

## The Dynamics of Education and Stokvels in South Africa

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**Abstract:** The study investigated the dynamics of education and Stokvels in South Africa using a quantitative research methodology (descriptive statistics and correlation analysis) with data collected from the Gauteng province using questionnaires. Few authors have written on the subject matter and the author wanted to add her voice on the dynamics of education and Stokvels especially in the case of South Africa. The few related literature focuses on the role that stokvels plays on alleviating poverty and providing small credit to people who are excluded by formal financial institutions. The available literature on the relationship between stokvels, poverty and financial inclusion is still scattered, scant, inconclusive and signalling mixed results. To the best of the author's knowledge, no study exist that has exclusively investigated the dynamics of education and stokvels in South Africa. The study found out that stokvels in the Gauteng province of South Africa were instrumental in the provision of not only education related small credit but also credit for groceries, transport, bridging loans, paying debts and guarantees. In line with literature, the correlation matrix shows a significant positive correlation between (1) education credit and groceries credit, (2) education credit and school uniform credit and (3) education credit and transport credit. The study therefore urges South African authorities to put in place policies that promotes the growth and safeguards the interests of stokvels as they are an important stimulant in the economy. Stokvels achieve this through their ability to improve financial inclusion by promoting savings and provision of small credit to people shunned by formal financial institutions.

**Keywords:** Education; Stokvels; South Africa

**JEL Classification:** H75

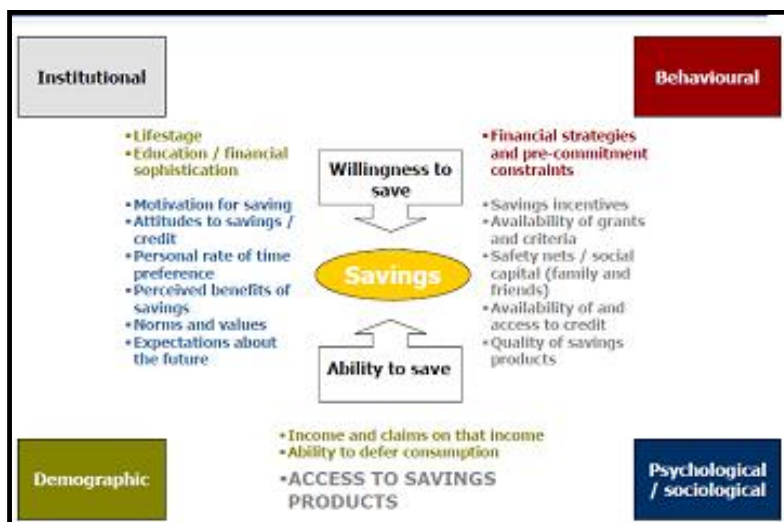
### 1. Introduction and Background of the Study

South African Savings Institute (SASI) and FinMark Trust (2007) quote that 67% of the target population are currently not saving. Of the 33% that are saving, only 5% are saving towards retirement. Given South Africa's poor savings culture, and propensity for high consumption, it is imperative that the population starts to engage in behaviour that supports a high savings culture. A savings culture is influenced by

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various factors that drive the ability and willingness of people to save, as illustrated in Figure 1 below.



**Figure 1. Factors that Impact on the Willingness of People to Save**

Source. SASI and FinMark Trust 2007, January 23

Consistent with the South African Savings Institute (SASI) and FinMark Trust (2007), behavioural factors entail personal circumstances which can either promote or dissuade savings, psychological and sociological factors address attitudes and personal preferences, institutional factors revolve around incentives to save, products and available financial support whilst demographic factors include education, income levels and life stage.

Even according to Grobler (2015), education was identified as one of the reasons why households were able to save. In other words, the more the household is educated, the more the household is able to save money in order to cater for uncertainty in the future.

**Table 1. Drivers of Household Savings**

Ability to save	Willingness to save
Levels of income	Levels of uncertainty
Country demographics	Access to credit
Employment levels	Trust/mistrust
Education	Retirement policies (access)
Financial literacy	
Stability of income	
Levels of debts	

Source: (Grobler, 2015)

Contrary to the literature, in South Africa, being educated does not mean that you are employed and you are able to save money to cater for a future rainy day or for future educational needs of your family (see Statistics South Africa 2017/2018 report). It is against this background that even the majority of the educated young population in South Africa remains excluded in formal financial markets which offer financial products such as credit, savings, insurance and death benefits, among others. This is the reason why Stokvels in South Africa have been gaining momentum and becoming very by each passing day because they fill such a gap (Matuku & Kaseke, 2014). A Stokvel is a South African term for an investment group where members contribute a certain amount to a central fund, weekly, fortnightly or monthly also known as financial mutual (Bozzoli, 1991; Lukhele, 1990; Verhoef, 2001; Mashigo & Schoeman, 2010; Matuku & Kaseke, 2014; Karlan et al. 2014; James, 2015). Worldwide, stokvels are commonly known as “rotating savings and credit associations” (ROSCAs) (Matuku & Kaseke, 2014; Kalan et al., 2014; Mphahlele, 2011).

Since Stokvels attempt to fill the gap created by formal financial institutions such as commercial banks by providing saving and credit, the objective of this study was to investigate the dynamics of Stokvels in relation to education in South Africa. This study is important for South Africa according to (Arendse, 2011) as many learners are denied the right to basic education because of the levying of school fees and other educational charges, in spite of the international obligation imposed on government to provide free primary education. The results of the paper can help South African educational authorities to develop and implement education access policies by the majority that ensures that the country moves towards an irreversible path to prosperity. The study will also force the government of South Africa to find ways to ensure the poor people not only gets education but becomes part of the mainstream economy despite their status in the country.

The rest of the study is structured as follows: Section 2 is literature review, Section 3 is methodology, Section 4 is results discussion and interpretation whilst Section 5 summarizes the study.

## **2. Relationship between Education and Stokvels - Literature Review**

Wilson (1996) noted that majority of the people survive below the minimum poverty level thus exposing them to minor shocks which have detrimental effects on them (Johnson & Rogaly, 1997). One of the detrimental effects is that they will not be able to get out of the poverty zone unless and until they get education, access to financial markets, among others (consistent with Tsauroi, 2018). It is against this background that Stokvels in South Africa have sprouted out in order to address these conditions

that Tsaurai (2018, p. 244) pointed out which must be available before poverty can be reduced especially amongst the poorest of the poor.

Stokvels are community-based savings schemes aimed at improving the lives of poor household's and alleviating poverty and unemployment (Floro & Seguino, 2002, p. 1). Moreover, literature shows that South Africa has a very low saving rate, of which stokvels' savings money can easily be learnt to the participating members who are unemployed and poor in times of need in order to reverse their unfortunate circumstances (Moyagabo, 2015). Helms (2006) opined that even though poor and unemployed households are willing to save, they are confronted by multiple demands on their low incomes and lack of access to banking services such as credit. Stokvels are growing in popularity as a savings vehicle albeit official statistics indicating that South Africa has a very low saving rate (Moyagabo, 2015).

Poor and unemployed households often use precautionary savings for stokvels, which are made to safeguard against any possible future unexpected income shocks, often referred to as "rainy day" or "emergency" saving (Floro & Seguino, 2001, p. 1). A study by Buijs (2002) found out that most women participated in stokvels because they were poor, uneducated and unemployed. In line with this argument, the people who are employed but earn lower income supplement it by being in stokvels (Mboweni, 1990).

The most important aspect is that women are increasingly relying on stokvels to fulfil their responsibilities towards their children in schools, including the payment of school fees, buying school uniforms and to contribute to any direct educational costs which ordinarily they will be unable to afford (Arendse, 2011; Buijs, 2002). Due to credit constraints facing them in formal financial markets, many poor women consequently pull their children out of schools or ask their children to cut down studying time to do part time menial jobs especially when they face adverse shocks (Kurosaki, 2002). In line with Maldonado et al (2002), credit would be a tool to guarantee investment in education under perfect financial markets, therefore, access to financial services allows women to smooth their consumption in order to improve their decisions about children's education. Women facing adverse shocks and having insufficient access to credit may not afford to take their children to school and prefer children to work in order to smooth household consumption (Jacoby & Skoufias, 1997; Kurosaki, 2002). When women are able to borrow adequately, they may not need their children to work, so children may stay at school longer and the dropout rate is then lower. Moreover, loans to the poor often attract higher interest rate and short-term repayment conditions thus shutting them completely out of the formal financial markets for the purposes of acquiring education loans for their children.

A large number of members of stokvels (normally poor people) find it difficult to approach banks and financial institutions to get education loans for their children because they do not have the required collateral security (Kurosaki, 2002).

Low financial literacy is correlated with poor savings and the majority of individuals who are financially illiterate are unable to save (Lusardi & Mitchell, 2007, p. 240). There is still a lot of misunderstanding with regards to the relationship between poverty, unemployment, education and the role financial institutions. Other literature says that the role of financial institutions is to go to poor communities and give them financial literacy education to understand more about banking sector products as a way of alleviating poverty. On the other hand, it is actually education that is a strong predictor for wealth since it improves individual's money management behaviour, spending habits, use of financial services and ultimately may motivate individuals to save. The possibility of a chicken and egg scenario makes this topic quite intriguing hence the major reason why the author investigated the dynamics of education and Stokvels in South Africa.

As to the dynamics of borrowing for education and other purposes from the stokvel by members, both own funds and non-current assets for collateral security are relatively a consideration (Schulze, 1997). A member will borrow from a stokvel, where members will analyse their present financial performance. An interest rate and time frame will be made clear to the borrower for repayment. A borrower has to disclose his assets to the stokvel. These assets will be used as guarantee for the loan repayment.

As already alluded to, due to credit constraints, many poor and unemployed people are not able to borrow from formal financial institutions. Consequently, parents are likely to pull their children out of schools or ask their children to cut down studying time to work especially when they face adverse shocks (Kurosaki, 2002). Credit would be a tool to guarantee investment in education under perfect financial markets. Therefore, access to financial services allows poor and unemployed people to smooth their consumption in order to improve their decisions about children's education (Maldonado et al., 2002). Poor and unemployed people facing adverse shocks and having insufficient access to credit may not afford to take their children to school and prefer children to work in order to smooth household consumption (Jacoby & Skoufias, 1997; Kurosaki, 2002). When poor and unemployed people are able to borrow adequately, they may not need their children to work, so children may stay at school longer and the dropout rate is then lower for the credit participants. Moreover, loans to the poor often have higher interest rate and short-term repayment condition, they therefore require high returns to repay interest rate in a short time and this makes the Stokvels a popular vehicle through which a financial market and education can lead to poverty alleviation.

Skinner (2000) opined that illiteracy and lack of educational background in black society creates unemployment, causes difficulty in understanding and completing the necessary financial institutions forms and documents (for example; business plans and statements of utilization of loans) and which in some cases do not even

result in submission of an application form. Given the low levels of formal education in the poor households and unemployment and because many people are functionally illiterate, the terms and conditions of the constitution are written in vernacular and the choice of a written language depends on the location of the stokvel. As a result, people see little reason to go to school. Poor households lack financial knowledge of budgeting due to lack of financial literacy and training. Roberts and Sruwing (2011) observed that poor households in the Gauteng Province need further education in order to encourage the use of saving products such as bank saving and credit accounts, stocks and shares and bonds.

Stokvels contribute to community development by creating employment, funding education, provision of homes and so forth (Vermaak, 2000). Savings in stokvels by poor households and the unemployed cover future expenses, for example: education, buying property, car/furniture and for weddings celebrations (Demirguc-Kunt & Klapper, 2012). According to Robinson (2001), it is also evident that there is a strong demand for small-scale commercial financial services, both credit and savings from poor and unemployed households. The strong demand for financial services by the poor and unemployed households, together with the evidence that access to credit reduces household poverty, provides clear incentives for policy makers to develop a framework for providing financial services to the poor and unemployed households.

### **3. Research Methodology**

The current study used a quantitative research methodology, more specifically it employed a survey research framework in its approach. Primary data collection using questionnaires was mainly directed at the province of Gauteng (Johannesburg and Pretoria cities), where most of the stokvels activities takes place. Six hundred self-administered questionnaires were handed out to the stokvel members in the two cities of Gauteng and this number met Martinez-Mesa et al's (2014) criteria of a good sample size. The response rate was 64.33%, which is good enough to ensure meaningful results, according to Kim et al (2016). Relevant information (credit, education, biographical and other general information) necessary to undertake the study was part of the questionnaire. The self-administered questionnaire followed a 5-point Likert scale whilst the study used the Confirmatory Factor Analysis (CFA) to test the validity of the instrument (questionnaire) used to collect the primary data. The root mean square error of approximation was found to be 0.674, a statistic which validates the questionnaire, in line with Kim et al (2016). Questionnaires were then distributed to the respondents by the researcher with the help of four field workers trained by and reporting to the main researcher. Descriptive statistics and correlation analysis were then employed to understanding the meaning of the responses in order to comprehend the dynamic of education and stokvels in South Africa, which is the major objective of the study.

#### 4. Discussion of the Results and Interpretation

Table 2 below presents a summary of demographic information of the respondents, more specifically the sample of the level of education of the respondents.

**Table 2. Summary of Demographic Information**

<b>Demographics</b>			
	Frequency	Percent	Valid Percent
<b>Education</b>			
No schooling	65	16.8	17.6
Matric	131	33.9	35.5
National certificate	38	9.8	10.3
Diploma	57	14.8	15.4
Degree	78	20.2	21.1
Total	369	95.6	100.0

*Source: Field work (2016)*

The results for education showed that most of the respondents (33.9%) had matric education, followed by degree holders (20.2%), then no schooling (16.8%), diploma holders (14.8%) and lastly holders of national certificates of the total sample in that sequence. The results confirm two theoretical views that are there in the literature. (1) uneducated people are the unbanked and financial excluded because they cannot meaningfully participate in formal financial markets (especially securing credit lines) because they are poor and unemployed and do not have the required collateral security. (2) The results that degree holders (20.2%) constitutes the second largest group participating in the stokvels confirms also a theoretical view that says education enhances someone's financial literacy and improves the awareness of someone to save money. The finding confirms Berg and Karlsen's (2012) argument that education results in the empowerment of people and enables them to think clearly and act effectively to achieve self-selected goals and aspirations. Table 3 contains the descriptive statistics on the types of credit offered by the stokvels in the Gauteng province.

**Table 3. Descriptive Statistics: Types of Credit Granted by Stokvels**

	N	Minimum	Maximum	Mean	Std. Deviation
Groceries	130	1	5	4.22	0.972
Education	108	1	5	4.25	1.128
To pay debts	64	2	5	4.39	0.789
School uniform	61	1	5	4.07	1.328
Transport	59	1	5	4.27	1.112
Guarantees	55	1	5	4.02	1.163
Bridging loans	40	1	5	3.68	1.385
Valid N (listwise)	27				

*Source: Fieldwork, 2016*

On top of the list is groceries, followed by education, to pay debts, school uniform, transport, guarantees and bridging loans. Education credit is the second most popular stokvel credit type after grocery credit because the poor finds it very difficult to buy food and pay school fees for their children as they are trapped in the vicious cycle of poverty. The finding is consistent with Mboweni (1990) and Floro and Seguíno (2001). School uniform credit ranked fourth because the poor believes and knows that the only way to sustainably get out of the poverty cycle is to educate their children, consistent with Tsaurai (2018). Following Aredse (2011), the parents do all whatever they can in order to send their children to school for fear of being imprisoned especially when their children are still in the foundation phase.

Table 4 shows correlation analysis of types of credit, which guided the discussion on stokvels and education funding in South Africa.

**Table 4. Correlation Matrix for Types of Credit received from Stokvel**

		Education	Groceries	School uniform	Transport	Pay debts	Bridging loans	Guarantees
Education	Pearson Correlation	1	.788**	.995**	.448**	-.151	-.129	.175
	Sig. (2-tailed)		.000	.000	.008	.452	.504	.355
	N	108	45	42	34	27	29	30
Groceries	Pearson Correlation	.788**	1	.767**	.174	-.118	-.329	.092
	Sig. (2-tailed)	.000		.000	.325	.550	.087	.615
	N	45	130	45	34	28	28	32
School uniform	Pearson Correlation	.995**	.767**	1	.486**	-.089	-.117	.184
	Sig. (2-tailed)	.000	.000		.004	.658	.554	.339
	N	42	45	61	34	27	28	29
Transport	Pearson Correlation	.448**	.174	.486**	1	.262	.316	.435*
	Sig. (2-tailed)	.008	.325	.004		.187	.101	.021
	N	34	34	34	59	27	28	28
Pay debts	Pearson Correlation	-.151	-.118	-.089	.262	1	.727**	.603**
	Sig. (2-tailed)	.452	.550	.658	.187		.000	.001
	N	27	28	27	27	64	27	27
Bridging loans	Pearson Correlation	-.129	-.329	-.117	.316	.727**	1	.874**
	Sig. (2-tailed)	.504	.087	.554	.101	.000		.000
	N	29	28	28	28	27	40	28
Guarantees	Pearson Correlation	.175	.092	.184	.435*	.603**	.874**	1
	Sig. (2-tailed)	.355	.615	.339	.021	.001	.000	
	N	30	32	29	28	27	28	55
**. Correlation is significant at the 0.01 level (2-tailed).								
*. Correlation is significant at the 0.05 level (2-tailed).								

From Table 4, three variables were found to have had a significant positive correlation with education as a credit type, namely credit for groceries, credit for school uniform and credit for transport. Education credit was found to have been positively correlated with groceries credit from the stokvel. The finding is consistent with literature in the sense that a stokvel member who qualifies for an education credit is more likely to qualify for grocery credit because the lending criteria is the same. It is also possible that the groceries credit offered by the stokvel is mainly



channelled towards feeding school going age group who cannot fend for themselves because they supposed to be in class most of the time. A significant positive correlation between education credit and school uniform credit was also observed, a finding which resonates with literature because education and school uniform are synonymous. As expected, transport and education credit were positively and significantly correlated because parents have to borrow for both paying of children school fees and for transporting the same children to and from school. The finding is consistent with Maldonado et al (2002) whose study states that, when members of stokvel are able to borrow adequately, they may not need their children to work, so children may stay at school longer and the dropout rate is then lower thus increasing the transport needs of the same children to and from school.

Education credit and payment of debts were found to be negatively but non-significantly related, a result that well resonates with literature. In other words, education credit granting cannot be expected to be done at the same time the borrower is repaying the same debt. Repayment is expected to be done after a certain amount of time, hence the two types of credit are negatively correlated.

Bridging loans and education credit were negatively related in a non-significant manner. This is expected in literature because when stokvel members get the education credit, other forms of bridging loans are expected to be scaled down in order to improve the borrower's chances of being able to pay back the education credit. In fact, when stokvel members get education credit using their non-movable assets as collateral security consistent with Schulze (1997), it implies that chances of securing other bridging finance from elsewhere diminishes as they will not have adequate collateral security. As expected, the more the guarantees available at the disposal of a stokvel member, the more the education credit that they are allowed to get in order to send their children to school. Such a theoretical prediction was supported by a positive but non-significant relationship between guarantees and education credit in the current study (see Table 4).

## **5. Summary of the Paper**

The study investigated the dynamics of education and Stokvels in South Africa using a quantitative research methodology (descriptive statistics and correlation analysis) with data collected from the Gauteng province using questionnaires. Few authors have written on the subject matter and the author wanted to add her voice on the dynamics of education and Stokvels especially in the case of South Africa. The few related literature focuses on the role that stokvels plays on alleviating poverty and providing small credit to people who are excluded by formal financial institutions. The available literature on the relationship between stokvels, poverty and financial inclusion is still scattered, scant, inconclusive and signalling mixed results. To the

best of the author's knowledge, no study exist that has exclusively investigated the dynamics of education and stokvels in South Africa. The study found out that stokvels in the Gauteng province of South Africa were instrumental in the provision of not only education related small credit but also credit for groceries, transport, bridging loans, paying debts and guarantees. In line with literature, the correlation matrix shows a significant positive correlation between (1) education credit and groceries credit, (2) education credit and school uniform credit and (3) education credit and transport credit. The study therefore urges South African authorities to put in place policies that promotes the growth and safeguards the interests of stokvels as they are an important stimulant in the economy. Stokvels achieve this through their ability to improve financial inclusion by promoting savings and provision of small credit to people shunned by formal financial institutions.

## 6. Acknowledgment

This research paper is a product of my unpublished Masters Degree 2018 thesis entitled: The Nature and Characteristics of credit instruments issued by stokvels in South Africa. My Masters Degree thesis is found in the UNISA repository but it is unpublished material.

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