

**Immigrant-operated Informal Financial Associations in South Africa: Problems and Solutions****Linus Nkem<sup>1</sup>, Robertson K. Tengeh<sup>2</sup>**

**Abstract:** While immigrants are at liberty to start self-help financial associations (referred to as stokvels in South Africa) to cater for their unfulfilled need for capital, the benefits of this laudable effort are seldom maximised due to a number of shortcomings. **Aim:** This paper seeks to ascertain the operational obstacles that immigrant-run stokvels face and to suggest solutions accordingly. **Method:** Aiming to complement each other, quantitative and qualitative research approaches were utilised to conduct this study. Quantitative and qualitative data were collected through a self-administered questionnaire and one-on-one in-depth interviews. Purposive sampling technique was employed to reach the 123 participants who responded to the survey questionnaire and the 10 that took part in one-on-one in-depth interviews. **Results:** The typical immigrant African entrepreneur who participates in a stokvel, is a married male between ages of 30 and 46, and is fairly educated. While most of the respondents conceded that their stokvels faced operational problems, they also noted that the default on loan repayment and unskilled personnel on the loan management team were the issues of a greater concern. Hence, providing training and practical management skills becomes paramount to the smooth functioning of these stokvels. **Uniqueness and implications:** Though presumed to be a possible source of finance for immigrant-owned businesses, most studies have not explored the operational challenges that stokvels in South Africa face. The lessons drawn from this study may be of benefit to the respondents, policy-makers and academics.

**Keywords:** access to finance; informal financial associations; Tontins; immigrants; Cameroonian; South Africa

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## 1. Introduction and Background

Immigrants are more likely to start a business in their host country than the indigenous citizens (Fairlie & Lofstrom, 2013; Desiderio, 2014). Despite the numerous obstacles which they have to overcome to find suitable employment in the formal sector, their strong entrepreneurial and strong social networks support entrepreneurial activities. In an attempt to create jobs for themselves, the business ventures created by immigrants in turn provide employment for the citizens of the host country and immigrants from other countries. In fact, the growth of immigrant entrepreneurship generally supports poverty and inequalities reduction (Fatoki, 2014), although the challenges which are encountered by immigrants curtail their ability to launch and sustain successful entrepreneurial enterprises (Tengeh, et al. 2011).

Among the challenges faced by Small, Medium and Micro sized Enterprises (SMMEs), limited access to financial capital from formal sources stands out as the major obstacle to the start-up and growth of a business, irrespective of the national origin of entrepreneurs (Milica & Benton, 2013, Tengeh & Nkem, 2017). This notwithstanding, restricted access to financial resources has a peculiar effect on immigrant entrepreneurs than it does for their indigenous counterparts. A reason for this can be found in the characteristics of immigrant entrepreneurs and their enterprises, and the lack of familiarity of mainstream credit institutions with immigrant borrowers. The possibility of prejudice and discrimination, no matter how subconscious or subliminal it may be, cannot be entirely discounted. Mindful of the aforementioned, many immigrant entrepreneurs endeavour to find alternative means of obtaining financial capital for the start-up and growth of their businesses (Tengeh et al. 2011; Tengeh & Nkem, 2017), which entails their relying on informal financial institutions such as stokvels in South Africa. Stokvel is equivalent to njangi, practiced in the English-speaking regions of Cameroon. The culture of grouping together to raise finances, as practised by Cameroonians in South Africa, can be traced back to their home country. It is a common practice in Cameroon to form informal financial associations, and this dates back to a time when there were limited organised forms of financial institutions yet, particularly in the rural communities. For the purpose of this study, the terms “njangis” and “stokvels” will be used interchangeably to mean informal financial associations.

Although stokvels have been praised for their significant contribution in promoting immigrant owned businesses (Tengeh et al. 2011; 2012) there is little research evidence to neither support how these associations function or in identifying the challenges that they face. As such, this study attempted to ascertain the operational challenges faced by informal financial associations in order to recommend solutions accordingly. In addition, this study responds to Yusuf et al., (2009) call

for a study that addresses the problems that hinder the operation and growth informal financial associations (IFAs).

## **2. Literature Review**

### **2.1. An Overview of Informal Financial Associations**

Informal financial associations (IFAs) allude to institutions which conduct financial activities which do not fall within the functional scope of the formal financial sectors and are not aligned with the standard practices (Aryeetey 1998; Beeior et al., 2016). Informal financial associations have been in operation even before the introduction of the modern banking system (Akinlabi, 2015). Customarily, these associations stem from within the poor communities, as a response to the need for financial services, which meet their specific needs. For instance, informal financial institutions have been credited for financing most entrepreneurial activities in poorer communities.

Informal financial associations can be broadly classified into three categories namely:

Proprietary informal entities such as money lenders, traders, estate owners, grain millers, small holder farmers, other types of businessmen and self-help groups;

Staff and social welfare schemes such as those which are run by employers, friends, relatives and neighbours; and

Mutual aid entities such as Accumulating Savings and Credit Associations (ASCRA) and Rotating Savings and Credit Associations (ROSCAs).

Rotating Savings and Credit Associations (ROSCAs) are institutions whose members make fixed contributions regularly, such as either weekly or monthly to a fund from which payments are apportioned to each member in turn, through the following of lottery order, a bidding order or another means, which is deemed suitable by the group (Adeusi, & Ibitoye, 2015). This arranged contribution is regarded as an exchange for the privilege of receiving a lump sum at a certain point during the life cycle of the group. Thus, the rotating process gives some members the advantage of benefiting earlier than others, which implies that if the turn of a member comes early, the payment could be regarded as a credit mechanism in the form of an interest-free loan, and that if it comes later, it could be regarded as a saving mechanism (Aredo, 1993).

Although informal financial institutions take various forms, all the indigenous saving and finance associations have a single attribute in common, in that they unite the people in their communities and encourage them to identify their needs and to mobilise their resources in order to meet those needs. In this way, the

members of the communities are enabled to provide for their financial assistance, which their governments and other regulated agencies are not able to provide.

## **2.2. Problems faced by Stokvels**

Like most other organisations, stokvels are faced with their own unique challenges. The continued participation of members determines the success of the groups (Moliea, 2007).

The rigidity of fixed periodic contributions can present problems as contributions, which exceed the agreed amount are not accepted. This rule precludes members who have additional funds to invest at any particular time from doing so, which is likely to result in these funds being consumed, rather than being put aside as savings (Seibel, 2001). Furthermore, the element of rotation embedded in ROSCAs, entails that the members who benefit earlier are at the advantage if they were in dire need of money.

According to Buijs (1998), a stokvel is likely to act as a “personal line of credit”, rather than as a means of providing lump sums to its members as in most cases the rotational payments do not coincide with the need of individual members for cash.

In a related study, in Nigeria, Adeusi, and Ibitoye (2014), identified the following challenges which are faced by informal financial institutions:

The inadequate financial resources which informal financial institutions have their disposal.

A lack of trained manpower in the informal financial sector, which could result in poor judgement with respect to the selection of enterprises for financial support.

Limited resources of skilled manpower at the disposal of informal financial institutions to monitor and control the lending process.

A low demand for loans and credit from entrepreneurs owing to the fact that they do not wish to run the risk of being unable to repay loans.

## **2.3. Managing Stokvels**

Stokvels have a management structure just like other organisations. Their activities are always coordinated by a team put in place by members and this is always done through a democratic process. The management team usually consists of a leader otherwise referred to as the president, and then secretaries.

### **2.3.1. Organisational Features of Informal Financial Associations**

According to Lee (2009), some stokvels comprise both men and women while the membership of others is confined either to women or men only. Lee explains that groups which restrict their memberships to females, usually do so in order to avoid including males, because they feel that it is difficult for men and women to work

effectively together and that women understand one another better than men understand women.

Verhoef (2001) maintains that women normally prefer women-only stokvels because men are often unwilling to forego spending cash, which is available in the interest of receiving benefits in the future and also because they perceive men to be generally not trustworthy. Women also tend to regard stokvels as a means of freeing themselves from over-reliance on men. (Lee, 2009)

### **3. Methods and Materials**

This paper was extracted from a recently completed Masters' thesis. The data collection took six weeks in June and July of 2016. A mixed approach was adopted to collect the data for this study. While relying on the questionnaire as the primary data-collection tool, personal interviews were held with the leaders of these organisations in order to complement the former. In support of this blended approach, Saunders et al., (2009), concedes that interviews can effectively supplement and expand the information that is gathered through other methods.

On the one hand, the data collected through the use of questionnaires was processed in relation to the research questions through the use of SPSS statistical software and the findings were presented in the form of frequency tables and pie charts. On the other hand, the data collected through personal interviews was analysed in terms of the themes that emerged and these were carefully aligned to the results of the questionnaire though presented as word verbatim responses from the respondents.

#### **3.1. Target Population and Sampling**

As Sekaran and Bougie (2013) note, a target population in any research study involving human participants refers to all of the people who qualify to be selected for inclusion in the research sample for a given study. Accordingly, in a pilot assessment, the researchers ascertained that there were approximately 22 Cameroon stokvel (njangi) groups, with an average membership of 16. For this study, the target population was considered to encompass all of the Cameroonians who are involved in entrepreneurial activities and are members of one of the stokvels which had been identified within the Cape Metropolitan Area.

A purposive sampling strategy was utilised to solicit participants to respond to the questionnaire and to take part in the face-to-face interviews. In the absence of an official database of immigrant-owned businesses in South Africa (Tengeh, et al 2011), it was difficult to obtain a reliable estimate of the actual size of the target population for a study of this nature. In line with similar studies, a sample size of

123 was adopted for the survey questionnaires (Kalitanyi, 2007; Tengeh et al. 2011, Khosa, 2014; Rogerson, 1997). Following (Saunders et al. 2009) counsel that between 8 and 12 interviews should be sufficient to study a fairly homogenous group, 10 participants were selected for the face-to-face interviews.

### **3.2. Development of the Questionnaire and Interview Schedule**

Aspects such as complexity, layout and wording were also given due consideration in the development of the data collection tools. The questionnaire was 6 pages in length and included closed-ended and multiple-choice questions. It consisted of three sections, with the first endeavouring to extract demographic and general information concerning the respondents, the second containing questions which related to entrepreneurial activities and the third seeking to obtain information concerning the operational problems of stokvels.

This study also made use of semi-structured interviews. Although the process was time-consuming, the face-to-face encounters provided the researchers with an opportunity to use probing questions to draw out the unique standpoints of the interviewees with respect to their experiences and their situations. The interviews were conducted at venues which had been chosen by the interviewees in order to ensure their comfort and sense of security. The interviews were conducted in settings in which the interviewees felt secure. The interviews were conducted in English and each interview lasted between 20 and 30 minutes. A tape recorder was used to record the proceedings, after permission to do so had been obtained from each participant. To supplement the tape recordings, the researcher also took notes during the interviews. At the end of each interview, the researcher expressed his appreciation to each interviewee.

### **3.3. Ethical Considerations**

As use was made of human subjects in this research study, the researcher gave due consideration to the relevant ethical implications, and ensured that the participants were not exposed to any physical or psychological harm of any sort whatsoever and that they were not subjected to any form of stress or embarrassment. The researchers fulfilled this professional responsibility to the participants in these respects by adhering to the guidelines of the Ethics Committee of the Cape Peninsula University of Technology at all times during the conducting of the study. For instance, consent to conduct the study was solicited from both the president of “the Cameroonian Association of the Western Cape” (CAASWECA) and the respondents targeted for the study.

## **4. Results and Discussions**

The results are discussed under three headings: results of the questionnaire and personal interviews.

### **4.1. Genders of the Respondents**

Of the 123 respondents, 75.6% were males and 24.4% were females. This finding concurs with that of Tengeh (2011) who had found that the majority of immigrant entrepreneurs in the Cape Metropole were males. This gender disparity possibly has cultural component, owing to the fact that Cameroonian males are more likely to start entrepreneurial ventures of this sort than their female counterparts. In addition, male Cameroonians tend to enter into activities, which are geared towards generating incomes, in order to support their families, while females tend mainly to concentrate on household activities. This finding also confirms that of Rogerson (1999) and Kalitanyi & Visser, (2014) who found that the typical immigrant entrepreneur is a young male and who work for close to 64 hours per week, six days a week.

#### **4.1.1. Age of the Respondents**

Table 1 notes that out of a sample of 123 respondents, 15.4% fell within the age bracket of between 26 and 30 years, 38.2% within that of between 31 and 35 years, while a majority of 43.1% fell within that of 36 and 45 years and only 3.3% were 46 years of age or older. In an earlier study, Tengeh, et al., (2011) found that the majority of immigrant entrepreneurs were below the age of 41 years, which also aligns closely with the finding of Asoba and Tengeh (2016).

Act 19 of the South African National Youth Commission of 1996 defines the youth of a country as being comprised of people between the ages of 14 and 35 years (SA 1996). Consequently, it may be concluded that most of the Cameroonian immigrant owners of small businesses, who fell between the ages of 26 and 35 years and comprises 53.6% of the research sample, could be classified as youths

Many researchers have found (Fatoki & Chindoga, 2011) that relatively few South African-youths are likely to start their own businesses, compared with their foreign counterparts. The low level of entrepreneurial involvement by South African youths has been identified as one of the main reasons for the low overall level of participation in the economy or entrepreneurial activity in the country. These findings are further supported by those of the report of the Global Entrepreneurship Monitor (GEM) (2012) which indicates that relatively few people start small businesses in South Africa and even fewer are able to sustain them.

It is easy to understand that engaging in entrepreneurial activities helps young people to achieve economic freedom, which in turn reduces their reliance on state welfare. In addition, entrepreneurship among the youth contributes to greater self-

esteem and makes young people more productive members of their families and communities. It also promotes economic growth by providing employment and through the payment of taxes, which contribute to the overall revenue which the government is able to generate. The low level of entrepreneurial activities in South Africa places an additional burden on a government whose resources are already strained by endeavouring to meet the needs of large indigent segments of the population (Fatoki & Chindoga, 2011).

**Table 1. Ages of the respondents**

	Frequency	Percentage	Cumulative percentage
26 - 30 years	19	15.4	15.4
31 - 35 years	47	38.2	53.7
36 - 45 years	53	43.1	96.7
46 years or above	4	3.3	100.0
Total	123	100.0	

#### 4.1.2. Marital Status of the Respondents

Table 2 below shows that a majority of the respondents (53.7%) who completed the questionnaires were married, and 39.8 % were single. 4.9% were divorced and 1.5% had been widowed. From these findings, it may be concluded that Cameroonian-owned small businesses in the Cape Metropole are likely to be owned by males between the ages of 31 and 45 years who are married. (Tengeh et al., 2011)

**Table 2. Marital status of the respondents**

	Frequency	Percentage	Cumulative Percent
Married	66	53.7	53.7
Single	49	39.8	93.5
Divorced	6	4.9	98.4
Widowed	2	1.6	100.0
Total	123	100.0	

#### 4.1.3. Level of Education Attained by the Respondents

A significant majority (61.1%) of the respondents proceeded at least as far as matriculation level in their education, while 38.9% had not matriculated (see table 3). Khosa (2014) stresses the importance of education in business, in that it enables entrepreneurs to manage businesses effectively. During the course of conducting the field work for this study, the researcher observed that businesses which were managed or operated by respondents who had at least a university degree were well organised and kept proper financial records, a respect in which their less educated counterparts tended to be lacking, which serves to confirm the assertion which Khosa (2014) makes. Among the respondents who held matriculation certificates, 25.2% of the sample held matriculation certificate only while 22.8% were in

possession of university degrees, 6% held trade certificates, 4.1% held advanced diplomas and the remaining 4.1% held postgraduate qualifications.

**Table 3. Levels of education attained by the respondents**

	Frequency	Percentage	Valid Percentage	Cumulative percentage
Below matriculation	48	39.0	39.0	39.0
Matriculation	31	25.2	25.2	64.2
Trade certificate	6	4.9	4.9	69.1
Advanced diploma	5	4.1	4.1	73.2
Degree	28	22.8	22.8	95.9
Postgraduate qualification	5	4.1	4.1	100.0
Total	123	100.0	100.0	

#### 4.1.4. Challenges to the Smooth Functioning of Stokvels?

The results that 52 % of the respondents acknowledged that their stokvels face problems that are threatening their smooth functioning. However, 48 % of the respondents indicated that they had no problems.

#### 4.1.5. Problems Faced by Stokvels

Stokvels just like other organisations have their own problems. As indicated in table 4, the most noticeable problems faced by stokvels as revealed by respondents are the lack of trained personnel to manage the loan process and the fact that some members do not respect loan repayment date. These two, according to the results combine to give about 72.3% of their problems. Other problems mentioned include the low turnout for loan application and untrustworthiness of some members which of course relates to the reason why some members do not respect loan repayment dates.

**Table 4. Problems faced**

	Number	Percentage	Percentage of cases
Some members don't respect repayment dates	61	42.1%	49.6%
Lack of trained personnel to manage the loan process	44	30.2%	35.8%
Low turnout for loan application because of fear of risk	12	8.3%	9.8%
Some members are not trustworthy	28	19.4%	22.8%
Total	145	100.0	118%

Correlating the results of the quantitative tool to that of the qualitative tool, the following are verbatim quotations with regards to the problems that immigrant operated stokvels have to overcome:

**Interviewee I:**

*“If I tell you that everything moves just as it is supposed to be, I will be lying. We have our own problems just like every other group. At times, some members will loan money, but when repayment dates comes, you start hearing stories. Someone will benefit from the contribution today, then in the next two weeks he is not able to contribute for others to also benefit.”*

**Interviewee J:**

*We come across a few problems though at the end of the day, we always manage to solve them. For instance, some members find loaning money very easy, but when the repayment day comes, we need to run after them before they can pay. In some cases, some individuals fail to do contribution because of various reasons such as sickness, Law enforcement officers confiscated their goods and so on. But one thing I can assure you is that they always meet up before the end of njangi session”*

**Interviewee B:**

*I’m having problems with the way my present njangi secretaries are managing the process. They have no experience and so, I need to always be there in order for things to run well. Whenever I miss a session, my phone will keep on ringing because the secretaries are not doing their job well. Members call to complain. Because of this, I have decided to always be present so that I can take the time to groom them. It is a big call for me, but I have to do it”.*

**Interviewee D:**

*“Our njangi is just about three months old now and so far, there are no problems, probably because we are not many”.*

**4.4.6. Solutions to the Problems Faced by Stokvels**

According to the results as presented in table 5, 39.6% of the respondents suggest that members should be educated on how to invest their loans wisely. This is in order for them to make some profit and in turn repay their borrowed loans on the agreed dates. Another 29.5% of the respondents also suggest that training should be provided to the personnel managing the loan processes. Only 8.1% of them agreed that members should provide collaterals first before loans can be granted while some 15.4% of them agreed that members should provide sureties for their loans to be granted. Another suggested solution is that members should be encouraged to obtain loans, but only 7.4% agree to this.

**Table 5. Suggested solutions to related problems**

	Number	Percentage	Percentage of cases
Training should be provided to personnel	44	29.5%	35.8%
Members should provide collaterals before loans can be approved	12	8.1%	9.8%
Members should provide sureties before obtaining loans in case of no collaterals	23	15.4%	18.7%
Members should be encouraged to obtain loans	11	7.4%	8.9%
Members should be schooled on how to invest their loans wisely	59	39.6%	48%
Total	149	100%	121.2%

In support of the results of the questionnaire, the following verbatim quotations from the personal interviews allude to the possible solutions to the challenges faced immigrants in the operation of stokvels:

**Interviewee F:**

*“We keep on modifying our constitution frequently to prevent some of these problems from happening again”.*

**Interviewee A:**

*Some of my members have been blacklisted because of failure to repay the money. When you are blacklisted, you cannot loan any money again until after a defined period of time. In some cases, a defaulter is not even allowed to participate in the balloting process. You continue to contribute, but only benefit toward the end or at the end after all the “clean” members have benefitted. All these are well stated in our constitution so that no member should claim ignorance”*

**Interviewee B:**

*“Our constitution makes provision on a number of sanctions that will follow a member if he or she goes against the role such as suspension of membership, monetary fines, and other fines”*

**Interviewee C:**

*“Our constitution defines possible remedies to possible problems that we may face along the way. Whenever a problem occurs which is not defined in the constitution, the general assembly brainstorms on it and then comes out with possible solutions? From then, it can become a clause in the constitution, which must be respected, after all, the constitution is drawn by the general assembly”*

From the above statements, it can be concluded that they always take care of their problems.

## 5. Conclusions

There is growing evidence that confirms the preponderance of immigrants in the economic activities in South Africa. This unfolds against a backdrop of a number of challenges which immigrants face. These challenges are not limited to discrimination and having a restricted access to finance from formal financial institutions. Under these circumstances, immigrants resort to the use of informal means to bridge the access to finance gap. For instance, they rely on self-help financial associations to fund the start-ups and even for the growth of their businesses. In fact, it could be asserted that the inability of immigrant entrepreneurs to obtain loans from commercial banks and other related financial institutions have resulted directly in the creation of immigrant-run informal financial institutions such as stokvels. Given the perceived role that stokvels play in promoting entrepreneurial endeavours and the apparent importance of access to finance in the entrepreneurship debate, this paper sought to ascertain the operational obstacles that immigrant-run stokvels face and to suggest solutions accordingly.

The results suggest that the typical Cameroonian entrepreneur that participates in a stokvel, is a married (54%), male (93%) aged between 30 and 46, and with basic education, with 25% having obtained matric and 39% attaining below than matric level. While most of the respondents conceded that their stokvels faced operational problems, they however noted that the default on loan repayment (42.1%) and unskilled personnel (30.2%) on the loan management team were central. Other problems mentioned included the low turnout for loan application (8.3%) and untrustworthiness of some members (19.4%), which of course relates to the reason why some members do not respect loan repayment dates.

Suggesting possible solutions, the respondents (39.6%) conceded that members should be educated on how to invest their loans wisely. This is in order for them to make some profit and in turn repay their borrowed loans on the agreed dates. Another 29.5 % of the respondents also suggested that training should be provided to the personnel managing the loan processes. Only 8.1 % of them agree that members should provide collaterals first before loans can be granted while some 15.4 % of them agree that members should provide sureties for their loans to be granted. Another 7.4% of the respondents alluded to members being encouraged to obtain loans.

This paper argues that limited access to finance will cease to be a major feature in the immigrant-owned business challenge discourse should immigrants be capable of meeting their funding needs and do so in a more efficient manner than they would in the formal financial markets. We propose that any interventions to redress the operational challenges of stokvels should take cognisance of the unique cultural and entrepreneurial characteristics of the minority group concerned and the dynamics of the business environment.

## 6. Practical Implications, Limitations and Scope for Future Studies

Immigrant entrepreneurs have not only been able to create employment for themselves, but they are providing employment for a great many South Africans and immigrants from other countries. Alluding to the repression hypothesis, it is to be hoped that immigrant entrepreneurs would play a noteworthy role in the reduction of unemployment, poverty and would contribute meaningfully to the socio-economic development of South Africa, if they are given the right support.

The paper reveals that the informal financial associations have the potential of bridging the financial gap for marginalised entrepreneurs and especially immigrant entrepreneurs. The practice of saving voluntarily inherent in immigrants is an asset that should not be ignored by policy makers. If properly harnessed, this culture that forms the basis of the informal financial market may provide a sustainable solution to the current “restricted access to finance” that characterises the on-going debate on promoting enterprise and economic development in most countries. Cognisant of the close parallel between the group studied and other minority groups involved in entrepreneurial activities, it is apparent that any lessons to be gleaned from the current study could be of interest to the direct participants, policy makers and academics.

The results are restricted given that the study was limited to Cameroonians. A broader study should consider including other migrant groups. Using sophisticated methods, another study may want to gauge the impact of limited education on the success of stokvels. Perhaps another study that compares the challenges faced by immigrant stokvels to those of the native South Africans should be encouraged.

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