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## **The economic contribution factors of *stokvels* in the local economy of eThekweni Municipality**

**Mduduzi Justice Kennedy Bophela, Njabulo Khumalo**

Durban University of Technology

[mdu@mazingacapital.co.za](mailto:mdu@mazingacapital.co.za), [njabulokhumalo4@gmail.com](mailto:njabulokhumalo4@gmail.com)

**Abstract.** The absence marginalisation and lack of recognition of the role of *stokvels* in the official economic plans and policies of the municipality was therefore the problem that this paper sought to explore. Simple random method was adopted on 395 *stokvel* group's members who were administered with a questionnaire and the purposive sampling method on 6 MC members of eThekweni Municipality that participated in the interviews. The qualitative data was analysed using N-VIVO (version 11.0). The quantitative data was analysed using inferential and descriptive statistics. Money saving & investment, job creation and promoting business opportunities are the most prevalent of the economic contribution factors of *stokvels*. EM needs to pioneer the amendment of the current policy inclusive of the informal economy.

**Keywords.** *stokvels*, ROSCAs, economic transformation, informality, inclusive economy, policy framework

### **Introduction**

The South African “government has made progress in transforming the economy since 1994, though the majority of the citizens are of a different view altogether. This has been alluded by the state president Mr Cyril Ramaphosa on Freedom Day speech on 27 April 2020. Despite significant transformation efforts since 1994, the structure of the economy has remained largely unchanged. The pace of transformation has been too slow and the benefits have been distributed unequally. The Broad Based Black Economic Empowerment (BBBEE) legislation, Affirmative Action (AA) policies, other empowerment programmes of the South African government and the redistributive spending through the budget were aimed at expanding: employment and business opportunities primarily for black South Africans; and addressing high levels of poverty and inequality. This is reflected in significant growth in the black middle class since 1994, the provision of housing to millions of South Africans and a vast expansion of access to basic services by all citizens. Transformation that creates more jobs, increases wealth for all citizens and reduces inequality. It also requires faster growth and more equitable distribution of resources and benefits.

Addressing this challenge requires a deliberate programme based on: Creating more jobs, reducing poverty and narrowing inequality; transforming patterns of asset ownership and production, promoting competition and diversifying product markets; mobilising private and public capital investment to help modernise and diversify the economy; providing workers and

the poor with access to markets, and social and economic infrastructure; strengthening transparent government and the rule of law; investing in research and development, and innovation; and improving the quality of education and training to meet the needs of a modern economy” (*National Treasury*, 2017:22). The National Development Plan (NDP) 2013 by pointing out that “transforming the economy will require reforms that lead to more competitive product markets and stronger growth in labour-absorbing sectors such as agriculture and tourism” (*National Treasury*, 2017:22). Coupled with government policies aimed at broadening the equitable ownership of an inclusive economy and the promotion of a saving society as opposed to consumerism, economic transformation has a pivotal role in growth enhancement and poverty reduction (Wuyts & Kilama, 2016). Authors Wuyts & Kilama (2016) also hold an opposing view to the example of the agriculture sector being a driver of economic transformation as presented in the NDP 2013. An academic paper by McMillan *et al.*, (2014:11) argue that “one of the earliest and most central insights of the literature on economic development is that development entails structural change.”. There is silence in the literature based on stokvels as a contributor to the economy especially in South Africa. Therefore; this paper focuses on assessing the economic contribution factors of stokvels in the local economy of the eThekweni Municipality. This paper provides a municipal technical support service to other municipalities in an empowering and innovative manner. It further equips eThekweni and the other 297 peer municipalities affiliated with SALGA by harnessing the economic contributing factors of *stokvels* in the development of policy frameworks for the economic transformation of these municipalities.

### **Literature review**

A number of scholarly research findings from Arko-achemfuor (2012); Mashingo & Schoeman (2012); Maluku & Kaseke (2014) and research organisation *African Response Research* (2012) indicated the reasons for and benefits of participating in RoSCAs like *stokvels* were: The ability to save, invest and meet basic needs; Easy access to credit & mini-loans; Creation of social capital, moral support & mutual assistance; Women’s empowerment; Financing/starting of small businesses; and Sustaining the existence of formal businesses thus creating employment. All the benefits listed are very much aligned with the South African national planning commissions NDP (2013), SALGA (2012) blueprint guidelines for municipalities in adopting a more developmental approach towards an economy inclusive of informal economy and the IDP 2016/2017 for eThekweni Municipality.

### ***Ability to save and invest***

In macroeconomics and according to Wiesław & Bartosz (2016:124) “household savings are defined as the difference between a household’s available personal income and its expenditure on ongoing consumption. These are the ongoing savings of the population, which represent an increase in the total personal savings in a given year and are a resource because they are the sum of both the ongoing savings and the aggregated savings from the past. The total household savings may be composed of tangible assets in which the household has invested, such as real estate, art, gold, and jewellery, and the household’s financial assets, such as cash, bank deposits, securities, and shares in mutual funds”. The writer maintained that the “allocation and *de facto* investment of household savings in the economy may occur through the banking sector (indirect investment) or the financial market (direct investment)” Wiesław & Bartosz (2016:123). Government in turn allocated these household savings to those sectors of the economy that, based on the savings investor’s evaluation, are capable of showing the

highest rates of return on the investment, i.e., they are the most profitable. Such sectors are frequently also the most innovative in the economy and, in turn, exert the most profound influence on economic growth, thus also determining its development. “Saving is vital to attain higher level of investment, which in turn is a key driver of higher economic growth” (Khan, Khalid & Shahnaz, 2016:171).

### ***Creating employment***

According to (Ulriksen, 2012:6) “Undoubtedly one of the best ways out of poverty is to get employment and to be a productive part of the economy thereby contribute directly to economic development”. A report by the *ILO* indicated that “the informal economy provides employment opportunities and livelihoods for the unemployed and marginalised who are unable to enter the formal economy in SA. Estimated at representing up to 7% of GDP, approximately 2.4 million people are employed in roughly 1.5 million informal enterprises” (*ILO*, 2016:60). A study by Rakabe (2013) concurred with the report by the *ILO* (2016) and further pointed out that in order for SA to realise its employment goals, particularly with regard to low-skilled job seekers, both the mainstream economy and marginalised informal economy must be developed in an integrated fashion. Fourie (2013) cited in Rakabe (2013) criticises ‘the governments’ overemphasis on the mainstream economy as the main source of job creation” which “tends to overlook the unexplored growth and employment potential of marginalised businesses” like *stokvels*; yet “these are important platforms from which to develop enterprises, create employment and enable empowerment and inclusive growth” (Rakabe, 2013).

### **Small businesses as a source of employment**

According to Osakwe, C; Ajayi (2015:243) “SME’s are widely acknowledged by authors and policy makers as the main engine of economic transformation, entrepreneurship and job creation in various economies of the world”. Authors like Noseleit (2012); Khoase & Govender (2013); Peters & Naicker (2013); Kaousar Nassr & Wehinger (2014) are fully agreeable that a growing body of empirical literature has analysed the role that entrepreneurial activity plays in economic development. The study by Arko-achemfuor (2012:127) discovered that “very little of the funds from the *stokvels* are invested in SMME activities. The reason could be that a lot of the savers apparently do not see this saving as a source or means by which they can start and run their small business”. In SA unemployment is blamed for poverty, inequality and lack of economic transformation.

### **Linkages of *stokvels* with the formal economy**

The *ILO report* indicated that “better linkages between the formal economy and the informal economy could potentially generate new economic opportunities” (*ILO*, 2016:1). This was further corroborated by Skinner (2006), cited in Neves & du Toit (2012:140), who reminded us that the “informal sector in SA is tightly intertwined with formal sector value and commodity chains. With the single exception of traditional medicinal herbs, virtually all products retailed or manufactured in the informal sector derive directly from suppliers of products or raw materials in the formal economy”. Further to that Devey *et al.*, (2006) cited in Neves & du Toit (2012:140) had observed that the “linkages between the formal and informal sector include not only the leveraging of resources derived from the formal sector into informal enterprises, but also an extensive interaction between formal and informal sector employment” and an early acquisition of particularly favourable trading sites”.

### **Stokvels as a boost for women's emancipation**

According to (Eckhart-Queenan, Allen & Behringer, 2013:33) “across the developing world, women own and operate an estimated eight to ten million SMEs”. In percentage form that represented about 33% of all such businesses in the emerging markets. Eckhart-Queenan *et al.* (2013) went further to state that despite women continuing to be under-represented and underserved as business owners by both banks and government policy-makers yet the “women-owned companies created much-needed jobs, raise people out of poverty, boost household income and contribute to overall economic prosperity” (Eckhart-Queenan, *et al.*, 2013:33). (Baglaeva, 2016:8) pointed out that “the economic empowerment of women is a matter for all. Inclusiveness does not only ensure a fairer world for both men and women, it also leads to faster and more sustainable economic growth”.

### ***Social capital***

According to Fukuyama (1995) cited in Bousrih (2013:46) the definition of social capital “is the existence of a certain set of informal rules or norms shared among members of a group that permits co-operation among them”. All combined, these shared resources were what was referred to as capital. The common thread that acts as a glue of functional social capital substantively included meeting of obligations, and reciprocity. Social capital cannot be defined and characterised exactly in a single universally accepted context but rather various approaches to the concept exist (Josten, 2013). It is indicated by Bousrih (2013:46) that the “OECD affirms the notion of social capital as networks together with shared norms, values and understandings that facilitate co-operation within or among groups”.

### ***Loans and credit extension***

According to Mashingo & Schoeman (2012:2) “stokvels can be used in their existing form, without adjustment, as a special purpose vehicle (SPV) and conduit to extend credit to the poor”. Whereas “access to cash and credit is central to economic life, moreover cash and credit play an indispensable role in smoothing consumption when assets are illiquid” (Mashingo & Schoeman, 2012:2). The paper continued to elaborate that mostly, the assets of the poor are known to be illiquid and of irreversible nature, hence “their vulnerability to random events or shocks and their uncertainty about future prospects” (Mashingo & Schoeman, 2012:2). It is for these reasons that the poor need “cash or access to credit in order to smooth consumption.

### **Methodology**

To support this study a mixed methods approach was employed to collecting data by constructing closed and open-ended questionnaire that will facilitate the collection of quantitative data from the participants. For qualitative data open-ended questions were formulated for use in an interview schedule and used as a guide during in-depth face-to-face interview sessions with the participants. The paper therefore defaulted to two sample groups from eThekweni Municipality that would participate in the data collection stages of the data. The paper adopted the simple random method of probability sampling on the larger population being the 395 *stokvel* group's members who were administered with a questionnaire; and the purposive sampling method on the smaller population of six (6) MC members of eThekweni Municipality that participated in the interviews. The qualitative data was analysed by transcribing interviews and identifying common themes using N-VIVO (version 11.0). The data was coded and classified accordingly. The quantitative data was analysed using inferential and

descriptive statistics. The raw data was entered into the Statistical Package for Social Sciences (SPSS version 25.0).

### Results

For this study the response rate was 98% as 388 questionnaires were returned from a total distribution of 395 questionnaires. In this paper, the Cronbach's alpha coefficient attained was 0.769.

**Table 1. Response on gender representation in stokvels**

Gender	Frequency	Percent	Cumulative percent
Female	320	82.5	82.5
Male	68	17.5	100.0
Total	388	100.0	-

The finding shows that stokvel groups are dominated by women at 82.5%, whereas their male counterparts make up the balance.

**Table 2. Frequency Table showing type of stokvel to which participants belong**

	Frequency	Percent	Valid Percent	Cumulative Percent
Grocery <i>stokvel</i>	262	67.5	67.5	67.5
Investment <i>stokvel</i>	19	4.9	4.9	72.4
Savings <i>stokvel</i>	84	21.6	21.6	94.1
High-Budget <i>stokvel</i>	1	.3	.3	94.3
Birthday <i>stokvel</i>	8	2.1	2.1	96.4
Burial <i>stokvel</i>	2	.5	.5	96.9
Other	12	3.1	3.1	100.0
Total	388	100.0	100.0	

Overall, this result indicates that the stokvel landscape in eThekweni Municipality is dominated by five types of stokvels being; Grocery, Savings, Investments, Birthday and Other. Another finding from this study is that Burial type stokvels are no longer as common as they once used to be. All stokvel group types have a burial arrangement incorporated in their constitution / agreement mandate, hence the decline in burial type stokvels. The standard constitution designed for all stokvel types in SA can be downloaded from the National Stokvel Association of South Africa (NASASA) website or obtained from their offices – this further supports the finding.

**Table 3. Frequency Table showing primary objective of participants stokvel group**

	Frequency	Percent	Valid Percent	Cumulative Percent
To socialise and network	72	18.6	18.6	18.6
To save money	240	61.9	61.9	80.4
Create jobs by financing small business	4	1.0	1.0	81.4

Loan funds to members of your stokvel	57	14.7	14.7	96.1
To deposit our funds in high return investments	15	3.9	3.9	100.0
Total	388	100.0	100.0	

In summary, the overall result of this finding is that the primary objective of 369 (95.1%) *stokvel* groups in eThekwini municipality is to save money, socialise & network and to loan funds to members.

**Table 4. Frequency Table showing monthly contributions per member of participant's stokvel group**

	Frequency	Percent	Valid Percent	Cumulative Percent
Between R100 and R250	118	30.4	30.4	30.4
Between R250 and R750	200	51.5	51.5	82.0
Between R750 and R1 500	39	10.1	10.1	92.0
Between R1 500 and R2 500	26	6.7	6.7	98.7
More than R2 500	5	1.3	1.3	100.0
Total	388	100.0	100.0	

In summary, the majority of *stokvel* group members 318 (82%) each contribute no more than R750.00 per month towards their *stokvel* pool of funds in eThekwini Municipality, with 70 (18%) of them contributing more than R750 per month. It can be inferred from the statistical data presented that on average *stokvel* groups in eThekwini Municipality contribute R500.00 per month. The population size of *stokvel* groups for this study is 34 062 *stokvel* groups found in eThekwini Municipality. The annual cash contributions for *stokvels* in eThekwini Municipality can be estimated as follows: 34 062 *stokvel* groups x 15 members per *stokvel* = 510 930 individual *stokvel* members. 510 930 *stokvel* members x R500 monthly contribution per member = R255, 465, 000.00. R255, 465,000.00 x 12 months = **R3, 065,580,000.00**. This finding indicates that eThekwini Municipality *stokvels* are, on average, just under a R3,1 billion industry (approx. \$193,7 million USD). This is a significant and sizeable industry with a significant financial muscle in the economy of the municipality. A majority of participants 286 (73.7%) stated that it was of 'medium to no importance' for their *stokvel* group to contribute to the economy of eThekwini Municipality by financing small businesses. This finding indicates that a majority of participants 286 (73.7%) do not finance small businesses in eThekwini Municipality. This was a gap as it was a shortcoming on the part *stokvel* groups to contribute to the economy of the municipality.

**Table 5. Stokvels co-investing with eThekwini Municipality**

<i>Stokvel organisation could be a better contributor to the economy of eThekwini Municipality by co-investing in the same opportunities as the Municipality</i>	Frequency	Percent	Valid Percent	Cumulative Percent
Very-high	104	26.8	26.8	26.8
High	93	24.0	24.0	50.8
Medium	37	9.5	9.5	60.3
Low	31	8.0	8.0	68.3

None	123	31.7	31.7	100.0
Total	388	100.0	100.0	

A majority of 234 (60.3%) of stokvel groups hold the view that it was of ‘medium to very-high in importance’ that their stokvel group could be a better contributor to the economy of eThekweni Municipality if they co-invested their lump sums of funds in reserves with the municipality. This finding indicates that participants are of the view that their stokvel groups could be better contributors to the economy of eThekweni Municipality if they co-invested their lump sums of funds in reserves with the municipality.

**Table 6. Stokvels as a loans vehicle**

<i>Stokvel contribute to the economy of eThekweni Municipality by advancing loans</i>	Frequency	Percent	Valid Percent	Cumulative Percent
Very-high	98	25.3	25.3	25.3
High	100	25.8	25.8	51.0
Medium	66	17.0	17.0	68.0
Low	30	7.7	7.7	75.8
None	94	24.2	24.2	100.0
Total	388	100.0	100.0	

A majority of 264 participants (68%) stated that it was of ‘medium to very-high importance’ for their *stokvel* group to contribute to the economy of eThekweni Municipality by advancing loans to their *stokvel* members. This finding indicates that a majority of participants 286 (74%) in eThekweni Municipality advance loans to their members and this is how their *stokvel* contributes to the economy of the municipality.

**Table 7. Stokvels creating savings opportunities**

<i>Stokvel contribute to the economy of eThekweni Municipality by creating savings opportunities for members</i>	Frequency	Percent	Valid Percent	Cumulative Percent
Very-high	206	53.1	53.1	53.1
High	84	21.6	21.6	74.7
Medium	31	8.0	8.0	82.7
Low	12	3.1	3.1	85.8
None	55	14.2	14.2	100.0
Total	388	100.0	100.0	

This finding indicates that a majority of participants 321 (82.7%) in eThekweni Municipality create savings opportunities for their members and this is how their *stokvel* groups contribute to the economy of the municipality.

#### ***Understanding the Economic Contributing Factors of Stokvels (MC)***

In the qualitative section, when asked what they understood to be the economic contributing factors of *stokvels* to the economy of eThekweni Municipality, all six participants indicated the economic contributing factors of *stokvels* as being saving & investing money. For an example Participant 3 said; “they lend money to members when they need money, invests in formal banking sector, give opportunities to people to learn how to start investing, teach people how to put money aside for a certain purpose”, whilst Participant 6 said; “*stokvels* are job

creators, savings vehicles.” Some participants further added job creation and bulk buying as other economic contributors of *stokvels*. For an example Participant 1 said “*savings, creation of employment and starting of informal businesses*”.

### ***EThekwini Municipality Leveraging of Stokvel Economic Contributing Factors***

A summary of responses from all six participants indicates that there is a gap in that once eThekwini Municipality has identified the economic contributing factors of *stokvels* the municipality thereafter fails to leverage these for both the benefit of *stokvels* and the economic transformation agenda of eThekwini Municipality.

### **Discussion**

The results of the study indicate that money saving & investment, job creation and promoting business opportunities are the most prevalent of the economic contribution factors of *stokvels* within eThekwini Municipality. These factors are also deemed to have a positive potential impact on the economic transformation of eThekwini Municipality particularly if the policy-makers in the Municipal Council could develop economic policies inclusive of *stokvels*. The good thing about this finding is that these factors are universal to growing an economy and raising the standard of living in any municipality. The study discovered that the Municipal Council members of eThekwini Municipality were aware of the *stokvel* economic contributing factors that were revealed by the study. However, these have not crystallised into factors that could advance the economic transformation agenda of the Municipality. *Stokvels* provide capital accumulation, employment opportunities and livelihood needs for the unemployed and marginalised who are unable to enter the formal economy in eThekwini Municipality. Invariably these factors form the basic building blocks of economic transformation and it is for this reason that the Municipal Council as a policy-making body should fast-track the inclusion of *stokvels* into the *Economic Policy Framework* of eThekwini Municipality.

From a business opportunities perspective, there is room for improvement as 71.1 per cent and 58.2 per cent of *stokvels*, respectively, do not consider investing in big and small businesses as a contributor to the economy of eThekwini Municipality, this as an alternative viable investment vehicle for their *stokvels*. The paper revealed that 82.5 per cent of *stokvel* group members were women. The Municipal Council could take advantage of this to promote women’s emancipation in business through the development of women in *stokvels* thus propelling women to be astute money savers & investors, job inventors and business creators. The paper further discovered that the cash holding of *stokvel* groups in eThekwini Municipality is estimated at three billion rands per annum; this is based on an average membership of 15 members per *stokvel* group and a monthly contribution average of R500.00. Though not as popular as it is in other emerging markets like the *susu* of Ghana; *stokvels* groups in eThekwini Municipality could improve their attitude towards investing in SMME’s. The study discovered that MC members were not aware of this clause in the *Durban Informal Policy of 2001*, however, were receptive to the idea of it being implemented in the near future.

### **Recommendations and conclusion**

Money saving & investment, job creation and promoting business opportunities are the most prevalent of the economic contribution factors of *stokvels* within eThekwini Municipality. A number of jobs, though indirect, flow from the existence of the *stokvel* sector. This study discovered that wholesalers like MAKRO of MASSMART have a department solely dedicated to *stokvels*. This study also discovered that street traders who have *stokvel* membership tend use

the rotating system of their *stokvel* groups to take advantage of bulk-buying power. In the retail business value chain, other opportunities flow from the existence of *stokvels*, for an example; taxis or private car owners provide chargeable delivery services during bulk-buying especially for street-traders. Similarly, banks have transactional and savings products that are tailor-made for *stokvels* only. Further to that the Municipality is also aware that there should be improved public-order policing especially during the December dividend distribution period so as to protect *stokvel* members from criminal elements. EThekweni Municipality needs to pioneer the amendment of the current policy inclusive of the informal economy to take into account the broad economic contribution factors of *stokvels*. It is expected that 287 other municipalities of SALGA shall follow suit.

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