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# Hybrid household finance: the use of formal and informal financial instruments in South Africa's emerging middle class

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## Abstract

**Purpose** – This study examines how South Africa's emerging middle-class households use formal and informal financial instruments in combination. While prior research often explains informal-finance use in terms of exclusion, low income or limited access to formal services, less is known about why banked and financially included middle-class consumers continue to use informal instruments alongside formal ones.

**Design/methodology/approach** – This study uses a qualitative design based on 25 interviews with emerging middle-class South African participants who used both formal and informal financial instruments. The data were analysed thematically.

**Findings** – The findings show that financial inclusion does not produce a simple transition from informal to formal finance. Instead, participants used formal and informal instruments in parallel, with formal products serving structured and long-term financial goals, while informal instruments remained valuable for flexibility, speed, trust, social embeddedness and crisis response. Informal finance therefore persisted not because respondents lacked formal access, but because it fulfilled needs that formal services did not fully meet.

**Originality/value** – The study contributes to household-banking and financial inclusion research by showing how financially included middle-class consumers maintain hybrid financial practices across sectors. It develops a 7Cs framework: convenience, cost, community, control, culture, credit availability and crisis to explain how households evaluate and combine formal and informal financial instruments.

**Keywords** Financial instruments, Informal economy, Formal economy, Middle-class, Informal sector, Africa

**Paper type** Research article

## Introduction

This study explores the role that both informal and formal financial instruments play in the finances of South Africa's emerging middle class. As components of household finance, both formal and informal financial instruments play vital roles in addressing the diverse needs of individuals, particularly in emerging markets (Menze and Tsibolane, 2019). While perspectives on financial inclusion tend towards seeing informality replaced with formal banking, there has long been a suggestion that many households continue to use informal financial instruments well after their income places them into the middle-class (Simpson and Dore, 2008). The details of this use, however, have yet to be explored, even though regularly recognised (FinMark Trust, 2024). Given that the emerging (first generation) middle-class in post-Apartheid South Africa is now in the majority (Lappeman *et al.*, 2021a, b), the relationship between sectors needs stronger defining to offer practical solutions to financial services providers.

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According to Rogerson (2016), economic need rather than personal preference is the main factor driving involvement in the informal sector of emerging markets. However, this perspective might not be fully accurate, especially when it comes to the growing middle-class in places like South Africa, where strong cultural ties bind consumers to the informal sector. Past assumptions position the formal sector as offering enough benefits to readily attract members of the emerging economy. There is ample evidence indicating that formalisation can result in improved worker social protection (through unionisation), increased loan availability, increased productivity and a larger revenue base for governments lends credence to this notion (Chen, 2023). Additionally, formalisation can promote equitable working conditions, lessen poverty and inequality, and boost business sustainability and production (Dube, 2024).

In contrast, informality is positioned differently in both literature and discourse (Abdelzاهر, 2019). The informal economy has been observed to function with a variety of unregulated financial instruments that provide accessibility and flexibility for individuals who often lack access to traditional banking services due to systemic and socio-economic barriers (Okunade *et al.*, 2023). Services providers like moneylenders (individuals loaning cash at high rates) and savings clubs (community savings groups) address urgent financial needs and foster community trust (Lappeman *et al.*, 2021a, b; Lashitew *et al.*, 2019; Menze and Tsiolane, 2019). The informal sector is not, however, without major deficiencies. High interest rates, unethical practices and low returns on investment are all known to characterise the informal sector (Ahmad *et al.*, 2020). In Africa, several public and private initiatives have aimed to enhance financial inclusion across the continent. The South Africa's Financial Sector Charter (2004) committed financial institutions to extending access to underserved communities, while mobile banking platforms like Mzansi Account and eWallet have further broadened reach. In East Africa, mobile money innovations like M-Pesa have revolutionised access to formal financial services. These efforts, while successful in increasing account ownership, have not led to a corresponding decline in the use of informal instruments such as stokvels (known formally as ROSCAs – rotating savings and credit associations) or loan sharks (Ahmad *et al.*, 2020; Beck, 2016). This persistence suggests that access alone does not guarantee adoption, and that formal systems often fail to meet the cultural, relational or practical needs fulfilled by informal financial practices.

A substantial body of research has examined informal financial services primarily in relation to low-income, underbanked, or financially excluded populations. Studies of ROSCAs, ASCAs, stokvels and related savings groups commonly show that such arrangements provide accessible saving, borrowing and mutual-support mechanisms where formal financial systems are unaffordable, inaccessible, mistrusted or poorly aligned with everyday needs (Verhoef, 2001; Irving, 2005; Lukwa *et al.*, 2022; Kamran and Uusitalo, 2024). In South Africa and elsewhere, this literature has therefore often framed informal finance as a response to poverty, exclusion and weak formal-sector reach, even while recognising its social and cultural functions (Gwamanda, 2019; Verhoef and Hidden, 2022). However, this framing does not fully explain why informal financial instruments continue to be used by households that are already banked and have formal alternatives.

Research on the interplay between formal and informal financial instruments reveals several strategies employed by households (Non, 2023). Despite widespread formal access in South Africa (over 90% of adults hold bank accounts), cash and informal saving systems remain dominant due to cultural familiarity, accessibility and social trust, highlighted by roughly R44 billion held in ~820,000 informal savings clubs in 2023 (FinMark Trust, 2024). Makmur (2024) highlighted that many banked individuals still engage in a hybrid approach, utilising both types of instruments to meet various financial needs. For instance, while a household might rely on a formal bank for savings and long-term investments, it may turn to a savings club for short-term liquidity needs or emergency funding (Maziriri *et al.*, 2024). The details of this blending of financial instruments, however, remain an under-researched phenomenon. What is deeply established, but the why and how are generally missing from the discourse. In this regard, actual motivations, behaviours and combinations of financial

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resources have yet to be adequately conceptualised for financial services marketing practice. The existing literature often emphasises the supply side, neglecting consumer behaviour (Horodnic *et al.*, 2022; Blaauw, 2017).

The aim of this research was to answer the question: why do financially included households in South Africa still use informal financial tools, such as *stokvels*, even when formal banking services are available? In doing so, the study explored the drivers of hybrid financial behaviour in emerging middle-class households. The research was guided by the assumption that, while the formal and informal sectors are viewed as linked (Davies and Thurlow, 2010), the linkages are not well understood in the context of household finance. Thus, this study seeks to explore these linkages and analyse how they impact household financial decision-making. The findings somewhat support the dualist viewpoint that sees engagement with the informal sector as a requirement in developing countries (Dadzie and Sheth, 2020; Rogerson, 2016; Chen, 2005, 2012). The findings provide a novel model to explain these household choices of financial instruments.

## Literature review

### *Formal financial instruments*

Formal financial instruments include traditional banking services, microfinance and credit facilities provided by regulated financial institutions (Non, 2023). These instruments often offer structured products like savings accounts, personal loans and mortgages, which are essential for larger financial commitments, such as home ownership or education. Research indicates that, while these services can provide organised help for long-term objectives, they are very stringent in their requirements of eligibility, costly fees and unavailability to low-income populations. For instance, traditional financial services are beyond the reach of many due to being hampered by complex document demands and distrust resulting from past negative experiences with financial institutions (Non, 2023). Consequently, it has resulted in a significant reliance on alternative financial vehicles, particularly for the emerging middle class.

Traditional financial instruments, despite the impediments, are highly significant in emerging economies. They offer security and stability, essential for larger savings and investments. Household use of formal financial products is found to benefit from better financial planning and security, allowing them to achieve significant life stages like a property purchase or an investment in education (Menze and Tsibolane, 2019). However, the ability of formal systems to expand financial access has been constrained by an inability to tailor services to lower-income populations. Access to these services can be limited due to stringent requirements, high costs and a lack of trust in formal institutions, particularly within lower-income populations or those with limited financial literacy (Chikweche *et al.*, 2024). In more recent times, however, innovations like fast payment systems and mobile technologies have helped move millions of consumers into formal mechanisms (Giraldo *et al.*, 2025).

### *Informal financial instruments*

In contrast to the formal financial sector, informal financial instruments encompass a wide range of community-based and unregulated mechanisms that offer accessible financial solutions (Makmur, 2024). ROSCAs (*stokvels*) are popular informal groups (savings clubs) in which members contribute to a common fund and take turns receiving a payout (Ntimbane, 2023). Dinh *et al.* (2025) highlighted that ROSCAs improve saving habits, encourage fiscal restraint and expand access to lump sum funds for investments or emergencies. Ibrahim (2019) added that ROSCAs develop social networks and trust among members, which can lead to greater financial literacy and collective economic empowerment. Accumulating savings and credit associations (ASCAs) or savings and credit groups also operate in South Africa, often collectively referred to as *stokvels* (Gwamanda, 2019). Unlike ROSCAs, ASCAs retain pooled

funds and offer interest-bearing loans to members, enabling capital accumulation over time (Beck, 2016). Given the size and pervasiveness of ROSCAs in developing countries, there is a growing body of work exploring behaviours of group membership (Kamran and Uusitalo, 2024).

Similarly, informal loan providers, such as moneylenders or loan sharks, cater to urgent financial needs despite imposing often exorbitant interest rates and their associated risks (Chikweche *et al.*, 2024). These informal arrangements are frequently utilised when individuals are unable to secure loans through formal channels, illustrating the necessity of such instruments in the financial ecosystem. Despite being decentralised, parts of the informal finance sector exhibit signs of coordination (Lappeman *et al.*, 2020). For example, some stokvels are affiliated with broader cooperative movements or member-based networks. The National Stokvel Association of South Africa (NASASA) is one such body that represents stokvels financial interests while also emphasising their cultural and community-based characteristics (Bophela and Khumalo, 2019).

A substantial body of research has examined informal financial services primarily in relation to low-income, underbanked, or financially excluded populations. Studies of ROSCAs, ASCAs, stokvels and related savings groups commonly show that such arrangements provide accessible saving, borrowing and mutual-support mechanisms where formal financial systems are unaffordable, inaccessible, mistrusted or poorly aligned with everyday needs (Verhoef, 2001; Irving, 2005; Lukwa *et al.*, 2022; Kamran and Uusitalo, 2024). In South Africa and elsewhere, this literature has therefore often framed informal finance as a response to poverty, exclusion and weak formal-sector reach, even while recognising its social and cultural functions (Gwamanda, 2019; Verhoef and Hidden, 2022). However, this framing does not fully explain why informal financial instruments continue to be used by households that are already banked and have formal alternatives. A study by Makmur (2024) highlighted that informal financial customs are strongly ingrained in local cultures as a manifestation of social values and community relationships. To most people, these informal instruments can offer a vital lifeline in navigating large expenses and coping with crises, especially when financial institutions are perceived as untrustworthy or inaccessible (Sánchez-Barrios *et al.*, 2015).

The simultaneous existence of formal and informal financial systems accentuates the complexity of household finance. Most households adopt a mixed system, employing both types of instruments (Etim and Daramola, 2020). For example, while individuals use formal banks for long-term saving and investment, they utilise informal networks to tap liquidity and for short-term financial support (Lappeman *et al.*, 2021a, b). This intersection emphasises the importance of a thoughtful interpretation of these financial practices, as policymakers attempt to design inclusive financial systems that recognise the vital roles of both formal and informal instruments in supporting economic stability and growth in emerging economies.

### *Theoretical framework*

The formalisation of financial services in developing economies is a complex issue in financial services product development (Jacolin *et al.*, 2021). As consumers move up the socio-economic ladder, more formal financial products become available to them. This developmental process is fraught with complexity as low-income households benefit directly from offering informal financial services, and being replaced by corporate offerings may hurt more than help them (Ardington and Leibbrandt, 2004). While this study is grounded in financial services theory, it is underpinned by two theoretical lenses from economics and consumer behaviour, respectively. In many regards, these three disciplines (including services theory) are closely related, especially in the context of emerging markets. The first theory to underpin this study is the economic theory of informality, which posits that, as households move out of poverty into the middle class, they move from informal to formal financial

instruments (Bolarinwa and Simatele, 2023; Rogerson, 2016). Studies like that of Davies and Thurlow (2010) clearly link the two economies by observing both product and labour markets (Figure 1). Even this kind of research that acknowledges a complex ecosystem of various degrees of formality tends to contrast them as being in constant trade-off (Davies and Thurlow, 2010).

By using the basic theory of the dual economy (Narula, 2018; Vollrath, 2009), as famously theorised by Lewis (1954), the study can be grounded in familiar territory. Moving from economics to behaviour, the second theory to underpin the study is grounded in the 4 As Consumer-Centric Framework (Dadzie and Sheth, 2020; BabahDaouda et al., 2020; Sinha and Sheth, 2018). The framework defines value propositions regarding acceptability, affordability, awareness and availability. This model provides a solid foundation for developing insights into consumer-focused financial product strategies to enhance financial inclusion (Mogaji et al., 2021; Sheth and Sisodia, 2012; Anderson and Billou, 2007; Prahalad and Hammond, 2002; Sheth, 2011; Sinha and Sheth, 2018).

The first of the 4 As Consumer-Centric Framework is *Awareness*, the knowledge and familiarity consumers possess of a product or service. Key attributes of awareness include brand recognition or recall (Pillay, 2022). Successful marketing efforts, including advertising, promotions and social media engagement, contribute significantly to increased visibility (Ewis and Abdou, 2025). Rolando and Mulyono (2025) added that information availability is also a determining factor; consumers should be able to access the appropriate information regarding products so that they can make good decisions. The second determinant is *Accessibility*, which is the ease with which consumers can gain access to a product or service (Fadillah and Zain, 2025). This includes the distribution channels through which products are made available, such as websites and physical retail stores. Geographic reach is also important, as it determines how far the products can travel across different regions, particularly in low-density areas. Purchase ease also has elements that facilitate ease of purchase or make it hard to purchase, like user-friendly websites and rapid payment systems that enhance the customer's experience. *Affordability* is the third element of the framework, which is concerned with the price responsiveness of a consumer (Bennett, 2025). Key considerations here are the price point, that is, the actual price of the product, and if it is on par with consumer perceptions (Pillay, 2022). Value perception comes into play; thus, consumers need to deem a product

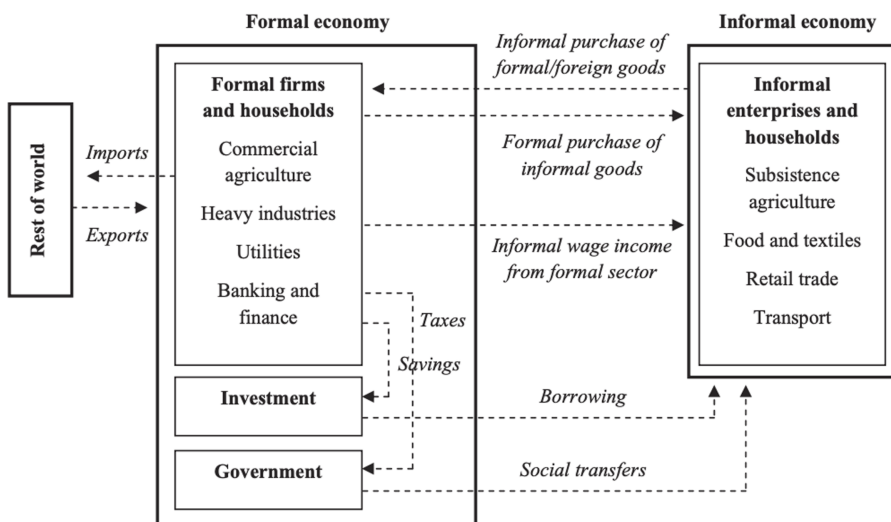


Figure 1. Conceptual formal-informal economy model (Davies and Thurlow, 2010)

valuable relative to its price (Fadillah and Zain, 2025). Financial options like discounts and payment terms also make products more accessible. The fourth ingredient is *Acceptability*, that is, to what degree a product meets consumer preferences and cultural norms (Fadillah and Zain, 2025). Cultural fit is essential, since goods must be aligned with local customs, values and beliefs in order to be attractive to customers (Rolando and Mulyono, 2025). Additionally, product greatness and attributes need to meet customer expectations and needs (Pillay, 2022). Brand loyalty, established through emotional connections with customers, dictates their willingness to choose a brand from competitors (Bennett, 2025).

Taken together, these two frameworks operate at different but complementary levels of analysis. The formal–informal economy model offers a structural perspective by explaining how development and financial inclusion are often assumed to shift households from informal to formal systems. The 4 As framework adds a consumer-level perspective by focusing on how people assess the value of financial products in terms of accessibility, affordability, acceptability and awareness. In the present study, these frameworks are combined to examine whether financially included emerging middle-class households in South Africa conform to the expected progression towards formal finance, or whether they continue to use informal instruments because these meet important consumer needs that are not fully addressed by formal services.

The theoretical argument of the study is that formal financial inclusion does not necessarily eliminate informal financial behaviour. From the formal–informal economy perspective, one might expect middle-class households with access to banks and regulated products to rely less on informal instruments. However, from a consumer-centric perspective, households may still choose informal instruments when they are experienced as more convenient, socially meaningful, flexible or responsive in practice. The study therefore investigates whether formal and informal instruments function as substitutes or whether they are combined within a broader household financial strategy. On this basis, we expected to find hybrid financial behaviour rather than a complete transition from informal to formal finance.

### Methodology

This study employed a qualitative approach based on in-depth interviews to explore the use of formal and informal financial instruments among households in South Africa. A total of 30 interviews were planned, with saturation reached at 21. An additional four interviews were carried out to ensure the robustness of the findings. This decision was guided by the theoretical saturation and sufficiency criteria (Fugard and Potts, 2015; Guest *et al.*, 2006). Recognising the risks of over-generalisation, we adhered to the insights provided by Braun and Clarke (2021), customising our approach to fit the specific objectives of our investigation. This methodology allowed us to capture various perspectives on financial behaviours and practices, ensuring a comprehensive understanding of the subject matter.

The sampling strategy utilised in this study was non-probability-based, employing both judgmental and snowball sampling (Alijon o'g'li, 2024; Aityan, 2022). The sampling started with a few initial participants from the researchers' network who met the study criteria (Bell *et al.*, 2022) of being both in the emerging middle-class and using both formal and informal financial instruments. Recruiting these participants involved a level of trust due to the personal nature of the questions. After interviewing these individuals, they were asked to refer others who might also qualify. This snowball technique allowed the study to gather insights from participants who had experience with both formal and informal financial instruments, and care was taken due to the complexity already faced by the emerging middle-class (Lappeman *et al.*, 2024). South Africa served as a suitable research site due to the large and growing emerging middle-class (Southall, 2016; Ntumbane, 2023). In addition, many in the South African middle class are still deeply connected to family and friends at the base of the pyramid. This connection is a distinguishing characteristic as specifically outlined in Lappeman *et al.* (2019). Table 1 gives a summary of the final group of participants (assigned numbers for identification

**Table 1.** Participant description

Participant	Age	Gender	Occupation	Location
Participant 1	20–24	Male	Student	Cape Town
Participant 2	41–45	Female	School Teacher	Cape Town
Participant 3	30–34	Female	Financial Advisor	East London
Participant 4	35–40	Female	Consultant	Johannesburg
Participant 5	20–24	Female	Student	Cape Town
Participant 6	61+	Female	Psychologist	Johannesburg
Participant 7	51–55	Male	Office Manager	Johannesburg
Participant 8	41–45	Male	Accountant	Cape Town
Participant 9	41–45	Male	School Teacher	Johannesburg
Participant 10	41–45	Female	Investor	Cape Town
Participant 11	41–45	Female	Student	Cape Town
Participant 12	18–24	Male	Sales Consultant	Cape Town
Participant 13	46–50	Male	Principal	Cape Town
Participant 14	51–55	Male	School Teacher	Cape Town
Participant 15	40–45	Male	School Teacher	Cape Town
Participant 16	56–60	Female	Investor	East London
Participant 17	25–30	Male	Corporate Issuer	Bloemfontein
Participant 18	61+	Male	Investor	Bloemfontein
Participant 19	61+	Female	Investor	Bloemfontein
Participant 20	18–24	Male	Economist	East London
Participant 21	46–50	Male	Risk Assessor	East London
Participant 22	61+	Female	Investor	East London
Participant 23	40–45	Male	Corporate Manager	Gqeberha
Participant 24	56–60	Male	Office Manager	Gqeberha
Participant 25	25–30	Female	Manager (civil service)	Gqeberha

purposes). There was an intentional mix of ages, genders, occupations and locations. This was to improve richness and to provide a basic level of generalisability.

The interview questions were initially designed based on the 4 As framework, facilitating a structured yet flexible exploration of participants' experiences and insights. The questions focused on how participants manage their finances, including the use of formal and informal financial instruments. While initially using the 4 As framework, questions were also aimed to uncover deeper motivations, like how cultural factors impact financial decisions. Participants also discussed challenges they face when accessing financial services, including issues of trust, costs and availability.

The theoretical framework informed the empirical study in two ways. First, the 4 As framework guided the design of the interview schedule by directing attention to how participants understood, accessed, evaluated and experienced financial instruments across both sectors. Second, the formal–informal economy lens sensitised the analysis to the possibility that participants might either move away from informal finance as their formal options expanded or, alternatively, continue to combine instruments across sectors. This enabled the study to examine not only product choice, but also the broader logic through which participants organised household finance. Semi-structured interviews were conducted in person or via video conferencing. The interviews lasted for 30–40 min, allowing for an adaptable interaction that encouraged comprehensive responses (Simpson and McDowell, 2019). All sessions were audio-recorded and transcribed to ensure data accuracy and to facilitate thorough analysis (Guest *et al.*, 2006). The data itself was generally of high quality. The sampling strategy helped to ensure that there was a good measure of trust, allowing for open sharing. This kind of sharing is often a challenge in personal finance research (Tufano, 2009). Some of the interviews had low information power (Malterud *et al.*, 2016). While in the minority (four in total), these thin description interviews were attributed to the sensitive nature

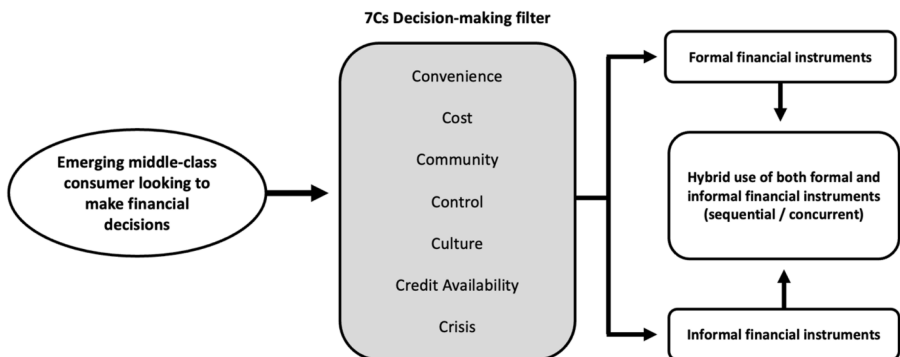
of personal savings (Geertz, 1973). All interviews were transcribed verbatim, yielding a total of 315 pages of text (approximately 122,000 words).

Following the data collection, thematic analysis was employed to investigate the participants' use of formal and informal financial instruments. Coding involved two independent coders using abductive thematic analysis (Thompson, 2022). The open-ended and discursive nature of the interviews meant that participants were more able to speak freely about motivations and sometimes more embarrassing experiences. The coding was done to combine grounded theory development (leading to the final model in Figure 2) with a leaning on the established 4A framework. Each coder reviewed the interview transcripts and applied initial open codes based purely on the feedback. After that, a round of selective coding was applied based on the thematic framework. Once the initial coding was complete, the coders engaged in regular discussions to compare their interpretations and used axial coding to work towards an agreed framing for the findings. Discrepancies were addressed through consensus-building, and a third researcher was consulted when necessary to provide an objective perspective (Chikweche *et al.*, 2021; Lose and Cheteni, 2024).

Ethical considerations significantly influenced the study's approach. Before data collection began, the study received ethical clearance from the research ethics committee of the University of Cape Town (Reference Number: COM/01302/2024 obtained on 06/11/2024), located in Cape Town, South Africa. Data collection was conducted in accordance with national guidelines. All participants provided their informed consent prior to completing the interview, and participant anonymity was maintained throughout. This ensured transparency and respect for participants' rights. To protect participant confidentiality, strict measures were implemented, including secure data storage and the anonymisation of responses. Adhering to established ethical guidelines was crucial for maintaining the research's integrity and safeguarding all participants' rights and dignity.

## Findings

The findings are presented around four themes that explain how emerging middle-class households combine formal and informal financial instruments. Rather than treating these instruments as substitutes, participants described using them as part of an integrated household financial strategy. The analysis showed, first, that different instruments served different financial goals; second, that formal and informal instruments were often functionally linked; third, that informal instruments persisted because they delivered practical, relational and cultural benefits not fully provided by formal services; and fourth, that these patterns can be understood through the 7Cs framework of convenience, cost, community, control, culture, credit availability and crisis.



**Figure 2.** The 7Cs of formal-informal financial-instrument choice. Source: Authors' own work

*Theme 1: different instruments serve different household goals*

A clear pattern across the interviews was that formal and informal financial instruments were not seen as interchangeable. Participants consistently associated formal instruments with structured, long-term and high-value commitments such as mortgages, car finance, retirement savings, investments and insurance. Informal instruments, by contrast, were more often associated with shorter-term, socially embedded or flexible needs such as festive shopping, emergency expenses, savings motivation and smaller household purchases. This indicates that households differentiate between instruments according to function rather than choosing between sectors in absolute terms. The findings therefore suggest that hybrid household finance is organised around financial purpose: formal products are valued for scale, security and structure, while informal products are valued for flexibility, immediacy and practical fit.

I mean you if you need a car or a house. Banks are amazing in those areas. You can't do without them. Yeah, but if you need a car, a house, or something that needs a big amount. So that means banks say they are helpful on that side. Then, on the other side, what stokvels offer that banks could not be bonding because, with stokvel, you trust each other. Stokvels are also useful for other things like small purchases, like my dishwasher (Participant 2)

*Theme 2: formal and informal finance are functionally linked*

The data further show that formal and informal instruments are not merely used in parallel, but are often linked within the same household financial strategy. Participants described movement between sectors, with informal resources sometimes supporting formal commitments and formal accounts sometimes serving as storage points for funds generated informally. For example, stokvel payouts could be deposited into bank accounts, used for planned purchases or directed towards existing formal financial obligations. This pattern suggests that the relationship between formal and informal finance is one of functional interdependence rather than simple coexistence. Households combine the two sectors pragmatically, drawing on each where it performs best for a particular stage or type of need.

Using informal systems gives me a chance to manage my finances on my own terms. I don't have to jump through hoops just to get help. It's about having the freedom to make choices that suit my life. (Participant 8)

We need to ensure that the heart of what makes stokvels special community, support, and shared goals remains intact even as we bring in formal elements. It should enhance, not replace, what we already have. (Participant 5)

*Theme 3: informal instruments persist because they provide social and practical value*

A third pattern was that participants did not use informal instruments only because of exclusion from formal finance. Instead, even banked and financially included respondents described informal finance as valuable because it offered benefits formal systems did not fully replicate. These included speed in emergencies, fewer bureaucratic barriers, stronger interpersonal trust, shared accountability, savings discipline and a sense of mutual support. Community was especially important: participants frequently described stokvels and related arrangements as embedded in relationships of reciprocity, belonging and shared purpose. The persistence of informal finance in this sample is therefore best understood not as a residual survival strategy, but as an active preference for certain social and practical qualities.

In my culture, we have always relied on saving together. It brings us closer, and we can support each other financially. It's part of our tradition. (Participant 18)

When my business has a slow month, I can't wait for a bank to process a loan. I've built relationships with a few loan sharks in my area. I know the risks, but I can get cash in hand within hours, which is crucial for keeping my business running. (Participant 22)

*Theme 4: hybrid financial choice is shaped by seven principles*

Across the dataset, participants evaluated formal and informal instruments through recurring criteria that are captured by seven principles and summarised as the 7Cs framework: convenience, cost, community, control, culture, credit availability and crisis. Convenience and crisis were especially evident where participants needed rapid access to funds. Cost-shaped decisions where fees, interest or hidden charges made one option less attractive than another. Community and culture explained why informal instruments remained meaningful even where formal options were available, while control reflected the importance of visibility, discipline and direct influence over money. Credit availability helped explain why some participants turned to informal loans despite having formal financial profiles. Taken together, these dimensions show that hybrid household finance is driven by a patterned evaluation process rather than by random or contradictory choices. Below is a sample of quotes that were part of the coding process that led to the development of the framework.

I found myself in a position where there was a family emergency. Going to the bank was just going to take time. It was a very, very long process. So, I ended up going the Mashonisa (loan shark) route. (Participant 3) - (Convenience)

The people in the stokvel are all from the same church, and we're all struggling financially . . . We can't afford to pay extra interest on top of our expenses. (Participant 2) - (Cost)

There's a nice form of community and helping each other. It just felt like an easier way to save money and it felt like a community of women, as our group was all women. (Participant 4) - (Community)

I participate in a stokvel because it allows me to save while also giving me access to a lump sum when I need it. It's a strategic decision; I know I can rely on that group for my short-term financial goals while keeping my investments elsewhere. (Participant 24) - (Control)

When I borrow from someone in my community, I know them, and they know me. There's a level of trust that you just can't get from a bank. It feels safer because we're looking out for each other. (Participant 6) - (Culture)

Microfinance gives me access to credit that banks wouldn't offer me. It's not as informal as borrowing from friends, but it's definitely more accessible than a traditional bank loan. (Participant 17) - (Credit availability)

When my salary is delayed, I can't wait for a bank loan to cover my groceries. I go to a friend who can lend me money quickly without any questions. It's just necessary sometimes. (Participant 25) - (Crisis)

Overall, these findings reveal a vibrant relationship between human behaviour, community bonds and financial systems. In bringing together the seven axial codes (conveniently all beginning with C after some discussion between the authors), there was a natural integration into a model that includes the strengths of the 4 As framework, but is more nuanced towards hybrid financial behaviour. In [Figure 2](#), the 7Cs model of formal-informal sector choice is presented. The "and/or" relationship between formal and informal choices demonstrates that there is often no clear distinction between the two, as financial needs frequently incorporate both formal and informal instruments. For example, payouts from stokvels can be used to reduce balances on car loans or may be deposited in bank accounts. The 7Cs framework helps explain not only why households value particular instruments, but also how linkages between sectors are formed. Convenience and crisis explain why households may turn to informal mechanisms for rapid access to funds, even when they are formally banked. Cost and credit

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availability help explain why formal credit may be avoided in some situations but used in others. Community and culture illuminate why informal instruments remain socially meaningful even where formal alternatives are available. Control captures the desire to manage money in ways that feel visible, disciplined and personally governed. Together, these dimensions show how households decide whether to rely on a formal instrument, an informal instrument or a combination of both for the same broader financial objective.

These examples illustrate that the connection between formal and informal financial products is not incidental, but relational and functional. Households do not treat the two sectors as isolated financial worlds. Instead, they connect them pragmatically: informal instruments can generate liquidity, discipline and communal support, while formal instruments can provide security, scale, record-keeping and long-term asset accumulation. In practice, this means that resources often flow between sectors. A stokvel payout may be channelled into a bank account, used to service formal debt or support a planned household purchase that would otherwise be financed through formal credit. Likewise, the existence of formal banking does not eliminate informal participation, because the latter continues to meet needs related to trust, speed, flexibility and social obligation.

Financial goals and behaviours within communities evolve, adapting to combine the communal spirit of informal systems with the robustness of formal ones. These choices are not binary; instead, they exist on a spectrum. The study underscores the blending of trust-based community mindsets with a forward-looking acceptance of formal structures. These insights extend beyond economic mechanisms, reflecting South Africa's diverse financial terrain. In the discussion section, we explore these themes, examining their implications, potential for transformation and the interplay of tradition, innovation and policy that shape South Africa's financial trajectory.

## Discussion

Overall, the findings of this study support the existing understanding that there is a link between the formal and informal sector (Davies and Thurlow, 2010), although these links have been somewhat underdeveloped in banking theory (Khambule, 2020; Blaauw, 2017). The contribution of this study lies in better understanding how consumers evaluate, combine and shift between formal and informal financial instruments. Our observations indicate that formal and informal financial products do not necessarily compete, but rather serve different functions. Formal systems offer the benefits of structured financial solutions, whereas informal methods provide flexible, community-focused options tailored to specific needs and circumstances. For instance, consumers with strong credit ratings may choose informal loans because of their easier accessibility and fewer bureaucratic obstacles, even if this entails paying higher interest rates. Previous research has often linked the use of informal loans to a lack of access to formal credit (Mashigo, 2012; Nanziri and Olckers, 2019) and has tended to regard informal instruments as mere alternatives or safety nets (Etim and Daramola, 2020; Khambule, 2020). This study suggests taking a multidimensional perspective, emphasising that the choice to use informal instruments is often motivated by practical advantages. This builds a more nuanced narrative around the role of financial literacy in the migration away from informal financial instruments.

The study also shows that banked consumers from the emerging middle-class utilise informal products not just for their practicality but also for the deeper socio-cultural benefits they offer. This socio-cultural dimension underlines the notion that financial choices are influenced by both personal and communal factors, extending the notion that these benefits apply to both the middle class as well as those with limited resources (Etim and Daramola, 2020; Rogerson, 2016; Mashigo, 2012). ROSCAs were a strong case in point, with most of their benefits to the middle-class being community-based. This aligns with Horodnic *et al.* (2022), who brought to the forefront the significance of collective relationships in the informal economy, though they termed it a safety net. The members highlighted how stokvels enable members to achieve financial targets without bank charges, indicating that non-formal tools are most connected to reciprocity and trust. This study shows that formal financial options are not perceived as inherently better by

default since trust and reciprocity within informal settings should keep in check the perception of safety offered by formal arrangements (Etim and Daramola, 2020).

In addition to the overall findings, certain patterns did emerge. For example, the relationships between these instruments are not only complementary, but also often sequential and interconnected. Informal and formal products may be used at different moments within the same financial strategy. For instance, informal savings mechanisms can help households prepare for formal obligations, reduce reliance on formal credit or manage temporary cash-flow pressures before formal income or banking channels are accessed. In this way, hybrid household finance is best understood as an integrated financial ecosystem rather than as a choice between separate sectors.

While the bottom of the economic pyramid (BoP) orientated 4 As model is well established, there have been attempts at modification like Mathur *et al.*'s (2020) 8A model. In this study, the findings coalesced around the framework depicted in Figure 2 with a specific emphasis on the emerging middle class and not poverty. Nevertheless, since the informal sector is so connected to financial exclusion, several connections between the models do exist. Affordability (Bennett, 2025), for example, is aligned with the cost of using financial instruments. Control, however, stands in contrast to the 4 As framework, which speaks more to awareness (Pillay, 2022). As a middle-class financial behaviour model (and not a BoP consumer goods or branding model), the issue of awareness did not surface in the research since participants were acutely aware of the financial options available to them, albeit not necessarily the prices thereof. Convenience was a strong draw to the informal sector since the presence of excessive "red tape" making formal instruments less attractive in several instances. This does align with accessibility from the 4 As framework (Fadillah and Zain, 2025). Culture is also somewhat tied to acceptability (Rolando and Mulyono, 2025). The findings also show that, even with increased awareness or access, individuals may still choose not to prefer formal banking methods. This implies that the decision to engage with informal networks is often influenced by the perceived advantages tied to intrinsic values and community dynamics. Viewing informal financial instruments as deliberate solutions for specific needs, rather than just alternatives, could foster a more nuanced understanding of their role and importance within the broader financial ecosystem. This perspective does contrast with Rogerson's (2016) claim that participation in the informal economy is driven by economic necessity rather than deliberate choice.

The research demonstrates that emerging middle-class consumers have a willingness to incorporate informal elements with formal financial products, and this adds nuance to the common two-economy description of the emerging market financial landscape (see Figure 1). Although, for a long time, informal channels have been seen as end-of-the-line options for the poor (Khandan, 2017), in this research, they are presented as options to address specific needs of the middle class. The findings indicate that combining the positives of both systems would help consumers to make context-specific financial solutions (Beck, 2016).

## Conclusion

Theoretically, this study contributes in two ways. First, this research positions informal financial instruments as more than just a tool for the financially excluded. These instruments, from informal loans to ROSCAs, are practical tools for the emerging middle-class with genuine benefits in the long-term pursuit of wealth. In addition, their socio-cultural values make them an important part of community life. Second, the study provides a lens through which the use of formal and informal financial instruments is considered. This builds on previous work that describes the existence of linkages between the sectors, but does not go further to explore the actual nuances. Emerging middle-class consumers in South Africa were perfectly placed at the nexus of the formal and informal sectors to uncover the themes that led to the creation of the framework in Figure 2. As emerging economies continue to generate a new middle class in their respective regions of the world, these findings provide additional theoretical infrastructure to understand financial behaviour.

From a managerial standpoint, a few observations stem from the study. First, there lies the potential for formal institutions to operate in concert with informal networks. While there is already evidence of this happening (Bophela and Khumalo, 2019), this study provides additional insight on which to build a deeper understanding of formalisation. Second, leaders in community-based financial institutions may take heart that their work is valuable for both those who have been excluded from the system of formal financial governance and those who have migrated into the middle class. The push to formalise informal instruments goes beyond merely enhancing services; it represents a broader community desire to harness the benefits of both systems while preserving the core values and traditions that define them. The challenge for governments, financial institutions and communities is to maintain essential elements like mutual trust, communal benefits and shared accountability throughout the formalisation process. By examining the intricate motivations that lead individuals to participate in the informal economy, policymakers can create strategies that support a transition to the formal sector and tackle the significant socioeconomic issues that push people towards informal work (Rogerson, 2016). Financial institutions must also reevaluate their strategies in the light of the complex relationships between formal and informal financial practices. The findings of this study underscore the importance of understanding these complexities to foster a more balanced financial ecosystem in South Africa.

### Directions for future research

This study has left open several avenues for future studies. Future work should explore the specific cultural mechanisms by which community trust influences choices of financial instruments. In addition, examining the long-term effects of integrating formal and informal financial systems can reveal the effects of these findings on the stability and inclusiveness of South Africa's financial governance frameworks. More research could aim at observing how financial education interventions enhance knowledge and awareness of both formal and informal financial channels to empower consumers to make quality financial decisions.

Comparative studies should explore the use of formal and informal financial systems in different regions of Southern Africa as well as other emerging economies. This kind of research will test the generalisability of the 7Cs Framework. Further research should also explore the contribution of technology (like mobile money and digital platforms) to facilitating the combined use of formal and informal financial services. These technologies may include new generation digital products like blockchain and micro-payments. It will be critical to learn how technological advancements can be used to fill gaps in financial inclusion while effective policies and programmes are being created. Future research should also aim to sample a more diverse range of participants (including lower-income households) to capture a complete image of financial behaviour and preferences within the informal economy. This research would build on the work from Sánchez-Barrios *et al.* (2015) and Kamran and Uusitalo (2024), who have specifically investigated poorer contexts. By exploring these avenues, future research can promote a more advanced understanding of financial decision-making in dynamic economic contexts of emerging economies.

### Declarations

The authors declare that there are no conflicts of interest and there is no funding to report.

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