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**Financing Small, Medium and Micro-Enterprises (SMMEs) in
Rural South Africa: An Exploratory Study of Stokvels in the Naledi
Local Municipality, North West Province**

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INTRODUCTION

Like most developing countries South Africa faces many socio-economic challenges such as poverty, growing inequalities, low levels of education, lack of skills, high rate of unemployment, inequality, poverty and the HIV/AIDS pandemic. Unemployment is blamed for most of the social ills in the South Africa society such as crime, prostitution, armed robbery, women and children abuse just to name a few. The poor education and the low skills level among a large proportion of the population makes it impossible for the poor and the unemployed to be employed in the knowledge-based economy. Entrepreneurship and SMME development have been touted as one of the viable means by which most of the people who are not participating in the economy can enter it. Some people in the rural areas engage in SMMEs activities to make a living but getting start-up capital and working capital is a major problem for the emerging and potential entrepreneurs. The National Credit Regulator (NCR) (2011) notes that SMMEs in South Africa face serious obstacles in accessing finance for their activities.

The demand for finance for SMME activities far outweighs the supply leading to what is referred to as 'finance gap' in most in South Africa and elsewhere. The NCR (2011) estimates the finance gap the SMME sector in South Africa to be between 45% and 48%. Meanwhile some Black South Africans in general and

women in particular often come together to form credit rotating schemes popularly called *stokvels* in the townships, towns and villages. It is documented by experts in finance, NGOs and government agencies that the contributions from the schemes run into billions of rands. Old Mutual (2011) reported that the amount of money *stokvels* in South Africa held in 2011 was estimated to be around R44 billion.

The money collected by members through the *stokvels* is used to finance end of year activities, ceremonies, payment of children's fees etc. This paper investigated the activities of *stokvels* in the Naledi Local Municipality and determined how the funds saved through the schemes are used to establish and support SMME activities. The study found out the very little of the funds from the *stokvels* are invested in SMME activities. The reason could be that a lot of the savers apparently do not see this saving as a source or means by which they can start and run their small business. Old Mutual (2011) points out that most of the savings of *stokvel* members are mainly used for food, Christmas shopping, furniture and appliances, school fees, funerals and paying debts. The Organization for Economic Co-operation (OECD) (2005) alludes that the funds from the *susu* (traditional saving and credit rotation) system in Ghana is used as a major source for low income earners and small entrepreneurs as working and start-up capital. OECD (2005) avers that the popularity of using the *susu* system for short-term finance is because

of the low interest rates as well as the small amounts borrowers are allowed to repay what they borrow at regular intervals.

The author of this paper has been consulting for the Small Enterprises Development Agency (SEDA) over five years and has come to realize that after SEDA has assisted potential entrepreneurs with the preparation of their business and concept plans, they are asked to approach the commercial and other financial institutions to look for start-up capital. Meanwhile the commercial banks have very stringent requirements which include the requirement of collateral security for loans which most SMMEs owners do not have. The NCR (2011) notes for example that only 2% of new SMMEs in South Africa are able to access bank loans and the use of trade credit for SMMEs almost not existing. Foxcroft et al. (2006) cited by the NCR (2011) add that reports indicate that 75% for bank credit by SMMEs in South Africa are rejected outright. The author believes that the *stokvel* system is a potential source of start-up and working capital for its members. The qualitative method of research in the form of focus group interviews was used to explore the views of members of four *stokvels* schemes in the Naledi Local Municipality on the use of savings from *stokvels* for SMME activities. The paper makes recommendations to policy makers on how *stokvels* can be used as one of the funding models for SMMEs in South Africa. A follow up education campaign will be conducted to identify and educate owners of SMMEs and potential entrepreneurs on how they can establish viable businesses through the savings from the *stokvels* they are part of.

Problem Statement

Financing entrepreneurial activities in the developing world poses major challenges for governments, NGO and the private sector. The reasons for this situation could be the insufficient resources that the state and private sectors have at their disposal to address the myriad of needs in the economies. Governments and the private sector organizations are employing different means to address the problem of SMME finance but there are other pressing societal issues that have to be attended to as well. The demand for funding SMMEs far outweighs the supply. A lot of Black South Africans especially women have been practising saving money for

specific occasions and issues in the Black communities which is popularly called *stokvels*. Some of the people who invest in *stokvels* also engage in entrepreneurial activities as well. A major challenge SMME owners face in establishing and running businesses revolve around start-ups and working capital. Apparently these entrepreneurs and other potential entrepreneurs do not see the use of funds from *stokvels* as a possible source of start-up and working capital for their businesses as it appears they are most of the time looking for finance from banks and other credit providing organizations which are only able to help very few of the applicants. A situation where there is a problem in obtaining finance exist while at the same time those who need the funds most for start-up and as working capital sit on millions of rands through the *stokvel* system. The problem for this paper can be state thus:

How can some of the money generated from the stokvel system be used as a source of start-up and working capital for SMMEs in rural communities of South Africa?

The main objective of the study was to find out how funds from *stokvels* can be used to fund and support SMME activities in the country in general but in the rural areas in particular.

The Secondary Objectives Are:

- to find out the prevalence of *stokvels* in the Naledi Municipal area
- to identify how the investments in *stokvels* are used
- to team up with other interested parties to educate communities about the importance of using *stokvel* investments as a source of start-up and working capital.

Research Questions

- How prevalent are *stokvels* in the Naledi Local Municipal area?
- How do members of *stokvel* use their investment in the Naledi Local Municipal area
- In which way can *stokvel* members be educated about the use of investments from *stokvels* for entrepreneurial activities?

Theoretical Framework

The actor-action oriented approach is used as the theoretical base for this study. This ap-

proach is based on the work of Long (2004) and Wageningen Schools "actor-oriented approach" cited in Ansoglenang (2006) which emphasises the importance of the individual in the face of structural constraint. The actor-action oriented approach sees individuals as actors who have the capacity to appreciate their circumstances and find ways and means of confronting the situation. It does not matter how difficult the situation may be the actors have the knowledge and capacity as well as the power and resources to confront their situation. Long (2001) argues that individual actors study the pattern of events around them in the environment in which they operate and in a way observe the reactions of others to their behaviours. Long (1989) cited in Ansoglenang (2006) points out that individual actors reach decisions based on dialogue when setting objectives and in justifying the decisions they take. In effect individual actors all the time have choices no matter the constraints they face as they themselves are a major the resource they have at their disposal.

A lot of theories and paradigms have been used as the bases for explaining social and economic issues. Most of the theories have been based on what some observers call grand theories especially in the issues of development. Some of these grand theories include the modernization theory, dependency and people centred development theories. Some of these theories have not been able to explain societal problems in the context of the developing world as well as providing ways of dealing with issues of poverty, inequality and transformation adequately. The issue of micro credit in financing SMMEs borders on matters of livelihoods, poverty reduction, poverty alleviation and the control and use of resources. *Stokvels* have some cultural undertones as they are mainly practised by Black South Africans. In other African countries and other parts of the world the rural folk normally has access to land which they depend on no matter how poor they are but in South Africa, access to land is a problem which means that most of the economic activities have to be from the non-farming sector such as running cafes, street vending and hawking, running taverns, selling food, running communication centres etc. The actor-action oriented approach is relevant to this paper as there are the problems of poverty, inequality, the threat of communicable and non-communicable diseases and crime

and unemployment just to name a few which confront a lot of South Africans. Most of these problems are blamed on unemployment but a lot of people in South Africa do not have the skills and education to enable them to gain employment in the knowledge economy. Going into entrepreneurship especially in the small, medium and micro enterprises sector is seen by a lot of people as one of the ways by which some of the socio-economic problems of the country can be addressed. Meanwhile accessing micro-finance is a serious problem for most of the entrepreneurs and potential entrepreneurs. *Stokvel* members as actors in the society have this huge source of funding which they can use to address the challenging problem of funding SMMEs in their communities.

Saving in Traditional Societies

People from different societies have different ways in which they save for the future and other occasions and unforeseen events. The history of money and banking has its origins in people's attempt to save for various reasons. The receipts that were given to the depositors became the source of the paper money we have today. In most traditional societies people save some parts of their production in the form of crops, animals, money etc. In South Africa due the apartheid system which restricted blacks from doing legitimate businesses, the *stokvel* system became a major source of saving for the majority black population. Moliea (2007) points out that the Rotating Saving and Credit Associations (ROSCAs) popularly called *stokvels* which remain institutions through which millions of rands are transacted in the informal markets. Verheof (2001) cited in Moliea (2007) intimates that *stokvels* are the biggest generator of informal funds in South Africa. According to Baumann (2002) cited in Moliea (2007), South Africa has a sophisticated finance sector but the sector only reaches between 40 to 50% of the population with banking products such as transactions, savings, credit and insurance. Those who are outside the formal finance sector are estimated to be 3.5 million households.

In Ghana for example a system that operates in the ROSCAs system is called the *susu* system through which people from all walks of life including civil and public servants, house wives, SMME operators etc save money. In Ghana, the

susu is operated by individuals and groups from the communities who work in the informal sector where the operator collects daily savings from clients. A day's collection is deducted by the collector as compensation (Alabi et al. 2007). In addition to the collection function, some of the *susu* collectors are able to advance money to trusted clients. According to Alabi et al. (2007) there were 4032 *susu* collectors and associations which served 1.2 million people across the country. According to Ansolegang (2006) savings and micro credit that most rural women in *susu* clubs and credit union members get are invested in micro enterprises activities such as brewing pito, buying and processing Shea butter, preparing cooked food for selling and petty trading. Alabi et al. (2007) allude that the practice of the *susu* system has been in existence in the West African sub-region for over three hundred years.

According to Carrillo (2009) the financing of poor rural women in the informal sector through microfinance has been a huge success in Bangladesh. The initiative was started by Professor Muhammad Yunus at the University of Chittagong in 1976 through the provision of a \$30 loan to poor women who could not access credit from the financial institutions and private sector organization. The initiative led to the establishment of the Grameen Bank that has pulled millions of poor rural women out of poverty. These women own a lot of shares in the Bank which now has a cell phone subsidiary.

The Operations and Extent of the *stokvels* in the South African Economy

Stokvels are major players in the South African economy for most Blacks with women being the main members. The popularity of the system stems from the provision the system makes for people who operate in the informal sector who do not have access to credit and financial services. It is estimated that the population which is not able to access financial services in Ghana is about 80%. The World Bank (1994) cited in Alabi et al. (2007) argues that the situation where the informal sector operators are not able to access micro credit and other financial services stifled business expansion in Ghana. As indicated earlier the figure stands between 40 and 50% in South. Moliea (2007) points out that Black people since time imme-

morial were motivated to save mostly by the drive beyond money and to a greater extent to assist members to improve their lives and have access to funds when in need. Figures from Old Mutual (2011) indicate that 38% of South Africans (mostly Black people) are members of *stokvels* who on the average invest R520 per month. Rwigema et al. (2012) point out that members of *stokvels* in South Africa make fixed contributions every month which members take turns to receive in lump sums. The estimated amount of funds held by these *stokvels* is valued at R44 billion rands. In addition Old Mutual estimates that the membership of *stokvels* in the country to be 800,000 people (320,000 urban and 480,000 rural). Old Mutual (2011) found out that funds realised by members by saving in *stokvels* are mainly used for food, Christmas shipping, furniture and appliances, school fees, funerals and paying debts. The use of money from *stokvels* in South Africa appears to contrast with poor people in other places such as Ghana, Kenya and Bangladesh where a large percentage of the funds from micro credit and saving schemes are invested in SMME activities.

***Stokvels* as a Possible Source of SMME Finance**

Financing SMMEs is seen as one viable way by which people who cannot find employment in the formal sector and those who choose entrepreneurship can establish their businesses as well as contribute to the economic growth of the country. Carrillo (2009) argues that micro-entrepreneurs need access to savings and credit for both personal and business purposes but a lot of organizations that operate in the sector are what Carrillio (2009) terms pro-commercialization institutions who base their activities on the free market principles. These organizations hardly provide the needed credit to the poor as they have the notion that poor people are not credit worthy. Carrillo (2009) notes that micro finance lenders in both the private sector and international development institutions believe that the poor find themselves in poverty because they do not possess the necessary skills to achieve financial stability and independence. Any credit advanced to such people is most likely going to be bad debts based on this assumption. Their demand conditions like collateral security

and documents micro entrepreneurs cannot afford. Micro credit services are mostly directed towards the poor who from the Grameen Bank example in Bangladesh and Banco Compartamos in Mexico has disproved this notion. Robinson (2001) cited in Molea (2007) argues that the limits on government budget as well as the short fall in donor and private sector funds calls for a paradigm shift in funding SMMEs in the developing world. It is important for developing countries to look for alternative sources of funding SMMEs. The funds that are realised from *stokvels* through intensive education of the general population can help potential entrepreneurs to start and operate their businesses with some of the proceeds from this source.

RESEARCH METHODOLOGY AND DESIGN

In this exploratory study the researcher employed the phenomenological approach to gather data from *stokvel* groups in the Naledi Local Municipality in the North West Province. The phenomenological approach was used because it allows the respondents to describe and interpret experiences of the phenomenon as being lived. The phenomenological study is a study that attempts to understand people's perceptions, perspectives, and understanding of a particular situation (Leedy and Ormrod 2005).

Population

Population is defined as the aggregate of cases with a common assigned criterion and features as subjects for a study. The target population for this study is all the *stokvels* in South Africa and the unit of analysis being the *stokvel*.

Sampling

The number and nature of *stokvels* across the country as well as them operating mostly as informal activities makes the use of the non-probability sampling approach ideal for such a study. In nonprobability sampling the researcher has no way of ensuring that each of the elements of the population will be represented in the sample. In this study the convenience sampling technique is used because it is difficult to find some of these clubs and societies in the informal sector. In addition to that money and time con-

straints made the researcher to use his contacts in the Naledi Local Municipal area where he had stayed and worked to get access to some the *stokvel* groups.

Criteria for Inclusion in the Study

The groups that are were considered for the study had to meet the following criteria:

- should have been in existence for at least three years for one to ensure that it has past records as well as being able to continue for the foreseeable future
- at least half of the members had to present for the focus group interview to ensure that the responses obtained from the group reflected the views of majority of the members of the *stokvel*

Data Collection

The researcher spent one week at Vryburg in the third week of January 2012 where he solicited the help of a lady teacher who was a former colleague who lives in the community to have in-depth focus group interviews with members of four *stokvels* at Huhudi (the main Black location near Vryburg). The convenient sampling technique in which particular settings, persons or events are selected deliberately in order to provide information that cannot be obtained from other choices (Wilson 2010). In this study the participants were members of the four *stokvel* groups/clubs who were selected and agreed to be part of the focus group interview. The interviews took place at the homes of one of the members they had decided on at times they indicated were convenient to them. The former colleague facilitated the entry to the groups and served as the interpreter as the researcher is not a speaker of the local Tswana language. This was considered as the researcher was aware that some of the members of *stokvels* might not understand and speak English well. The interview was tape recorded in addition to a journal that was used to record issues which frequently occurred in all the four different interviews that were conducted. Each of the focus group interviews last for about one hour.

RESULTS AND DISCUSSION

The analysis of the focus group interview was done through content analysis which identified

common themes, issues and words that recurred in the interviews. The transcripts of the interviews were analyzed to determine the overall picture of the cases as well as integrating the meanings of issues in typical experience. Some few responses from individual members were translated verbatim to capture their experiences and feelings.

Membership of the groups ranged from seven to fourteen per group. The groups are referred to here as Group A, B, C and D. Group A had 8 members, B with 7 members, C with 10 members and Group D, 14 members which gives an average of 9.7 members per group in the area. Almost all the groups were made of women except Group A which had 2 male members. Coincidentally it is the group that has been existence for the longest period of time (12 years). The group that was recently formed is three and half years old.

On the use of the proceeds from savings from *stokvels*, the general trend among all the groups indicated that the savings were mostly used on food, household equipment and consumer durables, paying school fees and debt and various occasions and ceremonies. This finding is consistent with what Old Mutual (2011) reported about the use of funds from *stokvels* in South Africa. This contrast with what women who save and receive credit through micro credit in countries like Ghana and Bangladesh use such funds mostly for. Ansolegang (2006) points out that most of such funds received are invested in income generating activities such as brewing *pito*, trading, selling food etc. This could possibly explain the low levels of entrepreneurial activities in South Africa. There were few exceptions to this as the two male members from group A indicated that they used at least half of their proceeds to invest in their small businesses. One female member indicated that when they buy groceries in bulk, she takes about half of her share to stock the café she runs in her garage. The study found out that the contributions of members from the four groups ranged from R300 to R500 per member each month. It should be noted that this is a peri urban area where incomes are relatively low.

All the respondents indicated that they were aware of their colleagues, family members and neighbours being members of other *stokvels*. Some of the group members interviewed indicated that they belonged to other *stokvel* groups.

One forty-eight year old nurse from group B had this to say. "For me my dignity has been restored as I used to go to neighbours and *machooanisa* (loan sharks) to borrow all the time to buy some things but since I joined this club four years ago, I have stopped that practice. The club comes to my rescue if the need arises and when I organize myself, I repay. We do it in the name of Ubuntu. This is my family".

Another forty five year old woman from Group D said "I used to be reckless with money which put me into financial difficulties but joining this society has taught me how to save. Look at this TV and go to the kitchen and you will see the utensils I have bought, my husband now takes me very serious".

The researcher briefly sought the opinions of the participants during the focus group interview on how they could use some of their savings as groups or individuals for SMME activities. They sought advice from the researcher who briefly pointed out some of the possibilities and lucrative areas they can invest some of the savings. They were very excited and have agreed for the researcher to organize a training workshop in June 2012.

CONCLUSION

The literature study clearly shows that a lot of funds are mobilised in South Africa through the *stokvels* system. The practice is also common in some parts of the developing world in places such as Ghana, Nigeria, Mexico and Bangladesh. In South Africa the figure is estimated at R44 billion yet there are members of some of these clubs and associations who want to start their own business or run business who need funds and start-up capital. It has not dawned on most of the members of *stokvels* that this is a potential source of funding for SMMEs. A lot of the proceeds in other countries are invested in SMME activities but in South Africa the case is different. An interview with Somali traders in the Sunday Times in May 2008 during the xenophobic attacks indicated that the traders have been using the credit rotating systems to establish each other in South Africa as well as clubbing together to buy in bulk from wholesales where they earn massive discounts. This is part of the reason that has made them to beat the local shop owners in most part of the country. Yes it is true that the funds from *stokvels*

are used by members for other meaningful activities in South Africa, finding a way to invest part of the proceeds in entrepreneurial activities can help the members to receive returns on their investments as well as this source serving as one of the alternative sources of SMME finance. Investment in entrepreneurial ventures can contribute immensely to economic growth and job creation. The next phase of the study is to team up with interested parties to start the education programme.

RECOMMENDATIONS

The following recommendations are made:

- the state, the private sector, NGOs, international development agencies and other institutions that are interested in entrepreneurship and SMME development should come together and embark upon serious educational campaign about savings and in general among South Africans.
- *Stokvel* groups should be encouraged to invest in entrepreneurial activities as groups or as individuals using some of the money they save through the schemes.
- Incentives should be given in the form of grants to stokvels and members who are able to proof that they are investing part of their funds in SMME activities.
- A copy of the findings will be made available to Dr R.S. Mompoti SEDA office in Vryburg for a possible cooperation with the researcher and the Vaaltar FM radio station in Taung to educate stokvel members and the community about this source of SMME finance.

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APPENDIX

Abbreviations and Acronyms

NCR–National Credit Regulator; NGOs–Non Governmental Organisations; OECD–The Organisation for Economic Cooperation; ROSCAs–Rotating Saving and Credit Associations; SEDA–Small Enterprises Development Agency; SMME–Small, Micro and Medium Enterprises; TV–Television.