the formal financial sector indicate that they do not provide financial investment education to the informal saving market.

Interviews undertaken in this study reveal that the lack of financial literacy amongst informal savers leads to poor investment choices, consumption of savings, and alienation from equity investing. Literature is congruent with these findings, and Chaia, Dalal, Golan, Gonzalez, Murdoch and Schiff (2009) maintain that financial institutions do not engage informal savers because they do not prioritise them, and that this has a negative impact on the financial position of excluded communities.

5.2.4 Perceived interface between informal and formal savers (PISI)

Figure 4 below illustrates the survey results of the theme: “Our company has a dedicated senior manager whose primary role is to manage the informal financial saving portfolio”. Interviews identified that the appointment of a senior executive focusing on the financial inclusion portfolio promotes integration and linkages between the informal financial saving sector and the stock investment market. The creation of the informal financial service office in the executive echelon reflects the existence of a firm strategy to remove service access barriers and isolationism.

Figure 4: Existence of senior executive focusing on the financial inclusion portfolio



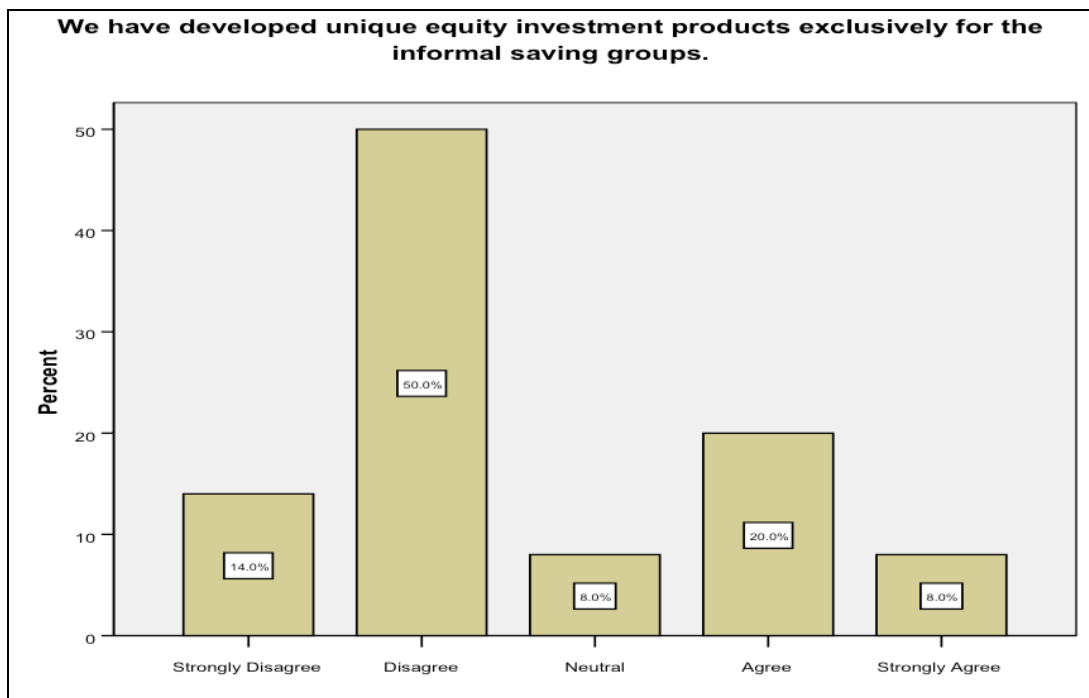
Results of the survey indicate that most of the participants disagree with the statement, represented by 45% of the sample. These were followed by those who agree (21%), those who are neutral (13%) and those who strongly disagree, representing 11% of the sample. Those who strongly agree comprise 10% of the total sample. Interviews reveal that one of the ways of promoting the inclusion of informal savers in equity investing is by creating an office solely dedicated to the informal saving portfolio. The lack of a dedicated senior financial investment executive promoting financial inclusion suggests poor marketing strategy towards informal saving groups.

5.2.5 Investment Products (IP)

Figure 5 below illustrates the survey results of the theme: "We have developed unique equity investment products exclusively for the informal saving groups". The purpose of the theme is to find out if the formal financial sector is developing unique equity investment products tailored for the informal saving groups. Interviews of this study noted that poor product offering discourages interest in formal stock investment by the

informal sector. In addition, the same interviews observed that informal savers have limited access to quality equity products save for a morbid product range such as funeral insurance and life cover.

Figure 5: Development of unique product range for informal finance clients



Most of the participants (50%) disagree with the theme statement. These are followed by those who strongly agree (20%), those who strongly disagree (14%), and finally those who are neutral (8%) and those that strongly agree (8%) with the statement. This suggests that most financial investment firms do not develop stock investment products unique to the needs of the informal saving groups. Indeed, interviews observed that the prevailing product range is mostly designed for high net worth individuals. In addition, interviews found that the preference for wealthy clients is abetting the disregard and the crowding out of informal savers from the stock investment economy.

5.2.6. Summary of descriptive statistics on investment intermediaries

Table 3 below summarises the overall descriptive statistics for the measurement models of the seven research variables.

Table 3: Summary of Investment Intermediaries statistics

Construct	Item	Percentage per item						
		Mean	SD	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Investment Performance Management (IPM)	1	3.68	0.952	3.7%	11%	11.6%	61.6%	2.2%
	2	3.60	1.257	3%	23.8%	17.1%	22.6%	33.5%
	3	3.93	0.795	0.6%	4.3%	18.9%	54.3%	22%
	4	3.82	0.821	1.2%	5.5%	20.1%	56.1%	17.1%
	5	2.70	1.125	9.1%	48.8%	11%	25%	6.1%
Asset Security (AS)	1	4.05	0.625	1.2%	0.6%	7.9%	72.6%	17.7%
	2	4.18	0.530	0%	0.6%	4.9%	70.7%	23,8%
	3	4.19	0.502	0%	0%	4.9%	71.3%	23,8%
Investment Education (IE)	1	2.37	0.927	6.7%	69.5%	9.1%	9.8%	4.9%
	2	2.27	1.080	16.5%	62.8%	7.3%	4.3%	9.1%
	3	3.09	1.313	12.2%	29.9%	10.4%	32.3%	15.2%

	4	2.41	1.062	14%	54.3%	14%	11.6%	6.1%
Perceived Interface between Informal & Formal Savers (PISI)	1	3.36	0.732	5%	10%	8%	62%	15%
	2	3.99	0.811	11%	45%	13%	21%	10%
	3	3.78	0.781	11%	43%	11%	26%	9%
Marketing by Intermediaries (MI)	1	2.49	1.036	6.7%	65.9%	4.3%	17.7%	5.5%
	2	3.34	1.411	12.2%	25%	6.1%	30.5%	26.2%
	3	2.44	1.120	14%	55.5%	11.6%	10.4%	8.5%
	4	2.43	1.097	15.9%	51.8%	11.6%	15.2%	5.5%
Investment Products (IP)	1	2.38	1.064	14%	50%	8%	20%	8%
	2	2.43	1.108	16%	40%	8%	29%	7%
	3	3.15	1.131	7%	26%	16%	41%	10%
Treatment of People at Intermediaries (TPI)	1	3.84	0.806	3%	6.1%	4.9%	75.6%	10.4%
	2	3.94	0.680	1.8%	1.2%	11.6%	72%	13.4%
	3	3.22	1.119	3.7%	32.9%	11%	42.7%	9.8%

* Scores: 1 – Strongly disagree; 3 – Neutral; 5 – Strongly agree.

SD. = Standard Deviation.

AS= Asset Security; IE= Investment Education; IP= Investment Products; IPM= Investment Performance Management; MI= Marketing Intermediaries; PISI= Practical Interface & Investment Stream; TPI= Treatment of People at Intermediaries

Drawing from the mean values of the measurement scale and the standard deviations, the results indicate that the majority of the respondents largely agree with most of the questions asked on investment performance management (IPM), asset security (AS), perceived interface between formal and informal savers (PISI) and treatment of people at intermediaries (TPI). However, the majority of the respondents disagreed with most of the questions asked on investment education (IE), investment products (IP) and marketing by intermediaries (MI).

The major takeaways from descriptive statistics are that there is very little service interaction between financial investment firms and the informal saving economy. The stock investment sector seldom markets its offering to the indigenous financial saving community. The formal financial sector rarely creates quality stock investment products for the informal sector. Notwithstanding, the formal financial security sector is considered a secure investment avenue, and this is attributable to the quality of the regulatory regime.

Descriptive statistics is a valuable tool for observing trends in statistical data but it lacks analytical rigour. In order to deepen the analysis and obtain further knowledge on the financial intermediaries' data set, this study will now apply the structural equation modelling approach.

5.3. STRUCTURAL EQUATION MODELLING APPROACH

This study proceeds to use the structural equation modelling (SEM) approach to analyse data derived from respondents affiliated with financial intermediaries. Motawa and Oladokun (2015) argue that the structural equation modelling analytical framework is suited to analysing statistical data on behavioural science, and that the structural equation modelling “can be used in developing new theories while at the same time serve as the platform upon which theory can be tested” (2015:437). In addition, this study is using structural equation modelling because it is a statistical

approach ideal for testing hypotheses and identifying correlations between both manifest and unobserved variables (Dandagi, Bhushi, Bagodi and Sinha, 2016).

Structural equation modelling capabilities are extensive as it represents the convergence of assorted conventional statistical analysis tools – including the t-test, analysis of variance (ANOVA), Multiple Regressions, Factor Analysis, Bivariate Correlation, and Growth Curve Analysis.

Hazen, Overstreet and Boone (2015) note that the structural equation modelling is a rigorous, and dependable method of quantitative research. Rigour is attributable to numerous factors, but the main factors are that structural models connect research variables to each other, thereby creating and increasing knowledge on the subject being studied. The structural equation modelling does not restrict itself to connecting only manifest variables to each other but also portrays relationships across both latent and manifest variables (Hazen, Overstreet & Boone, 2015). This suggests that the results from structural equation modelling statistical analysis reveal study outcomes emanating from clearly stated variables and those variables that are not plainly observed. Therefore, this study is applying the structural equation modelling based on its capabilities to statistically unearth both hidden and observable knowledge.

In addition, this study is using structural equation modelling due to the fact that it is anchored in science, in part expressed through the confirmatory factor analysis. The confirmatory factor analysis tests the validity and reliability of measurement instruments, and further checks if the model fits the data that has been gathered. In other words, the confirmatory factor analysis ensures that the results of the statistical analysis that is being carried out are repeatable, and that the process complies with scientific standards. This suggests that the outcomes that will emerge from this

study would be scientific and objective and will be a dispassionate representation of the situation on the ground.

In this study, the structural equation modelling is being applied as a two-stage analytical framework (Anderson & Gerbing, 1988). The first stage is concerned with testing the suitability and scientific features of the measurement instruments and this is done by conducting validity and reliability tests. This is followed by discussion on correlations, path model results and discussion on hypothesized relationships.

5.3.1. Structural Equation Modelling – Assessment of reliability and validity of measurements

5.3.1.1 Reliability Assessment

Reliability and validity are two necessary elements in the evaluation of a measurement instrument. Reliability focuses on the ability of an instrument to consistently measure something while validity is about the extent to which an instrument measures what it is intended to measure (Tavakol & Dennick, 2011). Notably, the reliability of an instrument is closely linked with its validity. Furthermore, an instrument cannot be valid if not reliable, although the consistency of an instrument does not hinge on its validity (Nunnally & Bernstein, 1994). However, internal consistency is an essential but insufficient condition for measuring uni-dimensionality or homogeneity in a sample of investigation items (Cortina, 1993).

A critic of Cronbach's α submitted that it may under- or over-estimated reliability (Raykov, 2001). A major under-estimation of reliability happens if this assumption is violated and α may fail to confirm whether or not a sample of items is, in fact, uni-dimensional (Cortina, 1993). Consistent with the two-step procedure suggested by Anderson and Gerbing (1988), Byrne (2001) along with Jöreskog and Sörbomin (1993), prior to testing

the postulated hypotheses in the conceptual model, CFA has to be carried out in order to check the reliability, in this case Composite Reliability (CR) and validity (Average Variance Extracted (AVE)) and in this case, both convergent and discriminant validity were computed.

5.3.1.2 Reliability Assessment: Cronbach's Alpha Analysis

Reliability is about attaining the same findings over several applications of the same study, namely the trustworthiness and stability or consistency of the data (Kalof, Dan & Dietz, 2008). Cronbach's α , as an index of reliability, is a traditional reliability measure that evaluates the likelihood that the employed measurement procedure for the construct will deliver the same account of a specific phenomenon when the measurement is repeated (Cronbach, 1951). Furthermore, internal consistency defines the extent to which all the items in a test measure a similar variable or concept and therefore are linked to the inter-relatedness of the items in the test (Tavakol & Dennick, 2011). Internal consistency should be assessed before a test can be done for research purposes to ensure validity. The Cronbach's α , like the CR value, is usually expressed as a number that ranges between 0 and 1 (Jöreskog & Sörbom, 1993).

5.3.1.3 Reliability Assessment: Composite Reliability

Composite reliability (CR) is the sum of a true score variance with respect to the total scale score variance, that is, it reflects the amount of scale score variance, accounted for by all the principal elements (Bacon, Sauer & Young, 1995). As α is not a "desirable" estimate of reliability of a scale, owing to its weaknesses, for example, that of under-estimating reliability (Streiner, 2003), CR has become the next best alternative of reliability estimate (Fornell & Larcker, 1981). Even Cronbach (2004:402) did not reject the assessment of a downward bias in coefficient α owing to "a small mathematical detail that causes the alpha coefficient to run a trifle

lower than the desired value.” CR is frequently calculated in conjunction with SEM. Therefore, when true reliability was projected in the study through the use of SEM, the ensuing estimate was termed composite reliability.

In SEM terms, the consistency of an indicator is characterised as the variance in the indicator that is not explained by measurement error (Miller, 1995). Hair, Anderson, Tatham and Black (1998) posited that the minimum recommended threshold for CR values should be above the 0.70. This is consistent with Hulland (1999) who suggests that the CR value for constructs should be above the 0.7 for them to indicate an acceptable reliability and internal consistency of the corresponding measures. However, Tseng, Dornye and Schmitt (2006) suggest that CR values should be at least 0.6 to justify internal consistency. Accordingly, the current study considered all the perspectives of the above researchers and hence the threshold to be met is $0.6 \leq X < 0.7$.

5.3.1.4 Validity Assessment

The measurement model checked both convergent and discriminant validity. According to Hair et al. (1998), validity is about measuring the degree to which each variable is properly measured and measures what it claims to measure. The current study places more attention on two kinds of validity – convergent validity and discriminant validity – despite the fact that there are innumerable techniques available to measure validity. This was due to the fact that the non-existence of discriminant validity lowers confidence in the study results, and strong emphasis should be placed upon discriminant validity to guarantee the distinctiveness of measurement instruments. Nonetheless, convergent validity was not disregarded, as it was deemed vital for constructs to converge well with each other.

Convergent validity is, essentially, about the extent to which the measure of a construct is correlated with other measures of the same construct, that is, ≥ 0.5 (Fornell & Larcker, 1981). The measurement items of the construct were theoretically estimated to show a link (that is, ultimately they should correlate highly), so that all of them are deemed to measure the same construct (Anderson & Gerbing, 1988). Discriminant validity essentially puts forward the fact that each measurement instrument should effectively differentiate the construct being studied from other similar constructs (Hair et al., 1998). This implies that every single construct must be distinctive and there ought to be no multicollinearity between the study constructs. The rule is that a correlation ≥ 0.85 indicates poor discriminant validity in SEM and this may show signs of severe multicollinearity.

5.3.1.5 Validity Assessment: Convergent Validity

To determine whether there is convergent validity, corrected item-to-total correlation was used. A very low item-to-total correlation value indicates that the item is diverging, or not converging well with others. A preferable item-to-total value is the one that is > 0.5 . Therefore, the above can be summarised as follows.

A(n): –

Corrected item-to-total correlation (> 0.5) = Convergent validity

Corrected item-to-total correlation (< 0.5) = Convergent validity

In line with Chin (1998), convergent validity can also be demonstrated when all the standardized regression weights of same construct are more than 0.7. Furthermore, to justify the existence of convergent validity, AVE must be at least 0.5 and CR must be greater than 0.7 for all variables of a measurement model.

According to Fornell and Larcker (1981), all constructs must have an AVE of no less than 0.5. An extracted variance in excess of the 0.50 threshold is also recommended by Hair et al. (1998). Likewise, Dillon and Goldstein (1984) suggest that an AVE value beyond 0.50 shows that the (convergent) validity of the variable is high. It appears that Fornell and Larcker's (1981) method characterizes the best method to apply Farrell's (2009) suggestion. Even though an AVE value of above 0.5 seems to be the established threshold, Fraering and Minor (2006) suggest that an AVE value of at least 0.4 is marginally acceptable. Therefore, the current study used the following threshold for the acceptability of AVE values: $0.4 \leq X < 0.5$.

5.3.1.6 Validity Assessment: Discriminant Validity

Discriminant validity is the degree to which a latent variable differentiates 'itself' from other unobserved variables, that is, a latent variable should be able to account for more variance in the observed variables associated with it (Fornell & Larcker, 1981). Therefore, discriminant validity is critical for conducting latent variable analysis (Bollen, 1989). Without it, it is difficult for investigators to be certain whether results that validate the postulated structural paths are real or whether they are the result of statistical incongruities. The construct and individual indicators become questionable if discriminant validity is not established. Moreover, a lack of discriminant validity may imply that measurement scales used in research may function incorrectly, making the researcher draw incorrect conclusions. Farrell (2009), for example, calls for an evaluation of discriminant validity in managerial research.

According to Bove, Pervan, Beatty and Shiu (2009:702), "Discriminant validity is assessed by comparing the shared variance (squared correlation) between each pair of constructs against the average of the AVEs for these two constructs". In general, this correlation is regarded as

a factor loading. CR and Average Variance Extracted (AVE) are related in that CR approximates the degree to which a set of unobserved variable indicators share in their valuation of a variable, whereas AVE is the extent of common variance among unobserved variable indicators (Hair et al., 1998). The correlation matrix was also used to check whether discriminant validity existed. The constructs were not supposed to correlate highly with each other, that is, ≥ 0.85 , as this would have displayed problems of multicollinearity.

5.3.2 Structural Equation Modelling –Reliability and validity of the financial intermediaries data

The purpose of this phase is to carry out reliability and validity tests of the measurement instruments. Reliability assesses the extent to which the statistical technique being used will produce similar outcomes on repeated experiments (Rajeh, Tookey, Olabode & Rotimi, 2015). This study uses the Cronbach's Alpha Value and composite reliability to test reliability.

Validity is concerned with assessing the degree to which variables are correctly measured and the extent to which such variables measure what they intend to measure. Simply stated, validity is concerned with analysing the credibility of the variables and the objectivity of the measurements thereof (Rajeh et al, 2015). This study is using the Average Variance Extracted (AVE) and Inter-Construct Correlation Matrix to test for validity.

5.3.2.1 Reliability

As detailed below, the Cronbach's coefficient, α , and composite reliability are used to test reliability.

5.3.2.2 The Cronbach's Alpha Test

Cronbach's coefficient α is one of the most common internal consistency test approaches (Dunn, Baguley & Brunsden, 2013). According to Tavakol and Dennick (2011) Cronbach coefficient α values must be above 0.60 in order to reach reliability measurement threshold. Chinomona (2011) maintains that a higher level of Cronbach's coefficient alpha indicates a higher reliability of the measurement scale. Informed by the cited literature (Chinomona, 2011; Dunn, Baguley & Brunsden, 2013), this study adopts this counsel: all the variables of this study should have a Cronbach coefficient α value above 0.60 in order to be deemed to be reliable.

Table 4 below contains Cronbach's coefficient α for this study's variables, namely Asset Security (AS), investment education (IE), investment products (IP), investment performance management (IPM), marketing at intermediaries (MI), Practical Interface & Investment Stream (PISI), and Treatment of People at Intermediaries (TPI).

Table 4: Cronbach's Alpha Test

Variable	Cronbach's Alpha
Asset Security (AS)	0.807
Investment Education (IE)	0.885
Investment Products (IP)	0.790
Investment Performance Management (IPM)	0.645
Marketing Intermediaries (MI)	0.857
Practical Interface and Investment Stream (PISI)	0.832
Treatment of People at Intermediaries (TPI)	0.753

As seen above, all the Cronbach's coefficient α values of all the variables of this study surpass the recommended threshold of 0,6 as suggested by Dusick (2011). The investment education variable has the highest Cronbach's coefficient α value (0.885). Investment Performance Management is the variable with the lowest Cronbach's coefficient α value (0.645), albeit above the minimum 0.60 threshold. The conclusion is that the variables being used in this study have Cronbach α values that exceed the minimum requirement. This means that the variables used in this study are reliable and that they are scientific: they will produce similar outcomes on repeated studies.

5.3.2.3 Composite reliability test

As alluded to earlier, another measure of assessing scientific profile of study variables is the composite reliability test. Peterson and Kim (2012) suggest that the composite reliability test is a better instrument for examining reliability than the Cronbach's coefficient α . Yang and Lai (2010) assent to the scientific properties of composite reliability and further posits that in reliability analysis an acceptable composite reliability value must exceed 0.7 for scientific foundation to be established.

Table 5 below contains the results of the Composite Reliability test on the variables of the study, namely asset security (AS), investment education (IE), investment products (IP), investment performance management (IPM), marketing at intermediaries (MI), Practical Interface and Investment Stream (PISI), and Treatment of People at Intermediaries (TPI).

Table 5: Composite Reliability

Variable	Composite Reliability
Asset Security (AS)	0.886
Investment Education (IE)	0.921
Investment Products (IP)	0.878
Investment Performance Management (IPM)	0.749
Marketing Intermediaries (MI)	0.902
Practical Interface and Investment Stream (PISI)	0.923
Treatment of People at Intermediaries (TPI)	0.843

The results of the composite reliability test show that all the variables of the study exceed the 0.70 threshold. The Practical Interface and Investment Stream variable has the highest composite reliability value (0.923). The variable with the lowest composite reliability value is the Investment Performance Management with 0.749, although this is above the 0.70 mark of acceptability. Notwithstanding, the significant observation of this table is that all the study variables have composite reliability score above the minimum 0.70 threshold. The inference is that all the variables used in analysing data accrued from the formal financial sector are reliable.

5.3.2.4 Validity

Validity refers to the extent to which each variable in the study is properly measured and whether variables measure what they claim to measure (Hazen et al, 2015). Moreover, validity tests the distinctiveness of each variable in the study to avoid ambiguities and inconclusive findings. Poor validity lowers confidence and scientific properties of the results of the

study. This study will use two instruments to test validity, namely Average Variance Extracted and Inter-Construct Correlation Matrix, and these are detailed below.

5.3.2.4.1 Average Variance Extracted

According to Chinomona (2011), it is necessary for validity tests to assess convergent validity. Convergent validity assesses the extent to which the measures of constructs that are supposed to be related are actually correlated. According to the structural equation modelling theory (see e.g., Drew & Rothenthal, 2003), the Average Variance extracted, is normally used to measure convergent validity. This is because the average variance extracted is stringent and exacting, and further accounts for measurement mistakes. Fraering and Minor (2006) posit that average variance extracted values for each variable need to be above the 0.5 threshold for convergent validity to be established.

Table 6 below shows Average Variance Extracted values for all the variables in the data set of formal financial intermediaries, namely asset security (AS), investment education (IE), investment products (IP), investment performance management (IPM), marketing at intermediaries (MI), Practical Interface and Investment Stream (PISI), and Treatment of People at Intermediaries (TPI).

Table 6: Average Variance Extracted test results

Variable	Average Variance Extracted
Asset Security (AS)	0.722
Investment Education (IE)	0.746
Investment Products (IP)	0.706
Investment Performance Management (IPM)	0.510
Marketing Intermediaries (MI)	0.701
Practical Interface and Investment Stream (PISI)	0.856
Treatment of People at Intermediaries (TPI)	0.643

As indicated above, all the Average Variance Extracted values for all the research variables reveal a good representation of the distinctiveness and convergence of the latent constructs since average variance extracted values are all above the acceptable threshold of 0.5. Indeed, the results of Average Variance Extracted indicate that most of the values range from 0.510 to 0.856. This confirms the existence of convergent validity.

5.3.2.4.2 Discriminant validity

Within the context of structural equation modelling, discriminant validity requires that each measurement variable be different and discriminated from another variable. Discriminant validity therefore assesses if each construct is different and distinctive in the study, and this is anchored on the view that proscribes multicollinearity amongst study constructs (Dandagi, Bhushi, Bagodi & Sinha, 2016). Rajeh et al (2015) argue that discriminant validity is a crucial and important component of quality tests, especially testing for latent variable analysis. Indeed, if discriminant validity is not observed, study variables may become inconsequential and

suspect. The instrument used to test for discriminant validity is the Inter-Construct Correlation Matrix.

The basic requirement used to establish discriminant validity is for Inter-Construct Correlation Matrix less than 1.0. Ideally, a correlation value between constructs of less than 0.85 is also recommended in the empirical literature to confirm the existence of discriminant validity (Bagozzi & Yi, 1991; Nunnally & Bernstein, 1994). As can be seen below (Table 5) all the correlations are below the acceptable level of 0.85. The highlighted diagonal values are the Shared Variances for the respective research constructs. The Shared Variance is expected to be greater than the correlation coefficients of the corresponding research constructs. Drawing from Table 5 below, the results confirm the existence of discriminant validity.

Table 7: Inter-Construct Correlation Matrix

Variables	AS	IE	IP	IPM	MI	PISI	TPI
AS	0.850						
IE	0.135	0.864					
IP	0.199	0.702	0.840				
IPM	0.319	0.666	0.603	0.657			
MI	0.038	0.835	0.747	0.631	0.837		
PISI	0.104	0.814	0.610	0.655	0.787	0.925	
TPI	0.134	0.536	0.612	0.494	0.587	0.564	0.802

AS= Asset Security; IE= Investment Education; IP= Investment Products; IPM= Investment Performance Management; MI= Marketing Intermediaries; PISI= Practical Interface & Investment Stream; TPI = Treatment of People at Intermediaries

This confirmatory factor analysis has been explained as the first stage of the structural equation modelling, succinctly captured in Table 8 below. Regarding reliability, Table 8 shows that this study is using Cronbach's

coefficient α , and the variables of this study are exceeding the requisite 0.60 minimum threshold to confirm reliability. In addition, this study also applies Composite Reliability to test for reliability. As Table 8 below indicates, the variables of this study are above the required 0.7 to confirm Composite Reliability. Furthermore, the table shows that validity is well established since Average Variance Extracted for all variables is above 0.5. Lastly, Inter-Construct Correlation Matrix established discriminant validity as latent constructs are below 1.

Table 8: Measurement Accuracy Assessment and Descriptive Statistics

Research constructs		Descriptive statistics*		Cronbach's test		C.R.	AVE	Measurement Item Loadings
		Mean	SD	Item-total	α Value			
Investment Performance Management (IPM)	IPM2	3.82	0.921	0.521	0.645	0.749	0.510	0.722
	IPM3			0.639				0.570
	IPM4			0.592				0.558
	IPM5			0.622				0.761
Marketing Intermediaries (MI)	MI1	2.51	1.120	0.683	0.857	0.902	0.701	0.881
	MI2			0.533				0.650
	MI3			0.725				0.899
	MI4			0.722				0.893
Investment Education (IE)	IE1	3.09	1.062	0.696	0.885	0.921	0.746	0.861
	IE2			0.774				0.920
	IE3			0.537				0.728
	IE4			0.838				0.930
Practical Interface and	PISI1	3.54	0.677	0.724	0.832	0.923	0.856	0.928

Investment Stream (PISI)	PISI3			0.829				0.923
Investment Products (IP)	IP1			0.666				0.856
	IP2	2.43	1.108	0.719	0.790	0.878	0.706	0.882
	IP3			0.550				0.779
Treatment of People at Intermediaries (TPI)	TPI1			0.601				0.744
	TPI2	3.84	0.806	0.689	0.753	0.843	0.643	0.822
	TPI3			0.523				0.836
Asset Security (AS)	AS1			0.626				0.796
	AS2	4.18	0.530	0.708	0.807	0.886	0.722	0.883
	AS3			0.668				0.868

* Scores: 1 – Strongly disagree; 3 – Neutral; 5 – Strongly agree.

C.R.= Composite reliability; AVE = Average variance extracted; SD = Standard Deviation; α Value = Cronbach's Alpha Value.

5.4. CORRELATIONS BETWEEN CONSTRUCTS: INVESTMENT INTERMEDIARIES

This section provides the results of the correlations between the research constructs. The results will be tabulated in a matrix and then explained. Table 9 below indicates the constructs' correlations for the investment related data set.

Table 9: Construct Correlations

Research Variables	AS	IE	IP	IPM	MI	PISI	TPI
AS	1.000						
IE	0.135	1.000					
IP	0.199	0.702	1.000				
IPM	0.319	0.666	0.603	1.000			
MI	0.038	0.835	0.747	0.631	1.000		
PISI	0.104	0.814	0.610	0.655	0.787	1.000	
TPI	0.134	0.536	0.612	0.494	0.587	0.564	1.000

AS= Asset Security; IE= Investment Education; IP= Investment Products; IPM= Investment Performance Management; MI= Marketing Intermediaries; PISI= Practical Interface & Investment Stream; TPI= Treatment of People at Intermediaries

The results tabulated in Table 9 indicate that asset security has the weakest association with all the research variables: Investment Education (IE= 0.135), Investment Products (IP = 0.199), Investment Performance Management (IPM= 0.319), Marketing Intermediaries (MI= 0.038), Practical Interface and Investment Stream (PISI= 0.104) and Treatment of People at Intermediaries (TPI= 0.134). Of these weak associations, the relationship is relatively stronger between asset security (AS) and investment performance (IPM), i.e. 0.319. However, the weakest of these associations is between asset security (AS) and marketing by intermediaries (MI), i.e. 0.038.

The results in Table 9 indicate that there is stronger correlation between investment education and all other research variables: Investment Products (IP = 0.702), Investment Performance Management (IPM= 0.666), Marketing Intermediaries (MI= 0.835), Practical Interface and Investment Stream (PISI= 0.814) and Treatment of People at Intermediaries (TPI= 0.536). The association is much stronger between investment education and marketing by intermediaries (0.835) and investment education and practical interface and investment stream (0.814). However, investment education has the weakest association with asset security (0.135).

Table 9 also shows a strong relationship between investment products (IP) and Investment Performance Management (IPM= 0.603), Marketing Intermediaries (MI= 0.747), Practical Interface and Investment Stream (PISI= 0.610) and Treatment of People at Intermediaries (TPI= 0.612). In these associations, investment products (IP) has a stronger relationship with marketing by intermediaries (MI) at 0.747 when compared to practical interface and investment stream (PISI) and investment performance management (IPM) - 0.610 and 0.603 respectively.

It is also noted from Table 9 that investment performance management has a relatively strong relationship with practical interface and investment stream (PISI) at 0.655 and with marketing by intermediaries (MI) at 0.631. The second weaker association investment performance management has after asset security (AS= 0.319) is that with treatment of people at intermediaries (TPI), at 0.494.

Drawing from Table 9, the second stronger association that marketing by intermediaries (MI) has after that with investment education (IE= 0.835) is that with practical interface and investment stream (PISI= 0.787). However, the second weaker relationship involving marketing by

intermediaries (MI) after asset security (AS= 0.038) is with treatment of people at intermediaries (TPI) at 0.587. Furthermore, practical interface and investment stream (PISI) has its second weaker association after asset security (AS= 0.104) with treatment of people at intermediaries (TPI) at 0.564.

It is important to note that correlation does not suggest causality, but merely shows associations and relationships. In contrast, path modelling, a constituent of structural equation modelling, endeavours to show causal relationships amongst variables. Below is the discussion of path modelling and the causal relationships established within the financial intermediaries data.

5.5. PATH MODELLING RESULTS: INVESTMENT INTERMEDIARIES DATA SET

After confirming the reliability and validity of the measurement instruments, this study proceeds to the next phase of structural equation modelling, namely path modelling. Path modelling is a structural equation modelling technique of demonstrating causal relationships between study variables, including linking the manifest variable to latent variables (Tripathy, Aich, Chakraborty & Lee, 2016). Figure 6 below is the path diagram reflecting path modelling results whereby the single-headed arrows show the causal relationships between the predictor variables and the dependent variable.

The predictor variables in the path model are the Investment Education (IE), Practical Interface and Investment Stream (PISI), Marketing Intermediaries (MI), Investment Products (IP), Treatment of People at Intermediaries (TPI); and Asset Security (AS). The Investment Performance Management (IPM) is the dependent variable.

The investment performance management (IPM) construct is composed of five items, and is anchored on and concerned with equity financial

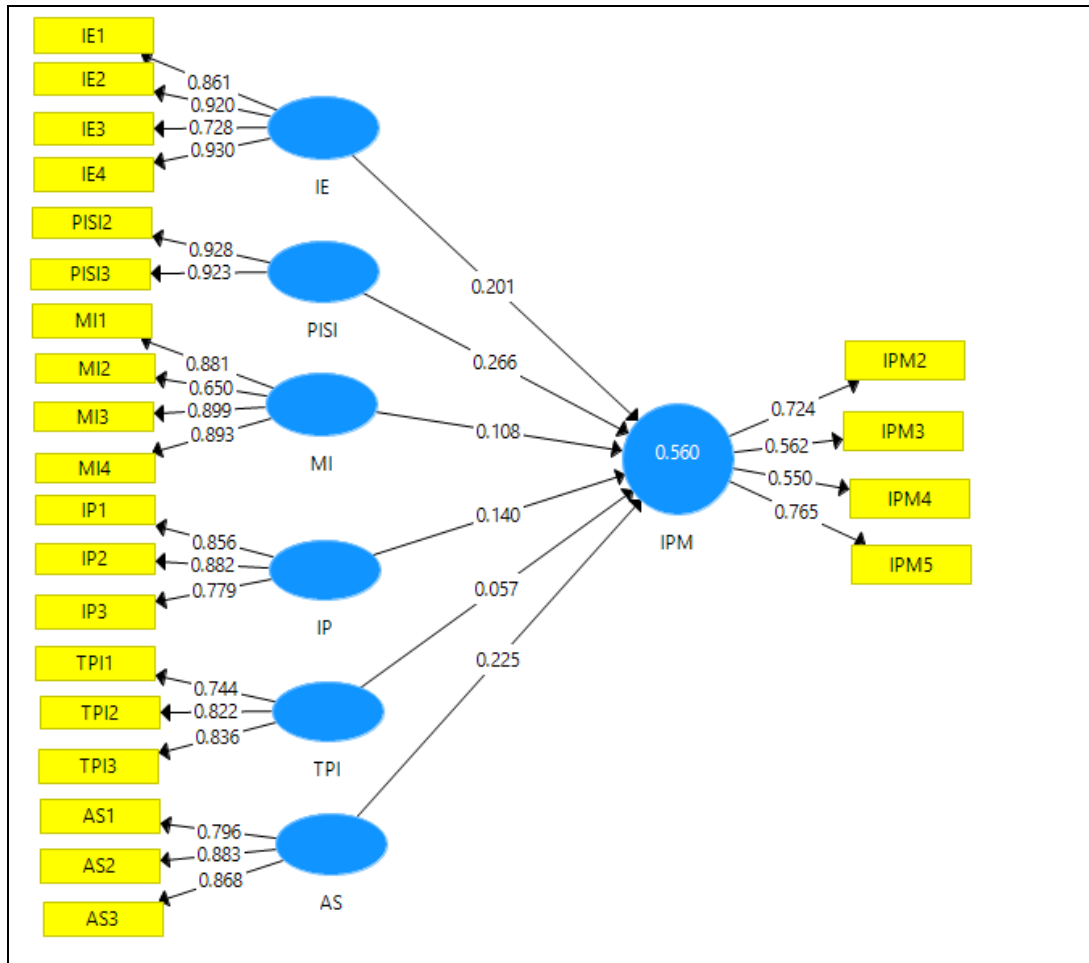
investment management and further examines the quality of financial investment advice that officials of financial investment companies provide to informal savers. Literature and interviews show that the higher investment performance of informal savers will be achieved by engaging with formal financial intermediaries and their agents. Three items make up the asset security (AS) construct. It is concerned with financial investment security, and it probes the extent to which financial investment intermediaries protect savings of informal savers.

The investment education (IE) is concerned with examining the role of financial education in promoting the interface of the formal equity investment sector and the informal financial sector. The investment education (IE) construct has four questions. Three questions make up the investment products (IP) construct, and it explores the role of financial investment products in financial investment in relation to informal savers.

The perceived interface between the informal and formal savers (PISI) construct has three items, and it identifies the extent to which financial investment companies engage with informal savers in their environment. The marketing by intermediaries (MI) construct has three items, and it examines the marketing and outreach strategies that financial investment firms use to promote their services to informal savers. Lastly, the treatment of people at intermediaries (TPI) construct has three items, and it explores the treatment of informal savers at financial investment companies.

Figure 6 below indicates the path modelling results as well as the item loadings for the research constructs.

Figure 6: Path Modelling and Factor Loading Results



AS= Asset Security; IE= Investment Education; IP= Investment Products; IPM= Investment Performance Management; MI= Marketing Intermediaries; PISI= Practical Interface & Investment Stream; TPI= Treatment of People at Intermediaries

Path modelling results for formal financial intermediaries show that there is a causal relationship between investment performance management with all the predictor variables, namely Investment Education (IE), Practical Interface and Investment Stream (PISI), Marketing Intermediaries (MI), Investment Products (IP), Treatment of People at Intermediaries (TPI); and Asset Security (AS).

As the path diagram shows (Figure 6), with a factor loading of 0.266, the Practical Interface and Investment Stream (PISI) is the leading predictor of

investment performance management (IPM) for the informal saving groups. It suggests that the outreach by the financial intermediaries and meaningful, ethnographic relations between the two saving financial sectors promote quality equity investment behaviour by the informal sector. With a factor loading of 0.225, Asset Security (AS) is a predictor of investment performance management (IPM). This suggests that investment practices that promote investment capital security also promote participation and confidence of the participants of informal financial sector. This is instructive, and it is a call for financial investment regulatory regimes to continue improving sector discipline.

With a factor loading of 0.201, the Investment Education (IE) variable is a predictor of investment performance management (IPM). This suggests that good financial literacy programmes promote the relationship between the informal and the formal equity investment sectors. Indeed, as more people become educated in the financial equity sector, their investment behaviour necessarily improves, leading to the destruction of mud banks and appreciation of the stock investment economy.

With a factor loading of 0.140, Investment Products contribute to investment performance management (IPM). This reinforces the fact that provision of quality financial investment products – as opposed to flurry of useless, morbid products – is one of the catalysts for promoting equity investment culture within society. Marketing at Intermediaries, with a factor loading of 0.108, is a predictor of investment performance management (IPM). This indicates that quality and engaging marketing initiatives promote equity investment decisions for all people.

Lastly, with a factor loading of 0.057, Treatment of People at Intermediaries promotes the interface of the informal and informal financial sectors. Simply stated, the humane and caring engagement and treatment of informal saving groups at formal financial intermediary organizations

contribute to positive investment performance for the informal saving sector and promotion of closer relations between the informal financial sector and the financial stock investment sector.

5.6. STUDY RESULTS FROM HYPOTHESIZED RELATIONSHIPS

Not only does structural equation modelling indicate associated and causal relationships between both latent and manifest variables (as demonstrated by correlations and path modelling), the structural equation modelling path also hypothesizes relationships between variables. Table 10 below presents the six hypothesized relationships drawn from the data. In testing the hypothesized relationships, the value of the t-statistic will indicate whether the relationship is significant or not. A significant relationship is expected to have a t-statistics above 2. Drawing from the results provided, five of the hypothesized relationships (H1, H2, H3, H4, and H6) are significant while the remaining one (H5) has an insignificant relationship.

Table 10: Results of the structural equation model analysis

Path	Hypothesis	Path coefficients (β)	T-Statistics	Decision on Hypotheses
Investment Education (IE) → Investment Performance Management (IPM)	H1	0.201	4.672	Accept/Significant
Practical Interface & Investment Stream (PISI) → Investment Performance Management (IPM)	H2	0.266	5.073	Accept/Significant
Marketing at Intermediaries (MI) → Investment Performance Management (IPM)	H3	0.108	2.013	Accept/Significant
Investment Products (IP) → Investment Performance Management (IPM)	H4	0.140	2.849	Accept/Significant
Treatment of People at Intermediaries (TPI) → Investment Performance Management (IPM)	H5	0.057	1.001	Reject/Insignificant
Asset Security (AS) → Investment Performance Management (IPM)	H6	0.225 ^a	4.967	Accept/Significant

5.6.1. Hypothesis One (H1): Investment Education and Investment Performance Management

It can be observed in Table 10 that H1 (Investment Education (IE) → Investment Performance Management (IPM)) is supported by the hypothesis result (0.201) and is significant at t-statistic 4.672. This implies that investment education directly influences investment performance management in a significant way. The higher the level of investment education, the higher will be the quality of financial investment management amongst informal savers. This hypothesis suggests that investment in financial investment knowledge for informal saving groups will improve their financial investment behaviour.

5.6.2. Hypothesis Two (H2): Practical Interface and Investment Stream and Investment Performance Management

Table 10 indicates that H2 (Practical Interface and Investment Stream (PISI) → Investment Performance Management (IPM)) is supported by the hypothesis finding (0.266) and is significant at t-statistic 5.073. This implies that practical interface and investment stream is positively related to investment performance management in a significant way. Therefore higher levels of interface and engagement between officials of equity investment firms and members of informal saving groups will lead to higher levels of financial investment by informal savers.

5.6.3. Hypothesis Three (H3): Marketing at Intermediaries and Investment Performance Management

Table 8 illustrates that H3 (Marketing at Intermediaries (MI) → Investment Performance Management (IPM)) is supported significantly. The t-statistic is 2.013. This finding suggests that marketing by financial investment firms has a direct positive effect on financial management of informal savers. Thus the more effective the marketing at intermediaries towards informal savers is, the better the investment performance of informal saving groups. This means that the improvement in marketing strategies towards informal groups by formal financial investment firms will necessarily improve the saving and investment performance of the informal financial sector.

5.6.4. Hypothesis Four (4): Investment Products and Investment Performance Management

Deducing from Table 10, H4 (Investment Products (IP) → Investment Performance Management (IPM)) is supported. The t-statistic is 2.849. This means that the proposed hypothesis is positively supported in a

significant way. This suggests that availability of relevant investment products is associated with higher investment performance management. This outcome implies that provision of quality, unique equity investment service products improves the financial investment management of African informal saving investors.

5.6.5. Hypothesis Five (5): Treatment of People at Intermediaries and Investment Performance Management

The t-statistic for H5, Treatment of People at Intermediaries (TPI) → Investment Performance Management (IPM), is 1.001. This suggests that relationship is insignificant. There is therefore a weak relationship between treatment of people at intermediaries and investment performance management. This finding suggests that treatment of people at intermediaries insignificantly influences investment performance management in a positive way. This observation is instructive, in that being courteous and refined is not necessarily the main catalyst for promoting the interface of the informal and formal financial systems.

5.6.6. Hypothesis Six (6): Asset Security and Investment Performance Management

It can be observed in Table 8 that H6 (Asset Security (AS) → Investment Performance Management (IPM)) is supported by the hypothesis result and is significant at t-statistic of 4.967. This suggests that asset security has a positive and direct influence on investment performance management. Thus, higher levels of security of savings entrusted with the formal financial investment sector (by informal savers) will lead to informal saving groups investing in the equity market.

5.6.7. Preliminary discussion of the findings of the study

The examination of the research findings using the investment intermediaries' data set indicate that practical interface and investment stream has the strongest influence on investment performance management (0.266) when compared to other research constructs. Asset security (0.225) and investment education (0.201) are second and third respectively in impact on investment performance management. Investment products (0.140) come fourth while marketing (0.108) at intermediaries is fifth. Treatment of people at intermediaries (0.057) has the least effect on investment performance management.

Chapter 7 of this study is intended to discuss results of the study (findings from interviews and the survey), but the preliminary assessment drawn from the results of this chapter (5) have practical implications for investment managers in the financial sector. Drawing from the results, the findings indicate that investment managers ought to put more focus on strategies that enhance practical engagement with members of informal saving groups. Engaging informal savers implies visiting them at their locale, observing their financial management practices, continuously learning the anthropological foundations of the society, and mingling with them. Throughout the interview sessions, most informal savers stated that they want officials of financial investment firms to visit them in their communities. As the statistical data attests, an increase in the interface between informal savers and officials of intermediaries will significantly improve the ideal of financial inclusion.

CHAPTER SIX

FINDINGS FROM QUANTITATIVE DATA

THE INFORMAL SAVINGS MARKET

6.1. INTRODUCTION

This chapter captures results of the study assembled using quantitative research methods techniques, including descriptive statistics and structural equation modelling. Regarding descriptive statistics, this chapter observes that informal financial saving practices are popular across all age groups in sub-Saharan Africa, and that they tend to have short-dated maturities. The indigenous African population does not significantly participate in the formal equity investment sector. There is a significant level of financial illiteracy among participants of informal saving groups, and informal savers are largely excluded from the formal equity investment market.

The data set on informal savers conveys a similar message. There is a strong relationship between investment management and asset security, as well as investment management and investment products. These relationships reiterate the importance of safeguarding savings and provision of appropriate investment products for the informal saving market. There is also a positive correlation between investment education and investment product, and this suggests the inalienability of financial investment literacy as an intervention measure for improving investment performance of the informal financial market. Therefore, this chapter demonstrates the prevailing reality about the existing gulf between the informal financial sector and the formal financial market, but simultaneously provides interventions in respect of possible solutions thereof.

6.2. ANALYSIS OF THE INFORMAL SAVERS DATA SET

This section of descriptive statistics reports data sourced from informal savers, communicating experiences of several African markets, namely Lesotho, Botswana, Nigeria, Ghana, Swaziland, Zimbabwe, Zambia and Kenya. The section, unlike data for the formal equity markets, has eight constructs, namely investment management (IM), asset security (AS), investment education (IE), interface between saving groups and the formal investment stream (ISFI), marketing by intermediaries (MI), investment communication (IC), investment products (IP), and treatment of people at intermediaries (TPI).

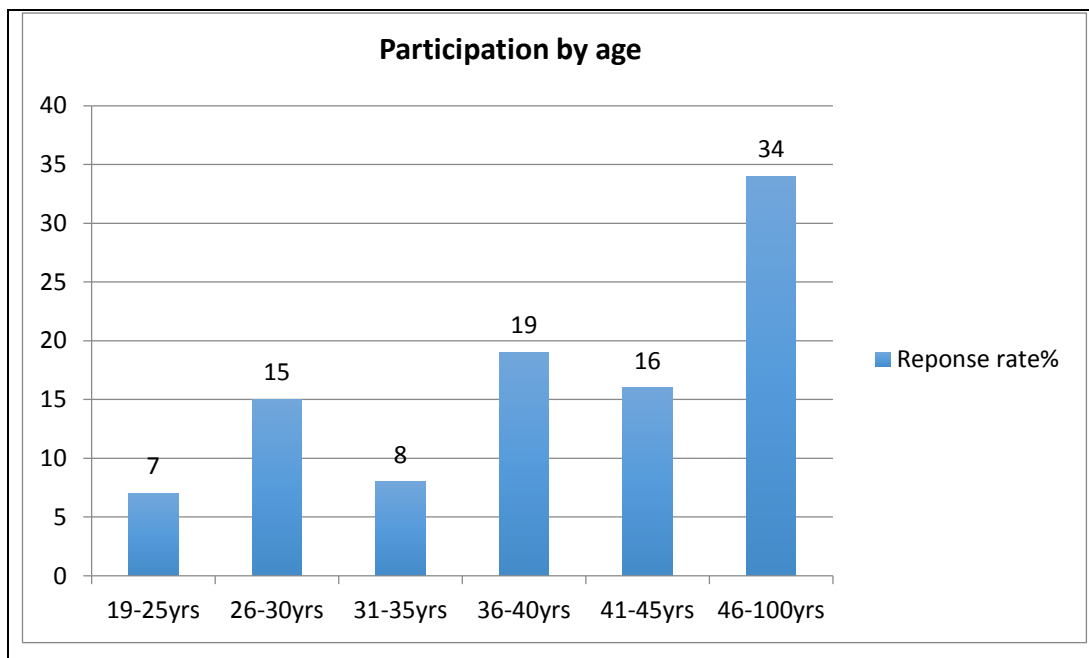
The investment management construct is composed of six items and it delves into financial management behaviour of informal savers. The asset security construct has four items and it probes the asset security infrastructure of informal savers. The investment education construct has four items and explores the equity investment literacy levels of informal savers. The construct on the interface between saving groups and the formal investment stream assesses the financial service relationship between the informal financial service sector and the formal financial investment system, and how money management behaviour of the informal saving fraternity is influenced by the formal financial sector.

The marketing by intermediaries gathers information on how informal savers perceive marketing outreach strategies of the formal equity investment sector. The investment communication construct captures the extent to which informal savers understand equity investment communications. The investment products construct examines the relationship between informal savers and equity investment products. Treatment of people at intermediaries probes the treatment of informal savers by financial institutions and how that impacts on their investment behaviour. All the questions are measured on a 5–point Likert scale, anchored from strongly disagree for 1 to strongly agree for 5.

6.2.1. Age

Figure 7 below reflects the age profile of respondents to the study survey. Respondents were asked the question: “How old are you?” People that are 46 years old and above responded the most with 34%, followed by those aged between 36-40 years with 19%. The cohort with the lowest response was the 19-25 years age group with 7%.

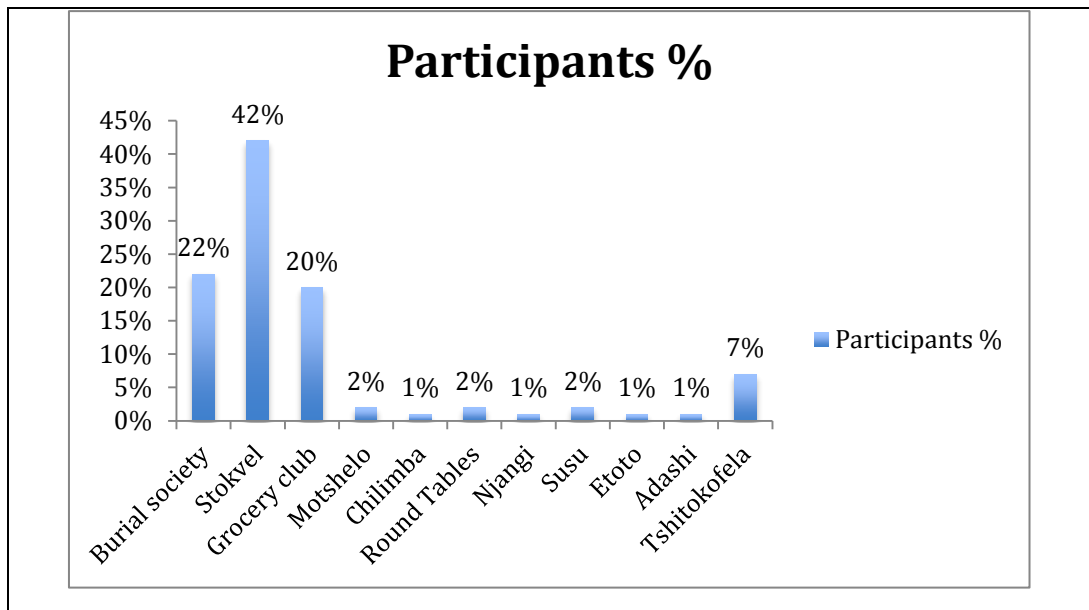
Figure 7: Age group of respondents



6.2.2. Saving practices

In Figure 8 below, respondents were asked the question: ‘Which type of indigenous saving practices do you participate in?’ The results of the survey show that 42% of respondents participate in a stokvel; 22% participate in a burial society; 20% participate in grocery club. The proportion of participants in Chilimba, Etoto, and Adashi comprise 1% each in the sample of respondents.

Figure 8: Proportion of participants in traditional saving schemes.



6.2.3. Saving period

The survey established that the maturity period for the informal financial savings groups is mostly (90%) a single year (and less). Figure 8 below reports the survey results of the theme: “(With exception to a burial society) in our saving scheme we contribute for the following period...” The purpose of the statement was to assess the saving period for informal saving groups. Interviews of this study found that most participants in the informal saving market save for less than one year.

Figure 9: Saving period of informal saving groups

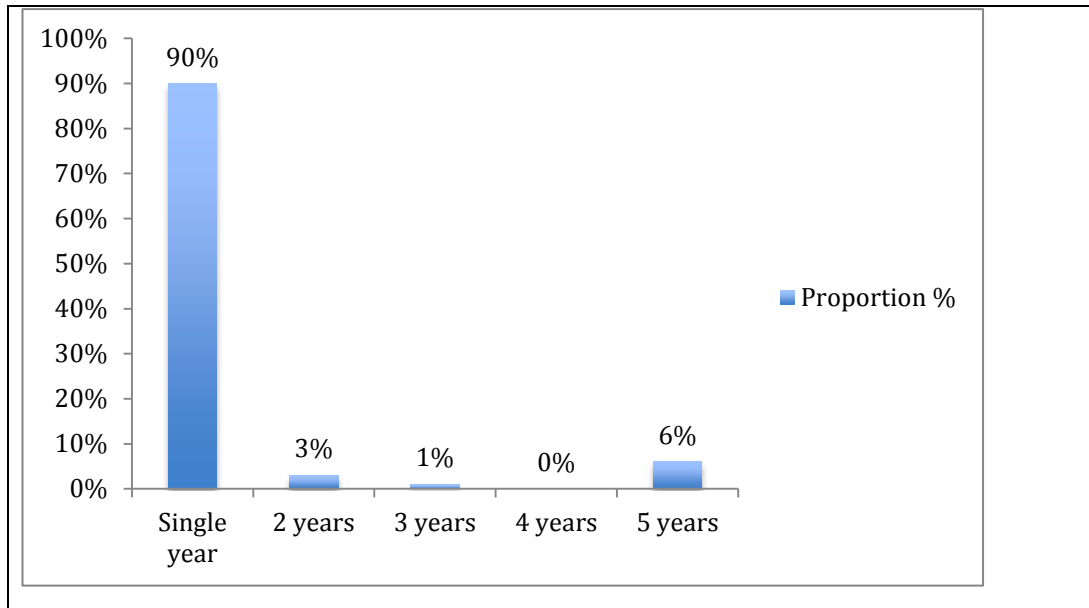
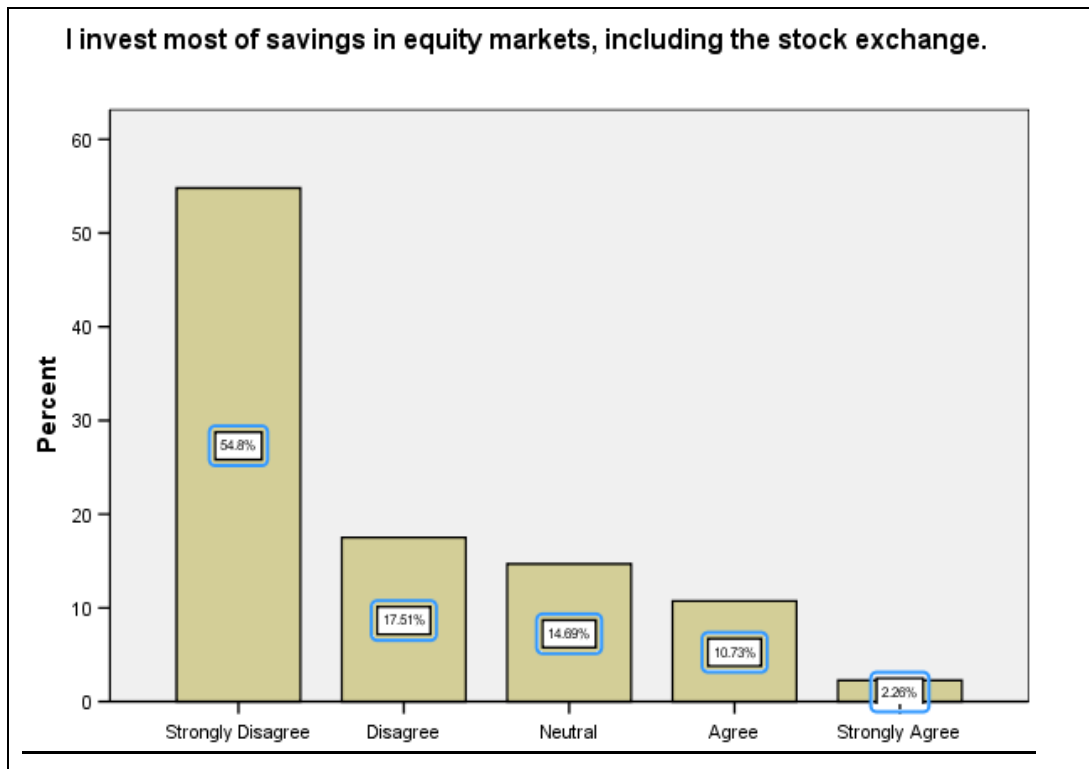


Figure 9 shows that 90% of all respondents indicate that they receive redemption from their saving groups in less than 12 months after beginning with contributions, while 6% of the respondents informed the study that they receive redemption after 5 years and more. Lastly, only 3% and 1% of respondents respectively receive pay-outs within 2 years and 3 years of saving money. Overall, the survey reveals that African saving strategies tend to have short-dated saving period – and this is a disadvantage as short dated maturity period is likely to result in poor returns and fuel consumption.

6.2.4. Investment Management (IM)

Figure 9 above reports the survey results of the theme: “I invest most of my savings in equity markets, including those trading on the stock exchange.” The purpose of this enquiry was to establish the proportion of informal savers that invest their savings in the stock market. The study interviews established that not many informal savers have knowledge about the stock market and as a result they do not invest their savings in the equity markets.

Figure 10: Investment of savings in the stock markets by informal savers



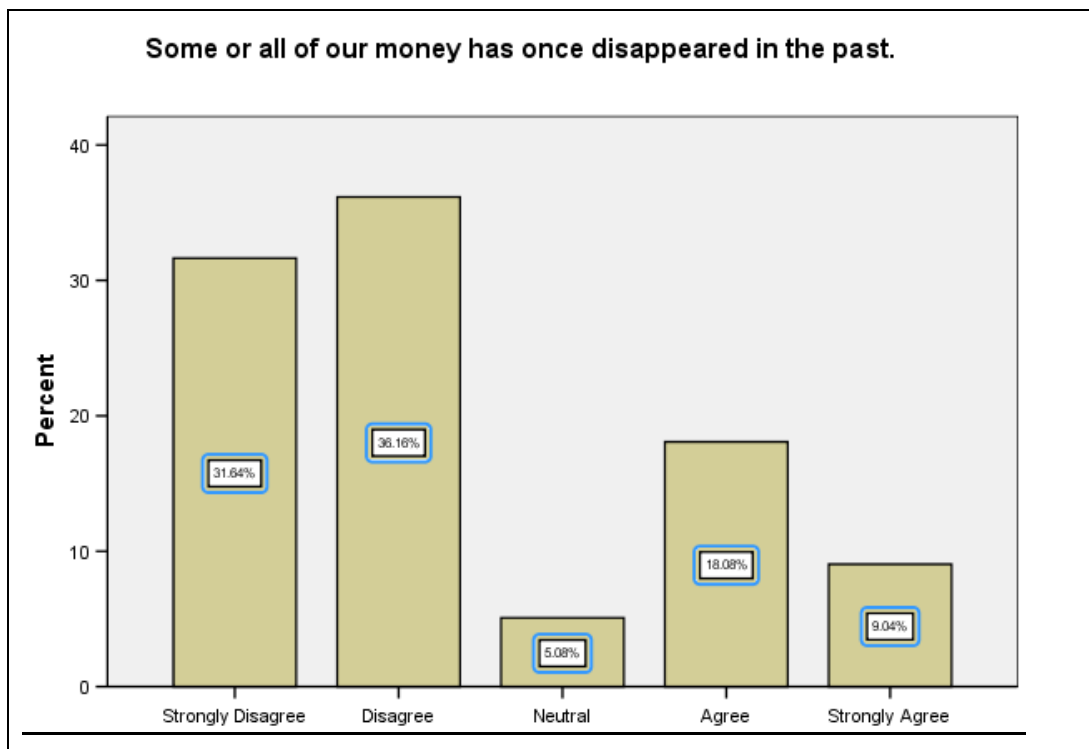
Results of the survey indicate that most of the participants strongly disagree with the statement, representing 54.8%. These are followed by those who disagree (17.5%), those who are neutral (14.7%), those who agree (10.7%), and finally those who strongly agree with the statement, representing 2.3% of the sample. This finding suggests that a significant proportion of informal savers do not invest in the public equity market. This observation is consistent with the finding of Hearn and Piesse (2005) that the African indigenous population does not significantly participate in equity investing. Interviews conducted for this particular study reveal that stock market investment in sub-Saharan Africa is dominated by institutional and foreign portfolio investors.

6.2.5. Asset Security (AS)

Figure 10 reports survey results of the theme: “Some or all of our money had once disappeared in the past.” The purpose of this theme was to find

out if investment capital within the informal investment system enjoys asset security. Interviews found that asset security is circumspect within the informal saving system, and this is attributable to the fact that in some instances savings are stored at home, for example in mattresses and mud chambers, and that some savers have been defrauded through “Ponzi” schemes and other illegal investment practices.

Figure 11: Investment capital theft in the informal financial sector



Results of the survey on the theme, “Some or all of our money had once disappeared in the past” in our saving club indicate that 36.2% of the respondents disagree with the statement. This is followed by those who strongly disagree (31.6%), those who agree (18.1%), those who strongly agree (9%) and those who were neutral (5.1%).

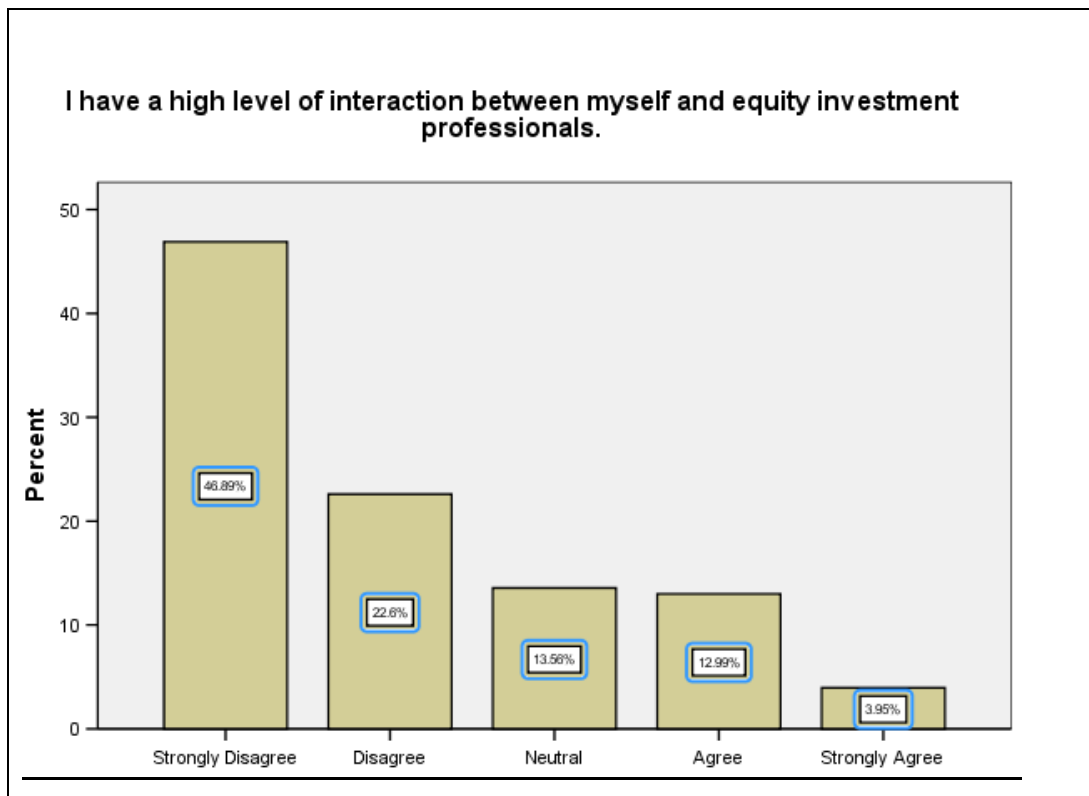
This survey statement was designed to establish the proportion of savers that have lost money in informal saving groups. Although 67% of respondents cumulatively indicate that they had not lost money in these thrift schemes, 27.1% indicate that they had lost their savings. Some

interviewees recounted that their money was lost through fraud and wilful default by some group members. A study by Priyadarshee and Ghalib (2011) noted that loss of savings in the microfinance industry is often due to mission drift. Similarly, Rani, Jalbani and Laghari (2012) attribute industry delinquencies to poor regulatory environment and weak oversight.

6.2.6. Interface between saving groups and the formal investment stream (ISFI)

Figure 12 below depicts the survey results of the theme: “I have a high level of interaction between myself and equity investment professionals.” The purpose of this theme is to identify the proportion of informal savers that interface with the formal investment stream. Interviews observed that proximity between informal savers and the formal stock investment sector encourages informal saving groups to invest in the equity markets.

Figure 12: Engagement of informal saving groups and the formal investment sector



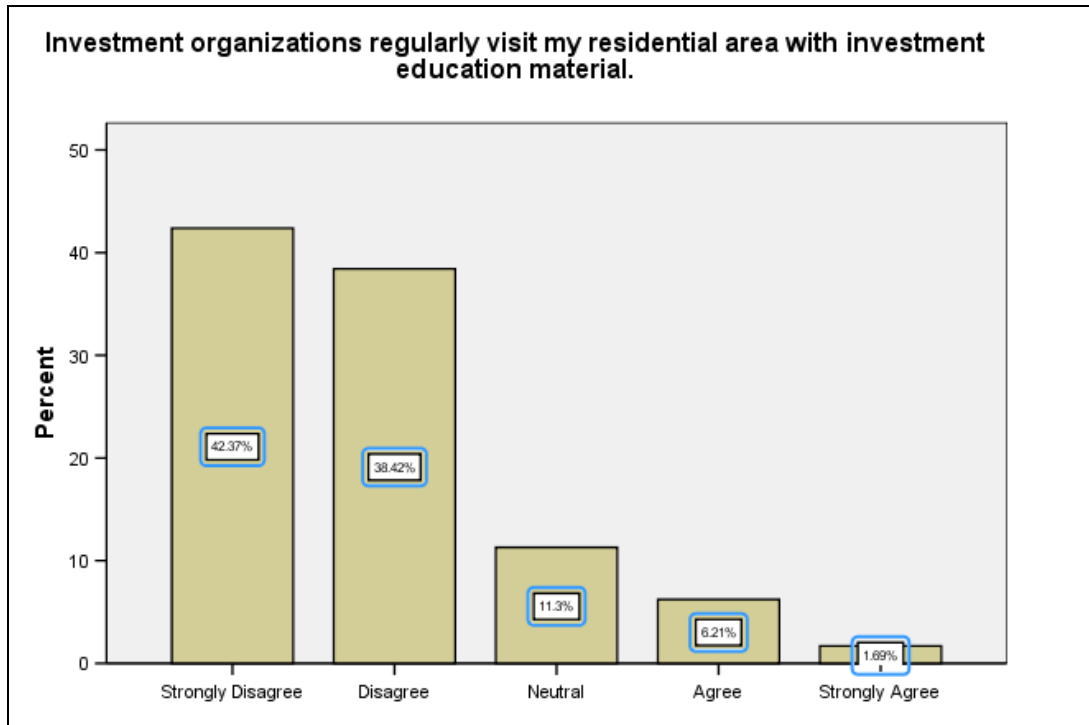
Results of the survey are that 46.9% of the respondents strongly disagree with the statement. This was followed by those who disagree (22.6%), those who were neutral (13.6%), those who agreed (13%) and finally those who strongly agree with the statement, representing 4% of the sample.

According to this data, informal savers have a low interface with officials of formal financial service organizations, and this reflects financial exclusion. Literature concurs with this perspective, noting that informal savers and other participants of microfinance tend to have constrained access to formal financial services, and that this contributes to high levels of consumption and under-development (Claessens, 2006; Van der Berg, 2012; Argent & Rolley, 2000).

6.2.7. Marketing by Intermediaries (MI)

Figure 12 below reflects the survey results of the theme: “Investment organizations regularly visit my residential area with investment education material.” The purpose of the theme was to find out if there are regular financial literacy interventions for the benefit of informal savers. Interviews revealed that informal savers rarely receive financial investment education.

Figure 13: Financial investment education for the informal financial sector



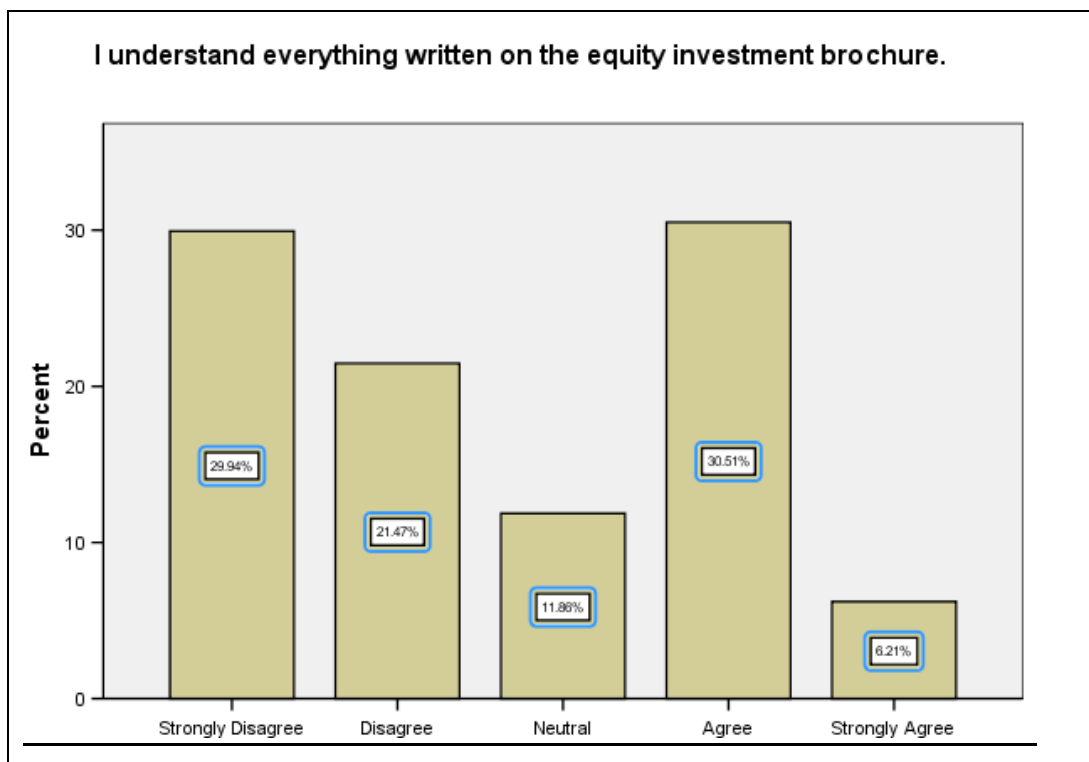
Most of the participants strongly disagree with the statement (42.4%). These were followed by those who disagree (38.4%), those who are neutral (11.3%), those who agree (6.2%) and finally those who strongly agree with the statement representing 1.7% of the sample.

This outcome suggests that there is little outreach being undertaken towards marginal communities with the aim of educating informal savers on financial investment. Interviews established that financial investment education is seldom delivered to outlying communities. Hearn and Piesse (2010) reveals that African governments use public education initiatives to encourage indigenous communities to invest in equities, but this research also observes that these initiatives are sporadic, weak and contribute very little to improving stock investment behaviour of informal savers.

6.2.8. Investment Communication (IC)

Figure 14 below reflects the survey results of the theme: “I understand everything written on the equity investment brochure.” The purpose of the enquiry was to find out if informal savers are literate about the stock investment system. Interviews revealed that most of the population of informal savers do not understand written texts about stock investments, and as a result they are not motivated to participate in the equity investment sector.

Figure 14: Informal savers’ stock investment literacy



Most of the participants agree with the statement (30.5%). These were closely followed by those who strongly disagree (29.9%), those who disagree (21.5%), and those who are neutral (11.9%) and, finally, those who strongly agree with the statement, representing 6.2% of the sample.

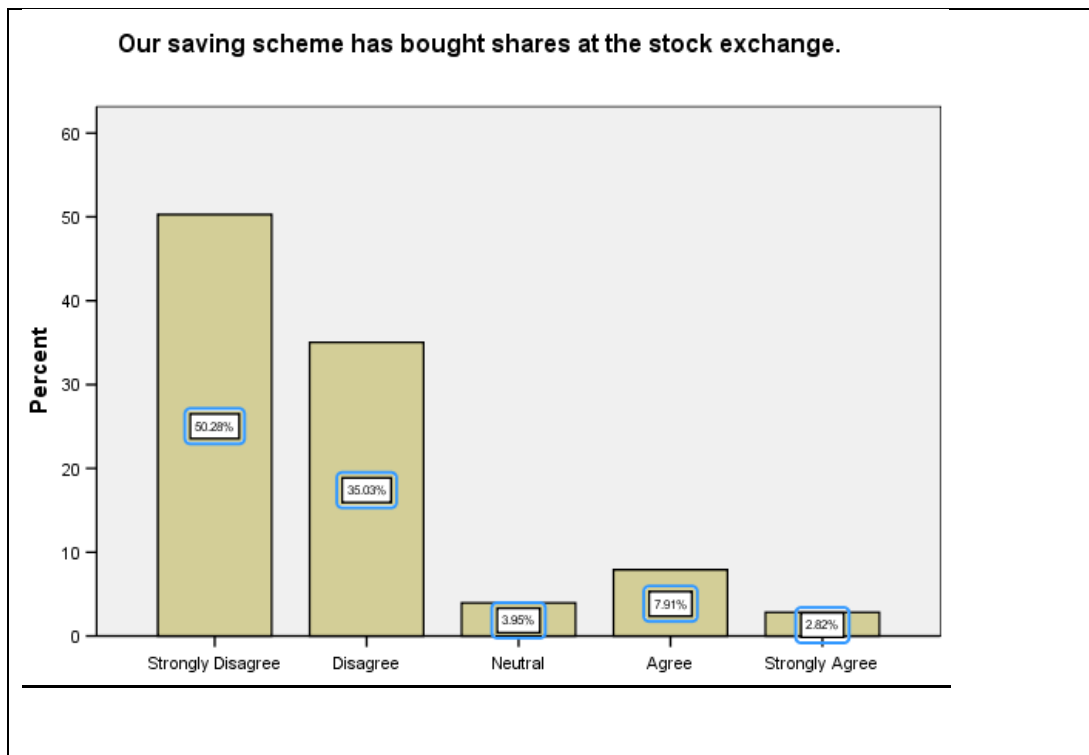
Cumulatively the majority of respondents (51.41%) indicated that they do not understand investment literature written on the equity investment

brochures. During the interview phase, a significant number of respondents indicated that they do not invest in equities because the language of the financial investment sector is foreign and incomprehensible. Al-Tamini and Bin Kalli (2009) suggest that people with high levels of financial literacy make optimal investment decisions, and that those who do not possess adequate understanding of financial markets make poor investment decisions.

6.2.9. Investment Products (IP)

Figure 15 below presents the survey results of the theme: “Our saving scheme has bought shares at the stock exchange.” The purpose of the theme was to establish whether informal saving groups invest in the stock exchange as a collective. Interviews revealed that most informal saving schemes do not invest in the stock markets as a collective. However, the few informal groups that invest in the stock exchange took the decision to invest owing to proximity and the role of community outreach campaigns by wealth investment firms.

Figure 15: Informal group collective investment in the stock exchange



Most of the participants strongly disagree with the statement (50.3%). These are followed by those who disagree (35%), those who agree (7.9%), those who are neutral (4%) and finally those who strongly agree with the statement, representing 2.8% of the sample.

Collectively, 85.31% of respondents disclose that their saving scheme does not have an exposure to the stock exchange. This finding echoes research by Agyei-Ampomah (2011) that African governments have been pursuing capital markets liberalization but retail equity investment is dominated by foreign portfolio investors at the expense of the indigenous community (Cahit & Salih, 2013).

6.2.10 Summary of Informal Savers descriptive characteristics

Table 11 below summarizes the overall descriptive statistics for the measurement models of the eight research variables. Drawing from the

mean values of the measurement scale and the standard deviations, the results indicate that the majority of the respondents agree with most of the questions asked on investment management (IM). However, the majority of the respondents disagreed with most of the questions asked on asset security (AS), interface between informal and formal savers investment streams (ISFI), investment products (IP), marketing by intermediaries (MI) and investment communication (IC). The respondents were neutral on most of the questions asked regarding investment education and treatment of people at intermediaries (TPI).

Table 11: Summary of Informal Savers Statistics

Construct	Percentage per item							
	Item	Mean	SD	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Investment Management (IM)	1	3.20	1.438	13.6%	29.9%	4%	28.2%	24.3%
	2	2.89	1.369	20.3%	26%	10.7%	30.5%	12.4%
	3	1.88	1.149	54.8%	17.5%	14.7%	10.7%	2.3%
	4	3.37	1.388	10.7%	24.9%	8.5%	28.8%	27.1%
	5	2.84	1.336	17.5%	30.5%	18.1%	18.6%	15.3%
	6	3.63	1.161	6.2%	11.9%	19.8%	37.3%	24.9%
Asset Security (AS)	1	3.53	1.430	9%	25.4%	5.6%	23.2%	36.7%
	2	2.49	1.454	35%	26%	6.2%	20.3%	12.4%
	3	3.08	1.256	15.8%	20.3%	10.2%	46.9%	6.8%
	4	2.37	1.334	31.6%	36.2%	5.1%	18.1%	9%
Investment Education (IE)	1	2.95	0.462	1.1%	8.5%	85.3%	4.0%	1.1%
	2	3.13	0.554	0.6%	2.8%	84.7%	6.8%	5.1%
	3	2.99	0.653	4.5%	5.6%	78%	9.6%	2.3%
	4	2.85	1.036	16.9%	6.8%	55.4%	16.4%	4.5%
Interface between Informal and Formal Savers (ISFI)	1	2.02	1.189	50.8%	13%	22%	11.9%	2.3%
	2	1.98	1.192	45.8%	31.6%	6.8%	10.7%	5.1%
	3	3.87	1.177	1.7%	16.9%	15.3%	24.9%	41.2%

	4	2.05	1.219	46.9%	22.6%	13.6%	13%	4%
Marketing Intermediaries (MI)	1	2.33	1.204	26%	13%	41.2%	14.7%	5.1%
	2	1.86	0.962	35.6%	17.5%	28.2%	15.3%	3.4%
	3	2.55	1.352	42.4%	38.4%	11.3%	6.2%	1.7%
	4	2.62	1.352	31.6%	21.5%	13.6%	26.6%	6.8%
Investment Communication (IC)	1	2.19	1.290	29.9%	21.5%	11.9%	30.5%	6.2%
	2	1.57	0.672	42.4%	24.3%	9%	20.3%	4%
	3	1.78	0.843	50.3%	43.5%	4%	2.3%	0%
	4	2.01	1.072	40.7%	46.9%	6.8%	4.5%	1.1%
Investment Products (IP)	1	3.03	1.283	39%	36.7%	9.6%	12.4%	1.7%
	2	3.20	1.276	10.7%	21.5%	23.7%	24.9%	19.2%
	3	1.78	1.035	10.7%	21.5%	23.7%	24.9%	19.2%
	4	3.04	1.379	50.3%	35%	4%	7.9%	2.8%
	5	3.13	1.023	15.8%	26%	15.8%	23.2%	19.2%
Treatment of People at Intermediaries (TPI)	1	3.25	1.251	10.2%	20.9%	19.2%	32.8%	16.9%
	2	2.99	0.805	6.2%	10.7%	64.4%	15.3%	3.4%
	3	3.02	0.768	5.1%	7.3%	73.4%	8.5%	5.6%

* Scores: 1 – Strongly disagree; 3 – Neutral; 5 – Strongly agree.

SD. = Standard Deviation.

AS= Asset Security; IE= Investment Education; IP= Investment Products; IM= Investment Management; MI= Marketing Intermediaries; ISFI= Interface between Informal & Formal Savers; TPI= Treatment of People at Intermediaries; IC= Investment communication

The major takeaways from the descriptive statistics are that informal financial saving practices are popular in African communities. Although older members of the society participate the most, younger people continue to show loyalty to indigenous financial systems. The saving period is noticeable short-term, mostly a year. An overwhelming proportion of informal savers do not invest in the stock investment economy, and there is very little interaction between the traditional saving community and financial professionals associated with the stock investment business organizations. Informal savers indicate that there is insignificant marketing outreach to their communities, and that they hardly understand the communication materials from the stock investment economy. As a result, their saving groups rarely buy securities from the equity market.

6.3 STRUCTURAL EQUATION MODELLING: INFORMAL SAVERS DATA ANALYSIS

This study is using structural equation modelling to analyse quantitative data sourced from respondents that are members of informal saving groups. To ensure consistency, objectivity and rigour of the analytical process, data drawn from respondents attached to formal financial services firms was also analysed using the structural equation modelling. The main reason for using the structural equation modelling to analyse study data is that SEM “can be used in developing new theories while at the same time serve as the platform upon which theory can be tested” (Motawa & Oladokum, 2015:437).

Data analysis for this study begins with the Confirmatory Factor Analysis. This is the first stage of the structural equation modelling, and it is concerned with establishing the scientific base of the data set through reliability and validity tests. The second stage is composed of correlations, path modelling and the testing of the hypothesised relationships between variables. Dandagi, Bhushi, Bagodi and Sinha (2016) reveal that the structural equation modelling presents numerous advantages regarding

statistical analysis of academic projects, including the ability to show both direct and indirect relationships between research variables. Motawa and Oladokum (2015) supports structural equation modelling for its capabilities to “show (and test) hypothesized interrelationships amongst variables” (2015:437).

As Anderson and Gerbing (1988) argue, the structural equation modelling is a regimented approach to quantitative analysis, and is essentially a “two-step approach” (1988:411). The first stage of the analysis of the informal savers data is concerned with assessing the suitability of the measurement model by discussing reliability and validity tests. After the discussion of scientific foundation of the analytical framework, the second stage is a discourse on correlations, path modelling, and the testing of hypothesized relationships.

6.4 RELIABILITY AND VALIDITY ASSESSMENT: INFORMAL SAVERS DATA SET

Reliability and validity assessment are inalienable requirements of the structural equation modelling, and their main role is to establish the scientific foundation of data. On one hand, reliability tests are concerned with finding out if the data being assessed can produce similar results if carried out repeatedly. Two instruments are used to analyse reliability, namely the Cronbach’s coefficient α and Composite Reliability Coefficient. On the other hand, validity tests are concerned with establishing if the study variables are testing what they are meant to test, and this study uses Average Variance Extracted to test convergent validity, and the Inter-Construct Correlation Matrix to test discriminant validity. Below is the elucidation of the Confirmatory Factor Analysis, beginning with reliability.

6.4.1 Reliability

As indicated above, the instruments used to test for reliability are the Cronbach's coefficient α and the Composite Reliability. Below is the discussion of the said reliability instruments, beginning with the Cronbach's coefficient α .

6.4.1.1 The Cronbach's Alpha Test

This study uses Cronbach's coefficient α to test for reliability. Dunn, Baguley and Brunsden (2013) maintain that the Cronbach's coefficient α is a quality instrument to test reliability of the data. Hazen, Overstreet and Boone (2015) concurs, observing that Cronbach's coefficient α is a consistent measure of reliability. According to Tavakol and Dennick (2011), Cronbach coefficient α values must be above 0.60 for the test results to be deemed scientific and reliable. According to Chinomona (2011), a higher level of Cronbach's coefficient alpha reflects significant levels of reliability.

Table 12 below indicates the Cronbach's coefficient α values for study variables on the informal data set. The study variables are asset security (AS), investment education (IE), investment products (IP), investment management (IM), marketing at intermediaries (MI), Interface between Informal and Formal Savers (ISFI), investment communication (IC), and Treatment of People at Intermediaries (TPI).

Table 12: Cronbach's Alpha test results

Variable	Cronbach's Alpha
Asset Security (AS)	0.675
Investment Education (IE)	0.601
Investment Products (IP)	0.864
Investment Management (IM)	0.608
Marketing Intermediaries (MI)	0.926
Interface between Informal and Formal Savers (ISFI)	0.601
Investment Communication (IC)	0.679
Treatment of People at Intermediaries (TPI)	0.620

Table 11 above reports that all the Cronbach's coefficient (α) values of the study variables, surpass the recommended threshold of 0.60. The Marketing Intermediaries variable has the highest Cronbach coefficient α (0.926), followed by investment products variable at 0.864. The variable with the least Cronbach coefficient α value is the Interface between Informal and Formal Savers variable with Cronbach coefficient α of 0.601. All variables used to analyse data sourced from the informal saving sector have the Cronbach coefficient α above 0.60. According to Chinomona (2011), this higher level of Cronbach's coefficient α indicates the reliability of the measurement scale.

6.4.1.2. Composite Reliability

Composite Reliability is another instrument used for testing the reliability of quantitative data in structural equation modelling, in particular about whether the data set has scientific properties to repeatedly produce similar results. Hazen *et al* (2015) note that Composite Reliability is considered to

be more consistent than Cronbach coefficient, α , and further suggests that the two instruments – Cronbach coefficient α and Composite Reliability – be used together.

Yang and Lai (2010) posit that in reliability analysis, an acceptable Composite Reliability value must exceed 0.7 for the results of the study to be considered scientific and reliable. Table 13 below reflects the results of the Composite Reliability test on the variables of the study on the informal savers data set, namely Asset Security, Investment Education, Investment Products, Investment Management, Marketing Intermediaries, Interface between Informal and Formal Savers, Investment Communication, and Treatment of People at Intermediaries.

Table 13: Composite Reliability test results

Variable	Composite Reliability
Asset Security (AS)	0.773
Investment Education (IE)	0.701
Investment Products (IP)	0.934
Investment Management (IM)	0.701
Marketing Intermediaries (MI)	0.964
Interface between Informal and Formal Savers (ISFI)	0.728
Investment Communication (IC)	0.757
Treatment of People at Intermediaries (TPI)	0.732

Composite Reliability values for all variables range between 0.701 and 0.964 and this reflects that requisite scientific requirements have been met. The Marketing Intermediaries variable has the highest composite reliability value at 0.964. Although Investment Education has the lowest

Composite Reliability value of 0.701, it meets scientific requirements. Overall, reliability assessment using both the Cronbach coefficient α and Composite Reliability suggests that all the study variables are reliable and meet scientific requirements.

6.4.2. Validity

After testing for reliability, the next step is to test if the analytical instrument is valid. This is a crucial step in Structural Equation Modelling as validity test assesses whether each variable of the study is properly measured, and simultaneously assesses if study variables measure what they are intended to measure. Validity tests are intended to ensure that variables and constructs are distinct from each other in order to ensure that the study instruments do not suffer from ambiguities that may lead to inconclusive findings. Validity tests are therefore quality assessment metrics as weak validity properties undermine scientific value of the study. This study uses two instruments to test validity, namely Average Variance Extracted (AVE) which tests for convergent validity, and Inter-Construct Correlation Matrix which tests for discriminant validity, as explained below.

6.4.2.1. Average Variance Extracted

According to Drew and Rosenthal (2003), convergent validity assesses the extent to which measures of constructs that are supposed to be related are indeed correlated. Hazen, Overstreet and Boone (2015) note that the Average Variance extracted is the instrument that tests for convergent validity. Fraering and Minor (2006) posit that values for each study variable need to be above the 0.5 threshold for the convergent validity to be established.

Table 14 below presents Average Variance extracted for informal savers variables, namely Asset Security (AS), Investment Education (IE),

Investment Products (IP), Investment Management (IM), Marketing Intermediaries (MI), Interface between Informal and Formal Savers (ISFI), Investment Communication (IC), and Treatment of People at Intermediaries (TPI).

Table 14: Average Variance Extracted test results

Variable	Average Variance Extracted
Asset Security (AS)	0.534
Investment Education (IE)	0.460
Investment Products (IP)	0.877
Investment Management (IM)	0.803
Marketing Intermediaries (MI)	0.930
Interface between Informal and Formal Savers (ISFI)	0.544
Investment Communication (IC)	0.518
Treatment of People at Intermediaries (TPI)	0.586

Convergent Validity was assessed using the item-to-total correlation values and factor/item loadings for each item of the research variables. As the results note, all item-to-total correlation values and the factor loadings are above 0.5. This implies that all items converged well on what they were expected to measure. However, the Average Variance Extracted for Investment Education is 0.460, and according to Chinomona (2011), this is marginally acceptable.

6.4.2.2 Discriminant validity

Discriminant validity test assesses if each measurement variable is different and discriminated from another variable, and this is anchored on

the thesis that proscribes multicollinearity amongst study constructs. Multicollinearity produces strange results and compromises the scientific standing of the assessment. Literature argues that discriminant validity is a crucial and important component of quality tests, especially testing for unobserved variable analysis. If discriminant validity is not observed, study variables become inconsequential and suspect. The instrument used to test for discriminant validity is the Inter-Construct Correlation Matrix.

A correlation value between constructs of less than 0.85 is recommended in the empirical literature to confirm the existence of discriminant validity (Bagozzi & Yi, 1991; Nunnally & Bernstein, 1994). Table 15 below indicates that all the correlations are below the acceptable level of 1. The diagonal values in bold are the Shared Variances (SV) for the respective research constructs. The Shared Variance is expected to be greater than the correlation coefficients of the corresponding research constructs. Drawing from Table 15 below, the results further confirm the existence of discriminant validity.

Table 15: Inter-Construct Correlation Matrix

Variables	AS	IC	IE	IM	IP	ISFI	MI	TPI
AS	0.747							
IC	- 0.335	0.720						
IE	0.065	- 0.329	0.678					
IM	0.397	- 0.259	0.189	0.896				
IP	0.142	- 0.267	0.127	0.354	0.937			
ISFI	0.018	- 0.300	0.340	0.146	0.250	0.700		
MI	0.140	- 0.022	- 0.071	- 0.275	- 0.358	- 0.198	0.964	
TPI	0.003	0.152	- 0.017	- 0.170	0.266	- 0.137	0.082	0.765

AS= Asset Security; IE= Investment Education; IP= Investment Products; IM= Investment Management; MI= Marketing Intermediaries; ISFI= Interface between Informal & Formal Savers; TPI= Treatment of People at Intermediaries; IC= Investment communication

Summary of the confirmatory factor analysis is presented below in Table 16. The Cronbach value, α , and the Composite Reliability are used to test for reliability. The Cronbach values (α 's) for all the variables are above 0.60, the accepted benchmark. Similarly, Composite Reliability values for all variables exceed the requisite 0.70, the accepted indicator for scientific rigour of the analysis instrument. This confirms that the analytical framework and the data quality thereof are reliable.

Average Variance Extracted is a tool used to test for convergent validity, and the inter-construct correlation matrix test is used to test for

discriminant validity. Table 14 shows that convergent validity is established since the values for all variables are above 0.5, the required scientific aggregation. Lastly, Inter-Construct Correlation Matrix established discriminant validity as latent constructs are below 1.

Table 16: Measurement Accuracy Assessment and Descriptive Statistics

Research constructs		Descriptive statistics*		Cronbach's test		C.R.	AVE	Measure ment Item Loadings
		Mean	SD	Item-total	α Value			
Investment Management (IM)	IM1	3.10	1.401	0.730	0.608	0.701	0.803	0.890
	IM2			0.730				0.903
Marketing Intermediaries (MI)	MI3	2.59	1.352	0.906	0.926	0.964	0.930	0.957
	MI4			0.906				0.972
Investment Education (IE)	IE3	2.91	0.851	0.521	0.601	0.701	0.460	0.605
	IE4			0.521				0.744
Investment Product (IP)	IP1	3.11	1.280	0.797	0.864	0.934	0.877	0.959
	IP2			0.797				0.913
Interface between Formal and Informal Savers(ISFI)	ISF I2	2.60	1.177	0.538	0.601	0.728	0.544	0.704
	ISF I3			0.664				0.535
	ISF I5			0.520				0.830
Investment Communication (IC)	IC1	2.01	1.072	0.553	0.679	0.757	0.518	0.880
	IC2			0.540				0.559
	IC4			0.541				0.683
Treatment of People Intermediaries (TPI)	TPI 1	3.15	1.007	0.507	0.620	0.732	0.586	0.895
	TPI 3			0.507				0.608

Asset Security (AS)	AS 1	3.08	1.390	0.631	0.675	0.773	0.534	0.881
	AS 2			0.591				0.893
	AS 3			0.516				0.597
	AS 4			0.546				0.551

* Scores: 1 – Strongly disagree; 3 – Neutral; 5 – Strongly agree.

C.R. = Composite reliability; *AVE* = Average variance extracted; *SD* = Standard Deviation; *α Value* = Cronbach's Alpha Value.

AS= Asset Security; *IE*= Investment Education; *IP*= Investment Products; *IM*= Investment Management; *MI*= Marketing Intermediaries; *ISFI*= Interface between Informal & Formal Savers (ISFI); *TPI*= Treatment of People at Intermediaries; *IC*= Investment communication

6.5 CORRELATIONS BETWEEN CONSTRUCTS: INFORMAL SAVERS

This section provides results on the correlations between the research constructs. The said research constructs are Investment Management (IM), Asset Security (AS), Investment Education (IE), Interface between Saving groups and the Formal Investment stream (ISFI), Marketing by Intermediaries (MI), Investment Communication (IC), Investment Products (IP), and Treatment of People at Intermediaries (TPI). Correlation results for the informal savers data are contained in Table 17 below.

Table 17: Constructs correlations results

Variables	AS	IC	IE	IM	IP	ISFI	MI	TPI
AS	1.000							
IC	- 0.335	1.000						
IE	0.065	- 0.329	1.000					
IM	0.397	- 0.259	0.189	1.000				
IP	0.142	- 0.267	0.127	0.354	1.000			
ISFI	0.018	- 0.300	0.340	0.146	0.250	1.000		
MI	0.140	- 0.022	- 0.071	- 0.275	- 0.358	- 0.198	1.000	
TPI	0.003	0.152	- 0.017	- 0.170	0.266	- 0.137	0.082	1.000

AS= Asset Security; IE= Investment Education; IP= Investment Products; IM= Investment Management; MI= Marketing Intermediaries; ISFI= Interface between Informal & Formal Savers; TPI= Treatment of People at Intermediaries; IC= Investment communication

The results tabulated in Table 17 indicate that some associations between the correlated constructs are negative, indicative of weak relationships. However, relatively strong associations can be noted between investment management (IM) and asset security (AS) at 0.397; investment products (IP) and investment management (IM) at 0.354; interface between informal and formal savers (ISFI) and investment education (IE) at 0.340; treatment of people at intermediaries (TPI) and investment products (IP) at 0.266; and the interface between informal and formal savers (ISFI) and investment products at 0.250.

In addition to the aforementioned correlations, positive correlations are noted between asset security and investment education (0.065); asset security and investment products (0.142); asset security and interface between informal and formal savers (0.018); asset security and marketing at intermediaries (0.140); asset security and treatment of people at intermediaries (0.003); treatment of people at intermediaries and investment communication (0.152); investment management and investment education (0.189); investment product and investment education (0.127); and treatment of people at intermediaries and marketing at intermediaries (0.082).

The remainder of the associations between the research constructs are negatively related and with investment communication negatively related with all other research variables except treatment of people at intermediaries (0.152). These results are surprising and may be explained by the fact that the investment communication strategy currently used is not appropriate and appealing to the informal savers.

6.6 PATH MODELING RESULTS: INFORMAL SAVERS DATA SET

This section of the study discusses the path modelling results from data accrued from informal savers. Path modelling is an integral part of the structural equation modelling technique used to demonstrate causal relationships between study variables (Tripathy, Aich, Chakraborty & Lee, 2016). In the path model, single-headed arrows show the causal relationships between the predictor variables and the dependent variable.

In the path model, Investment Education (IE), Interface between Formal and Informal Savers (ISFI), Marketing Intermediaries (MI), Investment Products (IP), Treatment of People at Intermediaries (TPI); Investment Communication (IC) and Asset Security (AS) are the predictor variables while the Investment Management (IM) is the dependent variable.

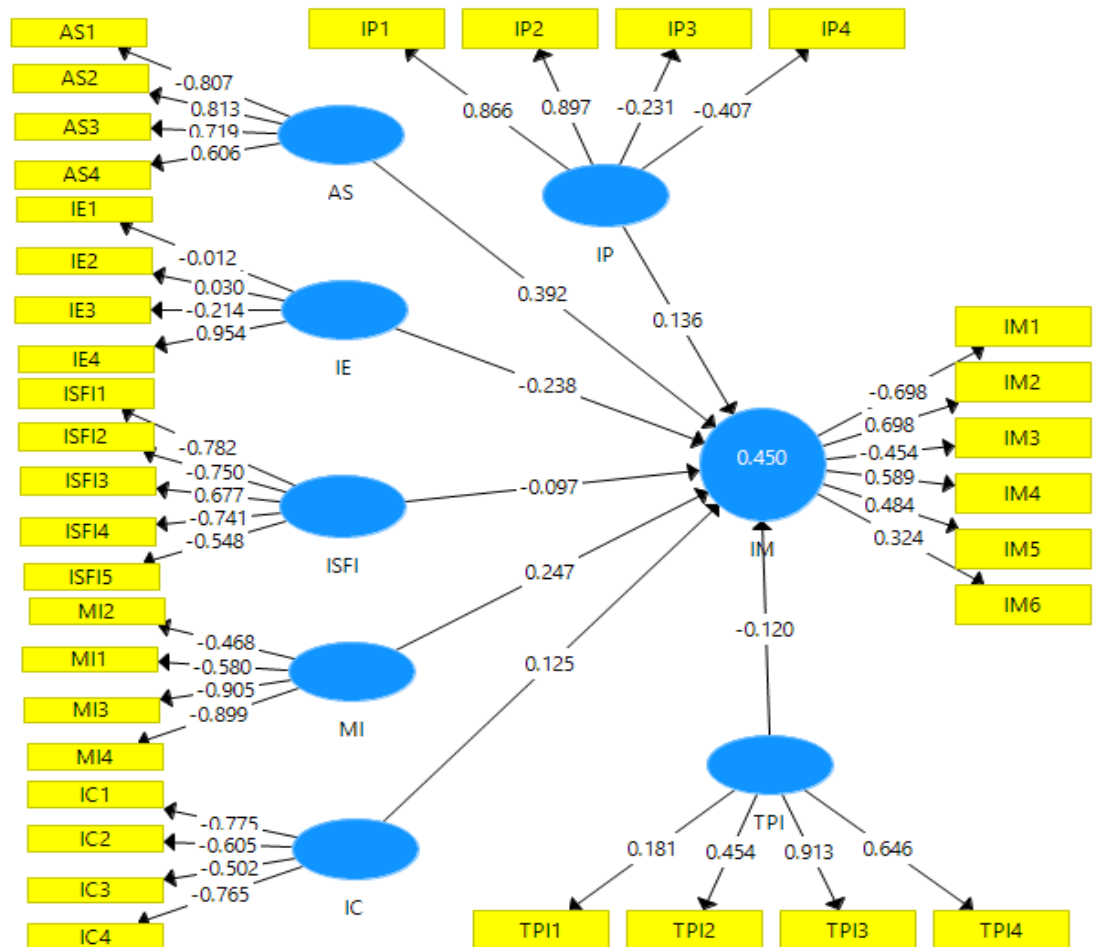
It is worth restating study constructs: The Investment Management (IM) construct is composed of six items, and it examines the financial management behaviour of informal savers.

The Asset Security (AS) construct has four items and it probes the asset security infrastructure of informal savers. The Investment Education (IE) construct has four items and explores the equity investment literacy levels of informal savers. The construct Interface between Saving Groups and the Formal Investment (ISFI) stream assesses the financial service relationship between the informal financial service sector and the formal financial investment system, and how money management behaviour of the informal saving fraternity is influenced by the formal financial sector.

The Marketing by Intermediaries (MI) construct gathers information on how informal savers perceive marketing outreach strategies of the formal equity investment sector. The Investment Communication (IC) construct captures the extent to which informal savers understand equity investment communications. The Investment Products (IP) construct examines the relationship between informal savers and equity investment products. Treatment of People at Intermediaries (TPI) probes the treatment of informal savers by financial institutions and how that impacts on their investment behaviour.

Two path modelling results on the informal savers data are presented in this study. On the first path modelling result, a number of instruments do not converge well on what they were supposed to measure. Those instruments that do not converge well are removed, resulting in the issuance of the second path modelling result.

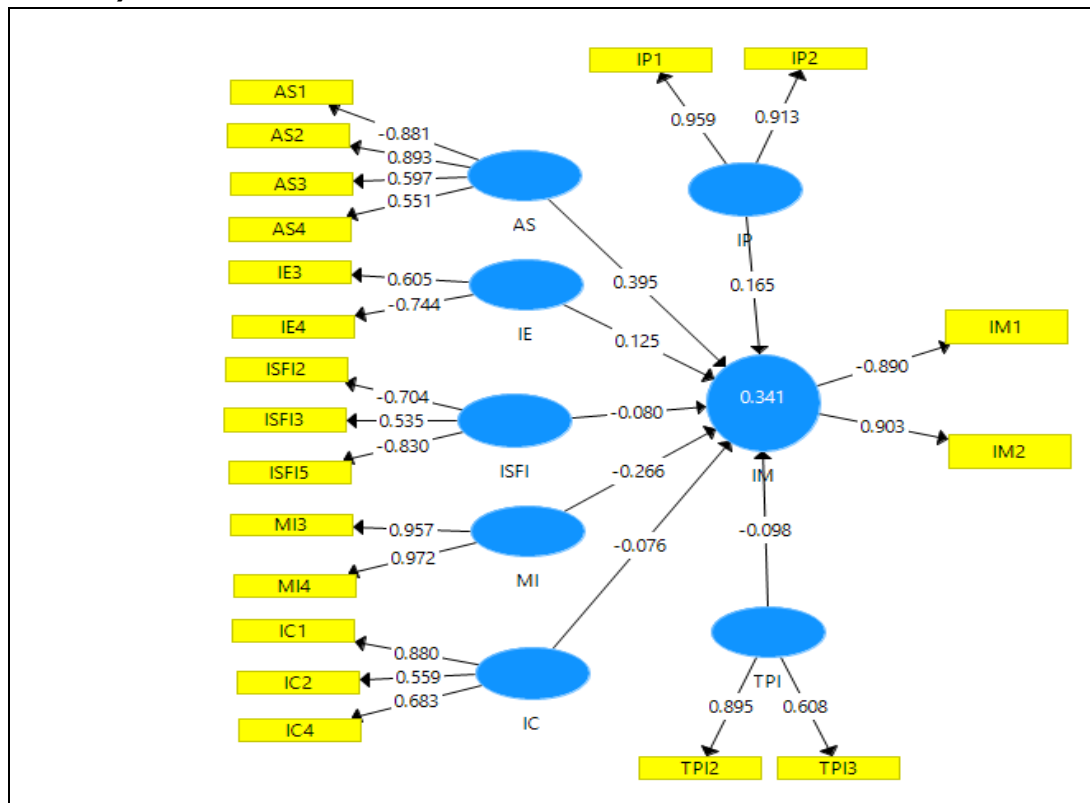
Figure 16: First Path Model Results and Factor Loadings (Original Model)



AS= Asset Security; IE= Investment Education; IP= Investment Products; IM= Investment Management; MI= Marketing Intermediaries; ISFI= Interface between Informal & Formal Savers; TPI= Treatment of People at Intermediaries; IC= Investment communication

The original structural model had a number of instruments not converging well on what they were supposed to measure (<0.5), and therefore the measurement instruments that were less than 0.5 were deleted. Only instruments that loaded above 0.5 were retained in the measurement models and the final path model was run. Figure 16 below provides the final path model results and the respective factor loadings.

Figure 17: Second Path Model Results and Factor Loadings (Final Model)



AS= Asset Security; IE= Investment Education; IP= Investment Products; IM= Investment Management; MI= Marketing Intermediaries; ISFI= Interface between Informal & Formal Savers; TPI= Treatment of People at Intermediaries; IC= Investment communication

As the path modelling results indicate in Figure 17 above, with a factor loading of 0.395, Asset Security (AS) is the leading predictor of quality investment management behaviour amongst informal savers. Interviews revealed that guarantee of asset security will play a crucial role in influencing positively the investment behaviour of informal savers. Simply stated, efforts to improve investment asset security will shift informal savers towards the stock investment sector.

With a factor loading of 0.266, path modelling shows Marketing by Intermediaries plays a decisive role in promoting good investment decisions by informal savers. Interviews revealed that marketing is

educational, and a well-run marketing initiative encourages ideal stock investment management within the informal saving community.

With a factor loading of 0.165, there is a positive causal relationship between Investment Products and Investment Management amongst the informal saving community. This suggests that exposure to quality stock investment products by the informal saving groups will motivate them to take quality, long-term investment decisions.

With a factor loading of 0.125, financial Investment Education (IE) has a causal relationship with investment management. Throughout this dissertation, financial literacy and education are shown contributing to sound financial investment behaviour.

Treatment of people at intermediaries – with a factor loading of -0.098 – is also shown sharing a causal relationship with investment management behaviour of informal savers. This suggests that the way informal savers are treated in financial service firms plays a role in their investment behaviour.

6.7 RESEARCH FINDINGS: INFORMAL SAVERS DATA SET

In addition to showing relationships between variables, the structural equation modelling also tests for hypothesised relationships between study variables. In testing the hypothesized relationships, the value of the t-statistic will indicate whether the relationship is significant or not. A significant relationship is expected to have a t-statistic that is above 2. Drawing from the results provided in Table 16 below, four of the hypothesized relationships (H1, H3, H4 and H7) are significant while the remainder (H2, H5 and H6) are insignificant relationships.

Table 18: Results of structural equation model analysis

Path	Hypothesis	Path coefficients (β)	T-Statistics	Decision on Hypotheses
Investment Education (IE) → Investment Management (IM)	H1	0.125	2.032	Accept/ Significant
Interface between Formal and Informal Saver (ISFI) → Investment Management (IM)	H2	-0.080	1.007	Reject/ Significant
Marketing Intermediaries (MI) → Investment Performance Management (IPM)	H3	-0.266	5.073	Accept/ Significant
Investment Products (IP) → Investment Performance Management (IPM)	H4	0.165	3.106	Accept/ Significant
Treatment of People at Intermediaries (TPI) → Investment Performance Management (IPM)	H5	-0.098	1.010	Reject/ Insignificant
Asset Security (AS) → Investment Performance Management (IPM)	H6	0.395	6.867	Accept/ Significant
Investment Communication (IC) → Investment Performance	H7	-0.076	1.001	Reject/ Significant

AS= Asset Security; IE= Investment Education; IP= Investment Products; IM= Investment Management; MI= Marketing Intermediaries; ISFI= Interface between Informal & Formal Savers; TPI= Treatment of People at Intermediaries; IC= Investment communication

6.7.1. Hypothesis One (H1): Investment Education (IE) and Investment Management (IM)

It can be observed in Table 18 that H1 (Investment Education (IE) → Investment Management (IM)) is supported by the hypothesis result (0.125) and is significant at t-statistic 2.032. The strength of the relationship is indicated by a path coefficient of 0.125. This implies that investment education directly influences investment management in a positive significant way. The better the level of investment education, the higher the level of investment management. Simply stated, high levels of financial literacy improve financial investment behaviour of informal savers.

6.7.2. Hypothesis Two (H2): Interface between Formal and Informal Saver (ISFI) and Investment Management (IM)

Table 17 above indicates that H2 (Interface between Formal and Informal Saver (ISFI) → Investment Management (IM)) is not supported by the hypothesis finding (-0.080). Moreover, the t-statistic 1.007 is less than 2, which means that the hypothesized relationship is insignificant. Furthermore, the path coefficient of -0.080 indicates that there is a weak negative relationship between interface between formal and informal saver and investment management. This implies that interface between formal and informal saver is negatively related to investment management in an insignificant way.

6.7.3. Hypothesis Three (H3): Marketing at Intermediaries (MI) and Investment Management (IM)

Table 17 indicates that H3 (Marketing at Intermediaries (MI) → Investment Management (IM)) is rejected. However, this hypothesised relationship is significant since the t-statistic is 5.073. The strength of the relationship is

indicated by the path coefficient of -0.266. This finding suggests that marketing at intermediaries has a direct negative effect on investment management.

6.7.4 Hypothesis Four (4): Investment Products (IP) and Investment Management (IM)

As indicated in Table 17, H4 (Investment Products (IP) → Investment Management (IM)) is supported. The t-statistic is 3.106. This means that the proposed hypothesis is positively supported in a significant way. The path coefficient which signifies the strength of association is 0.165. This suggests that more investment products are associated with higher investment management. Informal savers are mostly likely to respond to unique equity investment products designed for them.

6.7.5. Hypothesis Five (5): Treatment of People at Intermediaries (TPI) and Investment Management (IM)

A positive hypothesis is posited in H5 (Treatment of People at Intermediaries (TPI) → Investment Performance Management (IPM)) but the result is negative and hence the hypothesis is not supported. However, since the t-statistic is 1.010 this relationship is also insignificant. The weak relationship between treatment of people at intermediaries and investment performance management is indicated by a path coefficient of -0.098. This finding suggests that treatment of people at intermediaries insignificantly influences investment management in a negative way.

6.7.6. Hypothesis Six (6): Asset Security (AS) and Investment Management (IM)

It can be observed in Table 17 that H6 (Asset Security (AS) → Investment Performance Management (IM)) is supported by the hypothesis result and is significant at t-statistic of 6.867. The strength of the relationship is

indicated by a path coefficient of 0.395. This suggests that asset security has a positive and direct influence on investment management. Thus, higher levels of perceived asset security will lead to higher investment management. Perception of asset security in the stock market is highly likely to motivate informal savers to invest in the equity market.

6.7.7. Hypothesis Seven (7): Investment Communication (IC) and Investment Management (IM)

A positive hypothesis posited in H7 Investment Communication (IC) → Investment Performance Management (IPM) but the result is negative and hence the proposed hypothesis is not supported. However, since the t-statistic is 1.001, this relationship is also insignificant. The weak relationship between treatment of people at intermediaries and investment management is indicated by a path coefficient of -0.076. This finding suggests that investment communication insignificantly influences investment management.

6.8 PRELIMINARY DISCUSSION OF THE FINDINGS

Overall, an examination of the research findings using the informal savers data set indicates that asset security has the strongest influence on investment management (0.395) when compared to other research constructs. Marketing at intermediaries (-0.266) and investment products (0.165) are second and third respectively in impact on investment performance management. Investment education (0.125) comes fourth while treatment of people at intermediaries (-0.098) is fifth. Interface between formal and informal saver (-0.080) and investment communication (0.076) have the least effect on investment management respectively.

These findings imply that informal savers prioritize asset security, and that protection of savings in financial institutions is most likely to motivate them

to invest in the stock market. This data further suggests that informal savers are mostly likely to respond positively to relevant and targeted marketing initiatives. However, they will link with the formal equity market in part owing to the availability of equity quality investment products. Finally, the results of the study suggest that financial literacy also plays a prominent role in encouraging and motivating informal savers to link with the stock investment economy.

6.9 CONCLUSION

This chapter served to report research findings from survey conducted from informal savers. Data collected represent views from several African countries including Zimbabwe, South Africa, Lesotho, Botswana, Swaziland, Nigeria, Ghana, Tanzania, Kenya and Zambia.

Descriptive statistical data indicate that there is little engagement between the informal financial sector and the formal equity investment market. Informal savers are financially illiterate, and their financial investment practices do not reveal confidence and knowledge in the stock market. A number of factors explain the difference between the two money management systems: informal savers are illiterate in respect of equity investment; they lack a unique and relevant product range, and current marketing strategies tend to be traditional and irrelevant.

However, data analysis through correlation and hypothesis tests show that safeguarding savings at financial investment organizations promotes the adoption of stock market investing strategy by the marginal groups. Similarly, an improvement in financial investment management and behaviour by informal saving groups will be influenced by provision of relevant investment products, increased financial literacy, and improvements in marketing and outreach. Findings of the study suggest that the formal financial sector should improve investment education,

increase their interface with informal savers, and treat informal finance clients better.

CHAPTER SEVEN

DISCUSSION OF FINDINGS

QUALITATIVE AND QUANTITATIVE DATA

7.1 INTRODUCTION

This chapter discusses the findings of the study and constructs an integrated narrative from research results derived from both the qualitative and the quantitative data sets. Discussion of the results of the study follows an analytical framework that is informed by several principles. Amongst others, the said principles dictate that discussion of results should always be preceded by stating the findings of the study; the researcher relies solely on results exclusively gained from the research field; and the researcher avoids speculation. These guidelines are aimed at ensuring that the research output is objective. However, leading theorists (Cooper, 2015; Rivera, 2008; Maree, 2010) grant researchers a discussion license, with the aim of allowing the discourse to be enriched, and not unnecessarily constrained by narrow perspectives.

This chapter debates the findings of the study guided by the research questions. Research questions of this study are numerous: they seek to establish the level of interface between the informal savings market and the public equity markets; explore how the stock markets can improve financial performance of the informal savings market. In addition, they seek to identify factors that have the capacity to motivate the informal savings market to link with the formal stock equity investment market.

This chapter also discusses the results of the study relating to the informal financial saving economy, including a critique of the offshoot of the traditional African saving practices, namely the for-profit African microfinance investment groups. These entities are very profitable and this

in part is due to poor regulation that allows for extortion and high levels of profiteering. Although these entities are profitable, the proceeds from their activity remain largely within the informal financial economy, exposed to significant risks such as assets insecurity and investment capital wastage through excessive consumerism. Marginalization raises the prospect of a vicious cycle, and this chapter applies the Karl Gunnar Myrdal theory of cumulative causation to explain the negative consequences brought on by the gap between the two systems of financial management (Myrdal, 2009). This study argues that financial investment exclusion of participants in the informal savings markets constitutes a form of socio-economic injustice because it is perpetrated on the basis of notions of inequality and discrimination.

A number of transformational activities are needed to effect change, including the adoption of strategy, rejuvenation of the marketing and the outreach functions, financial education, creation of relevant stock investment products, and appreciation of the indigenous ethnographic profile. The study concludes by presenting a graphic demonstration of the evolution of the framework for linking the informal financial saving sector and the formal stock market.

7.2 METHODOLOGY FOR DISCUSSING RESEARCH FINDINGS

A number of theorists posit strategies for discussing and interpreting research findings. Cooper (2015) advises that the discussion of findings should be preceded by the reiteration of the objective and purpose of the research project. Rivera (2008) concurs, noting that the researcher should succinctly summarize the results of the study before discussing the findings. This discussion chapter adopts this method of discourse, because the cited approach communicates the context of the study to the reader.

The interpretation of data should be guided by the results of the study, and Cooper (2015) counsels that discussion of the findings of the study should focus on what the data and results of the study unearthed. The objective of this requirement is to discourage researchers from inferring meaning from speculation. Kondracki, Wellman and Amundson (2002) augment this view, citing that the Grounded Theory analysis method requires the results of the study to be a valid and reliable representation of data, a discourse they describe as a bottom-up course to knowledge creation. This is the school of thought that this study adopts in the interest of objectivity and reliability.

Notwithstanding the centrality of data, the discussion component of this study is not parochial but allows for rich interpretation of research findings. De Casterle, Gastmans, Broyn and Denier (2011) propose that the interpretation of findings should be liberal, which is intended to encourage the emergence of new latent meaning from data. Similarly, Maree (2010) notes that in interpreting and discussing the results of the study, the researcher should “bring multiple perspectives from the theory into [the] study” (2010:112).

The Maree’s (2010) submission is a researcher’s license to be exploratory, and allow the interpretation of the findings of the study to be informed by multiple considerations. Furthermore, it is complementary to the evolution of the subject of the study assuming a multidisciplinary profile. This is consistent with the philosophy of Schumpeter on academe and scholarship, namely that it should encompass a multidisciplinary character and eschew compartmentalization (McCraw, 2007). The discussion of the results of this study is thus multidisciplinary, and combines knowledge from a number of fields, including finance and economics, African political economy and sociology. This allows for the emergence of a rich scholarly discourse on Africa’s traditional financial system.

Maree (2010) communicates additional strategies for enriching the analytical rigour of the research project, suggesting that researchers should identify networks and associations within data and provide explanations to emerging themes. Furthermore, he concludes that the epitome of the discussion of research findings is the elucidation of emerging patterns and the identification of inferences. As a result, this study communicates the direct and latent meaning of research findings, and explains to the readers what the results of the study imply (Galanis, 2014).

In interpreting data, Rivera (2008) advises the researcher to contribute a new understanding to the body of knowledge, identify new patterns and the latest perspectives on the subject. Notwithstanding the pursuit of new knowledge, Naidoo (2013) maintains that the results of the study should be linked with existing knowledge. This is a reference to the Newtonian axiom of 'standing on the shoulders of giants', the acknowledgement of the inalienability and usefulness of prior research in the discovery and formation of new intellectual perspectives. However, discussion of results does not mean restating all the findings of the study.

Against this background, the discussion below addresses the evolution of informal financial management practice, suffusing new knowledge with existing literature on the evolution and present profile of indigenous African financial saving system.

7.3. EMERGING THEMES IN THE AFRICAN INFORMAL SAVING MARKET

Discussion and interpretation of the findings of the study focuses on research results about informal saving practices, with special reference to the indigenous Sub-Saharan African financial sector. The loci of analysis are the geographic distribution of the informal financial saving sector, the two major types of informal saving and investment practices, the

membership profile, tenure of saving, and financial saving performance. This discussion is anchored on the research question of the extent of interface between the informal savings market and the public equity markets.

7.3.1. Geographic distribution of informal saving practices

This study found that informal saving practices are widespread in Sub-Saharan African markets. This study received primary data contributions – through interviews and survey responses – from Ghana, Kenya, Lesotho, Namibia, Nigeria, Swaziland, South Africa, Tanzania and Zambia. All these African markets are characterized by the co-existence of the formal financial system and the ethnic financial saving practices. The African sub-continent boasts several informal financial saving traditions, such as burial societies, stokvels, grocery clubs, Njangi, Chilimba, Motshelo and Roundtables, amongst others.

Scholars such as Du Plessis (2009), Ojah and Mokoatali (2010), Akram and Routray (2013), and Katwalo and Muhanji (2014) observe that micro-financial saving practices are widespread in Sub-Saharan African markets. This is a demonstration of the resilience of African financial customs amidst the entrenchment of contemporary financial institutions in the marketplace.

7.3.2 Profile of members of informal financial saving groups

The analysis of the profile of participants revealed several attributes. Results of the study show that older members of the community (aged 46 and older) participate the most in activities of informal saving associations, followed by middle-aged members and then the young people. The fact that all age groups are participating in African traditional financial saving strategies suggests that the informal saving system is entrenched in the

African culture, and that it is being passed from one generation to the next. This perspective is supported by Arko-Achemfuor (2012) who observed that the traditional African financial management practices remain popular in communities. Mmegi (2014) concurs with this observation, further noting that these traditional practices are also evolving.

7.3.3. Two types of informal saving groups

This study identified two types of informal saving practices, namely the pecuniary informal saving category and the non-pecuniary informal saving practice. The former is intended to yield a wealth increase over time whilst the latter is not formed for wealth creating purpose (rather more for storing of value and consumption).

7.3.3.1. The non-pecuniary informal saving groups

This study found that in the non-pecuniary sphere, members of the informal saving group take turns to contribute money to each participant, but there is no wealth expansion objective. This is the conventional foundation of informal saving practices within the African community, and its continued existence suggests that the membership prefers altruism and maintenance of the *status quo*.

This observation is consistent with the findings of other scholars. Irvin (2005) established that most participants in traditional non-pecuniary African saving schemes do so for social capital and preservation of culture. Akram and Routray (2013) as well as Woolcock (1998) note that social capital consideration is the dominant variable of the microfinance market; Priyadarshee and Ghalib (2011) similarly identify these groups as being not-for-profit microfinance entities, and observe that this constituency demonstrates an inertia to change from customary practices. Upon observing their lack of engagement with profit-making strategies, Du

Plessis (2009) and Irvin (2005) note that traditional financial saving schemes are not strong investment strategies.

7.3.3.2. *The pecuniary informal saving schemes*

As Mmegi (2014) suggests, the culture of African indigenous financial system is changing. The objective of the saving associations is also transforming, and they are increasingly pursuing the profit-making goal. This observation is both profound and novel and constitutes a significant detour from the prevailing literature that highlights the non-profit pursuit (Verhoef, 2002), and the social capital bias (Anku-Tsedee, 2014). Some contemporary African informal saving clubs are increasingly capitalist, and are aggressively aiming at increasing returns from their financial investments. They are doing this mostly through the microcredit platform, and this is a rebuttal of the established narrative that denigrates indigenous financial management practice as a non-corporatized saving system.

7.3.4. The microcredit business

This study has found that the most popular method of generating income for modern indigenous for-profit informal saving clubs is the loaning out of the group's savings. From the outset, the group is formed as a saving club, but simultaneously operates as a micro-finance credit service organization. The monthly premiums from the membership constitute group capital assets and each member assumes the obligation of identifying potential credit clients. This implies that pecuniary informal saving clubs have transformed themselves into shadow banks. This is a contribution to knowledge about the changing characterization of informal saving groups.

The African for-profit informal saving groups are to some extent different from their Asian counterparts – at least regarding proprietorship, tenure,

and venture capital support. At their genesis, Asian groups are created as micro-credit institutions and are mostly formed by a few people or a single individual, the most recognisable being Grameen Bank founder, Mahomed Yunus (Hoque, Chishty & Halloway, 2011) and Vikram Akula of SKS Microfinance (Bellman, 2006). These entities advance small loans to mostly women small-scale entrepreneurs (Hussain & Nargis, 2008). Their business tenure is long-term and, recently, some of them are growing with the support of private equity investors and the involvement of global banking brands such as Goldman Sachs and Morgan Stanley (Grunewald & Baron, 2011). Government plays an active regulatory role and grants banking licenses to successful microlending groups (Kazmin, 2015).

In contrast, the African for-profit saving group is an offshoot of the traditional rotating saving scheme, formed by a group of members. Group members save for a period of less than a year, and at the maturity date (often coinciding with Christmas religious festivals and the December holiday period) the saving group is liquidated, and the invested capital (composed of monthly contributions) and the interest earned (profits) are distributed proportionally to members. These funds are often used to finance aspirational consumption rather than necessities. Notably, there is a scant desire to invest some of the proceeds in the stock equity investment economy.

7.3.5. Financial performance of pecuniary informal saving groups

Credit provisioning is a lucrative and profitable business avenue for the pecuniary saving clubs. This finding about the profitability of African saving groups is a knowledge contribution, since the prevailing sense suggests that African rotating saving schemes are largely inconsequential clubs with a tendency to be preoccupied with mere non-profit socialization (Ashraf, Hassan & Hippler III, 2014).

On the other hand, the for-profit African rotating saving groups are different, and their profitability is derived from the fact that they charge expensive interest rates, ranging between 20% and 60%. Compared with formal commercial banks, these rates appear exploitative. The base lending rate at South Africa's Standard Bank is 10.25%, and 17.9% at Standard Chartered Bank Nigeria (as of 10 February 2016). This finding suggests that moneylending activity is the main source of profit for pecuniary informal saving groups, and this is largely attributable to exorbitant lending rates. This conclusion is corroborated by Mukherjee (2014) who notes that the credit provisioning business of some microfinance entities tends to be exploitative due to the high cost of debt.

High lending rates translate into high returns on invested capital. For example, the Gauteng-based informal saving club called 'Rise And Shine' adopted an aggressive for-profit strategy, and its net profit margin for the 2014/2015 financial year was 230%. Pursuing the same strategy, the Venda-based 'Faranani' and Swaziland-based 'The Ambassadors' saving clubs respectively returned 250% and 200% in net profit margin for their members in the same period. This financial performance suggests that the for-profit informal saving model is highly profitable to shareholders (members of the saving club).

Literature confirms that the for-profit informal saving practice is a successful business initiative. The research on Asian microcredit groups conducted by Panwar and Carmody (2011) examined the financial performance of for-profit microfinance institutions in India for the 2009/2010 financial year. The purpose of the study was to establish the profitability of microfinance credit institutions in the Asian sub-continent. The results of the study found that of the seventy (70) Indian microfinance institutions studied, sixty-two (62) had a positive return on assets (ROA) and twenty (20) of these banks reported a ROA of over 4%. This emphasises the profitability of the for-profit microfinance business.

The aforementioned returns compare favourably against India's mainstream commercial banks. In the period under study, namely the 2009/2010 financial year, the average ROA of mainstream Indian banks was 2% (Panwar & Carmody, 2011). The performance of the Indian microfinance institutions is thus attractive when one considers the fact that global financial corporates Bear Stearns and Lehman Brothers became bankrupt during the period in question.

The findings of this study regarding informal saving groups, in particular the success of pecuniary saving schemes, and the conclusions of the research by Panwar and Carmody (2011) indicate that the microfinance credit business is a profitable operation. The for-profit saving and investment initiative is a rewarding business enterprise and a modernization of the traditional non-commercial financial order.

7.3.6. High service demand and poor regulation of informal saving groups

This study found that two major factors account for the high profit margins of for-profit saving clubs - high service demand and poor regulation. With regard to regulatory monitoring, Sub-Saharan Africa illustrates two scenarios. One scenario features markets with a dearth of supervision while the other scenario features markets with weak or limited supervision.

Most African markets belong to the scenario in which informal saving groups run their businesses largely without regulatory restrictions. Amongst other shortcomings, poor supervision allows for for-profit informal saving groups to exploit clients by imposing excessively high lending rates. Although there is robust discipline within the formal financial sector in a number of African markets, such as South Africa, Zimbabwe, Lesotho, Zambia and Botswana, the regulatory regime does not *statutorily* extend to indigenous saving groups.

Such limited oversight of the informal saving groups is not applicable to every African country; some African markets do exercise a limited degree of supervision. The Central Bank of Nigeria supervises microfinance institutions through the CBN Act 7 of 2007 (Central Bank of Nigeria, 2012). This Act identifies tenure of loans, defines the client profile of a microfinance institution, dictates maximum loan amount, and publishes a list of permissible and prohibited activities by microfinance groups. Importantly, the law requires all microcredit entities to register and prohibits trading without a licence.

These reforms were part of the wider changes brought to the capital markets by the then Central Bank Governor, Lamido Sanusi, and have generally improved the national financial services sector. There have, however, been a number of reports of fraud and financial embezzlement in this sector (Ahmad, 2015), and this suggests that the supervision of the informal financial sector should continue to be advanced.

This study found that Swaziland supervises for-profit informal saving groups through a statutory body, namely the Swaziland Financial Services Regulatory Authority (FSRA). However, the supervision policy is limited, concentrating mostly on registration of informal financial service structures, issuance of trading licenses, and capital adequacy regulations. The regulatory regime is undermined by several challenges. First, the FSRA is insufficiently staffed to monitor all informal saving groups in the Swazi kingdom. Second, some saving groups do not co-operate with the supervisory body. Lastly, the FSRA lacks the financial resources necessary to competently carry out its tasks.

Poor supervision is also evident in Ghana. Anku-Tsedee (2014) noted that the Bank of Ghana (BOG) introduced a set of prudent regulations for 'financial non-governmental organizations' after some microfinance

entities started receiving deposits and marking loans without license, raising the possibility of client abuse. Nevertheless, the adoption of sector regulatory measures has not led to comprehensive changes to the system, and this is due to two factors. First, the BOG does not have sufficient funds to regulate the industry, largely as a result of the prevailing unfavourable macroeconomic environment and the effects of the weakening Cedi exchange rate. Second, the BOG does not have adequate numbers of staff members for the task at hand.

The overall observation is that African informal saving groups are inadequately regulated – largely due to lack of funds and insufficient personnel – and this allows for-profit groups to extort from clients, hence the comparatively high ROA for these shadow banks. This suggests that the supervision of the African informal financial system is still in its infancy. This state of affairs bodes ill for the public. In Asian countries, for example, a poor regulatory regime allowed for the abuse of clients, saw the entrenchment of self-immolation as justice for defaults, and exploitation of credit customers through exorbitant lending rates (Panwar & Carmody, 2011).

This conclusion is consistent with empirical evidence: Sama and Casselman (2013) point out those microfinance entities simply lack the capacity to self-regulate, and mostly due to lack of capacity and the workload, they have to manage loan books composed of many counterparties. Similarly, Bakker, Schaveling and Nijhof (2014) suggests that there is confusion on variables that will improve governance and regulation in the industry, but conclude that involving the input of clients and employees in the microfinance board will go a long way towards effective supervision of the industry. The conclusion is that microfinance enterprises are seldom regulated, and the implication is that lack of supervision will likely continue to be one of the major criticisms and impediment to its development.

Notwithstanding potential dangers – ranging from exploitation to the possibility of self-immolation – this study found that clients support these shadow financial organizations for credit in large numbers as they consider these social banks alternative providers of financial service. In an environment where commercial banks do not provide banking services to outlying rural areas, this study found that African entrepreneurs use for-profit informal saving groups as sources of working capital and bridging finance.

Survivalist women entrepreneurs find these shadow banks attractive, as they do not require prohibitive paperwork and permission from the patriarchal social structures. Furthermore, rural dwellers erroneously consider bank interest rates to be too expensive, and are not familiar with bank collateral requirements. The inference is that informal saving groups enjoy a disproportionate market share in the rural financial economy and this is mainly attributable to weak competition from formal retail banks.

Literature review concurs that informal financial institutions are central to the African rural financial architecture. Kinuthia (2015) indicates that informal credit facilities in rural enclaves are popular with village entrepreneurs and women survivalist entrepreneurs as the services of formal banks are scarce. This echoes the sentiment of Mahmood, Hussain and Matlay (2014) who reports that women participate significantly in the microcredit finance system and use capital to support business ventures and the education of their children.

As this study established, the rural constituency is compelled to rely on the informal financial system since banks and other mainstream financial institutions choose not to serve the underclass; they consider this client base too poor and ignorant, unprofitable, and generally a waste of time. Instead, formal financial intermediaries prefer to serve elite, rich clients.

Nevertheless, the African informal saving economy is transforming. Whereas it was largely a social creation and intended to serve the non-pecuniary social good, contemporary practices have led to innovation and reformation of intent towards the appreciation of a for-profit business model. It is a change accompanied by behavioural malfeasance in the form of exploitation of customers and unduly high profit margins of commercialized indigenous saving groups.

However profitable they are, it is still imperative that microfinance groups link with the formal financial sector to realize additional equity investment value from the formal financial economy (Vonderlack & Schreiner, 2002). As this study illustrates below, the inclusion that is ideal is not likely to be met in the short term and the informal African financial system remains marginalized, excluded from the mainstream financial system.

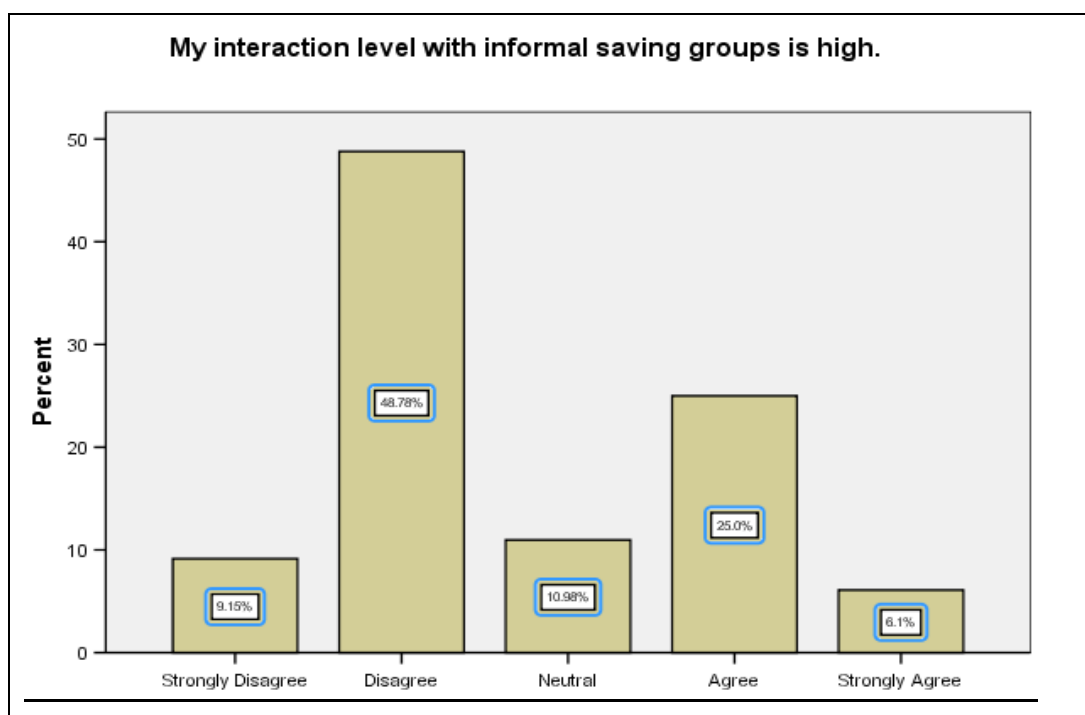
7.4 EXCLUSION OF AFRICAN INFORMAL SAVERS FROM THE STOCK INVESTMENT MARKET

Informal saving methods are a conduit of wealth management and source of credit for a significant portion of the African community. The pecuniary informal financial saving system is a harbinger of the nascent African capitalist economy. It is a stable, profitable business venture; participants of the informal financial market continue to derive value from participation. The resilience of the traditional informal saving system is an illustration of the inalienability of the informal financial system in Sub-Saharan Africa.

Although the informal economy plays a central role in most Africa's national economies, this study found that a significant proportion of Africa's informal savers are excluded from the formal equity investment sectors. The results of the survey provided below show respondents from the formal equity investment sector conceding that they do not interact significantly with informal saving groups. On the theme: "my interaction

action level with informal saving groups is high”, 48.78% of respondents disagree, whilst 9.15% strongly disagree. Only 25% of officials from the formal financial sector agree that they have a high level of interaction with informal savers. This suggests that there is a low level of interaction between the informal financial sector and the formal financial sector.

Figure 18: Interaction level with informal groups



The consequences of exclusion are numerous, and include a poor saving culture, weak asset security, exploitation, economic retardation and underdevelopment. At the macroeconomic level, marginalization of the informal economy constrains economic output, entrenches the dual economy, and defeats the ideals of shared growth. Therefore, the crippling gulf between the informal financial sector and the formal financial system is not in the interest of national economic development.

Analysis of the results of this study reveals several factors at play in the exclusion of the informal saving sector from the formal equity investment market. These factors are lack of strategy aimed at incorporating the

indigenous communities in the mainstream financial system, poor service provision, high minimum saving balance requirements of informal savers, and the role of geographic variables in perpetuating exclusion. It is notable that little research has been conducted on the marginalization of the African informal financial system from the mainstream stock investment markets. As a result, the identification of these factors by this study and the explanation thereof is an important contribution to knowledge in this field.

7.4.1 Lack of strategy

This study has found that the exclusion of informal savers in the formal stock investment economy is primarily explained by the absence of business strategy geared towards inclusion. More than 90% of the interviewees from the formal financial sector indicated that they do not have a dedicated plan to seek investment mandates from the informal saving funds. Officials of financial investment organizations show indifference and dismiss this group of savers as unsophisticated, unintelligent, and ignorant about financial investment. Owing to this negative attitude, informal savers become invisible and inconsequential, hence the marginalization.

This study observes that the tolerance level that financial investment organizations have for informal savers differ. On the most negative side of the continuum lies the wealth management industry, which is most likely to wholly dismiss informal saving groups. The dismissal policy is scarcely subliminal, and manifests mainly through refusal of service and a dearth of marketing drive towards the informal financial economy.

In the centre of the continuum lies banks, which have some engagement with the informal financial sector, but the service quality designed for informal savers is often poor and limited to mere provision of transactional

accounts and basic money market services. Analysis of bank investment service brochures reveals that banks seldom provide informal savers with access to equity investment opportunities. This study surmises that the banking sector's provision of transactional accounts is self-serving and is primarily intended to comply with political demand for universal access to basic banking services (the Mzansi account in South Africa exemplifies this), and simultaneously increase bank asset adequacy ratio, a crucial Basel III requirement. Non-bank financial service firms and insurance companies are largely silent on the interface between informal saving groups and the stock investment economy.

The silence of some financial investment organizations and the limited (at times forced) engagement that some retail banks have with the indigenous financial community reveal the lack of a comprehensive strategy and the view that the informal saving system is not a legitimate enterprise, and that participants of such activities are irrelevant. This relegates the informal saving community to less favourable status, hence the current state of affairs in which the informal saving system remains largely divorced from the financial mainstream. This gulf is likely to remain because the majority of financial service firms do not appear to be driven to create a relevant strategy that will provide meaningful stock investment services to underprivileged communities.

7.4.2 Poor service provision

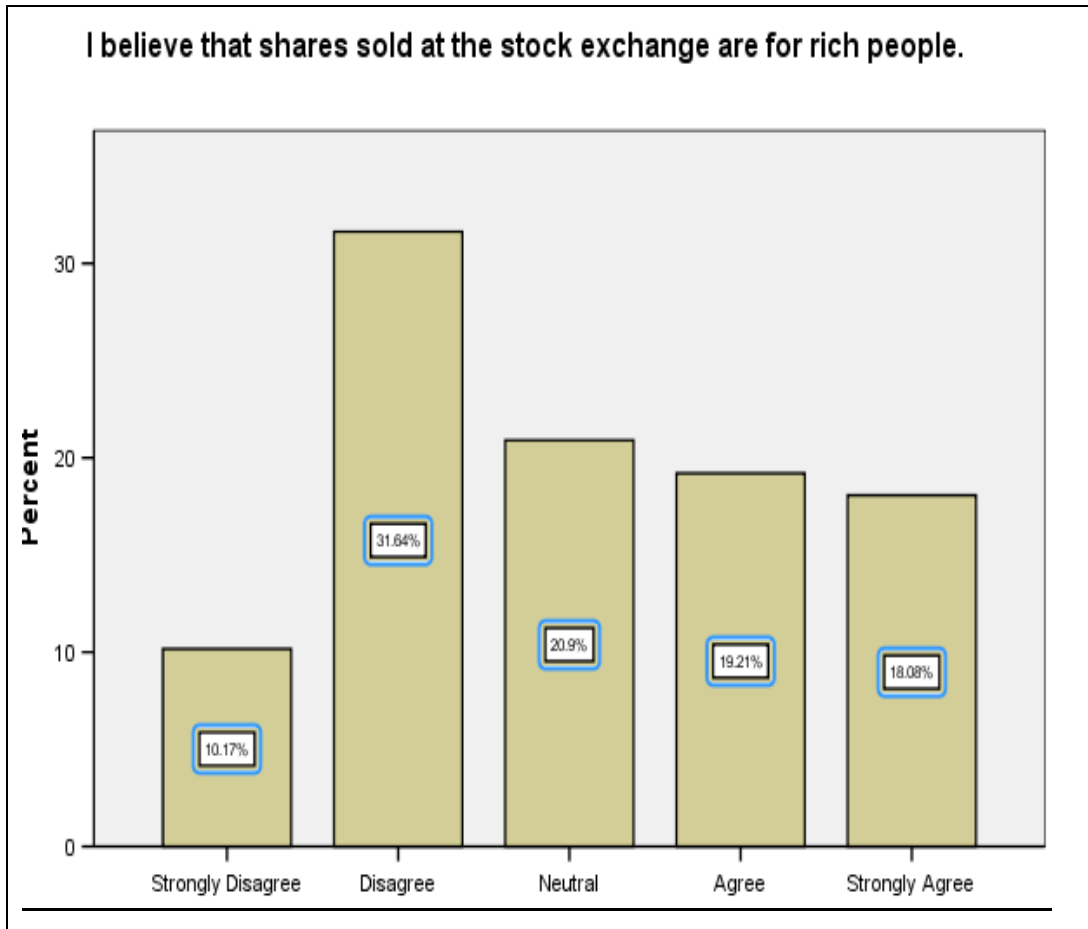
As this study revealed, in some instances where informal savers do access formal financial organizations – in particular banks – they do not always receive good treatment. Poor service manifests in the quality of officials that offer a service, the product suite being offered, and the communication quality rendered. This is a missed opportunity; path model show that humane treatment of people in financial stock service firms contribute to the appreciation of the stock investment economy.

This study notes that informal savers are routinely allocated the services of entry-level generalists whereby wealth management firms seldom allocate them senior portfolio managers and banks do not offer them expertise of investment officers and bankers. This treatment suggests a disregard for the informal saving community. In contrast, wealthier clients receive better service and quality investment products.

The discrimination against members of informal saving groups through service quality is a subtle communication that the indigenous financial community is not particularly appreciated in the formal financial services and banking sectors. This treatment tacitly discourages informal saving groups from engaging with institutions of stock investment finance, and contributes to supposedly poor people believing that the stock investment market is exclusively for rich clients.

Indeed, regarding the theme: "I believe that shares sold at the stock exchange are for rich people", 10.71% strongly disagree, 31.64% disagree but 19.21% agree and 18.09 strongly agree. According to the results of the survey, 37.29% of respondents in the informal financial economy cumulatively believe that equity investments are for rich people only.

Figure 19: Shares are for rich people



In interviews with members of informal saving groups in such diverse locations as Kabulonga (Zambia), Ezulwini (Swaziland), Mukula (Limpopo, South Africa), Chiawelo (Gauteng, South Africa), and Molepolole (Botswana) it was found that some rural people believe that the stock investment sector is only for the elite. Poor service to marginal communities is tacitly communicating that such groups do not belong in the stock investment service sector.

This study found that product suites offered to various investors vary greatly. Wealthy investors are offered balanced portfolios of asset classes, composed of money market instruments, bonds, equities and real estate. In contrast, in instances where informal savers are offered access, they

are offered money market accounts that perform poorly, undermined by inflation, steep service costs and limited active account management.

Of importance is that both interviews and correlation analysis show that the provision of quality products by the formal financial investment sector is related to improvement of investment performance by the underclass. Regarding the latter instrument (correlation, in the formal investment intermediaries' data set), this study established that the constructs investment products (IP) and investment performance management (IPM) are correlated.

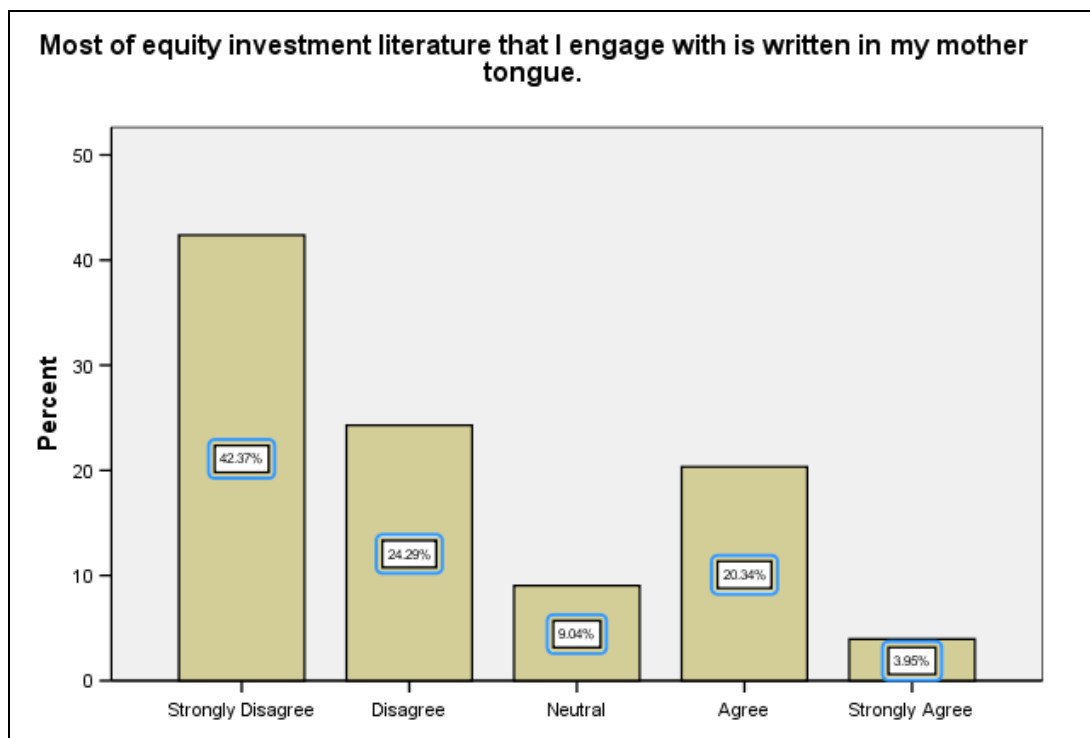
This relationship suggests that the provision of quality equity investment products by the mainstream financial sector is congruous to improvement in the equity investment participation behaviour of the informal saving market. The inference for business strategists and policy makers is that inclusion in the financial services sector is in part encouraged by the crafting of relevant quality products for marginalized groups who evidently had not been considered prospective investors by the formal equity market's product portfolio.

With regard to poor service, this study also noted that informal savers experience poor communication services, in particular the use of foreign languages within the financial services organizations. In the Anglophone environment, investment management firms tend to predominantly communicate in the English language, and this becomes a barrier to a significant proportion of informal savers as they are not all familiar with English. The use of a language that is not the home language of the informal saver inevitably undermines the investment interests and participation of the informal saving community.

Figure 3 below indicates that more than 65% of respondents within the informal sector expressed their concern that equity investment literature is

not in their mother tongue. On the theme: “most of equity investment literature that I engage with is written in my mother tongue”, 42.37% strongly disagree whilst 24.29% disagree. In contrast, 20.34% agree and 3.95% strongly agree. This means that a significant proportion of informal savers will not be well-placed to properly understand investment information when communicated in a foreign language (English for example) and this leads to alienation.

Figure 20: Investment literature in mother tongue language



7.4.3 Geographic location

This study found that geographic location of financial investment organizations plays a role in the exclusion of informal savers. All the asset management companies that were visited were located in urban centres. Similarly, banks were also largely distributed in metropolitan centres. Respondents from the informal saving community complained that the stock investment institutions are located in urban centres, far removed from areas in need. The effect of geographic location is that informal

savers located in rural villages are precluded from access to these institutions because of the cost of transport and possibly a lack of familiarity with these metropolitan areas.

One of the solutions to the challenge of limited geographical access is for the financial services organizations to open branches in the underserved areas. However, financial services organizations are not amenable to this option because it brings with it additional operational costs. Therefore, profit considerations are prioritized over universal access to the formal stock investment markets, contributing to a situation where financial considerations and class determine who has access to quality investment and wealth management services.

Bhanot, Bapat and Bera (2012) explored the role of geography in financial exclusion and conclude that rural dwellers tend to have constrained access to financial services. They suggested that post offices should be allowed to offer basic banking services to marginal communities. In discussing solutions to the problem of geography precluding rural communities from accessing the stock investment market, a number of respondents indicated that financial services firms should visit rural communities regularly and promote equity investment products. One respondent suggested that equity investment institutions should sell their products in similar fashion as insurance agents who visit rural villages.

7.4.4 Minimum balance requirements

This study found that wealth management firms and other equity investment intermediaries maintain a minimum account requirement clause. Sizes of minimum balance requirement vary, but wealth management boutiques have a preference for high net worth individuals. This study established that the minimum balance ranged from R150,000 to

R10-million in four markets, namely South Africa, Swaziland, Zambia and Botswana.

The capital requirement thresholds disqualify most individual informal savers, thereby adding a layer of market access impediment. However, the minimum requirement does not disqualify some informal saving groups because some of these entities save more than R150,000 a year. A bank manager in Makhado, in the Limpopo Province in South Africa is aware of this and has since adopted a pro-stokvel strategy. The bank manager informed this study that his bank opens twenty-six new accounts every month for informal saving groups and that each group deposits R8,000 on average per month. This suggests that as a group, informal saving structures actually have significant assets under their management. The stokvel market in South Africa is estimated to have R45 billion of assets in their books (Siobhan, 2015) and this suggests that collectively these groups have control of a significant wealth base.

The act of the said bank manager in opening bank accounts for informal saving groups, as opposed to shunning them, is an appreciation of the theory of asset-based development. According to this theory, real economic empowerment emerges out of the community using every asset – including stokvel proceeds, and converting it into a profit-making venture (Loke & Sherraden, 2008).

Asset-based development is also about a series of small scale strategic steps and investments that leads to personal empowerment, economic security, upliftment of the status of women, and children's welfare and security (Page-Adams & Sherraden, 1997). The bottom line is that asset-based growth is about consciousness and inclination toward the community effort to save and invest, and increase their asset base, in

order to better their lives and that of posterity. In simple terms, asset-based development is service to humanity (Lombe & Sherradan, 2008).

What is required to bridge the gap between the dual financial systems is for financial services firms to shift their attitude towards the informal sector. Financial services firms should no longer view the informal saving groups as poor. A changed worldview necessarily implies the promotion of affordable equity investment products to the informal sector. For example, mutual funds are equity products that are easily affordable to informal finance clients: they are relatively low cost, are liquid, accessible, and enjoy professional management oversight.

To emphasise this message, in Botswana, a single unit of exchange traded fund (ETF) cost around P100 (Botswana currency) in 2016, and in South Africa it costs less than R200. As mentioned elsewhere in this chapter, pecuniary informal savers can easily afford these amounts. This suggests that restricting the informal sector's access to equity investment opportunities on the basis of affordability is not supported by financial facts. Ultimately, the informal economy simply finds itself a victim of a form of avoidable vicious cycle.

7.4.5 The African informal financial system and the economic vicious cycle

The infusion of the vicious cycle in this discourse is inspired by a seminal treatise by Karl Gunnar Myrdal on how the mainstream economy subjugates marginal communities. Commissioned by the Carnegie Corporation of New York in 1938, the Myrdal study took place within the context of racial inequality and economic discrimination in the United States of America (USA), and it purported to explain the high levels of poverty amongst the African-American community. The findings of the

research were published in 1944 entitled 'An American Dilemma: The Negro Problem and Modern Democracy'.

According to Rugina (2003), Myrdal discovered that the dismal economic reality of the African-American community can be explained by their exclusion from the mainstream privileged Caucasian (White) economic society. Because African-Americans were considered an underclass they were despised, maligned and marginalized. Because they were marginalised, this resulted in high levels of poverty due to a lack of economic opportunities. Being both poor and Black, these conditions contributed to their underprivileged position becoming entrenched. Myrdal described this reality as a vicious cycle.

In a similar manner, this study observes the 'Myrdalian vicious cycle' with regard to the relationship between informal saving groups and equity investment intermediaries. Because African informal savers are perceived to be less sophisticated, the equity investment industry does not adequately serve them. That African informal savers are not being allowed access to equity investments opportunities, suggests that they remain confined to the margins of the formal financial economy, thereby entrenching poverty levels. An important contribution of this study, therefore, is that dismissive attitudes and discriminatory business practices by the stock investment sector lie at the heart of the marginalization of informal saving groups and this condemns them to a vicious cycle of poverty and a culture of poor financial decision-making.

The formal stock market intermediaries often denigrate informal groups on the basis of class and prejudice, and such marginalization of informal saving groups is retarding the investment performance of indigenous groups, with the exclusion in question entrenching poverty and underdevelopment. This study found that such a vicious cycle has not changed significantly, with the corollary being the continued dominance of

institutional investors and foreign portfolio investors in the equity markets at the expense of indigenous informal savers.

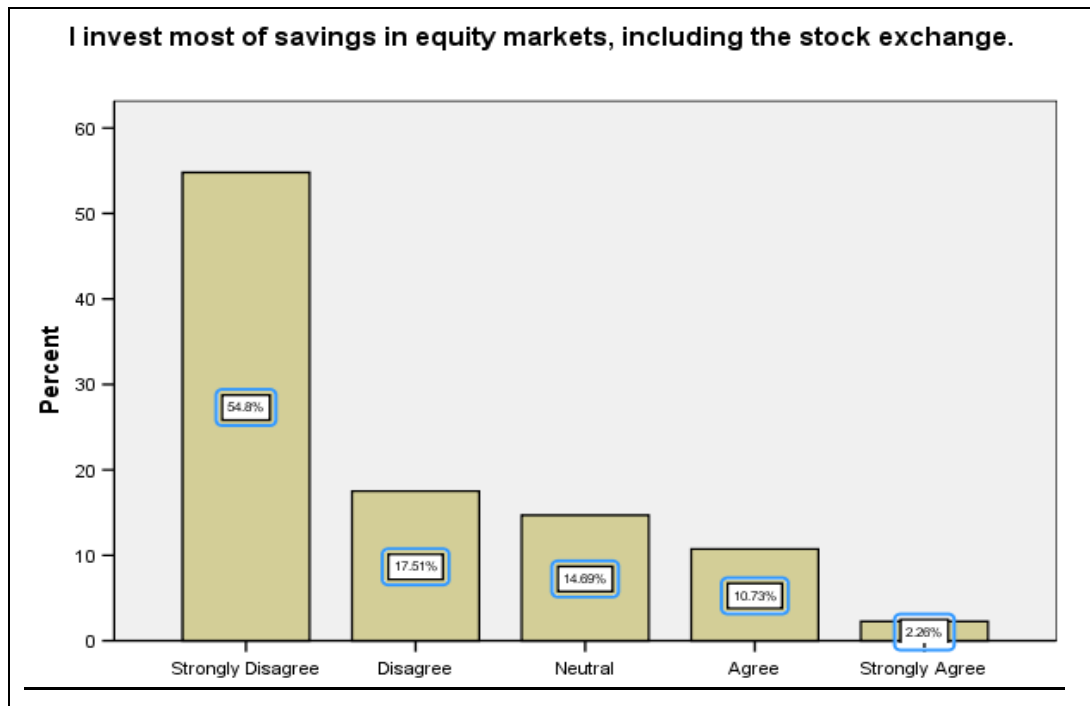
All the investment officers interviewed indicated that institutional funds and international investors are the leading investors in African bourses. This suggests that the Africa stock market investment sector is an elite economic activity. This study submits that the said elite market dominance is abetted by questionable and discriminatory industry behaviour. First, this study learnt that in some African markets initial public offering information is not openly distributed, but follows patronage networks. Second, in African bourses that are illiquid, established investors tend to marginalize new prospective market entrants and this sustains the *status quo* (Adjasi, Biekpe & Osei, 2011). The cumulative consequence is the crowding out of local working class and poor retail investors.

In some quarters, market intervention has been the preferred method of local empowerment. Agathee (2012) reports that in order to stem foreign domination and its attendant elitism in the local equity markets, Mauritius does not allow foreigners to own more than 15% of total shares of listed sugar companies. In essence this is protectionism in the stock market (in the interest of indigenous investors). However, pro-poor and conscientious this policy may be, it has the likelihood to distort the market, resulting in poor liquidity, repulsion of foreign investors in the stock market, and retardation of the bourse.

Regarding the crowding out effect of elite domination, the survey (see below) found that 87% of respondents from the informal financial economy do not invest in the equity market. Indeed, on the theme: "I invest most of my savings in equity markets, including the stock exchange", 54% strongly disagree and 17.51% disagree. Only 10.73% agree, whilst 2.29% strongly disagree. This outcome suggests that more than sixty (60) years after the

African decolonization project, the indigenous financial system remains on the margins of the formal economy, a victim of a vicious cycle.

Figure 21: Savings invested in stock exchange



Poor participation of low-income native society in the African equity market has long been a topic of discourse. Piesse and Hearn (2005) aver that there is little participation by the indigenous African population and they identify poor awareness programmes and loyalty to traditional financial practices as being impediments to inclusion. In their subsequent study, Piesse and Hearn (2010) maintain that marginalization of African retail stock investors is the result of elitism and inequitable post-colonial wealth redistribution. In this context, privatization has merely transferred assets from the colonial government to a new political elite (Hearn & Piesse, 2010).

Similarly, Cahit and Salih (2013) observe the domination of foreign equity investors in frontier markets and they attribute this development to being motivated by high yields. Ntingi and Hlatswayo (2010) observe that the consequence of the vicious cycle in practical terms is seen in the

proportion of Black investors – South Africa’s native population – investing in the Johannesburg Stock Exchange as being only 2%. Gqubule (2015) reports that there has not been much improvement and indigenous communities continue to be marginalized from the mainstream South African equity market.

The vicious cycle constitutes economic and financial injustice; Kay (2015) regrets that financial ills haemorrhage the real economy. Zingales (2015) concurs, noting that, “throughout history finance has been perceived as a rent-seeking activity” (2015:2). Notwithstanding these notable concerns, all respondents suggest that financial investment education will be the consequential trigger of enhanced investment behaviour for the informal sector.

7.5 FINANCIAL INVESTMENT EDUCATION

This study documented several findings that highlighted the role of financial investment education in encouraging informal savers to link with, and invest in the formal stock market sector. The most profound finding is that the provision of financial education to informal savers is considered a motivational factor and a trigger for informal saving groups to participate in the equity investment market.

This study finding is augmented by correlation analysis from the informal savers data set. It observed that there is a positive correlation between investment education (IE) and investment management (IM). This suggests that investment education is congruous to improvement in financial investment management by the informal sector. Overall this suggests that investment education influences the investment performance of informal savers in a positive way.

Indeed, all respondents from both the formal financial sector and the informal financial system indicated that financial education will be a bridge

that links the two saving and investment systems together. The main reason explaining this overwhelming preference for education is that most people that participate in informal saving lack adequate knowledge of equity investment management. As this study has observed, young people (respondents below 40 years) have some level of education but the quality of education is undermined by several factors, namely a weak curriculum, poorly qualified teachers, the social sciences bias, and limited exposure to financial education. Amongst the older respondents, there is a significant lack of education and experience with modern financial investment practices. Therefore, the provision of financial investment education is warranted by the lack of skills in African communities.

In the context of the Sub-Saharan Africa political economy, the general lack of quality financial education amongst participants of the informal saving sector reflects the lingering manifestations of colonial era educational planning and a post-colonial *laissez-faire* attitude towards financial literacy. During colonial times, the native African population had limited access to quality education, including quantitative and finance studies.

In the case of South Africa, Biko (2009) and Pogrand (2015) observed that Black people were offered “bantus education”, a sub-standard educational curriculum which would ensure that they remained, according to apartheid-era Prime Minister Verwoerd, “hewers of wood and drawers of water, and fit only for manual work” (Holmes, 2012). Such policies account for the older members of informal saving groups today being unable to engage with the equity investment fraternity. Even though Sub-Saharan Africa is now politically free from colonial control, the adverse effects of colonial education have not yet been fully addressed.

The changes brought by post-colonial African states have not been able to implement an educational curriculum that prioritizes the acquisition of

modern financial education by the masses. While most people tend to access entry-level and formative-level education, the curriculum is lacking in quality financial investment content. In general terms, some African universities provide respectable finance education, but very few members of the society receive university education. Teferra (2016) maintains that Africa has the lowest university enrolment rate, with Harvard University estimating it to be 5%. The cumulative result is that the lack of financial education is widespread, and this translates into equity investment exclusion.

Within this context, some respondents couched their demand for financial investment education in 'freedom' parlance. The use of 'freedom' parlance in relation to the demand for investment education reveals that informal savers perceive financial literacy as a (political-economy) emancipation programme and a means for a natural progression from political freedom to economic liberty. This perspective is unique to this study. The study therefore surmises that financial literacy should be seen through the prism of economic justice, whereby the financial education intervention is a long-term instrument for empowering communities that were previously marginalized and precluded from enjoying the benefits that the formal financial management system offers.

Drawn from the findings of the study, this chapter identifies four (4) critical factors for ensuring a successful financial investment intervention in the African financial saving and investment market. This portfolio of factors is a contribution to knowledge in this field and the explanation and perspectives therein are peculiar to the African informal financial context. These factors are the educational format, the ideal instructor, teaching methodology and language, and the sponsors of the intervention.

7.5.1. Types of education format

This study found that the African informal savers prefer to take financial investment lessons through two channels, namely through formal instruction and through proximity. Formal instruction denotes a process whereby informal savers are taught financial investment education in the traditional classroom environment following a curriculum. The other channel of learning – proximity – refers to knowledge acquisition through ethnography, observation, and social interaction.

This study found that the ideal curriculum should encompass the philosophy and foundations of financial investment, the architecture and institutions of equity investing, financial investment products, and the methodology of investing. The content of the curriculum suggests that the financial literacy programme should endeavour to be a formative intervention aimed at providing both awareness and competence in financial investment management. It, furthermore, suggests that the recipients of the education intervention do not have sufficient prior study in the subject.

With proximity, the informal saver learns formal equity investment concepts and strategies through sharing space with people who are constituent members of the formal financial sector. This observation suggests that financial education should not necessarily be formal (where instruction takes place in a school context), but informal too. Proximity as a learning opportunity calls for financial investment intermediaries to embed and engage with informal saving groups for investment education to be diffused with marginal communities. Simultaneously, financial investment advisors should be open to engaging participants of informal saving schemes. This approach helps to eradicate hitherto unhelpful financial savings practices, exclusion and discrimination, and simultaneously remove feelings of inferiority and intimidation amongst the underclass.

During the interview phase of this study, the student engaged three informal savers who invested in the stock market owing to proximity. Data accrued from the interview show that proximity to investment professionals imparts investment education and cultivates equity investment awareness, instils good investment behaviour, and demystifies the asset management sector. This study posits that stock investment education serves as a foundational intervention in transforming the saving behaviour of the informal saving community.

The financial advisory services from stock investment institutions and their engagement with informal saving groups are potentially transformative activities and have capacity to author a financial investment renaissance for neglected societies. Mouna and Jarboui (2015) support this view and observe that financial literacy plays an influential role in financial investment behaviour. This suggests that the coupling of the two universes – the African informal financial saving sector and the formal stock investment market – is easily one of the more prolific methods of empowering marginal communities with stock investment expertise and opportunities. This dissertation is therefore a proposal for humanizing financial services; an improvement of the modern African financial sector; and an expression of the ideal of a shared growth approach in the economy.

7.5.2. The ideal instructor

Regarding the equity investment education discourse, this study found that African people want instructors who are members of their own communities. In this context ‘community’ refers to people who share a similar cultural identity, primarily language and skin colour, and in the (African) political setting, these are considered amongst the major components of nationhood. This finding suggests that in Africa the

success of investment education programmes is linked with aspects of nationalism.

The veracity of the investment education-nationalism *nexus* was demonstrated in Botswana where a Johannesburg-based (Black) South African investment advisor was sent to Gaborone to provide investment advice to the local community. According to the respondent (a Gaborone-based portfolio manager at a South African bank with a franchise in Botswana) the Botswana rejected the said advisor by not co-operating with him, and this resulted in the learning opportunity being aborted. This happened notwithstanding the fact that some South Africans and Botswana nationals share common features: they are both Black; they speak a similar language (15% of South Africans communicate in Setswana), but that was not enough to blunt the sting of nationalism. This experience suggests that the training intervention – as well as the training corps – should be acceptable to the recipients of the intervention.

Respondents to this study emphasized the need for Africans to provide assistance exclusively to fellow Africans; this is a reiteration of the potency of tribalism in the subcontinent, where some communities do not trust foreigners. In areas where there have been severe cases of internal tribal strife – such as Rwanda and Burundi – the term ‘foreigner’ may refer to a member of a different tribe within the same country (Pauw, 2012). Such a person is often maligned and excluded, and there may be highly negative outcomes, sometimes even death. This observation restates that Africa has a strong wave of nativism and outsiders are routinely frowned upon. In part, this observation explains tribal clashes in Nigeria (Osaghae, 2011; Achebe, 2012) and Kenya, as well as xenophobic attacks in South Africa (Hickel, 2014).

This study found that race may also equate to the perception of being a ‘foreigner’ in Sub-Saharan Africa and is thus a potential limitation to the

financial education intervention. There is still strong anti-White feeling in some quarters. In such enclaves, White people are perceived in historical context and are seen as scions of colonizers, exploiters of the Black race, and purveyors of racism.

The anti-White sentiment was identified as being mainly in South Africa, and this is an indication that even though apartheid officially ended in 1994, racial tensions and suspicions linger. White-owned financial businesses and their White employees are perceived in a negative light. Of note in South Africa was that Black respondents emphasized the need for Black people to provide instruction and financial investment service to fellow Black people exclusively. It should be pointed out that the strong anti-White feeling was not expected; nonetheless this finding is instructive, albeit peculiar, and it suggests that using White-owned financial investment enterprises and White human resources in financial literacy and marketing campaigns is not likely to realize optimum gains.

At the other end of the continuum, this study found that White people do not have sufficient understanding of the financial saving and investment strategies being used by Black people. This finding reiterates the estrangement and alienation between the two races and cultures in the post-colonial environment. In the case of South Africa, this is concerning because White people control 94% of financial investment intermediary firms (Phillips, 2015).

Given such estrangement and mutual suspicion, White people are not natural candidates to assist with financial literacy programmes. This is not merely because they are considered 'foreign' (by Black South Africans) but also because this study found that they do not understand the African informal investment market. Therefore, in the case of South Africa (where the proportion of the Black race is 76% of the national population) the financial education intervention is most likely to have a positive outcome

by enlisting Black instructors and indigenous financial services firms to champion it. This racial fissure is a testimony to the prophetic observation of Du Bois (1903) that the “problem of the twentieth century is the problem of the color line” (Du Bois, 1903:1).

7.5.3. The teaching method and language of investment

This research found that participatory teaching methodology is the preferable course delivery medium. This implies that the training environment should not be dominated by a monologue whereby the instructor delivers a lecture with students merely listening. Instead, effective learning is about all stakeholders engaging with each other. The participatory approach encourages discussions between all instructors and learners and between learners themselves. The participatory delivery method is consistent with Africa’s traditional practice of *lekgotla*, which is a communal meeting where dialogue is encouraged in charting village affairs.

This study found that the participatory learning methodology would be promoted by the use of the local language. The desire for the use of local language in the financial investment market was mentioned by the majority of respondents in the informal financial sector. Local savers prefer the equity investment sector to be Africanized, and the use of indigenous language is consistent with the indigenization agenda. The indigenization of the equity investment sector encompasses the translation of learning material into the local language. In an environment where financial literacy learning is taking place through the ‘proximity’ approach (as discussed in this study), this means that service providers should communicate their services using the local language.

This study found that the content delivery method also includes blended learning, and this involves the application of technology alongside

traditional teaching aids. This is particularly relevant for technology-savvy young informal savers. This finding suggests that the financial investment education programme should not alienate itself from the technology evolution. The use of technology by young people is already widespread and popular technology applications enable users to communicate, play games and learn. In this context technology is used as a teaching aid. Therefore, the study posits that technology is a viable channel for disseminating financial literacy information in the contemporary Africa landscape.

7.5.4. Programme sponsors

The study found that the proposed education intervention would require a sponsor. According to respondents, the ideal sponsor is non-aligned to major market players, does not promote own products and philosophy, and embraces the ideal of service to humanity. Most respondents prefer a government agency to sponsor the educational initiative. The sponsorship should cover expenses for teacher salaries, programme research and curriculum development initiatives.

The presence of government in the industry is welcome. In the African political economy, citizens tend to associate the involvement of government in development programmes as a sign of legitimacy. Government is the major provider of public goods, including education. In the African continent, the non-governmental sector fits the profile of the sponsor: it is non-partisan, promotes shared growth and supports the human capital development agenda. The inference is that the programme will succeed in major part by enjoying the patronage of a strong non-aligned backer.

7.6 MARKETING AND OUTREACH TO THE INFORMAL SAVING COMMUNITY

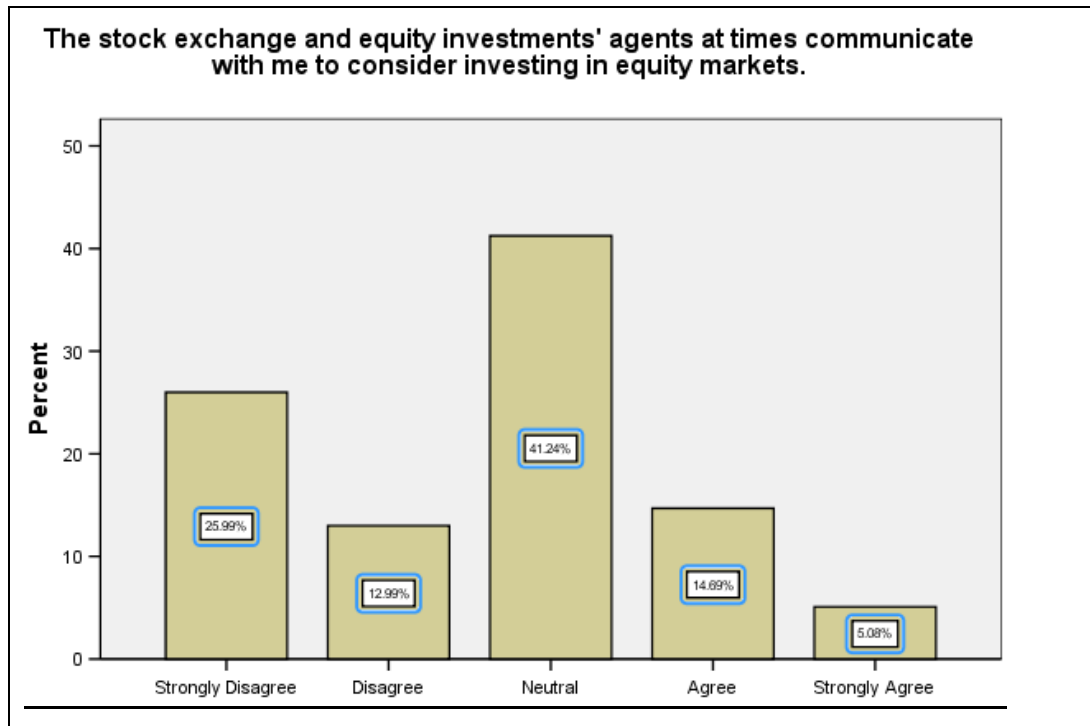
Respondents were in accord on the role of marketing, proposing an improvement to prevailing practices. This study found that the marketing activities of financial investment firms are correlated with investment performance management. This suggests that marketing and outreach aimed at informal saving groups promotes the stock investment inclusion. Moreover, it advises that formal investment companies should not hold back their marketing and outreach campaigns to the informal sector. This inference is reiterated by findings from the interviews, where respondents indicated that they prefer marketing and outreach that promote human contact, closeness between financial organizations and their target markets, and limited reliance on traditional media platforms.

This study defines the requisite marketing solution as a target-centric marketing initiative and this submission constitutes a contribution to knowledge. The target-centred marketing exercise is an improvement of the prevailing outreach framework. The current advertising thrust is characterized by limited prioritization of the informal sector regarding stock investment service. Although banks tend to promote products to low-income clients such as funeral insurance, death cover and uncompetitive education products, their marketing drive is silent on equity investment products. In a similar manner, wealth management organizations do not advertise to low-income clientele.

This study found that most bourses have public participation policies. This is because all African stock exchanges (save the JSE) were established by government and their creation reflects economic evolution and modernity. This study identified a marketing pattern most popular amongst African bourses: they appear to prefer advertising through mass media platforms, primarily radio stations, newspaper houses and public television stations. This suggests that African bourses believe that the best way of

linking with retail clients is through the media. However, this communication platform is not realizing the expected outcomes, as depicted in Figure 22 below.

Figure 22: Communication on equity investment



On the theme (informal savers data): “The stock exchange and equity investment agents at times communicate with me to consider investing in equity markets”, 25.99% strongly disagree, 12.99% disagree and 41.24% are neutral. According to descriptive statistics, more than 80% (combined) of the respondents in the informal sector do not receive communications from the formal stock investment sector regarding stock market investment. This suggests that notwithstanding the existence of public engagement policies, bourses are not significantly realizing this objective.

This study observed several factors that contribute to the present public marketing methodology not working for the indigenous saving community. First, the marketing strategies of stock exchanges seldom segment the market, but lean on one-size-fits all marketing policy creations. Second,

the marketing message is bland and stale. Third, the outreach programme is not informed by research but is merely a default position. The cumulative effect of the prevailing marketing strategy is that it is not bringing significant awareness nor inculcating new investment behaviour within the informal financial management sector. As the results of the study found, a large proportion of informal savers remain ignorant and precluded from the stock investment sector.

This study found that a solution to this problem is the introduction of a target-centric marketing solution as an overlay to the current marketing policies. The target-centric strategy is premised on proximity and the intersection of the informal savers with stock investment intermediaries. The target-centric marketing solution is complemented by several principles. It is premised on the stock market investment community, in particular financial institutions, adopting an authentic inclusion strategy. This is followed by the creation of a team solely dedicated to the informal sector; led by a senior executive. The marketing team does not necessarily lean on mass media marketing; instead it goes out to communities and assimilates with clients. Using the local language, the team provides investment advice and guides clients on opening equity investment accounts.

The major benefit of this strategy is that it humanizes the financial services industry, fully embraces the informal financial sector in practical terms and promotes the diffusion of investment expertise. Instead of bourses theoretically espousing solutions, the proposed strategy guides people into the stock investment industry in a supportive manner. The usage of the local language is central and signifies the Africanization of the inclusion process and the assimilation of the two saving and investment systems.

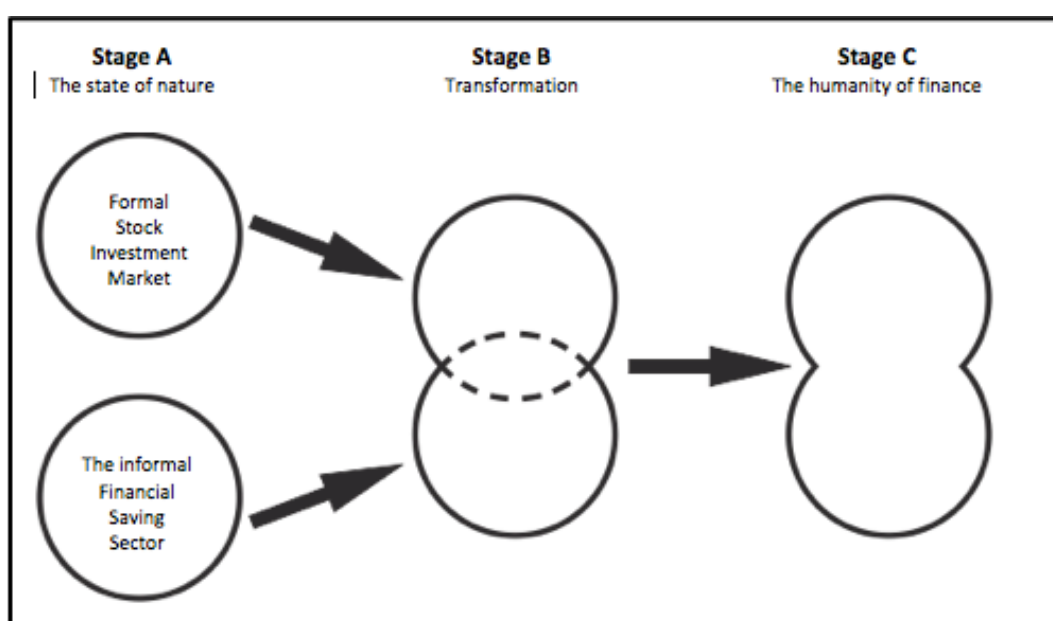
The mass media strategy is not incorrect *per se* and should not be discarded since it fosters interest in the sector to some extent. However, it

needs improvement, in particular to keep the message fresh and relevant. Notwithstanding, all financial institutions that are already providing equity investment service to marginal communities told the study that it is by making human contact with the target groups that members of informal groups invest in the stock market. Proximity is the essence of the link between the informal financial sector and the modern formal financial system and the target-centred approach is a marketing framework that promotes human contact, guides clients, provides quality financial advice and delivers education on financial management.

7.7. CONCLUSION: LINKING INFORMAL FINANCIAL SAVINGS sub-SECTOR AND THE FORMAL STOCK INVESTMENT MARKET

The evolution of the framework for linking the African informal financial saving sector and the formal stock investment market is a three-stage ideal concept. The foundational stage is the state of nature, followed by the transformation phase, resulting in the third phase, namely convergence and the humanity of finance.

Figure 23. The evolution of informal-formal finance linkage



7.7.1. The state of nature (stage A)

Derived from the Hobbesian realism (Ebenstein & Ebenstein, 1999), the state of nature describes the prevailing state of the financial investment service industry. It is characterized by two systems of financial asset management, namely the informal financial sector and the formal stock investment market. They are separated, each pursuing its course in isolation.

Isolationism is the centrepiece of the *status quo* and this has numerous drawbacks. The majority of members of the informal financial saving system obtain poor returns. Prominent amongst these are investment capital wastage, poor security, and estrangement from the global financial market. This is abetted by a number of factors: The philosophy of investment is predominantly non-pecuniary and the saving period is too short, often less than a calendar year. Notwithstanding the fact that the indigenous financial saving system has been practiced in Africa for a long time it has not been widely accepted nor accepted by the financial mainstream, resulting in entrenchment of the vicious cycle.

Comparative analysis between the two systems reveals that the formal financial investment stream is largely beneficial to its clients. The regulatory framework continues to improve, and the result is asset security. Active management of the funds, global reach, and availability of a range of quality investment products are some of the variables that are improving investment performance. However, its marginalization of the informal financial sector is counter-productive and impedes both the growth potential of the wealth management industry and the general financial service industry. For an industry associated with intermittent unethical behaviour and greed, the formal stock investment sector is likely to benefit at the reputational level from the social aspect of the African

financial management economy. This study observed that the investment performance of informal financial saving groups improves greatly when linked with their formal counterparties, and therefore seclusion is an active destruction of the ideal of shared growth. Cumulatively, the state of nature is a stage chiefly defined by financial sector isolationism.

7.7.2. The transformation stage (stage B)

The transformation phase is marked by adoption of a *strategy* to reach out to the other parties. There are several indicators signalling the transformation stage, but the chief amongst these is a clear business policy adopted to seek an investment mandate from indigenous African saving groups. This business policy is championed at the executive level by an (African) financial investment professional knowledgeable about the two saving and investment streams. Working with an exclusively indigenous investment team, they pursue a marketing and outreach drive premised on proximity and guidance. No longer satisfied by mere messaging from a distance through traditional media such as radio and newspaper advertisements, the transformative team converses with and guides the indigenous players on equity investment.

As explained by a Botswana-based portfolio manager when discussing the transformation stage: *‘once we teach them, they invest’*. This study observed that informal saving groups are ready to link with the stock investment fraternity. They believe that stock investment education will be a trigger that positively reforms and advances their financial management behaviour. Financial investment education introduces previously unknown investment practices to the communities that have been on the margins. This takes place simultaneously with the rolling out of a target-centric marketing and guidance exercise as well as the provision of innovative and relevant equity products.

This is an aggressive and purposeful reformation campaign, leading to solid boundaries giving way to a seamless link between the formal stock investment market and the African financial investment sector. Therefore, the transformation phase of the model requires the removal of existing barriers and the dissipation of the major feature of the state of nature, namely splendid isolation. Moreover, the transformation stage is the genesis and entrenchment of a smart partnership between previously opposing financial management streams.

7.7.3. The humanity of finance (stage C)

The transformation process results in a positive output, community empowerment, shared growth, and elimination of boundaries. Thus, the stage of humanity of finance is chiefly characterized by the realization of Sheraden's theory of asset-based empowerment: every asset is exploited for profit-making and economic benefit for all of society. The existence of a strategy and market transformation structures ensure that the final stage is marked by a continuous *virtuous* cycle. This is the coupling of informal and formal financial saving and investment markets. Noteworthy, it is a redemptive process as it humanizes finance, making it a force of good for humanity.

The goal of the framework is not the elimination of the African financial saving system, but rather the improvement and adaptation of the African financial management system. In this framework, African informal saving groups continue to exist but they are notable for a change in behaviour: The philosophy of investment is pointedly aimed at maximizing investment returns; the investment period extends beyond 12 months; and there is a formal relationship with the formal stock investment market.

Whereas in the past the end of the maturity period would have been marked by the early and fruitless utilisation of funds, within the new

framework - a significant portion of proceeds from the indigenous saving system is routed to the stock investment market. Therefore, this last stage – the humanity of finance – is marked by the elimination of artificial access controls and improvement in investment performance, promotion of shared growth, and advancement of universal access to the formal stock investment market. Seen through this prism, the formal stock investment finance is the cog in the real empowerment of all communities.

CHAPTER EIGHT

SUMMARY AND CONCLUDING REMARKS

8.1 Summary of findings

This study discussed financial investment and saving practices of two distinct markets, namely the informal financial market and the formal stock investment market. The informal financial market is popular in developing economies, including Africa's largely frontier markets. Various African communities have different names for informal finance practices, and these include nyangi, susu, roundtable, stokvel, burial society, chilimba, and ototo amongst others. Notwithstanding their popularity, these practices are criticized, and mainly for poor security, emphasis on social capital and poor investment returns.

The stock investment market is the constituent of the formal financial management industry, and is characterized by banks, asset management services organizations, insurance companies, and the stock exchange, amongst others. The formal financial sub-sector is associated with modernity, regulation, asset security, and profitability.

Thus the two financial saving and investment streams are essentially separated, each seemingly charting its course, rarely interfacing. Against this background, this study was designed to create a framework for linking the informal savings market with the formal stock investment market. The following study questions assisted in the task:

- What is the level of interface between the informal savings market and equity markets?
- How can equity markets improve the financial performance of the informal savings market?

- What factors can motivate the informal savings market to integrate into formal equity markets?
- How can the informal savings sub-sector access equity markets?

This study accomplished the objective of answering these research questions, and the succinct presentation of the findings of the study follows:

Through the qualitative method, this study observed that the separation of the formal and informal financial management streams is in part an outcome of the structure of the financial sector and attitudes of some persons in the formal financial investment institutions. The formal equity investment system mostly views traditional financial savings practices as backward and not worthy of participating in the formal stock investment sub-sector. This study found that this belief by representatives of financial intermediaries is fallacious and not borne by facts. In this regard, this study further observed that the indigenous financial investment market is rich, with the South African stokvel market being worth R44 billion, excluding burial societies. Consequently, the foundation of the solution to this unproductive dichotomy lies in the transformation of attitude towards informal savings groups.

Qualitative enquiry noted that poor knowledge of investment education within informal savings groups is a major factor in explaining the schism between the informal indigenous financial system and the formal stock investment system. In this regard, solution lies in the provision of stock investment education to indigenous African financial savings groups as that will trigger the desire to invest in the formal equity market, and simultaneously narrow the gap between the two financial sub-sectors. Interviews with practitioners in the field revealed that investment education should be Africanized, and amongst others, this suggests that learning interventions (educations) should be delivered in localized

communities; the medium of instruction should be an indigenous language; and the education facilitator should be drawn from the targeted, local community. Government and other impartial agencies should be the main sponsors of the education. Amongst others, the pedagogy should include the philosophy of investing, the institutions and architecture of equity investing, and the stock investment products. The aim is to provide an overview of the formal equity investment platform and reduce feelings of intimidation. This study observed that indigenous communities always respond positively to stock investment education.

In practical terms, the gulf between the two financial systems effectively manifests in the exclusion and the marginalization of informal savings groups from corporate equity investing opportunities, and the rest of the formal financial economy. In part, this explains why populations at the margins of the formal economy do not have bank accounts, store their savings (unconsumed income) in primitive facilities such as mattresses and mud banks. In order to address this anomaly, and indeed link these two (formal and informal) markets, the formal financial sector should play a proactive, enriching and accommodating role, and this will be realized by reaching out to the informal financial segment through personalised outreach programmes.

The major attribute of the recommended outreach solution is that it discourages anchoring on popular outreach platforms such as newspapers, television and billboard advertising. Instead, the preferred outreach method is the one that encourages human contact: Stock investment intermediaries establish and sustain relationships of trust with indigenous communities, and eventually provide equity investment value to the informal financial market. The extension of equities (common stock) products to informal African savings communities constitutes investment value and improves their investment performance.

Using quantitative research and analysis method – specifically path modelling within the *formal* financial intermediaries' data set – this study demonstrated that there is a causal relationship between the study variables. Accordingly, independent variables, namely investment education (IE); practical interface and investment stream (PISI); marketing by intermediaries (MI); investment products (IP); treatment of people at intermediaries (TPI); and asset security (AS) improves the investment performance of informal saving groups.

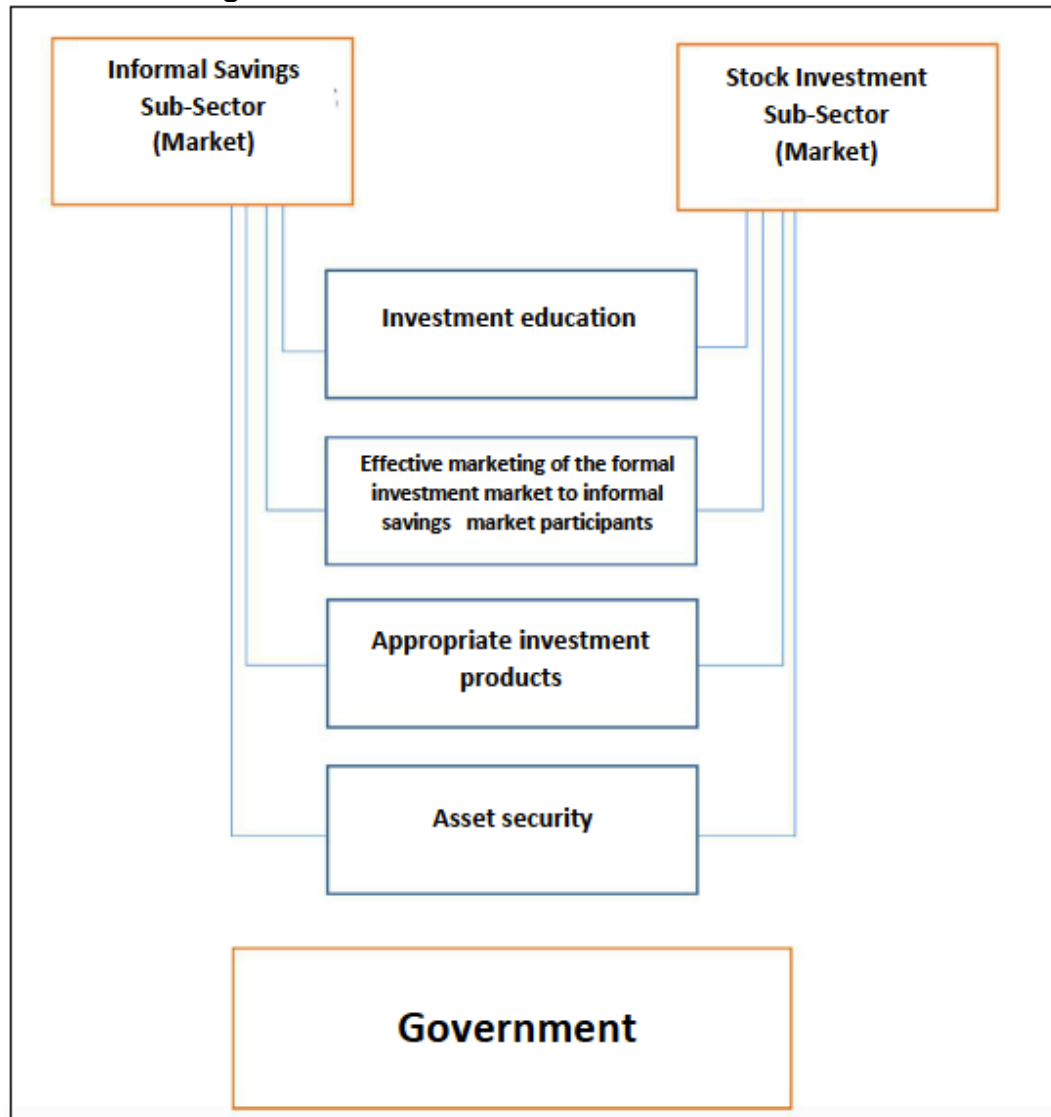
In applying quantitative research and analysis method (path modelling) of the *informal* savings groups data set, it established observed similar findings: Accordingly, independent variables, namely asset security (AS); investment education (IE); interface between informal and formal savers (ISFI); marketing by intermediaries (MI); and investment communication (IC) encourage informal savings groups to link with the formal financial sector and invest in the stock investment system.

Taken together, qualitative and quantitative data analyses (path modelling) reveal that variables that cause a link between the informal financial saving market and the formal stock investment market are investment education, close interaction between representatives of the formal financial market and the informal finance market, effective asset security, marketing, and provision of quality (appropriate) stock investment products. In this relationship, government plays a regulatory and enabling role in general.

Lastly, hypothesis tests whittled down all these variables to just a handful, revealing that the common variables or factors (from both informal and formal data sets) that are highly important in linking the informal savings sub-sector and the formal stock market are investment education, marketing, stock investment products, and asset security. This empirical

conclusion is presented pictorially in Figure 24, for conciseness and emphasis.

Figure 24. Graphic representation of the framework for linking informal savings sector with the formal stock investment market



8.2 Limitations of the study

This study has some limitations and obstacles, and they are mainly interview language related. The student conducted interviews in Botswana, South Africa, Swaziland, Zambia of informal financial savers who were not proficient in the English language proved to be problematic

This proved challenging to the research exercise as contributions from some of the interviewees were not effectively detailed or were confusing, and this resulted in some loss of responses.

The issue of poor English language proficiency also affected the quality of responses to the questionnaire. Some respondents seemingly did not understand the survey questions, and communication had to be translated. It is probable that poor language proficiency affected their choices in the survey instrument's options. Poor language proficiency probably impacted the response rate. The response rate was average. However, some of the mitigating measures that were put in place included using people (two undergraduate university students) to administer the questionnaire personally on respondents. The aim of the strategy was to help with translating questionnaire statements written in English into the local language.

8.3 Further study

Financial investment at the bottom of the pyramid continues to be one of the pressing issues in Sub-Saharan Africa, especially given the need for shared growth and real empowerment to marginal communities. This study makes critical contribution to the literature on Africa's financial investment matters. However, further study is recommended. Below are recommended areas for additional study on this topic.

- A. This study established that the population of for-profit saving clubs is increasing. Interviews of members of the clubs in question indicated that these clubs generate exceedingly high profits. An in-depth study is recommended to, for example, examine the profitability and quality of business of for-profit saving clubs relative to likely profitability of middle class investor that access the formal investment market.

B. This study observed that the indigenous financial (savings/investment) management sub-sector generally is generally unregulated. Poor regulation in part explains high profitability of for-profit savings clubs. It is recommended that a scholarly investigation be conducted to assess the state of regulation in the Africa microfinance sector.

Non-nuanced regulations may be unduly constraining on the entrenchment and maturation of the informal saving/investment sub-sector.

C. This study found out that the saving culture in the African financial sector is evolving, and for-profit saving clubs have effectively become shadow financial services institutions (banks). A study on the role of for-profit saving groups as shadow banking institutions would be interesting and useful.

D. This study reports that some indigenous savings clubs begun buying stocks at the stock exchange. An analysis of their stock buying strategy to ascertain relative performance of their portfolio of investment would further the thrust of this current work.

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APPENDICES

Appendix A: Participant information sheet

Participant Information Sheet for subject-matter experts

Good day,

My name is Seth Mukwevho and I am currently completing my PhD on aspects of financial investment strategy at the University of the Witwatersrand, Johannesburg.

My current research is entitled “framework for linking the informal saving market with the formal investment market”. Through my research, I aim to explore the informal saving environment, inclusion in the equity financial investment arena and strategies for elimination of investment boundaries that exist between the indigenous financial system and the contemporary equity investment financial architecture.

I am inviting you to be a participant in my current research study. Your selection into this research was based on the fact that you are knowledgeable on aspects of financial investment.

By being a participant in this research study I would request an interview session to be conducted at a venue convenient to you. With your permission, I ask that this interview be recorded through the use of an audio-recorder. This will allow for accurate results and analysis to be done. This interview session will be approximately 1 hour in length.

Your participation in this research is voluntary and I can guarantee that your personal details will remain anonymous throughout this research study as well as in the final research dissertation. You as the participant may refuse to answer any questions which you feel uncomfortable with and may also feel free to withdraw from this study at any time. By being a participant in this research you will not receive payment of any form and the information you disclose will be used in the research report.

This research will be written into a PhD dissertation and will be available through the University's website. Should you require a summary of the research, I can make this available to you.

Should you have any further questions or queries you are welcome to contact myself or my Supervisor, Prof. Kalu Ojah, at any time at contact details provided below.

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Appendix B: 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 “framework for linking the informal saving market with the formal investment market.”

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

Researcher

Participant

Date Signed

Appendix C: Schedule of questions: semi-structured interviews for informal market savers

Schedule of questions: semi-structured interviews for informal market savers

What is the name of your stokvel?

What is their motivation to save?

How much do you contribute to your stokvel per month?

During which month(s) of the year do you receive money from your stokvel?

What do you do with the money after you receive it?

What do you spend your profits on? (If you have a business supported by the stokvel proceeds, what do you do with the profits of the business?)

If you consume profits, with whom do you consume them?

Do you have a bank account?

Do you save money in the bank?

Do you invest through the equity market?

Who advises you on managing your financial assets?

Do you invest through a formal financial services company?

How did you know about the financial services company in question?

What products have you bought from that financial services company?

How much do you spend on the product(s)?

What has been the performance of the financial investment product?

However form you save the money, how has your investment strategy (saving form) performed?

What are your future plans regarding your investment strategy (saving form)?

**Appendix D: Schedule of questions: semi-structured interview
questions for financial services professionals in the formal
investment market**

**Schedule of questions: semi-structured interview questions for
financial services professionals in the formal investment market**

What are the financial investment products you are selling to the informal saving market?

What are the major purposes of the products in question?

How do they potentially assist the informal saving market in the investment objective?

What is the cost of the product relative to the financial profit of the product to the investor?

How is the informal saving market responding to the investment products you are selling?

If there is high interest in the products in question, what is driving sales?

If there is no interest in the products in question, what do you perceive to be the problem?

How do you perceive the interest level of the informal savers in the equity market?

In your opinion, what do you think needs to be done to attract informal investors to the equity market in large numbers?

What is the role of education in linking informal savers to equity investment environment?

What are the major impediments for informal savers in entering the equity investment arena?

What is the best way of attracting informal savers to the formal investment market?

Are there special countrywide programmes created to promote inclusion of informal savers into the formal investment market?

What is the role of formal financial institutions in the promotion of links between the two investment environments?

Are there legal legislations created to promote this objective?

What are the existing initiatives to promote the linking of informal saving community with the formal financial sector?

How is the implementation of 'linking' initiatives in the industry unfolding?

In the context of these programmes, how are informal savers relating to the equity industry?

Appendix E: Questionnaire on investment and intermediaries

QUESTIONNAIRE ON INVESTMENT AND INTERMEDIARIES

1. In which African country are you located?

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2. In which capacity do you provide financial investment advice?

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1.3. What is your racial classification?

Black	Indian/Asian	Coloured	White	Other (please specify)
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7. Investment proceeds management.

Opinion is sought from you regarding the saving and investing advice you usually offer to the membership of *informal saving groups* after they receive their payouts from their saving scheme.

7.1. I advise my clients to invest most of their savings through a money market account.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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7.2. I advise my clients to invest most of their savings at the stock exchange.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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7.3. I advise my clients not to consume all the proceeds from the Christmas grocery scheme, and instead convert grocery items into money and then invest it.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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7.4. In the event of death in the family, I advise the bereaved to use burial society proceeds to buy less expensive coffin, prepare normal and symbolic meals, and use most of the financial proceeds to invest in capital markets.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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7.5. My interaction level with informal saving groups is high.

Strongly	Agree	Neutral	Disagree	Strongly
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agree				disagree
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10. Asset security

In the event that you manage funds for informal saving schemes, your opinion is sought regarding security.

10.1. I actively and prudently manage risks to preserve capital investments of my clients.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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3.2. I do not gamble with money from clients.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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3.3. I abide by rules and ethos set by financial services regulatory authorities.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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11. Investment education

Opinion is sought on the educational interface you have with your informal saving groups.

11.1. I hold formal classes and seminars to educate African informal saving groups.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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11.2. I have developed a comprehensive capital markets educational curriculum and consistently base my outreach and educational programmes on it.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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11.3. I use an indigenous African language in educating my clients.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
----------------	-------	---------	----------	-------------------

11.4. I use everyday African saving and investing symbolism and figures of speech in educating investors from the informal saving groups.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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12. Opinion is sought regarding practical interface between informal saving field and the formal investment stream.

12.1. I regularly attend funerals at indigenous African neighbourhoods and keenly observe meetings of informal saving groups.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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12.2. Our company has a dedicated senior manager whose primary role is to manage the informal financial saving portfolio.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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12.3. My level of interface with African saving groups is high.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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13. Marketing by intermediaries

Opinion is sought solely regarding marketing function to the informal saving groups.

13.1. I make contact regularly with indigenous, informal saving groups and offer investment advice at communal locale - be it a chiefs' kraal, place of worship or community hall.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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13.2. Our financial services organization uses radio communication to introduce potential clients into capital markets.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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13.3. I use story-telling in public platforms to promote the virtues of investing in capital markets and the equities investment arena.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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13.4. I regularly distribute promotional material to the informal saving communities, advertising services of the stock exchange and virtues of capital markets.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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14. Investment products

14.1. We have developed unique equity investment products exclusively for the informal saving groups.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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14.2. We do not have minimum investment and balance requirements for our informal savers product portfolio.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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14.3. We regularly recommend investment products with exposure to all asset classes.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
----------------	-------	---------	----------	-------------------

15. Treatment of people at intermediaries

Opinion is sought on how professional investment professionals and intermediaries engage with informal saving groups in their chambers.

15.1. In our financial investment organization, informal saving clients are greeted and communicated with in their mother tongue.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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15.2. We are particularly patient with clients from informal saving groups and give them full attention.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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15.3. We have a dedicated Black person on our staff complement who interfaces with African informal saving groups.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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16. Which factors do you think can motivate informal saving groups to link with equity markets?

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17. How can informal saving sector access equity markets?

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18. How can equity markets improve financial performance of the informal savings market?

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Thank you for participating in the survey.

Appendix F: Questionnaire for informal savers

QUESTIONNAIRE FOR INFORMAL SAVERS

1. Biographical data

1.1. How old are you?

<25	25-35	36-45	46-55	>55
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1.2. In which country were you born?

.....

1.3. What is your highest level of education?

.....

1.4. In which type of indigenous saving practice do you participate in?

Stokvel	Christmas grocery	Burial society
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1.6. How long have you been participating in your saving scheme?

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1.7. How much money do you save/contribute through your scheme per month? (Please express it in local currency)

.....

1.8. How many members comprise your saving scheme?

.....

1.9. Name one factor that influenced your decision to participate in your saving scheme?

.....

.....

1.10. (With exception to a burial society) In our saving scheme we contribute for the following period before I receive back invested funds.

Within a single year: January – December	Two (2) years	Three (3) years	Four (4) years	Five (5) years, and above.
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2. Investment management.

Opinion is sought from you regarding what you do with your money after you receive a payout from your indigenous saving scheme, as well as regarding Christmas grocery scheme.

2.1. I save all my income in a bank transactional account.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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2.2. I store my financial savings at home.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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2.3. I invest most of savings in equity markets, including the stock exchange.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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2.4. In December I use the money to buy lots of Christmas food and Christmas clothes.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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2.5. As an African, I distribute the groceries I get from the Christmas saving scheme amongst my extended family and at times share Christmas grocery with my neighbours.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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2.6. In the event of a funeral, the family usually buys above-average coffin, feed every attendee with good food, and supplies liquor after the funeral service using proceeds from the burial society.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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3. Asset security

3.1. Money of our saving club is saved in a bank account

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
----------------	-------	---------	----------	-------------------

3.2. Some or all of the money is saved at home.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
----------------	-------	---------	----------	-------------------

3.3. Some of the members of our saving club do default at times, and as such are not able to consistently keep up with financial contributions.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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3.4. Some or all of our money has once disappeared in the past.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
----------------	-------	---------	----------	-------------------

4. Investment education

4.1. I prefer to buy stocks with low dividend yield.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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4.2. My investment portfolio is dominated by companies with low price earnings ratio.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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4.3. In a highly regulated environment, one is likely to lose money in the capital markets mostly due to criminal behaviour of employees of the stock change.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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4.4. I have a good knowledge of equity investing.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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5. Interface between saving groups and the formal investment stream.

5.1. My investment decisions are influenced by my investment broker.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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5.2. I regularly liaise with a professional financial advisor about proceeds from my saving scheme.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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5.3. I always use my money however I want without consulting a financial advisor.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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5.4. I have a high level of interaction between myself and equity investment professionals.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
----------------	-------	---------	----------	-------------------

6. Marketing by intermediaries

6.1. The stock exchange and equity investments' agents at times communicate with me to consider investing in equity markets.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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6.2. I have adequate knowledge about the role of a stock exchange .

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
----------------	-------	---------	----------	-------------------

6.3. Investment organizations regularly visit my residential area with investment education material.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
----------------	-------	---------	----------	-------------------

6.4. I regularly listen to radio promotional material advertising the services of the stock exchange and equity investments service providers.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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7. Investment communication

7.1. I understand everything written on the equity investment brochure.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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7.2. Most of equity investment literature that I engage with is written in my mother tongue.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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7.3. A representative from an asset investment organization visited our saving group and communicated in our language.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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7.4. Whenever possible, I ask equity investment officers questions in relation to the financial savings of our group.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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8. Investment products

8.1. I have a healthy investment portfolio, including bonds, cash, equities and real estate.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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8.2. I believe that shares sold at the stock exchange are for rich people.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
----------------	-------	---------	----------	-------------------

8.3. I think that equity investment products on offer at financial services organizations generally cost too much and they are out of my reach.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
----------------	-------	---------	----------	-------------------

8.4. Our saving scheme has bought shares at the stock exchange.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
----------------	-------	---------	----------	-------------------

8.5. Our saving scheme saved its money in a bank account solely created for groups like us.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
----------------	-------	---------	----------	-------------------

9. Treatment of people at intermediaries

Your opinion is sought regarding your experience whenever you visit a bank, insurance company or stock exchange to discuss financial investment issues.

9.1. I am usually greeted in my mother tongue and made to feel welcome.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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9.2. I am afforded all options regarding investment, including explanations regarding all investment products.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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9.3. I am impressed by financial services firms to invest my savings on equity markets and for a period exceeding 12 months.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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10. How do you think equity markets can improve your financial investment performance in the informal saving sector?

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11. Which factors can motivate you as an informal investor to link with equity markets?

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Thank you for participating in this study.

Appendix G: Transcript of interview

Interview with Mzu Mfuku:

Seth: Mzu, your observation of the market what do think is the level of the interface between folks in the formal investment area - assets managers, and the informal saving environment?

Mzu: It's actually what we are trying to address.

Seth: Okay.

Mzu: There is a big gap. What I find, I see bank products that are there, that are meant to for stokvels, but the stokvel people are not really the guys that designed this product. Bnaks don't really understand or rather they are taking advantage of the stokvels, because the product that these people put their money in like... the stokvels are not really earning good returns. Most of them is below inflation returns which is ridiculous and all sort of penalties. And there are fixed terms and all of that. I think it's about time that informal investment side of the economy needs more structured product like unit trust or ETFs where people can get above inflation returns.

And people must be taught what's compound interest, why do you want to invest for five years or longer, people don't understand that. I mean a couple of stokvels that we have met with people don't understand that your money doesn't have to be in a savings account; it can be in an ETF or unit trust and it's still liquid, you know it's available to you after 14 days. And if you are in a balance fund you get about 14, 15 percent per annum you know; unlike getting 3 or 4 percent for your saving account if you are lucky or a money market account.

So money market and call account are short term investment vehicles they are not there to grow your money is just a place to park your money to protect against the inflation and then decide where you gonna put it long term. So I think stokvels and those types of sort of clubs need to start thinking long term investment because that's how you build wealth.

Seth: Yah.

Mzu: There is no any or there is no other ways. So we are actually on a mission to go and educate especially the subserviced market, meaning the black market, the stokvels. So I mean I was reading, I stand to be corrected, I think it is about R75 billion market, the stokvel industry.

Seth: It is between 50 billion and 80 billion in South Africa alone.

Mzu: Yah that's a huge amount of money you know and they are not been serviced you know I mean your Allan Grays and Coronation those guys should have stokvels, high equity, stokvels balanced, stokvels low risk fund. That's what they should do and they should be structured in such way that the young people who join stokvels must know that at least their funds or whatever the investment vehicle has a mandate according to age. If you are younger, we must encourage people to stay in investment

longer because that's how they take advantage of compound interest. If you are young, let's take a portion of your money and put it into high equity fund so that five years from now you actually gain something. The old people could put their money into a lower risk fund that's where they can withdraw from if they want to withdraw.

Seth: Sure.

Mzu: We need to structure them like unit trust I think that's the only for me.

Seth: when you say we need to structure them like unit trust so to somebody who is not initiated in the structuring of the investment funds how would you say would be the major profile of typical stokvels investment fund or equity fund or unit trust?

Mzu: Ideally I would like to have a fund that got a portion of investment, that got a portion that would have in sort of insurance, some sort of education fund. Try and design something like that, an investment vehicle that allows agility, because mostly in stokvels you find that it is a parent with kids and all that and I think all the worries that we find is the high premium on education. Parents are concerned: what will happen to my kids? Because I mean the education funds that are in the market, I'm sorry to say, they are actually nonsense. They are not giving people returns. So we are looking at some sort of investment vehicle with risk product, maybe a life product and an education product within it.

Seth: Sure.

Mzu: That's how I would like it to be structured and obviously those funds ideally I would like them to be reinvested into the communities that peoples comes from maybe those pool of funds could be some sort of a new business funds that you know the fund will access the guy who do his business plan, who has his feasibility study and if is a business worth investing in.

Seth: The private equity?

Mzu: Private equity: I mean pension funds do that, you know. Why can't this group of black individuals from their townships support the businesses in their area because what I find... Look at Maponya mall the money is being spent by Sowetans but it goes out of Soweto it doesn't go back to Soweto that's the problem. What happens with most of our townships people that own the shopping centers or whatever the means of the production or whatever the money does not stay in this communities we spend it, and it goes out. So we need to create these funds and make sure that the money in these funds goes back the community. Somehow it must support programs I mean if the municipality needs to raise money for the infrastructure development why cannot they get the fund from their stokvels fund. So the fund will be invested in the municipal bond and we will agree with the municipality what kind of returns are there guaranteed us or whatever. So man that's my vision, that's what I would like to see happen, but obviously I'm not actuary. I will have to just sit down and

design with the actuary, but we need to start investing back to the communities instead of taking this R75 billion and putting it at ABSA or Standard bank let's create our own funds and invest back onto our community. That is the only way I think for me.

Seth: And then one of the things you said earlier was the fact that you - I think is Clivera - are engaged in this kind of thinking. I think you have a desire to save this market and if I kind of heard it very well it appears you have started doing something in this regard, have you?

Mzu: Yes we have because what happens is people they see like Allan Gray's advert on TV and they think it is for rich people. They are not aware that entry is not that high it's 500 rand per month.

Seth: Okay.

Mzu: And I mean you have to have access to excellent products. We find that people were mostly into endowment. So what an endowment does it locks you in for minimum of 5 years and then you find that in the most cases the person loses a job but they have been investing for three years so once you start lapsing basically you lose a lot of your money where else there are other investment vehicles where you can put in money. In those products if you stop debit order per month, that's fine, your money continues to grow. The Allan Gray's equity funds grow by 18% even if you have R2000 that will grow by 18% you can continue after you have been employed again, you can continue you put in your lump sum. So there is all sort of things you know.

And I also find that there is a misunderstanding of retirement especially amongst the black people especially now with this retirement reform that's gonna come in. People they think that the government it's gonna prevent them from withdraw their money. So you find a lot of retiring teachers, government workers, taking early retirement, withdrawing the money, being taxed crazy amount. So we trying address that to tell people that there are products beside endowment that is there for you stop investing in funeral funds, because that's not an investment. Stop investing in death; there is no reason for you to have three funeral covers. There is no reason for you to have two life covers; you can just increase cover on the one you currently have and invest your money in equities. You have got access to best products in the country, you know you can invest globally by going through one of the assets managers and it's 500 rand per month.

Seth: Sure.

Mzu: And there is low cost investment like ETFs that tracks the top forty stocks, you will be making way more than the 4% you making at the bank which is below inflation so that's a message we are trying get to people.

Seth: Do you go to them?

Mzu: Yah.

Seth: How do you do that?

Mzu: We do it through radio on Motsweding especially, SA FM, radio 2000; and we are on eTV eNews a lot. And also personally - in churches. So what we find there are lots of groups that band together which are stokvels basically and that have their money sitting in the savings account and all that so we find a lot of invitation to come to those people, present about the options that are available to them, and you will be surprised with this: people are holding their money, they get nothing, you will find that you are getting a 4% return but the fees are like 2.5% which is ridiculous. People need to understand fees, they need to understand returns.

Seth: Good what has been the response from these marketing drives either through radio or visiting community centers?

Mzu: A lot of response we have got in especially from Motsweding side is pension funds.

Seth: Okay from whom, pension funds from where?

Mzu: From miner's people who have worked from mining. It's a disaster. From what I know most of them don't have provident fund or pension funds because they worked in the 70s so there is lots of misunderstanding. You get stories of children saying that my father, my grandfather worked at the mine for 30 years but he never got anything you know. So clearly the mine didn't have anything set up for them whereas if they knew they could have set up their own retirement on the side. So it's a big problem and the message we are trying to get across is guys this is a way to go you must save a retirement you must do a cost on his analysis at least you must try and save per month. Once you go on retirement so that's the message we are trying to get across the people is do you have enough to cover your retirement, idea of life cover that will cover your bonds or anything should happen to you all these things because people were just sold product by the Old Mutual and all this traditional investment houses but people never really understood the products like what are you selling me, what's this gonna do for me, is this gonna cover me, is it worth it having 10 rand per month endowment which is not gonna do nothing for me or should I rather increase that to 250 rand where I know I'm covered properly when it comes to retirement.

Seth: So it must be proactive marketing?

Mzu: Definitely, people are not aware people don't know and people are afraid to ask. So it has to be very sensitive from our side because once you ask the questions and all the answers is no no they feel like "it's too late for me to start saving, I have made some wrong decision." So the message we are trying to put across is it's never too late to start. We might work a bit aggressive to try and catch up or the reality of the situation is you are too old this is all we can do for you or but let's do something. So a lot of people are not prepared so we are trying to take away that you know the government pension is R1 800 per month you can just imagine a guy was working a construction site earning R10 000 rand per month he retire his got nothing no retirement annuity he will get a service thing which is probably R30 000 rand and that's it and he move from R10 000 life style to

R1 800. It's not possible and the majority of our people unfortunately that's what it is so that's what we are trying to change it's a disaster and that's why people cannot retire you find yourself at sixty you have got no income so you must go back to work where you gonna work because you cannot go to contraction you cannot carry cement at sixty.

Seth: Wow you know I spend a lot of time talking with grandmother, grandfathers, and rural folks really and I tell them why don't you take you money and put it into equity, put in unit trust, and why don't you really upscale on what you are already doing they said we don't know what are you talking about.

Mzu: They don't know.

Seth: Then they will say we need knowledge we need to be educated, then the question becomes and I'm happy I'm talking with an educated man here when we start to educate this people what should be the content or curriculum of education what do they need ?

Mzu: I think people; I think they just need to know what's out there.

Seth: So knowledge of products?

Mzu: Knowledge of product, what's out there what kind of questions you should be asking because when we go to people we don't sell them products we are independent service provider we don't have to sell anyone products our job is to make sure they are asking the right questions our job is to make sure that they are getting the right product with the right fees that's our job. People are not aware that you don't have to if you are Old Mutual or Sanlam or Liberty clients not every not everything of yours need to Liberty maybe you can get better value somewhere else. People don't see the importance of retirement I mean that's my biggest fear of this country people don't save enough for retirement. The country cannot bear the cost of everyone being dependent on the state so we need to get the message across that people must start saving for retirement.

And then it becomes difficult especially for young guys you graduate let's say you are 24, 25 you start working you first need to help out at home so your siblings must go to school, groceries, you find that mom is on retirement she is earning 1 800 per month, you must take care of her because her salary maybe she used to get she is a domestic worker of 3 500 is gone. So the challenge for me is the current generation now the old people who have got no retirement and the young guys who are we call them the cent-rand generation, basically we are stuck, there is responsibility for old people and then there is for those people are you age so you are the only one who is working, you need to take care of both side whereelse the white kids they probably have the life policy or whatever money from grandfather and an old car from the grandfather so they can get employment because they probably don't have to worry about the place to stay because the grandmother or grandfather will leave them a small flat somewhere. So you need to get a car, you need to buy a house,

you need to support your family, your siblings probably your parents and your grandparents.

Seth: Sure.

Mzu: So the big challenge is focusing on this young black man what do they do you are earning 5000 rand you need to split it among ten people. Other products we have right now meeting the challenges that are faced to those kids you know luckily my mother manage to do well in life she is doing okay but I sit a lot I sit with my wife you know it's a big challenge and no one is really addressing it what do we do with this young people because now they don't start saving for a time after 25 because it's not an option because you cannot put your money at an RA and there is no food at home you now so they only start saving at maybe you start stabilize at 30 or 35 so how do we balance that I mean it's a big challenge for the economy and no one is talking about it and I feel in our generation there is so much pressure you know because those who are doing well they are driving nice car they are living in Fourways and this is your colleagues you know you are earning the same amount but he doesn't have your responsibilities so it's a big challenge you find guys going into debt you know to try and keep up and you go onto that debt crap until you are 40s when you really start earning money then you really start paying that debt then that guy is been saving and you are paying that debt so how much does it leave you for retirement and then you are playing catch up now then you are paying 5000 per month towards your retirement which is a lot amount of money where compound interest over that 15 years you have lost you would have made up for that so that's my biggest concern for this country.

Seth: This very sad that there is this lack of awareness. Then the question how can the informal sector therefore access formal investment and equity markets?

Mzu: Independent houses such as ourselves we need to go out there. I think honestly we need like proper road shows. I think government or treasury should really support us. Because if you support Old Mutual, Old Mutual will go there and sell Old Mutual products you know; they are not selling the whole view of everything. Find independent houses, give them, like say you guys focus on Soweto or Alexander go and push the message, this is the budget let's do it you know, eh instead of maybe just ABSA. Because I know the banks at about 7% of the budget is allocated to banking education because they wanna move away from people walking to branches that's why they have these fancy ATMs because they want people to bank there. So they use that money to go and push their products. The government just needs to give independent houses money; we would just go and do road shows.

Seth: Therefore in terms of the role of government will be marketing kind of financial assistance, what else?

Mzu: I think that's it give us platforms, give us a budget, let us go and speak to the people and put measures in place obviously you know to make us accountable: how many people have you reached you know we can even create some sort of educational courses, small things you know there is a lot that can be done man. With the youth this eLearning thing, I mean we are trying to do something about that we have tried to adopt the system that they use in the UK.

Seth: What is that, can you explain?

Mzu: For kids who leave school leavers but they don't want to go higher learning institution so this eLearning thing you can log in it teaches you how to write a CV, it teaches you about investment, about retirement, it teaches you briefly about the markets, what's the stock market, what's the unit trust, how do you conduct yourself in an interview, and all of that. With the Metros now offering free Wi-Fi and all of that I mean kids have smart phones they can access that you now so that's one way of doing it especially reaching the youth because we are always on our phone. With old people go to churches, go to societies, and speak to people let them know what's out there but the government says we are putting retirement reforms but there is no enough info going out explaining to people what's this, people are going on the retirement where else if could partner up with low call independent houses guys go and explain to people what's going on you know you get people that are in the GEPF that are leaving the GEPF why would you want to leave the GEPF as soon as you leave the GEPF you are losing all the benefits there is funeral benefit the GEPF will make sure you get paid until you die whether your money runs out so all the sort of things that people are not aware of even the GEPF themselves are not doing enough road shows to tell people so that tells you that there is a lack of sending information to people within the government pension funds themselves so I think it's just information they needs to be a big Campaign. People are spending money on clothing account, cellphone account, and which defeat the whole purpose you now so the country it's gonna be in trouble I'm telling you now because the government should have been raising from within.

Seth: Yes.

Mzu: How do we raise money from within? We encourage people to invest and save but we are not doing that we have to go outside and raise money and that's at ridiculous rates. This rating houses are dropping our rating every day so I mean you build within and the government is not doing that. They started advertising retail savings bonds but those are gone now people still don't know what is a retail I see the advert on TV but what is that? What does it mean? No one has come to my society, no one has come to my church and really explain and sit down with me and say this is a retail savings bond, this is what the money does, this is what you will get. People are not aware I mean it's a disaster man we have been to the

municipality that doesn't even have proper structures and places of raising money they don't know how to raise money.

I mean they don't know what bond markets are like. They were trying to appoint financial services provider to put all that in place the procurement side of it of how do they raise money for the municipality for infrastructure. If we still have this in South Africa I mean this is an institution, government institution that collect rates and taxes and all that and they don't know how to raise money you know as if we have that stokvels local stokvels that collect I don't know maybe 800 million a year that money could be put back into that municipality.

Seth: Into the same community yah.

Mzu: Exactly so yah man I think I don't know I think things are good at national level but when it come down filtering down to more local it just get, it's a disaster man. People think I'm a very pessimistic, but guys do you realize that there is no way the government can carry everyone of us if we go on retirement. I mean it's simply as that products money is there money is there, there is this possible income but it's going to the wrong places it would go into the savings account your stokvel money you find that maybe a stokvel has I don't know maybe 50 million the same lady who is a member of that stokvel will go and get a loan from the bank and they gonna charge her I don't know 18 or 20 percent interest had her stokvel money is only getting a 4% return it makes no sense to me you know so I always say maybe the problem is we needed I don't know it's either we need to build our own institutions as people of color or we need a state bank or something I don't know something I mean this Development Bank of Southern Africa, it mostly deal with it's like commercial bank. It is not a retail bank. We need something to change I thought Post office bank bank would be that bank but so now is just a disaster.

Seth: I thought maybe even ABIL would do that.

Mzu: Irresponsible lending.

Seth: In fact, I think ABIL should have been the one driving around these things we are talking about here.

Mzu: They should have I mean now they were very irresponsible.

Seth: Very.

Mzu: I mean you cannot give someone three loans and then when they come for a fourth and say okay we will give you enough money to the fourth loan to cover up the third one and then you take the new one.

Seth: There were no controls there.

Mzu: Yah there were no control.

Seth: I guess the guys who were managing the credit function, they were not doing their job.

Mzu: But it is a national credit regulator. The national credit regulator was made aware I think was about four years ago when something went wrong. In some African bank branch they started investigating so negligence in the lending practices but nothing was ever done you know so clearly so now the hence we have got I mean the BEE shareholders the BEE scheme it's in hold people has lost money. Basically until the good side of Abil hopefully picks up it's starting like because there are collecting proper money so the bad book is basically been taken out so the good book is still at least the government stepped in and did something.

Seth: It's almost like I think we learning from the EU experience.

Mzu: Imagine how many people could have lost their jobs.

Seth: Yah and some people if they lose their jobs they will never get another job.

Mzu: Yah.

Seth: That's how low skilled they are.

Mzu: That's it I mean there is lot that can be done man I mean why build an RDP house for someone why not create local suppliers who makes who makes cement teach the people how to build their own homes instead of bringing group five who are already making money those houses for you like we are becoming that country where everything is done for you.

Seth: Agree

Mzu: That's why now people demand everything from the government because government does everything for people. Teach a man how to fish he will fish everyday don't fish for him.

Seth: Yah it's not sustainable. But therefore the question becomes we are talking about the goodness of the formal investment environment and we are talking about the challenges that we find in informal saving environment then the question that one can pose will be what are the factors that can motivate the guys on the informal side of things to link or integrate with the formal inventory what are those factors that can motivate that person?

Mzu: I think for me its structure, its past performance, it's knowing that this fund has performed like this, during 2008 what was the drawdown, how much did they lose what's more important to me in a fund is a draw down what happens if the market crashes to that fund are managers doing their jobs because for me investment is all about risk management if you cannot manage your risk as fund manager I will never put my money with you. What is important to me what happens if the market crashes what happens to my money do I lose 50% of it or do I lose 20% of it, I will always go to the manager who will lose 20% of the money because when the market is up everyone can make the money. The difficult part what happened in 2008 when the market crashes that's the important thing for me.

Seth: So asset security is the part of motivation factor.

Mzu: Yah it's very important eh anyone can see that Naspers is going high anyone can buy Naspers. But how do you know when Naspers reach resistance, how do you know how far it would drop, and how do you to get back and buy it so that's performance that's experience and that's what people need to understand. What makes you go to a fund, you look for fees, you look for past performance, you look for drawdown performance and that's what I look for.

Seth: I love what you are saying, because take a look at the typical stokvel they will put all their money into savings account. But if I were to go to asset manager he will distribute that into various sectors.

Mzu: Yes for instance if had all your money in resources in the last three years you could have lost a lot of money but if you have balanced with the retailers and financial which did very well you could have made a lot.

Seth: Yes especially financials.

Mzu: So now there is a re-weighting moving away from retailers back into resources you know so a good fund manager will sit down with you as stokvels and say guys or they will just do it automatic because they know what they are doing there is a rebalancing and the reweighting in the sectors. Guys are moving away they have made money in retailers and finances the just take all that money and put it in the resources this is why resources are picking up you know and that's why you pay that fund manager fees because they know that they know unlike you just sitting there in the one sector it's going down and you don't understand why it's going down.

Seth: You just sit, you do nothing, you don't respond.

Mzu: Yah you do nothing so I think that's why it's important to have a structured product with someone behind it who knows what they are doing and diversification is key. You cannot just have all your money in one thing. it's risky, you know it's very risky.

Seth: Wow I'm extremely pleased with this. In fact, we have already answered this the last one question which was going to be how can equity marker improve the financial performance of our informal investors?

Mzu: I mean over the five years nothing beat equity performance.

Seth: Nothing?

Mzu: Nothing that's why if you want to put your money in equities we must agree that you are leaving your money for the minimum of five years it will outperform in the asset class. I mean it's actually you cannot go wrong with it. I mean if you really want to simplify you can put your money in the tracking fund that tracks top 40 stocks. The index is diversified. Just take your money put it in the top 40 ETF it tracks the market. Over five years it will outperform anything you know, low fees you know, you are diversified,

you have got Blue Chips stocks, I mean these are not companies that wake up one day and be like African Bank – insolvent. You look at MTN, you look at First Rand, those are big boys; so that's information people need. This is out there. Stop putting your money in 32 days account, stop putting your money into money market. You know a smart people with that money market account, he is waiting for the opportunity somewhere, say he has got 20 million packed there, he is waiting maybe for Naspers to go back to R1800 then he knows his putting that money in. It's a holding product, it's not an investment product; so people need to understand what's an investment product, what's a holding product you just put in your money there so that it doesn't get eaten by inflation. People think money market, 32 days account, or three month call account - they think they are an investment, they are not.

Seth: They are not.

Mzu: Those are temporary products to protect the money against inflation.

Seth: But now what would you say I'm sure you know you are a black man and you are a South African and I love that if you check very well especially stokvels they put money in there for eleven month January to November normally in December they take it out and then.

Mzu: They take it out they buy things they buy groceries.

Seth: (Laughing) Yes.

Mzu: You see I have issues with that; we are not building off; we are not thinking long term. I think it's because they don't understand the effect of compound interest. If you were to sit down with them and model to them, guys you contribute in about R20 per month let's calculate this over five years. I mean five year, you find that you can extend your house, you can buy a car cash, and it all depend on what product it's in, the fees, and how much it earns. But the thing is we, people don't know they are not thinking long term and I'm sorry to say white people think long with investment. They take in a loan to put in something that's gonna grow their money, in contrast we Black people take out loan to go buy clothes for Christmas and buy groceries and cars.

Seth: And very expensive cars for that matter.

Mzu: You know there needs to be a mental shift, of money, of how we think of using money; you don't go and increase your overdraft for 100 000 for December because clearly you cannot afford what you need to do. So you don't go and take more debt to spend, you take it to invest into business, you don't take it to maybe to waste, but it into some share portfolio or whatever you know we don't do that we just keep creating debt and debt and we don't realize that you cannot do that stokvels needs to think long term.

Seth: Now good you say they must think long term and these are people who are used to eleven month of saving. What do you think is an ideal period in which they could invest?

Mzu: Five years my brother.

Seth: They must go for five years this should be a stress to them hey?

Mzu: Yah five years so now what need to happen is that the stokvel need to properly governs itself. So there is a need to be a constitution on how it works, a mandate of where we invest maybe 40% equities, 10% bonds, and then 20% we take offshore or whatever I mean if you have invested offshore: now I mean Europe is flying, the Chines are cutting interest rates to spur grow so commodity are picking up, hence resources are going up. So you need to have the money in the structures for people to know about investment give those people time grow wealth I don't know why people rather have a 2000 rand or 5000 rand to spend in December while it can wait five years and make 50 000 or more. So we need to think long term. I don't know why there is so much impatience amongst our people. I mean White people buy share and leave them for their grandchildren. I mean white people we would never do that impatience. Even Black workers that are part of BEE scheme at work guys are selling their shares it doesn't make sense to me you know. Why would not you leave that for your retirement I mean my wife has group shares we gonna leave those share for my daughter we need to start thinking long term about money I think mind shift, hence will have retirement annuity people will save for retirement you cannot leave work and withdraw your provident fund it makes no sense because you start from zero you have lost all that compound interest you are starting from a zero base so mind shift need to happen a big one. Money investment is long term.

Seth: We are concluding this, so lets talk about the framework or model that ideal to link the two investments worlds.

Mzu: I will use our slogan here.

Seth: Sure.

Mzu: "We simplify the complicated".

Seth: Tell me more.

Mzu: I think financial, investments, whatever anything to do with financial awareness or wealth management needs to be simplified because you find that people find it intimidating. As a result they will agree to anything someone at financial institution tells them because they don't really understand and people are afraid to ask questions. The most important thing is that people need to be aware that financial advices are not for rich people you have access to financial adviser we are out there we are not gonna charge you. I think people are scared because these products are seen from just adverts, and alone you are like, "my goodness, to have an Investec unit trust I need to earn 1 million per month – whereas you don't need that. So I think I would go back to what I said earlier: information, I

think simplifying the information for people because it's all good and well if I go to meet with people like I speak using difficult terms returns, investment, drawdowns. We need to simplify to them: what is it this fee, what do they mean, you know, what's assets management, what's a unit trust, what's a ETF, what's a share, what does the JSE do. I think we need simplification of information, I think that's it. Information has to be out there it's the same thing with HIV where the where no information the was panic, now it has been become a normal thing; people understand what you need to do to live. The ARV are available but before there was stigma; people could not talk about HIV - because I'm gonna die, because there was no information for people.

Seth: Yes I love this.

Mzu: I think is the same with this we just need to it should be a normal thing to have, you should know who is your financial advisor, you should know how is your retirement, where is your money invested within your investment, you should know your unit trust, should know how much you are paying, you should know how much you are getting, you should know your life policy, you should have a will. People don't have a will. You find a husband dying, the wife is getting kicked off their home by family members if there is no will.

Seth: Both those things won't happen.

Mzu: Exactly you know I should be able to sit down with every South African and ask them where are you invested, how is your retirement annuity going, have you read your benefit statement, they should be able to tell me and I think that's it, it should be like that it just need info info info I don't why I should run an advert telling people what's out there it's the government responsibility they should do that you know I'm gonna go political here I mean we cannot implement Mugabe's policies because will be punished from western countries the only way to do it is to buy what we have back our land, our country and to buy back we need to create wealth but we are not creating wealth we are creating wealth to those who own what we want to get so without wealth there is nothing we can do poverty continues.

Seth: It does.

Mzu: It's said it's very sad. You see people working for years, retirement, they take out money they start a business. What business when you are at sixty years old - when eight out of ten business fail. Will you take that risk with your last money, your retirement money. So it makes no sense to me live your money in a predication fund we can even have define benefit for you where you say you have a million and you want that money to for the rest of your life okay we can only give 3000 for the rest of your life that's you know that that money will be there forever and ever if you didn't manage enough for the time you know so people must know that if I have got a three million and I withdraw 10 000 per month my money will run out in five years so I cannot withdraw 10 000 a month Mzu must sit down with

me and see how would I need to sustain my life let's say the average mortality rate is 80 years so if you sixty your money must last at least twenty years so those calculations must be done what you need to pay you know people must know before retirement please make sure your home is paid, your car is paid, so what you need is medical aide, groceries, rates, and taxes so how much you really need for that and no one does a financial needs and analysis for people if you go to any most of them ask them to get a record of advice or whoever advice there is none of that so how do you know how much you will need on retirement you know they don't know so I think is all information.

Seth: I get you.

Mzu: Yah.

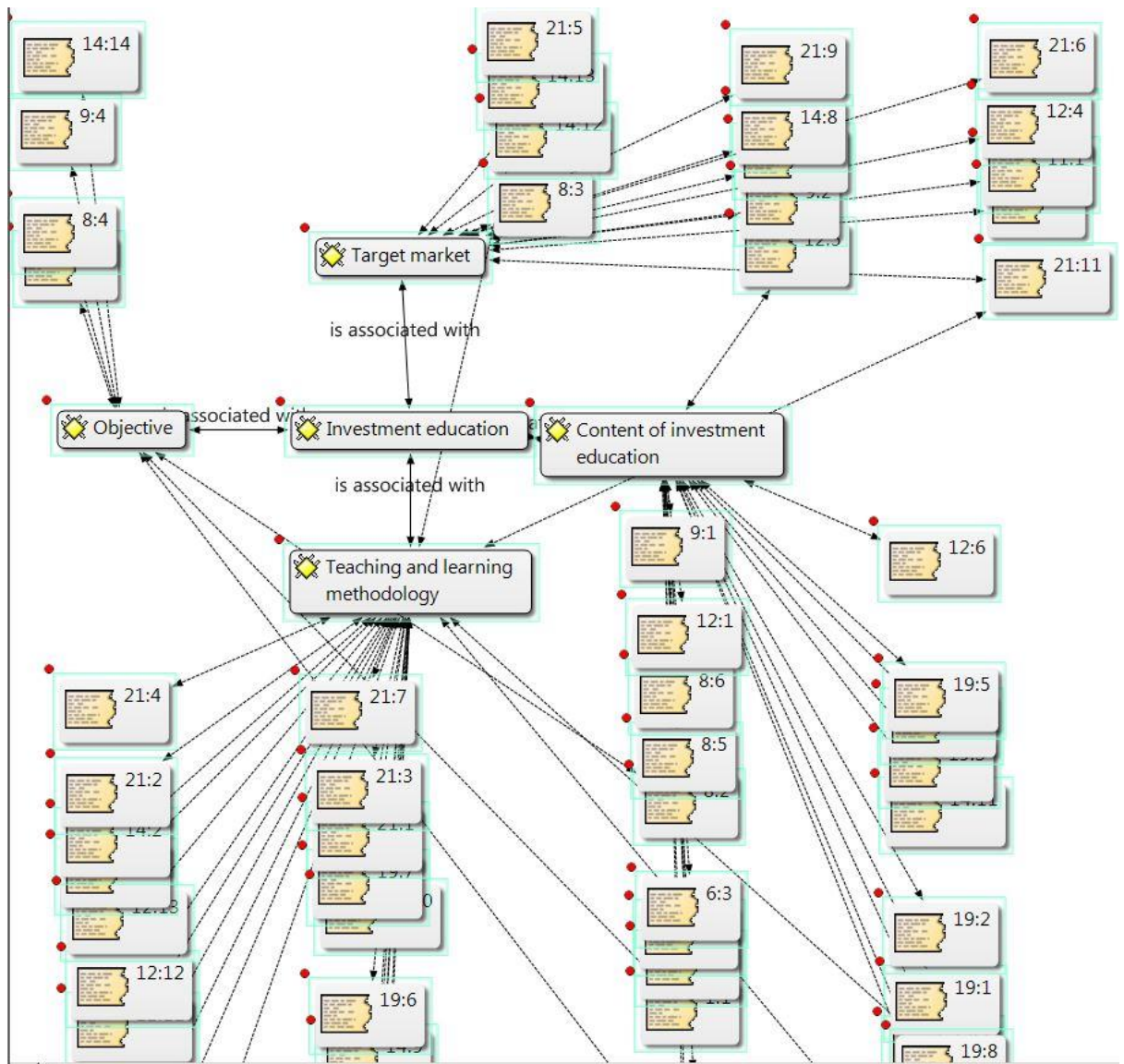
Seth: Okay Mzu thanks man I appreciate for this.

Mzu: Eish man I'm really passionate about this.

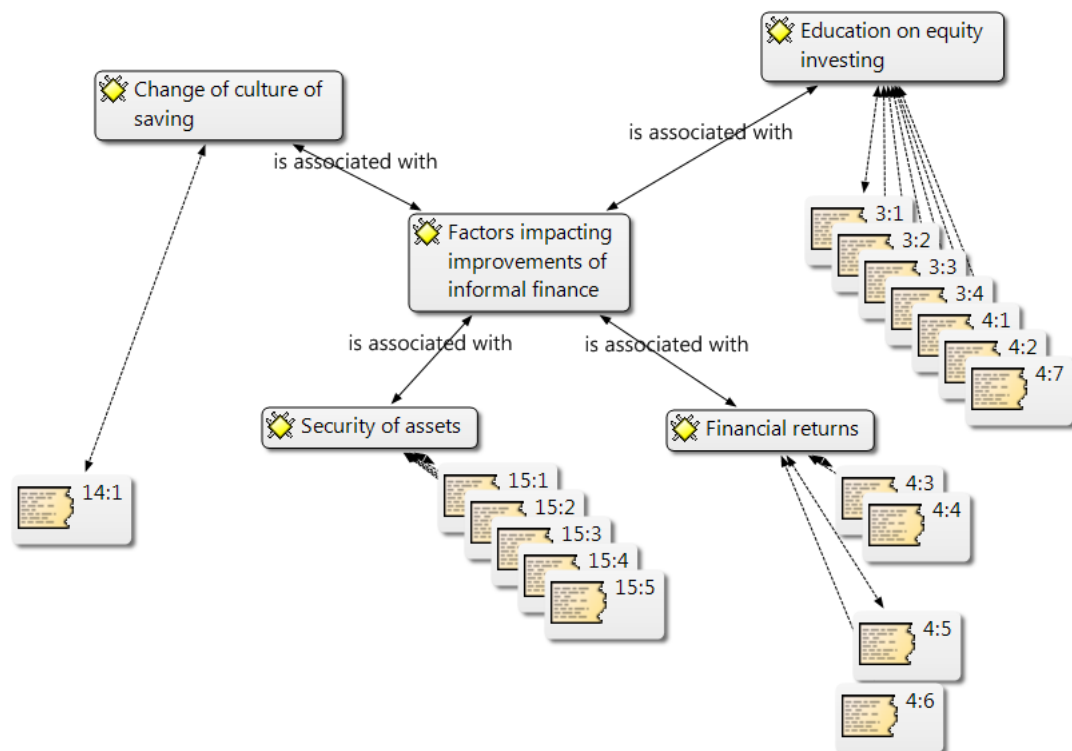
Seth: I can see actually you are very passionate.

APPENDIX H: CODING ANALYSIS

Atlas Ti Investment education coding and data analysis



Investment performance for informal savers



Level of interface of informal finance and formal finance

