An Exploratory Study of Rotating Stokvels and Migrant Entrepreneurs

Zeleke Worku

Tshwane School for Business and Society Ditsela Place, 1204 Park Street, Hatfield, Pretoria 0028

E-Mail: WorkuZ@tut.ac.za

Website address: www.tut.ac.za

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ABSTRACT:

Background

Migrant entrepreneurs in Gauteng province rely on rotating stokvels due to difficulty in securing business loans from other sources such as commercial banks and microfinance institutions.

Aim

The study aims to assess and evaluate the extent to which migrant entrepreneurs in Gauteng province, South Africa rely on rotating stokvels for raising start-up and working capital for conducting retail business activities in small, micro and medium-sized enterprises (SMMEs).

Setting

The target population of the study was migrant entrepreneurs who conduct retail business activities in Gauteng province. Data was gathered from a stratified random sample of size

Methods

Data was gathered from a stratified random sample of size n=608 retail businesses owned and operated by migrant entrepreneurs in Gauteng province by using a structured, pre-tested and validated questionnaire of study.

Results

The study found that the percentage of participants who used rotating stokvels for raising start-up capital was 36%. The percentage of participants who used rotating stokvels for raising working capital was 66%. The effective utilisation of money raised from stokvels was significantly associated with the level of entrepreneurial skills, the perceived level of ease of loan repayment, and the operation of business over extended hours.

Conclusion

Rotating stokvels are being used by retail entrepreneurs to raise start-up and working capital.

Contribution

The study shows that the effective utilisation of money raised from rotating stokvels is dependent upon the level of entrepreneurial skills, the perceived level of ease of loan repayment, and the operation of business over extended hours.

Keywords: Gauteng Province, Rotating stokvels, Structural Equations Modelling

Introduction And Background To Study

The study aims to assess and evaluate the extent to which migrant entrepreneurs in Gauteng province, South Africa rely on rotating stokvels for raising start-up and working capital for conducting retail business activities in small, micro and medium-sized enterprises (SMMEs). Densely populated city centres of Gauteng province as well as locations and townships in the province are home to migrant entrepreneurs from the rest of Africa and the world in which retail businesses raise start-up and working capital from rotating stokvels (Kassaye et al., 2025; Herrington, 2018; Katz, 2019; Fatoki, 2021; Landau, 2024; Worku, 2025). The authors have shown difficulties related to raising start-up and working capital from commercial banks and microfinance institutions as well as obstacles related to the renewal of operating licenses, tax assessment and residence permits.

A review of the literature shows that the retail industry of Gauteng province is a valuable contributor to the economy of the province and that it generates tax revenue and creates jobs and livelihoods to the poor (Rahayu et al., 2024, p.298). Nkwana and Roberson (2025, p.3) have conducted a survey in Gauteng province to identify key barriers to sustained profitability in SMMEs and have found that difficulty in securing business loans is a barrier that stifles growth in retail enterprises. A few examples of difficulties that are often experienced by poorly resourced businesses are inability to borrow money from banks, inability to meet requirements for business loan applications, and inadequate skills in penetrating markets. Simplifying the task of securing business loans in poorly resourced SMMEs is a major necessity in all South African townships and locations. The study conducted by Mogotsi and Baron (2025) highlights the contributions that could be made by rotating stokvels in South African locations and townships. Although rotating stokvels have limited capacity and administrative challenges, they can assist emerging businesses in raising money for carrying out business activities. A survey conducted by Malatji and Makgamatha (2024) has found that stokvels can be used for generating last resort funding without demanding fixed assets and collateral.

Rahayu et al. (2024), Heysham and Elkadi (2025) and Khumalo et al. (2024) indicate that emerging retail enterprises often struggle to raise business loans at an affordable rate from commercial banks due to cumbersome processes, red tape, demand for collateral and aggressive loan repayment conditions. Emerging retail businesses often lack the skills to complete loan application forms, make impressive oral presentations to donors, conduct reliable market research, and network with relatively larger competitors and business operators. Surveys conducted in the past by Yimer (2025) and Worku (2018, 2025) in Gauteng province have found that the main obstacle among emerging SMMEs that operate in Gauteng province in securing business loans from commercial banks is failure to produce adequate collateral and fixed assets to cover business loans.

Not enough is known about the ease of raising start-up and working capital from stokvels for conducting routine retail business activities. A diverse range of retail business activities are carried out in Gauteng with a reasonably good measure of success. The province presents economic opportunities to people who originate from other nations and continents. Inability to raise start-up and working capital is commonly experienced in retail businesses that operate in the province. Such problems are overcome by using rotating stokvels. Willie (2025) and Worku (2009, 2016, 2021) have explored the advantages and disadvantages of using rotating stokvels for raising start-up and working capital in SMMEs that conduct retail business operations. Findings of the study are valuable for articulating the valuable contributions and shortcomings of rotating stokvels along with methods that are suitable for raising funds that are needed in retail businesses from rotating stokvels.

Literature Review

Migrant entrepreneurs from all over Africa participate in growing the economy of Gauteng province (Malatji & Makgamatha, 2024, p.93). Entrepreneurs arriving from various nations and continents operate retail business activities for which there is a demand in locations, townships and city centres of Gauteng province (Khumalo et al., 2024). The economy of Gauteng province provides livelihood to African migrants and their families. Willie (2024, 2025) and Loghdey (2024) highlight examples of challenges that are experienced among entrepreneurs who arrive in Gauteng from other nations and continents. Two common examples of such challenges are legal permits to live and work in the province and difficulty in raising money for starting and expanding retail business activities. Studies conducted by Landau (2024) has identified key barriers to sustained profitability such as lack of clarity on macroeconomic policy, lack of security, cumbersome bureaucracy, inability to meet the operational needs of migrant entrepreneurs, disregard for the human and labour rights of migrant entrepreneurs, lack of good governance, and lack of accountability.

Vhumbunu et al. (2025) highlight contributions made by migrant entrepreneurs working in the retail industry to the national economy by providing examples such as the availability of affordable goods, products and services, the convenience of finding items in nearly locations, outlets and shops, the generation of revenue, and the creation of livelihoods and employments. Migrant entrepreneurs are a highly valuable resource for growing the retail industry of South Africa and that they need to be supported better so that they can be more productive and better regulated. Madondo et al. (2024) and Umubyeyi and Mtapuri (2024) point out that the primary benefit of providing operational support to migrant entrepreneurs include better compliance with licensing conditions and municipal bylaws. Secondary benefits include enhanced tax collection and the exchange and sharing of entrepreneurial skills. Bophela and Khumalo (2019, p.27) state that rotating stokvels have enabled poorly resourced business enterprises to have access to finance with ease and convenience. Iwara and Adeola (2023, p. 184) state that rotating stokvels are vital for ensuring entrepreneurial success in South Africa and that the main beneficiaries are poorly resourced and novice local entrepreneurs who aspire to create livelihoods in locations and townships. Migrant entrepreneurs play a vital role in introducing local communities to valuable entrepreneurial, marketing and networking skills. The 5-year longitudinal study conducted in Gauteng province by Marivate (2014, pp.53-52) has found that lack of entrepreneurial skills stifles profitability in Gauteng-based retail businesses. The author has found that migrant entrepreneurship offers numerous benefits such as the creation of livelihoods and jobs, cultural diversity and growth in the economy. Migrant entrepreneurs can make a valuable contribution to local economies by starting businesses that fill gaps in the labour market, by introducing new goods, services and products to customers, and by promoting innovation in the retail industry. Migrant entrepreneurs also play a valuable role by maintaining and expanding economic activities in locations that experience economic decline (Amit et al., 2022, pp.135-136).

Not enough is known about how much migrant-owned retail businesses in Gauteng province rely on rotating stokvels for raising money that is needed for start-up and expansion. Also, not enough is known about the ease of securing business loans from commercial banks. Migrant-owned retail businesses are required by law to comply with guidelines, regulations and municipal bylaws that are related to formal registration of businesses, the renewal of trade licenses, tax payment, environmental sanitation, proper waste management, cleanliness, and health and safety requirements. A report published by the Gauteng Provincial Government (2025) acknowledges the vital role played by retail businesses and spaza shops and provides tangible benefits to local communities such as poverty alleviation and the creation of livelihoods. The report places emphasis on proper documentation of retail operators, satisfactory compliance with licensing guidelines and regulations as well as municipal, sanitary and environmental bylaws. The report states that it is necessary and beneficial to have owners and operators of retail businesses and spaza shops educated about their rights and obligations. Kandolo and Msomi (2024) tell the story of Congolese refugee women conducting successful retail business activities in Durban in which livelihoods and jobs are created while complying with regulations that are related to trade license.

Khumalo et al. (2024) and Loghdey (2024) state that retail business activities that are conducted in South African locations, townships and cities are indispensable for the creation of livelihoods and jobs and that there is a dire need for supporting these business activities so that retail businesses comply with legislative guidelines while maintaining profitability. The authors state that retail activities that are carried out by migrant entrepreneurs are mutually beneficial to local communities and migrant entrepreneurs. Madondo et al. (2024) state that not enough effort has been made in terms of promoting the transfer of entrepreneurial skills from migrant entrepreneurs to local communities. Mabika and Tengeh (2021) highlight obstacles to securing business loans in poorly resourced retail businesses and recommend the use of stokvels for providing financial support to struggling retail businesses in South African townships and locations.

Worku (2009) has conducted a 5-year longitudinal survey of SMMEs in five geographical regions of Ethiopia. The study showed that rotating stokvels were used as a reliable source of start-up and working capital even though they were fraught with limited capacity, poor regulation, and vulnerability arising from failure to collect financial contributions from some members of rotating stokvels. Some members of rotating stokvels fail to contribute money after collecting payouts for various reasons. The cost of recovering such monies could be quite costly. The task of collecting monies from members and paying out deserving recipients is often cumbersome. Despite their numerous limitations, rotating stokvels were used quite extensively in all five geographical regions. The author has found that it is worthwhile to support and promote the use of rotating stokvels as a means of raising start-up and working capital in retail business enterprises. Similar findings have been reported by Nong (2023) and Qiu et al. (2023). Studies have shown that rotating stokvels are used quite extensively in communities in which raising start-up and working capital is cumbersome or too costly to retail entrepreneurs (Lappeman et al., 2020). Borrowing money from microfinance institutions is inconvenient to novice retail entrepreneurs mostly due to unaffordable interest rates and untenable loan repayment conditions.

Problem Statement

Surveys conducted by Fatoki (2021) and Worku (2009, 2018, 2025) have found that the effective utilisation of rotating stokvels is a highly valuable method of raising start-up and working capital in poorly resourced retail business enterprises. The rate of growth of retail businesses in Gauteng province could be enhanced significantly by using rotating stokvels for raising start-up and working capital. Surveys conducted by Urban and Moetse (2024), Bophela and Khumalo (2019) and Bricknell and Kertay (2024) have identified key obstacles to raising start-up and working capital in SMMEs that operate in the retail industry of Gauteng province. Reports published by the Gauteng Department of Economic Development (2025) and Gauteng Provincial Government (2025) highlight economic development priorities that aim to empower local communities and alleviate poverty by using SMMEs in the retail sector of the South African economy. The reports show that the promotion of entrepreneurial education and the mastery of entrepreneurial skills is essential for ensuring sustained viability in emerging SMMEs that operate in the South African retail industry.

Studies conducted by Msimango-Galawe and Mohodi-Nteo (2024), Herrington (2018), Madondo et al. (2024) and Harrison (2025) show that emerging SMMEs often fail to exploit training opportunities that are offered to them by the Small Enterprise Development Agency (SEDA).

Objectives Of Study

The study aims to highlight the benefits of raising money from rotating stokvels to migrant entrepreneurs who operate in the retail industry of Gauteng province in South Africa. The study has the following specific objectives:

- To determine the extent to which the use of rotating stokvels eases the task of raising start-up and working capital for conducting retail business activities among migrant entrepreneurs conducting retail business activities in Gauteng province; and
- To identify and quantify predictors of the effective utilisation of money raised from rotating stokvels; barriers to securing business loans from commercial banks by retail businesses operating in Gauteng province.

Methods And Materials Of Study

The target population of the study was migrant entrepreneurs who conduct retail business activities in Gauteng province. Data was gathered from a stratified random sample of size n=608 retail businesses owned and operated by migrant entrepreneurs in Gauteng province. Ethics approval was obtained for the study from the Human Research Ethics Committee (HREC) of Tshwane University of Technology in Pretoria (Reference number: HREC2025=07=046 (MS); Date of ethics approval: 13 August 2025). Data was collected for the study by the Pretoria based specialist research institution Harvesthouse (PTY) Ltd.

Descriptive information was gathered once from participants. As such, the research design was cross-sectional and descriptive (Bell et al., 2022). The sample size of study was 608 retail businesses, which were chosen based on 5 geographical zones as strata. Statistical techniques used for performing the analysis of data sets included univariate and bivariate analyses (Denis, 2021), partial least squares regression analysis (Montgomery et al., 2021), ordered logit analysis (Denis, 2021), confirmatory factor analysis (Rogers, 2024), and structural equations modelling (Hoyle, 2023). Standard diagnostic tests were used for ensuring the theoretical credibility of estimates.

Results Of Data Analyses

Table 1 shows frequency percentages for the general characteristics of the 608 participants of research. The table shows that 33% of participants operated footwear and textile retail businesses. The percentage of participants who used rotating stokvels for raising start-up capital was 36%. The percentage of participants who used rotating stokvels for raising working capital was 66%. About 89% of participants could use digital technology, the internet and social media for conducting retail business activities. About 48% of participants managed to raise between R50, 001 and R100, 000 from rotating stokvels. About 78% of participants were in retail business for 11 years or longer at the time of the study. About 13% of participants could draw up business plans.

Table 1: General characteristics of participants of research (n=608)

Characteristics of retail businesses	Percentage
Type of retail business activity	Grocery store: 9% Footwear or textile: 33% Restaurant: 8% Mini market: 9% Fruit and vegetables market: 4% Spaza shop: 7%

	Computer shop: 2% Hairdresser or barber shop: 5% Tailor's shop: 2% Internet café: 2% Financial services: 3% Spare parts shop for vehicles: 1% Tour operator services: 2% Car repair services: 1% Panel beating shop: 1% Electrical services: 1% Building and maintenance services: 1% Administrative services: 2% Religious services: 1% Miscellaneous: 6%
Past history of utilisation of rotating stokvels for raising start-up capital	Yes: 36% No: 64%
Past history of utilisation of rotating stokvels for raising working capital	Yes: 66% No: 34%
Duration of retail business operation	Five years or less: 14% Six to ten years: 8% Eleven years or more: 78%
Source of information about stokvel	Word of mouth: 86% Other sources: 14%
Amount of money raised from stokvel	R10, 000 or less: 7% R10, 001 to R50, 000: 23% R50, 001 to R100, 000: 48% R100, 001 to R500, 000: 11% R500, 001 to R1, 000, 000: 8% R1, 000, 001 or more: 3%
Loan repayment period	Daily: 2% Weekly: 11% Monthly: 87%
Number of times money was raised from stokvel	Once: 13% Twice: 28% Thrice or more: 59%
First ever source of start-up capital in retail business	Personal savings: 54% Donation: 4% Loan money: 4% Stokvel: 36% Other: 2%
Past experience of applying for a loan from a commercial bank	Yes: 4% No: 96%
Past experience of applying for a loan from a microfinance institution	Yes: 6% No: 94%
Outcome of application for a loan from a commercial bank	Successful: 2% Not successful: 98%
Outcome of application for a loan from a microfinance institution	Successful: 4% Not successful: 96%

Utilisation of digital technology, the internet and social media for conducting business	Yes: 89% No: 11%
Ability to keep contact details of customers	Yes: 38% No: 62%
Ability to keep business records	Yes: 52% No: 48%
Ability to draw up a business plan	Yes: 13% No: 87%

Table 2 assesses the profitability of businesses. About 77% of retail businesses were profitable. About 86% of participants had bank accounts. About 76% of participants were owners of the businesses they operated. About 67% of participants had a bachelor's degree. About 61% of participants had ages of 41 to 55 years. About 56% of participants found it quite easy to raise loan from stokvels. About 54% of participants found it quite easy to cope with their loan repayment obligations to stokvels. About 91% of participants were loyal enough to honour their loan repayment obligations to stokvels.

Table 2: Assessment of profitability of retail businesses (n=608)

Variable of study	Percentage
Profitability of retail business	Profitable: 77% Not profitable: 23%
Ownership of business	Owner: 76% Employee: 24%
Age category in years	25 years or less: 9% 26 to 40 years: 14% 41 to 55 years: 61% 56 years or more: 16%
Highest level of education	Grade 12 or less: 8% Certificate: 9% Diploma: 14% Bachelor's degree: 67% Master's degree or above: 2%
Ownership of bank account	Yes: 86% No: 14%
Level of entrepreneurial skills	Good: Above average Average Below average Poor
Operating business over extended hours	Yes: 86% No: 14%
Perceived level of ease of raising money from rotating stokvel	Quite easy: 56% Moderately easy: 38% Difficult: 6%
Perceived level of ease of loan repayment	Quite easy: 54% Moderately easy: 34%

	Difficult: 12%
Perceived level of loyalty to fellow members of stokvel	Good: 26% Above average: 27% Average: 38% Below average: 6% Poor: 3%

In factor analysis, important predictor variables are identified by examining magnitudes of Eigen values. An Eigen value which is larger than 1 is an indicator of importance. Table 3 shows that 3 predictor variables have Eigen values that are larger than 1. These 3 predictor variables are the level of entrepreneurial skills, perceived level of ease of loan repayment, and the operation of retail businesses over extended hours. Jointly, the 3 predictor variables explain 78.534% of the total variability in the effective utilisation of rotating stokvels for raising money.

Table 3: Eigen values from factor analysis (n=608)

Predictor variable	Magnitude of Eigen value	Magnitudes of percentage variances explained by predictor variables	Cumulative percentages of variances explained by predictor variables
Level of entrepreneurial skills	1.602	30.869	30.869
Perceived level of ease of loan repayment obligations	1.514	28.146	59.015
Operating business over extended hours	1.398	19.049	78.064
Perceived level of loyalty to fellow members of stokvels	0.614	13.171	91.235
Perceived level of ease of raising money from stokvels	0.484	8.765	100.000

Figure 1 shows a scree plot obtained from factor analysis. The plot shows that the first 3 most influential predictor variables (the level of entrepreneurial skills, perceived level of ease of loan repayment, and the operation of retail businesses over extended hours) account for most of the variability in the dependent variable of study (the effective utilisation of money raised from rotating stokvels). These findings are consistent with findings obtained from ordered logit regression analysis.

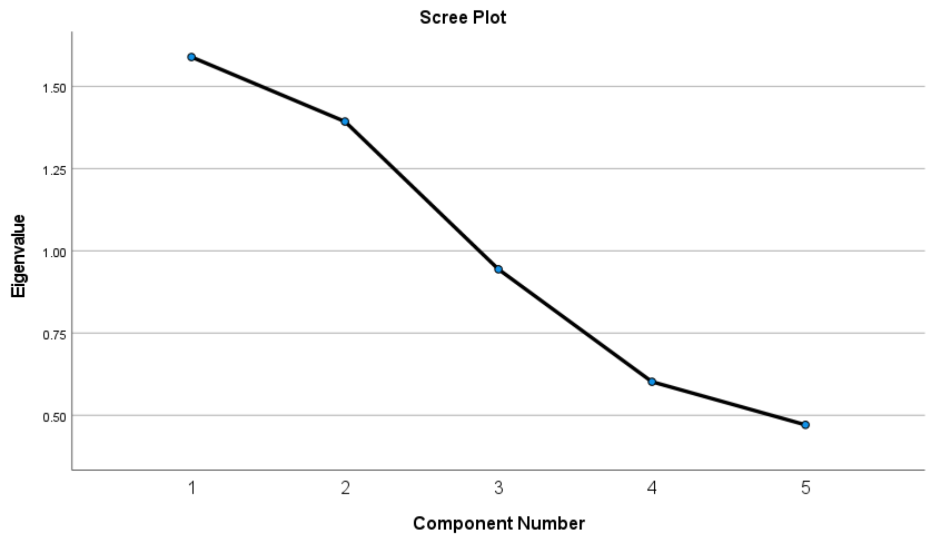

Figure 1: Scree plot obtained from factor analysis

Table 4 shows regression estimates obtained from Structural Equations Modelling (Hoyle, 2023) in which 3 influential predictors of the effective utilisation of rotating stokvels for raising money are identified. These 3 variables are the level of entrepreneurial skills, perceived level of ease of loan repayment, and the operation of retail businesses over extended hours.

Table 4: Regression estimates obtained from Structural equations modelling (n=608)

Predictor variable	Coefficient	Z-Statistic	P-value	OIM Std. Error
Level of entrepreneurial skills	3.31	6.32	0.0000	0.0208
Perceived level of ease of loan repayment obligations	2.98	5.86	0.0001	0.0344
Operating business over extended hours	2.14	4.76	0.0154	0.1739
Constant	1.19	4.09	0.0284	1.5066

Table 5 shows diagnostic statistics for the fitted structural equations model. The statistics show that the model fits the data quite well.

Table 5: Indicators of reliability for fitted structural equations model (n=608)

Indicators of reliability
Akaike Information Criterion = 29.117. This figure is small in magnitude. Hence, the hypothesised and fitted models are quite similar.
Bayesian Information Criterion = 30.404. This figure is small in magnitude. Hence, the hypothesised and fitted models are quite similar.
Comparative Fit Index = 97%. This figure is larger than 95% and shows that the model estimated from structural equations modelling fits the data quite well.
Tucker-Lewis Index = 97%. This figure is larger than 95% and shows that the model estimated from structural equations modelling fits the data quite well.
Adjusted Goodness-of-fit Index = 96%. This figure is larger than 95% and shows that the model estimated from structural equations modelling fits the data quite well.
Standardised Root Mean Square Error of Approximation = 0.0234. This figure is less than 0.05 and shows that the error of estimation in the fitted model is small.
Coefficient of Determination = 0.8026. This figure is larger than 95% and shows that the model estimated from structural equations modelling fits the data quite well.

The 3 research hypotheses shown below were tested by the study. The results obtained from data analyses show that all 3 research hypotheses are true at the 5% of level of significance.
H1: The effective utilisation of money raised from stokvels is significantly associated with the level of entrepreneurial skills

H2: The effective utilisation of money raised from stokvels is significantly associated with the perceived level of ease of loan repayment

H3: The effective utilisation of money raised from stokvels is significantly associated with the operation of business over extended hours

Results of data analyses obtained from structural equations modelling suggest that the effective utilisation of money raised from rotating stokvels is significantly influenced by the level of entrepreneurial skills, the ease of loan repayment obligations, conducting retail business activities over extended hours, and the degree of loyalty towards fellow members of rotating stokvels in terms of honouring loan repayment obligations. Mutual trust and a sense of solidarity are key elements of these results. Various studies which were conducted in the past have arrived at similar conclusions (Marivate, 2014; Fatoki, 2021; Herrington, 2018; Worku, 2018).

Figure 2 shows a schematic diagram for the framework of study. The figure shows that members of stokvels who possess adequate entrepreneurial skills and are capable of paying off their loan repayments at ease are characterised by working over extended hours and demonstrate loyalty to fellow stokvel members.

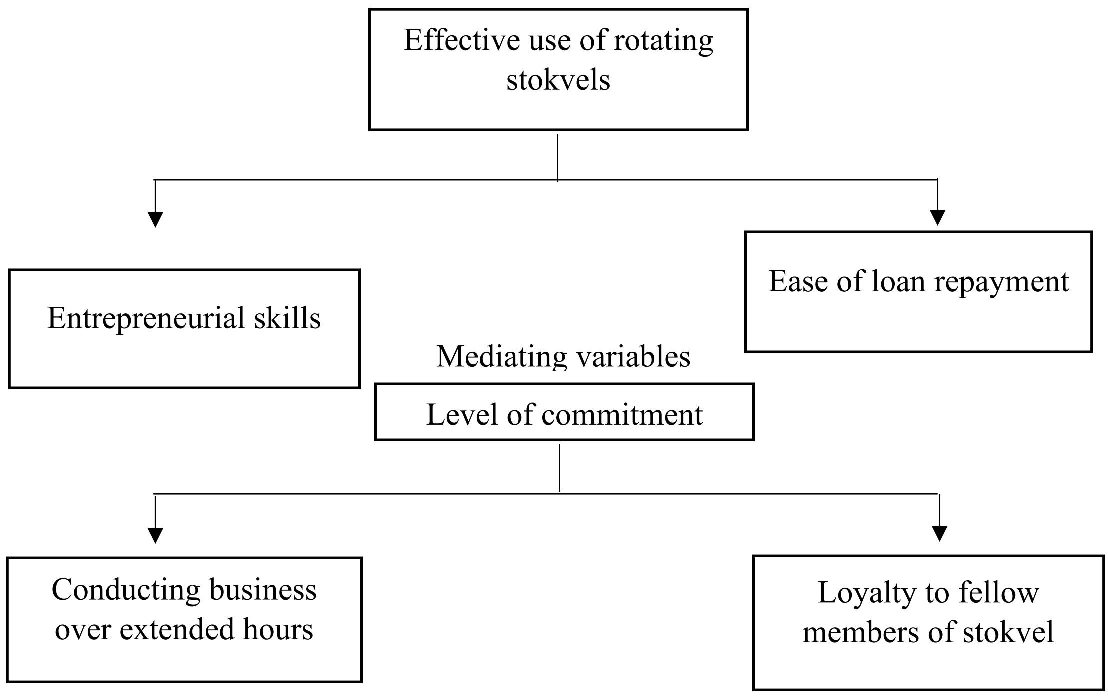

Figure 2: Theoretical framework constructed based on results of data analyses

Discussion of results

The main finding of the study is that retail businesses that are operated by migrant entrepreneurs in Gauteng province raise money from rotating stokvels. The percentage of participants who used rotating stokvels for raising start-up capital was 36%. The percentage of participants who used rotating stokvels for raising working capital was 66%. The effective utilisation of money raised from stokvels was found to be significantly associated with the level of entrepreneurial skills, the perceived level of ease of loan repayment, and the operation of business over extended hours.

Rotating stokvels provide money to one member at a time and have limited financial capacity. Membership is based on mutual trust and a sense of loyalty to fellow members. All members of stokvels need to be equally committed to meeting their loan repayment obligations so that the financial needs of all members are met adequately. Operations are carried out based on mutual trust. Although rotating stokvels lack capacity to serve all members at the same time, they play a vital role in meeting the financial needs of one member at a time. Studies conducted by Malatji and Makgamatha (2024), Iwara and Adeola (2023) and Lappeman et al. (2020) have found that members of rotating stokvels who utilise money raised from stokvels possess robust entrepreneurial skills and demonstrate total commitment to their loan repayment obligations to fellow members of the stokvels. Studies conducted by Loghdey (2024) and Mabika and Tengeh (2021) have shown the significant relationship between viable business activities and the ability to raise working capital. Money raised from rotating stokvels is vital for ordering merchandise from wholesale suppliers as the need arises. A survey conducted by Nsakanda (2025) shows that stokvels provide financial relief to retail businesses that have no other option of raising working capital. The main challenges in raising working and expansion capital from commercial banks and microfinance institutions are collateral requirements and stringent loan repayment conditions (Mogotsi & Baron, 2025).

Conclusion

Findings of the study indicate that it would be prudent for the Gauteng Provincial Government and commercial banks to build capacity in rotating stokvels so that they could be monitored and regulated better. It is essential to enhance the current levels of financial capacity of rotating stokvels to be able to use them towards meeting the financial needs of retail businesses that cannot be served by commercial banks and microfinance institutions. Rotating stokvels provide a lifeline to retail businesses who are unable to raise start-up and working capital from commercial banks and microfinance institutions at affordable loan repayment rates and conditions. The main barriers are inability to raise adequate collateral and cumbersome regulations that apply to business loans. Rotating stokvels are vulnerable to default, fraud and theft of money, and lengthy waiting cycles to collect lumpsums of money. Rotating stokvels are associated with huge administrative burdens such as the task of collecting loan repayments from members. Rotating stokvels have a lengthy waiting period to collect payout. In cases where the size of the group is large, waiting periods for payouts could be as long as a year or longer. While waiting for a payout, a member could easily lose a vital business opportunity. There are times when members who collected lumpsums fail to honor their loan repayment obligations promptly. Members who have collected payouts could be reluctant to pay their regular contributions with enough diligence and devotion. The task of collecting money from members and handing over payouts to deserving recipients often requires significant resources such as time and money. Administrators of rotating stokvels are often not paid for their time and effort. For these reasons, rotating stokvels are inefficient and fraught with lack of capacity to meet the financial needs of all members at the same time. Despite their numerous shortcomings, rotating stokvels are still being used by migrant entrepreneurs based on mutual trust and determination to thrive in conducting retail business activities.

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