



Mutual Aid and Informal Finance: The Persistence of Stokvels¹

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Abstract

This paper focuses on stokvels in contemporary South Africa. It examines the resilience and persistence of mutual aid in a modern setting. It seeks to build a qualitative model to understand the persistence and adaptation of the stokvels in a modern society where

banking institutions coexist with informal credit practices. The concept of cooperation is key to the analysis. We argue that stokvels continue to persist in modern society, despite the rise of banking institutions, because of their cooperative nature.

Introduction

The National Stokvel Association of South Africa (NASASA) estimates that about 11 million South Africans, or about 40% of the adult population, are members of a stokvel, the South African variant of a rotating savings and credit association (ROSCAs).² About 810,000 stokvels are currently active. Together, they collect about R50 billion annually. Yet, these figures might only be the tip of the iceberg. More people than NASASA estimates may in fact participate in this informal financial system.

A stokvel is a club where voluntary members help each other by taking turns in receiving the contributions of all members of the group (see, for instance: Ardener, 1964; Kok and Lebusa, 2018; Lukhele, 1990). Each stokvel has its own rules, practices, and purpose. The common denominators are mutual trust and a strong sense of mutual responsibility. These informal financial schemes have developed outside the scope of the authorities and have not been subsidised, regulated, or supervised in any way. There is no intermediation, just peer-to-peer exchange. Only social norms regulate stokvels. The behaviour of each member is monitored via collective self-regulation; enforcement is thus made easy. Because of this set of norms and rules, a stokvel is usually considered as a social institution. Women are the most active members and the most numerous (Grietjie Verhoef, 2001; Ardener, 1995). These credit circles appear like an alternative way to save money for funerals, daily supplies, and even investments (see the recent Hossein and P.J, 2022).

But when apartheid ended in the 1990s, one might have predicted the end of the stokvels. As the country opened up both internationally and domestically, its credit industry developed and grew. Banking was made easier thanks to a new set of regulations. And the demand for credit exploded under the impulse of unrestrained consumerism. An increasing number of people became 'banked', i.e. hold a bank account. In 2010, 63% of the adult population above the age of 16 had a bank account. This number jumped to 81% by 2021 (Financial Sector Conduct Activity, 2022). In this context, what about the old stokvels? Samuel Popkin claimed that the survival of mutualist schemes is theoretically unlikely because they are non-inclusive and insufficient for survival (Popkin, 1980). Today in

South Africa, stokvels represent an economy of R50 billion, contradicting Popkin's prediction (Koenane, 2019; Lukhele, 1990b). Why did stokvels continue to thrive? How can we explain such a success?

This paper attempts to answer these questions by building a theoretical model. It examines the resilience and persistence of mutual aid in a modern setting. We are especially interested in the persistence and adaptation of the stokvels in a modern society where banking institutions coexist with informal credit practices. We focus especially on the concept of cooperation. We theorise this concept further while using the theoretical framework used by Joseph Heath (Heath, 2006). Our aim is to offer a model to explain the resilience and persistence of stokvels in South Africa. This paper examines first the economic needs for stokvels in post-apartheid South Africa. Then, it focuses on the cooperative nature of stokvels to explain their persistence in modern society.

An economic need: The persistence of mutual aid schemes

A long history

The origin of stokvels is uncertain. Reciprocity and mutual aid are understood to be features of traditional communities and belonged to a timeless tradition, part of the indigenous knowledge system, dating well before the time of colonisation, something anthropologists have long hinted at (Graeber, 2002). South African scholars think the term 'stokvel' originated from the nineteenth-century 'stock fairs'. At such fairs, farmers and agricultural workers engaged not only in economic negotiations and the bargaining of livestock, but also in socialisation. Popular with rural Black communities, these meetings quickly spread and thrived in urban areas as well (Grietjie Verhoef, 2001).

Stokvels remained popular with the Black communities under apartheid. Formal banking services then were not accessible to a large chunk of the population. Black people had 'very restricted access' to loans from commercial banks (James, 2014: 7). Pay slips were mandatory to apply for a loan and many lacked such documentation. Additionally,

from the 1950s onwards, Black ownership of property was forbidden and mortgages were therefore not granted. Many turned thus to informal solutions. Along with stokvels, mashonisas – loan sharks – also granted people funds, often for emergency needs. Informality was therefore common.

Post-apartheid credit and indebtedness

In 1994, the first multiracial elections were held in South Africa and saw the victory of Nelson Mandela's party, the African National Congress. The end of apartheid signalled a new era for the country and its inhabitants. New economic opportunities became available, especially for the Black community, long discriminated against. Jobs were created and growth took up again. The Black middle-class thrived and many engaged in unrestrained consumerism. In the meantime, regulation was relaxed, and a liberated market witnessed the rise of a newly burgeoning credit industry, today the most important sector in terms of GDP. Banks and microlending institutions thrived. The number of 'banked' people increased tremendously.

As a result, South Africans borrowed as they never did before. Many credit actors, however, attracted by easy profits, engaged in reckless and predatory lending (James, 2014: 67). Some microcredit institutes charged outrageous interest rates to new customers, who did not necessarily have the financial acumen to deal with unscrupulous lending practices.³ The microlending sector grew from almost nothing in 1994 to R35 billion in 2007 (James, 2014: 66). Commercial banks also witnessed increasing profits. Household debt to GDP reached an all-time record of 51.9% in the first quarter of 2008, only to be beaten in 2020 with the Covid-19 crisis (52.7%).⁴

Indebtedness crept everywhere. In January 2018, *The Economist* published an article with the provocative title: 'In South Africa, more people have loans than jobs.'⁵ 'A neoliberal-style economy' was being created, engendering an indebtedness epidemic (James, 2014: 1 and 5). The borrowing craze evidently did nothing to alleviate poverty in a country where economic recovery after apartheid was difficult (Thompson, 2001). In 2020, about 55% of the South African population lived in poverty and 19% in

absolute poverty, having less than \$1.90 per person to live on. The country's GINI index measuring the dispersion in wealth among the population reached 63, the highest score in the world.⁶ Even worse, both poverty and inequality have now continued to progress under the Covid-19 pandemic (Parry and Gordon, 2021).

In this context, despite the rise of banks, stokvels continued to thrive. For those who could not borrow via formal banking actors, stokvels remained a way to save and borrow money to make ends meet and to consume. Stokvels are even now considered to be 'among the key poverty-alleviation strategies' and social advancement tools (Verhoef, 2001; Matuku and Kaseke, 2014; van Wyk, 2017). In an earlier study, Verhoef found that 57% of her respondents belong to a stokvel to survive economically. And 60% of her respondents stated that they cannot survive economically without participation in a stokvel (out of 115 respondents) (Verhoef, 2001: 530).

In fact, if stokvels continue to be an important cornerstone of the household economy it is partly because the banking sector does not compete well with the purposes and aims of the stokvels. In South Africa, banking institutions of different types offer bank loans, insurance products, investment opportunities and grant access to the payment

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system. They mostly do this for people with regular incomes and pay slips.

Stokvels offer capital that would not be accessible otherwise to many households because they lack regular incomes and/or collateral to secure loans. Accessing loans via a banking institution appeared exceedingly difficult for many (see also Aliber, 2001). Many rural dwellers had never had access to a loan offered by a bank (FinAccess, 2019). Microlending institutes offer smaller loans than traditional commercial banks. But because of the lack of rules and regulations before the NCA, many of these actors had to seek profit above all, resulting in a growing distrust among their clients (James, 2014: 69). After 1994, many of the microcredit companies were opened by the Afrikaans-speaking minority, complicating further the relationship with a largely Black clientele. Many believe that banks and microcredit institutes discriminate against their Black clients (James, 2014). Paradoxically, while traditional banking institutions do offer high interest rates, they are often lower compared to the ones proposed by stokvels. But it is understood that the stokvel interest rates go to members of the community and not to a bank, therefore members perceive the process differently. Members' strategy may not be viewed as optimal from a self-interested point of view, but nonetheless it is seen as worth pursuing from a social point of view (Simon, 1983; Bowles, 2016).

The situation has changed recently. An increasing number of people own a bank account. Many more use a bank account for savings but are also members of a stokvel (Aliber, 2001: 54–55). While stokvels help people to accumulate cash, banking deposit accounts offer a safe place to store the accumulated capital. People therefore use both systems (see also Hutchison, 2020). Overall, stokvels did persist after 1994. Poverty, unemployment, and the absence of regular incomes pushed many to continue turning to the informal sector out of habit, but more especially out of necessity. New banking actors often ignore a large segment of the population who could not present sufficient guarantees to secure a loan. But many people also came to distrust the formal banking sector; they perceive it as discriminating. Many believe the stokvel system, by contrast, is

more reliable because it is based on interpersonal exchanges.

The cooperative nature of stokvels

Stokvels and cooperation

Stokvels did persist despite the rise of modern banking. One of the reasons, as we have seen above, was economic. Many could not pretend to a bank loan. The lack of formal banking opportunities and banking access encourages individuals to turn to informal options such as stokvels (Platteau, 2006: 822). But another reason for this persistence resides in the social character of stokvels, and, in particular, its cooperative nature. In this part, we aim to highlight the features that enable stokvels to persist in modern South Africa, with special reference to social and moral norms. A stokvel is a cooperative arrangement. Instead of choosing an individual strategy, stokvel members choose a single *joint* strategy, leading to what they consider an optimal outcome. Individuals join a stokvel because of the prospect of new benefits achieved mutually, through cooperation (Gauthier, 1987). It is either the possibility to save money and/or to borrow money. But it is also the possibility to be part of a network which can provide social assistance, solidarity in many different forms, as well as information access. The benefits of stokvel cooperation are thus manifold. We aim to show here how cooperation – that is, pooling resources together in stokvels – works in practice. We use partly Joseph Heath's model of cooperation to highlight the social and economic advantages of stokvels while also reflecting on their flaws (Heath, 2006).

Economies of scale: The community or the strong incentive to cooperate

The first obvious mechanism of cooperation is what Joseph Heath called 'economies of scale'; 'nature sometimes organizes things in such a way that people can do better working together than they can working individually' (Heath, 2006: 319). In traditional and rural communities, cooperation between villagers is often indispensable. Harvesting the fields, curing livestock, mending fences or houses, or taking care of each other's children, for example, require mutual assistance and imply reciprocity. Rural dwellers often

rely on each other for communal labour in times of need (Verhoef, 2001). Women, in particular, perform efforts collectively with special reference to informal labour and child rearing.

Because of the need for mutual assistance, traditional communities are usually regarded as societies 'where predispositions toward altruistic or norm-following behavior are pervasively present', although these societies are not deprived of conflicts and social tensions (Platteau, 2006: 821). In fact, cooperation is made possible because of people's self-interest. By helping others, they hope to receive the same assistance when the time comes. Reciprocity is one of the constitutive characteristics of a small community (Taylor, 1982). This reliance on one's neighbours is naturally extended to economic needs and, by extension, to stokvels. In such a setting, cooperation is thus made easier. Individuals are used to relying on each other for their needs. This environment not only creates the conditions for the setting of mutual arrangements such as stokvel but also favours cooperation. Cooperation is sustained further via social norms.

Stokvels and shared norms

The second mechanism of cooperation is tightly related to the first one. Shared norms and values make cooperation easier. Holding beliefs and values in common is a common feature of small African communities. One of these major values is the concept of Ubuntu. This pan-African norm and value literally means that a man can only be a man through others. 'In its most fundamental sense,' writes Verhoef, 'it stands for intense caring and sharing' (Verhoef, 2001: 522). Several studies mentioned Ubuntu as an important factor in the functioning of stokvels (Van Wyk, 2017; Rodima-Taylor, 2022).

Beyond this concept, communal social norms are of importance. Because of a shared common background, people often do share the same social norms. Upon the formation of a stokvel, most of the members are usually of prior acquaintance. Enrolment in a stokvel happens either upon recommendation or via co-optation. Members often share the same background. They belong to the same community, live in the same street or village, frequent

the same church, or are involved in the same trade. Some of them are even related to each other. Most of the existing stokvels are all female. This can be explained because women are often in charge of their households' finances and budget. Homophily in terms of gender, socio-professional background, ethnicity, and religion constitute a critical criterion of recruitment.

Social norms are a set of informal rules collectively understood and subject to change, which circumscribe economic exchange in ways that defy purely economic rationality so that it is fair and mutually beneficial in a community of advantage (Sugden, 2018). What kind of role do social norms play in stokvels? Social norms sustain cooperation in at least three different ways.

1. Social norms incite stokvel members to follow the rules they agreed upon. There is a shared understanding that rules and practices need to be followed to reach the common goal. And there is mutual trust that each member will stick to the rules; members expect reliability from one another. Meanwhile, there is also room for flexibility and negotiation.
2. Members comply with social norms because of the fear of condemnation and ostracism from their social group. Stokvels are self-enforcing institutions. Strong social norms not only prevent default, but also prevent or sanction non-compliance. In the case of non-compliance with the rules, members avoid resorting to the formal justice system (in which the Black population historically would not have been treated fairly).⁷ A system of fines punishes both late contributions and non-attendance at the mandatory stokvel meeting, emphasising the importance of participation. Negotiations between the stokvel members are conducted in cases of likely default. If these talks fail, violence and ostracism may occur. If a member does not repay the interest and the capital as agreed, sanctions must ensue. First, some of the stokvel members are sent to negotiate with the defaulter. If the group fails to obtain either the repayment or insurance of future payments, a community disciplinary forum may decide to physically seize a defaulter.⁸ Physical

violence may occur as a means of coercion (Bähre, 2007). Such a shaming mechanism is used to underline the untrustworthiness of a stokvel community member in the public eye. The shaming acts both as an information channel to warn about a particular individual, but also to warn other potential defaulters. As a result, the default rate in such lending and savings groups is apparently very low. Because of the close-tight character of small communities (many stokvels are rural stokvels or/and stokvels based on prior acquaintance), sanctions to address 'bad' behaviour work better in such a setting; norms of exclusion are more effective in smaller groups (Cook, 2005: 34). Social norms make the incentive not to default very strong, not only because of the direct economic effects but also because of the social consequences.

3. And, finally, members follow certain ('moral') norms for intrinsic reasons consistent with their own preferences, even when such conduct is against their own interests and is not subject to social monitoring and condemnation; (Re-)negotiation and flexibility towards other members for instance (Hedström, Bearman, and Bearman, 2009; Sugden, 2018; Bowles, 2016).

We underline that the combination of shared social norms and high homophily encourage and sustain trust between stokvel members. In the literature, respondents often emphasise the importance of trust in the formation of a stokvel (Cook, 2005). In fact, trustworthiness works as a collateral in a system where tangible guarantees are non-existent. Shared social norms, therefore, encourage and sustain cooperation because of the common understanding of rules but also because of the fear of sanctions.

Tight-knit communities and information transmission

The third mechanism of cooperation is directly tied to the previous two. In tight-knit communities, informational problems are almost inexistent (Platteau, 2006: 855). Agents can come by the information they need because of the intimate, close-knit character of the community. Tied social networks encompass more or less everyone in the community. Information access is made easy. For example, people

know about their neighbours' income – or have a rough estimate of it – as well as about their harvests, livestock, personal difficulties, etc. This direct access to information means that no third party is needed and that trust – or distrust – can happen first-hand. In other words, stokvels can remain informal because information flows well. There is no need for monitoring and screening, such as a credit score, because members do have access to the information they need. Stokvel members do not need to outsource the access to information to external parties against a fee. Local information access creates the conditions for cooperation and sustains it. Evidently, in a context where parties know each other and where there are no external screening or monitoring mechanisms, overconfidence can mislead people. They can rely on false information. They can also ignore missing or negative information because of the embeddedness of economic exchanges in the social fabric. We will come back to this point in the last part.

Risk pooling: Stokvels as insurance

The fourth mechanism of cooperation in stokvels is risk pooling. Uncertainty about the future is something all of us are exposed to. For poor households, unfortunate events can tip them over and engulf them into deeper poverty and destitution. In order to get uncertainty under control, insurance is the usual answer. Formal institutions, and in particular those of the welfare state, usually provide a safety net for their citizens (Douglas, 1987). But many poor South African households are left without employment and proper insurance. The social grants distributed by the government often proved to be insufficient to palliate all the needs and uncertainties that households face.

Stokvels can act as a risk-pooling arrangement, a safety net in case of unexpected events. Burial stokvels are perhaps the best example; they work as a life insurance scheme and not only allow their members to bear the cost of burial but also offer social assistance in a delicate time. In an estimate from 2014, 65% of the stokvel population belonged to a burial society for which the average contribution is R134 per month per member.⁹ In small communities, the pooling of resources via a stokvel is made easier thanks to social proximity and shared social norms. People have an incentive to come together to save money to shield their families against uncertainties.

This incentive is magnified by the lack of other alternatives. Formal insurance schemes usually require formal documentation, additional transaction costs (transportation, communication, etc.) and fees that might be a deterrent for many.

Cooperation and conflicts

Despite these mechanisms of cooperation, the reality and practices of stokvels are made up of conflicts and tensions. In the literature, respondents often emphasise the social aspect in stokvel membership. In fact, the social and entertainment functions of a stokvel are tremendously important not only to cement the group and smooth the exchanges, but also as an incentive to join a stokvel. Membership in a stokvel is often perceived as being part of a social group, like being among friends. Precisely because of this deep embeddedness of economic transactions in the social fabric (Granovetter, 1985), tensions and conflicts are common (see, for instance: Bähre, 2007). The high degree of personalisation is a fertile ground for disputes of all kinds. As such, stokvel arrangements might not be the most efficient mechanisms. The lack of intercession and monitoring by an external party does not deter conflicts.

Directly related to this problem of embeddedness is the question of power in financial relationships. There has not been much research on this because ROSCAs are usually considered equitable (Bähre, 2007a; 2007b). But financial transactions bind people together in a social relationship (Mauss, 2011). Pierre Bourdieu refers to 'the exercise of gentle violence' when referring to credit (Bourdieu, 1977: 193). For him, credit is 'an attack on the freedom of one who receives it (...) it creates obligations, it is a way to possess, by creating people obliged to reciprocate' (Bourdieu, 1998: 94). The first stokvel members to retrieve money from the common pot became a debtor while the other members became creditors. Another dimension of this imbalance of power problem resides in forced cooperation. By forced cooperation, we mean the participation in stokvels because of social pressure to do so but also the pressure to extend the capital obtained to non-members who might be relatives and friends (Wherry, Seefeldt, and Alvarez, 2019; Baland, Guirkinger, and Mali, 2011). Again, there is not very much research on this aspect. Future research will certainly shed much-needed light on this issue.

Concluding remarks

Stokvels continue to persist in modern society, despite the rise of banking institutions, because of their cooperative nature. These mutual arrangements are based on reciprocity, social norms and cooperation. This pattern of cooperation is certainly not new. Small communities have relied on each other for communal tasks and labour and continue to do so. This is naturally extended to the economic sphere and thus to the stokvels. Stokvel members trust each other, they share and respond to the same social norms. And they don't need external actors to come by information as the close-knit and intimate character of a small community enables them to access information. Social norms act as a deterrent against default and uncooperative behaviour. Stokvel members pool risk together to face uncertainties in a world without adequate security nets. Yet, conflicts and tensions are common. Considering the current success of stokvels, the benefits of cooperation seem to overcome their downsides.

The rise of information technology has given birth to new FinTech apps proposing to mimic stokvel mechanisms (Rodima-Taylor, 2022). Yet, as we perceive it, there is a risk that those new intermediaries harm the cooperative mechanisms of stokvels. As we have seen in this paper, stokvels are perceived as successful because they are cooperative; because of the embeddedness of economic exchanges in the social fabric of communities. Altering this process could engender dis-embeddedness and change the nature of cooperation in stokvels.

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Notes

1. The data for this research has been gathered, processed, and stored in South Africa. It does not involve sensitive data categories as defined by the GDPR.

2. There are other terms used to refer to stokvels such as gooi-goosis, makgotlas, kuholisana, etc. The variation depends largely on local practice. The literature on ROSCAs is vast.
3. The National Credit Act of 2005 put a halt to abusive practices by regulating interest rates and introducing comprehensive affordability testing (Calvin, 2010).
4. International Monetary Fund, Household Debt to GDP for South Africa [HDTGPDZAQ163N], retrieved from FRED, Federal Reserve Bank of St. Louis; fred.stlouisfed.org/series/HDTGPDZAQ163N, September 6, 2022.
5. See: www.economist.com/middle-east-and-africa/2018/01/18/in-south-africa-more-people-have-loans-than-jobs
6. World bank data available here: databankfiles.worldbank.org/data/download/poverty/33EF03BB-9722-4AE2-ABC7-AA2972D68AFE/Global_POVEQ_ZAF.pdf
7. The latest statistics indicate that the number of civil summonses issued for debt is about half a million per year for a population of 55.7 million inhabitants. See: www.statssa.gov.za/publications/P0041/P0041October2020.pdf
8. Seizing a defaulter physically was a common practice in medieval and early modern Europe. (See, for example: Wakelam, 2020)
9. See: pressoffice.mg.co.za/ipsos/PressRelease.php?StoryID=248956

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