



## ALL ABOUT STOKVEL'S

The name “stokvel” originated from the term “stock fairs”, as the rotating cattle auctions of English settlers in the Eastern Cape during the early 19th century were known.

Stokvels generally have a constitution which dictates the size of the contributions, when the accumulated money is to be paid out and the roles and responsibilities of the members. Each month a different member receives the money in the fund, which was collected during that period. Defaults on contribution are quite rare as other members will know if you haven't paid your contribution, and also because the regular meetings are a reminder of what you will gain when it is your turn. Depending on the type of stokvels, the members can use the collected fund for their own use, for payment or investment purposes.

It is estimated that one in every two black adult South Africans is a member of at least one of 800 000 stokvels. Black adult South Africans invest approximately R50 billion in stokvels a year.

### DIFFERENT TYPES OF STOKVELS

#### **Contribution Stokvels**

Traditional savings scheme in which members contribute a fixed amount of money to a common pool weekly, fortnightly or monthly. Members would receive the lump sum on a rotational basis, and they are free to use the money for any purpose.

#### **Basic Stokvels**

Differ from the contributions stokvel in that it functions as a savings scheme that pays out for specific events, such as for a death, or at Christmas.

#### **Grocery Stokvels**

Collects the grocery or cash coupons that members receive from supermarket chains when they buy provisions for the stokvel parties throughout the year, and distributed these coupons at the end of the saving period.

#### **Purchasing Stokvels**

Collects pool money on a regular basis and uses it to purchase big items that can be used by the group to generate an income for example, a marquee that could be rented out to the community for use on special occasions.

## **Family Stokvels**

Invest the pooled money in formal bank accounts or financial services. The money is paid out according to the needs of the family, but generally the funds are used for buying land or cars, for business investments, or for deposits on bank loans.

## **Investment Group**

Invests money in order to benefit from the interest. When an investment pays out, the money is split but, in some cases, part of it will be kept back for reinvestment.

## **Party Stokvels**

Arranges street or jazz parties, often with live entertainment. An entrance fee is charged, and food and drink is sold. Members then share in the profits. Some of these stokvels have grown into sophisticated businesses

## **Borrowing Stokvels**

Which loans money at high monthly interest rates (between 20% and 50%) to members and sub-members from its regular pool money.

## **Burial Societies**

A burial society provides “informal insurance” to help families with the costs of a funeral in the event of a death. Burial societies also provide practical support for the family during the preparations; for example, by helping to prepare food. This is similar to a stokvel, in that monthly fees are collected. However, the main difference is that periodical payouts are not made and new member can only benefit after a three-month waiting period.

Burial societies are invariably intended for poorer and less educated people. Burial societies can be seen as the product of urban living and appear to have evolved in order to aid migrants from the rural areas who find themselves facing problems in a strange and hostile environment. In South Africa, the disadvantaged, and the poorer and less educated classes, have historically been black and coloured people. The burial societies help alleviate the expenses incurred when burying a loved one. It therefore comes as no surprise to find that burial societies tend to be more popular in these communities.

## **CONSTITUTION OF A STOKVEL**

The constitution of a stokvel is there to formalize the workings of the stokvel. It is also a requirement if the stokvel wants to open a bank account in its name. A Stokvel's constitution may include, but is not limited to, the following:

- Objectives of the club
- Structure of the club and their responsibilities
- Duties and responsibilities of every member
- Contribution, how often and how the deposit is made, what form of proof is required.
- What happens when a member has not contributed or passes away.
- Minimum or maximum members
- The formation of a committee that will manage the finances of the club.
- What does the club do? What kind of investments should the money be kept in.
- How often the meeting are to be held and what reports need to be made during the meetings

- What should the meeting deal with
- How records of the club must be kept.

## **BENEFITS OF JOINING A STOKVEL**

- Pooled money can earn better returns, at a lower cost. Banks offer higher interest rates on bigger amounts and banking costs are lowered (or in some cases, free) if the amount is large enough.
- Some of the added benefits are a sense of community and socialising. Stokvel members traditionally meet regularly and make an occasion of the meetings.
- You may learn something. Some stokvels operate like investment clubs and invest in the stock exchange or companies. Members do their homework, deliberate about which shares or companies to invest in and make investment decisions.
- Knowing when you will receive a windfall amount makes it easier to plan your finances.
- Reduces chances of savings being stolen if the money is moving rather than saving the money at home.

**For More Comprehensive Information on Stokvel's in South Africa read the PDF Research Paper – “Stokvel A Hidden Economy”**