

Women and Informal Credit: Lessons From Moretele, South Africa

By Kongolo M¹

Abstract

Informal credit plays an important role in the development of rural and urban areas in South Africa. It is about giving the disadvantaged poor people and women access to needed financial services to increase their earning opportunities, to meet their needs and to deal with emergencies. The findings suggest that informal credit impacts positively on the lives of the majority of women in the study area, to the extent of enabling them to become self-employed through self-chosen economic activities. It has also assisted them both in accumulating resources and protecting them from further lack of incomes in times of stress.

Keywords: Informal credit, women development, poverty alleviation, self-employment.

Introduction

About 80% of women live in South Africa's developing areas. Almost 64% of them are farming, providing about 70% of labour. The work of women farmers is essential for food security in South Africa. The majority of these women are unpaid family workers, working at least 14 to 17 hours a day, spending about 50% of their time on agricultural and about 25% on domestic related activities. The majority of women in South Africa's developing areas still have no access to formal credit, subsidies and inputs (McIntosh & Friedman, 1989), and this is a serious obstacle to agricultural and rural development (UNIFEM, 2005). These women produce almost half of food consumed in these areas, while at the same time are excluded from the formal credit system (Hunger Project, 1999). As a result, they have turned to informal credit system for assistance. Informal credit provides them with needed financial assistance to pursue their development goals. Various studies by Sun Xifang (2006), Isaksson (2002), and Mauri (2000) bear witness of vitality of informal credit in alleviating large-scale poverty. Informal credit is part of the economy in which financial transactions that take place are not officially regulated or monitored; however, it should not be dismissed as unimportant system (Isaksson, 2000).

This study combines the data on informal credit and saving associations to investigate their contributions to social and economic conditions of women in the study area. The main purpose of this study was to document the nature, advantages and disadvantages of the various informal credit used by the participants (women households) who combine agricultural and non-agricultural activities in rural and semi-rural areas, with the view to assess their impact in changing women's living conditions.

Statement of the problem

There is a general understanding that the informal credit system plays a vital role in the lives of the poor who have no access to formal finance in promoting their socio-economic development. A well organized informal credit system can assist the poor and marginalized people to access needed finance (Rutherford, 2001). It also facilitates the process of job creation in which some will become self-employed entrepreneurs while others involved in other related activities (Thomas, 1992). The

¹ University of the Western Cape, Department of Economics, Bellville, South Africa

main reason for the emergence of informal credit has been the unwillingness of the formal financial sector to service some relatively risky categories of borrowers, namely women other disadvantaged poor group of people. Such a risky situation often stem from the difficulty of obtaining reliable information on the borrowers (Bolnick, 1992). Since women have fewer alternatives for borrowing, they have been more vulnerable but good candidates for informal credit. Informal credits have been especially important for women and households headed by women, who often have difficulty in getting credit (World Bank, 2001). A collage of informal credit and deposit arrangements has increasingly attracted numerous rural and urban poor who combine economic activities with urban occupations in many developing countries (Adams, 1992). A significant literature documenting the relevance of informal credit in developing countries is given by Paulson (2000), Cox and Jiminez (1998), Ravallion and Dearden (1988), Zeller (1994), Lukhele (1990), Moodley (1995) and the World Bank (2001).

An impressive example of innovative informal credit is given by the Grameen Bank of Muhammad Yunus, the winning of the 2006 Nobel Peace Prize. In its approach to service the poor, the Grameen Bank has reversed conventional banking practice by removing the need for collateral and created a banking system based on mutual trust, accountability, participation and creativity. It provides credit to the poorest of the poor in rural Bangladesh, without any collateral. At Grameen Bank, credit is a cost effective weapon to fight poverty and it serves as a catalyst in the over all development of socio-economic conditions of the poor who have been kept outside the formal banking orbit on the ground that they are poor and hence not bankable. If financial resources can be made available to the poor people on terms and conditions that are appropriate and reasonable, “these millions of small people with their millions of small pursuits can add up to create the biggest development wonder”. Out of its 6.74 million borrowers in 2006, women are in the majority accounting for 97% (e-Newsletter, 2006).

While the 2006 Nobel Peace Prize was given to the Founders of the Grameen Bank for their role in poverty eradication, the Innovative Solutions to Global Poverty (UNITAS) received the 2007 Social Capitalist Award for the second consecutive year in recognition for reducing poverty by accelerating growth of the informal credit industry. Unitas has been transforming the lives of poor people around the world by increasing their access to informal credit products such as loans, savings plans and insurance. It brings life-changing loans and opportunity of increased access to informal credit to poor people in countries such as Kenya, Mexico, Argentine and the Philippines. Using a combination of capital assistance and technical support, Unitas has helped its partners to grow eight times faster than their peers and enabled them to collectively serve an additional 800 000 clients (e-Newsletter, 2006).

Ujjivan is another good example of organization that has broken the mold on informal credit in India. Initiated by one woman, Ujjivan makes profit by diversifying her product offerings in the local market. She specifically targets India’s urban poor women, a chronically underserved group of people, to match both employed and unemployed women’s actual use of informal credit for their needs. Her approach contrasts the traditional thinking by many that informal credit organizations have almost always targeted the rural poor. In fact, estimates suggest that over 90% of informal credit clients in developing nations are from rural areas. Many believe that the group-collateralized lending methodology wouldn’t work outside of tight-knit rural communities (e-Newsletter, 2006).

Despite the variety of informal credit, all these forms take on some significant features in common: informal financial transactions are partly separated from the formal credit system, the interest rates charged by informal credit are often higher than formal credit system, financial contracts are enforced through some local mechanisms instead of courts, and collateral does not matter (Xifang, 2006).

In South Africa, experience has shown that the conventional banks are still reluctant to provide credit to women and other group of poor people without a proof of collateral. Any small loans they are willing to provide will by virtue of their smallness be expensive to appraise and administer (Mosley & Dahal, 1985). The changes in economic development principles have resulted in a clear shift away from interventionist planning towards the neo-classical market-oriented view of the development process and policy (Cook & Kirkpatrick, 1988). For many years, South African financial institutions have expressed their unwillingness to service the needs of the poor in loans, credits and grants as this group constitutes a risky group of people (Zafar, 2001). This decision was also aggravated by the relatively disadvantaged position of women and other disadvantaged people, which obviously restricted the financial institutions' activities to those requiring little investment and skills (Robinson, 2005; Todaro & Smith, 2003). The marginality and limited range of activities undertaken by poor and disadvantaged people should be considered in the context of their socio-economic development (McIntosh & Friedman, 1989). Given a rise in the number of informal credit institutions in the country, most *formal* financial institutions have begun align their negative attitudes into positive ones by showing their commitment toward lending to some women and poor people for their development (Robinson, 2005).

Based on the literature, we know that there is variability in the importance of informal credit, but the relationship between the informal credit and the participants remains crucial. There is a variety of informal credit in South Africa, yet there is still little practical evidence on the transformation of power structure of the poor, especially of black women. The relative role of women is important in programmes such as informal credit, because these programmes target them and often have different impacts when they participate. This study will contribute to the literature by examining the role that the informal credits play in the lives of the poor, especially of black South African women, in fighting large-scale poverty.

This study is organized as follows: Section two presents research methods, Section three discusses the types of informal credit, Section four provides the membership of the associations, Section five outlines operation and administration of the associations, Section Six presents results and discussion, and Section seven presents conclusions.

Research methods

This study is a result of a research study that involved visiting a group of women participating in informal credit as a means to support themselves. During August-December 2005, Kongolo the researcher visited a total of 839 women in their households in the study area, including 17 small business women who were trading in and around the study area. This resulted in a total of 856 women visited, of whom 85 were also members the Community Property Association. Respondents originated from four different locations and were different in numbers: 56 in the first study area; 100 in the second; 300 in the third; and 400 in the fourth. Interviews were conducted with each group of respondents in their respective locations in different days, and the number of respondents interviewed in each location was 25, 33, 43, and 45 respectively (Table 1). The research was undertaken in group discussions in which a number of questions were asked to respondents as mentioned in a simplified questionnaire. This questionnaire was known as "Felt Needs" and the answers were on the questionnaire for the purposes of analysis. This approach enabled the researcher to identify problems facing respondents and to make a preliminary analysis of their activities as a group. As a result, a group of participants using informal credit was formally identified they were organized in various forms of self-help ventures as a strategy to fight poverty and to have improved living conditions.

Table 1: Estimated population and number of households interviewed.

Lacation	Estimated Population	Interviewed women
Briths	56	25 (17%)
Garanguwa	100	33 (23%)
Moretele	300	43 (29%)
Themba	400	45 (31%)
Total	856	146 (100%)

Source: Research data (2006). The numbers in parentheses are the corresponding percentages.

Table 1 provides estimated number of population visited in each location and the total number of respondents interviewed for the purposes of this study. The numbers in parentheses are the relative percent of the participants interviewed. Locations were taken as villages compared to normal standard size of most rural settlements, and were all dominated by women household residents. To learn more on these various forms of informal credit, respondents were first interviewed individually and in groups to avoid differences of opinions. This was done in order to seek their impressions as individual and as a group about the informal credit serving them, which unfortunately, did not make more difference. The results of these interviews were then used in the structure and content of discussions to constitute the data for this study. The data was analyzed using MS Excel on the Microsoft Program, and the findings of the study were reported under results and discussions.

This study descriptively examines “why is informal credit so extensively used in South Africa’s rural areas? And what is the reason for the above features of informal credit?” Therefore, the study does not attempt in any way to answer to this question directly, but attempts to summarize the reality of this situation through findings provided in the section under results and discussions.

Description of the study area

The research was conducted in Moretele Township, north of Pretoria, in Gauteng province, South Africa. Prior to the events leading to democratic South Africa, this area was under the “Home Land” of Bophuthatswana, now North West Province. The area is dominated by blacks and was governed by a black government who received resources from apartheid South African government to fulfill its orders. Many of these home lands in South Africa were sometimes known as independent countries, because they were giving orders that governed the people. However, they depended much more on apartheid government in terms of finance, technical assistance, policy formulation and implementation, security and many others. At the same time, white South Africans who worked in these home lands were paid huge amounts of money because they were expatriates working for other

countries. This however, did not bring any changes to apartheid policy on credit, loan and the borrowing in general to poor people as they remained unchanged. This was also the only way to enforce apartheid policy and its continuity in most black home lands (Msimang, 2001).

Differences in income per capita across developed areas in South Africa were vast; these incomes per capita were measured in purchasing power terms of up to 60 times that of developing areas (Todaro & Smith, 2003). Finding answers to the question why developing areas in South Africa were so much poorer than developed areas was the central focus of apartheid policy. This policy linked race to poverty in such a way that black women and other disadvantaged people often landed menial jobs that did not pay well.

Given that the majority of South African black women were not educated, they experienced serious hardships in terms of securing resources to start small business or other activity. A large number of women households in the area depended mainly on income from agriculture (vegetables and fruits planted in the backyard gardens), because women were denied access to own land in South Africa. The majority worked as domestic workers in various places and received low pay only to survive, just because they were women and blacks (Msimang, 2001), and at the time women's unemployment rate was very high. Some worked as farm workers in white owned farms and received menial pay, some were selling peanuts, clothing and any kind of articles to sustain their families, while few with diploma or certificate were working. Besides income that could be earned from these agricultural and non-agricultural activities, some households received income remittances from their husbands or relatives working in mining, services and other activities around main cities such of Rustenburg, Pretoria, and Johannesburg, to provide them with additional incomes. Infrastructure in the study area has been improving in the past years of democratic South Africa in terms of roads, housing, services and job creation, and it is now one of the busiest location, with an estimated population of about 7.9% of the total population of South Africa. Prospects for agricultural and rural development are massive and the study area has an established Community Property Association (CPA), a project initiated with the financial assistance from the Department of Land Affairs to promote integrated rural development.

Types of informal finance

Historically disadvantaged people in apartheid South Africa needed proof of collateral to access formal finance, because race and poverty were very much intertwined during apartheid regime. Until recently these people were even excluded from owning legally the most common and acceptable form of fixed collateral such as buildings and land (Msimang, 2001). Although an insignificant amount of loans were made available to disadvantaged people in South Africa by the formal credit system, however, estimates show that these people received less than 2% of the total credit from this system (Van der Berg, 1993). However, informal credit has been the main catalyst of socio-economic development of the poor in many rural and semi-rural areas of the country, and often it involves the payment of interests. There is a number of well-articulated informal credit associations operating in the study area for which this study documents four most important forms:

(1) Rotating Savings: Is a credit association which involves a small number of people in a group (mainly women) aiming at saving money for future use. This practice is also found in many other Africa and Asia countries. Mills (1993), estimated that there were more than 24,000 saving associations in major rural and urban areas of South Africa, with an estimated monthly buying power of about R80,00. A contribution of a fixed amount is made in these kinds of informal credits weekly, fortnightly or monthly which can be withdrawn following the rules of the association. Generally it is

conducted either by random rotation or following individual needs. For most disadvantaged people it is an important way to acquire needed goods services on credit (Lukhele,1990).

(2) Installment Buying: This helps the participants to acquire goods sold from house to house by itinerant peddlers as well as goods sold in the shops. Monthly contribution is often agreed upon by interested members before joining the association. The installments for the purchase of a particular item are also agreed upon between the seller and buyer before the item is delivered. The collection of contributions from the participants is done according to the agreement signed between the participants and the association, and it can be done daily, weekly or even monthly. It helps disadvantaged people to live a normal life and to acquire needed goods and services on credit (Thomas,1991).

(3) Fixed-Fund: includes both men and women members. It is a credit association which distributes the accumulated sum of money every six to twelve months to the participants. Money is often saved in the association bank account and the interest received is distributed equally among the members in December of each year to coincide with end of year festivities. Other contributions by members were normally saved to assist them during problems or in cases of emergencies.

(4) Lending Club: This informal credit system includes local credit arrangements. That is, the study was particularly interested in learning the ways in which it operates and the approaches used in lending the money at interest to the members on the one hand, the management and the contributions made by participants on the other hand. Firstly it was discovered that the club had a detailed policy regarding the granting of loans to members who have to apply for such loans. Secondly a linkage between savings and credit of every applicant had to be established by the club to ensure credit security before granting a loan to that particular applicant. The loan could be granted only when a certain amount of money (normally 5%) of the amount to be loaned was available as savings to the club from that needy member. Thirdly such loans were often disbursed in small amounts of about R1500,00 to assist each member during the time of needs and were to be repaid within a period of one month including interest, and fourthly no collateral was needed to borrow the amount needed. The World Bank (1989) describes these types of associations as 'Self-help rotating saving or credit associations'. They were also named differently in countries such as Sri-Lanka, Ethiopia, Indonesia, Jamaica, Cameroon, Japan, India, Zimbabwe and South Africa (Bouman,1984;Timberg and Aiyar,1984; Moore and Schoombee,1995). They were formed through a core of women members who agree to make regular contributions to a fund which shall be given in part or in totality to each member and contributor in rotation (Moodley,1995).

Membership of the Associations

All of the informal credit associations were different in various aspects starting with the composition of members, age and contributions. Limitations on memberships were primarily to keep the associations manageable and to have an effective control over their operations. All of them were using different approaches to select members, however, at least Rotating Savings and Installment Buying were restricting membership to gender, mainly women, while the Fixed-fund association had only men members. While the Lending Club had no restrictions in membership and it was opened to all sex and gender.

Members in the rotating saving association were married women but were living in different locations. Members in the installment buying were also women, but were not married all of them and lived in different locations. Members in the Fixed-fund were all men, but not all of them were married, and lived in the surrounding locations, while the members of the Lending-Club were mixed single and married men and women, lived in different locations, but the majority knew each other and

were also friends. All informal credit associations were initiated to enable members to increase their buying power through resources accumulation as they were all unemployed. Informal credit and saving associations were established as poverty alleviation schemes and job creation for most rural and semi-rural poor women including all unemployed people to accumulate resources and to fight poverty (Wilsworth, 1979). Lending to women appears to have more financial advantages than lending to men (Morduch, 1999). Women appear to have higher loan repayment rates than men (Khandker, 1998).

Operations and administration of the Associations

Operations of all informal the associations were based on formal constitutions drawn up by the members and supported by codes of conduct, with exception of court involvement. Rules were set, discussed and implemented in open forums after they were agreed upon by all the participants. One of the most important rules for every participant was regular attendance at the meetings, because all important decisions were taken during these meetings, including the collection of monthly contributions. Participants of the various associations met on different dates and times. This followed to include every participant's time schedule. The members in the rotating saving and installment buying associations met every last Saturday of the month at 14:00 to 16:00. Members in the fixed-fund association met every last Sunday of the month after the church services at 14:00; while the members of the lending-club met once every two weeks. This helps them to deal with loan issues before grants were made for every member during the last meeting of the month. These meetings were conducted by the Chairpersons for the first months, and would rotate between the Secretaries and Treasurers. The members' contributions were collected by the Treasurers during the last meetings and this helped the management team to monitor their progress (World Bank, 1989). Meanwhile, the Lending Club' operations and administration were in line with every informal credit established policy.

Results of the Surveys and Discussions

The majority of respondents (86%) have used informal credit and savings associations regularly in its various forms. Only 8% of respondents have used formal credit and only 6% of respondents never used both formal and informal credit. Given the high rate of unemployment in the study area, the use of formal credit and deposits by respondents has been very limited, also the relative distance from the study area to the banks was another issue (Miracle et al, 1980). Ten out of twenty respondents interviewed with small businesses have had bank deposit accounts, while only one out of twenty had a savings account. Given the number of participants in various informal credits and savings associations, it is justifiable to argue that informal credit have become popular forms of financial systems used by most poor people and women (Besley et al, 1993). The amounts contributed and loaned by members varied from one informal credit to another. An assessment of the interest rates charged by individual informal credit suggested that they were around R5,00 per R50,00 loaned per month per member (Table 2).

In rotating saving club as well as in installment-buying, the contributions were fixed at R100,00 per member per month. In fixed-fund the contributions were fixed at R80,00 per member per month, while in the lending-club the contributions were up to R250,00 per member per month. The amount of money loaned to members ranged from a minimum R50,00 to a maximum R250,00 per member per month.

Table 2: Composition of associations, monthly contributions, gender, age and education.

Options	Rotating saving club	Installment Buying	Fixed-Fund	Lending-Club
Year Established	1990	1992	1993	1995
N. of Members	22	20	17	14
Monthly Contributions	R100,00 (Fixed)	R100,00 (Fixed)	R80,00 (Minimum)	R250,00 (Minimum)
Gender/Sex of Members	Female (Only)	Female (Only)	Male (Only)	Mixed
Average Age	28 Years	29 Years	33 Years	30 Years
Estimated income/Month	R1150,00	R 750,00	R 1200,00	R1500,00
Average STD Passed	STD 9	STD 7	STD 10	STD 10
Average Dependents	5	4	5	5

Source: Research data, 2005

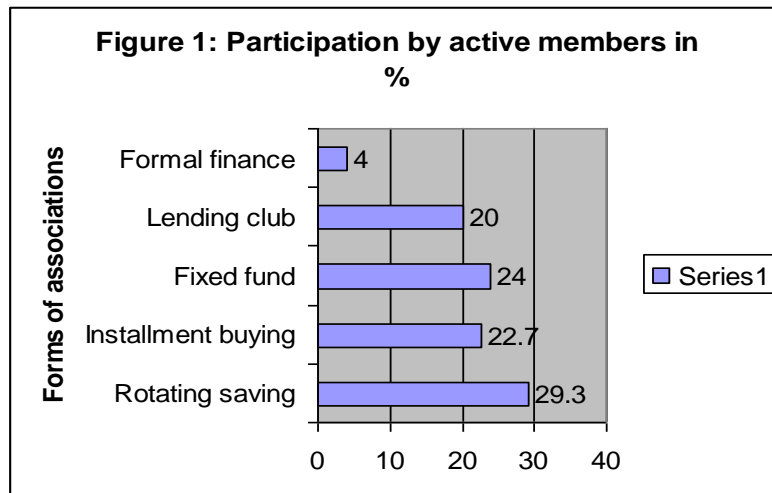
The amount of money loaned to members by each informal credit varied from a minimum R50,00 to a maximum R250,00 per member per month. The money not loaned to members was deposited back into the bank accounts together with new contributions from the members. The members' subscriptions varied from one informal credit and savings association to another depending on monthly contributions. Overall, the contributions were determined by agreements at a fixed amount per member as the minimum amount. An interesting feature about table 2 was that, in all informal credit and savings associations the number of women members increased more than the men members. This enhances the view that women are in the majority in most developing areas of Africa (Hunger Project, 2000). An increase in the number of the participants in informal credit may have been a result of a lack of a steady flow in the households incomes (Besley et al,1993). The participation in various forms of informal credit and associations describes not only the role and relevance of these associations, but also their commitment to assist the development of developing areas in resources accumulation for self-employment (Table3).

Table 3: Participation of members in various forms of informal finance associations.

Associations	Never been members	Have taken part	Active members	Total members	Percentage
Rotating savings	7	8	22 (29,3)	37	25,3
Installment buying	6	9	17 (22,7)	32	21,9
Fixed funds	4	6	18 (24)	28	19,2
Lending club	5	7	15 (20)	27	18,5
Formal loans	15	4	3 (4)	22	15,1
Total	37	34	75 (100)	146	100,00

The number in parentheses are percentages of the active members.

Table 3 provides the total number of active members together with the total percentage of the participants in each category of informal credit. A look at this table suggests that Rotating savings is the most dominant form of all informal credit investigated with 29,3% of active members, accounting for about 25,3% of the members (Figure 1). An important socio-economics aspect of the informal credit and savings associations serving the needs of the poor was their attractiveness, openness and willingness to assist them financially.



Savings by participants have largely attracted membership to increase in all informal credit and savings associations, although participation in the formal credit systems has the highest rate. This suggests a positive relationship between the rate of savings and the levels of income received from these informal credit and savings associations. Given that the main research question for this study was “why is informal credit so extensively used in South Africa’s rural areas? And what is the reason for the above features of informal credit?”. Since millions of poor in South Africa have no access to formal credit, especially women in rural areas, they have no other alternatives but to participate in these various forms of informal credit where they are well received and treated by getting all what they need in terms of credit and loans. Hence, it becomes clear that the main reason why informal credit is extensively used in South Africa’s rural areas is because it is flexible and provides services to

all people in meeting their financial needs, as compared to formal credit which applies rigid approaches.

Respondents were also asked to elaborate further their reasons as to why they were actively participating in informal credit than formal credit, the following were noted: Out of 17% of respondents in Briths who indicated that they would like to save money even if they had no specific project in mind, only four respondents have established sowing groups as a result of informal credit; and only two respondents in Garanguwa have a tuck shop and a restaurant out of 23% who expressed their intentions to save money in order to purchase goods and to start small business. Out of 29% of respondents in Moretele, 12% wanted to save money to meet expenses over Christmas and New Year festivities, while 17% wanted to save money for future plans including school fees for the children, only five respondents have a chicken business, a tuck shop, a candle making, a clothing shop, and a biscuit bakery respectively, while in Themba, out of 39% of respondents, only two have a juice maker and a sowing group respectively. Respondents with individual business as a result of informal credit participation have changed their lives considerably and have transformed their poverty status into a reliable social status than those who do not have small business. The potential to transform individual poverty status into an improved living condition rests with the participants themselves. Informal credit arrangements are the key to large-scale poverty alleviation and have the potential to reach more poor people by assisting them in changing their lives (e-Newsletter, 2006).

The importance of informal credit in assisting the poor was expressed by respondents, out of 31% of participants from Themba, 22% considered informal credit and saving associations as important and vital for their daily survival. Informal credit represents a source of income which helps the poor realize their dreams. A total 89% of respondents recommended informal credit and savings associations as a means of meeting their financial needs. Overall 96% of participants including the organizers expressed their satisfaction with the system, and that they have not yet encountered any major problems.

Informal credit serves as a catalyst in the overall development process in South Africa. It is an empowering agent and an enabling element in the development of socio-economic conditions of the poor who have been kept outside the formal credit system because they were not bankable. It has extended the banking facilities to the poor men and women in general by creating opportunities for self-employment of the vast unutilized and under utilized manpower resources. It has also reversed the vicious circle of low income, low savings and low investment of some participants into an expanding system of more income, more credit, more investment and increased living conditions (UNESCO, 2006). The more credit one can receive, the more resources one can command and the more decision-making power one is able to exert over individual conditions. In the study area, informal credit has created entitlement to resources for economic emancipation of the poor in general and black South African women in particular, by providing them with the opportunities to carve out dignified ways of living. These loans are viewed as means to gain command over resources; however, their potential use remains with the participants themselves. With its effective use many poor in the study area have managed to convert their talents skills in generating incomes by creating self-employment and have not to be constrained again by the limitations of income.

Conclusion

Access to credit by millions of poor, whether cash or in-kind, is always a major source of large-scale poverty alleviation. For many of these poor, these credits and loans often make up a substantial portion of their yearly incomes and provide them with an important means to generate

additional incomes through resources accumulation and job creation. Most black South African women may especially benefit from these schemes as they have few alternatives. The informal credit system plays a crucial role in improving the conditions of developing areas of Africa in general and South Africa in particular. Although millions of poor were excluded from the formal credit system, informal credit actively assist them in the process of poverty alleviation, including capacity building, upliftment, improvement in living standards, self-employment and development of their areas. Informal credit investigated in this paper included installment buying, rotating savings, credit associations and the lending club. The results suggest positive impacts on the live of the majority of poor women as their living conditions were improved, self-employment and increased income earnings. The contribution of informal credit in the development of South Africa's rural areas should not be underestimated, but should to be acknowledged. Most disadvantaged people consider informal credit as economic and financial institutions whose purposes are to help them meet their financial obligations, generate improved well-being, and create opportunities to further their development.

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