Informal finance for survivalist enterprise development in South Africa: A case study of Soshanguve Township

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Abstract

The majority of South Africans are trapped in poverty and high unemployment levels. Some, particularly the poor, resort to operating survivalist enterprises to cater for day-to-day expenses or meet basic needs. The underlying problem confronting many survivalist enterprises is lack of finance to develop and sustain their enterprises which is associated with collateral constraints. As a result, survivalist enterprises use informal sources of finance as channels to access such finance. The objective of this article is to determine how informal finance can mitigate this problem and propose strategic finance principles that can be used to improve access to finance by survivalist enterprises. The research adopted a case study approach based on informal finance and how it is used as an instrument for developing survivalist enterprises in the Soshanguve township situated in the Gauteng Province in South Africa. A sampling technique was employed to conduct interviews with survivalist enterprises which were randomly selected. The research findings reveal that informal finance appears to be successful through its traditional norms and customs embedded in the informal financial arrangements which mitigate collateral problems and improve access to finance by survivalist enterprises. Based on these findings, recommendations were therefore formulated based on informal finance which can be used as the first point of reference for developing survivalist enterprises in South Africa.

Keywords: Informal Finance; Credit; Survivalist Enterprises; Collateral; Financial Institutions.

Introduction

Although South Africa has experienced economic success in the past two decades, there still exist economic problems such as income inequality and poverty (Development Report 2005; Department of Economic Development

2010).[1] These problems are prevalent in rural areas and townships where the majority of the poor people live and survivalist enterprises operate. Survivalist enterprises are enterprises which operate in the informal sector of the economy and mainly undertaken by unemployed persons to provide minimum means to their families.[2] Survivalist enterprises invest little capital with very small opportunities for growing. The challenge facing survivalist enterprises is lack of finance to develop and sustain the enterprises. A major focus of the recent literature has been on the formal financial sector (such as commercial banks and micro finance/lending) that is directly regulated by government legislation and policies. Little has been done to examine the informal finance and its contribution to development processes in South Africa.[3] Informal finance refers to the extension of credit or small loans in an adaptive manner to the needs of clients rather than in a manner conditioned by the formal financial policy-makers' or regulators' perceptions of these needs.[4] This means that credit extension is based on a framework of trust, respect and loyalty among close friends and relatives. It has to be noted that while the majority of the poor survive through government social grants,[5] these grants cannot help to solve the idiosyncratic risk which is a situation in which a portion of the population incurs income losses that affect aggregate consumption.[6] This means that social grants are not efficient and effective in reducing the effects of adverse common or market shocks such as operational inefficiencies and financial constraints. These market shocks result in losses that ultimately affect aggregate consumption. The basic theoretical requirement for smoothing consumption is to fully diversify idiosyncratic risk through access to cash at no or very low transaction cost and at risk-free rate. This requirement does not exist for the cash- and asset-constrained survivalist enterprises.

1 South Africa, Development Bank of Southern Africa, "Overcoming underdevelopment in South Africa's second economy", *Development Report*, 2005, p. 7; Republic of South Africa, Gauteng, Provincial Government, Department of Economic Development, "Gauteng SMME Policy Framework, 2010-2014", 2010, p. 5-6.

2 Department of Economic Development, "Gauteng SMME Policy Framework…", 2010, p. 5.

3 DS Karlan, "Social connections and group banking", *The Economic Journal*, 117, 2007, pp. F52-F82; M Aliber, *Study of the incidence and nature of chronic poverty and development policy in South Africa: An overview* (South Africa, University of the Western Cape, 2001), pp. 44-58; MP Mashigo and CH Schoeman, "Micro credit and the transforming of uncertainty since 1976: International lessons for South Africa", *New Contree, A Journal of Historical and Human Sciences for Southern Africa*, 61, 2011, pp. 149-175.

4 J Murdoch, "The microfinance promise", *Journal of Economic Literature*, 37(4), 1999, pp. 1569-1614; P Calliers, *Financial systems and development in Africa* (Kenya, Economic Development Institute of The World Bank, 1990), p. 3.

5 South African Social Security Agency, "Statistical report on social grants" (Republic of South Africa, Department: Monitoring and Evaluation Branch, Strategy and Business Development, 2011), p. 2.

6 RM Townsend, "Consumption insurance: An evaluation of risk-bearing systems in low-income economies", *Journal of Economic Perspectives*, 9(3), 1995, pp. 83-102.

In order to survive, some poor people, especially women, are domestic workers while the majority operate survivalist enterprises such as hawking and vending, street trading, hairdressing, spaza shops, shoe repairing, day care centres, as well as other survivalist activities as alternative income-generating activities.[7] The development and growth of small business in South Africa is generally perceived to be playing a critical role in the promotion and acceleration of entrepreneurship as a means for employment generation and sustainable livelihoods.[8] However, financing, especially of survivalist enterprises in South Africa, is hampered by inadequacies of the formal financial sector and its poor perceptions of the creditworthiness of these enterprises.

The inadequacies of the formal financial sector are exacerbated by the problem of imperfect information or informational uncertainty about survivalist enterprises. The formal financial sector is uncertain of its information-handling capacities since the sector is concerned with quantifying risk under these circumstances.[9] Furthermore, institutional structures are unable to support survivalist enterprises due to the failure to differentiate support strategies for different sectors of small business. The formal financial institutions attribute high rejection rates to the absence of collateral from survivalist enterprises.[10] This impacts negatively on employment generation, poverty alleviation and sustainable livelihoods. Given the situation, circumstances and constraints under which survivalist enterprises operate, possible solutions become necessary. Survivalist enterprises therefore resort to informal finance that demonstrates elements of best practices or traditional norms and customs which enable the provision of finance, particularly small loans or micro credit, to the enterprises.[11]

In order to address the research questions raised below, this article provides a theoretical perspective to informal finance in general and specifically in the case of survivalist enterprises. The article further provides the historical

7 DS Karlan, "Social connections and group banking", *The Economic Journal*, 117, 2007, pp. F52-F82.

8 Republic of South Africa, Gauteng, Provincial Government, Department of Economic Development, "Gauteng SMME Policy Framework…", 2010, p. 6.

9 MP Mashigo and CH Schoeman, "Micro credit and the transforming of uncertainty since 1976…", *New Contree, A Journal of Historical and Human Sciences for Southern Africa*, 61, 2011, pp.149-175; J Isern and D Porteous, *Commercial banks and micro finance: Evolving models of success* (USA, Focus Note, 2005), p. 4.

10 E Aryeetey, *Informal finance for private sector development in Africa* (Ghana, African Development Report, 1998), pp. 1-3; MP Mashigo, "Extending credit to the low-income and poor households in South Africa: A system of principles" (PhD, University of Johannesburg: Department of Economics and Econometrics, 2007), p. 76-77).

11 M Schreiner, "Informal finance and the design of microfinance", *Development in Practice,* 11, 2000, pp. 637-640.

context of informal finance to map and understand the current role it plays in survivalist enterprise development. An overview of survivalist enterprises in South Africa is provided to determine the financial support strategies towards their development as well as the challenges faced by these enterprises. The article, therefore, proceeds with an analysis of informal finance and ascertain its significance in dealing with the problems of collateral in the provision of finance or credit to survivalist enterprises. Conclusions are then made and recommendations presented.

Research problem and objective

A common problem confronting many survivalist enterprises seeking loans/credit to develop and sustain their businesses is associated with lack of adequate collateral required by the formal financial sector (banks and micro lending). When banks or micro lending institutions grant credit, it means allocating estimated risks of non-payment based on a borrower's repayment capacity to meet his obligation under the loan contract. These institutions are therefore hesitant to lend to survivalist enterprises and/or people whose repayment capacities seem uncertain.

The main objective of this article is to determine how informal finance can mitigate the problem of collateral and propose strategic finance principles that can be used to improve access to finance to survivalist enterprises.

The underlying research questions are:

- What issues hinder the development of survivalist enterprises in South Africa?
- To what extent can informal finance deal with the collateral constraints and improve the provision of finance (credit) to survivalist enterprises?

Research methodology and site

The research is qualitative in nature and adopts a case study approach. The research is carried out in the Soshanguve township situated about 45 kilometres north of Pretoria. The township is located in the Gauteng Province in South Africa. It is also the location of the Tshwane University of Technology and Tshwane North College and borders on Rosslyn, an industrial area, which provides employment opportunities. Soshanguve was established in 1974 on land scheduled to be incorporated into a bantustan bordering on Mabopane township in the former Bophuthatswana. Like many of the townships in Gauteng, Soshanguve contains a broad mix of people of varying ethnic groups. This is because Gauteng has always attracted poor people from all over the country who come in search of jobs. The name Soshanguve reflects this mix, being formed from Sotho, Shangaan, Nguni (isiZulu, isiXhosa, isiNdebele, SiSwati) and Venda. However, in more recent years a more broadly encompassing explanation has been suggested: Sotho, Shangaan, Afrikaans, Nguni, Venda, and English.[12] It later became part of the City of Tshwane Metropolitan Municipality. The township had, according to the 2011 census, a total population of around 403 162 people of the 2.9 million of the City of Tshwane, as provided by Statistics South Africa 2013.[13] No further statistics are available since 2011. Though Soshanguve is home to a multilingual and ethnically diverse population, the largest ethnic group in the township is Black Africans with a few foreign traders and shopkeepers but with many other foreign nationals from neighbouring African countries. Soshanguve possesses a low socio-economic status and could be characterised as one of the black townships suffering from poverty, inequality and unemployment. Soshanguve is selected as the research site as it is a black community with common practices, relationships and social interactions and dynamics of the general black population in the South African townships.

Soshanguve is one of the townships where survivalist enterprises are prevalent and the majority of the people are poor. Although there are formal financial institutions such as the banks in Soshanguve, high transaction costs and the need for collateral to secure credit hamper access to such credit by survivalist enterprises. These institutions' target market is clients who possess pay slips as proof of employment and collateral as security for loans which many of these enterprises do not have. Informal finance, therefore, becomes possible solution to survivalist enterprises. Soshanguve has the typical features of townships all over South Africa,[14] with neighbouring residential townships which include Hebron, Atteridgeville, Mamelodi, Mabopane and Ga-Rankuwa, operating homogeneously and with uniform traditional knowledge systems and with

12 Republic of South Africa, Parliament of the Republic of South Africa, City of Tshwane, "Census 2011 Municipal Report Gauteng", 2013, p. 2.

13 Republic of South Africa, Parliament of the Republic of South Africa, City of Tshwane, "Census 2011 Municipal Report Gauteng", 2013, p. 3.

14 A Osman and C Lemmer, *Open building principles in South Africa: An academic exploration in Soshanguve, Pretoria* (South Africa, University of Pretoria, Department of Architecture, 2002), p. 5.

common practices. The results of the study are presented as a specific case study, that of the Soshanguve township.

The research relies on both primary and secondary data. Primary data was collected through a sampling technique which was employed to conduct unstructured interviews with the manager/owner in each enterprise. In the absence of statistics on survivalist enterprises, a total of 65 operating in the Soshanguve township was sampled for the research. Random sampling was used in selecting survivalist enterprises as it helps to select unbiased representative of the sample population. The purpose of the interviews was to obtain information on and establish whether informal finance contributes towards the development of survivalist enterprises. The choice of unstructured interviews is that it allows in-depth interaction with the respondents. Secondary data was collected through review of literature related to informal finance and survivalist enterprises development in South Africa. Data analysis took place during and at the end of the interviews and a detailed analysis of the information gathered from the respondents was done and compared to establish the connections between themes. Finally, these themes were integrated into a theory that offered a comprehensive and accurate interpretation of informal finance and how it impacts on survivalist enterprises.

Literature review

Financial development theory

Financial systems play a pivotal role in channelling funds to the most productive uses. However, different views, explanations and predictions exist about the impact of finance on the allocation of resources or distribution of income. Eminent contributions by Schumpeter (1912), Goldsmith (1969), McKinnon (1973) and Shaw (1973)[15] have made great strides in linking financial development and economic growth. On that basis, the debate continues to focus on the determinants of financial development that link finance to growth, income distribution and poverty reduction.

15 JA Schumpeter, *The theory of economic development* (Cambridge, MA, Harvard University Press, 1912), p. 5; RW Goldsmith, *Financial structure and development* (New Haven, National Bureau of Economic Research, 1969), p. 391; RI McKinnon, *Money and capital in economic development* (Washington DC, Brookings Institution, 1973), p. 172; ES Shaw, *Financial deepening in economic development* (New York, Oxford University Press, 1973), pp. 2-3.

The views of Levine,[16] for example, are that financial development improves capital allocation, boosts economic growth and reduces income inequality and poverty. The Schumpeterian contention, in particular, is that a well-functioning financial system can boost growth, development and reduce poverty by providing financial services, that is, mobilising savings and selecting investment opportunities through credit lines to enterprises that demonstrate evidence of successfully producing innovative products and processes, despite reduced savings rates. As Gondo[17] argue, the focus remains more on productivity growth than savings in that higher human capital accumulation rates can be induced by relaxing borrowing constraints.

Despite the emphasis financial access has received in theory, empirical evidence that links broader access to development outcomes produces conflicting views particularly in country-specific cases. Contrary to the above theories that imply that financial development enhances economic growth and reduces inequality, studies by Tsai[18] provide evidence that financial development has a negative relationship on economic growth. These studies report that in rich or developed countries, finance increases the rate of productivity growth and accelerates economic growth than in poor or developing economies. The emphasis of these studies is more on the positive relationship between financial development and the rate of physical capital accumulation and measures of efficiency of resource allocation or economic performance. According to Bittencourt (2012),[19] necessary prerequisites to financial development include, among others, an open and competitive financial sector in transmitting financial resources to enterprises, the relevant macroeconomic stability, as well as institutional frameworks and policy measures. Financial intermediaries are therefore effective in reducing information asymmetry, transaction and monitoring costs. Risk is also reduced through portfolio diversification and hedging opportunities. Such a financial system ultimately

16 R Levine, *Finance and growth: Theory and evidence* (USA, Brown University and the National Bureau of Economic Research, 2005), pp. 887-889; M Adusei, "Finance-growth Nexus in Africa: A panel Generalized Method of Moments (GMM) Analysis", *Asian Economic and Financial Review*, 3(10), 2013, pp. 1314-1316; T Beck, A Demirgüç-Kunt and R Levine, *Finance, inequality and the poor* (USA, The World Bank, and Brown University and the National Bureau of Economic Research, 2007), pp. 4-6.

17 J Gondo, *Financial development and economic growth: Evidence from South Africa: 1970-1999* (Zimbabwe, 2009), pp. 3-4; R Levine, *Finance and growth...*, p. 886.

18 KS Tsai, "Imperfect substitutes: The local political economy of informal finance and microfinance in rural China and India", *World Development*, 32(9), 2004, pp. 1487-1507; M Bittencourt, "Financial development and economic growth in Latin America: Is Schumpeter right?", *Journal of Policy Modeling*, 34(3), 2012, pp. 341-355; R Levine, *Finance and growth*…, p. 889.

19 M Bittencourt, "Financial development and economic growth in Latin America…?", *Journal of Policy Modeling*, 34, 3, 2012, pp. 341-355.

increases liquidity in productive assets, facilitates the trading and exchange of real goods and services, increases productivity by facilitating entrepreneurial innovation and accelerates physical capital accumulation.

A large literature[20] found that in developing economies, including South Africa, lack of competitive financial sectors result in negative relationship between financial development and economic growth. The challenge becomes greater when ensuring that as many people as possible have access to basic financial services. Financial market imperfections such as asymmetric (incomplete/inadequate) information, transaction and contract enforcement costs, as well as requirements such as collateral, credit histories, and connections negatively impact on the development of survivalist enterprises in South Africa. These market imperfections and requirements thus continue to limit survivalist enterprises' economic opportunities and impede the flow of capital (finance) thereby intensifying income inequality and slower growth.[21] Drawing from the works of Gondo,[22] financial development refers to the aggregate supply of financial assets by banks and non-bank intermediaries in the financial system. This definition suggests a significant relationship between financial development theory and supply-leading theory. The supply-leading theory's prescription requires the increase of government efforts to eliminate informal finance while enhancing the availability of government financial intermediaries and microfinance programmes devoted to survivalist enterprises (and rural households). The emphasis of the supply-leading theory is to reduce poverty and the reliance of the rural households and/or survivalist enterprises on informal finance which is regarded as a negative reflection of deficiencies in the formal financial system. Based on the logic of supply and demand, the supply-leading theory recognises that the amount of credit demanded by survivalist enterprises exceeds that supplied by the formal financial sector.[23]

Not only financial market imperfections hamper the supply of credit to survivalist enterprises but also government policies which are not implemented properly. Governments, for example, lack sufficient knowledge of how to identify the intended clients, survivalist enterprises in particular,

20 R Levine, *Finance and growth…*, p. 889; KS Tsai, "Imperfect substitutes…", *World Development*, 32(9), 2004, pp. 1487-1507; M Adusei, "Finance-growth Nexus in Africa…", *Asian Economic and Financial Review*, 3(10), 2013, pp. 1314-1316.

21 R Levine, *Finance and growth…*, p. 889.

22 J Gondo, "Financial development…", pp. 3-4; R Levine, *Finance and growth…*, p. 886; KS Tsai, "Imperfect substitutes…", *World Development*, 32(9), 2004. pp. 1487-1507.

23 KS Tsai, "Imperfect substitutes…", *World Development*, 32(9), 2004. pp. 1487-1507.

and distribute targeted credit.[24] In many countries (like China, India, Ghana, Zimbabwe), including South Africa, conventional commercial banks lack institutional experience in lending to rural clients who do not have established credit history or records and collateral to secure credit.[25] It is in this context that informal finance continues to persist in developing countries and/or rural areas and on which survivalist enterprises rely to sustain livelihoods and survive. Tsai (2004)[26] found that, in some cases, informal finance generally has competitive an advantage over the formal finance in serving survivalist enterprises. This competitive advantage is ascribed to the perfect information that exists about survivalist enterprises, their needs and conditions.

In view of the above, it becomes challenging to assess the true impact of development finance to growth, income distribution and poverty reduction. This is evident from the research conducted by Deneweth, Gelderblom and Jonker (2013)[27] on the financial behaviour of poor households in Netherlans. The research found that cash flow, through social networks, rather than savings, borrowing or insuring, is the primary concern for these households. Cash circulation is a form of collective insurance against financial shocks. The fundamentals of poor household finance in the late 18th century until the second half of the 19th century resemble those of poor households today due to their dependence on mutual help. According to Deneweth et al (2013),[28] even the established savings banks, insurance schemes and loan banks could not reach the poor households due to the low income or lack of money by the households.

The history of informal finance

While it is contended that development finance boosts economic growth and improves resource allocation, it has been observed that it has a negative impact on economic growth due to market imperfections which limit access to resources by survivalist enterprises in South Africa. Informal finance therefore exists to mitigate the effects of market imperfections and to drive

24 T Beck, A Demirgüç-Kunt and R Levine, *Finance, inequality and the poor...*, p. 4; R Levine, *Finance and growth…*, pp. 869, 887-889; KS Tsai, "Imperfect substitutes…", *World Development*, 32(9), 2004, p. 1488.

25 KS Tsai, "Imperfect substitutes…", *World Development,* 32(9), 2004, pp. 1487-1507; R Levine, *Finance and growth…*, p. 887.

26 KS Tsai, "Imperfect substitutes…", *World Development,* 32(9), 2004, pp.1487-1507.

27 H Deneweth, O Gelderblom and J Jonker, *Microfinance and the decline of poverty: Evidence from the nineteenth-century Netherlands* (Netherlands, Center for Global Economic History, 2013), pp. 2-5.

28 H Deneweth, O Gelderblom and J Jonker, *Microfinance and the decline of poverty...*, p. 3.

financial sustainability and development among survivalist enterprises. Informal finance can be found at various times in modern history. Informal finance exists extensively and has been playing an important role in small, medium and micro enterprises (SMMEs) financing in developing economies. Informal finance refers to the extension of credit or small loans where mutual understanding and an environment of trust, loyalty, and respect between people involved in the borrowing and lending activities exist.[29] Historically, informal finance is not new, even before the advent of money, people had borrowed, lent and saved.[30] Informal finance throughout the world continued to exist around the 1960s and people had been, within their own communities and working environments, using their own systems and traditional methods, conducted lending and borrowing activities with no regulatory framework or financial assistance from any formal source. A noteworthy historical example is the Irish famine fund around 1822 which received donations from charities in London to provide very small loans to distressed individuals and young entrepreneurs in small towns. In the 1950s, Pakistan began distributing group-oriented credit through community-based initiatives.

In South Africa, around the 1920s, the accumulation and provision of informal finance have been done by the poor households, particularly women, including those operating survivalist enterprises, through rotating savings and credit associations popularly known as *stokvels* which have historically existed in black rural areas and townships. In order to generate extra income, members of *stokvels*, especially women, turned to the traditional skills of brewing beer. This developed into the concept of *stokvel* parties. It was an opportunity for friends to meet, share ideas and form a club of lasting friendship. The hosting of large parties was not always affordable for most ordinary people. At a stokvel party, people would come together to enjoy each others' company and contribute their share of the costs of the party by purchasing food and liquor. The *stokvels* were established by community members themselves in the form of small groups to suit their financial needs and cushion themselves against formal market imperfections and uncertainty or unforeseen circumstances.[31] The accumulation of money was done through saving of small amounts

29 C Gardner, *Assessing and improving the impact of micro credit* (USA, Summit Financial Partners, 1998), pp. 17-19.

30 C Gardner, *Assessing and improving the impact of micro credit…*, pp. 17-19; L Brandt, N Epifanova, T Klepikova, *Lending methodology module* (Russia, A U.S Department of State, undated), pp. 1-2.

31 MP Mashigo, *Extending credit…*, p. 71; G Verhoef, *Money, credit and trust: Voluntary savings organisations in South Africa in historical perspective* (Paper, International Economic History Association Congress, Buenos Aires, 2002), p. 5.

of cash in *stokvels* and this cash was also lent or paid back directly to the members. The *stokvels* still continue to operate today and have a range of informal financial services that contribute to the survival of the poor and the smoothing of income. According to Mashigo and Schoeman,[32] different types of *stokvels* take various forms which include, among others, savings, credit, and capital-generating clubs, and funeral associations. These *stokvels* provide finance (both savings and credit) for food, unpredictable and expensive events such as illness and funerals, as well as for predictable ones like marriages and education that will affect consumption.[33]

People formulate their own rules about the operation of their *stokvels* and impose their own discipline in relation to finance. In dealing with the uncertain future, direct knowledge on the existing situation is obtained through direct acquaintance, socialisation and participation that direct decisions on the future. These aspects frame and act as benchmarks for decisions about the future.[34] Of importance are social practices and conventions which exist in a group and homogenise and create certainty about future prospects. This means that the behaviour of the individuals contracted to the group's practices and conventions and prospects are insured by liability and loyalty to the group.[35] Social collateral and insurance mechanisms such as differentiating between risky and safe members, joint responsibility, enforcement and monitoring of contracts and regular repayments, collateral substitutes and a consequent increase in return on financial and social equity naturally exist in group dynamics. These provide insurance against default at relatively low cost. Compared to formal finance, informal finance such as *stokvels* generally incurs very low transaction costs, requires less documentation for approving claims, no proof of employment, and no traditional collateral to secure loans. In informal finance, there exists a high degree of information about the

32 MP Mashigo and CH Schoeman, "Micro credit and the transforming of uncertainty since 1976…", *New Contree, A Journal of Historical and Human Sciences for Southern Africa*, 61, 2011, pp.149-175; G Verhoef, *Money, credit and trust...*, p. 5.

33 GBuijis, *Rotating credit and associations: Their formation and use by poverty-stricken African women in Rhini Grahamstown*, *Eastern Cape* (Eastern Cape, University of Zululand, 2002), p.23; MP Mashigo, *Extending credit…*, p. 72; J Newmarch, *Financial fitness: Saving with your friends* (Online Publishers Association, 2006), pp. 1-2; G Verhoef, *Money, credit and trust...*, p. 6; S Wixley, *The poor philanthropist: How and why the poor help each other* (UK, Philanthropy, 2006), p. 2.

34 D Kahneman and A Tversky, "Prospect theory: An analysis of decision under uncertainty", *Econometrica,* 47(2), 1979, pp. 263-291.

35 J Murdoch, "The microfinance promise", *Journal of Economic Literature*, 37(4), 1999, pp. 1569-1614; M Ghatak and T Guinnane, "The economics of lending with joint liability: Theory and practice", *Journal of Development Economics*, 60, 1999, pp. 195-228.

borrowers.[36] Individuals select creditworthy peers, monitor the use of loans and enforce repayment better than the formal financial sector.

Other informal sources of finance which existed around the 1960s in South Africa are the township micro-lenders, popularly known as *mashonisas,* who provide finance for a range of needs like food, clothing, health care and funeral expenses.[37] At that time, there was no documentation of information on events and activities that took place or any regulatory framework or rules governing *mashonisas*. *Mashonisas* were and still are regarded as very helpful, especially to people who have been marginalised by the formal financial sector and who experience financial distress and need cash. The micro-lenders provide instant cash to their regular clients, which the banks and other formal financial institutions cannot. In spite of the exorbitant interest they charge on loans, their ability to access and use local information about borrowers, the long-term relationships they have with their clients, make them to be preferred due to the quick processing of financial transactions. Today, both the *stokvels* and *mashonisas* still play a pivotal role in the provision of finance to the general population including survivalist enterprises in South Africa.[38]

The origins of informal finance in its current practical incarnation can be linked to several organisations around the world. In the 1970s, for example, Muhammad Yunus was concerned about extreme poverty in Bangladesh at that time and started to loan to poor people using his personal money and with the premise that credit is a human right. The purpose was to alleviate poverty and protect the poor from continued exploitation by the moneylenders who charged exorbitant rates on the loans. Through his initiatives, organizations such as the Grameen Bank of Bangladesh which was established in 1977, started shaping the modern industry of informal finance through micro lending.[39] At that time, micro lending initiatives, through the Grameen Bank of Bangladesh, introduced many new innovations which, among others, removed the need for physical collateral and people could be relied on to repay

36 MP Mashigo and CH Schoeman, "Micro credit and the transforming of uncertainty since 1976…", *New Contree, A Journal of Historical and Human Sciences for Southern Africa*, 61, 2011, pp.149-175.

37 G Wilson, *Bank management* (Washington, Mckinsey and Co, 1996), p. 15; GAN Wright and L Mutesasira, *The relative risks to the savings of poor people* (Kenya, MicroSave Africa, 2001), p. 19.

38 G Wilson, *Bank management...*, p. 16.

39 MP Mashigo and CH Schoeman, "Micro credit and the transforming of uncertainty since 1976…", *New Contree, A Journal of Historical and Human Sciences for Southern Africa*, 61, 2011, pp. 149-175; D Porteous, *Is Cinderella finally coming to the ball?: South African micro finance in broad perspective* (South Africa, FinMark Trust, 2001), pp. 1-3; J Murdoch, "The microfinance promise", *Journal of Economic Literature*, 37(4), 1999, pp. 1569-1614; M Yunus, *Banker to the poor: Micro-lending and the battle against poverty* (Bangladesh, PublicAffairs, 2006), p. 2.

their loans using joint-guarantees.[40] These joint-guarantees were embedded in solidarity group lending approaches where community members voluntarily form small groups which are used as social technology to access credit and mobilise savings.[41]

Evidence shows that the Grameen Bank of Bangladesh used unconventional banking practice to lend money to the poor and/or very small enterprises with a reasonable degree of self-sufficiency and repayment rates. The successes were found in the use of collateral substitute or social collateral[42] through the creation of a specialized banking system based on accountability, mutual trust, participation and creativity. Today, practitioners and governments around the world are increasingly focusing on expanding financial services to the poor, small enterprises, low-income in frontier markets on the integration of micro finance in financial systems development. In South Africa today, the challenge of providing finance or credit by the formal financial sector, especially banks, is hampered by the need for collateral and high transaction/security costs. Micro lending, which emerged as an alternative to conventional banking and a major tool of development among the poor segments of society, also experiences difficulties in financing the poor and small enterprises due to these challenges.[43] Micro-lenders, for example, only focus on borrowers who are formally employed so that their salaries could be tapped to ensure repayment of the loans or credit. This led to the exclusion and marginalization of the poor and/or small, micro and survivalist enterprises since the majority are not employed by any formal organization.

Furthermore, applying for a loan (credit) at a financial institution in South Africa requires a client's credit history which has an impact on his/her ability to obtain such a loan. This information is then used by financial institutions to assess the probability that a client would default on payments and whether such a client is considered a low or high risk borrower. Song (2002)[44]

40 M Yunus, *Banker to the poor...*, p. 3.

41 MP Mashigo, *Group lending: A mechanism for delivering financial services to the poor households: Lessons for South Africa* (Paper, Global Business and Technology Association, Turkey, 2012), p. 3; S Rahman, "Finance for the needy", *UNESCO Courier*, 50(1), p. 17; M Yunus, *Banker to the poor...*, p. 3.

42 M Conlin, "Peer group micro-lending programs in Canada and the United States", *Journal of Development Economics*, 60, 1999, pp. 249-269; M Yunus, *Banker to the poor...*, p. 3.

43 P Meagher and B Wilkinson, "Filling the gap in South Africa's small and micro credit market: An analysis of major policy, legal, and regulatory issues" (Revised Final Report submitted to the Micro Finance Regulatory Council of South Africa, IRIS Center, University of Maryland, 2001), pp. 10-19; MP Mashigo and CH Schoeman, "Micro credit and the transforming of uncertainty since 1976…", *New Contree, A Journal of Historical and Human Sciences for Southern Africa*, 61, 2011, pp. 149-175.

44 I Song, *Collateral in loan classification and provisioning* (IMF Working Paper: WP/02/122, International Monetary Fund, 2002), pp. 2-4.

emphasises that any classification of credit means allocating estimated risks of non-payment based on the assessment of a borrower's repayment capacity to meet his obligations under the loan contract. Today, informal finance, examples of which include *stokvels* and *mashonisas*, still plays a pivotal role in the provision of credit to the poor or survivalist enterprises in the black townships and rural areas of South Africa. The existence of informal finance is attributed to its different capacities to provide credit to the marginalised poor or survivalist enterprises and its ability to take advantage of the weaknesses of formal contract enforcement.[45] Informal finance's strength also lies in its ability to access and use local information about survivalist enterprises (as borrowers), and which contributes to reducing the need for physical collateral, thus improving the provision of the much-needed credit to these enterprises.

An overview of survivalist enterprises and their challenges

Survivalist enterprises are referred to as enterprises with no paid employees and minimal asset value or activities by people unable to find a paid job, with no skills training in the particular field and only limited opportunities for growth into a viable business.[46] According to Aliber (2001),[47] they have been excluded from social and economic opportunities and are also vulnerable to unforeseen social and economic circumstances (such as death, illness, and absence of income). It is therefore questionable if survivalist enterprises will become part of the economic mainstream if their social, economic and financial environment is not addressed by sustainable structures, mechanisms and policies that are specifically developed for them. Self-employment, therefore, becomes their last resort where they operate survivalist enterprises such as hawking and vending, hairdressing, spaza shops oparations, shoe repairing, establishing day care centres, as well as other survivalist activities to generate alternative income. Self-employment, according to Lazaridis and Koumandraki (1996-2004),[48] is a strategy towards inclusion, a feasible survival strategy for escaping discrimination and exclusion given the lack of

45 M Schreiner, "Informal finance…", *Development in Practice,* 11, 2000, pp. 637-640.

46 Department of Trade and Industry, "Financial access for SMMEs: Towards a comprehensive Strategy, A draft discussion document" (South Africa, Centre for Small Business Promotion, 1998), p. 6; Department of Economic Development, "Gauteng SMME…" (Republic of South Africa, Gauteng Provincial Government, 2010), pp. 6-7.

47 M Aliber, *Study of the incidence and nature of chronic poverty...*, pp. 44-58.

48 G Lazaridis and M Koumandraki, *Survival ethnic entrepreneurs in Greece: A Mosaic of informal and formal business activities* (Greece, Sociological Research Online, 1996-2004).

other employment options. Survivalist enterprises generate income below the poverty line (usually the equivalence of or less than $1 per day) and their main aim is to provide minimal subsistence means for their families. When the enterprises need more money, they have no option but to resort to informal sources of finance.

In an effort to finance survivalist enterprises in South Africa, an alternative to conventional banking was sought. Micro finance institutions were established to finance, not only survivalist enterprises, but also small, medium and micro enterprises and ensure their accelerated growth.[49] Micro finance, therefore, emerged and has become a major tool for developing the poor segments of society including survivalist enterprises. Micro credit, as part of micro finance, was viewed as an appropriate solution to lack of access to finance. Micro credit, according to Mallya (2005),[50] is a fund source that is made available to very small livelihood ventures or activities which directly benefit the poor, or the category of financial services offered to lower-income people, the unemployed as well as entrepreneurs and others living in poverty, where the unit size of the transaction is usually small.[51] Micro credit has, in many developing countries, successfully enabled extremely impoverished people to engage in self-employment projects that allow them to generate income and, in many cases, begin to build wealth and exit poverty.[52] Furthermore, the poorest communities and most survivalist enterprises are able to smooth consumption, sustain loan repayments, develop and expand their businesses, build assets, stabilise consumption, and begin to improve household conditions in general.

Despite the growth in micro finance institutions as strategies towards developing survivalist enterprises in South Africa, access to finance by these enterprises remains a serious challenge. Up to March 2009, registered micro finance institutions amounted to 3690 of which 3202 were micro-lenders. None of these institutions are targeted towards survivalist enterprises due to, among others, the continued lack of knowledge pertaining to possible and/or effective funding options for the enterprises.[53] Njiro and Compagnoni

49 Department of Trade and Industry, *The Integrated Small Business Development Strategy in South Africa, 2004-2014* (Republic of South Africa, Gauteng Provincial Government, 2003), pp. 4-6.
50 KG Mallya, *Micro finance in macroeconomics* (India, International Development Club, 2005), p. 16.
51 J Isern and D Porteous, *Commercial banks and micro finance...*, p. 8.
52 C Van de Ruit, *Micro finance, donor roles and influence and the pro-poor agenda: The case for South Africa and Mozambique* (Paper, Donor Funding Conference, Mozambique, 2001), p. 11.
53 MP Mashigo, Group lending…, p. 7.

(2010)[54] argue that micro finance as alternative financial support institutions also operates in isolation and this creates duplication and overlap of some services. This exacerbates the problem since the institutions are unable to collectively identify challenges and obstacles that hinder the provision of much needed finance to survivalist enterprises. Furthermore, information on financial services provided by micro finance institutions is not effectively disseminated to survivalist enterprises in the townships and rural areas. The need for collateral to secure credit/loans and the high transaction costs of administering small loans remain challenges that limit financial institutions from providing such credit. The majority of survivalist enterprises do not have collateral or assets that can be used to secure credit and are, therefore, marginalised.[55] According to Burke and Hanley (2002),[56] whether or not formal financial institutions can choose to lend to lower risk ventures depends, among other things, on the degree of information existing between the institution and borrowers. The lack of information about abilities and character of survivalist enterprises as borrowers, their creditworthiness, together with lack of collateral, increase transaction costs and this provides constraints in extending small loans to survivalist enterprises.

The significance of informal finance in developing survivalist enterprises: Findings and discussions

In South Africa, there exists, within informal finance, various sources of finance which seem to be better equipped, both structurally and institutionally, and have considerable experience and knowledge in providing financial needs of survivalist enterprises. This section determines, in particular, informal sources of finance that are used by survivalist enterprises to access finance. An attempt is made to analyse the ways in which informal sources of finance drive financial sustainability and development among survivalist enterprises. Informal sources of finance include, among others, *mashonisas*, *stokvels*, buyer-seller credit relationships, landlord and tenant credit relationships, and kinship and friendship. While it is generally known that the majority of survivalist enterprises use owner's personal finance/savings as start-up capital,

54 E Njiro and M Compagnoni, "Institutions providing financial services to Small, Micro and Medium enterprises in South Africa", *Journal of Contemporary Management,* 7, 2010, pp. 146-166.

55 AfricaFocus Bulletin, *South Africa: Poverty debate* (South Africa, AfricaFocus, 2004), p. 1

56 A Burke and A Hanley, *How do banks pick safer ventures? Theory and evidence of the importance of collateral, interest margins and credit rationing* (Working Paper Series, 2, Nottingham, Nottingham University, Business School, 2002).

Aryeetey (1998)[57] argues that the enterprises continue to draw and depend on informal sources of finance to augment this personal finance or saving, particularly as the enterprises grow and develop. It is further argued in this article that while informal sources of finance are found to be helpful, they may be inadequate particularly in the long run as survivalist enterprises grow and become larger.

Studies on the significance of informal finance on economic development and growth have been conducted by researchers around the world. According to Tsai,[58] the significance of informal finance lies in social structures embedded in the informal financial arrangements between survivalist enterprises (as borrowers) and lenders. An important aspect of informal finance is its ability to remove the need for collateral and to lower transaction costs of borrowing. Credit carries no or very low interest rate and often relates to social ties between survivalist enterprises and lenders. This case differs significantly from the formal credit situations where interest rate is paid on the loan advanced to borrowers. Survivalist enterprises use development approaches that rely on informal knowledge systems for their survival. Informal knowledge refers to mutual long-standing traditions of certain traditional or local communities,[59] which include the availability of information about each member of the community. Informal finance is, therefore, the extension of credit or small loans where mutual understanding and an environment of trust, loyalty, and respect between people involved in the borrowing and lending activities exist.

In informal finance, the lenders are not formally regulated and do not fall under the jurisdiction of law, taxes and other regulations.[60] Social norms and customs in this case play a pivotal role in financial relationships between borrowers and lenders as these characterise borrowing and lending activities. A framework of trust, respect and loyalty underlies all financial relationships. Furthermore, informal rules or constitutions which the local communities formulate themselves, determine how lending and borrowing activities are to be conducted. These rules are flexible, simple and improve access to both savings and credit to satisfy the goal function. The lender possesses knowledge that permits accurate predictions to be made about the risk status of the borrower, his loyalty, character, and private habits. In the formal financial

57 E Aryeetey, *Informal finance for private sector development in Africa...*, pp. 1-3.
58 KS Tsai, "Imperfect substitutes…", *World Development,* 32(9), 2004, pp. 1487-1507; J Murdoch, "The microfinance promise", *Journal of Economic Literature*, 37(4), 1999, pp. 1569-1614.
59 MP Mashigo, *Group lending...*, p. 11.
60 J Murdoch, "The microfinance promise", *Journal of Economic Literature*, 37(4), 1999, pp. 1569-1614.

sector, to produce information about the borrower normally incurs some costs, but in the case of informal finance, mutual long-standing traditions reduce transaction costs in that such information is readily available.

Using data from the interviews conducted with managers/owners of survivalist enterprises operating in the Soshanguve township, it was found that 78 percent of them are totally unemployed whereas 22 percent, which constitute only women, engage in domestic work in the private homes where they do piece jobs and lack benefits or social security. Many earn a monthly income of between R200 and R250 which is insufficient for them to finance their enterprises and survive. As a result, they have no choice but to secure credit as additional income to sustain their enterprises. The majority of survivalist enterprise operators come from very poor areas of the economy and townships and have very little educational background. Their limited access to education and lack of the necessary skills needed to perform some duties make them to be marginalised by the formal financial sector. Among survivalist enterprises that have been sampled for this research are 70 percent who have primary education, 24 percent secondary education, whereas 6 percent are university/college drop outs. These university/college drop outs cited the lack of money as reasons for discontinuing their studies in the very first year of their registration.

The income generated by survivalist enterprise operators is mainly used to provide minimal subsistence means for themselves and their families. It is evident in this research that these operators have been forced by the formal market's imperfections to start their businesses due to the struggle for survival and livelihoods rather than positive economic growth. The research found that 46 percent of survivalist enterprises employ only one employee whereas 36 percent employ two employees, and the remaining 18 percent utilise the services of family members. They cited lack of access to loans and even small loans (micro credit) from both the formal banking and micro lending sectors as a serious problem. These sectors are reported to demand collateral which the enterprises themselves do not have. The enterprises, therefore, adopt a wide range of livelihood strategies to secure their own survival. They continually depend on informal sources of finance to access credit which can be allocated to their enterprises (or other household activities) (See Table 1 below).

Table 1: Survivalist enterprises and informal sources of credit/finance in the Soshanguve township

Survivalist enterprises	Percentage operating enterprises	Informal sources of credit				
		Landlord and tenant	Kinship and friendship	Buyer-seller credit	*Mashonisas*	*Stokvel*
Fruits and vegetables	62	12.9	22.5	6.5	35.4	80.6
Spaza shops	10	–	40	20	40	80
Hairdressers	28	–	71.4	–	28.6	–

The Table shows that the majority of survivalist enterprise operators, for example 62 percent, survive through selling fruits and vegetables which are demanded on a daily basis by the local community. Only few, 10 percent, operate spaza shops whereas 28 percent constitute hairdressers operating their businesses in their homes or street corners. A large number of survivalist enterprises, for example, 80.6 percent of those selling fruits and vegetables, and 80 percent of those operating spaza shops in the Soshanguve township access credit from *stokvels* to which they belong. It is evident that *stokvels* are the most common informal sources of finance used by survivalist enterprises. These *stokvels*, as discussed above, have achieved significant scale and sustainability and provide not only savings which is mobilised by members on a rotational basis, but also consumption, productive and emergency credit to survivalist enterprises on the basis of mutual help.[61] Screening decisions are motivated and assessed by loss-avoiding social rationales like custom-determined thresholds and positions rather than conventional rational axioms when optimising utility. This gives protection against cheating and racketeering on finance and buys certainty and sustainability in the collective at a cost much lower than the formal screening and monitoring occurring in the formal financial sector.

Survivalist enterprise operators indicated that a person known to have excessive alcohol intake or a drinking problem, for example, is not accepted in the *stokvel* and as such cannot access credit. They indicated that they contribute a minimum of R50 (around $4.76) per month into the *stokvel*'s pool. Although the contributions have different purposes, part of the amount is used as credit to the members as the need for such credit arises. Members

61 S Wixley, *The poor philanthropist...*, p. 5; MP Mashigo, *Extending credit…*, p. 77; G Verhoef, *Money, credit and trust...*, p. 6.

are bound by the *stokvel* rules to socialise through regular meetings which are held weekly, monthly or fortnightly to discuss financial issues and to tighten the common bond between group members. Most importantly is that credit is provided without interest and collateral and this reduces the cost of securing such credit. Defaulting is very minimal due to peer pressure and members repay to maintain reputation and respect. According to some respondents, none of them would want to be excluded from the *stokvel* and/or viewed by their peers as irresponsible since this would impact negatively on their reputation.

The research also found that 35.4 percent of survivalist enterprises sell fruits and vegetables, 40 percent of those operating spaza shops, as well as 28.6 percent of the hairdressers, access credit from the local *mashonisas* who are regarded as being responsive to their needs. According to Schoombee (1998)[62], the South African legislation is unable to regulate *mashonisas* since they are difficult to track. Like *stokvels*, honesty, trust, loyalty and local information, all play an important role in borrowing and lending activities. *Mashonisas* are seen as lenders of last resort for survivalist enterprises. They provide instant cash and specialise in short-term loans, generally for 30 days. The research conducted by the researcher in 2012 to assess the financial viability of *mashonisas* found that more than 55 percent of the twenty five *mashonisas* were shebeen owners whereas about 30 percent were formally employed.[63] The research found that they both operate a joint micro-lending business and augment their own money by borrowing from the formal banks. It is important to mention that survivalist enterprises (as borrowers) indicated that they do not normally consider the cost of credit or interest charged by *mashonisas* but the fact that such credit is easily accessible. Furthermore, these *mashonisas* do not necessarily need any proof of employment or collateral, but only assurance from their regular clients that money will be repaid on a determined date.

When asked about this repayment assurance, survivalist enterprise operators indicated that *mashonisas* keep a record of all transactions in a book where each borrower is requested to sign the agreement, that is, date of loan issue, date of repayment, and the amount requested. Only a few of the *mashonisas* have

62 A Schoombee, *South African banks and the unbanked: Progress and prospects* (South Africa, University of Stellenbosch, Department of Economics, 1998), p. 4.

63 MP Mashigo, "The lending practices of township micro-lenders and their impact on the low-income households in South Africa", *New Contree Journal, A Journal of Historical and Human Sciences for Southern Africa,* 65, 2012, pp. 1-24.

been reported to be using computers/laptops for record keeping and copies of the agreement are printed and signed by both the *mashonisas* and their borrowers. New clients receive financial assistance only if they are introduced and recommended by regular and trusted clients. Of importance to survivalist enterprises is that the decision on whether one qualifies for credit or not is reached quickly. Lending and borrowing contracts are relationship-based with borrowers gaining reputation as they build a clean repayment record and this enables them to access future loans. These social connections have been found to remove the need for collateral and asymmetric information – a competitive advantage which *mashonisas* have over the formal financial sector.

Furthermore, buyer-seller credit relationship was also found to be a preferred source of finance in townships such as Soshanguve. Trade credit, in this case, dominates financial operations and utilises information links, as part of traditional social practices, between parties through commodity transactions. It was found that only 6.5 percent of fruits and vegetables enterprises and 20 percent of spaza shops in Soshanguve regularly buy from a specific seller in the community who gives them, in return, reduced prices for buying the products in bulk. Of importance is the overwhelming dominance of trade credit where the sellers provide products on credit to their regular enterprise operators and who have past records of repaying loans. No collateral is needed by the sellers in this arrangement. On the contrary, pre-payment has been found to be more important for new or non-regular clients. The study conducted by Aryeetey (1998)[64] found client pre-payment for goods in countries like Ghana to be more important than sellers'/suppliers' credit for financing small and survivalist enterprises. However, this varies considerably in Zimbabwe as well as South Africa where survivalist enterprises receive sellers' credit.

Kinship and friendship or reciprocal lending has been found to be very strong in the townships and rural areas. Whenever there is an urgent need for cash, people approach those they are closest to for help, for example, a relative, friend, or neighbour because they would expect them to return the favour sometime in the future (a reciprocal obligation). This is, according to U.S Library of Congress (undated), a reciprocal interdependence in which the grantor of the favour can expect help from the debtor, and the debtor can, in return, ask the favour. Friendship and kinship provide a framework of trust, loyalty, reputation, and social relationships, the traditional values which underlie all financial relationships to entrust or believe. These traditional

64 E Aryeetey, *Informal finance for private sector development in Africa...*, pp. 1-3.

values replace the need for physical collateral. A large number of hairdressers (71.4 percent) are not *stokvel* members since they highly depend on families and friends for credit compared to only 22.5 percent of fruits and vegetables and 40 percent of spaza shop enterprise owners who belong to *stokvels*. Some of these hairdressers include young men and women who have completed matric (Grade 12) and could not attend universities due to financial constraints. The majority mentioned that they receive financial assistance as start-up capital from their relatives and immediate families to buy equipment and hair products. While very few are requested to pay back the money (with no interest rate) in the near future when their businesses grow, some indicated that they are not. Their dependence on relatives or families becomes minimal as their businesses grow and generate some profit. However, they still continue to approach their relatives when the need for cash arises. In the case of neighbour relationships, it was also found that the loans that are provided involve no interest rate at all. The problem of collateral does not exist in these informal arrangements.

Lastly, landlord and tenant credit is generally the kind of bonds which prescribe patterns of appropriate behaviour and are formed between landlords and tenants in developing countries where the landlord acts as a savings or deposit collector collecting money from the tenants for safe keeping.[65] Communication between the landlord and tenants is easy as the landlord (savings collector) visits them on their premises to collect money. Tenants are obliged to save every month in case there is an urgent need for credit. The significance of this informal source of finance is that in addition to collecting money, the landlord also becomes a lender or a source of credit to the tenants. No fee or interest is charged when extending credit and there is no complicated information that is required to extend credit because they know each other very well. This also reduces the collateral problem and transaction costs of extending credit because the savings that are contributed every month is used as collateral for the loans. Also important about this arrangement is that the problems of transport or transportation costs to access money do not exist. This arrangement, though prevalent in other developing countries, has not been found to exist in Soshanguve among the selected survivalist enterprises. The researcher, however, found that only 12.9 percent of survivalist enterprises selling fruits and vegetables are involved in in-kind credit between themselves as tenants and landlords. These tenants are foreign nationals from other

65 S Wixley, *The poor philanthropist...*, p. 7.

African countries like Zimbabwe and Nigeria. The in-kind credit involves, on the one hand, these tenants working for their landlords and doing, for example, garden and other domestic work, and offered accommodation in return. On the other hand, these tenants mentioned that they sometimes receive monetary remuneration from the landlords depending on the amount of work performed. They further mentioned that they generate more income by working for other community members doing piece jobs on a part-time basis. The income is therefore used to buy stock (fruits and vegetables) for their survivalist enterprises.

Conclusion and recommendations

Credit provision to survivalist enterprises in South Africa is coupled with a serious limitation by the formal financial sector, both banks and micro finance. This limitation is attributed to collateral requirements and financial market imperfections which are at the center of theoretical and empirical explanations of the negative relationship between inequality and growth. Informal finance has therefore gained increased recognition in the general literature on development and has become an important source of survivalist enterprises in townships such as Soshanguve. Informal finance appears to be well-structured through its informal financial arrangements to meet the credit needs of survivalist enterprises. Traditional norms and customs such as loyalty, trust, and respect embedded in social networks rather than physical collateral and high transaction costs continue to characterise borrowing and lending. Informal sources of finance has a long history. Amongst others they are *stokvels*, *mashonisas*, kinship and friendship, and buyer-seller credit relationship. Though these are very significant channels of improving access to much-needed finance by survivalist enterprises in Soshanguve, have not received recognition and support commensurate with their current and potential contribution to resource allocation, income distribution and economic development.

The South African government should consider the former historical role that informal finance played in survivalist enterprises development and poverty reduction and takes initiatives to support it. Strategic principles such as collateral substitute, socialisation, and customisation that apply to informal sources of finance have proven to have a positive impact on economic development, particularly for survivalist enterprises. In the case of the collateral substitute, for example, the formation of informal community groups through *stokvels* which are based on mutual trust and comprehensive information on the creditworthiness of survivalist enterprises (as borrowers) can be used to remove the need for collateral and reduce transaction costs. Savings, in particular, which are accumulated, can be used as collateral to access micro credit. Peer pressure which is exerted on group members to repay the loans plays an important role in minimising default. Related to this is socialisation, an important network of trust and reciprocity which improves social relations between survivalist enterprises (as borrowers) and *mashonisas* (as lenders). Their long-term relationships inspire loan repayments. In customisation, informal customs and norms such as decisions taken by both the lenders and borrowers, which serve as agreements on how and when the loans will be repaid, and how the loans will be approved, are important processes in developing survivalist enterprises.

Informal finance can provide the opportunity for the South African government and formal financial sector to develop mutually beneficial relationships or linkages to make informal finance more effective and efficient in mobilising premiums (savings) and advancing credit to survivalist enterprises. Traditional norms and customs can provide the government with the basis for developing a suitable and clear policy for informal finance. To achieve these recommendations needs the creation of an enabling policy environment with the support of government and other stakeholders involved in the provision of finance. Economic policy-making needs to commit to supporting survivalist enterprises through, for example, inclusion in market-based economic opportunities and other related support to survivalist enterprises for them to grow, develop and become sustainable. It is hoped that the Ministry for Small Business Development, established in May 2014, will address the challenges faced by survivalist enterprises in South Africa. Future research in South Africa needs to examine the complementarity of both formal and informal finance and how they affect development processes.