

Can you buy shares in a stokvel?

 By [mike broom](#)

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No, you cannot! In fact, that is probably the most defining variable in the definition of what a stokvel is, compared to another way of saving money.

As an informal economic entity, shares cannot be bought in stokvels in the same way as you would invest in a financial services company listed on the JSE. Ironically, the larger stokvels increase their total value by participating in formal investment and saving structures such as unit trusts or credit unions as a collective or community investment vehicle.

So, what *is* a stokvel? Is it simply an informal money sharing community, often defined as ‘a savings or investment club or society, where members regularly contribute an agreed amount, and from which they receive a benefits in turn’? Or ‘a traditional group-saving mechanism providing for financial, social/entertainment and community needs’?



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Yes, and no. It is informal, but it is not necessary ‘simple’. I recently worked with African Response, and in particular with Mamapudi Nkgadima (who kindly provided the second definition above), to investigate this phenomenon in the online environment in South Africa. African Response has highlighted stokvels as a hidden economy by quantifying and profiling the stokvel market and membership. Mamapudi’s work has highlighted a number of very important lessons, confirmed in a survey on Panel Services Africa’s [TellUsAboutIt](#) consumer panel. (PSA is the longest running *ad hoc* consumer panel research company on the African continent).

The findings show there are a number of defining attributes of this kind of 'informal' economic entity:

1. They are community based, but membership is individual, in that 'I contribute to the group but I get my share and use as an individual'.
2. They involve sharing money: their aim is to not necessarily make a profit. The value manifests through the achievement of mutual goals. Participating individuals benefit in the long run as a result of the 'power of many'.
3. There are no contracts: rather, a constitution and office bearers.
4. It cuts across cultures, age and income groups: it is not exclusive to one kind of community, it is far more an empowering movement.
5. They are predominantly black.

In South Africa, the size of stokvels varies from the very small to the very large. At the same time, participants in stokvels come from various backgrounds, but it is noteworthy that there is a very high proportion of LSM 10s¹* (the highest income group).

We tend to think of stokvels as a uniquely South African concept, but similar entities also exist throughout Africa, Asia, the Middle East and South America. There is no single standard structure, and many of these disparate activities could be illegal within tax and licencing laws, even though some practices may be centuries old.

Clearly the local phenomenon of stokvels is certainly a notable part of the informal economy, but their contribution to society and their economic impact remain largely unmeasured and unappreciated. This would be of less importance if the informal economy were relatively small, but in a paper published already in 1992 in the *South African Journal of Economics*, I estimated that the informal sector exceeded R4 billion – in 25 years, estimate have risen to R130 to R180 billion. See <http://led.co.za/topic/informal-economy>. This too is not uniquely South African: take the example where the recent financial difficulties of the PIGS (Portugal, Italy, Greece, Spain) countries were partly the consequence of a poor appreciation of monitoring and measuring the heartbeat of the informal sector. Close to home, according to Jan Wegelin of African Response, Zimbabwe for instance has a USD 14.2billion GDP, it is estimated that the informal economy is worth USD 7.4billion (or 52%). In South Africa, the informal market is estimated at R 160billion (or 28%) of GDP.

Perhaps one of their most defining attributes could be the fact that stokvels originated as a way of surviving financially, whether from being legislatively excluded from formal financial instruments, to escape taxes levied outside of the community on the benefits derived from belonging to the stokvel. While this statement is speculative, the reality is that tax authorities are taking a keener interest in what goes on in stokvels.

Clearly people would not participate in stokvels unless they felt that they benefited from doing so. Jan Wegelin summed it up very well; 'Stokvels are not negative by nature, their existence are very justified in the historical context of allowing people access to formal structures. And, by formal it essentially means Eurocentric which exists on the basis of the individual, not the collective.'

In short, you cannot buy shares in a stokvel, but they still thrive. Understanding how they work and remain successful, is important if we want comprehensively to understand the economy as a whole. Their history is a long one and their continued existence signals a dysfunctional relationship between the formal economy and the realities of survival in a large subset of the population. They keep functioning and will continue to do so until other forms of investment become more attractive to those in the informal economy. This phenomenon of social collaborative funding will also continue to be a subject worth investigating from various angles, and at PSA our TellUsAboutIt consumer panel allows us to track the attitudes about this interesting and community-based approach to savings.

Grateful thanks are accorded for the valuable advice and comment from Mamapudi Nkgadima and Jan Wegelin from African Response.

¹ More details about this are available from Mamapudi.Nkgadima@africanresponse.co.za

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