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Financing the Start-up and Operation of Immigrant-owned Businesses: the path taken by African Immigrants in the Cape Town Metropolitan Area of South Africa.

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Abstract

Drawing a sample of 135 successful African immigrant-owned businesses, this paper sets out to investigate how their owners acquired the necessary capital for start-up and growth thereafter. The paper was designed within the quantitative and qualitative research paradigms, in which a triangulation of three methods was utilised to collect and analyse the data. The paper revealed that although African immigrants are characteristically at the disadvantage when it comes to accessing capital from formal financial institutions, this does not stop them from pursuing entrepreneurial activities. At the start-up stage, they typically resort to personal savings, business credit, family credit, and loans from informal financial institutions. According to the ability to raise capital, we found that a varying range of start-up capital was utilised, which tended to vary across the different ethnic groups studied. Once started, we found that the sources of additional finance available to these immigrants did not change significantly. They conventionally turned to friends, co-ethnics and self-help financial associations to 'feed' their need for further funding.

Key words: business start-up, immigrant-owned businesses, African immigrants, finance, capital, and South Africa.

INTRODUCTION

The small business sector has been acknowledged to be the backbone of every economy (Agupusi, 2007:2), so too has the fact that a healthy economy thrives on new business ventures or start-ups have been emphasised in numerous studies (Sinha, 2003:3; Lee, Florida & Acs, 2004:1; Markova & Petkovska-Mircevska, 2009:598). The belief in the favourable outcome for the economy associated with a significant Small Micro and Medium-Size enterprises (SMME) sector, has promoted both developed and less-developed countries to deliberately put in place policies aimed at promoting the start-up, growth and development of the SMME sector (Gries & Naude, 2008:1). According to Chandra, Moorthy, Nganou, Rajaratnam, and Schaefer (2001:12), having a huge small, micro and medium-size enterprise sector (SMME) has been argued to form the basis for job creation and poverty eradication, which happens to be one of the fundamental indicators of development.

Traditionally, creating any product or service has often involved combining what has since been referred to as factors of production (Jacobs, 2004:3). So far, the acknowledged factors of production have included: land, labour, capital and the entrepreneur. According to the Federal Reserve Bank of Dallas (2010), all the economies around the world possess land, labour, capital and entrepreneurship. Land represents natural resources – soil, food crops, trees, and lots that we build on. An example of labour includes the farmers, accountants, cab drivers, dry cleaners, assembly-line workers and computer programmers who provide skills and expertise to build products or offer services in exchange for wages and salaries. Capital represents the buildings, equipment, hardware, tools and finances needed for production. Entrepreneurship represents ideas, innovation, talent, organisational skills and risk. This notwithstanding, the availability of these resources has been noted to vary from one region to another, with some areas having abundance and others scarcity (Smith, 2007). The impact of which may be positively or negatively felt by individuals, depending on the geographical space that they occupy at any one time. In a recent South African study, African immigrants ranked the finance first on the list of the resources perceived to be vital for the start-up and operation of a business (Tengeh, Ballard & Slabbert, 2011: 376).

In South Africa today there is a growing need for new businesses to be started. It is believed in several quarters that the start-up and growth of such entities will alleviate the ever rising poverty through job creation. However, with the financial resources of the country already stretched and skewed, one finds that it is becoming increasingly difficult for small businesses (immigrant owned

included) to gain access to the much needed financial resources. Under these circumstances, further aggravated by the global financial crisis, accessing capital for business start-up is almost impossible for small businesses in general, and immigrant owned businesses in particular. Having been pushed into starting a business by limited job opportunities and with limited or not support from the South African government, only a few of such businesses take off the ground and let alone grow.

Given that lack of finance is one of the most noted factors that hinders the start-up and operation of a business in South Africa, and the fact that the amount as well as the sources of finance indirectly influence the survival of a business, we set out to investigate how those African immigrants who have succeeded acquired the necessary finance for this purpose. In other words, the questions under investigation are:

- How do African immigrants finance the start-up of their businesses in South Africa?
- Once in operation, how do these African immigrants acquire further finance?

LITERATURE REVIEW

In theory, one would expect entrepreneurs to use either their own money or that of others when starting-up or operating a business. In practice this holds true, although these options are more complex and dependent on a variety of factors, some of which are beyond the nexus of control of the entrepreneur.

New small business start-ups and entrepreneurship

According to Basu and Parker (2001:2) and the Federal Reserve Bank of Dallas (2010), in recent years there has been a growing awareness of the importance of new business start-ups for long-term economic growth and employment creation. With economic growth and employment as a central objective, many governments today are actively involved in promoting small business start-ups. According to Van Praag (2003:1), it is increasingly acknowledged that an effective policy to decrease unemployment is to stimulate the number of new businesses. It is widely recognised that a key element of successful start-ups is adequate financing (Basu & Parker, 2001:2).

Behind successful small business start-ups and operations is entrepreneurship. Furthermore, entrepreneurship has been recognised as one of the driving forces for market competition and economic growth (Jiangyong & Zhigang, 2007:3). Existing studies have uncovered a set of

personal attributes of would-be-entrepreneurs such as gender, marital status, age, education, financial conditions, and attitude for taking risks that may affect entrepreneurial activities (Jiangyong & Zhigang, 2007:3).

Defining and measuring business success

Acquiring the necessary resources for business start-up and operation has been noted to be a challenging task (Jacobs, 2003:111). Success draws one's attention to a task satisfactorily completed according to specified standards. In order to measure success, a standard or benchmark must have initially been set, against which the end result would be compared. In business, different dimensions have been used to indicate success. For instance, profit is commonly used to indicate success (Kloosterman & Rath, 2001:198). Other indicators of success include survival or numbers of years that the business has existed, which is ultimately indirectly linked to profit, in that a business that does not break even is doomed to close down.

In a study in Germany, Fertala (2006:7) defined a successful immigrant entrepreneur along the following lines:

- The longer an immigrant survives in business the more successful he or she is.
- The faster the process of incorporating new information than relying on past experience, the more successful the entrepreneur is.
- The greater the sales volume, the more successful the entrepreneur is.

In this study, the duration in business and sales volume are seen as the fundamental indicators of success. Knowing what success is and how to measure it provides the basis on which to screen participants for the study, in an attempt to investigate what drives success.

Entrepreneurial attributes or business success drivers

Having the right entrepreneurial attributes account for the difference between successful and unsuccessful businesses, as evident in the ability to acquire the resources necessary to start-up operate a business. The preponderance of immigrants in self-employment and their perceived high success rate suggest that successful entrepreneurs possess certain characteristics, which are undoubtedly also the characteristics of immigrant entrepreneurship.

Nieuwenhuizen (2004:40) maintains that the factors that usually contribute to successful entrepreneurship are also known as key success factors, and can be summarised as follows:

(1) Skill, expertise and aptitude, (2) Personal qualities, (3) Management skills and (4) External factors.

Nieuwenhuizen's summary of entrepreneurial success factors suggests that it would be possible to distinguish a successful entrepreneur from an unsuccessful one based on the listed traits. Bygrave (1997:3) argues that there is not a given set of entrepreneurial attributes that allows one to separate an entrepreneur from a non-entrepreneur. However, Bygrave (1997:3) suggests that entrepreneurs are high achievers with a high desire to be in control of their own destiny. If the general entrepreneurial attributes, as suggested by Bygrave, hold true for every successful entrepreneur, one may expect immigrant entrepreneurs to exhibit most of these.

Business start-up resources

Traditionally, creating any product or service has often involved combining what has since been referred to as factors of production (Jacobs, 2004:3). So far, the acknowledged factors of production have included: land, labour, capital and the entrepreneur. According to the Federal Reserve Bank of Dallas (2010), all the economies around the world possess land, labour, capital and entrepreneurship. Land represents natural resources – soil, food crops, trees, and lots that we build on. An example of labour includes the farmers, accountants, cab drivers, dry cleaners, assembly-line workers and computer programmers who provide skills and expertise to build products or offer services in exchange for wages and salaries. Capital represents the buildings, equipment, hardware, tools and finances needed for production. Entrepreneurship represents ideas, innovation, talent, organisational skills and risk. This notwithstanding, the availability of these resources has been noted to vary from one region to another, with some areas having abundance and others scarcity (Smith, 2007). The impact of which may be positively or negatively felt by individuals, depending on the geographical space that they occupy at any one time.

Although the advent of globalisation has minimised the shortage of some of these factors, such as labour, entrepreneurship and capital, in that they can be transferred from a region of abundance to a region of scarcity, the degree to which these factors can be moved is still limited by both man-made and natural factors. The natural factors include weather, natural disasters and so forth. The man-made factors include laws and regional policies that hinder mobility (Smith, 2007).

Capital as a factor of production can be classified into financial (savings and loans), physical (land, buildings and machinery), human (education and skill enhancement) and social (trust, reciprocity and mutuality), based on its source (Coleman, 1988:118; Smallbone, Evans, Ekanem & Butters 2001:21). Sanders and Nee (1996: 231) noted that, despite being an important factor of production, the foreign-earned human capital of most immigrants is not highly valued by employers in their host countries who frequently rely on educational credentials and work experience as proxies for direct measures of skills and the potential productivity of employees. Being one of the factors of production itself, the entrepreneur is most valued in the role it plays in organising the other factors (Federal Reserve Bank of Dallas, 2010).

Acknowledging a variation in the quality and quantity of the factors of production available to individuals would logically suggest that business success drivers would vary from region to region, between sectors, and even over time. For example, in a study of exporting firms in the clothing industry, Gumede and Rasmussen (2002:162) identify networks, access to finance, access to information, and level of education to be fundamental in shaping success.

The following factors have been identified to be fundamental in shaping business success at the level of the individual (Van Praag, 2003:9):

- Relevant previous experience in (self-employment, or same industry or occupation) affects the success of a business founder.
- Age of the business founder. The younger the business founder, the better his performance will be given the level of relevant experience.
- Finance. The more own capital, the more successful the business owner would be. However, some empirical studies have found no significant evidence to support this view. For instance, Van Praag (2003:17) concludes that people starting with own capital are as successful as those who start with debt capital.
- Motivation. Small business owners who have been pulled rather than pushed into the job have a higher chance of success.
- Education. Higher educated business founders perform better.

According to Elfring and Hulsink (2003:12), entrepreneurs rarely possess all the resources required to start-up and operate a successful business.

Finance as a business success driver

Finance as a business resource refers to all those resources that take the form of, or can be readily converted into cash. Financial resources are valuable as far as business start-up and operation are concerned in that they do not have a single purpose but can be used to acquire other resources (Jacobs, 2003:112). From this angle, the acquisition and use of this type of resource may be important for the start-up and operation of any business (immigrant-owned businesses included). Finance can be obtained from different sources. The first source is the entrepreneur and the money he or she invests in the business is known as equity capital (Jacobs, 2003:112). The second source of funds is money loaned to the business by outsiders, such as individuals, banks or other lending institutions.

Traditionally, would-be small business owners meet the challenge of obtaining capital to start and run their businesses by using informal sources, as well as personal assets and loans from formal sources (Huck, Rhine, Bond & Townsend, 1999: 47). It has been observed that while native entrepreneurs are more likely to finance new businesses using formal financial sources such as banks, this is unlikely to be the case for migrant entrepreneurs who are constrained to use informal sources. On this basis, informal financing via networks can substitute for borrowing in the formal sector, either because formal credit is not offered or because informal financing is preferred (Huck et al, 1999:47). Credit offered by a supplier, or trade credit, is another alternative to borrowing from financial institutions. Trade credit in itself is highly dependent on trust, which happens to be a core component cultivated by social networks. Businesses form networks with their suppliers, and there may be an ethnic dimension to these networks, in that the ethnicity of the supplier may matter for some transactions.

Access to finance

The importance of finance can only be measured in terms of its availability to the greater proportion of the population and most importantly the needy. Empirical studies have shown that access to finance tends to vary from one country to another, within countries, and between businesses with size, owner, formality, and locality being key determinants.

Claessens (2005:3) advances three reasons why access to financial services has received more attention lately and has become an important part of the overall development agenda:

- Firstly, the evidence that 'finance', as in financial development matters for growth, has been accumulating over the last decade.

- Secondly, based on changes in economies and economic production, finance may have moved up in the ranking of barriers to growth.
- Thirdly, there is an increasing perception that access to finance has been skewed for households and enterprises (Atieno, 2001:1).

According to Claessens (2006:208), many segments of SMMEs and households lack access to finance, which probably impedes their growth and decreases their welfare. In this regard, the provision of credit has increasingly been regarded as an important tool for raising the incomes of rural households, mainly by mobilising resources for more productive uses (Atieno, 2001:1).

Access to financial services for small businesses is normally seen as one of the constraints limiting their benefits from credit facilities (Atieno, 2001:7). Against the backdrop of the three reasons put forward for the recent hype about access to finance, the following questions beg: firstly, what does access to finance mean? Secondly, how does access to finance differ from the use of financial services? According to Beck et al (2005:4), access to financial services is not synonymous with the use of financial services. Drawing a line between the two, Claessens (2006:209) notes that access refers to the availability of a supply of reasonable quality financial services at reasonable costs, where reasonable quality and cost have to be defined relative to some objective standard with cost reflecting all pecuniary and non-pecuniary costs. On the other hand, the use of financial service refers to the actual consumption of financial services. Atieno (2001:7) posits that the problem of access to financial services as far as formal financial institutions are concerned can be traced back to the institutions' lending policies which more than often emphasise minimum loan amounts, complicated application procedures, and restrictions on credit for specific purposes. Concurring with Atieno (2001:7), Claessens (2006:210) further notes that access to financial service refers to its supply, whereas the use of financial service refers to the intersection of the supply and demand schedules

For small businesses, reliable access to short-term and small amounts of credits is more valuable, and emphasising it may be more appropriate in credit programmes aimed at such enterprises (Atieno, 2001:7). It can be argued that the type of financial institution and its policies will often determine the degree to which it can be accessible (Atieno, 2001:7). Where credit duration, terms of payment, and supplementary services do not fit the needs of the target group, potential borrowers will not apply for credit even where it exists (Beck et al, 2005:4), and when they do, so they would be denied it (Atieno, 2001:7).

Although weak and often not comparable, available data show that access of households to banking services varies greatly. In developing countries, many households do not have a bank account (Beck et al, 2005:14; Claessens, 2006:35). Noting cross-country variations in the access and use of financial services, Beck et al (2005:26) established that firms in countries with higher branch and Automatic Teller Machine (ATM) penetration, and more use of loans reported lower financing obstacles. In a related study, Claessens (2005:35) found that although South Africa compares favourably in terms of access to financial services, the use of these services is not encouraging. For instance, while the share of households that used formal financial institutions to borrow stood at 4.94%, those that borrowed from an informal institution were 42.58%.

In South Africa, the importance of finance for small business development has been implicitly emphasised in the 1995 White Paper (DTI, 1995:29). A common thread running through the findings of micro-enterprise surveys in South Africa is that inaccessibility to finance is the major external constraint (Berry et al, 2002:30; SBP, 2005:72; Rogerson, 2006:77; Rogerson, 2008:61). Although measures have since been undertaken to address the apparent lack of finance, it still remains a major challenge for small business start-ups in general (Luiz, 2001:65; Beyene 2002:143; Von Bloembsen et al, 2005:11; SBP, 2005:75; Rogerson, 2007:15; Rogerson, 2008:62) and immigrant entrepreneurs in particular. Berry et al (2002:68) blame the limited supply of finance for business start-ups on the fact that South Africa has a thin savings base and is also not attracting significant foreign investment. On the other hand, Berry et al (2002:68) posit that there is some evidence of unallocated funds. In other words, not all 'needs for finance' are met, because of mismatched situations caused by:

- Lack of knowledge on the side of SMME entrepreneurs (for example ignorance of application procedures or inability to write a business plan)
- Lack of information and inability to determine credit risk on the side of the lenders (more exactly, determining the credit risk accurately would generate disproportional transaction costs)
- Communication issues in general.

In order to be able to determine the right dosage of various policy interventions to ease the access to finance problem, Berry et al (2002: 68) believe that the precise types of market failure

confronting SMMEs need to be determined and this in itself may require a different approach to the one currently employed.

Other surveys, though, often conducted among established enterprises, reveal that entrepreneurs do not suffer from a lack of finance (Berry et al, 2002:74). Concurring with Berry et al and drawing from international experience, the Centre for Enterprise Development Research (CDE, 2004:6) concludes that there is a misplaced priority on lack of finance as a major obstacle faced by SMMEs in South Africa.

From the foregoing, there is a growing consensus that finance in the general sense is important for economic development, and specifically, it is the missing link when it comes to stimulating small business start-ups (Rogerson, 2007:15), although finance is just one of the components.

Forms and sources of start-up capital

In many countries, finance for business start-up takes the form of bank loans. The next largest source of funds is family members. In contrast, equity finance tends to be of relatively minor importance (Basu & Parker, 2001:2).

Earlier studies documented that start-up firms in traditional industries are mainly financed with equity capital, invested by the entrepreneur and friends or relatives, with bank loans and with trade credit (Huyghebaert & Vande Gucht, 2002:4). For these firms, Huyghebaert and Vande Gucht (2002:4) add that venture capital is not typically available at start-up stage. While acknowledging that start-up capital comes from both equity and debt sources, Bates (1996:2) notes that greater equity investments tend to make debt capital more accessible. Given the lack of prior history and reputation, the high failure risk, and the key role played by the entrepreneur, creditors will typically be concerned about adverse selection and moral hazard problems when lending funds at start-up (Huyghebaert & Vande Gucht, 2002:5).

In a South African survey of SMMEs, Chandra (2001:33) notes that sources of capital include private savings, family savings, individual savings, and retained earnings from a previous business. Other sources of start-up capital, including church and community groups, retrenchment packages, and government agencies, play a minor role and finance less than five percent of all firms.

Considering the available choices that entrepreneurs face with regards to the form and source of finance, the logical question one may ask is: which form of finance facilitates small business start-ups the most? Although there is no clear answer to the question, empirical studies have pointed in different directions arguably due to the inherent variations in the financial needs of a business, as well as the personal traits of the entrepreneur (Berry et al, 2002:69). Bates (1996:42) suggests that the high level business start-up typical of Koreans and Chinese immigrants in the USA can be explained by their heavy reliance on equity capital to finance small business creation. According to Nee and Sanders (2001:407), human and financial capital are the forms of capital preferred by elite and middle class immigrants, which is an indication of the class advantages that they enjoyed in their home country. However, Nee and Sanders (2001:407) warn that financial capital may not be as liquid or as movable an asset as human capital when constraints are imposed by the home country on the portability of financial assets.

Financial capital is required for immigrants who enter entrepreneurial careers. In the USA, Nee and Sanders (2001:407) note that immigrants who bring with them substantial amounts of this form of capital enjoy a head start in establishing family businesses. Notwithstanding this, many immigrants accumulate needed start-up capital after their arrival in the USA (Nee & Sanders, 2001:407).

The importance of informal sources of funding suggests that it is worth exploring ways to combine the presumed flexibility and informational advantages of informal networks with the formal sector's ability to mobilise capital (Huck et al, 1999:59). Community development financial institutions and micro-lending pools are examples of institutions that, in some ways, combine the strengths of formal and informal sources of capital. The ethnic differences in the amount of capital used, and the sources of capital illustrate the importance of learning more about how formal and informal capital and credit markets work with regard to ethnic networks and neighbourhoods. These results have important implications for ethnic differences in business survival and growth, the decision to become self-employed, and income and wealth accumulation (Huck et al, 1999:59).

Extending Evans and Jovanovic's (1989) model to explain when a business start-up is credit constrained, Astebro and Bendardt (2005:17) argue that greater entrepreneurial ability increases the optimal capital level in the start-up, thus lightening the capital constraint for fixed levels of wealth. However, Astebro and Bendardt (2005:17) show that greater human capital

may relax the capital constraint because it increases financial wealth, thus pointing to the endogenous nature of potential liquidity constraints. Astebro and Bendardt (2005:17) established that while a large fraction (40%) of the relationship between an owner's financial wealth and their business capital at start-up is jointly determined by human capital, there is a significant correlation between the owner's wealth and the firm's capital.

Family support as business success driver

At the centre of immigrant activities has always been the family. The family is often involved in the planning and financing of an immigrant's relocation. In particular, households typically make the decision about emigrating on a collective basis, determining whom to send and where to send them in ways that they calculate will maximise the household's earnings and minimise its risks (Research Perspective on Migration, 1997:1). Once relocated, this support does not stop, as the family plays an important role as far as entrepreneurial activity of the immigrant is concerned. Most important is the role of the family as a source of financial and moral support and as a source of cheap labour.

The family as a source of start-up capital

While most recent studies of immigrant adaptation stress the importance of ethnic resources, Nee and Sanders (2001:388) and Basu and Parker (2001:2) argue that only a few of these studies have considered the role of the immigrant's family. According to Basu and Parker (2001:2) one possible reason for the literature's neglect of family finance is the sparseness of reliable data on the issue. Entrepreneurs who succeed in obtaining external funding from banks, and entrepreneurs who invested a greater proportion of their personal savings are less likely to make use of family funding (Basu & Parker, 2001:19).

The family is an important source of capital. According to Nee and Sanders (2001:388), its social capital is embodied in relationships both within the family and external to it, in social relations that include kinship, and ethnic and non-ethnic ties. Social capital is accumulated through social exchange over time, and is reflected in the sentiments of obligation and solidarity. Nee and Sanders (2001: 389) maintain that social capital, like financial capital is an asset that yields profit, whether in business, education or in securing non-economic rewards like social approval and status. As such, especially for immigrants who do not possess substantial financial capital, the family constitutes the most important capital asset (Nee & Sanders, 2001: 388).

The family assists as far as small business start-up finance is concerned by providing debt-free capital as well as debt finance. Through family savings and handouts from family members and sometimes family friends, immigrants can easily start-up small businesses in their country of destination. Finance from this perspective may come from other established family members in the host country or from other members in diasporas, as well as from family members back at home (Saxenian, 1999:56). As Nee and Sanders (2001: 390) explain, the amount of financial or liquid capital brought to the host country indicates the class of resources that immigrants have at their disposal at the time of entry, and some immigrants periodically receive capital earnings from investments which they continue to hold in their home country, or they have the option of turning non-liquid assets into liquid assets and transferring them to their new country. The family at times provides the security needed to borrow debt finance from formal financial institutions. In the absence of readily available cash at home, the family may resort to mortgaging a house or a piece of land, but only after attempts to secure debt-free finance from other family members and RCAs at home have failed. Nee and Sanders (2001:390) conclude that the extent to which such assets can be transferred into liquid cash on demand represents another source of financial capital at the disposal of their holder. Social background affects the availability of investment capital from relatives and the ability to qualify for loans from ethnic lending institutions (Sanders & Nee, 1996:232).

Contrary to other studies, Basu and Parker (2001:20) found no evidence or consistent explanation for variation in the use of family funding as well as loan amounts received in a UK study. However, they noted that having a spouse involved in the new venture increases the family loan share notably, as an entrepreneur has access to two families; on the contrary, these authors noted that having children employed in the venture decreases it. Furthermore, Basu and Parker (2001:21) found that none of the required start-up capital, geographical location, training, education, business experience, possession of self-employed relatives in the UK, or an Asian customer-base appears to play any role in explaining participation in family finance or the family loan fraction.

In summary, the literature on small businesses start-up and operation suggests that as the result of 'credit rationing' and difficulty in attracting capital, entrepreneurs resort to personal sources. According to Markova and Petkovska-Mircevska (2009:598) and the Bank of England (1999:17), small firms secure funds for a start-up in their early stages from internal sources, with the founder providing the initial capital, alongside funds from family and friends (3Fs).

RESEARCH METHODOLOGY

The study was designed within the quantitative and qualitative research paradigms, in which a triangulation of three methods was utilised to collect and analyze the data. From a quantitative perspective, the survey questionnaire was used. To complement the quantitative approach, personal interviews and focus groups were utilised as the methods within the qualitative approach paradigm. The primary data collection instrument used was the survey questionnaire which was complimented by personal interviews and focus group debates.

In choosing the research population for this study, some screening was done. Being an African immigrant himself and having been actively involved in entrepreneurial activities since immigrating to South Africa, the researcher developed an interest in the topic. Out of curiosity, we wanted to study all immigrants but after preliminary studies and observation, it was found to be practically not feasible given the time frame and resources. On this basis, the research population was then narrowed to African immigrants. However, due to communication difficulties and the fact that certain groups were more visible in business activities than others, five countries were chosen for the study. The population for this study, therefore, comprised of all immigrants of African origin that met the following criteria:

- They are from one of the following countries- Cameroon, Ghana, Ethiopia , Senegal and Somalia and;
- They must be operating a Small, Medium or Micro Size Enterprise (SMMEs) at the time of interview;
- The business they operate must fall within the Cape Town Metropolitan Area; and
- The business they operate must be three or more years in existence.

The Sample Design

Using the snow balling technique, a sample of 135 immigrant-owned businesses was drawn. Selected businesses had to be three or more years old. According to the snowballing sampling technique, once a suitable respondent is identified, he or she nominates other respondents. McDonald et al. (1999:7) reckons that this method allows for an element of randomness and ensures that the confidence of the interviewee would be maintained by being referred by a friend. To avoid some of the inherent bias associated with snow balling, once a suitable respondent is found, such a respondent helps identifies at least two other ethnic businesses (and most importantly their owners) within that suburb, and the researcher randomly selects one

for an interview. By tossing a coin, one of the two nominated candidates is chosen for survey. Two approaches were used to arrive at the sample size of 135 used in this study. Firstly, a review of the following recent related studies: Basu and Altinay, 2002; Rogerson, 2004; Tesfom, 2006; Kushnirovich and Heilbrunn, 2008; indicated that the average a 118 sample size was used for these studies. All of the aforementioned studies made use of the snowballing technique and the interviews were conducted on a face to face basis. Secondly, in an attempt to justify and to ensure that the same size is big enough to give satisfactory results at a 95% statistical power, the G*Power software was implored. Using G*Power 3.1.2 software, and striving to achieve a statistical power of 95% a sample size of 134 seemed ideal (Faul, Erdfelder, Buchner, & Lang, 2009).

Data collection and analysis

While using the survey questionnaire as the primary data collection instrument, focus group discussions were used to supplement as well as to test the results of the survey. Two focus group discussions were held, in which attempts were made to answer the research questions with particular emphasis laid on the outcome of the survey questionnaire. The focus group participants were drawn from the same sample from which the survey questionnaire participants were drawn. Two groups of six and seven participants were drawn. In a group session that lasted one and a half hour each, participants shared their experiences as they attempted to provide answers to the research questions. Personal interviews were conducted with key informants, banks and SMME support organisations. The preliminary interviews conducted with key informants was informal and provided information that guided the planning and as well as the identification of the sample population. Furthermore, interviews with Key informants like focus group discussion also provided a means of validating the survey results. Specifically, a total of four formal interviews were conducted. The choice of whom to interview emerged from a preliminary analysis of the quantitative survey questionnaire and served to corroborate and as well as to compliment it. Two interviews were held with officials of two of the most prominent banks in South Africa. Being banks that are actively involved in SMME development, it was imperative that their own side of the story be heard as it could compliment or contradict that told by immigrants in the quantitative survey questionnaire. Another two interviews were held with two prominent SMMEs support organisation. It was believed that their viewpoint on things would shed some light on the topic and by so doing strike a balance. These organisations were purposefully chosen with one representing the government and other representing the civil society.

RESULTS AND DISCUSSIONS

Background information on successful African immigrant-owned businesses

In this section, general background findings on immigrant-owned businesses are outlined and discussed.

Description of African immigrant-owned businesses

The results as shown in Table 1 below indicate that African immigrant entrepreneurs in South Africa engage in a variety of entrepreneurial activities. An overwhelming majority (65,9%) of those surveyed were engaged in what could be generally classified as trading. Besides trading, a significant proportion was engaged in cell phone repairs (12,6%), and the remaining proportion was distributed between clothing, crafts, electricians, fridge repairs, manufacturing, mechanics, nightclub owners, panel-beating, restaurants, shoe repairs, trading and other services. A major noticeable characteristic of the noted businesses is the ease of entry and limited capital outlay required to start-up and operate them.

Table 1 Description of immigrant-owned businesses

	Frequency	Percent
Cell phone repairs	17	12,6
Clothing	2	1,5
Crafts	2	1,5
Electrician	2	1,5
Fridge repairs	1	,7
Manufacturing	1	,7
Mechanic	3	2,2
Night club owner	1	,7
Panel-beater	3	2,2
Restaurant	2	1,5
Shoe repairs	4	3,0
Trading	89	65,9
Other service	8	5,9
Total	135	100,0

Formality, Age, Gender and Marital status characteristics of immigrant-owned businesses

The majority of the businesses surveyed fell within the informal sector of the economy. Formality as used here refers to whether the business is registered with the Registrar of Companies in South Africa, or not. A business considered to be informal is one that has not been registered with the said authority. Although none of the businesses surveyed could be considered as hawkers in that they all operated from a fixed location and particularly in a permanent enclosure or a shop, a majority of these businesses could be referred to as informal. As indicated in the frequency table (Table 2) below, 92,6% of these businesses were informal and only 7,4 % were formal.

Table 2: Demographic characteristics of African immigrant-owned businesses

Formality of business	Frequency	Percentage
Formal	10	7,4
Informal	125	92,6
Gender of owner		
Male	118	87,4
Female	17	12,6
Age of owner		
Below 20 years	5	3,7
20 to 40 years	122	90,4
41 to 60 years	8	5,9
Marital status of owner		
Single	40	29,6
Married	94	69,6
Widowed	1	0,7

N=135

Financial start-up capital

Facing financial constraints, African immigrants made use of a varied range of financial capital when starting up a business. With availability being the key determining factor noted by a majority of the respondents during the focus group discussion sessions, the following capital ranges were noted (Table 3).

Table 3: Estimate of capital used by African immigrant during business start- up

Best estimate start-up capital	Frequency	Percentage
R1000 – R5000	96	71,1
R 5 001 – R10 000	25	18,5
R 10 001 – R20 000	8	5,9
R 30 001 – R 50 000	6	4,4
Total	135	100

Sources of financial start-up capital

African immigrant entrepreneurs made use of a varied source of capital when starting their businesses. The following are the major sources of the start-up capital used as reported by African immigrant entrepreneurs:

- An overwhelming majority (61,2%) reported making use of personal savings
- Business credit (goods on terms) was used by 16 9% of the respondents
- Personal savings and credit from a family member was used by 14,8 % of the respondents
- Credit from family members was used by 3,8% of those surveyed
- Loans from informal financial institutions (e.g. stokvels) were used by 3,3% of the respondents.

From an analysis of the results presented above, it can be drawn that an overwhelming majority (61,2%) of African immigrant entrepreneurs made use of personal savings as the major source of start-up capital. This finding is consistent with the findings of the personal interviews with banks, which emphasised the fact that credit could only be extended to South Africans and immigrants with valid South Africa documentation. Sadly enough, an overwhelming majority of the respondent were in possession of asylum seeker permits, which unfortunately are not recognised by banks. In narrative terms, this is what one of the bankers from two of the most prominent banks in South Africa had to say:

“...the current status quo of our bank is that we do not render them services. We did that in the past.”

The above quote implies immigrants would conventionally look somewhere else the capital with which to start-up a business. In a related enquiry highlighting the aforementioned finding, an

overwhelming majority of participants in the focus group debate conceded with this finding. Some representative quotes that emerged include:

“With the money that I saved while working for my brother (a distant relation), I was able to buy a container from where I started my hair salon business. Because the money was not enough to cover for the cost of the container and all the accessories he lent me some money which I have since repaid” said Hanson, a participant from Ghana.

“From my standpoint... I used the balance from my travel expenses, to buy a few items which I moved around selling” said Julius, a participant from Cameroon.

“Us from Somalia, served others for a while as we save to start our own businesses” said Anwa, a participant from Somalia.

Sources of additional funding

Once a business has been started, it still needs funding from time to time. The results that follow reflect the sources of additional funding that African immigrants tap into when in need. Drawing from the results, one may conclude that although the African immigrant entrepreneurs have a wide pool from which to draw during times of financial needs, the majority preferred the following sources:

- Borrowing from friends (97, 8%)
- Borrowing from co-ethnics (83, 7%)
- Self-help financial associations (68, 2%).

The results noted above were the preferred sources of additional finance as noted by those surveyed, given other competing alternatives such as borrowing from family and banks.

In accordance with the surveyed results, the outcome of the focus group debates concluded that although immigrants in certain instances are fortunate to have access to a varied source of business start-up capital as already noted, most of the time they depend on their personal savings. Once the business has been started, their source of additional funding expands and this may be explained by the degree of credibility and networking established. The personal interviews conducted with bank officials equally concur with these results.

CONCLUSION

The paper has demonstrated that although African immigrants are characteristically at the disadvantage when it comes to accessing capital from formal financial institutions, this does not stop them from pursuing entrepreneurial activities. At the start-up stage, they typically resort to personal savings, business credit, family credit, and loans from informal financial institutions. According to the ability to raise capital, we found that a variation in the amount of capital used, which tended to vary across the different ethnic groups studied. Once started, we found that the sources of additional finance available to these immigrants did not change significantly. They conventionally turned to friends, co-ethnics and self-help financial associations to 'feed' their need for further funding.

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