

Impact Evaluation of Savings Groups and Stokvels in South Africa

The economic and social value of group-based financial inclusion
summary

October 2018



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TABLE OF CONTENTS

INTRODUCTION	4
CONTEXT OF THE STUDY	5
FINDINGS ON IMPACT AND DRIVERS OF CHANGE	6
DRIVERS OF USE AND IMPACT	9
CONCLUSIONS	11

Introduction

The emphasis of financial inclusion is now on how more competitive financial markets can work better for poor people (Porteous, 2004)¹. It acknowledges that increasing financial inclusion requires a better understanding of how services, formal and informal, can meet people's needs (Ledgerwood and Jethani, 2013)². The current economic situation in South Africa presents a large number of people relying on the informal economy, severe unemployment, especially among the youth, rising inequality and one of the highest levels of indebtedness in the world. In this context, the poorest and vulnerable people often struggle to make ends meet, cope with shocks and access and afford safe and convenient financial services. FinScope 2017³ found that the percentage of adults with a bank account has remained unchanged at 77% since 2016, while the percentage of adults using some form of informal financial service has slightly increased to 56%.

Seeking to better understand such trends and the underlying motivation to use financial services, FinMark Trust commissioned a qualitative impact study of SaveAct savings groups and stokvels in rural South Africa. This study has used a realist evaluation (RE) approach to explore impact not as a direct result of an intervention or input, but in relation to the context in which a programme intervention takes place and the reasoning of its beneficiaries. In this way, realist evaluation breaks down pathways of change into a series of outcomes and triggering mechanisms, allowing the identification of those factors that drive the use of financial services and trigger their impacts. This summary presents the main findings on impact and drivers of change for SaveAct savings groups programme and indigenous stokvels.

1 ¹ Porteous, D., 2004. Making Financial Markets Work for the Poor. FinMark Trust.

2 ² Ledgerwood, J. and Jethani, A., 2013. Savings groups and financial inclusion. In C. Nelson, ed. Savings Groups at the Frontier. Rugby: Practical Action Publishing.

3 ³ FinScope South Africa 2017. Consumer Survey Highlight. South African Financial Inclusion Workshop, Johannesburg, 22 November 2017 [unpublished presentation]

Context of the study

The study took place in two rural areas around Matatiele. In these areas, most of the research respondents considered food to be their biggest household expense and had several income sources. The majority were recipients of multiple social grants, the most frequent being children and pension grants. In addition to these, the majority of respondents were engaged in some form of small enterprise, such as selling vegetables and chicken or running a spaza shop. These businesses were often seasonal and occasional. A few respondents were employed by government or NGOs, and a few received remittances from their husband or adult children. Overall, savings groups members had more income sources compared to stokvel members.

Respondents had access and used a variety of formal and informal financial services available in the area. Most respondents had a bank account that they used to receive payments (e.g. remittances, social grants and payments from employer) and occasionally to save. The majority of respondents had some form of funeral insurance and many used multiple services such as community burial societies, burial societies located in Matatiele, bank funeral plans and formal insurance against death. Respondents appreciated the quick process of accessing funds from local burial societies compared to banks and insurance companies and the complementary services offered by burial societies based in town, such as a coffin and a place at the mortuary. Most respondents said they were now using multiple services because the cost of funerals had increased over the years.

Most female respondents were part of one or more stokvels. Beside burial societies, the most common stokvels in the area are food stokvels. These groups save together during the year with the goal of buying food in bulk for their members at the end of the year. During the year, the money saved is loaned to members and people outside of the group. The interest rates on these loans range from 10% for members to 20-50% for external people. Loan sharks are another local source of credit, also charging between 30 to 50% on loans. SG members said that loan sharks in the area have decreased since the creation of SGs and that they are now taking loans only from their SGs at the lower interest rate of 10%. Respondents had mixed views about their ability to access financial support from family members, friends and neighbours: for some it was hard to ask for support from neighbours and this often came with a high interest rate, while others had relationships of mutual support with friends and neighbours that did not require the payment of any interest rate. Overall, SG members had bigger portfolios of financial services compared to stokvel members.

Findings on impact and drivers of change

The study found strong evidence that the SaveAct model delivers a strong value proposition for a range of population segments, particularly rural women. Some of the mechanisms for joining SGs and stokvels are similar, such as the desire to be part of groups and do things together, as well as the motivation that groups give people to put money aside regularly and for a particular purpose. However, while stokvels are focused on a particular expense or goal (e.g. food or death insurance), **SGs appear to be more suited for savings and investments.**

The research identifies five main areas in which SG members use their loans and share out money, namely for house construction and renovation, school fees and other education-related expenses, to start and run small income-generating activities and to cope with emergencies. Overall, SG loans and share-out monies are considered an additional source of income and members use SGs to stretch the value of their money and juggle money between different services. These uses cut across a variety of SG members and the model is highly inclusive. Research with non-SG members revealed minimal signs of risks of exclusion for **younger and more vulnerable households**. These younger women lived with young children and unemployed or casually employed husbands, and they mainly relied on child grants. They felt that they were not financially stable enough to join SGs.

The SG members interviewed were, instead, in a less vulnerable position, with more income sources, among which were remittances from their husband and adult children. It is hard to say whether this socio-economic situation is a result of their long-term membership with SGs. Most probably it is a result of both their membership and their initial socio-economic position. As a result of both the different socio-economic position of SG members and the higher suitability of the SG model for savings and investments, impact data shows that there is greater learning and improvement for SG members than stokvels members. Below, the main areas of impact for both SG members and stokvels members are presented, before looking at the main drivers of

Impact for SG members

Financial management and education: SG members said that they have learnt how to save money, budget and plan for expenses. They have now learnt to budget their expenses, SG contribution and loan repayment every month, whereas before they spent all the money at once without a plan. They have a new purpose to **save regularly** and they have learnt that **it is better to buy with cash** than in instalments or through store credit. They have learnt to **spend money wisely** and they are **no longer taking loans from loan sharks**. Being part of a SG also gives members an opportunity to access credit that is felt to be more legitimate and safer because it happens within clear group guidelines. Some members have stopped their membership to other groups, while quite a few respondents have joined other informal groups such as food stokvels and burial societies once reaching greater financial stability. This is a way for them to meet other needs which are not specifically covered by their membership to a SG, for two reasons. First, they are not always able to take a loan to deal with an emergency like a funeral. Second, SG members want to do something tangible with their SG money and this normally does not include buying food. By **adding informal services to their financial portfolio**, SG members increase their financial stability and ability to

meet a variety of needs.

Economic impact: This mainly covers three aspects of improvements: household improvements, business improvements and community development. Members feel that their lives have changed substantially. They now have a **comfortable life**. They said that they are now living **“like whites”** and they are not struggling anymore. They have everything they need in their household. Some have been able to **start and improve their businesses** and they now feel better able to manage them. They know how to check their stock and calculate their profits. Members talked about the changes that they have seen in their community and how people have improved. They are **not as poor as they used to be**, because they can all afford electricity, tiles in their houses and some do not depend on grant money as much as they used to.

Social impact: This aspect of impact covers things like respect and social status in the community, as well as the ability to create and nurture social relationships. SG members feel they have become **more respected** in their communities. This shows that there is social meaning and importance related to economic advancement. For instance, being able to host a good initiation ceremony and afford livestock and food for the community can be seen as a sign of power and people are respected for that. In addition, many respondents felt that they had **learnt how to work with other people**. They know the other members better and being in the same group has increased the opportunities for them to share ideas, advice and support each other. Respondents said that they are united and **“like a family”**.

Women’s empowerment and household wellbeing: Female respondents said that they feel **happy and confident**. They are now living a **stress-free** life and they feel that they can achieve what they want. This gives them a **new sense of agency** and control over decisions. They feel that they are contributing to their households rather than just waiting to receive money from their husband. They do not need to ask for money as much as they used to. These changes are also reflected in household relationships. Both women and men said that they are now able to **support each other in the household** and that they can sit and plan together for expenses. In addition, women said that **arguments in the household have decreased** because they now “have money”.



Figure 1. Members of the SG’s are able to buy household items from their share out money.

Impact for stokvel members

Financial management: Members of food stokvels said that it is not possible to save alone and that by being in a group they have learnt that **they can save money**. Peer pressure also makes them more responsible about their money since they want to avoid embarrassment in the group. Members also felt that they are now **more able to control their money** and to focus their efforts on **additional investments**.

Economic impact: The majority of members no longer stress **about food and avoiding over-indebtedness for funerals**. Most are also able to cope with death in the family without having to change their consumption patterns or sell household assets. However, some stokvel members were still quite vulnerable and the poorest household visited was able to contribute only R20 monthly for a burial society that would pay R1 000 in case of death.

Social impact: Members have learnt to **work together** and that it is important to know each other well when dealing with money. Stokvel meetings are an opportunity for members to share ideas and advice and develop trust in each other. Members talked about **being happy and united**.

Drivers of use and impact

This study has focused on three main outcome stages for SaveAct's SG programme, namely joining, increased access to savings and credit, and use of SGs loans and share-outs. This research argues that before impact can happen, there are several mechanisms that must take place in order to trigger these outcome stages. These mechanisms can be summarised in four higher-level mechanisms that are key to the success of the programme. They show how and why SGs are working or not working in rural South Africa. Below the four main drivers of use and change are presented.

- SGs members are motivated to join, stay in and use the services of their SGs because they want to **make their money grow**. SGs allow their members to regularly put aside money for a 12-month cycle, save and borrow at the same time, take loans at a low interest rate and accumulate money over time by earning an interest on their savings. This reciprocal relationship of saving and borrowing is key for members to be able to deposit their money in the group, knowing that they cannot access it for a year. These features are unique to SGs and respondents mentioned that they cannot access other services that allow them to fulfil all these functions.

Making money grow:

- Regular saving over 12 months
 - Saving and borrowing at the same time
 - Low interest rate on loans
 - Accumulation by earning an interest on savings
- **Group support and motivation** is the second key mechanism that allows SGs to work well in the rural areas of this research. SGs members said that the group motivates them to save. Sharing advice, spending time together, assisting each other and contributing to the group development are all important features that make members develop a sense of trust towards each other and the methodology, and a sense of ownership and belonging. SGs are self-managed, members borrow their own money and contribute to each other development, thus developing a sense of responsibility towards money and each other. The group setting also makes borrowing more legitimate and safer compared to other's sources, such as loan sharks, because SGs can be more flexible and understanding with loan repayment.

Group support and motivation:

- Easier to save together – peer pressure and commitment
 - Sharing advice, supporting each other and spending time together
 - Contributing to the group development
 - A sense of ownership, belonging and responsibility
- Legitimate and safe to borrow because the groups is more flexible and understanding
 - Once members have joined, they remain and use the SG's services because they can **stretch the value**

of their money. They can now plan and budget for their expenses and investments in advance, they can take out frequent loans ensuring short-term liquidity and buy items for cash rather than in instalments. Also, by being part of multiple SGs, they can smooth their income through the year by choosing to be in groups that share out at different times and they can juggle their money through multiple loans and services. These practices can support individuals with little or irregular income sources to maximise the value of their money.

Stretching the value of money:

- Planning and budgeting for investments
 - Taking frequent and multiple loans
 - Juggling money in multiple groups
 - Buying in cash rather than instalments
- Lastly, this research finds an underlying mechanism that influences all the others. People said that they want to improve their life while also contributing to the development of their group. This shows an underlying moral norm according to which there is no individual advancement if the community does not advance at the same time. One respondent said that **Ubuntu** means that "*we are holding each other's hand and we are working together, we are one*" (333, male). People do not want to be poor or perceived as such and at the same time, they want to develop with others. They often mentioned how their communities had improved with SGs and people were now respected. They know that advancing alone creates jealousy while developing through groups is more acceptable because it allows people to contribute to other people's development.

Conclusions

This analysis has shown that there are economic and social mechanisms for people to join and use SGs and other informal groups. **People want their money to grow** while they both save and loan. This establishes a **two-way relationship** where they are supporting the group and they are supported by the group. This is hardly possible with formal financial institutions, where it is more difficult to access loans and people are charged to save while earning little interest. Based on this, vulnerable and poorer people feel that they cannot afford to leave their money in a bank account where they are not growing.

Instead, they choose to keep money moving in order to juggle expenses and stretch its value over time, thereby maximising what they can do with the little they have. This holds true in rural South Africa where most respondents did have a bank account. Nevertheless, when more financially stable, respondents joined a variety of other informal financial services beyond their SGs in order to meet their needs, rather than changing their relationship with the formal sector. This is a clear indication that unless forced into the formal sector by either employment or a serious economic improvement, people keep using formal services only marginally. Ultimately, there needs to be a conversation about how the formal sector can move towards the more vulnerable, poorer segment of the population and represent better the social and economic values that drive their selection and use of financial services.



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