



**Investigating alternative social funding instruments
for SMMEs in South Africa**

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**Thesis presented in partial fulfilment for the degree of Master of
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Management, University of the Witwatersrand**

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1. DECLARATION

I Prudence Xaba declare that this research report entitled ‘An investigative study into alternative social funding instruments for SMMEs in South Africa’ is my own unaided work. I have acknowledged, attributed, and referenced all ideas sourced elsewhere. I am hereby submitting it in partial fulfilment of the requirements of the degree of Master of Business Administration at the University of the Witwatersrand, Johannesburg. I have not submitted this report before for any other degree or examination to any other institution.

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Signed at Johannesburg on 20 April 2020

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2. ABSTRACT

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Thesis title: Investigating alternative social funding instruments for SMMEs in South Africa

Small Medium and Micro Enterprises (SMMEs) are key drivers of economy, innovation, job creation and the biggest contributor of the GDP. In 2015 there were 2 251 821 SMMEs, with only 667 433 in the formal sector and registered, the rest operating in the informal sector. South Africa today is faced high rates of poverty, unemployment and poor education levels. The current legislative framework has been unable to transform the skewed discrimination in the economic sector. Several government strategies and interventions have not yielded any positive results. The study explored the conversion of stokvels into an alternative social funding instrument for SMMEs. Stokvel is a centralised collective savings scheme, where monthly periodic contribution are paid. Stokvels are referred to as Rotating Savings and Credit Association (ROCSAs), with a membership of between 5-30 members. The study employed qualitative multi method approach, using focus groups observations, individual interviews and document analysis to collect data. Semi structured questionnaires were used for the five stokvels focus groups and three individual interviews with government executives. Data analysis was conducted using the three theories; phenomenology, ethnography and interactionism. The findings show that stokvel members are willing to convert into formal investment instruments, to manage risks and having access to better control management systems. They also stated that they would like to maintain their independence, unique identity and control of their savings. It also found that stokvels need financial training in order to make informed decisions on the available platforms. It was also found that all this is impossible without government's intervention in transforming the sector and introduce flexible legislation accommodating stokvels. It is also stated that retail banks could hinder the introduction of progressive and flexible legislation regulatory framework as they recognise that stokvels could be disruptors in the financial sector.

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7. DEFINITION OF KEY TERMS AND CONCEPTS

NASASA	National Association of Stokvels in South Africa
GDP	Gross Domestic Production
SMME	Small Medium and Micro Enterprise
NDP	National Development Plan
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
EPWP	Expanded Public Works Programme
VAT	Value Added Tax
PAYE	Pay As You Earn
NEF	National Empowerment Fund
DTI	Department of Trade and Industry
ROCSAs	Rotating Savings and Credit Association
SOEs	State Owned Enterprises
CBDA	Cooperatives Banks Development Agency
PA	Prudential Authority
FSCA	Financial Sector Conduct Authority
FSB	Financial Services Board
NT	National Treasury
SARB	South African Reserve Bank
FSR	Financial Service Regulator
NCA	National Credit Act
NIA	National Insurance Act
NCR	National Credit Regulator
NCOP	National Council of Provinces

1 INTRODUCTION TO THE RESEARCH

1.1 Context of and background to the study

1.1.1 SMME sector in South Africa

Small, Medium and Micro Enterprises (SMMEs), are key strategic drivers of economic growth through job creation and innovation (The DTI, 2008). Following a study conducted in 2006 - 2007 by the Department of Trade and Industry (DTI), an Annual Review of Small Business in South Africa was published, stating that Small Businesses contributed between 27 – 34% of the total Gross Domestic Production (GDP). The figure remained constant from 2001 to 2006. In recognition of their importance, the government of South African established a Department to support, facilitate and promote small businesses in 2016.

It has been established that Small Medium and Micro Enterprises (SMMEs) are key drivers of economy, innovation, job creation and the biggest contributor of the GDP (The Small Enterprise Development Agency , 2016). The SEDA quarter two report states that in 2015 there were 2 251 821 SMMEs, with only 667 433 registered in the formal sector (The Small Enterprise Development Agency , 2016). South Africa experiences high rates of poverty, unemployment and poor education levels. The current legislative framework has been unable to transform the skewed discrimination in the economic sector. Moreover, several government strategies and interventions have not yielded any positive results.

The state has introduced initiatives, like Local Economic Development (LED) and Expanded Public Works Programme (EPWP) to create a conducive environment for small businesses to have access to finance, opportunities, training and mentorship support. The small business industry is characterised by both formal registered businesses and informal businesses with formal businesses mainly in urban areas. They are registered for tax; pay as you earn (PAYE), Value Added Tax (VAT), Income Tax and they have access to banking services. These businesses are active participants in the economy through payment of tax. Informal businesses are in

townships and rural areas, operating out of mainstream economy, due to lack of access to banking services and credit. Both types of businesses are small and operate on a survival mode, unable to employ additional staff members, and if they do; they do not register them for PAYE. This ultimately has a negative effect on the economy.

1.1.2 Current available funding models

The following funding models are accessible to small businesses in South Africa.

1.1.2.1 Bootstrapping

Horváth (2018) defines bootstrapping as usage of personal savings to fund own business and any equity access they might have, due to restricted access to both financial and infrastructure resources. Some entrepreneurs manage to maintain bootstrapping up to a certain point until the business is profitable, if not they may need help (Horváth, 2018).

1.1.2.2 Micro Financing

The National Development Plan (2012) describes micro lenders as financial services organisations offering short term loans of a maximum of R10 000 to small businesses and low income earners (Parliamentary monitoring group, 2000). Micro financing plays a critical role in providing small business with short term needed finance due to stringent requirement to secure bank loans. The Minister of Trade and Industry managed to regulate the industry by introducing the Micro Finance Regulatory Council. The regulation assists in curbing high interest rates and other illegal activities that took advantage of financial vulnerability. Micro lenders charged up to 30% interest per month and had access to payroll and customers' bank cards.

1.1.2.3 Commercial banks

Commercial banks provide loans to businesses that show sustainability, profitability or potential whilst also looking for a collateral. Majority of small businesses do not

have collateral or financial security to secure their financial needs and are still struggling to make profit but show potential or have secured a contract or two.

1.1.2.4 Venture Capital

Manigart and Wright (2013) define venture capitalists as investors investing in different businesses with growth and profit potential, looking for greater returns or equity (Manigart & Wright, 2013).

1.1.2.5 Crowd funding

Mollick (2013) posits crowd funding as a new platform in South Africa, providing an opportunity for entrepreneurs to raise funds by supplying company vision, goals and business plans for prospective investors who may be interested to support the business idea. This is usually financed by more than one investor, some simply donate without expecting returns (Mollick, 2013).

1.1.2.6 Public sector funding institutions

The following are some of the government institutions offering grants and start up loans. The Small Enterprise Finance Agency (SEFA) – supports establishment, survival and growth of small businesses (Economic Development Department, 2014). The National Empowerment Fund (NEF) provides loans of between R250 000 – R75 000000. The Industrial Development Corporation (IDC), a financial entity owned by government, offering loans of up to R1 000 000 000 to start ups and existing businesses. They charge minimal interest or look at equity partnership. The Isivande Women’s Fund is a black economic empowerment fund, introduced to stimulate businesses owned by black women. It has since opened to all black South Africans, focusing on businesses that are expanding, needing rehabilitation, finance and start ups

1.1.3 SMME challenges and economic conditions

The South African economy is trapped in low growth, which creates challenges for small business to have access to opportunities. Majority of the small businesses are

not borne out of great creative and innovative ideas but out of running away from poverty and high rate of unemployment. This is a challenge because people run businesses they do not understand, for example tendering in construction, catering, supply of goods etc. Thus, these businesses lack creativity and do not distinguish themselves from the rest.

Department of Trade and Industry (DTI) report states that majority of businesses operate in an informal sector without access to opportunities and finance (The DTI, 2008). Only 1% of businesses registered in 2005 survived. South Africa has a low survival rate according to the Global Entrepreneurship Monitor. It is exacerbated by credit constraints and bureaucratic systems that prevent SMME's from accessing capital needed for the business. These challenges drive SMMEs to borrow from micro lenders, who have less stringent requirements but charge very high interest rates of between 20%-30% per month. The Usury Act set the maximum limit for interest rates at 27% per annum (pmg.org.za, 2000).

Whilst access to funding has its challenges, some small businesses on the other hand lack understanding that funding is one aspect of the business, creating and access to opportunities are critical for expansion, growth and development. Opportunities lead to a healthy bank balance which may translate to profits and growth. It takes a conducive environment, key critical business management skills, access to finance and markets or opportunities for businesses to survive.

1.1.4 Stokvels

Stokvel is a centralised collective savings scheme, where monthly periodic contributions are paid. Rotating Savings and Credit Association (ROCSAs) locally known as Stokvels, are run by communities with a membership of between 5-30 members. Verhoef states that there are four different types of stokvels, this study however only focused on investment stokvels. Members' monthly contributions are paid in lump sum at the end of agreed period, which could also be on a rotational basis. Stokvels could be used as a substitute to a conventional financing instrument for small medium and micro enterprises (SMMEs).

1.2 Research conceptualisation

1.2.1 The research problem statement

A number of SMMEs fail because of lack of access to funding, markets or opportunities, enabling policies, leadership qualities, infrastructure support and conducive culture for entrepreneurship (Ellen Rungani, 2018). Commercial banks' and other public sector lending institutions' borrowing terms are not aligned with previously disadvantaged small business needs. When these SMMEs are awarded projects, they are unable to deliver on projects due to lack of financial resources and the amount of time it takes to get paid by government departments and state owned entities (SOEs) for services rendered. There is limited awareness on understanding available alternative lending or funding instruments for SMMEs such as peer to peer lending and informal savings schemes.

1.2.2 The research purpose statement

The purpose of this research is to investigate alternative social lending instruments available to SMMEs and Entrepreneurs, with less stringent lending requirements. The SMME sector has only focused on main stream commercial lenders to assist small businesses and entrepreneurs with financial needs and support. The current lending instruments are unable to meet SMME needs resulting to collapse of small businesses which means, the NDP goals cannot be achieved as South Africa continues to have socio economic challenges and slow economic growth.

1.2.3 The research questions

This study analysed the role stokvels could play in providing alternative forms of financing for SMMEs. To investigate alternative social funding instruments for SMMEs in South Africa the following research questions were formulated:

Research Question 1

1.2.3.1 How can stokvels be converted into investment instruments for supporting SMMEs?

Research Question 2

1.2.3.2 What are the possible challenges faced by stockvel members?

Research Question 3

1.2.3.3 How can regulatory framework enable the development of these funding instruments, ensuring transparency and protection rules for investors?

Research Question 4

1.2.3.4 What are the possible challenges faced by government in the regulation of stokvels?

1.3 Delimitations of the research study

Alternative funding instruments investigated for this study are limited to stokvels that are purely focusing in savings and investment schemes. Other types of stokvels, such as burial, buying of grocery, social networking, were not included in this study. The stokvel members interviewed for this study are all based in Gauteng. Their membership is countrywide, and varies from 12 to 35 members depending on location and the constitution. Stokvels currently operate within an informal sector, which makes them prone to risk. The element of security is a concern as transactions are high risk, without contractual agreements

1.4 Significance of the research study

This study explored the feasibility of converting stokvels from informal into formal economy by providing funding to excluded SMMEs and vulnerable individuals, using their savings as investments. The strength of stokvels' collective savings has a potential to create social capital and social networks that benefit the economy and

SMMEs in rural areas and townships. The conversion will formally reduce the financial exclusion and provides access to resources for the poor and vulnerable businesses, resulting in positive socio-economic impact. The unique operational identity would need to be accommodated in the conversion process

Stokvels' sustainability and growth over the years has threatened the exclusive existence of retail banks and financial services institutions. Government and the financial sector have recognised this strength and the financial sector continues to exploit it at the expense of government's passiveness. The introduction and implementation of transformed legislative framework accommodating stokvel practices will lead to active participation in the economy, alleviating poverty, protect food security and livelihoods of SMMEs in townships and rural areas. The transformation needs to explore progressive policies that suit the stokvels' operational model.

The study explores stokvels' current operational model and their offering as a possible solution to challenges faced by SMMEs. The banks are unable to meet the needs of the vulnerable and previously disadvantaged due to stringent security requirements. The stokvel operational practices are informal, risky and trust driven but they are effective and efficient. Development of an operational system, through a regulatory framework, will protect stokvel investments and contribute to active economic participation. Financial and business training will assist in investment instrument choices and business skills on how to manage and run stokvels as businesses without introducing too much red tape and stringent requirements.

This study contributes to the body of knowledge of stokvels as part of SMME and financial industry ecosystems in South Africa emphasising their role as an alternative form of financing. The research also looks at tapping on the bargaining power of stokvels that is not recognised by its members. The number of stokvels and their membership have created a lucrative industry with growth potential the threatens the financial sector with a disruptor. The R50 Billion collective stokvel turnover a year could be used to provide a meaningful contribution to the development of South Africa.

1.5 Conclusion

The purpose of this study is to determine alternative forms of financing for SMMEs. Stokvels were reviewed as possible alternative sources of funding. Stokvels could be converted into an investment instrument providing loans to SMMEs in townships, rural areas and those who cannot access funding from formal financial services institutions in South Africa. The SMME sector is faced with growth and sustainability challenges. The government has not been able to grow the SMME sector so that it could support economic growth. That has led to high rates of poverty, crime and unemployment. This study explored issues around stokvels being used as an alternative funding mechanism for SMMEs.

2 LITERATURE REVIEW

2.1 Introduction

This chapter assesses available documentation and information on the viability of converting stokvels into social financing instruments for the excluded SMMEs in South Africa. It looks at available literature on difficulties the SMMEs are confronted with, to access financial assistance, current funding models and their failure to ensure financial inclusion. The chapter also discusses alternative instruments, like stokvels and the legislative framework regulating the financial sector

2.2 Literature review process

Interpretive Structural Model (ISM) was used to assess existing funding models, legislative (policies and strategies) framework and industry/ sector structures and challenges (Rohmah, Mustaniroh, Deoranto, & Nharawasthu, 2019). ISM helped identify the interrelationship between access to funding and markets and building a strong social entrepreneurship institutions like, stokvels offering alternative means of funding, supported by flexible legislation. Total Interpretive Structural Model (TISM) helped define bureaucratic red tape hindering SMMEs from accessing financial resources and the stokvels' operational risks. The model identifies barriers to SMME success and simplify the process of idea generation (Varthanan & Ruben, 2019).

2.3 Research problem analysis

South Africa has a low SMME survival rate due to financial exclusion and lack of access to resources. South Africa operates with two economies; formal and informal. The formal economy is described as conducting economic activities within prescribed regulatory framework and be tax compliance (ILO, 2014). WIEGO defines the informal economy as an operation of economic activities under

unregulated or unprotected conditions (Chen, 2012). The SEDA report of 2016 published 2015 quarter 2 results showing that South Africa has 2 251 821 SMMEs, 1 497 860 (66.5%) of these are informal businesses. Only 33.5% are in the formal sector. Informal micro businesses are classified as self employed survivalist from a lower class of population, majority in townships and rural areas (SEDA, 2016).

Due to South Africa's high rate of unemployment and poverty, people look for alternative ways to survive. One way to survive is to start a business informally in order to generate income. Barriers to entry in the informal business sector are low and no education skills required (ILO, 2014). The businesses are funded by family, friends, self or stokvels, who operate within an informal economy. The informal nature of their businesses excludes them from accessing the formal banking and financial services due to lack of required documentation and credit security (Triki & Faye, 2013). Formal financial sector institutions are described as retail banks and insurance companies.

2.4 Legislation and Regulatory Framework of the Formal Financial Sector

Department of Finance (National Treasury) takes responsibility for this sector. The formal financial sector operates within a regulatory framework and policies enacted by the government. The promulgation of the Financial Sector Regulation Act, 2017 (FSR Act) led to the adoption of the Twin Peak regulatory model. This model gave effect to two regulators; Prudential Authority (PA) and Financial Sector Conduct Authority (FSCA) (ir.jse.co.za, 2017). Before the introduction of South African Reserve Bank (SARB) in 1921, retail banks had a responsibility to circulate bank notes to the public with no regulatory framework guiding the process (resbank.co.za, 2020). The introduction of SARB under the Department of Finance regulated issuing of bank notes and management of domestic interest rates, using prudential regulations. SARB is responsible for setting monetary policy whilst the National Treasury is responsible for fiscal policy.

The banking sector is supervised by SARB's Prudential Authority, under the Banks Act, 1990, to ensure compliance (National Treasury, 2018). FSCA which replaced Financial Services Board (FSB) oversees and controls operating standards of the financial services sector products and deposits, protecting consumers. Access to credit markets for previously disadvantaged, low income earners, rural and low density communities, is the responsibility of the National Credit Regulator, as set out in the National Credit Act, 2005 (NCA). It is also in charge of registering credit providers. Collective Investment Schemes invites members of the public to invest money in an asset portfolio, involving two or more people, with voting rights. The investors share profits and losses and the scheme is governed by the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002; Government Gazette, 2002).

Retail banks are required to hold a licence issued by the Reserve Bank and be registered as public companies under Banks Act in order for them to conduct business (Government Gazette, 2012). The banks are in charge of the country's savings. Businesses and individuals pay deposits to Banks and financial institutions, to facilitate transactions between parties and for investment. Banks and financial institution will then use the deposits to fund income generating activities in order to reimburse depositors for their savings and cover the cost of providing the service (BASA, 2019).

2.5 Access to financial services

One of the Department of Finance's objective is to ensure that all South Africans, especially the vulnerable, historically disadvantaged, rural and poor communities have access to inexpensive, effective and efficient financial services (National Treasury, 2011). The country has been credited for introducing legislation and policies that promote financial inclusion, supported by statistics showing an improvement of people who have access to the financial services, from 61% in 2004 to 89% in 2016 (Abrahams, 2017). However, in September 2015 the National Credit Regulator introduced a strict affordability assessment criteria, resulting to less consumers qualifying for access to credit (BASA, 2019).

2.6 Small Medium and Micro Enterprises challenges

SMMEs are a driving force of a strong economy, but have been unable to play a positive role in growing economy through job creation and alleviate poverty in South Africa. Sustainability and low success rate are major challenges faced by small businesses. Statistics South Africa, 2015 posits that SMMEs contribute 40% to the Gross Domestic Product (GDP) of the country, which means they play a critical and important role to the sustainability of the economy. The following have been identified as challenges affecting SMMEs; lack of financial resources, mismatch of services and products offered versus the needs of the market, access to markets, limited knowledge and access to available funding programmes and alternative funding instruments (Rungani & Potgieter, 2018).

A funding model is described as a systematic and apportioned proposal to develop a sustainable income base that will support organisation's strategic programmes and objectives (Kim, Perreault, & Foster, 2011). The available instruments within the financial sector are unable to service the diversified needs of SMMEs. It is clear that although government's initiatives show positive results in individual financial inclusion that does not translate to the same result for over 69% SMMEs who remain unserved (Triki & Faye, 2013). Banks and financial institutions offer loans, which are income streams and are source of business growth, expansion, financial support and provide stability to small businesses in the formal sector. These loans are granted with the intention of getting returns in the form of interest, part ownership or equity (Carpenter & Lauritzaen, 2016).

Cusmano and Koreen (2015) states that it is necessary to investigate diversified funding options and broaden platforms or instruments for small businesses to ensure sustainability, support, business growth, financial stability and inclusion. The investigation will involve looking at alternative financing techniques like using collaterals to secure loans and recognition of debt to equity principle. The investigation involved looking at relaxing regulatory framework that is flexible but does not compromise market integrity (Cusmano & Koreen, 2015).

2.7 Stokvels in South Africa

Lukhele (1990) describes stokvels as a group of community members or groups of people with common interests brought together by a common goal to voluntarily pay a fixed contribution, towards a savings scheme, on monthly basis or bi-weekly over a period of time, governed by a constitution, that each member should familiarise themselves with. Stokvels are defined as rotational savings and credit association schemes that mutually benefit its members (Verhof, 2001). Due to exclusion in economic participation, black communities sought a self sufficiency strategy that provided a financial intermediary role for security and support which retail banks could not provide (Naong, 2020).

Verhof (2001) recognises four types of stokvels namely savings, burial, investment and budget.. Savings stokvels is where a fixed amount is paid into a communal pool on monthly basis. The aim of the savings may differ from one member to the next, hence the cycle of receiving payments is easily agreeable. People may not need money at the same time (Matuku & Kaseke, 2014). Burial stokvels were initially formed to assist families of migrants with financial and non financial support during a loss of a family member. The black custom demands that a loved one should be buried in the village where he/she comes from, this forced migrants to form stokvels to support each other during bereavement. Fixed monthly contributions are paid by each member to cover funeral expenses when the need arises (Matuku & Kaseke, 2014).

Investment stokvels' main purpose is to raise money through monthly contributions, allow them to accumulate and then invest in business ventures. This stokvel promotes bulk and cooperative buying (Matuku & Kaseke, 2014). Tshepo Molo in one of his interviews mentioned that 60% of stokvels are investment focused, 18% savings club and 22% burial or grocery stokvels (Gwamanda, 2019). High budget stokvels' membership is comprises of individuals from the middle to upper class who contribute substantial amounts of money for savings and investment. Majority of its membership is held by males, with very few women joining and operates as a

financial institution. The investment returns are higher than a normal savings stockvel (Matuku & Kaseke, 2014)

2.8 Social entrepreneurship financing model

Stokvels play a role of social entrepreneurship by providing an innovative way to assist SMMEs to access captial and solving societal problems. Different authors provide different definitions of social entrepreneurship. Alvord, Brown and Letts, 2004 describes social entrepreneurship as creation of innovative ways to solving societal problems and mobilization of ideas and resources to achieve equality and social values. Boschee, 1998 describes it as the dedication of executives to market forces over profits without losing sight of the intended vision and mission. Their focus is more on economic eco-system rather than being profit driven.

The two definitions above capture social entrepreneurship from different perspectives. Some articles define it as a non-profit activity, mainly for communal or societal value and benefit, however some acknowledge that an organisation's role could be focusing more on societal value activities and mobilising resource for the benefit of others and still be profit driven. As it should be stated that organisations still need to be sustainable (Viser, 2011)

Manyaka-Boshielo (2017) describes how driving social entrepreneurship within communities will help realise the value and social benefits it would have on socio economic challenges. This requires a complete culture change from all spheres of government, soietal and business leadership. A culture of striking the balance between purpose and profits should be promoted in order for the initiative to be sustainable. Social entrepreneurs who have a balance may choose a combination of both profit and not profit structure for their businesses (Manyaka-Boshielo, 2017). All the parties should have a complete understanding of the role of social enterprises versus non profits organisations. Once society realises the impact, they will be willing to invest in it for job creation, poverty alleviation and improving quality of life.

South Africa has not explored the power of social entrepreneurship in the financing sector. Community savings schemes, called stokvels, have been in existence and utilized as an instrument to save money on monthly basis. The monthly contributions are shared on rotational basis or at the end of agreed period. The scheme operates on an informal basis (Rwigema & Venter, 2004). They have now introduced a new element of lending to those who are in need, including small businesses, at higher interest rates than the retail banks. Their rates are between 10 – 30% and are unsecured. The element of security is a concern as transactions are high risk, without contractual agreements.

Stokvels could be used as a form of social entrepreneurship. It is proposed that there is an opportunity to formalise the stokvel schemes into a financing instrument (loan facility) with payback options of both finance and social returns (Carpenter & Lauritzen, 2016). Stokvels are a fertile ground for future funding and investment opportunities. Stokvels have been in existence for decades within South African communities to support different needs, like groceries, burials, school uniforms, cleaning equipment including construction equipment.

2.9 Policy regulation of the informal financial sector

Schoeman asserts that South Africa's history forced black communities to collectively pool their limited resources together to fight poverty and ensure food security. The cooperation amongst communities provided a solution to the poor families with no access to resources. Cooperatives known as stokvels have been in existence for decades where members would contribute money, groceries or work together in farms to support each other (Schoeman, 2006). This system worked best as each group gave what it has in exchange for what they do not have.

In 1981 the South African government enacted the Co-operatives Act which was revised in 2005. This Act promoted the registration of Co-operatives by black persons involved in stokvels (Rena, 2017). The Act was designed to prevent the involvement of black people in retail trade. The number of cooperatives registered with CIPCC prompted the government to enact the Cooperative Banks Act, 2007,

which led to the introduction of Cooperatives Banks Development Agency (CBDA). The agency is responsible for regulating and monitoring cooperative banks (National Treasury, 2020).

The government gazette stipulates that the Cooperative Banks are registered, monitored and assessed by the South African Reserve Bank (SARB). Operational activities of cooperative banks are to accept deposits from members only. They are to allow member withdrawals and to pay competitive interests.

A National Treasury policy document states that Cooperative Banks are to operate within restricted conditions. Government has maintained a separate legal operating framework from retail banks and how they are managed. Retail banks operate under strict conditions of the Reserve Bank and the Financial Services Board. The National Treasury is responsible for regulating the financial services sector. The Minister only appoints the 11 Board Members of CBDA (National Treasury, 2011). CBDA is responsible for Promotion and support of cooperative banks, accreditation and regulation of representative bodies like the National Stockvel Association of South Africa (NASASA), supervising and regulating primary cooperatives with deposits of between R1 000 000 to less than R20 000 000..

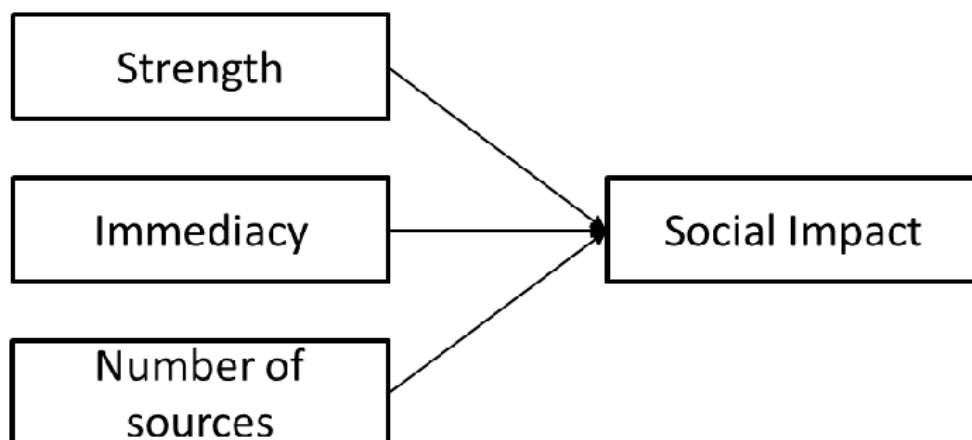
2.10 Research knowledge gap analysis

It is acknowledged that government has created a conducive environment for the inclusion of historically disadvantaged individuals and their businesses. A couple of studies have been conducted in funding models, instruments and their limitations in assisting SMMEs, in developing countries (Moliea, 2007). There is limited literature covering the use of social currency in conjunction with social capital to establish alternative financing instruments (Mulaudzi, 2017). A number of studies have been conducted on stokvels, their benefits to the society, how they operate and why people choose to save through them (Bophelo & Khumalo, 2019).

2.11 Theoretical Framework

The theoretical framework assists in providing information on how the investigation will process new knowledge in findings to build theory for the study (Collins & Stockton, 2018). The social impact theory, proposed by Bibb Latané (1981), is described as a broad theory combining different aspects like behaviour, attitude, thought, feelings and psychological state. This theory is descriptive in nature rather than exploratory and relies more on strength and immediacy rather than number of sources. Collective power of stokvels, ability to influence the financial sector, business sector and government and their proximity to the markets is a critical strength. The majority serves as the source for influence for a particular behaviour (Latané & Wolf, 1981). This study explores the impact stokvels have in the informal business sector (SMMEs). It further investigates the impact it will have on the economic growth and financial inclusion if the sector is formalised.

Model of Social Impact Theory



source: [www.semanticscholar.org/paper/Social-Impact-Theory by Bibb Latane 1981](http://www.semanticscholar.org/paper/Social-Impact-Theory%20by%20Bibb%20Latan%C3%A9%201981)

2.12 Conclusion

The SMME sector is a facilitator of economic growth in developing and developed countries. The South African government has established different platforms and legislation to support SMME sustainability. This study explores the introduction of new social funding models, outside the mainstream economy. Traditional commercial banks' lending model do not meet the diversified financing needs of

small businesses due to credit rating constraints, low bargaining power and historical political factors. This is exacerbated by the banks' unwillingness to relax stringent lending policies.

3 RESEARCH STRATEGY, DESIGN, PROCEDURE AND METHODS

3.1 Introduction

This chapter outlines the research methodology used in this study. The study employed a qualitative research approach, using multiple methods for data collection. The two methods used for data collections are focus group interviews and document analysis. This chapter details the population, sample size and the data analysis process.

3.2 Paradigm

This research employed a qualitative strategy to analyse and interpret the data. The model of interpretation involves interpretive elements that enhance quality and accuracy of information and provides a deeper insight into the alternative social funding models within the small business sector and its role on the economy. There are three theoretical methods used in qualitative research. They are phenomenology, interactionism and critical theories (Reeves, Albert, Kuper, & Hodges, 2008).

3.3 Research strategy

A qualitative approach was appropriate for studying stokvels. Radebe (2019) employed a similar approach. Qualitative data was used to gain more information on the available literature on the topic of study. The study analysed the fundamental existence of stokvels and how they could contribute to the formal economy, benefiting society (Radebe, 2019). The researcher remained open minded whilst embarking on a journey to discover and explore new complex social relationships and information.

3.4 Research design

Akhtar (2016) describes research design as a set of techniques and methods applied by the researcher to investigate and explore a topic of interest. The study extracts through focus group interviews the information, experience and observe collective behaviour pattern and perceptions from previous experiences on the stokvel members' willingness to operate within the formal sector (Reeves, Albert, Kuper, & Hodges, 2008). Data analysis was conducted using explanations coming out of focus groups interviews. Common statements were analysed to make a meaning. Datasets to determine emerging themes were identified. Data analysis is conducted in this case using notes from interviews to identify different aspects of the behaviours and reactions.

Ethnographic method was also used as is appropriate for the focus group interviews observing the stockvel members' naturally occurring behaviour, cultural norms and generating broad ideas of key subject (Jamshed, 2014). Data collected using ethnography method was triangulated with information obtained from the document analysis to provide comprehensive information from different contexts (Lester, 2020).

Document analysis is described as the examination of electronic and printed documents, in the form of text, diagrams and images interpreted to gain understanding and empirical knowledge in the area of study (Carbin & Strauss, 2008). Documents reviewed were journals, papers, policies, reports and legislative frameworks. The analytical process involved finding relevant documentation, evaluating and synthesizing information and coming up with major themes. To triangulate, major themes from document analysis were used to corroborate and converge major themes coming from the focus group interviews to ensure credibility

3.5 Research procedure and methods

3.5.1 Research collection instruments

The following instruments were used to collect data: document analysis and focus group interviews (Bryman, 2012). Document analysis was used to cover specific research questions and provide supplementary information for the whole research. This study employed document analysis to obtain the current status of the financial sector legislative framework and to establish government's willingness to create a positive environment for community investments and social entrepreneurship. Documents analysed include; Government Gazettes, Legislative regulatory frameworks, Policies, Constitution, Standard Operating Procedures and Reports. Data on policy and regulatory framework was collected. Focus groups interviews were conducted, using opened ended interview questions. Phenomenological qualitative research approach usage meant setting aside all perceptions, preconceived ideas on how they operate, data to expect, attitude and behaviour (Moliea, 2007). Appendix 2.3 has the research consistency matrix.

3.5.2 Research population and selection of respondents

3.5.2.1 Research population

The population chosen for this study is members of all stokvels in South Africa. The benefits of using this population is to achieve the objectives of the study of collecting factual, sufficient and accurate information for analysis.

3.5.2.2 Sampling

This research made use of nonprobability purposive sampling to access a particular group of people and individuals selected to provide specific important information that cannot be obtained elsewhere (Taherdoost, 2016). The stokvel members were identified as relevant for inclusion, to provide insights on the topic in this study. The sample used for the study was members of five stockvel groups with a minimum of two and a maximum of four members all based in Gauteng

3.5.3 Ethical considerations when collecting research data

Ethical consideration was made for this research. The research process was fair and objective and it was not misleading to the respondents. The interviewer explained the process and clearly stated the purpose and objectives of the study. A summary of the research topic was provided to the participants. All participants were provided an option to opt out but they were all willing to continue. There was no social or ethical negative implications on the respondents for this study. All the requirements of Wits University were adhered to including an application for ethics clearance. A consent form, detailing the research objectives, rights and protects, was given or sent to each participant before the focus group interviews. The focus group interviews were done after all consent was given. An ethical clearance certificate is attached as Appendix 2.2. The clearance certificate was granted by the ethics committee ensuring the research design and methods protect the dignity, rights and safety of participants.

3.5.4 Research data and information collection process

Five focus groups interviews and document analysis were used to collect the data. Broad common and contrasting themes emerged from the data collected. Research data collection is the information gathering and measuring process to analyse and validate collected data pertinent to specific research and questions (Sutton & Austin, 2015).

3.5.4.1 Focus group interviews

The focus group interviews data was collected using direct observation. The focus group interviews were recorded. Direct observation is simple, cheap with no intrusion. Focus groups interviews provided an opportunity to interpret certain information and ability to ask further questions for clarity. Focus groups promoted healthy moderated discussion with stockvel members to assess their appetite, understanding and interest in community investment schemes. The tapes from focus groups discussions were stored in a locked cabinet, clearly marked. Soft copies and all electronic data were stored in a password accessed folder, copied to an external hard drive and backed up on the cloud.

3.5.4.2 Document Analysis

Bowen (2009) describes document analysis as involvement, evaluation and interpretation of documents. The main documents analysed for the research include government gazetted legislation. The legislation analysed are Cooperative Act,14 (2005), Cooperatives Bank Act,40 (2007), Reserve Bank Act, Financial Advisory and Intermediary Services Act 2002. National Treasury and Department of Trade and Industry policy documents and reports and financial industry reports and journals were used in the document analysis. The documents were found in online institutional files, published journals online and the relevant organisation's websites. The collection process of data analysis looked at a wide range of documents from multiple sources, in order to get an objective understanding and develop knowledge on the stokvels and legislative framework in the financial sector. The documents used were saved on an external drive for future references and backed up on the cloud.

3.5.5 Research data, information processing and analysis

3.5.5.1 Research data and information processing

Data processing is the examination, cleaning, classifying, coding and tabulating of raw data into accurate usable data, whilst eliminating errors and irrelevant information (Anagnostou, et al., 2015). Data coding is the organisation and classification of data into categories, symbols or numbers to which they fall (Saldana, 2009). Data entry onto a computer is the capturing of non-electronic information into the computer (Tesch, 1990). Data cleaning is checking inconsistencies and missing information (Chu & Ilyas, 2016). Data fragmentation is the division of data into subsets to ensure appropriate storage (Pope, Ziebland, & Mays, 2000).

Soon after interviews a process of transcribing began, whilst the interviews were still salient. Participants were consulted where the recordings were not clear. All the focus group interviews were conducted in English, but where respondents sought clarity in their vernacular, it was provided.

Document analysis questions related to the research questions were formulated to make it easier to use the document analysis research methods. These document analysis questions guided the themes which were obtained (Bowden, 2009). Biases from the authors of the documents and the target audience were taken into consideration during the analysis (O’Leary, 2014). The authenticity of the documents was established before the documents were used for the study. The researcher focused on what was relevant for this study. Eight document analysis questions were used to analyse the content and highlight answers responding to the questions. Each document was treated as a participant or respondent (Bowden, 2009). The concepts or ideas were then organised into key themes from the actual content of the document (Bowen, 2009).

Ryan and Bernard (2003) describe determining themes theoretically or data driven as a process of identifying common views, knowledge, experiences, values and opinions on a topic and or subject from identified participants, during analysis and interpretation, then sort it into broad themes. During interpretation and analysis of this study the researcher identified repetitive words, key phrases, narratives, affirmations and descriptions from different focus groups and document analysis, and carefully scrutinised the commonalities to formulate themes. This activity also involved comparing and contrasting of sentences, looking at similarities and differences between sentences, trying to make sense out of them (Ryan & Bernard , 2003). On the document analysis content analysis provides a broad overall picture that informs emerging themes. The themes are then coded and compared or integrated with data from focus groups interviews.

3.5.6 Research data and information analysis

Bryman and Burgess (2002) describe research data analysis as the examination, making sense of and interpretation of collected data, to extract valuable information in order to make conclusive decisions. It is basically converting raw data into meaningful and valuable information. Both focus group interviews and document analysis could use content analysis to analyse written information. Narrative analysis focuses on different sources of information, like focus group observation, interviews, documents and are used to analyse available content. Discourse analysis is used to

analyse social context of the respondents and how they communicated their experiences with the researcher. This research used content analysis to extract the themes.

3.5.7 Description of research respondents

The primary data was collected from focus groups interviews and document analysis. The study was conducted in Gauteng. Members from three stokvels from Johannesburg and members from two stokvel from Pretoria were interviewed in focus groups. The sample is limited to stokvel members from Gauteng because it was convenient for the researcher to work with stokvel members from Gauteng.

At least three members from each stokvel including the stokvel executives, namely chairperson, treasury and secretary were included in each focus group. The focus groups had 14 females and one male, aged between 31 – 57. The stokvels were more than ten years in existence. The stokvel had an average membership of 12 – 35 people.

The table below provides a demographic profile of all respondents

Table : 1 *Demographic profile of respondents.*

	Participants	Position	Year of existence/ experience	Gender
1	Focus Group 1	2 x SMMEs Administrator	11 years	1 males, 2 females
2	Focus Group 2	3 x Managers	26 years	4 males, 1 female
3	Focus Group 3	3 x Administrators	5 years	3 x Females
4	Focus Group 4	2 x Teachers 1 x Managers	12 years	3 x Females
5	Focus Group 5	3 x Managers	15 years	3 x Females

3.6 Research strengthens—reliability and validity measures applied

Bryman (2012) defines reliability as the ability to measure a test that will produce the same results consistently and repeatedly. Validity is described as the usage of suitable tools, method and processes to achieve conclusive results that are valid for

the sample and the study. Validity measures the instrument's accuracy for an intended variable. To assess reliability of data one needs to measure a construct repeatedly and produce the same results when re-testing.

For a qualitative research, reliability and validity are determined by the quality of the study. Trustworthiness could be used to measure the quality of the research. There are five dimensions of trustworthiness namely; credibility, dependability, transferability, conformability and reflexivity. Guba and Lincoln (1989) equates credibility to internal validity. Describing its focal point as an alignment of researchers' formed realities with the respondents' constructed realities. Transferability is defined as being similar to external validity in a quantitative study. It is explained as the ability to use the findings in a different context.

Dependability establishes consistency of the study's findings by documenting research processes and practices to allow readers to assess stability of results (Moon, Brewer, Januchowski-Hartley, Adams, & Blackman, 2016). According to Guba and Lincoln (1989) confirmability is described as the researcher's ability to remain objective, presenting logical and coherent data not imposing his or her beliefs in interpretation. Once credibility, transferability and dependability are achieved then confirmability will be established to guarantee the integrity of the study. Tobin and Begley (2004) describe reflexivity as the ability of a researcher to continuously examine self-social interaction component with the participants, the research process and preconceptions, looking at how all these will affect research findings.

Triangulation of document analysis and focus group interviews, were used to increase the credibility of research findings and interpretation. Similar variables and themes were identified to ensure a true reflection of data from respondents and documents reviewed. To ensure dependability, the research process followed for this study is clearly documented. The documentation process also involved daily logistics of the research, methodological decisions and researcher's reflections to cover reflexivity. Thick quotations from the focus groups interviews were recorded to ensure transferability of the research.

3.7 Research weaknesses—technical and administrative limitations

The study was conducted in Gauteng. The sample did not include stokvel members from other regions in South Africa. The stokvel members' knowledge of investments vehicles and willingness to play a role in social entrepreneurship and building social value may be restricted and their capacity to get involved in such activities. The research had to be done in a short time to meet the time limitations available to do the study.

3.8 Conclusion

This chapter covered the use of qualitative research strategy. It discussed how focus group interviews and document and analysis were used in the study. The population for the focus groups interviews was all stokvel members in South Africa. Stokvel members based in Gauteng were used as the sample. The ethical considerations for this study were stated. To improve the quality of the research work was done to add trustworthiness of the research. The research weaknesses were considered and one of them was limiting the sample to stokvel members in Gauteng.

4 PRESENTATION OF RESEARCH RESULTS

4.1 Introduction

The research questions were used to formulate the theoretical themes. The main ideas from the focus groups comprising the stokvel members were captured under two of the theoretical themes. Interviews done with the participants who are executives from government departments were captured under the other two theoretical themes. Document analysis was used for triangulation, to compliment data collected from interviews conducted with focus groups participants. This was done to ensure credibility and validity of the data collected through corroboration and convergence (Bowen, 2009).

4.2 Converting stokvels into investment instruments for supporting SMMEs

4.2.1 Interview question 1: What is the underlying motivation for saving in this Stokvel?

This interview question was posed to ascertain the reasons behind joining a stokvel. The focus groups commented on savings, discipline, trust and social networking. The following were the quotations from the focus groups:

“We grew up knowing that our parents had a burial and grocery societies, where they monthly contributions to accumulate groceries for Christmas. We learned the principles of collective resource accumulation, to save for future when we may not have money. Our parents taught us the idea of saving for the future.” **(Focus group)**

1

“I realised that I cannot put aside money on monthly basis, I always needed a motivation. I joined a stokvel because my friend introduced me to the concept and I liked how everyone was friendly, accommodating and willing to share information.

They welcomed me and showed me a constitution, shared information easily and answered all my questions.” (Focus group 2)

“It helps in terms of being committed in saving and reaching whatever goals that one has in mind. I always spend the money I put in my savings account within three months. I was not able to save money for more than six months, if I see something I like, I would immediately withdraw and buy. It is not easy to save on your own, I needed the help of other people.” (Focus group 3)

“The stokvel setup makes it impossible for us not to be disciplined. I know I will be fined if I do not pay on time and I do not want the embarrassment of being known as a defaulter. I became a member of stokvel to instil discipline within myself and commit to other people and myself. I belong to more than one stokvel for many reasons, one of them is to socialise with different people and I benefit from information or discussion we have.” (Focus group 4)

‘To build up savings towards an investment, children’s education, debt management and ultimately money to live comfortably with to travel or enjoy. We save for trips that we take at the end of the year, which we would not be able to do if it was not for a forced discipline. Even if I do not have money, I borrow it to pay stokvel because I know I committed. I always look forward to the engagements we have and advice we share with each other, it is not about money only.” (Focus group 5)

The major themes which arose out of this interview question are promoting a savings culture, disciplined behaviour and social fulfilment. All five participants said stokvels encourage a culture of saving amongst its members. Two out of five said stokvels taught them discipline and commitment. The other two respondents said they serve as social networks. The results of this study are similar to the results of Ngcobo and Chisasa who also found that members participate in stokvel to share in cash savings in December (Ngcobo & Chisasa, 2018).

4.2.2 Interview question 2: Are you interested in a formal investment platform?

This interview question was posed to determine whether stokvel members are willing to offer a variety of financial or investment products to the SMME in the formal economy. The focus groups mentioned diverse, flexible, formal and structured investment platforms. The following are quotations from the focus groups:

“Yes. I want to loan money to small businesses at a competitive interest rate. If the interest is good, I will put in my money. Yes, we want to make more interest with our savings but we do not know how. I am interested in a formal investment but I need to know first how will it work and how will I get my money back.” (Focus group 1)

“Yes. I want to invest my money in a formal platform where I know my money is protected and I will always get it back. I want to invest but I do not like not having control in what happens to my money, not being able to control it. I want to invest but what if we also have a problem to access the products within the investment facility. We first have to know what we are investing in. It must be flexible for us investors and our clients.” (Focus group 2)

“Yes. I want to be involved in a formal platform but I want to have control. I trust the banks, but my money need to make money for me. I want to put my money in investment for 12 months, but the institution and the people being loaned must be trustworthy and reliable. The formal platform will give us a peace of mind on one hand but how will it benefit us financially. We need to be educated.” (Focus group 3)

“Yes. I want to invest in unit trusts and long term investments, but I need to know how will it be different from the ones that are there. I can invest in a formal platform but my money must be available when I need it, which is the benefit of stokvel. We want to invest to get better interest on money put it.” (Focus group 4)

“Yes. We want to invest in short and long term investment but we need to be given more information. I want to invest but will that not change how we run our stokvels because we will lose the control of the money we have. We will also not able to control how is it used or who benefits from our investments. Our communities contribute by borrowing small amount that they pay back by month end. Yes, I want a formal investment instrument for future investments.” (Focus group 5)

The theme, which stood out, is a flexible investment platform unique to stokvels. All five focus groups agreed to being interested in a formal investment platform, however have different concerns about the management of the investment. Four out of five focus groups said they would like to maintain a level of control on how their investments are administered. Three focus groups said they would like to be educated on how the platform works. These results are in contrast with the results of the study conducted by Ngcobo and Chisasa which found that stokvels has been successful because, there are no formalities (Ngcobo & Chisasa, 2018). Zondi found that stokvel are successful because of their short term nature and not interested to formal investment platforms which differs from this study’s result (Zondi, 2016)

4.2.3 Interview question 3: What is your understanding of investing in social value building initiatives?

This interview question was posed to establish stockvel member’s knowledge on social capital and its benefits to the society. The focus groups commented on partnerships, investing in community projects and savings. The following are quotations from the focus groups:

“Our understanding is you save so that the money grows into a bigger value and get higher interest. Our interest is saving money that will help us in the future. I believe we are supporting each other to build each other right now with the loans and moral support. I understand it to be a practise of helping one another with the money we are saving and help our community who do not have a credit within us but want to borrow money.” (Focus group 1)

“It is a management structure for effective partnerships and community building. So we want to invest in community projects and make money. I join the stokvels that are interested in community development by design, investing only community projects and benefit the local societies. Social value means we put social responsibility first without making money, we want to make money. The main reason of starting a stokvel group was to support and put money together for those that cannot access money either to start a business, for a funeral, buy food, send children to school or even farming. The stokvel brought means to access resources on rotation support each other.” (Focus group 2)

“To uplift each other and gain more responsibilities consistently. We help each other in communities in a responsible way. We have always lived in a communal space in townships and we understand what it means to help one another with the little that we have. It is about sharing resources with those that do not have and put them in a pool to help others tomorrow. It is like doing charity work for your community by helping each other.” (Focus group 3)

“It instils discipline as a result you are able to implement short term plan that will be funded through the stokvel funds. It is about putting money together as a group and investing in social activities. It is about building local community with things that are beneficial to each other, does not have to be money, we can invest in time by offering free classes or help with resource or skill that I have. Investing in social value help build communities and teaching others to help each other.” (Focus group 4)

“Is a form of investment on social levels that promote an inclusive approach to increasing value and growth. A lot of financial value adding initiatives started as stokvels. Putting money aside to help with societal projects. A group of people come together and identify the need for the community and invest in what is needed. It is about taking a neighbour’s child to school who cannot pay for school and pay for her or him sometimes without expecting the money back and hope that, that same child will help the next one in the same position as he /she was in before.” (Focus group 5)

Social impact stood out as the most common theme. Three out of five focus groups said investing in social value building initiatives means financially supporting community initiative that will uplift the society and one respondent said it does not have to be a financial support. One focus group said it is about growing one's investment and the other one said it is funding of short term plans by stokvels. The focus groups all displayed knowledge of social value and understanding that it is about community building and upliftment. These results are similar to the results of Luthuli who found that collaboration with other groups with the aim of obtaining bigger outcomes would have a large societal impact (Luthuli, 2017).

4.2.4 Interview question 4: Do you believe in the distribution of power, capital and access for opportunities for small businesses?

This interview question was posed to ascertain stockvel members' willingness to share resources and empower others, in particular small businesses. The focus groups commented on partnerships, investing in community projects and savings. The following are quotations from the focus groups:

“Yes. We provide finance resource at interest so that those small businesses can grow. Yes our stokvel is an investment one, contributing money to loan others pay back with interest, we are also in business. I understand that black people find it difficult to access loans and credit from banks, they have strict requirements, we just want to know if you can pay. I joined stokvel to have access to money, it helps me so that I can help others. This stokvel does not have a bank account, we each contribute R1000 a month and we 25, but must be paid back end of the following month with interest.” (Focus group 1)

“Yes. By redistribution and empowerment to alleviate poverty. Yes, our stokvel has a number of small business owners that often come to us for loans, we give them loans to help implement a project, of course they have to pay back the money with interest. I know some people find it difficult to loan money from banks, we prefer to

provide loans with the money we contribute monthly, rather than banking it. The stokvel has made more money from loaning individuals and business people than putting in a bank. The banks generate smaller interest. We have more people borrowing money every month that we do not meet their demands.” (Focus group 2)

“Yes with the Ubuntu principle taught me to share what I have and be considerate of the next person. To empower our and one another, by sharing what we have and also building each other in the process. I believe in empowering us so that we can all have something to survive on. Small businesses require support but they government is cannot help all of them and the banks want security or a good credit score, most of our people do have good credit score, so they cannot get loans from the bank.” (Focus group 3)

“Yes I believe in empowering others and providing access to money but we have share monthly contribution on rotational basis. We believe in the redistribution of capital and opportunity for small business however it must be coupled with capacity building for those who do not have the skills, so that they make sure that they pay back what they borrowed. Individually I can loan a person money who is looking to use it for business purposes, like paying for stock or working on a project, but it must be someone I trust. This stokvel operates differently, each member pays R4500 a month, there are 12 members, we do not bank but that whole amount is paid to one person a month, so we are distributing amongst ourselves.” (Focus group 4)

“Yes I do. Have an easy process to connect with them and a flexible process to enable them access at any point. Yes, helping others to grow their businesses make money to help others too. Sharing and empowering others help fight unemployment and poverty. Banks are not friendly to black businesses; they make it difficult to get a loan. We provide loans without any requirement, we only need to be paid back with interest. Our stokvel loan people money on monthly basis and they pay us back with interest if they cannot pay in that month, they must only pay interest.” (Focus group 5)

Financial inclusion, access to financial resources and empowerment to alleviate poverty stood out as major themes from this interview question. All the focus groups support redistribution of wealth, power and access to opportunities. Four out of five focus groups operate as micro lending stokvels providing loans to small businesses and individuals. These loans are paid back to the stokvel with interest. One focus group stated that they are not opposed to providing loans but their operational model is slightly different from others. They distribute their monthly contributions on rotational basis. Each focus group said they are still willing to provide loans. Four of the five focus groups said that they believed in helping others and empowerment. Three focus groups said banks make it difficult for people to access loans. The focus groups said that accessing banks and loan facilities are a challenge. The FinMark report also found that black communities have challenges with access to finance and financial inclusion and that stokvels are an initiative to empower each other (Storchi, 2018)

4.2.5 Interview question 5: Are you willing to grow wealth by becoming a money lender to small businesses?

This interview question was posed to ascertain the stockvel member's willingness to be involved in money lending providing small business with short term loans, specifying the amount they would loan and expected interest. The focus groups commented on risk associated with being a moneylender, contract management, interest returns and small business challenges. The following are quotations from the focus groups:

“Yes we do, I am interested in making money and being self-sustainable. I want to loan people money and gain interest. I want to lend people money but I need guarantees that it will be paid back. Loaning people money is risky I do not mind doing but I need to make that I am paid at a time we agreed. With the high rate of unemployment people always need money for different reason, I need to be taught how to make a valid agreement of loan people in a formal platform” (Focus group 1)

“Yes. I am willing to lend people money but, depending on the level of risk level, whether low, medium or high level. If the risk is high, I will not lend people money. We currently make more interest now, charged monthly, being a money lender will it be formalised, if yes, how we make sure we continue charging our interest. It should be more than the bank’s interest rate. I can lend money and SMME must abide with my payment terms. We need to sign contracts with all those that we give money to manage risks. What if we have more people looking for money and we cannot meet the demand.” (Focus group 2)

“Yes. For as long as it will build us to enhance my life to a better life. Money lending require a system and skill of how we also manage risks associated with it. We lend people money at a small scale, if it becomes part of what we do, how are we going to manage it. I need to know if we are doing it through a bank or on our own. The types of people borrowing money from us must be trustworthy. We look for better opportunities to make money not lose it and we have no access to other areas where we can invest. Stokvels are the only avenues we know and trust.” (Focus group 3)

“Yes. I am willing to lend people up to R100 000 at an interest of 10%. We all speak on I, because our stokvel pays out money to members, it is not kept in the bank, I will also lend those own businesses money but I need proof that it will be returned. Another alternative is to introduce a money lending stokvel that will be used solely to lend people money. I usually plan for what I will do when I get a payout, so if I need to loan it at interest, I must that the returns will be good for me and postpone what I had planned to do with the money. Lending SMMEs money is problem because if they do work for government, they are usually paid late.” (Focus group 4)

“This is risky, our past experience taught us invest wisely. Not all our entrepreneurs are committed and our justice system blacklisting platforms a not effective. A lot of business defrauds financiers and still continue to operate. Until our systems are clean, it remains a risk area for us. Sometimes people do not even take contracts seriously; they will ignore the contract at times. We would rather grow wealth from other avenues like stokvels or formal investments. Not interested for now. We have built trust amongst ourselves, we are willing to give money to each other” Focus group 5

This interview questions provided the following themes: high returns in short term loans, risk mitigation measures, operating system and contract management. Four focus groups said they would like to become moneylenders to small businesses and one focus group said definitely not. Four focus groups expressed their concern related to risk of becoming a fully-fledged moneylender. One out of the five focus groups said they would offer the service in their personal capacity. The one focus group stated that the risk is too high, would not want to get involved in that business. Some suggested introduction of contracts that specify payment terms and others suggested a form of partnership as a form of collateral to mitigate risk. This is aligned with the previous study which found that stokvels are lucrative for short term gains (Zondi, 2016).

4.3 Possible challenges faced by stockvel members

4.3.1 Interview question 6: What are your fears in converting the current savings club into a long term investment club?

This interview question was posed to establish the respondents' willingness to embrace change and diversify their operations. The focus groups commented on the discomfort of change and how it will affect their management of stokvels and operations. The following are quotations from the focus groups:

“I am not worried because I have been with this stokvel for three years and there are rules in place. I have done this informally for many years and been member of other stokvels operating the same way. Besides this stokvel, we have been members of other stokvels too. I have not fears, we need to learn about different types of investments and know which one would suit us. I guess being involved in long term investments will change how we operate or manage our stokvel.” (Focus group 1)

“No fears. We will insure the investments. We will also ask for a surety or sign a contract with the borrower. We need to have a binding document and look at economic conditions of the country before we approve a loan.” Before we get involved in long term investment, we need to be trained so that we understand who to

run things. Our short term loans are managed by us, who will manage the investment. Anything that changes how we do things need to be discussed extensively and managed. Who will take decisions and how. Are we going to change the constitution to manage this?” (Focus group 2)

“My fear is putting trust in something that will not benefit me at all at the end of the day. I have nothing against investment, I only need to learn more. We do everything ourselves, are we going to use a bank or companies like Sanlam. What are our benefits. We run stokvel following constitution, where will we make decisions and how. Are we going to be allowed to make decisions on how and where to invest our money? Our stokvel has 24 members, investing mean convincing everyone to be involved. Some members do not want to deal with the bank because they do not help when we need loan on individual basis. Are promised a guaranteed return, better than what we make now.” (Focus group 3)

“Investing is good, but like I said in the previous question, this will require change of our operations and constitution. My fear would be to invest in something that is illegal or investing in a product that can crash tomorrow. Some members have no stable income, like small businesses or self employed people. When a contract is not renewed how do we get our money back? We do not know enough about investments, we need an investment course. Who will manage our investment, are we going to rely on a financial adviser.” (Focus group 4)

“I fear that those people who are not disciplined with payment times, attendance, unsecured job markets, and just individuals growing and making other decision. We need to have an insurance for in case the market faces challenges and our investment loose value. The internal lending and borrowing work best because we know rules and we stick to them. Some of us loan money from the stokvel to loan it to the people we trust and make more money. How will the investment benefit my money from the way I manage it now? The decisions of this money will be made by all members and what if we do not agree?” (Focus group 5)

Key themes which came out are loss of management control, change in operational activities and low bank interest rates against higher stokvel returns. Three out of five

focus groups said they do not fear the conversion. They are however concerned with how the stokvel will be managed. All the focus groups raised concerns on how their current operations will be affected and fear losing control of how their money is managed. Two out of five focus groups said they would want their investments to be insured. Three said they require financial investment training in order to make informed decisions. Some focus groups expressed concern in dealing with the banks as they want to maintain control of their money. One stokvel stated that they pay out monthly, therefore they do not see the long term investment within the stokvel, unless they form another one. These results are similar to the results of Luthuli who found that stokvel members perceive stokvels to offer better returns than long term investment and they maintain control of their contributions (Zondi, 2016)

4.3.2 Interview question 7: What are the risk factors to be considered?

The interview question sought to determine pitfalls faced by stokvels and their risk taking levels. The focus groups commented both internal and external risks that they need to consider on daily basis in their operations. The following are quotations from the focus groups:

“If one of the member loses a job or a self-employed person cannot make money anymore, they may not be able to pay their contribution. Members and non-members borrowing too much money, a lot, more than they can afford and being unable to return it. The infighting amongst members and their conflict spilling to the rest of the group. Letting a few people manage the stokvel books for a long time may create a problem when they longer want to vacate the positions.” (Focus group 1)

“Small businesses struggling to get payments for services rendered or delays in payment from clients, loss of trust, penalties, cancellations of business contracts can be an extended problem for the stokvel. If they are not paid, they will not pay us, that affects our cash flow. If some members mismanage the funds, invest or deposit where we may lose money. A collective decision making process, one or two people making decision can affect our investments. Friendships and relatives also tend to take to

affect how stokvels are run, doing each other favours because we are closely related.” (Focus group 2)

“We are sometimes faced with death of a person who borrowed money, cannot pay back because we usually have verbal agreements. If that money is lost, we lose a big investment for our contribution sharing in December. The books should not be run by one person, we prefer to view the books on monthly basis not because we do not trust the people that are managing them but for transparency and managing risk of any dishonesty. At time some people run away and never be found, after borrowing money. This puts the person who brought the borrower in difficult position of having to pay the money.” (Focus group 3)

“Loss of work would make it difficult for a person to pay back the money considering the nature of people we deal with. Five of our members are self-employed, should their businesses not do well tomorrow, they will not be able to continue with their contributions. If they have already received a pay-out, the people expecting their pay-outs in the following months may not get a complete amount. That would mean other members must contribute the R4500 per person for all those that are still to receive pay-outs. Disasters may also affect their businesses depending on the type of business they run. Our risk level is minimal as we all know each other but they problems may still be there.” (Focus group 4)

“The lack of a formal contract is risky, we loan money on trust and discuss verbally, nothing signed. I may sound negative, but people do not commit to agreements and adhere to any rules agreed upon. We have said we will sign affidavits with the police when we loan people money, but that has not been done, because all the people loaning money come on a referral basis. We must not forget divorces are also a risk, as people become destabilised, it will affect us. Pyramid schemes are another risk if we do not do a due diligence on an investment, we want to share more money in December.” (Focus group 5)

Transparency, decision making, internal and external risks had the highest frequency under this interview question. All focus groups voiced a variety of risks associated with collective savings. Two out of five focus groups said they are concerned about

the stability of small businesses. One is concerned that those running small businesses may not be able to pay their contributions after receiving their own pay-outs, if they lose contracts. The other one said they might not be able to return the loans they borrowed. Two other focus said all activities should be transparent and the books be viewed by all members. They also said letting few members take decisions on behalf of the rest is very risky. One focus group raised death of a borrower as a risk. The other raised divorce, affecting a personal life as another. All focus acknowledges that there is certain level of risk that need to be managed. This is aligned with previous study which found that most stokvels are risk averse because of their purpose as a group and significant past experiences on an individual member level (Mulaudzi, 2017).

4.3.3 Interview question 8: Have you obtained enough knowledge on available investment platforms in South Africa?

The interview question was asked to determine stokvels members' financial / investment literacy for informed decision-making. The focus groups commented on financial training and lack of investment knowledge. The following are quotations from the focus groups:

“Yes we have little knowledge, though it is not enough we need training. It would be good to know more, so that we know when and how to invest. We do not know we only know how to manage our finances we keep. We do not invest; our investment is loaning the other people money. We need the investment training so that we can advise each other. Sometimes when others come with ideas, it is difficult to agree because we do not know.” (Focus group 1)

“Do not have enough information on the platforms, would like to get more information, maybe they arrange workshop for the stokvel members so that we can also share information. I do not have information and I want to know its impact on our stokvel and money. We use savings because we are comfortable with it and we have not taken time to go find more information about the other instruments.” (Focus group 2)

“I do not have enough information; I am willing to learn more. We have not thought about investments because we are happy with micro lending, I am willing to learn more and maybe we can use it in the future. I think we must get training and decide after that whether it will add value or not. We go with what has worked, our biggest challenge is operating in an informal sector, we do not get information or updates because it is not formal. I do not have more information because I thought I am not going to use it, which means I do not need it.” (Focus group 3)

“No I do not know all but I have some knowledge, need more information. We got involved in stokvels because we understood the model and identified with the people we save with. I need more information to invest my contribution when I receive a pay-out. We invest individually in a formal platform, not as a collective. I have information but not fully, be enough to know where to invest. I would not mind to have a financial advisor and investment expert to address us, but it won't be a stokvel decision.” (Focus group 4)

“I have information and we constantly have the discussion in this group. The information will never be enough though, I would any financial awareness discussion with a professional to give us advise on what to do with all our savings. We will look for a better investment instrument because we do not believe in loaning people money. Our level of trust is low on individuals or small businesses, but believe in a formal investment structure.” (Focus group 5)

The major theme which came out is financial and investment training. Four out five focus groups said they have minimal knowledge on investment platforms and they would like to get more information. One out of the five focus groups said they have knowledge but would welcome new information or knowledge on investment platforms. All focus groups expresses interest in getting training or awareness programme in finance. One focus group follow a different operating model of not lending the money as a group but individually as each person receives her /his pay-out at different times. Two focus groups would welcome an information session with a financial adviser. Mulaudzi (2017) found out that the type of financial education stokvel member have is peculiar to their savings type.

4.3.4 Interview question 9: How will you ensure that you do not lose your investment?

The interview question was asked to ascertain what mechanisms would stokvel's put in place to protect their savings. The focus groups commented on getting relevant information on available secured investment platforms. The following are quotations from the focus groups:

“We might need to invest or bank the money with a recognised investment institution that will secure it. If we invest in an investment platform we are guaranteed to get our money back, if anything goes wrong, we will still get our original investment. Knowing more about investments will help know where to invest and make sure we choose the most secured. Informal investments are risky, if we invest in a pyramid scheme, we might lose our money.” (Focus group 1)

“We will not secure our investment if we do not have information, getting the right information about the right investment will help us make decisions at the right time. Perform a research on different investments, understand how they work and choose the correct suitable for us. I am just uncomfortable with the companies we have to invest with. We do not want to invest with banks and financial services companies because they do not help us and many black people when in need. If within our operations we can find banks that want to work with us, in our term, secure our money, it will be ok of us must ask for security of Surety and start insuring our investments.” (Focus group 2)

“Invest with institution that will provide secured lending and protect investments. Getting the money invested back is the main motivation to do this, with interest. Stokvel need a proper bank to secure investments of find an insurance company to offer insurance on the amounts invested, but that means we need to pay a premium. Investigating how investments are managed should be our starting point. We do not know much about invested to even realise how to secure them.” (Focus group 3)

“By keeping in touch with people that are knowledgeable about investment platforms so that we know when not to invest and which investment will yield better results. Our stokvel does not need to protect investment, for future use we will have to learn more about investments and they are managed. It is difficult to comment as a stokvel because each person decided where to invest, which unit trust to choose from. The monthly payout works well for us, we are managing it well, we may need to relook out dependency on trust instead of formalised agreement.” (Focus group 4)

“Investments that are paying higher interest are riskier, so knowing all that the investment offers is key. We opt to buy group shares, which are risk if the markets are unstable, but our investment is secured, we only lose the returns. To manage risk of losing money, have a diversified portfolio, do not invest all your money in one place, so that if you lose in one you do not lose on the next one. The choice of investment helps and that will be informed by knowledge.” (Focus group 5)

Gaining knowledge on investment platforms and investing in the formal sector came out as methods which stokvels could use to protect their investment. Four out of five focus groups said they will need to get more information on investment types, their benefits and risks before they can take action. Two out of five focus groups said they would protect their investments by depositing with reputable financial institutions in the formal economic sector. One focus group said they would secure investment by insuring it. Another focus group said getting advice from investment and finance specialist as often as possible. One focus group expressed that they only consider stokvels in their individual capacity. One focus group said they would diversify their portfolio. This is aligned with the previous study of Zondi 2016 that found out that his respondents showed limited knowledge in formal banks and interest rates. Their payback interest rate seems to be aligned to the retail banks one (Zondi, 2016).

4.3.5 Interview question 10: What support do you need from government to support your investment and how?

The interview question was posed to ascertain if the government can support stokvels by changing the current legislative framework. The focus groups commented on the

lack of government's recognition of the stokvel's contribution on the economy. The following are quotations from the focus groups:

“We do not have banking institution that benefit and understand the stokvel model to support it. Banks offer us a deposit and withdrawal platform as collective but do not recognise our that portfolio in our individual profile. We need law that will introduce a bank that work with us and our loaning system. We want to offer loan on a formal platform but without terms, the banks cannot do that. The government need to recognise that we are not accommodated as the black community.” (Focus group 1)

“We want systems, laws and regulation like in the formal industry for our new platform, to protect our investments. Introduce a stokvels bank that operate within stokvel rules, out of the formal financial sector. Stokvels be recognised as an industry that provides a service to small businesses, village communities, lower class citizens and to those excluded from the mainstream economy. We want to maintain our uniqueness but be not excluded. They can help us introduce insurance within the stokvels.” (Focus group 2)

“Legislation is needed to protect our savings and how we run stokvels. Government can help us develop systems where we transact with cell phones without using banks. We formalise the loaning business on the phone or with an App. Our deposit can also be done on phones like eWallet. The government can help us come up with ways to protect our deposits or contributions. Banks make money with our money when we make deposits and we do not benefit from that, we need to get a share in our investments.” (Focus group 3)

“The stokvel's are forced to deposit savings in the formal financial sector without any control of how the money is invested. Stokvel have a collective buying power and the banks recognise that but there added value offered for those deposits. Introducing a stokvels bank would solve a lot of problems. Our perception is that banks do not help black people and businesses, they therefore have to find an alternative, which is stokvels. If the law can help us keep the money safe and secure loans.” Focus group 4

“Government can attract bond investments and the projects must be clearly defined and benefit the community so they can see value and return” “Investment awareness needs to be shared at very early stages. By the time everyone starts earning we should be saving. The power of our money must work for us. The banks can help us with an incubation programme, where we use their system to run ours. We are servicing a market they do not want to service. We have high rate of poverty and unemployment the banks are not willing to help those people, if the law can help us use existing system not their rules.” Focus group 5

The themes which stood out are bargaining power and financial access. All focus groups said rules and regulations need to be in place to protect their savings and deposits. All focus groups said they need legislation that will support their current operations, not move into the formal finance sector. One of the focus group said innovation could drive the stokvel industry by introducing a transaction system on the phone. Another one suggested an incubation by the main banks to offer support. It was also said that stokvels be allowed to work on banks systems but not with their regulatory framework. Stokvels’ operations are restricted and some activities exempted from the business of a bank, classified as professional services as stated on the Financial Service Board (Financial Advisory and Intermediary Services Act 2002)

4.4 Regulatory framework enabling the development of funding instruments to ensure transparency and protection for investors

Document analysis was used to examine the current regulatory framework and its receptiveness in converting stokvels into potential funding instruments for SMMEs and the previously disadvantaged.

4.4.1 Document analysis question 11: What is the role of stokvels in the economic sector?

This question was posed to establish whether the government recognises the collective economic power of stokvels. The documents analysed covered the social, economic and financial impact of stokvels.

The information obtained from the document analysis was that Government recognises that stokvels are a partner in building informal economies, like township economy. They see them as a substitute to the banking and financial services sector as they provide access to capital (Government Gazette, 2012). They found a cooperative way of clubbing together their resources and use them efficiently to alleviate poverty and ensure social security. Stokvels are recognised under Cooperative Act 14 of 2005, as Cooperatives. The role played by stokvels include collective investment through resource pooling and by providing support mechanisms in community development (The DTI, 2004). FSCA a supporting wing of the National Treasury (NT) promotes the key strategic objective access to financial sector by historically disadvantaged individuals and their businesses. Stokvels are clearly supporting this key strategic objective of government to ensure financial inclusion of all people and businesses. FSCA also offer support to SMMEs with compliance related activities (FSCA, 2019).

Stokvels have become a tradition to the previously marginalised communities, in pursuit of finding a solution to their exclusion (Storchi, 2018). Since 1994 government has looked at interventions that support and promote the collective savings system which has improved lives of many people because they are able to access certain resources (National Treasury, 2011). It recognises the social networking or belonging of likeminded individuals who are willing to support and assist other with financial support without formal trading conditions (African Report Insights Strategy, 2011).

The themes which came out are financial inclusion, resource pooling, poverty alleviation, social networking and community support. The FinMark Report (2018) asserts that stokvels play a critical role in supporting communities by providing economic, financial and social support (Storchi, 2018).

4.4.2 Document analysis question 12: How to convert stokvels into active players in the financial sector?

The question aimed to establish whether the government is willing or considering to include stokvels in the formal financial sector. The information reviewed during the analysis include the existing legislative framework, its restrictions to the stokvels and transformation of the sector.

A National Treasury Policy document states that National Treasury and the Minister of Finance are responsible for a financial stability and economic growth of South Africa. The conversion of stokvels into active participants in the financial sector is placed under the responsibility of the Reserve Bank's Prudential Authority to supervise, under CBDA (National Treasury, 2011).

The role of the National Treasury is to secure financial stability, economic stability and to identify key economic players who will contribute positively to the economy (National Treasury, 2011). Stokvels have been identified as a key player in the informal economy and the government is looking at innovative ways to convert them without diluting their purity, without making them another bank or micro loan company (African Report Insights Strategy, 2011). The establishment of NASASA (2012) and Cooperative Bank Development Agency in 2007 was to start exploring different options.

In the Cooperatives Act of 2008 Stokvels are recognised as cooperatives but are advanced than cooperatives (Gazette, 2008). The conversion of stokvel from informal sector into a formal participant in the economy would require transformation of the financial sector to accommodate a unique system. This will require a change in legislation.

Stokvels operate on a gentle agreement set up, friendships and trust (Luthuli, 2017). The system operates on a simple, accessible and informal basis to make interactions less complicated and accommodating. The idea was to avoid any bureaucratic processes and be as unique as they can be from the banks. To convert them into a formal financial services business it will require a different mind-set. Members will

require training and awareness, may need to pilot incubation with other institutions in the sector.

The themes which stood out are the need to strengthen and revise the legislative frameworks governing stokvels and transformation.

4.4.3 Document analysis question 13: What is the role of legislation in growing the economy?

This question was posed to establish the role of financial sector's regulations in supporting the economy. The document analysis focussed on the financial sector's regulatory framework, prudential and market conduct regulation.

Department of National Treasury (2011) policy document outlines the governments' role to growing the economy through the Minister of Finance. One of the key roles is to regulate the financial sector by ensuring that it matches global best practices, it is safe and competitive as it is critical to the economic growth. Its objectives are to provide financial stability, consumer protection, access to financial industries and combating crime (Hollander & Van Lill, 2019).

FSCA (2019) describes the role of legislation as to ensure efficient, effective, stable and inexpensive financial services. Financial products are available in the market and are accessible to all. It fosters accountability and responsibility. Legislation is only provided after being enacted in Parliament. (resbank.co.za, 2020) The Reserve bank is responsible for economic policy, looking after the prudential regulation and the Financial Services Board for consumer protection. The Reserve bank is responsible for the retail banking service.

FSCA 2019 describes the financial sector is responsible for daily economic transactions, securing investment and the flow of cash in the country. Zahariev (2002) asserts that legislation protects consumers, promotes health competition and combat crime through regulation. The legislation and regulations provide a framework for accountability. The risk associated with managing future aspirations

and retirement annuities of citizens relies on the sector. The legislation assists in minimising criminal activities

The themes which emanated from this question are the role of legislation in crime prevention, compliance, economic stability and standardising processes. This result is supported by a study by Zahariev which said there is a need for strengthen the regulatory framework for banking in order to supervise and enhance financial system stability (Zahariev, 2002).

4.4.4 Document analysis question 14: Has the government considered the economic power of stokvels?

This question was posed to establish the government's recognition of the economic and bargaining power of stokvels. The analysis explored the introduction of legislation and structures that support stokvels.

Stokvels have a large membership that is believed to be more than 800 000, with 125 000 stokvels and it is R45 000 000 000 industry (NASASA, 2012). (Mashigo & Schoeman, 2012) the different types of stokvels have a positive social, economic and financial impact on the lives of people in different ways. Burial stokvels provide a social and emotional support. This alone is a powerful attribute of a stokvel. (Cooperative Act ,14, 2005) the government recognise stokvels contribution to the society. The government is aware of the economic power of stokvels, hence the introduction of Cooperative Act and Cooperatives Banks Act, which cover their activities and the establishment of CBDA (Cooperative Banks Act, 40, 2007).

The Cooperative Banks Act,40 (2007) and the Cooperative Act ,14 (2005) provide for stokvel to operate within the economic in an informal and formal capacity. The act provides for establishment of self-regulatory body for financial services co-operatives to accommodate stokvels. The self- regulatory body then supervises and offer training to the stokvels and report to the Reserve Bank, Cooperative Act No.14 of 2005 (Presidency, 2008) and (Gazette, 2008)

The themes obtained are bargaining power, social, economic and financial positive impact. Literature overwhelmingly shows that government recognises the power of stokvels due to their bargaining power and support of small businesses. These results are similar to the FinMark (2018) who found that stokvels have contributed positively to rural women in economic, social and financial areas.

4.5 Challenges faced by government in the regulation of stokvels

4.5.1 Document analysis question 15: How to support stokvels' sustainability in the financial sector?

This question was posed to ascertain financial market systems available to support stokvels. Documents reviewed looked at the uniqueness of the structure of the stokvel and the legislation that supports it.

BASA (2019) states that the government's legislative framework and policies have been put in place to support growth of stokvels. There is probably a need to strengthen and review them to recognise the uniqueness and maintain the identity of stokvels. The stokvels have been sustainable within the informal sector and they might have challenges (Bophelo & Khumalo, 2019).

The government may need to revisit the Banks Act, 94 of 1990 and Friendly Societies Act because they were designed to exclude people from having access to capital and keeping their own money (Friendly Societies Act, 25, 1956); (Government Gazette, 2002). Stokvels are forced to deposit their burial and investment contributions with retail banks (Government Gazette, 2002). Stokvels are self-sustainable but the system forces them to share their wealth (Carpenter & Lauritzen, 2016).

The FinMark (2018) Trust Report cites longevity of the savings groups concepts within black communities and their ability to support each other. The members' commitment to regular saving and access to loans provides stability. The report also mentions that lending activities are safer within the membership. Stokvels are self-sufficient but with the help of legislation could protect and enhance their operation (Storchi, 2018).

The themes obtained are self-sustainability and financial inclusion. The document analysis strongly shows that there is a need to improve operational mechanism of stokvels and provide a flexible regulatory framework for stokvels. It is also clear that policy review may be required to transform the informal economy into legally protected economic activity to fully integrate into main stream economic life. The legislation in the formal sector only benefits the formal commercial and financial services institutions. Zondi (2016) found that stokvel groups and commercial banks interact only in the form of monetary flow with one-sided linkage from a less formal to a more formal financial institution.

4.5.2 Document analysis question 16: Does the current legislation support the inclusion of stokvels?

This question was posed to ascertain government's readiness on the inclusion of stokvel in the formal finance sector. Current legislation was reviewed to establish the need for an integrated legislative framework that will transform informal economy into a legally protected structure.

Stokvels operate under the Cooperative Banks Act,40 (2007) with some flexibility to avoid red tape. Stokvels may not have the benefit of competitive interest rates in the market, and insurance protection facilities but the current operational procedures and rule are unique to them (Gwamanda, 2019). The stockvel need a unique set of rules, under formal economy (ILO, 2014).

Stokvels are protected under the Cooperative Banks Act,40 (2007). Most stokvels are not aware of the existence of the Act or the banking system itself. There is need to create awareness on how the Bank works. It will be beneficial for the members to know how they can benefit from banking with a cooperative bank or establishing one themselves (Abrahams, 2017). A unique legislation to accommodate the nature of business to be considered or review and strengthen existing legislation (Hollander & Van Lill, 2019); (Lengolo, 2019) .

The Cooperative Banks Act,40 (2007) and the Cooperative Act,14 (2005) are the only two pieces of legislation that have accommodated stokvels. The Bank Act (1990), National Credit Act,34 (2005) (NCA) and Insurance Act,18 (2017) (IA) exposes the limitations of provisions to stokvels. The Cooperative Development Policy of DTI, restrictively accommodates operations of stokvels (The DTI, 2004)

The themes obtained are inclusive regulatory framework in the financial sector and preservation of uniqueness of the stokvel sector. The regulatory framework has to include the needs of the stokvels. The current legislation has provided a unique operational framework for stokvels, recognising their viability, self-sustaining and self-reliant nature, with restricted market benefits. Mashigo and Schoeman (2012) also found that Stokvels create a collaborative opportunity for government and banks to develop mutually beneficial relationships or with informal associations to make them more effective and efficient in mobilising premiums and advancing credit in poor communities (Zondi, 2016).

4.5.3 Document analysis question 17: How will the legislation protect stokvels' investment?

This question was posed to establish the purpose of legislation within a sector. Documents on legislative process and regulations were reviewed.

The stokvels are regulated under the Minister of Finance and Reserve Bank Act,94 (1989). There may be a need to amend the Act, especially to insure members' investments. The legislation will protect the members' deposit, insurance for burial societies and promote competitiveness (South African Reserve Bank Act,90, 1989). It will also assist with cash flow, not to rely on member's contribution when a claim for funeral or withdrawal is submitted. It will also help professionalise operations from high risk informal to formal. (Banks Act.94, 1990)

Stokvels are currently self-regulated with own rules (NASASA, 2012). The legislation will harmonise the culture of saving into the formal economy and give them higher interest rate (Naong, 2020). Stokvels are perceived to be collecting

higher interests at a short period. They need some form of insurance that will pay out whenever necessary (Zondi, 2016). All stokvels if regulated could pull investments together which could become a big industry, that is untapped (Department of National Treasury, 2011).

Zahariev (2002); Verhof (2001) state that transformation of the informal economy into legally protected space and integrate it to mainstream economic life without taking away their tax free benefit requires all stakeholder to be on board. This will require a customised legislation for the stokvels to be allowed to thrive in the formal economy. Converting stokvel will benefit the government too, to access the investment and have a controlled flow of cash in the economy. It has a potential of creating many jobs.

The document analysis show that stokvels are only recognised as collective or communal investment with limited financial services operating activities. Under the National Credit Act,34 (2005) stokvels do not meet the credit offering requirements. The insurance products have not been offering a secured insurance of deposits all the years. The Bank Act limits the stokvel's banking operating system (The Presidency, 2005).

The themes obtained are stokvel investor protection, industry, transformation. Document analysis suggest that a new economic policy framework need to be formulated to include stokvels.

4.5.4 Document analysis question 18: How long will this process take (legislating)?

This question was posed to establish the period it takes to pass legislation. Document analysis focused on legislative processes.

Chigada and Kyobe (2018) indicates that the process of passing legislation is very long. The Minister of Finance or Deputy Minister or Parliamentary committee in this case will propose a new bill or amendment of legislation depending on the sector needs, requirements, challenges and loopholes. Then from there it goes to Cabinet for

approval. Then it gets sent to National Assembly (Parliament) and they give it to the relevant committee. Then it gets published in government gazette for public comments, debated in the committees and amended. If the matter has a public hearing, it goes for public hearings before debate. It also gets sent to the National Council of Provinces (NCOP), if all is right then sent to the President, if public hearings had many issue, it might go back to the committee for further debate. Once voted and agreed upon, gets sent to the President for assent and then it becomes law. This process could take up to the two years. This is a lengthy process, involving consultation and public comments.

Different spheres of government can pass a bill depending on the area of responsibility (Reyburn, 2017). Provincial departments and Municipalities pass laws. At national level, the Minister in charge or a deputy or parliamentary committee will initiate the process. The minister will send it to cabinet to be approved. Then it goes through stages from cabinet to parliament, handed over to parliamentary committee, the government gazette for public comments and back to portfolio committees and finally it ends up with the President if voted by majority.

The legislative process involves the initiator, department or committee member in Parliament, National Assembly, National Council of Provinces, committee debates, government gazette for public comments or public hearings, back to parliament and then President signs it (South African Legislative Sector, 2019). The process is long as it involves different players and the constitution requires that.

The document analysis show that the process of passing and reviewing legislation in South Africa takes time (Reyburn, 2017). The National Health Insurance Bill was analysed to show where it is at the present moment (Gray & Vawda, 2019). The National Health Insurance Bill was first gazetted on 24 July 2019. The first discussion on introduction of the mandatory health insurance started in early 1990s. The Healthcare Finance Committee was established in 1994, recommending a number of social or national health insurance policy initiatives. Before the lockdown members of portfolio committee started doing the public hearing in February 2020. Once the public hearing has been conducted throughout the country the proposed bill will go back to Parliament for debate (Government Gazette, 2020).

The analysis also looked into the process and period it took to pass National the Credit Act No.34 of 2005. Sewnunan (2014) indicate that the Act was first introduced by the Department of Trade and Industry in 2005 to repeal the Usury Act, 73 of 1968 and the Credit Agreement Act, 75 of 1980. The act was finally promulgated on 01 June 2017.

The theme which stood out is lengthy process. It takes a while to pass any law in South Africa. The general view is review or new legislation to support conversion of stokvels into investment platform will take a while to enact.

4.6 Conclusion

The purpose of this study was to investigate alternative social funding instruments for SMMEs in South Africa. Stokvels are a possible candidate for alternative funding for SMMEs in South Africa. The results show that stokvels could be converted into funding instruments that provide financial assistance to SMMEs. It was pointed out that the regulatory framework restricts the activities of the stokvels and only benefits the retail banks. Stockvels' sustainability is a key factor in their argument for the introduction of flexible legislation that is customised to their market needs. Document analysis, acknowledge that stokvels collective pool of resources is their key strength and source of growth. It is suggested that stokvels should be accommodated in the formal sector, or transformed into the financial sector while preserving the stokvels' uniqueness.

5 DISCUSSION OF RESEARCH FINDINGS

5.1 Introduction

This study is about investigating alternative social funding instruments for SMMEs in South Africa. The study investigated how stokvels could be used for this. This chapter discusses findings of how stokvels could be converted into formal investment instruments for SMMEs with a supporting regulatory framework informed by government legislation. A qualitative study focusing on stokvels was done using focus group interviews and document analysis. The findings of this study are used to answer the research questions.

5.2 Research Question 1

5.2.1 How can stokvels be converted into investment instruments for supporting SMMEs?

5.2.1.1 Promotion of a culture of savings

This study found that the primary goal of the stokvels is to create an opportunity for community members to save money. This is in line with the study by Bophelo and Khumalo who found that the primary objective of stokvels is to save money (Bophelo & Khumalo, 2019). The members join a stokvel because they believe they are unable to save on their own. Masuku and Kaseke (2014) supports this view that stokvels creates an opportunity to save. The constitution and members impose pressure on an individual to make monthly contributions which makes it impossible to default. The social impact theory applies on this theme where members persuade others to be obedient to stokvels' constitution and rules. The savings assist stokvel members during times of distress.

People use stokvels to save more than the banks to cater for peak expenditure, like December period or pay for school fees and to take advantage of discounts beginning of the year. SMMEs and other community members borrow this money and return it with interest. This finding disprove the notion that says black people do not have a culture of saving (Van Wyk M. M., 2017). The statistics on NASASA dispels that

myth and provides a positive picture with a R50 Billion industry (Van Wyk M. M., 2017). This study has found that stokvel members display high levels of discipline and commitment. Their commitment to the constitution of the stokvel and other members is displayed by timely monthly contributions to avoid inconveniencing the rest of the group. People cannot bear the embarrassment of defaulting on their monthly contributions. I observed that the lack of individual discipline pushes them to join stokvels because they are forced to consistently save. The savings serves as a mechanism to eradicate poverty (Storchi, 2018). The stokvels have managed to build social capital and social networks that benefit stokvels. Their impact and level of influence to individuals who join stokvels, who in turn have an influence in the broader community cannot be questioned. With reference to the social impact theory stokvels have strength to bring people who share a common goal to save their money for future benefit. Growth of investment stokvels is testimony to that. Stokvels have been recognised as alternative to the financial institution in serving the needs of the vulnerable and previously disadvantaged.

5.2.1.2 Flexible investment platform unique to stokvels

The study revealed that stokvel groups would welcome conversion into a formal sector, but with conditions. They all want to become investors, providing loans to the SMMEs. The stokvels are believed to be pooling an estimated R50 Billion savings a year, whilst operating in an informal sector (NASASA, 2020). There is no formal collaboration strategy for stokvels to take advantage of their enormous bargaining power. I have established that stokvel groups are not aware of the power they have in the financial sector. Their unique nature of understanding their market is a strength that they to build on. This strength could be used as a bargaining tool to inform the conversion process and legislative framework.

Both government and the financial sector have recognised the important role played by stokvels and the need to build a mutual beneficial relationship making use of stokvels' savings to advance credit to the excluded markets (Mashigo & Schoeman, 2012). My view is stokvels are willing to be converted into a formal sector but they do not want to operate under the current financial regulations and want to maintain

control of their money. The findings support my notion on stokvel's perception of the commercial financial institution that are aloof and transactional. Stokvels on the other hand operate on an emotional level, supporting social needs of inclusiveness and other socio economic challenges. The social impact theory applicable on this theme is the strength and ability to influence the financial sector with the amount of funds and persuading members to invest, noted as a R50 Billion industry by NASASA (2012).

The stokvels overwhelmingly expressed that they need financial education to make informed decisions about the conversion and investment types they can get involved in. Stokvel members felt that they have insufficient knowledge to make informed decisions about investment options and platforms, expressed during the interviews. When questions were posed about types of investments they would like to get involved in, they could not provide different types, only mentioned unit trusts. I believe industry knowledge and education is critical before getting involved in a sector to assist with these types of decision making processes and appropriate investment instruments. This is in line with Mulaudzi's study which found that financial education is required when transitioning from a consumer to an investor (Mulaudzi, 2017).

5.2.1.3 Positive socio-economic and financial impacts

Stokvels play a role of being a social networking platform, complimenting the economic and financial benefits (Verhof, 2001). Members are brought together by friends, family and business associates to achieve a common goal. The social aspect fulfils a sense of belonging. Stokvels do not regard their collective savings as a social capital available for credit and lending to small businesses and poor individuals. Stokvels play a critical role as a social and economic instruments. They improve utility consumption and living standards to poor household (Mashigo & Schoeman, 2012) . Stokvels offer moral support and assistance during a time of need and hardship without a complex process or red tape (Storchi, 2018). This was found to be true in the study as SMMEs, community members and stokvel members approach stokvels rather the banks for loans.

The stokvels do not require any form of documentation or security to approve the loan Mulaudzi (2017). The loans are used for a range of needs, which could be food, business projects and start ups (Bophelo & Khumalo, 2019). Conversion of stokvels into banks need to take into consideration these current operational conditions and ensure they are accommodated. The financial support from stokvels provides economic, financial and social relief that must be accommodated within the formal sector (Bophelo & Khumalo, 2019). The economic benefit supports the government's failure in creating jobs and alleviating poverty (Department of National Treasury, 2011). Poverty alleviation and reduction of unemployment are two most important objectives of the National Development Plan (National Planning Commission, 2012). Participation of stokvels in the formal economy will enhance economic growth of South Africa. The collective investments makes it possible for SMMEs to access funds and credit. The operations of stokvels have a positive ripple effect in all key areas of community development, social and financial. The financial impact of stokvels is making access to finance and inclusion possible to the previously disadvantaged communities.

5.2.1.4 Poverty alleviation

The stokvels have the freedom to determine their operational model, which is self-regulated. NASASA membership is not a requirement for operating. People join stokvels for different reasons. Those people who are financially excluded use stokvels to alleviate their conditions. Majority of stokvel members rely on collective contributions to provide for their families. The money is kept within local circulation to assist each other. There is no regulatory framework that controls the flow of money and its management. The stokvel contributions have become a source of livelihood and food security.

Regulating the Stokvels, using the current regulatory framework would be beneficial to the economy and the formal sector. A new set of regulation will need to be developed to accommodate the stokvels for them to operate under the formal sector. The stokvels' ability to loan individual and SMMEs money and rotational payout are able to provide food and employment (Luthuli, 2017). Moving stokvels over to the

formal economy without a separate set of rules will destroy the industry because the poor and the uneducated will remain excluded. I would advocate for a customised and realistic regulation for the sector to preserve its identity and continue servicing their market. The formal financial sector and government strategies are not able to reach everyone in South Africa in the fight against poverty. Stokvels are a means to assist the financially excluded people.

5.2.1.5 Financial inclusion and access to financial resources

Bophelo and Khumalo (2019) argued that the stokvels have a potential to be used as vehicles for start-ups working capital. They recommend to government on how they can be used as one of the funding models for SMMEs (Bophelo & Khumalo, 2019). The operations of stokvels have made it possible for the poor and excluded small businesses to access savings and credit facilities. Stokvels act as instruments to provide credit to the poor, the unbankable and small businesses with no security. Some of these people could not access a bank account and loan. The stokvels provide this facility without charging interest or transaction charges, like deposits fees. The quick process of accessing money without red tape compared to retail banks sets stokvels apart. This unique operational identity would need to be accommodated in the conversion process to the formal economy. Stokvel members believe that their interest returns from the loans are higher than the interests provided by the banks for investment or savings accounts. Stokvel members want to invest in platforms that offer higher returns (Zondi, 2016).

The uneducated and the poor have always been financially excluded from participating in the formal financial markets because they are believed to lack security or credit (Ngcobo, 2019). Stokvels captured this market and ensured that the process is quick, easy and accessible. The involvement of stokvels in a formal investment platform should ensure what they are currently offering is not compromised. The poor and uneducated prefer to interact with stokvels instead of the banks. Black South Africans are well adapted to informal financial platforms and it works for them. To change the current system would require effective and efficient communication of why it is necessary to convert to the formal sector. Converting stokvels into an investment platform in the formal sector will reduce the

risk and increase financial benefits. The conversion will also expose stokvels into lucrative investment opportunities. The downside of conversion may affect the close proximity stokvels have with their local communities. With reference to the social impact theory formalising stokvel may have a risk of creating a gap between the stokvels and the community. This would risk reducing the influence of the stokvels in the community.

5.3 Research Question 2

5.3.1 What are the possible challenges faced by stokvel members?

5.3.1.1 Control measures and risk mitigation

The stokvels are governed by the constitution and its members. They have developed an effective risk management system that work for them. The decision making process and rules is informed by the constitution. There are no formal written agreements between stokvel individual members, except being bound by the constitution. Stokvel members elect office bearers who are responsible for administrative functions and management affairs of the group (Schulze, 1996). The office bearers in consultation with the members have full control over the operational activities of the stokvel. The office bearers are expected to be transparent in their decision making process. On the other hand, stokvel members have a negative attitude towards banks because they lack transparency. The groups fear losing control of their operations if they become part of the formal economy. They want to maintain control and if it becomes too big, they lose their identity, uniqueness and purpose. It is also assumed that because stokvels are informal therefore they do not have a formal structure to operate. The current stokvel structure works well within the informal sector (Moliea, 2007).

Although it is risky to continue in the current configuration, it is still a preferred method of operation, because stokvels by nature are low risk organisations (Mashigo & Schoeman, 2012). There is no securitization associated with the stokvel lending process. Stokvel members have different level of risk appetites. They generally want low risk investments (Lengolo, 2019). The only reason stokvels would want a formal economy participation is to secure their loans or payouts, from fraud, scams

and deaths. The level of risk is informed by the mandate of the stokvel specified in the constitution. The mandate of the stokvel will inform the transition from informal to formal investor or participation in the finance sector. Stokvels could be used by the members as a stepping stone to invest in the formal economy sector as they have already been involved in investing (Mulaudzi, 2017).

The risk factor is further exacerbated by lack of knowledge in investment instruments currently available as indicated by the results of this study. Previously stokvels focused on savings, providing credit and unexpected events like funerals. The younger generations are more interested in finding better investment opportunities (Kariuki & Ofusori, 2017). There seems to be a clash of ideas within the membership on how they should run and invest. I believe it becomes a case of younger generation wanting change and the older one wanting to maintain the status quo.

5.3.1.2 Financial and Investment Training

This study found that stokvel members lack knowledge and understanding of a variety of available investment instruments. The lack of knowledge limits stokvels operating processes guided by the constitution and rules. Stokvels do not set a criterion for membership, people with similar interests come together and form a stokvel (Matuku & Kaseke, 2014).

People invest based on what they want to achieve. I would not want to associate an individual's level of education to being knowledgeable in investment instruments. I would however associate it to exposure. Friendships and family play a role in the recruitment which is informed by common interests and goals. I believe that they opt for not investing in formal banks because of lack of knowledge in diverse investment products. It also sets out the processes from the comfort and going for the unknown. Stokvel members would only want to transition into a formal economy if they have enough information on how and who is going to manage their investment. I have concluded that financial education and training, even in the form of financial adviser will provide a better insight in investment activities and offer an option for

conversion into a formal sector. The study found that at this point there is no interest to convert because there is not enough information.

Stokvels invest in short term investments. With financial advice they could be converted into long term investments, accessing higher growth assets whilst still benefiting from tax free savings (Moliea, 2007). Stokvel members are not knowledgeable about long term investment products (Gwamanda, 2019). Other stokvel members with knowledge could become sources of financial education (Mulaudzi, 2017).

5.3.1.3 Bargaining power

Stokvels' ability to mobilise resources through collective effort is one of their major strengths, which has made them disruptors of the formal financial sector. However, stokvels are yet to recognise this power and take advantage of it. The accumulated capital from monthly combined contributions enables the stokvels to reach their goal within a short space of time. The contributions can be invested in high performing stocks, low risk and high returns, but they do not have this information. Their power is in numbers and it needs to be appropriately used. Their ability to raise funds from monthly contributions, without borrowing from banks gives them leverage and a strong case to remain in the informal sector. Members need to think about how this money can create wealth for them. Stokvel savings are used for consumption purposes by members instead of investing in long or short term investments. Stokvels control lots of money which can contribute enormously in the formal economy. I believe that stokvels have not recognised that they wield an enormous power in the financial sector. They are ignored as they consume the money instead of investing it. Investment increases opportunities for individuals leading to creation of wealth and change in social status (Verhof, 2001).

One key factor that has brought recognition to the power of stokvels is their ability to sustain and longevity. They have been in existence for a while. The stokvels I interviewed have all been in existence for longer than 10 years. Their operations are not interrupted by cancellation of one or two members. The growth of the industry is also another key factor.

5.4 Research Question 3

5.4.1 How can regulatory framework enable the development of these funding instruments, ensuring transparency and protection rules for investors?

5.4.1.1 Transformation and an inclusive legislative framework in the financial sector

The retail banking sector and the financial services sector are known for not being transparent and transformed (Abrahams, 2017). Members of stokvels have bank accounts that they use for transacting and savings. However, the banking and administration fees are seen to be too high (Ellen Rungani, 2018). The stokvels are independent of the formal economy but relies on it for deposits. The Bank Act exempts the stokvels from operating within its regulatory framework. They are placed outside the formal economy prescripts. Stokvels have a unique operational model. The practise of the formal economy structurally excludes the operational system of the stokvels (Matuku & Kaseke, 2014). To transform the stokvels and allow for their conversion into the formal economy requires a flexible legislation. There is a need to develop a legislative framework that will mutually benefit the stokvels, government, society and the financial sector (Bophelo & Khumalo, 2019).

The stokvels want to maintain their operational practices and preserve their identity and not be swallowed by the formal economy. The two economies are not in competition as they complement each other. A set of flexible regulations for a different market is possible and should be introduced considering the impact and influence of stokvels in society. The existing regulation only benefits the formal economy. The introduction of legislation and review of existing policies to transform the financial sector will assist the promotion of the investment culture within stokvels and increase social capital. The capital will then assist SMMEs in

the informal sector and build sustainable businesses and create job. Job creation means less poverty.

The conversion of stokvels to the formal economy will benefit the government in economic growth and meeting the Department of Finance's strategic objectives of financial inclusion. This inclusion is for the stokvels, community members and SMMEs. It gives stokvels an opportunity to build wealth and gain formal financial investor recognition. The stokvel's collective nature and their sustainability give them a leverage on how their inclusion in the formal sector could be structured. Their investments could be structured in a way that benefits their communities within the formal legislative framework. The South African government has opportunity to develop and build social entrepreneurship for profit.

5.5 Research Question 4

5.5.1 What are the possible challenges faced by government in the regulation of stokvels?

5.5.1.1 Sustainability and legislative lengthy process

The stokvels' self-sustainability without any support from the government or formal economy cannot be questioned. The industry keeps growing, from an estimation of R44 Billion in 2018 to R50 Billion now (NASASA, 2012). The main question to be asked would be, why would stokvels want to get involved in the formal economy (Bophelo & Khumalo, 2019). Stokvels need to be convinced on how the transition from the informal to formal economy will benefit their savings. The fear of losing control of operational activities has to be taken into consideration when developing an inclusive policy (Bophelo & Khumalo, 2019).

A new legislative process takes a while to be enacted. It is in government's interest to promote economic transformation as one of their key objectives is access to financial services (Bophelo & Khumalo, 2019). Stokvels are a vehicle to economic inclusion (Abrahams, 2017). The process of regulating the sector maybe met with objections during the consultation stage from stakeholder in the formal sector if flexible and transformed policies are not introduced (Chen, 2012). My sense is that

the stokvels would reject transition if they feel the policies will compromise their independence. On the other hand, the financial services institution will protest relaxed regulations for the stokvels. The government has to play a balancing act.

It is undeniable that stokvels longevity and their self-sustainability do not need the involvement of the formal sector (Nkambule & Mohammed, 2019). They may not be convinced to transition, so the government needs to offer an attractive social and individual benefit to the members. The composition of stokvels was meant to benefit the poor and those who could not access the financial sector (Lengolo, 2019). The stokvels innovative lending credit and savings mechanisms brought social relief and sustained livelihoods (Gwamanda, 2019). The government's offer needs to consider that the exclusion of informal businesses impedes economic growth (Department of National Treasury, 2011). The retail banks, retail stores and the financial institutions currently benefit from these collective savings. Government policies talk about redress and redistribution of wealth, especially for the previously excluded (Commission, 2012). I believe that the legislation should look into how stokvels can become part of the ecosystem of financial access in order to contribute and benefit society at large. The Government's social compact should be seen as playing a critical factor here. Government drives economy and look after its citizen (Department of National Treasury, 2011). The influence stokvels have should be appropriately used to benefit the economy and the society (FSCA, 2019).

5.6 Conclusion

The research findings show that the formal financial sector could benefit from stokvel's current practices. Stokvels have economic power to alleviate poverty and protect food security or previously disadvantaged communities. The social impact theory shows the strength of stokvels to encourage saving within the stokvel members and the community. The findings also expose the misalignment of the financial services sector's products and services to the market needs and the work which still needs to be done to address this gap. There is a clear role that could be played by stokvels with the support of a customised legislative framework by government as an alternative form of finance for the SMME.

6 SUMMARY, CONCLUSIONS, LIMITATIONS, AND RECOMMENDATIONS

6.1 Summary

This study is about investigating alternative social funding instruments for SMMEs in South Africa. The stokvel was used as a unit of study. Research questions were formulated to assist in investigating the alternative funding instruments. The SMMEs sector is unable to play a significant role in employment creation due to financial exclusion and historical issues. Due to lack of access to financial resources SMMEs are unable to raise capital to grow or sustain business. At times they lack working capital.

The study outlines a detailed picture and an interpretation of participants' experiences, feelings, opinions and actions. It also enhanced the process of developing and testing knowledge, especially of the limited information on social capital, social entrepreneurship and community investment schemes and how the environment affects the new concepts, incorporating multiple realities. Furthermore, it explores the possibility to broaden the scope of stokvels by government.

The study adopted a qualitative strategy. Focus group interviews and document analysis were used for collecting data. The model of interpretation involves interpretive elements that enhance quality and accuracy of information and provides a deeper insight into the alternative social funding models within the small business sector and its role on the economy. The social impact theory has been used to inform the study

The social impact theory (Bibb Latane 1981) was used to explain how stokvels could be used to encourage the stokvel members and community to save. The study investigated the possibility to convert stokvels from informal savings club into formal investment instruments supporting SMMEs. Bringing the stokvel savings into formal economy ecosystem will benefit government and the community.

SMMEs could have access to capital that could lead to creation of jobs by the SMMEs. A sample of five stokvel focus groups and documents which cover information required to answer the research questions was used for the study. All the focus group interviews were conducted in Gauteng, from the two cities; Johannesburg and Pretoria.

6.2 Conclusions

Research question 1: How can stokvels be converted into investment instruments for supporting SMMEs? Stokvels promote a culture of savings culture, disciplined behaviour and social fulfilment. Their primary goal is the creation of conducive environment for community savings. They require a flexible investment platform unique to stokvels and has social impact. Financial inclusion, access to financial resources and empowerment to alleviate poverty stood out as the purpose for collective saving. Stokvels have high returns in short term loans that need risk mitigation measures, proper operating system and contract management. The themes that emerged from this research question were promotion of a saving culture and social, economic and financial impact.

Research Question 2: what are the possible challenges faced by stockvel members? Loss of management control, change in operational activities and low bank interest rates against higher stokvel returns were cited as a challenge to conversion into a formal economy. Transparency, decision making, internal and external risks were the main concerns with the stokvel members. Lack of financial and investment training was another problem identified for stokvels. Gaining knowledge on investment platforms and investing in the formal sector came out as methods which stokvels could use to protect their investment. Bargaining power came out as a main strength and a source of community support with financial access.

Research Question 3: How can regulatory framework enable the development of these funding instruments, ensuring transparency and protection rules for investors?

Government should strengthen and revise the legislative frameworks governing stokvels and transformation. Legislation plays a critical role in crime prevention, compliance, economic stability and standardising processes. Government's recognition of the positive social, economic and financial impact stokvels have with their collective savings gives them a bargaining power. The themes which were discovered from this research question are transformation and an inclusive legislative framework in the financial sector and bargaining power

Research Question 4: What are the possible challenges faced by government in the regulation of stokvels?

Self sustainability and social inclusion are key strong elements of stokvels. The government has to explore an inclusive regulatory framework in the financial sector and preservation of uniqueness of the stokvels. Investor protection is considered a big challenge in the economic sector when trying to transform the financial sector. Investment processes are very long. The key themes discovered from this research question are flexible investment platform unique to stokvels and inclusive legislative framework in the financial sector.

6.3 Limitations

The study focused in stokvels that are based in Gauteng even though the study is about proving financial instruments to SMMEs in South Africa. The researcher is based in Gauteng could not reach stokvels out of the Province

The other limitation was the lack of available literature on the study, how to convert stokvels into investment instruments.

The study did not interview other players in the sector, like retail and investment banks, financial institutions (Sanlam, Old Mutual) and grant offering institutions. The retail banks could hinder the transition as they are benefiting from the current operating methods. Financial institutions on the other hand have been actively trying to convince stokvels to invest in different products.

6.4 Recommendations

Banks do not offer stokvels value adding products. They are happy to receive their deposits and offer minimum interest on their savings. I recommend that banks offer stokvels a number of services. The first one being to seek a mutual beneficial partnership that offers equal share in profits. The banks currently generate income from the stokvels savings by offering them the published interest rates. This should be replaced by an investment product that offers maximum returns for every rand the bank makes out of the stokvel savings. Secondly the bank could provide training in investment products, operating systems and provide infrastructure for stokvels. The deposits could easily be online without cash. On training, they could incubate a stokvel that wants to operate as a cooperative bank under the revised legislation.

Stokvels should consider collaborations with other stokvels offering similar services or diversify to those in a different operation. For example the burial stokvels could offer underwriting services if partnering with insurance companies. This could encourage a social value with collective participation. Stokvels should embrace the power of collective investment and stop working in silos. Collaboration could assist the stokvels in introducing one bank for all stokvels which has diverse services offered to the markets. This could be the biggest disruptor of the financial sector. NASASA should play a bigger role of identifying operating models and system to assist with the integration in the formal economy.

Education and training programmes should be introduced to equip stokvel members with knowledge on SMMEs' social value, social entrepreneurship, basic business skills and financial management. The training should cover how their financial support through inclusion assist in poverty alleviation, food security and crime

reduction. Poverty alleviation, crime reduction and food security are critical to the growth of the economy and gross domestic production. It importance for all key players in the economic sector to understand the role of stokvels within society and their savings' social impact in the economy. The education should also focus on the savings culture and behavioural change.

Government should introduce a legislative framework that supports the operation of stokvels with less red tape and stringent measures that will develop stokvels into efficient investment banks without the help of the big banks. It is clear that the current stokvel regulatory framework will not enhance economic growth. There is an opportunity to reintroduce stokvels banking institution with different set of rules and requirements for operations. The department of Finance and the Reserve bank should investigate a system that will accommodate stokvels in the banking sector without compromising the financial sector international standards from formal practices. The stokvels should be regarded as part of those institutions that are too critical to fail, their sustainability should be protected by government.

6.5 Further research

This study only focused on investment stokvel, which limits the recommendation to investment and SMME aspect.

A further study should be conducted on grocery stokvels and their power within the wholesale and grocery retail sector. The study should explore how stokvels could establish own retail stores through economies of scale.

The further study should also focus on the government's receptiveness in supporting and changing the role stokvels play in the retail sector.

Another area of research could be on how can stokvels be used to develop social entrepreneurship entities funding socio-economic and cultural initiatives. This could assist in ensuring a higher social value and building SMME sector.

Another possible topic to be investigated is converting stokvels into commercial banks.

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8. APPENDIX 1.1: DATA COLLECTION INSTRUMENTS

a. Focus Group Interview Schedule

1	What is the underlying motivation for saving in this Stokvel?
2	Are you interested in a formal investment platform?
3	What is your understanding of investing in social value building initiatives?
4	Do you believe in the distribution of power, capital and access for opportunities for small businesses?
5	Are you willing to grow wealth by becoming a money lender to small businesses?
6	What are your fears in converting the current savings club into a long term investment club?
7	What are the risk factors to be considered?
8	Have you obtained enough knowledge on available investment platforms in South Africa
9	How will you ensure that you do not lose your investment?
10	What support do you need from government to support your investment and how

b. Document analysis information search

11	What is the role of stokvels in the economic sector?
12	How to convert stokvels into active players in the financial sector?
13	What is the role of legislation in growing the economy?
14	Has the government considered the economic power of stokvels?
15	How to support stokvels' sustainability in the financial sector?
16	Does the current legislation support the inclusion of stokvels?
17	How will the legislation protect stokvels' investment?
18	How long will this process take (legislating)?

9. APPENDIX 2.1: ONE-PAGE BIO OF THE RESEARCHER INCLUDING DECLARATION OF INTEREST IN THE RESEARCH AND FUNDERS, IF ANY

SUMMARY CURRICULUM VITAE: PRUDENCE THINI XABA

Personality

- Professional, dynamic and pragmatic individual with passion for difficult goals, high performance and excellence
- Ability to develop, manage and maintain long-term relations with clients and co-workers – team player with excellent people skills
- Ability to initiate, manage and close deals and projects
- Excellent communication skills, combined with assertiveness, intuition, negotiation skills and understanding of human psychology
- Attention to detail combined with strong determination and perseverance qualities
- Ability to complete projects on time, within budget and within required quality standards
- Enthusiastic and positive outlook on life with good sense of humor
- Loyal and committed individual with strong work-ethic and values
- Training and Development specialist

Professional experience

Managing Director of a consultancy specialising in business optimisation and human resource development. I have been running the consultancy for 15 years. My role includes providing direction with the organization, development and maintenance of strategic plans and policies guiding the achievement of organizational objective. Developing continuous quality improvement and management procedures in relation to skills development. Track and monitor business and staff performance in line with business objectives. One of my strengths is crisis management and ability to resolve conflicts within a team.

My previous work experience include being an operations manager of an education institution, skill development consultant for Total and administrator in government (Premier's Office)

Education background

Current studies: MBA candidate at Wits University
Post Graduate Diploma in Business Administration (PDBA)
BBA degree in Marketing Communication
Diploma in Advertising
Certificate in Public Relations

10. APPENDIX 2.2: ETHICS CLEARANCE



**SCHOOL OF GRADUATE SCHOOL OF BUSINESS ADMINISTRATION ETHICS COMMITTEE
CONSTITUTED UNDER THE UNIVERSITY HUMAN RESEARCH ETHICS COMMITTEE (NON-MEDICAL)**

CLEARANCE CERTIFICATE

PROTOCOL NUMBER: WBS/BA2004819/563

PROJECT TITLE

Alternative social funding instruments and platforms for Small, Medium and Micro Enterprises in South Africa

INVESTIGATOR

Ms Thini Prudence Xaba

SCHOOL/DEPARTMENT OF INVESTIGATOR

MBA (Social Entrepreneurship Project)

DATE CONSIDERED

11 February 2020

DECISION OF THE COMMITTEE

Approved unconditionally

RISK LEVEL


MINIMAL RISK

EXPIRY DATE

28 FEBRUARY 2021

ISSUE DATE OF CERTIFICATE 18 March 2020

CHAIRPERSON


(Dr MDJ Matshabaphala)

cc: Supervisor: Mr Jacques Totowa

DECLARATION OF INVESTIGATOR

To be completed in duplicate and **ONE COPY** returned to the Chairperson of the School/Department ethics committee.

I fully understand the conditions under which I am authorized to carry out the abovementioned research and I guarantee to ensure compliance with these conditions. Should any departure to be contemplated from the research procedure as approved I/we undertake to resubmit the protocol to the Committee.


Signature

Date

27 / 03 / 20

PLEASE QUOTE THE PROTOCOL NUMBER ON ALL ENQUIRIES

11.APPENDIX 2.3: RESEARCH CONSISTENCY MATRIX

c. Focus Group Interviews

RESEARCH QUESTIONS	INTERVIEW QUESTIONS	THEMES
How can stokvels be converted into investment instruments for supporting SMMEs?	What is the underlying motivation for saving in this Stokvel?	Promoting a savings culture, disciplined behaviour and social fulfilment
	Are you interested in a formal investment platform?	Flexible investment platform unique to stokvels
	What is your understanding of investing in social value building initiatives?	Social impact
	Do you believe in the distribution of power, capital and access for opportunities for small businesses?	Financial inclusion, access to financial resources and empowerment to alleviate poverty
	Are you willing to grow wealth by becoming a money lender to small businesses?	High returns in short term loans, risk mitigation measures, operating system and contract management
What are the possible challenges faced by stokvel members?	What are your fears in converting the current savings club into a long term investment club?	Management controls system, change in operational activities and low bank interest rates against higher stokvel returns
	What are the risk factors to be considered?	Transparency, decision making, internal and external risks
	Have you obtained enough knowledge on available investment platforms in South	Financial investment training

	Africa	
	How will you ensure that you do not lose your investment?	Investment knowledge and investment platforms
	What support do you need from government to support your investment and how	Bargaining power and financial access

b. Document analysis

RESEARCH QUESTIONS	DOCUMENT ANALYSIS INFORMATION SEARCH	THEMES
How can regulatory framework enable the development of these funding instruments, ensuring transparency and protection rules for investors?	What is the role of stokvels in the economic sector?	Financial inclusion, resource pooling, poverty alleviation, social networking and community support
	How to convert stokvels into active players in the financial sector?	The need to strengthen and revise the legislative frameworks governing stokvels and transformation
	What is the role of legislation in growing the economy?	Role of legislation in crime prevention, compliance, economic stability and standardising processes
	Has the government considered the economic power of stokvels?	Bargaining power, social, economic and financial positive impact
What are the possible challenges faced by government in the regulation of stokvels?	How to support stokvels' sustainability in the financial sector?	Self-sustainability and financial inclusion
	Does the current legislation support the inclusion of stokvels?	Inclusive regulatory framework in the financial sector and

		preservation of uniqueness of the stokvel sector
	How will the legislation protect stokvels' investment?	stokvel investor protection, industry, transformation
	How long will this process take (legislating)?	Lengthy processes