Obstacles in the access to SMME finance: an empirical perspective on Tshwane.

by

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I declare that:

Obstacles in the access to SMME finance: an empirical perspective on Tshwane is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

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ABSTRACT

The positive role and fundamental contribution of entrepreneurship on a global and national level is an unconditional phenomenon pertaining to economic growth. There are though various perspectives and opinions on the format and context of contribution. One of these perspectives embraces the obstacles involved in the entrepreneurial process hindering contribution and economic catalisation. This study follows a focused approach towards investigating a critical obstacle and specifically the access to finance, within an indicated geographical area.

The research intervention has obtained a large and reliable data set to examine the contention that there are obstacles faced by entrepreneurs in accessing small business finance in the Tshwane area. The findings of the study support this contention and also the fact that conventional financing mechanisms do not allow for cost-effective provision of finance to large numbers of entrepreneurs seeking small quantities of finance. Poverty and lack of assets mean that many people do not have the collateral needed to access formal financing.

Keywords; Entrepreneurship, Entrepreneurs, Obstacles to access of finance, SMME finance, Funding institutions, South Africa.

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CHAPTER 1: INTRODUCTION

1.1 BACKGROUND

The development of small, medium and micro-enterprises (SMMEs) contributes significantly to job creation, social stability and economic welfare across the globe (Ladzani and Van Vuuren, 2002:2). In the United States of America (USA), for example, SMMEs have introduced innovative products and services, created new jobs, opened foreign markets, and in the process ignited the USA's economy into regaining its competitive edge in the global economy (Scarborough and Zimmerer, 1996:10). Japan's SMME sector accounts for the bulk of the country's business establishment, proving vital support for employment, for regional economies and, by extension, for the day-to day life of the Japanese people (Ministry of International Trade and Industry, 1997:11). In Taiwan, the SMMEs sector generates approximately 98 percent of the economy's GDP. Although these businesses are relatively small in scale, limited funds, and weak in structure, they make significant contributions to national economic prosperity, create innumerable jobs and promote social stability (Scarborough and Zimmerer, 1996:12).

In South Africa, small, medium and micro-enterprise development was identified by government as a priority in creating jobs to solve the high unemployment condition. There is evidence that the national unemployment level currently estimated at 28.4 percent (Statistics South Africa 2004:1), is increasing at an alarming rate. According to the Ntsika Annual Review (2001:111), SMMEs constitutes 97.5 percent of all businesses in South Africa. This sector generates 34.8 percent of the Gross Domestic Product (GDP), contributes 42.7 percent of the total value of salaries and wages paid in South Africa, and employs 54.5 percent of all formal private sector employees (Diederichs, 2001:64). The gap between high and low income groups is increasing fundamentally over time. Small businesses and entrepreneurship development serve as a facilitator in filling these economic gaps.

The South-African small business sector has been neglected during much of the century following the discovery of diamonds and gold, and the establishment of a modern, capitalist economy with almost exclusive white control (Ministry of Trade and Industry, 1994:9). Given South Africa's legacy of big business and constrained competition, the small business sector is seen as an important force to generate employment and more equitable income distribution, to activate competition, exploit niche markets, enhance productivity and technical change, and thereby stimulate economic development. The Ministry of Trade and Industry (1994:11) emphasizes the problem of accessing small business finance, mentioning that for many years only 8 % of total credit in South Africa went to previously disadvantaged individuals (PDI) while 82% went to non-PDIs. The reason mentioned pertaining to the lack of access to financing is that the requirements of lending institutions made it difficult for Blacks, Indians and Coloureds to get credit.

Despite the growth in venture capital funding, access to funding remains a problem for small enterprises, in particular for empowerment groups in South Africa. In most surveys among small enterprises, the provision of concessionary finance comes out as one of the most urgently felt needs. Yet, extensive research reveals that access to financing is one of the several important factors that are critical for business survival and growth, the other factors are market access and lack of management and skills (Ministry of Trade and Industry, 1994:24). South Africa's financial sector has always been reluctant to provide comprehensive services for the fragmented, risk-prone and geographically dispersed small enterprise sector (Ministry of Trade and Industry, 1994:25). This applies in particular to black emergent enterprises, where apartheid restrictions, forced removals, influx control, migrant labour and job reservations all militated against the gradual development of a solid bank-client in both rural and urban areas. It is only logical therefore that commercial banks have for long been reluctant to risk their client's funds through loans to and investments in black owned or controlled enterprises.

The Global Entrepreneurship Monitor (GEM) is an executive report that is produced annually in order to assess the current state of entrepreneurship in a specific country from a global perspective. Foxcroft, Wood, Kew and Herrington and Segal (2002) in their report, compare 37 participating countries and South Africa ranked as follows:

- 19th in overall entrepreneurial activity with 6.54% of the adult population involved in entrepreneurial venture established since January 1999. This rate is the lowest of all the developing countries participating in GEM (Thailand, India, Chile, Argentina, Brazil, Mexico and South Africa).

- 15th in start-up activity (a start-up is a business that has not paid salaries and wages for longer than three months), with just under 5% of the adult population involved in starting a business.
- 29th in new firm activity (a new firm is a business that has paid salaries and wages for longer than three months but less than 42 months), with only 2% of the adult population involved in new firms.
- 9th in necessity entrepreneurship (a necessity entrepreneur is involved in a new business because s/he has no other choice for work), 2.38% of the adult population are necessity entrepreneurs.
- 29th in opportunity entrepreneurship (an opportunity entrepreneur is involved in a new business to pursue an opportunity), 3.3% of the adult population are involved in pursuing exploitable opportunities.
- in all measures of entrepreneurship South Africa ranks lowest of all developing countries in the GEM.
- Finally, of all GEM countries in two key measures namely opportunity entrepreneurship and new firm activity, South Africa is in the lowest quartile

Although South Africa has such low rankings when compared with other countries, entrepreneurship still plays a very important role in economic development.

South Africa has slipped further behind in international rankings of entrepreneurial activity released by GEM. In a survey done by Orford, Wood, Fischer, Herrington and Segal (2003) it was shown that South Africa ranked 22nd out of 31 countries in terms of new business formation. GEM's primary measure of entrepreneurial activity is the Total Entrepreneurial Activity (TEA) index. In 2003 South Africa had a TEA of 4.3%, meaning that 4.3 out of every 100 adults in South Africa were starting or operating businesses less than 3.5 years old in 2003. The TEA provides a basis for international comparisons of the level and nature of entrepreneurial activity. South Africa's TEA rates have fallen from 9.5% in 2001 to 4.3% as shown in table 1 below. The table compares South Africa's TEA rates with the rest of the world. Figure 1 shows the TEA rates of 2003

Table 1.1 TEA, start-up, new firm, opportunity and necessity rates for GEM 2003

	2003 TEA	2002 TEA	2001 TEA	Start-up rate 2003	New firm rate 2003	Opportunity rate 2003	Necessity rate 2003
Uganda	29.3	na	na	14.8	16.9	17.1	13.2
Venezuela	27.3	na	na	19.2	9.7	16.1	11.6
Argentina	19.7	14.2	11.1	12.4	8.5	11.9	7.5
Chile	16.9	15.7	na	10.9	7.1	10.5	5.9
New Zealand	13.6	14.0	18.1	9.3	5.2	11.5	1.7
Brazil	12.9	13.5	12.7	6.5	6.9	6.9	5.5
United States	11.9	10.5	11.6	8.1	4.9	9.1	1.7
Australia	11.6	8.7	15.5	6.6	5.4	9.9	1.6
China	11.6	12.3	na	4.3	7.4	5.5	6.1
Iceland	11.2	11.3	na	7.3	4.4	9.4	0.8
Ireland	8.1	9.1	12.2	5.1	3.8	6.7	1.3
Canada	8.0	8.8	11.0	5.1	3.8	6.7	1.1
Norway	7.5	8.7	8.8	4.0	3.9	6.7	0.7
Switzerland	7.4	7.1	na	4.3	3.7	6.3	1.0
Finland	6.9	4.6	7.7	4.1	3.1	5.8	0.6
Greece	6.8	na	na	2.9	3.9	4.2	2.6
Spain United	6.8	4.6	8.2	4.4	2.5	6.1	0.5
United Kingdom	6.4	5.4	7.8	3.4	3.2	5.3	1.0
Denmark	5.9	6.5	8.0	3.1	3.3	5.3	0.4
Germany	5.2	5.2	8.0	3.5	2.1	3.7	1.2
Singapore	5.0	5.9	6.6	3.0	2.3	3.9	1.0
South Africa	4.3	6.5	9.5	2.7	2.0	2.9	1.5
Sweeden	4.1	4.0	6.7	2.0	2.4	3.8	0.4
Slovenia	4.1	4.6	4.5	3.0	1.1	3.1	0.8
Belgium	3.9	3.0	6.4	2.8	1.2	3.3	0.3

Netherlands	3.6	4.6	6.4	1.7	1.9	3.0	0.4
Hong Kong	3.2	3.4	na	1.7	1.6	2.2	1.1
Italy	3.2	5.9	10.2	2.0	1.3	2.9	0.2
Japan	2.8	1.8	5.2	1.4	1.5	2.0	0.5
Croatia	2.6	3.6	na	1.8	0.9	1.7	0.6
France	1.6	3.2	7.4	0.9	0.7	1.1	0.4
G7	5.6	5.8	8.7	3.5	2.5	4.4	0.9
All GEM	8.8	7.4	9.4	5.2	4.1	6.3	2.4
Developing ex SA	21.2	14.5	11.9	12.8	9.8	12.5	8.7

Source: Foxcroft; et al. (2002:16)

International comparison of necessity entrepreneurship for 2002 and GDP per capita income for 2001.

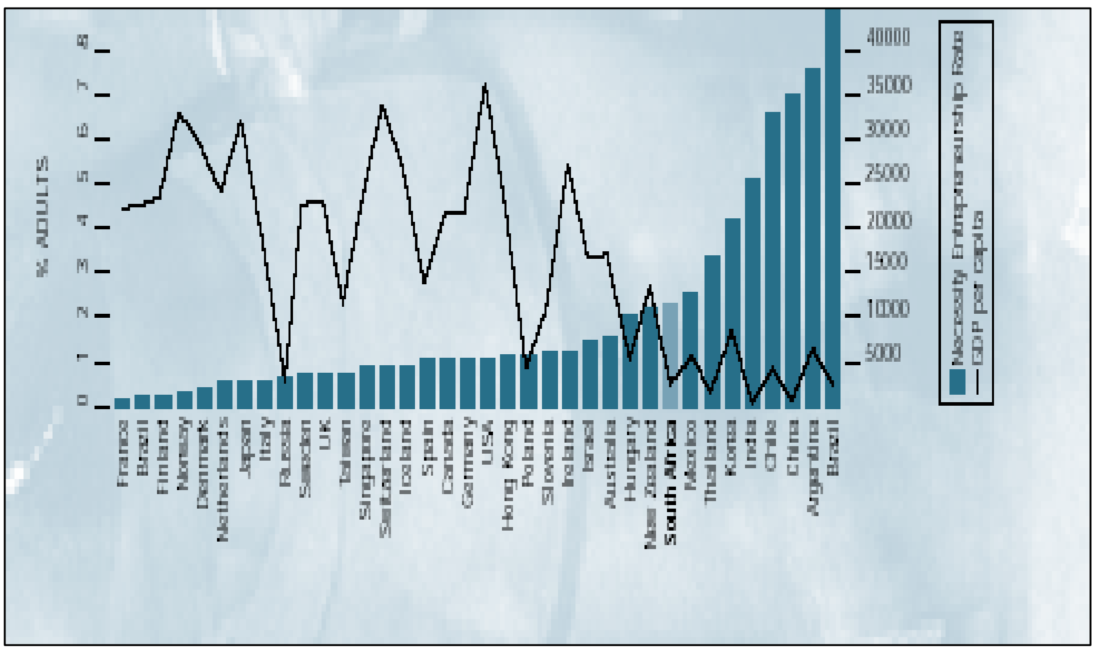


Figure 1.1 Source: Foxcroft et al. (2002:16)

However, according to the Ntsika Annual Review (2002:111), there is a need to view and understand the access-to-finance dilemma in a broader context. The reluctance of financial institutions to advance loans or overdrafts to small business is not just based on alleged conservatism of commercial bankers or racially biased financiers. “It is the result of their experience with poorly motivated loan applications, the frequent lack of systematic business plans and realistic market assessments, the statistically verified high rate of small-business failure and irrecoverable collateral, and other complications which make small-business finance unprofitable for banks” (Ntsika Annual Review, 2002:111).

Given this background, it is important to look at the obstacles that small business owners face in terms of access to start-up finance. Conversely it has been noted by Orford, Wood, Fischer, Herrington and Segal (2003:47) that one way to address the problem of access to finance is to focus on improving the financial management practices of entrepreneurs. Thus according to Kirby and Watson (2003:100), in seeking to make finance more easily available, especially businesses with inadequate administrative and management practices, is unlikely to result in optimal use of the relatively scarce resources. Rather, it is likely to have an added undesirable result of increased numbers of highly indebted and bankrupt entrepreneurs. It is therefore important to assess the current situation of the South African financial sector and come up with possible solutions that will help increase the financial success of small businesses and hence improve income and wealth distribution.

1.2 PRELIMINARY LITERATURE REVIEW

A number of research interventions have been conducted on the importance of access of finance to small business owners on a global level. On a survey done on SMMEs in Great Britain, access to finance was the main reason for the failure of these businesses. Woodcock in Buckland and Davis (1995:41) argues that there is a continuity of lack of knowledge on the part of small businesses pertaining to possible funding options. Mason *et al* in Buckland and Davis (1995:78) in conjunction with the latter, observe that entrepreneurs often have difficulty in convincingly conveying their specialized knowledge to a bank manager. In Great Britain banks are a recognized source of start-up and working capital. According to Hughes and Storey (1994:10) they are however, not a particularly easy source, putting a priority on security/collateral and for intervention of the state. Thus, SMMEs require support if they are to survive and grow. According to Miroslav and Drnovsek in Kirby and Watson (2003:131), one of the obstacles that hindered the creation of new ventures in

Slovania includes lack of capital financing for small business initiatives on the part of banks and other financial institutions. Banks were reluctant to lend to small businesses and practically no venture funds existed. New entrepreneurs primarily obtained the requisite resources from family members and friends (Kirby and Watson, 2003: 133).

The absence of, or at least poor access to finance, was an important negative factor affecting SMMEs in Romania and Bulgaria. According to Kirby and Watson (2003:191), in 1998, just 8-10 percent of the firms in Bulgaria had access to bank loans. The rigid requirements of the commercial banks for serving the loans (e.g. collateral and terms) extend to firms as well as the high cost of debt (Kirby and Watson, 2003:191). In South Africa the White Paper on National Strategy for the Development and Promotion of Small Business (1995) reinvented the wheel for the SMME sector. The Small Business Development Act of (1996) indicates that up to 78 percent of the small businesses started in South Africa eventually failed. It is therefore necessary for the South African government to adopt specific economic and social policies to stimulate SMME development as an essential part of the economic and social development of the entire country. It is though important for entrepreneurs to help themselves and find ways to improve the organisation of their businesses, and the skills of their employees. They also have to find the adequate means to adapt to the market requirements if they are to survive (Orford et al 2003: 180).

1.3 RESEARCH PROBLEMS AND OBJECTIVES

Most SMMEs in South Africa fail due to a number of reasons namely lack of education, lack of experience and entrepreneurial culture and most important of all, lack of and access to financial resources. Evidence adduced earlier on in this study demonstrates that there is a serious problem, which pertains to small business getting access to finance. Thus, improving access to finance as a fundamental approach to improve/enhance South Africa's entrepreneurial performance. Given this state of entrepreneurship in South Africa, it is necessary to identify what issues hinder the access of SMME finance from the perceptual view of the entrepreneur and/or small business owner. It is furthermore critical to identify potential demographical variables affecting the access to SMME finance in order to address the relevant issues/obstacles effectively.

1.3.1 Hypothesis Statement

H_1 Small, medium and micro-enterprises (SMMEs) do not perceive obstacles in accessing finance from financial institutions in Tshwane

H_{1a} Small, medium and micro-enterprises (SMMEs) perceive obstacles in accessing finance from financial institutions in Tshwane

H_2 Gender differences do not exist in terms of the perceived obstacles in obtaining finance by small, medium and micro-enterprises (SMMEs) in the Tshwane area

H_{2a} Gender differences exist in terms of the perceived obstacles in obtaining finance by small, medium and micro-enterprises (SMMEs) in the Tshwane area

H_3 Ethnic differences do not exist in terms of the perceived obstacles in obtaining finance by small, medium and micro-enterprises (SMMEs) in the Tshwane area

H_{3a} Ethnic differences exist in terms of the perceived obstacles in obtaining finance by small, medium and micro-enterprises (SMMEs) in the Tshwane area

1.3.2 Primary objectives

(1) To identify the obstacles faced by entrepreneurs in accessing small business finance from financial institutions.

(2) To determine the basic demographic of entrepreneurs in the Tshwane Metropolitan area with reference to gender, age, language group and level of education.

(3) To determine the entrepreneur’s work experience and the phase of entrepreneurial process in which the entrepreneur is in.

1.3.3 Secondary objectives

(1) To identify the industries in which the entrepreneurs operate.

(2) To determine the nature of training and support that entrepreneurs need

(3) To determine possible solutions to make accessibility of small business finance easier and thus improve on the success rate of this sector.

(4) To determine how government can intervene to improve the accessibility of small business finance to entrepreneurs

1.4 RESEARCH DESIGN AND METHODOLOGY

This study will be an empirical study using primary and secondary data. The primary data comprises evidence obtained through structured questionnaires, which are qualitative and quantitative in nature so as to gain an insight and understanding into the operations of the funding institutions and the entrepreneurs. The questionnaire is designed based on open and closed-ended questions. Interviews will be carried out so as to take care of those instances where the entrepreneur selected may not understand the questionnaire as a result of linguistic barriers. Various sources of secondary data, including scientific journals within the entrepreneurship and SMME context, reports from the Department of Trade and Industry (DTI) of South Africa, newspaper articles on SMMEs and annual reports of funding/financing institutions will also be assessed and deductively applied. Responses to the questionnaire will be analysed and evaluated using techniques such as tabulation, correlation and statistical graphs.

1.4.1 Sample

A total of 600 questionnaires were sent out to entrepreneurs in the small, micro and medium enterprises sector of the Tshwane Metropolitan Area. Two hundred completed questionnaires were returned giving a response rate of about 33%. Therefore the sample consisted of the 200 entrepreneurs who have had experience in accessing funds from various funding institutions. A random sample was drawn from

Braby's database and the Business Referral and Information Networking (BRAIN) for Small Business in South Africa, within the geographical framework of the Tshwane Metropolitan area.

1.5 PURPOSE OF STUDY

Internationally it has been proven that small businesses foster economic growth and job creation as in industrialised countries like Japan and The United States of America, as already stated in this study. In South Africa large or corporate businesses contribute more than 50 percent to Gross Domestic Product (GDP) and approximately 35 percent by small businesses. The small business sector's role in job creation and economic growth can not be underestimated. This study focuses on a critical issue pertaining to the access to business finance, as an obstacle to survival and growth. Once the obstacles in assessing small business finance have been identified, recommendations will be made, which if considered, could help entrepreneurs, government and the funding institutions. Once finance is accessible, the success rate of small businesses could potentially increase and contribute to the improvement of socio-economic issues.

1.6. DEFINITION OF TERMS

For the reader to appreciate the context in which various terminologies have been applied herein, below follow definitions of some terms used in this study.

1.6.1 Entrepreneurship

Rwigema and Venter (2004:6) define entrepreneurship as "the process of conceptualizing, organizing, launching and through innovation – nurturing a business opportunity into a potentially high growth venture in a complex, unstable environment." Entrepreneurship is thus characterized by the following:

- Creativity and innovation
- Resource gathering and the founding of an economic organization
- The chance for gain (or increase) under risk and uncertainty

Thus, entrepreneurs spot an opportunity, marshal resources and organize these into a venture that offers something new or improved to the market. However, an important distinction has to be made between entrepreneurship and small business management. Wickham (1998:24) believes that, although entrepreneurial ventures and small business pursue the same objectives, there are some fundamental differences between the two as shown in the table below:

Table 1.2 Distinction between entrepreneur and small business owner

Entrepreneurs	Small business owners
Are innovative and are creators of new products, processes and technology	Operate with established products
Ventures have high growth potential	Normally operate in an established market
Ventures are concerned with growth targets, market development and positioning	Are concerned with sales and profits

Source: Wickham (1998:24)

For the purposes of this study, both entrepreneurs and small business owner-managers will be considered, as finance is required in both ventures. An understanding of the definition of entrepreneurship highlights the importance of the processes that entrepreneurs will follow to achieve their goals.

1.6.2 Small, Medium and Micro Enterprises (SMMEs)

According to the National Small Business Act 102 of 1996, the SMMEs are defined as separate and distinct business entities in any sector of the economy managed by one owner or more. These include cooperative enterprises and non-governmental organizations, as well as branches or subsidiaries if any (Rwigema and Venter, 2004:314). The South African government has defined the SMME sector according to various factors namely, ownership, employment size and formality (Government Gazette 1995:8) resulting in a classification of businesses as shown in Table 1.2 below:

Table 1.3 Classification of SMMES

SECTOR OR SUB-SECTORS IN ACCORDANCE WITH INDUSTRIAL CLASSIFICATION	SIZE OR CLASS	TOTAL FULL TIME EQUIVALENT OF PAID EMPLOYEES ESS THAN	TOTAL ANNUAL TURNOVER LESS THAN R (million)	TOTAL GROSS ASSETS VALUE (FIXED PROPERTY EXCLUDED) LESS THAN R (million)
Agriculture	Medium Small Very Small Micro	100 50 10 5	R4 R0.40 R0.15	R4 R2 R0.40 R0.15
Mining and Quarrying	Medium Small Very Small Micro	200 50 20 5	R30 R7.5 R3 R0.15	R18 R4.5 R18 R0.10
Manufacturing	Medium Small Very Small Micro	200 50 20 5	R40 R10 R4 R0.15	R15 R3.75 R1.5 R0.10
Electricity, gas and water	Medium Small Very Small Micro	200 50 20 5	R40 R10 R4 R0.15	R15 R3.75 R0.15 R0.10
Construction	Medium Small Very Small Micro	200 50 20 5	R20 R5 R2 R0.15	R4 R1 R0.40 R0.10
Retail and motor trade and repair services	Medium Small Very Small Micro	100 50 10	R30 R15 R3 R0.15	R5 R2.5 R0.50 R0.10
Wholesale trade, commercial agents and allied services	Medium Small Very Small Micro	100 50 10 5	R50 R25 R3 R0.15	R8 R4 R0.50 R0.10

Catering, accommodation and other trade	Medium Small Very Small Micro	100 50 20 10	R10 R5 R1 R0.15	R2 R1 R0.20 R0.10
Transport, storage and communication	Medium Small Very Small Micro	100 50 10 5	R20 R10 R2 R0.15	R5 R2 R0.50 R0.10
Finance and business service	Medium Small Very Small Micro	100 50 20 5	R20 R10 R2 R0.15	R4 R2 R0.40 R0.10
Community Social and Personal services	Medium Small Very Small Micro	100 50 10 5	R10 R5 R1 R0.15	R5 R2.5 R0.50 R0.10

Source: Adapted from National Small Business Act 1966, No. 102 of 1966:17

Definitions of SMMEs are difficult to discern since the labour and capital intensity of enterprises vary so widely. Some credit lines also differentiate SMMEs by net asset size or turnover, each of which has its unique limitations.

Another enlightening definition (South African Parliament's White Paper on National Strategy for the Development and Promotion of Small Businesses in South Africa, 1995) is that:

> "***Micro-enterprises*** *are very small businesses, often involving the owner, some family member/(s) and at the most one or two paid employees. They usually lack formality in terms of business licenses, value-added tax (VAT) registration, formal business premises, operating permits and accounting procedures. Most of them have a limited capital base and rudimentary technical or business skills amongst their operators. However, many micro-enterprises advance into viable small businesses. Earning levels of micro-enterprises differ widely, depending on the particular sector, the growth phase of the business and access to relevant support.*

> ***Small enterprises*** *constitute the bulk of the established businesses, with employment ranging between five and about fifty. The enterprises will usually be owner-managed or directly controlled by the owner-community. They are likely to operate from business or industrial premises, be tax-registered and meet other formal registration requirements. Classification in terms of assets and turnover is difficult, given the wide differences in various business sectors like retailing, manufacturing, professional services and construction.*
>
> ***Medium enterprises*** *constitute a category difficult to demarcate vis-à-vis the "small" and "big" business categories. It is still viewed as basically owner/manager-controlled, though the shareholding or community control base could be more complex. The employment of 200 and capital assets (excluding property) of about R5 million are often seen as the upper limit".*

For the purposes of this survey and resulting from information gathered, the following categorization can be taken to be representative of the majority of the respondents' definition of SMMEs:

Table 1.4 Categorisation of SMMEs

Type of business	No of people employed
Micro-enterprises	A staff complement of less than 5
Very Small-scale enterprise	Staffing between 6 and 10
Small	Staffing between 11 and 50
Medium-enterprise	Staffing between 51 and 200

The above stated figures are inclusive of the proprietor(s).

1.7. CHAPTER OUTLINE

Chapter One : Background

A background to the focus of the study within a South African context is offered in chapter one. The following issues are addressed: The role of entrepreneurship in economic growth globally and the South African economy. The state of entrepreneurship in South Africa and a preliminary literature review on access to small business finance. The research problem and objectives are followed by the hypotheses, research design and methodology, importance of study and the definition of terms used in the study.

Chapter Two: Entrepreneurship in South Africa

Chapter two provides a comprehensive literature study on the definition of entrepreneurship and small business, the characteristics of an entrepreneur, special contributions of small businesses, global perspective of SMMEs and the issues pertaining to the small business finance in South Africa.

Chapter Three: The SMME financial sector

Chapter three also provides a comprehensive literature study on the SMME financial sector in South Africa. It views the historical perspective of the local SMME sector; its economic importance within the country – focusing on employment creation, poverty alleviation and contribution to the country's economic growth; obstacles faced by the sector in accessing small business finance and government initiatives to promote it within the country.

Chapter Four : Data analysis/Process Data

Chapter four deals with the research methodology applied in this study as well as the design of the questions for the empirical research that will be formulated and distributed to a selected group of entrepreneurs and funding institutions. It also describes the identified sample and the data analysis of the information.

Chapter Five: Research results and tabulation

Chapter five focuses on the interpretation of the empirical research results by means of quantitative and qualitative analysis. The results are integrated with hypotheses and concepts identified during the literature review to develop a structured approach to the accessing of SMME finance. Tables and graphs will be used to illustrate the findings.

Chapter Six: Conclusion and recommendations

Chapter six is a concluding overview attempting to make the reader view the South African scenario in relation to the bigger picture. The findings portrayed in chapter five will be discussed in relation to the research objectives, the shortcomings of the study and the recommendations for further research. It also brings to the fore key considerations and makes recommendations that focus on addressing the identified obstacles, provides a summary of the research and conclusions on the problems of access to SMME finance.

1.8. SHORTCOMINGS OF THE STUDY

There has not been much research into the issues of accessing SMME finance in South Africa. The lack of research on a secondary level puts a strain on the literature review. However, the access of financing has been researched in other countries. As a result, this study endeavoured to create a platform by means of which to highlight the current position of entrepreneurs in their effort to access finance, especially during the start-up phase. Also most of the entrepreneurs contacted were from the small size firms and very few from the micro firms. Most are survivalist industries and are therefore not formally registered. Further research is therefore suggested as a means of establishing the specific relationships and correlated variables presented by the funding institutions and the entrepreneur.

CHAPTER 2: ENTREPRENEURSHIP: A SOUTH AFRICAN PERSPECTIVE

2.1 Introduction

As a field of study, entrepreneurship has been undergoing expanded and updated definitions that include the need to more precisely explore who creates new business opportunities for the manufacture of goods and services (Alstete, 2002:223). The notion of value creation through new ventures is common to most definitions. However, literature shows that there exists no generally accepted definition of entrepreneurship. The following are some of the definitions which were deemed sufficient for the purposes of this study:

- "Entrepreneurship is the act of forming a new organization of value" (Bateman and Snell 1996: 208).
- "….the creation of an innovative economic organization (or network of organizations) for the purpose of gain under conditions of risk and uncertainty" (Dollinger, 1995:7).
- "….the process of conceptualising, organising, launching, and – through innovation – nurturing a business opportunity into a potentially high growth venture in a complex, unstable environment" (Rwigema and Venter, 2004:6).
- "….the process that causes changes in the economic system through innovations of individuals who respond to opportunities" (Nieman, et. al. 2003:9)
- "any attempt at new business or new venture creation, such as self employment, a new business organisation, or the expansion of an existing business, by an individual, teams of individuals, or established businesses". (DTI, 1998:1).

Entrepreneurship embraces the emergence and growth of new businesses. It is also the process that causes changes in the economic system through innovations of individuals who respond to opportunities in the market. These definitions, when integrated, provide an opportunity to capture as broadly as possible the critical aspects of entrepreneurship. Foxcroft, et al (2002:16), for instance, explicitly recognise self-employment as one manifestation of entrepreneurship. It takes note of the critical aspect of entrepreneurship which has an important bearing on sustainable job creation, in particular – establishing sustainable business.

The final point to make with regards to the definition of entrepreneurship for the purposes of this research is that entrepreneurship extends beyond individuals and groups to organisations, society and culture. Thus in a broad sense entrepreneurship is regarded as a set of qualities and competencies that enable individuals, organisations, societies and cultures to be flexible, creative and adaptable in the face of, and contributors to, rapid social and economic change (Bukula, 2000:2).

2.2 Entrepreneurship versus small business management

The role of entrepreneurship as an economic driving force was emphasised in Chapter one. However, an important distinction that has to be made is the fundamental difference between entrepreneurship and small business management. These constructs are both critical to the performance of the economy but serve different economic functions. They both need entrepreneurial action for start-up, but the small business venture will tend to stabilise at a certain stage and only grow with inflation (Nieman, et al. 2003:10). A small business is any business that is independently owned and operated, but is not dominant in its field and does not engage in any new marketing or innovative practices (Carland, 1984 in Nieman, 2004:10).

Rwigema and Venter (2004:7) define a small business as a distinct business whose size lies below specified thresholds. The Small Business Act (1996) specifies that the number of employees determines whether business is micro, very small or small:

- A small business can employ up to fifty people.
- A very small business employs no more than ten people.
- Micro or survivalist businesses are usually one person operations, though they could employ up to five persons.

Timmons (1999:27), and Van Vuuren and Nieman (1999:27) regard entrepreneurship as the starting of a business (utilising of an opportunity) and/or the growth and development of that specific business. Small business management is seen as the starting of the business, growth and development up to a certain stage, then the loss of its entrepreneurial flair. Consequently owners of small businesses are not necessarily interested in growth as an objective, but they see themselves as successful when their businesses are successful.

Trevisan, *Grundling and de Jager* (2002:135), in an investigation of the importance of entrepreneurial qualities among small business owners, found that creativity is the characteristic where the difference between small business owners and those who are not small business owners showed at its best. Rwigema and Venter (2004:7) indicate that not all small businesses are entrepreneurial since many are started with limited growth ambitions. By contrast entrepreneurs usually aim for high potential ventures. Table 2.1 below shows the distinguishing characteristics of a dynamic entrepreneur in contrast to those of an average small business owner:

Table 2.1 The characteristics of an entrepreneur versus the average small business owner

Small/Medium Business Owner	Dynamic Entrepreneur
Static	Growing
Status quo	Vision, opportunistic
Local	Global
Limited	Expanding
Internal resources	External resources
Self employed	Professional team
Avoids competition	Seeks competition
Risk averse	Risk taking and sharing
Survival	Success

Source: As adapted from De Clerq et *al* (1997:7)

Various terms are used to indicate small business undertakings. These terms normally refer to the size of the business for example: small and medium sized enterprises (MSE), small scale enterprises (SSE), and micro and small enterprises (MSEs). However, this study deals with small, micro and medium enterprises (SMMEs) and the term small businesses will be used interchangeably.

2.3 Special contributions of small business

Small, medium and micro-enterprises (SMMEs) represent an important vehicle to address the challenges of job creation, economic growth, and equity in South Africa. Throughout the world, one finds that SMMEs are playing a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways. Small businesses make the following contributions

to the South African economy:

a. Providing job opportunities

According to the 2002 October Household Survey (CSS, 2002:17), South Africa had a 23.3 percent unemployed rate in 1999. In 1999, small business in South Africa employed 16.3 percent of the country's economically active population. Business Partners Limited is taking the initiative and is addressing the question of developing entrepreneur-driven SM. Its five point-plan for developing SMMEs revolves around the following:

- Creating an environment that will encourage entrepreneurship and development of SMMEs.
- Mobilising financial resources to promote SMMEs by means of financial support programme.
- Making available low-cost and affordable business sites in areas that lack them.
- Upgrading SMMEs managerial skills and knowledge.
- Introducing appropriate professional aid programmes.

b. Introducing innovative products

Innovation is the transformation of an idea or invention into new, socially accepted and usable products or services. Small firms are extremely innovative and can generate more innovations per worker than large firms (CSS. 2002:18).

c. Stimulating economic competition

When economic competition exists, business vies for sales and customers have greater freedom of product choice. Some producers may set high prices, withhold technological developments, exclude new competitors or abuse their position of power. Small businesses compete against large producers and improve the nature of the competitive environment

d. Aiding big business.

Some functions can be performed efficiently and effectively by small business, and therefore small business contributes to the success of the larger companies.

Small business can perform the following functions better than large business, namely:

- Distribution function

  Small business such as wholesale and retail outlets perform a valuable service for big business by distributing its products to customers

- Supply function

  Small business can function as suppliers to, and subcontractors for large companies. Where the large company agrees to a long-term relationship with the small company, the latter can supply a specified level of quality, can offer lower prices and can generate cost-saving ideas.

e. Producing goods and services

Small businesses are not burdened by large hierarchical organisational structures, entrenched culture and firm strategies that limit the flexibility and productivity of the company. The owners of small businesses are often the managers thereof, and have the authority to make decisions regarding the operations to increase efficiency. (Longenecker, *Moore and Petty*. 2000:31).

2.4 Global perspective

On a global level, especially in Asia, Africa and Latin America there has been an imperative need by humanity as a whole to find means and ways of improving the social and economic well-being of the poorest of the poor. Declining productivity, falling global markets, and International Monetary Fund (IMF) recommended structural programmes have led to a general increase in the level of unemployment worldwide. The formal sector has not been able to provide employment to alleviate the suffering of these populations and this has resulted in a proliferation of innovative interventions over the years such as cooperatives, credit unions and micro finance institutions – both formal and informal- in an effort to finance small business that can earn them a decent living. Developed and newly industrialised nations on the other hand, have realised that it is unacceptable to have income disparities as do exist at present and hence socially, if not morally justifiable, to assist in balancing the inequalities to achieve global peace (Kirby and Watson, 2003:10).

Corporate businesses for years have enjoyed much support from governments, financiers, and other stakeholders. This situation is, however changing rapidly in all the economies of the world (Scaborough and Zimmerer 1996:25). The success of the leading countries, such as the United States of America, Japan and Great Brittan, has proven that the only growth sector in the economy is the SMME sector, driven by entrepreneurs (Nieman, et. al, 2004:4). The focus is shifting towards small business development. Corporate entities are trying to survive and become more competitive by downsizing and merging. This process results in many retrenched and unemployed people establishing their own small business enterprises, not only for survival, but also to generate wealth in their respective communities.

One of the key reasons governments across the globe is eager to encourage and support small businesses has been their perceived contribution to employment and economic growth. Storey (1994) in Kirby and Watson (2003:1) has concluded that small businesses do create jobs at a faster rate than large businesses and that they are more consistent, since they are less influenced by changes in the macro-economy. In the United Kingdom (UK) between 1995 and 1999, new businesses created 2.3 million jobs and the vast majority (85%) were provided by micro, small, and medium-sized enterprises (Kirby and Watson,2003:1). In the United States of America (USA) during the past ten years, new business incorporations average 600 000 per year, with an all-time-record of 807 000 new small firms being established in 1995 (Kuratko and Hodgetts, 2004:3). However, very few businesses survive, and even a smaller proportion actually grows (Storey, in Buckland and Davids,1995:40). It is though evident that, most SMMEs all over the world experience problems of access to funding due to that fact that the low risk propensity of financial institutions. Most of the people involved in the small businesses, especially in the informal sector, are poor and do not have any form of collateral as security.

In an effort to alleviate the plight of the poor in Bangladesh, the Grameen Bank was established. The bank provides small businesses with loans on a group liability basis instead of requiring any collateral. The Grameen borrowers do not have access to conventional sources of credit because they have no collateral (Wahid, 1999: 94). According to this micro-finance organisation, it is important to charge market rates of interest, but access to finance is more important than cost of finance.

Financial support for Small and Micro Enterprises in Thailand's working paper has some of its summaries as:

- The observation that best practices in micro-finance include group-based lending in which loans to individuals are guaranteed by the group
- a requirement that loan amounts be based on a multiple of a member's savings in the programme
- the application of market rates of interest to at least cover operating costs, and
- intense and transparent monitoring.

Due to a well-developed lending network, below market rates of interest are charged by the majority of lenders making access of finance easier to the poor people. It is perceived that commercial banks are currently not receptive to expand lending to SMMEs because the sector is not worth their while and risk averse. The Thai government however is encouraging all lending institutions to participate. The government itself has taken the initiative to capitalise on its ownership of the Government Savings Bank (GSB) to expand lending at rates of interest a percentage point lower than commercial banks.

Within the Southern African region, the Namibian government amended its Usury Act to register and monitor micro credit agencies (NEPRU, 1999:1) in reaction to complaints of exorbitant finance charges; stating that "*….it was necessary to protect people from being stripped by so called loan sharks … mushrooming cash loan agencies that do not provide small short term loans, are indicative of the* *conservative and bureaucratic lending policies of financial institutions, and to which the already over indebted households turn to as a last resort*". This is a clear indication that small enterprises in Namibia are experiencing problem in accessing finance from the established financial institutions.

In a survey conducted by Orford et.al (2003), selected experts in South Africa and other participating countries identified the three most important factors that limit entrepreneurial activity in their country. Table 2.2 below shows the top two limiting factors and the percentage of experts who considered that factor a limitation:

Table 2.2 Limiting factors most frequently identified by country experts in each country

Country	***Primary limiting factor***	***Secondary limiting factor***
South Africa	Finance (24%)	Education (12%) Culture (12%) Entrepreneurial capacity(12%)
Argentina	Culture (36%)	Government policies (26%)
Brazil	Government policies (22%)	Finance (20%)
Chile Venezuela	Finance (26%) Culture (26%0 Politics Society and Institutions(28%	Education (19%) Finance (20%) Government policies (20%)
Thailand	Entrepreneurial capacity (25%)	Culture (15%)
Uganda	Finance (24%)	Culture (15%)
All GEM	Culture (21%)	Finance (20%)
Developing	Finance (21%)	Culture (18%) Government policies (18%)

Source: Adapted from Orford *et al* (2003:11)

Previously, experts in South Africa identified education and training as the most important factor inhibiting entrepreneurial activity. However, in 2003 "financial support" is identified as the number one limiting factor. From this survey it has been concluded that for all developing countries, financial support is the number one limiting factor with the primary problem being *access to finance*. This is a problem common to many countries assessed in the GEM with the evidence suggesting that entrepreneurs across the globe find it difficult to secure formal financing for new venture creation unless they have collateral or some form of credit history which serves to mitigate the inherent risk in starting a new business (Orford *et al* 2003:12). Within the general problem of financial support it is clear that experts believe that the primary problem is access to finance.

2.5 Entrepreneurship in South Africa

The promotion and development of entrepreneurship in South Africa is currently the focus of much attention in a wide variety of fields because it is regarded as a major key to economic development and wealth creation, thereby contributing towards social prosperity and upward mobility. The demand for an entrepreneurial-driven economy in South Africa is increasing particularly because of the employment creation benefits it offers. The SMME sector is globally regarded as the driving force in economic growth and job creation (Lunsche and Barron, 2000:1).

The South African economy has declined over the past twenty years. The year on-year change in the value of real gross domestic product (GDP) determines the real growth rate of a country (Nieman, et al, 2003:4). In the 1960s South Africa's GDP averaged six percent per year. During the 1980s, the GDP decreased to 2.2 per cent, with no growth in the 1990s. Lack of growth in the economy has led to fewer employment opportunities being available. This has given rise to high unemployment rate of about 30 percent. In creating wealth, small businesses in South Africa contribute approximately forty-two percent to the country's gross domestic product (GDP), (Nieman, et. al 2003:10)

According to the 1995 White Paper on Small Business Development, the goals of the South African SMME promotion strategy are:

- Economic growth and development;
- Poverty alleviation;
- Income redistribution;
- Employment creation;
- Economic empowerment of previously disadvantaged population groups;
- Democratization of economic participation;

- Replacement of the present rather oligopolistic structure of the economy with one that allows a much higher degree of competition.

Through the National Small Business Act (1996) the South African government acknowledges the economic potential of a strong Small-, Micro and Medium Enterprise sector and is committed to its promotion and growth. The government aims not only to increase the number of new ventures, but also to create an enabling environment to ensure the survival and growth of small businesses. According to Van Eeden, Viviers and Venter, (2003:13) the National Small Business Act (1996) has been instrumental in the creation of an enabling environment by means of its provision made for financial and non-financial governmental assistance to all South African entrepreneurs.

The South African government support structures for SMMEs include the following:

- The center for Small Business Promotion, established by the Department of Trade and Industry (DTI) at national level is responsible for SMMEs policy-related matters and support programmes.

- Small Enterprise Development Agency (SEDA) is responsible for non-financial services like marketing, training programmes, procurement advice, technology assistance and mentoring to businesses. Most of these services are rendered to SMMEs through service providers, such as Tender Advice Centres (TACs) Manufacturing Advisory Centres (MACs), Local Business Services Centres (LBSCs), Non Governmental organizations (NGOs) and Community Based Organizations (CBOs).

According to Foxcroft et al. (2002:19) the Global Entrepreneurship Monitor (GEM) project involves thirty seven countries which explores the relationship between entrepreneurship and economic development. International comparisons of the thirty seven participating countries in this report show that South Africa ranks:

- 15th in start-up activity (a start-up is a business that has not paid salaries and wages for longer than three months) with just under 5% of the adult population involved in starting a business.
- 29th in new firm activity (a new firm is a business that has paid salaries and wages for longer than three months but less than 42 months) with only 2% of the adult population involved in new firms.

According to the Foxcroft, et. al. (2002:16), start-ups are estimated to have created 140 000 jobs and new firms are estimated to have created nearly one million jobs in South Africa between January 1999 and July 2002. For South Africa to increase economic growth and employment creation, it needs a higher proportion of entrepreneurs to progress beyond the start-up phase. The survey reaffirms the point made by Driver, Wood, Segal and Herrington (2001:22), namely that South Africa has a reasonably high number of start-ups, but few of these reach a stage where they are able to pay salaries and wages for longer than three months. According to Streek (2001) quoted by Louw, Van Eden and Bosch; (2003:5) the South African economic sector lost more than R68 million in the past four years as a result of the failure of 117 246 small businesses that were receiving government assistance. Some of the reasons for this high rate of failure include unfamiliarity with established business practices, lack of managerial expertise in business management and lack of finance to fund the business.

With the official unemployment rate at 30 percent (those looking for work) and the expanded rate (if those who at the time had not job-hunted for four weeks are included), at 41.2%, job creation is one of South Africa's main priorities. It is estimated that 300 000 jobs must be created annually just to halt unemployment (Rwigema & Venter, 2004:10). So bleak a scenario underscores the need for entrepreneurship and the role it must play in South Africa. Without a steady supply of entrepreneurs, South Africa is likely to stagnate and decline economically. The SMME sector can thus be perceived as a vehicle by which the lowest-income people in our society gain access to economic opportunities - at a time that distribution of income and wealth in South Africa is amongst the most unequal in the world.

In the current macroeconomic context, it is imperative that significant investment is made in the SMME sector, in order to create both short and long term capacity for labour absorption and output growth, as well as improve income generation and redistribution. These objectives are firmly recognized in the main development and macroeconomic strategies adopted by this government, in the Reconstruction and Development Programme (RDP) and the Growth, Employment and Redistribution (GEAR) (DTI, 1998:1). Specifically the RDP undertook several areas of government intervention:

"*The democratic government must, in consultation with financial institutions, establish prudent non-discriminatory lending criteria, especially in respect of creditworthiness and collateral; ...require banks to give their reasons when turning down a loan application; develop simpler forms for contracts and applications, and create an environment which reduces the risk profile of lending to small black-owned enterprises and requires banks to lend a rising share of their assets to small, black-owned enterprise".*

In relation to the total number of employed people in South Africa (11.4 million), entrepreneurial firms account for one third of total employment. This suggests that entrepreneurial firms play a vital role in overall job creation. By comparison with other measured countries, South Africa is weakest in terms of new firm and established firm entrepreneurship, both of which are primary sites of job creation.

Lack of education and training is one of the problems that lead to a low entrepreneurial activity in South Africa. According to Orford *et al* (2003:15) experts in South Africa isolate education and training as South Africa's main weakness with regard to an enabling environment for entrepreneurship. Thus problems in the education system are associated with a lower prevalence of entrepreneurial activity among young adults in South Africa. The quality and content of the educational system is identified as being a key limiting factor for entrepreneurship. "*Until recently, the school curriculum did not adequately integrate entrepreneurship*", and, according to experts interviewed by GEM, has left a legacy of lack of confidence, initiative and creative thinking. Furthermore, problems in the education system are more likely to impact on the entrepreneurial behaviour of younger people, which is precisely where South Africa appears to lag behind other developing countries

(Orford *et al* 2003:17). The focus of the study is on the obstacles in the accessing of SMME finance in South Africa and this will now be dealt with in the next section.

2.6 Issues pertaining to SMME finance in South Africa

A diversified financial sector capable of meeting the full range of demand for financial services is needed to facilitate the objectives to raise the ability of the self-employed to sustain the economic activities essential for their survival. The challenge for the SMME sector is now to establish good practices for SMME financing and the provision of non-financial services to the SMMEs. Although the SMME sector has been hailed for creating jobs and improving economic conditions in South Africa, lack of financial support is widely viewed as the main problem facing entrepreneurs.

Throughout the GEM environment, formal financial institutions appear to provide funding to a small minority of entrepreneurs. The sources of funding for start-ups in South Africa include “self” (the owner’s savings and income); “personal network” (the owner’s family, relatives, friends and neighbours, colleagues and employer); - “and institutional finance” (banks, other financial institutions and government programmes) (Foxcroft, *et al* 2002:34). A research intervention conducted by Naude and Havenga (2004) indicated that most entrepreneurs struggled with accessing financing from banks due to excessive red tape and administrative burden. According to Naude and Havenga (2004:15) financial institutions rarely finance start-up businesses, are bureaucratic without any knowledge or understanding of entrepreneurs, not willing to assist and wary in providing finance to people who do not have a business record.

The lack of sufficient financing is a serious constraint during the formation of new ventures as well as at later stages, as business requires additional inflows of capital to support expansion and growth (Nieuwenhuizen and Groenewald, 2004:9). Inadequate bookkeeping is also responsible for deficiencies in several other areas of financial management.

Although support providers are in place, certain businesses and prospective entrepreneurs, through either ignorance or lack of information could still remain unknowledgeable about the availability and accessibility of these support systems.

In an investigation into the programmes being used in South Africa to develop the SMME sector, Pretorius and Van Vuuren (2003:519) found that the core focus of the programs from Khula, IDC and SEDA include finance, growth, expansion and competitiveness (through export) that are more relevant for existing business than for start-ups. There is a general tendency of the Khula, IDC and DTI programmes to focus on the larger and existing ventures as their target audience. Very few programmes are aimed at micro and small enterprises.

2.7 Conclusion

Small, medium and micro enterprise (SMME) development has been identified by the South African government as a priority in creating jobs to solve the high unemployment rate in the country which currently stands at 37%. This means that 6.9 million people out of a possible 18.8 million economically active people are unemployed. In addition, 400 000 job losses per year, owing to downsizing, re-engineering and re-organization. The growth of the labour force is about 2.8% per annum and an average annual real economic growth rate of approximately 6% per annum is required to keep pace with labour force growth (Nieman, 2001:22).

It is internationally accepted that the SMME sector is an essential factor in promoting and achieving economic growth and development and the widespread creation of wealth and employment. However in South Africa, entrepreneurial activity is hampered by the lack of access to finance, as supported by evidence conveyed in the latter chapter.

CHAPTER 3: THE SMME FINANCIAL SECTOR

3.1 Introduction

The SMME sector has a major role to play in the South African economy in terms of employment creation and income generation. Small, micro- and medium enterprises (SMMEs) account for approximately 60 percent of all employment in the economy and more than 35 percent of South Africa's gross domestic product (GDP) (Ntsika, 2002:110). They are also often the vehicle by which the lowest income people in our society gain access to economic opportunities – at a time that distribution of income and wealth in South Africa is amongst the most unequal in the world. In South Africa, as in many developing and semi-industrialised countries, the main problem experienced by owners or operators of SMMEs, is the difficulty in accessing business finance. In the current South African socio-political context, the "access to finance" issue becomes even more topical and sensitive as unemployment; income and wealth inequality levels continue to increase (Ntsika, 2002:111). Thus it is imperative that significant investment is made in SMMEs in order to create both short-term and long-term capacity for labour absorption, as well as to improve income generation and redistribution.

This chapter encompasses a comprehensive literature study on state and role played by the SMME sector to the South African economy. It also looks at the obstacles/constraints faced by the SMME sector when trying to access funds from the funding institutions, which is the focus of this study. The issue of access to finance is a problem facing most existing and new businesses in South Africa today. The various sources of finance available to the entrepreneur are also looked at in this chapter. These sources include using your own money, borrowing money from friends and family, commercial banks, asset finance houses, small business loan organisations and private equity and venture capital.

3.2 Role of the SMME sector in the South African economy

Central to the growth of the economy is the development of a vibrant SMME sector which development experts agree, is the key to resolving many societal challenges, including job creation (Entrepreneur SA, 2005:3). The statistics below show how important the SMME sector is in the general drive to grow the South African economy:

- SMMEs represent 97.5% of the total number of business firms in South Africa.
- Contribute 34.8% of the country's GDP.
- Employ 55% of the country's labour force.
- Contribute 42% of total remuneration.

According to Rwigema and Venter (2004:393), it is estimated that the SMME sector contributes approximately 40 percent of South Africa's GDP and accounts for some 3.5 million jobs. The sector is estimated to have between 500 000 and 700 000 businesses.

For the economy as a whole, Harper (1994) in Luiz (2001:16) argues that:

> "*small businesses are likely to be more resilient to depression, and to offer a steadier level of employment than large ones; their activities and locations are diverse, they depend on a wide variety of sources and types of raw material, their owners, if only for the want of any alternative, are likely to stay in business and maintain at least some activity and employment in conditions where foreign investors… would have closed their factories…*".

Comparative studies of large and small businesses, carried out in other countries, confirm that SMMEs generally employ more labour per unit of capital, and require less capital per unit of output, than do large businesses (Luiz, 2001:16).

It is therefore evident that the SMME sector, in a formal context, provides employment, pays taxes (contributing to government revenue) and can be included in the government statistics and in labour market information analyses (Antonites, 2003:15). It also acts as a training ground by offering apprenticeships for the young. Generally, not only do SMMEs provide income-earning activities for themselves, but also for all those individuals from whom they obtain supplies and services. Besides the already mentioned issues of job creation, economic growth and development, and an increase in GDP, other potential benefits directly accruing to local governments are:

- the empowerment of local citizens
- competition among the developing businesses in tandem with the positive benefits of quality by the suppliers and a broader base and choice for the consumer
- a reduction in crime rates, since instead of being idle, citizens are productively engaged, and
- an improvement in the rates base since more citizens can thereafter afford to pay for services (Yanta, 2001:44).

The SMME sector as a whole improves the general standard of living of the society, which leads to political stability and national security. This will indirectly induce an environment for national and regional economic growth and development.

3.3 State of the SMME sector in South Africa

Current levels of investment in SMMEs are inadequate for achieving the growth levels anticipated in the government strategies such as the Growth, Employment and Redistribution (GEAR) macroeconomic strategy. A key factor militating against increased investment in the SMME sector is the structure of the financial sector. The sector is composed of a concentrated formal banking sector targeting corporate accounts and competing with smaller niche banks. Furthermore, there is a dearth of strong alternative financial institutions providing credit to the self-employed for productive purposes. A further concern is the risk aversion of institutional investors (e.g. pension and insurance funds) who tend to focus on “safer” and larger investments, which yield relatively few social and economic benefits (The DTI 1998: 3).

As a result, a large portion of the SMME sector does not have access to adequate and appropriate forms of credit and equity or indeed to financial services more generally. In competing for the corporate market, formal financial institutions have structured their products to serve the needs of the large corporate businesses. Alternative financial institutions such as Non Governmental Organisations (NGOs) offer a limited range of products and do not have the infrastructure to reach a significant number of

SMMEs. It is estimated that NGOs currently serve only six percent of the survivalist and micro-enterprise sector. The net result is that there is almost no debt finance available to SMMEs in loan sizes ranging from R10 000 to R50 000, and very little between R6 000 and above R100 000, access remains inadequate to meet the demand (DTI, 1998:3).

An overarching concern is that previously disadvantaged individuals do not have adequate access to formal financial institutions and, therefore, are forced to seek relatively expensive (and often inadequate) amounts of credit from alternative financial intermediaries, sometimes illegally (DTI 1998:5). Several reasons account for the lack of access in addition to the factors above. These include lack of collateral, bad credit or no credit histories, an exaggerated risk perception of previously disadvantaged borrowers, discrimination on the basis of gender and race, and at times inability to afford the high levels of interest such as the one that prevailed in 2000-2001.

According to Orford *et al* (2003:36) a lack of access to financial support is widely viewed as the main problem facing entrepreneurs in South Africa. In a survey done by the authors, it was found out that 18% of the national experts in South Africa identified lack of adequate financial support as a major weakness in the national environment for entrepreneurial activity. This was the second most frequently mentioned weakness in South Africa as shown in table 3.2 below.

Table 3.1: The national experts' assessment of financial support for entrepreneurs in various countries.

	Frequency that financial support mentioned as weakness (%)	**Ranking out of all major weakness**
Argentina	**13**	**4**
Brazil	**14**	**3**
Chile	**23**	**2**
India	**15**	**3**
Mexico	**18**	**2**

South Africa	**15**	**2**
Thailand	**16**	**3**
Developing	**16**	**4**
OECD	**20**	**2**
All GEM	**18**	**3**

Source: As adapted from Orford *et al* (2003:32).

Other findings include the following:

- Formal financial institutions play a limited role in supporting entrepreneurship in GEM developing countries including South Africa
- More widely used sources of finance are the entrepreneur's own savings and their ability to access informal investment from friends, family and colleagues
- The primary focus of policy initiatives should not be aimed at increasing access to institutional finance but rather, attention should be paid to other areas such as financial management practices of entrepreneurs.
- In order to increase the ability of the poor to access finance, reforms should be aimed at allowing people to leverage the assets they already possess. For example, land and property in South African townships are unavailable for use as collateral and cannot be readily transformed into the capital necessary for starting or growing businesses.
- The reasons why these assets are heavily or entirely disregarded by banks as collateral include high probability of criminal damage to property, uncertainty over property rights, and potential difficulties in selling properties in townships, former homelands and inner cities
- Three-quarters of entrepreneurs who proactively manage cash flows are successful in applications for bank loan finance.

In a survey done by Foxcroft *et al* (2002) in South Africa on the entrepreneurial framework conditions, the following challenges facing the informal and formal entrepreneurs were revealed as shown in Table 3.3 below:

Table 3.2 Challenges facing the informal and formal entrepreneurs in South Africa

Informal	Formal
• There is a lack of an effective community based micro-finance infrastructure • The recurring key constraint is that finance is not available for amounts under R10 000 and also not accessible mainly due to lack of collateral, well-developed idea or business plan • Banks are not in a position to service this sector profitably • High interest rates are charged by micro-lenders • There is lack of awareness of and information about Khula and other financial institutions • There is a limited availability of micro-loans to rural and women entrepreneurs (e.g. Khula start offering R300-3500 loans	• Average success rate for applying for finance is 33%. A substantial proportion of the remainder don't qualify. Access and availability of finance are therefore problematic • Collateral is a problem for the bulk of disadvantaged entrepreneurs in this sector • Banks are the key services providers the majority seeking finance • The IDC and Business Partners service a small minority at the upper end of this market reasonably well • The perspective of the experts was that there is a poor relationship between banks and the entrepreneurial sector • The venture capital market caters for a tiny high-potential section of this market

Source: Foxcroft *et al* (2002:48).

Therefore it can be safely concluded that banks restrict access to finance for small businesses due to the nature and extent of the risks to the bank or indeed to the entrepreneur. According to Orford *et al* (2003:46) it would seem both reasonable and desirable that banks channel finance primarily towards those applicants with greater probabilities of success. Banks in general are risk averse to small businesses, especially to entrepreneurs or businesses with no track record, no collateral and little business experience. As such South Africa cannot rely on the banking sector alone to solve the problem of finance for entrepreneurs. A further problem in South Africa is that micro-finance is often used for consumption rather than production (Foxcroft, et al. 2002:16). Overall, the efforts to increase access to finance among small businesses have only made a difference to a small minority of disadvantaged entrepreneurs Rwigema & Venter 2004:415).

3.4 Obstacles faced by the SMME sector

Ten years after the attainment of democracy, some of the SMMEs in South Africa appear not to have shaken off the legacy of apartheid, which confined their access and spheres of activity to a very narrow segment of the economy. Within the formal sector SMMEs suffer from the structural weakness of the economy that wealth generation is concentrated in a limited number of sectors which do not have strong linkages with the rest of the economy. Also, these sectors contend with competition from established global competitors, whose greater size enables them to use predatory business practices to ward off competition. As a result the SMME sector is characterised by the incidence of a high failure rate. It is estimated that the failure rate of SMMEs in South Africa is between 70% and 80% (Van Eeden. et al. 2003:20). Hence, it was estimated that the South African economic sector lost more than R68 million over the period 1994 and 2000, as a result of the failure of 117 246 small businesses (Streek in Rwigema and Venter, 2004:394). Both the establishment and operational aspects of SMMEs is hampered by insufficiency of technological and managerial knowledge, the scarcity of financial resources, the inadequate skill of labour, lack of information on markets and lack of basic education (Wickham 2004: 50)

3.4.1 Training for SMMEs

Though the majority of SMME operations are not complex, it should be noted that a basic level of education is pre-requisite to the successful management of the small business unit (Antonites and Van Vuuren 2004:4). This basic educational level is not usually the norm amongst especially the micro and medium entrepreneurs; a factor found militating against them. On the part of the entrepreneur or small businessperson, there seems to be not enough practical or vocational training readily available for skills training and enhancement. Chapter 2 emphasized the fundamental difference between entrepreneurship and small business management. Carland et al (1984) quoted by Hughes and Storey (1994:43), empirically proves that the difference between the two concepts is situated within innovative behaviour and the cognitive style of entrepreneurs versus small business managers or owners. Experts in South Africa isolate education and training as South Africa's main weakness with regard to the enabling environment for entrepreneurship (Orford, et. al. 2003:15).

3.4.2 SMME support

Due to limited managerial resources, small business owners play the roles of financial controller, marketing manager, and operations manager, purchasing manager, and dealing with staff matters as well as executing key strategic decisions similar to that of the chief executive officer. This places intolerable pressure on the SMME owner, making time the main constraint to the growth of the business (Naude and Havenga, 2004:110). However, in the research done by Netswera (2001:67), it is pointed out that entrepreneurs revealed that training for skills development and – improvement is the most accessible support system. Hands-on, managerial and staff development training are indicated to be the most available form of training for small businesses.

Pretorius and Van Vuuren (2003: 519) investigated the programmes being used in South Africa to develop entrepreneurial development - [the Department of Trade and Industry's three implementation arms: the IDC, SEDA (Small Enterprise Development Agency) and Khula. They found that the core focus of the programmes includes finance, growth, expansion and competitiveness (through export) that are more relevant for existing business than for start-ups. There is a general tendency for Khula, the DTI and the IDC programmes to focus on the larger and existing ventures as their target audience. Very few programmes are aimed at micro and small enterprises. Although some programmes do focus on start-ups, the pre-requisites suggest that they are more relevant for larger ventures.

Pretorius and Van Vuuren (2003:519) found that there is no indication that these programmes contribute directly towards the development of entrepreneurial orientation. The role of SEDA is more towards the assistance of small business and the creation of more micro business where one would tend to find programmes that are more related to entrepreneurial culture.

Nhlapo (2004:67) found that 40% of the entrepreneurs were not aware of the services provided by government agencies such as Khula Enterprise Finance Limited, and SEDA, previously Ntsika Enterprises. Those who knew were not successful in their applications for a loan. This is consistent with the findings of the GEM report of 2003 (Orford et. al. 2003) that indicates that these programmes are not well known to the people and accessing them is complex.

The success or failure of the SMMEs is determined by the quality and level of infrastructure. This includes provision of water, sanitation, electricity, roads, communications and land. The lack of access to markets means that the opportunity for growth is limited (Niewenhuizen and Kroon, 2002:34). Unfortunately, most municipal infrastructural policies are market-oriented, focusing on how consumers can afford, rather than what social and economic potential can be derived from the provision of certain levels of infrastructure (Yanta, 2001:45).

3.4.3 Financial constraints

Among all the problems confronting the SMME sector, few have proved to be as difficult to solve as those embracing the financial variables applicable to this sector. In South Africa, not even short-term funds are easily available to the small entrepreneur. The social, economic, financial, legislative, political and banking systems characteristic of the previous dispensation, have all combined to make the financial problem in the SMME sector particularly difficult. Put at its crudest, the financial problem of the small firm is that of finding funds for expansion at the right time or the right type, and in the right quantities at various stages of development. Three fundamental difficulties facing entrepreneurs in this regard are:

- the small business may not be able to demonstrate its chances of success in order to persuade potential lenders even though many large firms also face this problem
- the existing lending and financial institutions may not cater for the special problems involved in small business finance

- the business person and his advisors may not know how or where to get the money

The government needs to assist in stimulating a greater diversity of alternative financial institutions that serve as vehicles for savings and loans to low and middle income individuals, as well as the self-employed. Therefore the only reliable sources of finance would be the entrepreneur's own savings or borrowings from family members, friends and relatives. This is the most efficacious form of finance because no cost or relinquishment of ownership is involved. However, the reality is that many South Africans do not have money to invest in start-up businesses, due to the high levels of poverty and unemployment (Rwigema & Venter 2004:410).

The problems or constraints experienced by the SMME sector in South Africa can be summarised as shown in Table 3.1 below.

Table 3.3 Obstacles experienced by entrepreneurs

OBSTACLE	FORMAL	INFORMAL
Lack of money for running costs	39%	65%
Lack of money to buy capital items	45%	63%
Transport	41%	50%
Weather	35%	43%
Competition	41%	40%
Theft	39%	32%
Unavailability of electricity	20%	34%
Lack of business skills	27%	33%
Unavailability of water	16%	31%

Source: Foxcroft *et al* (2002: 32)

Other obstacles that small firms frequently experience include:

- **Marketing risks from a limited product range**. Many small firms produce just one type of good or service – or at least a very limited range of them. This exposes them to problems should consumer tastes and demand conditions change.

- **Difficulty in finding suitable and reasonably priced premises**. The best locations tend to be expensive and often only affordable by larger firms
- **Lack of education** –In general terms, owners of SMMES do not have the ability to present a proper budget case to potential financiers. They do not have the basic understanding of organisational strategy and financing needs that are essential to sustainable growth.
- **Problems in raising both short- and long-term finance**. Small firms have little security to offer banks in exchange for loans and this makes obtaining finance much more difficult than for most larger firms. In addition, suppliers may be reluctant to sell goods on credit if the business has only been operating for a short time.

▪ **Inefficiencies** – Poor financial systems, lack of regulations and anti-competitive policies. Also, poor business processes and procedures and the existence of a "business as usual" attitude.

▪ There are also **policy-generated costs that constrain financial development** such as implicit taxation through financial (interest rate) repression, taxation through unremunerated reserve requirements, and a poor legal system for loan recovery (Naude and Havenga, 2004:112).

3.5 The SMME financial sector

3.5.1 The enabling environment

The South African government aims not only to increase the number of new ventures, but also to ensure the survival and growth of existing small businesses. Van Eeden, *et al* in Niewenhuizen and Groenewald (2004:14), indicate that the National Small Business Act of 1996 has been instrumental in the provision of creating an enabling environment by means of its provision made for financial and non-financial governmental assistance to all South African entrepreneurs. An enabling small business environment refers to a supportive environment in which emerging entrepreneurs can function (Nieman, *et al* 2003:166). The government by means of legislation and policies should establish this environment. A climate favourable to the entry of entrepreneurs should be created by means of the following:

- Financing by ordinary financial institutions such as banks
- Venture capital access
- Training and development programmes to encourage entrepreneurship
- Infrastructural development – a prerequisite for any economic activity at an advanced level
- Deregulation with regard to economic activities, as well as legal regulations

A cooperative environment must also be fostered so as to allow other institutions to actively promote entrepreneurship, such as:

- Tertiary institutions for education and training
- Institutions giving support, finance and/training
- Involvement through SMME development units
- Non-governmental organisations (NGOs)
- International aid agencies

It has therefore been noted that the socio-cultural, economic, technological, political and legal environments have enduring influences on the development of personality attributes such as entrepreneurship (Nieman, et al 2003:167). These environments can either facilitate or hinder the development of entrepreneurship in developing nations. According to Naude and Havenga (2004:10), most entrepreneurs in South Africa indicated that they struggled with financing from banks, excessive red tape and exhaustive labour laws. They concluded that South Africa has a hostile environment for entrepreneurs.

Van Eeden *et al* (2003:14) highlighted that South African entrepreneurs view economic uncertainty, crime, corporate taxes and labour legislation, as the biggest threats facing the small business sector. Fluctuating and high interest and inflation rates result in higher costs to the small business sector, and hamper their ability to plan and budget effectively. It was also indicated that there is lack of mentorship and support from the government.

In recognition that access to capital was a key constraint to development of SMMEs, the Department of Trade and Industry (DTI) of South Africa put in place a set of incentives designed to leverage greater private and non-governmental sector investment in SMMEs. Thus, the National Small Business Act of 1996 opened the way for the Department of Trade and Industry to address SMME development in South Africa. This came about after the publication of the "White paper on National Strategy for the development and promotion of small business in South Africa" and the first "President's Conference on Small Business" in March 1995 (Republic of South Africa, 1995).

The Department, through the Centre for Small Business Promotion, is responsible for all policies relating to SMMEs – support programmes directly and indirectly assisted by government. Notably, two institutions, Khula Enterprise Finance Limited and Small Enterprise Development Agency (previously known as Ntsika), were established in 1996 to create increased delivery capacity to SMMEs. Ntsika did this mainly with the help of a number of local business service centres (LBSCs), which are accredited countrywide to give support to SMMEs. Among the services provided by LBSCs are training, counselling and business planning. Recently many of these LBSCs also became retail financial intermediaries for Khula Enterprise Finance Limited to offer micro loans to entrepreneurs. Although these LBSCs seem to be delivering on grassroots level, the success of these institutions and/or their financial interventions has not yet been determined (Nieman 1998:169). They provide support infrastructure and absorb a portion of the risk and cost of private investment.

3.5.1.1 Public Institutions

i. Khula Enterprise Finance Limited

Khula was established in 1996 as an agency of the Department of Trade and Industry. Khula does not provide assistance directly to entrepreneurs. It is a wholesale financier, which facilitates access to credit for SMMEs through various delivery mechanisms, including commercial banks, retail financial intermediaries (RFIs), and micro credit outlets (MCOs). The financing assistance that Khula provides includes loans and credit guarantee schemes. According to Rwigema and Venter (2004:395) an impact study done by the Bureau of Market Research in 2001 showed that more than 1.5 million people have benefited directly or indirectly from Khula's assistance since 1996. This is a remarkable achievement considering the reluctance of the formal banking sector to lend to small businesses due to the perceived risk associated with that market.

Khula provides guarantees to registered commercial banks and other private sector financial institutions that finance entrepreneurs in the SMME sector. These guarantees serve as collateral for entrepreneurs, and are based on a risk sharing arrangement, whereby Khula assumes a portion of the risk associated with lending to the SMME sector (Rwigema and Venter, 2004:396).

ii. Small Enterprise Development Agency (SEDA)

The Small Enterprise Development Agency (SEDA) is the Department of Trade and Industry's new agency for supporting the development of small business in South Africa. SEDA was formally launched in December 2004 and it replaces the previously existing small business support institution (Ntsika Enterprise Promotion Agency) and has representation at all levels of government. SEDA's role is to render an efficient and effective promotion and support service to SMMEs in order to contribute towards equitable economic growth in South Africa. Thus, it provides a wholesale non-financial support service for SMME promotion and development.

3.5.1.2 Private Financing

i. Own savings, family and friends

According to a survey carried out by Foxcroft, *et al* (2002:34) the most important source of funding in all countries included in the GEM was the entrepreneurs themselves. Fifty-four percent of South African entrepreneurs reported that they had used or expected to use their savings and income to fund their businesses. Friends and family are less likely to attach onerous terms to the repayment of the loan. For this reason financing through friends and family is considered to be the next best alternative to self-funding. Thus, institutional finance is less important in financing start-ups than entrepreneurs' own savings and their ability to mobilise finance from their personal network of family, friends and colleagues.

ii. Commercial banks

Commercial banks are by far the most frequently used source of short-term finance by the entrepreneur when collateral is available. These include the Standard Bank, Amalgamated Banks of South Africa (ABSA), First National Bank, and Nedbank. The funds provided are in the form of debt financing, and as such require some tangible guarantee or collateral – some asset with value. According to Hisrich and Peters (2000:363), collateral can be in the form of business assets (land, equipment or building of the venture), personal assets (the entrepreneurs' house, car, land, stock or bonds). In general banks have three main loan products – overdrafts, term loans and mortgages. In addition, the banks all have subsidiaries or partners who can assist with asset finance (such as leasing and hire purchase). There are also special equity funds set up by the banks to invest in small black-owned businesses that do not have enough collateral for a term loan (e.g. First National Bank's Progress Fund and ABSA's Incubator fund).

Conventional banks in most cases refuse to grant loans to small business applicants. According to Schoombee in Rwigema and Venter (2004:393), there are a number of reasons for this, which includes the following:

- There is a higher risk that entrepreneurs in the SMME sector will default on loan repayments, due to insufficient cash flow.
- As a result of the general conditions of poverty and limited resources, entrepreneurs do not have adequate collateral to secure their loans.
- The administrative costs involved in screening loan applications from entrepreneurs are high.
- Banks face low returns when investing in the SMME sector.
- Entrepreneurs experience language and cultural barriers when accessing banks.

Other factors include: a lack of clear business plans and ideas; lack of preceding market research and risk of under-capitalisation and/or delays in reaching break-even points. These factors can adversely influence profitability, cash flow and the applicant's solvency over the first one or two years (Ntsika 2002:110).

Judging from statistics about South African small business start-ups, these fears are not misplaced. In the past four years, the financial sector has lost R68 million as a result of the failure of 117 245 small business enterprises that were receiving government assistance. (Streek in Rwigema and Venter, 2004:394)

iii. The Industrial Development Corporation (IDC)

The Industrial Development Corporation (IDC) is a self-financing national development finance institution. Its primary objectives are to contribute to the generation of balanced, sustainable economic growth in Africa and to the economic empowerment of South Africa population, thereby promoting economic prosperity of all citizens (Ntsika: 2002:129). The IDC has increasingly supported SMMEs over the past few years.

Through its financing activities since 1996, over the past five years, the IDC created almost 55 000 direct jobs and generated R10 billion export earnings through SMME funding. A number of financial products are available from the IDC and these products are structured to meet the entrepreneurs' needs. These include equity investments, quasi-equity investment and commercial loans (Ntsika, 2002:128).

(iii) Micro finance lenders

Micro financing provides an important source of funding for those entrepreneurs excluded from formal financial institutions. Sources of micro finance include the Matshonisa, private institutions, and non-governmental institutions (NGOs).

(a) Matshonisa

Informal money lenders in townships of South Africa are known as *Matshonisa*. The term "Matshonisa" loosely means "making you poorer" and is a reference to the interest payments attached to the loans, or to the debt trap into which the borrowers often fall (Rwigema and Venter, 2004:394). Loans of up to a maximum of about R5 000 are made available to individuals. As soon as borrowers receive their monthly income, they are expected to repay their loans and the interest amount.

(b) Micro lenders

Micro lenders provide small loans averaging R1600, which do not require any form of collateral, over a period of one month. These suppliers concentrate on personal, relatively short-term loans to (preferably) regular salary earners, with good security (in the form of an ID and salary printout showing the potential for a garnishing order), and a reasonable credit record, checked through an efficient industry-wide referral system (Ntsika, 2002:115). This limits availability of loans only to those who are gainfully employed. The bulk of the loans are for household needs and the balancing of income fluctuations. An insignificant share of five to ten percent of these funds are utilised for business purposes.

(iv) Non-governmental organisations

Non-Governmental organisations (NGOs) serve as a channel for donor funding. NGOs offer a limited range of products and do not have the infrastructure to reach a significant number of SMMEs and hence each is sporadic. According to the DTI (1998:3) it is estimated that NGOs currently serve 6% of the survivalist and micro-enterprise sector.

However, not many entrepreneurs know about the existence of NGOs and the fact that they can get funding for their businesses. Hence, many people especially in the townships have turned to community or group savings in order to get money that can be used as start-up for their small businesses.

(v) Community or Group Savings

Community or group savings and loan schemes are an important source of finance for the SMME sector. According to Rwigema and Venter (2004:399), there are some 2000 “stokvels” in South Africa. The “stokvels” do not provide loans *per se*, but distribute collective contributions of members. Groups of individuals contribute a specified amount each month and on a rotational basis, members get a chance to take home the month’s collected cash. This cash can be used to buy stock or finance new equipment. “*During recent years, many if not most of these schemes have linked up with banks for safe –keeping and handling of their funds*” (Ntsika 2002:115). This creates an important link through which these schemes might gradually evolve into specialised banking and loan facilities.

3.5.2 Formats of SMME finance

According to Smith and Smith (2004:508), there are various sources of business financing where the providers have different objectives, capabilities and constraints. Some like banks seek low-involvement, low-risk investments, usually of short duration. Others, like business angels, seek high-risk, high involvement investments of moderate to long duration. Different financing sources protect the value of their investments in different ways. Some, like venture capitalists, engage in active monitoring to protect their investments. Others, like factoring companies and most lenders, rely heavily on collateral. Table 3.1 below shows the list of financing sources for new ventures and private businesses in the USA.

Table 3.4 Partial List of Financing Sources for New Ventures and Private businesses

Asset-Based Lending	Friends and Family
Business Angels	Public Debt Issue
Capital Leasing (Venture Leasing)	Registered Initial Public Offering
Commercial Bank Lending	Royalty Financing
Corporate Entrepreneurship	Self (Bootstrap)
Customer Financing	Small Business Administration Financing
Direct Public Offering	Term Loan
Economic Development Programme financing	Small Business Investment Company Financing
Employee-Provided Financing	Research & Development Limited Partnerships
Equity Private Placement	Relational Investing or Strategic Partnering
Factoring	Vendor financing
Franchising	Venture Capital

Source: Smith & Smith, (2004:508)

3.5.2.1 Internal or external

There are a variety of possible sources of finance available to the SMME sector in South Africa although they are less than those available to our American counterparts as indicated in Table 3.1 above. These can be classified as internal and external. Internal sources of finance include the personal equity of the entrepreneur, usually in the form savings re-mortgages, or perhaps money rose from family and friends. After the initial start-up, retained profits and earnings provide internal capital. The principal sources of external sources include bank loans, equity capital from venture capitalists and short-term credit (Longenecker, et. al. 2003:362).

For many small businesses in South Africa, certain sources of finance are not available due to barriers of entry. For example, most SMMEs are automatically excluded from certain financial sources, such as public sources like the Johannesburg Securities Exchange (JSE). They also face difficulties raising certain types of finance such as long term loans because of the automatically higher risk associated with businesses which have little equity in the form of share capital (Deakins, 1996:73).

3.5.2.2 Debt or equity

Start-up capital for SMMEs can be in the form of debt financing or equity financing. Debt financing is method that involves a loan, the payment of which is only directly related to the sales and profits of the venture. Typically, debt financing requires that some asset (such as a car, house, plant machine or land) be used as collateral. Equity financing does not require collateral and offers the investor some form of ownership position in the venture. Therefore, choosing between debt and equity involves tradeoffs for owners with regard to potential profitability, financial risk and voting control. (Longenecker, et.al. 2003:236). Debt increases the potential for higher rates of return to the owner and allows the owner to retain voting control of the business. On the other hand equity financing limits the potential rate of return and the owner has to give up some voting control. While equity funds have been seen as a way to stimulate the growth and development of SMMEs, particularly owned by previously disadvantaged, the preferred investment ranges are too high to significantly reach these enterprise sectors.

3.5.2.3 Venture capital

Venture capital is a form of private equity that focuses on relatively high-risk businesses, in the expectation that the profits will be above average. Venture capital is a professionally managed pool of equity formed from the resources of wealthy limited partners. Other principal investors in venture-capital limited partnerships are pension funds, endowment funds and other institutions including foreign investors. These are vitally important sources of seed capital, start-up capital, and expansion capital for entrepreneurs who have demonstrated the viability of their ventures but are unable to source funds from the formal banking sector (Kuratko & Hodgetts, 2001:441). In addition, venture capitalists provide entrepreneurs with equally valuable technical advice, strategic support, research, mentorship, and managerial experience. Scarborough and Zimmerer (1999:508) adds that venture capitalists invest in ventures with high growth and profit potential in exchange for some ownership and control

Of late, venture capital in the form of seed capital and start-up capital has become increasingly difficult to obtain. Seed capital is the relatively small amount of money needed to prove that the concept is viable and to finance feasibility studies. Seed capital is not usually used to start the business, but just to investigate its possibilities. On the other hand start-up capital is funding that actually gets the company organised and operational. It puts in place the basics of product development and the initial marketing effort. Start-up capital is invested in the business before there are any significant commercial sales; it is the financing required to achieve these sales. As a result venture capitalists are increasingly turning towards companies that:

- are more mature
- have established products or services that generate high levels of revenue
- have an impressive client list, and
- have capable and experienced management team (Van Yoder, 2003:32-34)

Moreover, SMMEs cannot meet the increasingly stringent requirements by venture capitalists. Some of the requirements include:

- loans that require collateral in the form of assets

- liquidity preferences greater than the amount of the investment
- priority over managers with regard to profits and creditors with regard to debt; and a greater emphasis on due diligence the net result is that venture capital is becoming more difficult to source. It is indeed a "long and arduous process that requires a lot of preparation and advance planning," (Van Yoder 2004:34).

Quantitative surveys conducted on venture capital in South Africa to date are those of KPMG (KPMG 2000 and KPMG 2001), which assessed the composition, and performance of venture capital funds in South Africa during 1999 and 2000. KPMG identified 55 private equity firms in South Africa. According to the 2001 KPMG report, the venture capital industry still largely comprises captive funds, although independent funds, those funds that generally manage third party funds, are becoming an increasingly important segment of the South African private equity landscape. R33.1 billion of private equity funds is under management including R7.5 billion of undrawn commitments as shown in Figure 3.1 below.

Total funds under management at 31 December 2000

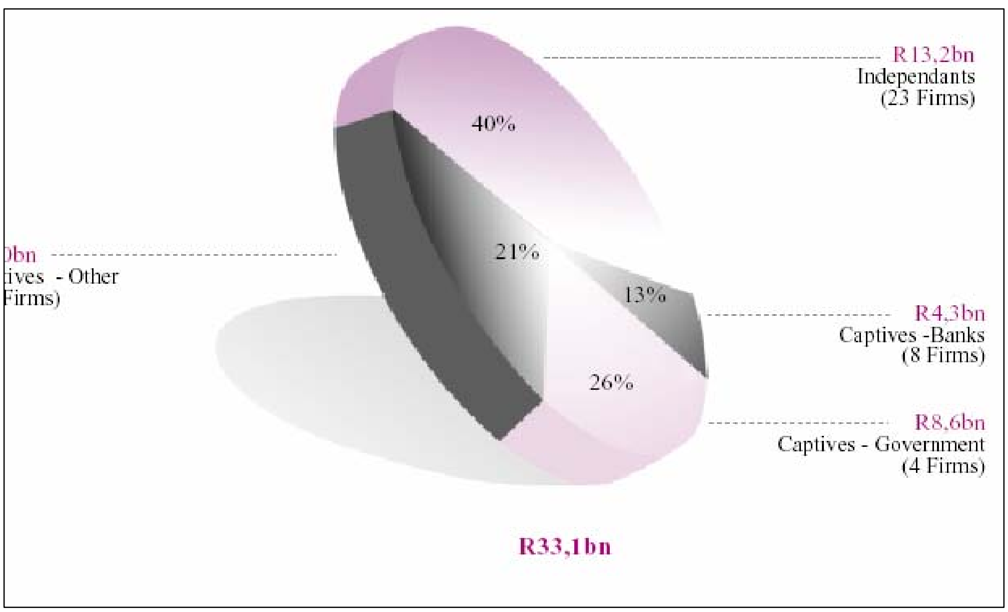
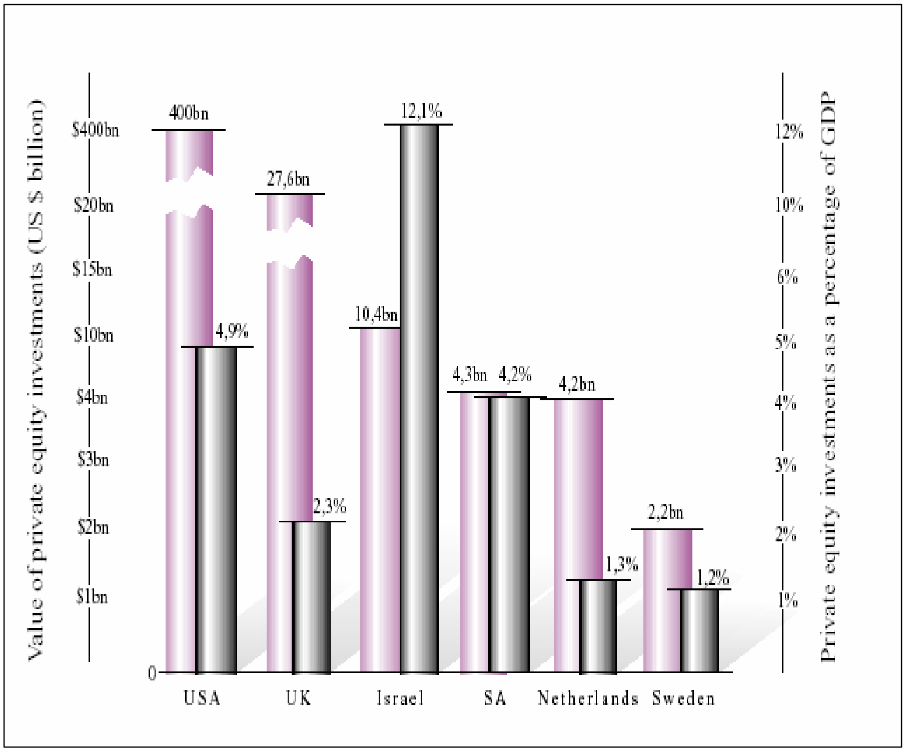


Figure 3.1

Source: As adapted from KPMG Report (2001:6)

Figure 3.2 Relative size of international private equity markets

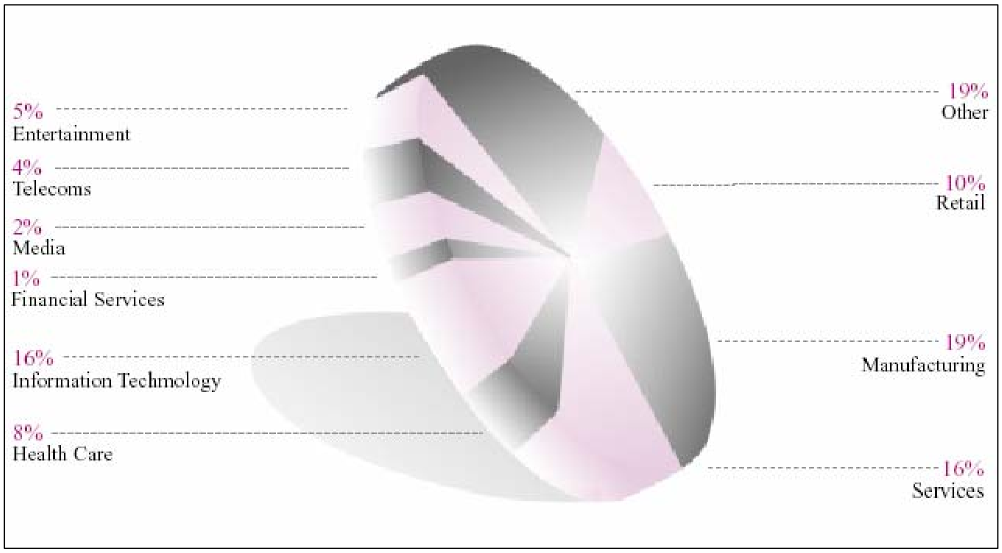


Source: As adapted from KPMG Report (2001:7)

Although our industry is a fraction in comparison with that of the United States, it is larger than those of many European countries including Sweden and the Netherlands. In terms of size relative to GDP, South Africa's private equity industry is more significant than most of Europe's, but still some way off Israel's (12,1% of GDP), and the USA (4,9% of GDP).

The survey by KPMG shows us that South Africa has still a relatively small venture capital market, compared with the USA and UK as shown in figure 3.2. It is also evident that according to the sectoral analysis of investments in 2000, the manufacturing sector draws the largest percentage of venture capital and that the majority of the investments are allocated for replacement and buy-out purposes.

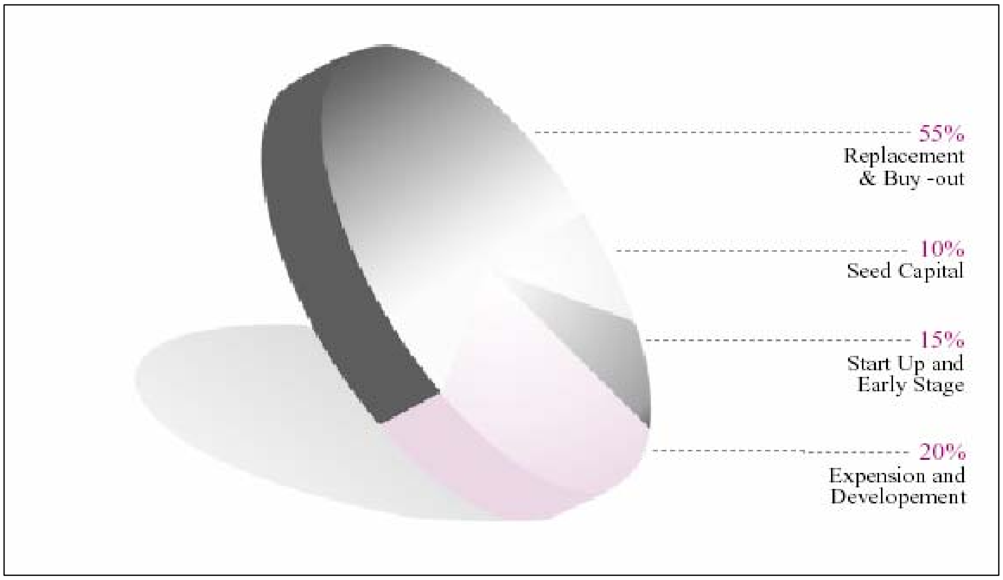
Figure 3.3 Sectoral analyses of investments



Source: As adapted from KPMG Report (2002:7)

In South Africa private equity fund managers are very conservative. The investors are usually banks or families or individual entrepreneurs who have who have been successful with their businesses. Because of the low levels of trust in South Africa – and, until recently, pessimism about the economic future of South Africa – only about R2 billion of the R8 billion available for private equity investment was actually put to use. This was only used for safe deals, such as corporate buy-outs and mergers. According to KPMG report (2001:19), the fund managers are scared stiff of investing in small businesses.

Figure 3.4 Investment in 2000 - by stage



Source: As adapted from KPMG Report (2001:8)

3.6 Conclusion

This chapter focused on the importance of the SMME sector to the South African economy. The small business sector contributes significantly to the South African economy through job creation and income generation and a general improvement in the standard of living of the general population. However, the SMME sector faces a number of obstacles in its effort to access funds for start-up and expansion purposes. These constraints include lack of adequate training, lack of adequate support and most important is the lack of access to finance as banks see small businesses as being risky. Under political pressure from the government, South African banks are starting to take needs of small businesses more seriously. Banks have set ambitious lending targets to demonstrate their commitment to support more small businesses in future. However, still not many businesses can access this finance due to a lack of collateral.

Distinction has been made between self-financing through an entrepreneur's own money and debt and equity financing. The most common form of debt financing is bank loans but many entrepreneurs are excluded from the formal banking sector because of the requirement of security in the form of collateral. In addition bank loans are costly because of the interest charged. Micro lending is an important alternative of which the various sources include Matshonisa (informal lending in the townships), micro-lending organisations in the private sector and non-governmental organizations. Khula Enterprise Finance Limited also provides loans to entrepreneurs indirectly. It funds retail finance intermediaries, which are then approached by entrepreneurs for loans. In addition, Khula provides guarantees that serve as collateral for loans from commercial banks. Equity financing requires that a portion of the ownership of a venture be given up in exchange for capital. Venture capital is thus an important source of equity finance especially for more mature ventures but it cannot be easily accessed by the SMME sector.

The smaller end of the enterprise spectrum, ranging from survivalist, micro and very small enterprises have very little access to capital, from either alternative financial institutions or the formal financial sector. This is a critical issue in the South African context, as most previously disadvantaged entrepreneurs operate in these sectors, thus perpetuating a situation of unequal racial and gender access to finance. Yet these sectors have the greatest potential for labour absorption in the short-run.

This chapter concludes the literature study, as the first phase of the research. The next phase is the planning and conducting of the empirical research. Here information will be obtained from various lending institutions and entrepreneurs. The following chapter will deal with the research methodology as well as the design of the questionnaire for the empirical research. The results will be analysed and integrated with the theories and concepts identified during the literature study.

CHAPTER 4: RESEARCH METHODOLOGY

4.1 Introduction

The research process involves the application of various methods and techniques in order to create scientifically obtained knowledge by using objective methods and procedures (Welman and Kruger: 2001:2). The purpose of this chapter is to present the methods and techniques applied to obtain the findings presented in Chapter 5.

Walliman (2005: 238) provides the following steps in the research process:

The research process

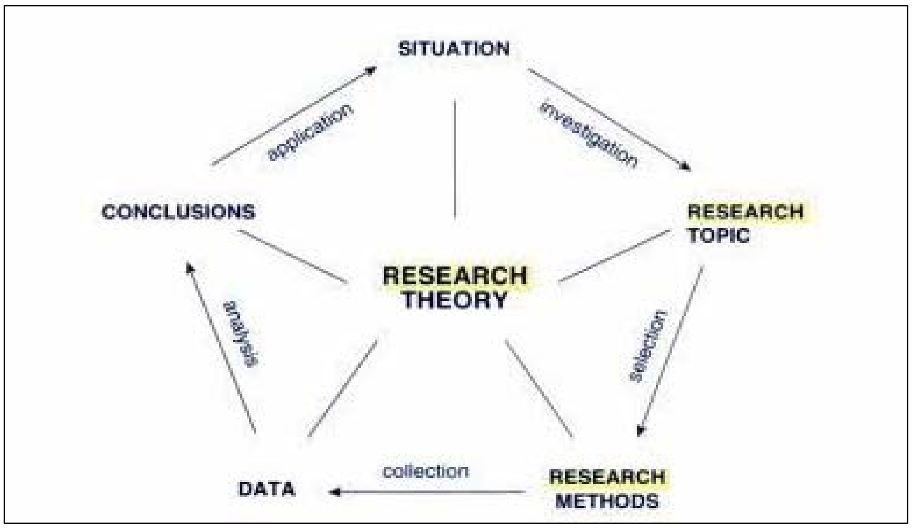


Figure 4.1

Source: Walliman, (2005:238).

The situation and research topic are discussed in Chapters 2 and 3, and the current chapter will focus on the research methodology.

Aspects of the research method to be covered in the chapter include the basic type of research design, a definition of the population, the measurement instrument, the data collection methods used and the statistical techniques applied to analyse the data. The chapter starts by revisiting the problem statement and the research objectives.

4.1.1 Problem statement

Most SMMEs in South Africa fail due to a number of reasons namely lack of education, lack of experience and entrepreneurial culture and most important of all, lack of and access to financial resources. Evidence referred to earlier on in this study demonstrates that there is a serious problem, which pertains to small business getting access to finance. Thus, improving access to finance as a fundamental approach to improve/enhance South Africa's entrepreneurial performance. Given this state of entrepreneurship in South Africa, it is necessary to identify what issues hinder the access of SMME finance from the perceptual view of the entrepreneur and/or small business owner. It is furthermore critical to identify potential demographical variables affecting the access to SMME finance in order to address the relevant issues/obstacles effectively.

4.1.2 Primary objectives

1 To identify the obstacles faced by entrepreneurs in accessing small business finance from financial institutions.
2 To determine the basic demographic of entrepreneurs in the Tshwane Metropolitan area with reference to gender, age, language group and level of education.
3 To determine the entrepreneur's work experience and the phase of entrepreneurial process in which the entrepreneur is in.

4.1.3 Secondary objectives

1 To identify the industries in which the entrepreneurs operate.
2 To determine the kind of training and support that entrepreneurs need
3 To determine possible solutions to make accessibility of small business finance easier and thus improve on the success rate of this sector.
4 To determine how government can intervene to improve the accessibility of small business finance to entrepreneurs

4.1.4 Hypothesis Statement

H1	Small, medium and micro-enterprises (SMMEs) do not perceive obstacles in accessing finance from financial institutions in Tshwane
H1a	Small, medium and micro-enterprises (SMMEs) perceive obstacles in accessing finance from financial institutions in Tshwane
H2	Gender differences do not exist in terms of the perceived obstacles in obtaining finance by small, medium and micro-enterprises (SMMEs) in the Tshwane area
H2a	Gender differences exist in terms of the perceived obstacles in obtaining finance by small, medium and micro-enterprises (SMMEs) in the Tshwane area
H3	Ethnic differences do not exist in terms of the perceived obstacles in obtaining finance by small, medium and micro-enterprises (SMMEs) in the Tshwane area
H3a	Ethnic differences exist in terms of the perceived obstacles in obtaining finance by small, medium and micro-enterprises (SMMEs) in the Tshwane area

4.2 Research design

The research design is the plan and structure of investigation so conceived as to obtain the answers to the research question" (Kerlinger: 1986:279). The plan is the overall scheme or program of the research.

In starting to plan the research a distinction is made between two basic types of designs: Experimental and non-experimental research. Experimental designs all involve an intervention, which refers to the exposures of research subjects to something to which they otherwise would not have been subjected (Wellman and Kruger: 2001:69). Kerlinger (1986:348) provides the following definition of non-experimental designs:

> "*Non-experimental research is systematic, empirical inquiry in which the scientist does not have direct control of the independent variable because their manifestations have already occurred or because they are inherently not manipulable*"

Within non-experimental research designs there are again various different types of research. These include descriptive research, historical and correlation designs. Salkind (2000:11) describes the purpose of descriptive research to describe the characteristics of an existing phenomenon. Historical research relates events that have occurred in the past to current events and correlation research examines the relationship between variables.

Kerlinger (1986:359) mentions that one of the great weaknesses of the non-experimental design, as compared to experimental research, is that non-experimental research lacks control: control over the independent and dependent variables.

It is noted that the variable under study in the current research does in fact not lend itself to manipulation and the aim of the research is to describe the phenomenon: Financing difficulties experienced by entrepreneurs. Therefore the current research is classified as non-experimental research. More specifically, the current research is known as descriptive research.

4.3 Description of the Population and sampling frame

The population is defined as a collection of all the observations of a random variable under study and about which one is trying to draw conclusions in practice. A population must be defined in very specific terms to include only those units with characteristics that are relevant to the problem (Wegner 2003:5)

Two distinct populations were targeted in the current study. The populations for the current study are defined as the entrepreneurs and the financial institutions. Zikmund

(1997: 417) describes the target population as the complete group of specific population elements relevant to the research project. For the purposes of this research, the target population comprises entrepreneurs from the small medium and micro enterprises level and financial institutions such as local commercial banks. The geographical location is Tshwane Metropolitan Municipality.

It is possible to construct a so called sampling frame, having defined the population. A sampling frame is a listing of all the elements in a population and the actual sample is then drawn from this listing. It is possible that biases could exist between the opinions of members of the sample frame and population. Therefore, the adequacy of the sampling frame is crucial in determining the quality of the sample drawn from it.

Sample frames may differ from the population in the following ways:

- The frame may contain ineligibles or elements that are not part of the population
- The frame may contain duplicate listings, and the frame may omit units of the population, which is by far the most serious problem.

Due to the fact that no complete list exists of all small, medium and micro enterprises (SMMEs) in South Africa, Braby's Database (2002) was used to draw a sample. Braby's lists more than 15000 businesses in South Africa. It must be acknowledged though, that Braby's Database, as also other lists of businesses, would include more of the formalized businesses, i.e. licensed businesses registered for Value Added Tax (VAT). This possible shortcoming was addressed by distributing a mail questionnaire to businesses drawn from the above list but supplementing the sample with questionnaires distributed ad hoc at the business centres in the Tshwane Metropolitan Municipality.

4.3.1 Sampling technique

Techniques that make use of probability theory can both greatly reduce the chances of getting a non-representative sample and, permit precise estimation of the likelihood that a sample differs from the population by a given amount. One of the main characteristics of the stratified random sampling technique is that it tends to reduce sampling error and decrease the required sample size (Hussey and Hussey, 1997:116).

Since the aim of the study is to make probability based confidence estimates of certain parameters, a probability sampling technique, namely systematic sampling will be utilized.

4.3.2 Sample size

The estimation of the sample size was influenced by the following principles:

- Research propositions
- The variance within the population
- The sampling technique

The level of precision, or in other words the level of sampling error one is willing to accept in a research also influences sample size. In reality the sample statistic is known but the population statistic is unknown, so, the difference between the sample and the population value can be assessed in terms of the likelihood that a sample value differs by a certain value from the population value (Leedy, 2005:35). Establishing a confidence level, i.e. a range in which it is fairly certain that the population value lies does this. Moreover, precision is directly related to sample size. Larger samples are more precise than smaller ones. Probability theory enables the calculation of the sample size that would be required to achieve a given level of precision. It was decided to accept a 5% confidence level.

- Determining the sample size

Taking the above factors into account 600 questionnaires were distributed. The mail survey was enhanced by telephonic communication before, and during the survey. In order to partially address the informal sector, the various business information centres of the City of Tshwane Metropolitan Municipality (CENBIS) was used to distribute a 100 of the 250 questionnaires to business owners that utilized their services on a random basis.

4.4 Research instrument

In scientific research variables must be measured (Craziano & Raulin 1998: 68). There are four basic types of measurement options. The different levels of measurement include:

- **Nominal scales**: this is the lowest level of measurement, the scale with the least matching to the number system. Classification of variables is into unordered qualitative categories; for example, the race variable in the current study. (Craziano and Raulin:1998: 71)
- **Ordinal scales:** Classification into ordered qualitative categories; e.g., social class (I, II, III, etc.), where the values have a distinct order, but their categories are qualitative in that there is no natural (numerical) distance between their positive values. An example of ordinal scales in the current study is the education level of respondents.
- **Interval**: When the measurement conveys information about the ordering of magnitude of the measurement and about the distance between the values. (Sekeran, 2003: 71). The rating of service quality in question 10, while streaky speaking are ordinal in nature, are often considered as interval scales by researchers to enable the calculation of means and parametric significance testing.
- **Ratio**: These are measurements where there is equal distance between the numbers, as with interval scales, yet it also has an absolute zero. No ratio variables were included in the current study.

The current study made use of one instrument, designed specifically for the population targeted: the entrepreneurs, This measurement instrument took the format of a questionnaire. Salkind (2000:136) defines questionnaires as paper-and-pencil set of structured and focused questionnaires. The following advantages to using questionnaires are also provided:

- It is possible to survey a broader population as surveys can be mailed
- They are cheaper than one-on-one interviews
- People may be more willing to be truthful because their anonymity is all but guaranteed.

Please see appendix for the research questionnaire used in this study.

4.5 Data collection

There is no simple answer as to which of the available methods of data collection the researcher should use when collecting data. There are however, three major criteria for evaluating a measurement tool (Cooper & Schindler 2003:231):

- Validity refers to the extent to which the test measures what we actually wish to measure,
- Reliability has to do with the accuracy and precision of a measurement procedure, and
- Practicality is concerned with a wide range of factors of economy, convenience and interpretability.

The survey was done via mail and a telephone survey was done as a follow-up to non-respondents. For the more informal business sector, questionnaires were handed out at business centres.

4.5.1 Format of the questionnaire

A questionnaire was sent out, focusing on the entrepreneurs in the Tshwane Metroploitan Area as unit of analysis. The questionnaire was structured as follows:

Section A: Demographic Information

This section used close-ended questions to gather information such as gender, age, home language and education. Participants were simply expected to click the space containing the applicable response. The questions in this section were in a multiple choice format which allowed participants to choose one or more alternatives in some instances. The rational behind these demographic questions is that it places the results in a frame of reference and might provide insights into differences between demographic groups or correlation with regards to entrepreneurial behaviour.

Section B: Profile of business activities

Close-ended and open ended questions were used to gather information such as the number of years of experience as an entrepreneur. Their position or role in the business and whether the business is micro, small or medium sized. Entrepreneurs were also asked how they raised start-up capital, which financial institutions they approached for financing and at which institution their application was successful. Finally, entrepreneurs were asked to indicate what obstacles they experienced during the application process and whether they need training in motivation, entrepreneurial or business skills.

The questionnaire was distributed with a covering letter (see addendum). The covering letter included the following:

- An explanation of the relevance of the study
- A brief description of the objectives of the study
- Instructions on how to administer the questionnaire
- Assurance of confidentiality
- Contact details if any difficulties were encountered

A copy of the questionnaire is attached as addendum A.
The questionnaires were distributed as follows:

Table 4…… Distribution of Questionnaires for the Entrepreneurs

Number distributed	**Number returned**	**Percentage of total returned**
600	200	33%

A total of 600 questionnaires were distributed to entrepreneurs and a total of 200 were returned. This means a response rate of 33%.

4.6 Data analysis and statistical techniques used

There are two major components of the discipline of statistics: descriptive and inferential statistics.

Rosnow and Rosenthal (1999:10) defines descriptive statistics as condensing large volumes of data into a few summary measures. The author defines inferential statistics as the area of statistics which extents the information extracted from a sample to the actual environment in which the problem arises.

4.6.1 Descriptive Statistics

Descriptive statistics used in the present study include frequency counts, mean scores, standard deviations and cross tabulations. Frequencies are defined by Kerlinger (1986:127) as the number of objects in sets or subsets. More simply, then number of times a certain answer appears in the data. The mean calculates an average across a number of observations and the standard deviation is the square root of the variance around the mean, in other words, how well the mean represents the data (Field 2005:6).

A cross tabulation is just a more advanced method of presenting frequency data. It presents the frequencies in a matrix. For instance: Number of entrepreneurs in each race group within each gender.

4.6.2 Inferential statistics

The following inferential techniques were used:

- **Chi-Square Test**

  The Chi-Square Test procedure tabulates a variable into categories and computes a chi-square statistic. This goodness-of-fit test compares the observed and expected frequencies in each category to test either that all categories contain the same proportion of values or that each category contains a user-specified proportion of values (SPSS 11.5:2004). This is the significance test used when making use of the cross-tabulation technique

- **The t-test for independent measures**

  The t-test assesses whether the means of two groups are statistically different from each other. The t-test is defined as the difference between the two samples' means divided by the standard error of the difference. (http://research.med.umkc.edu/tlwbiostats/ttest.html).

When the two means are from dependent groups (two measurements from the same group), the t-test for dependent measures is used.

4.6.3 Statistical significance

Test statistics such as the inferential techniques described above, are used to tell the researcher about the true state of the population – inferred from the sample. Field (2005:31) explains that there are two possibilities in the real world (in the actual population):

1) there is, in reality, an effect in the population or
2) there is no effect in the population

Although we have no way of knowing which is the true situation, Fields (2005:31) explains that by looking at the test statistically and the associated probability, one can decide which of the two is the most likely.

A general decision rule is set against which the p-value is evaluated when deciding whether the observed effect in the sample is true also for the population. For the current study this is 0.05. Therefore all p-values less than 0.05 are considered as an indication of an effect in the population.

4.7 Statistical Analysis Software

All statistical analyses in the present study were computed using the SPSS statistical package for Windows version 11.1 (SPSS, 2001). SPSS stand for Statistical Package for the Social Sciences.

CHAPTER 5: RESEARCH RESULTS

5.1 Introduction

The current chapter presents the empirical research findings of the study which focused on assessing obstacles in the access to Small, Medium and Micro Enterprise finance. The analysis is based on 200 responses out of the 600 questionnaires that were sent out to entrepreneurs.

Firstly the results of the “Entrepreneur survey” are presented. The first section of these results presents the structure of this sample in terms of the demographic profile of the sample. The second section provides the profile of the business operations of the entrepreneurs. The next section looks at the business financing used and challenges facing business in terms of financing. The last section compares certain demographic groups in terms of their views on financing problems experienced.

5.2 Demographic profile of respondents

The sample structure is described in terms of gender, age, home language, race and education level. The sample consists of 70% males and 30% females, as presented in Figure 5.1 below.

Figure 5.1: Gender composition (n = 200)

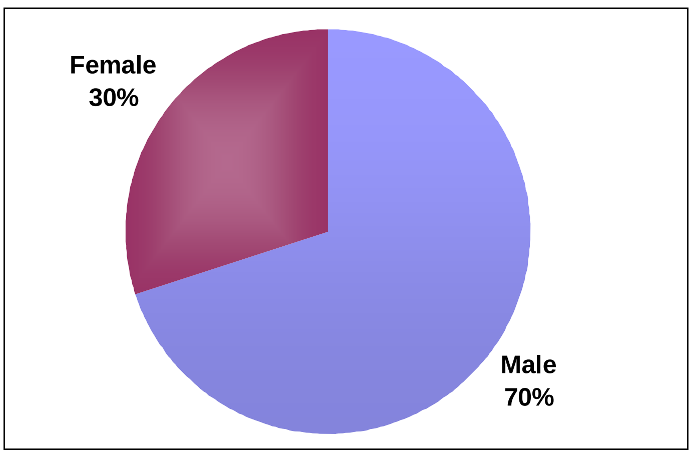


Table 5.1 presents the descriptive information for the age of respondents. Two respondents did not provide their ages.

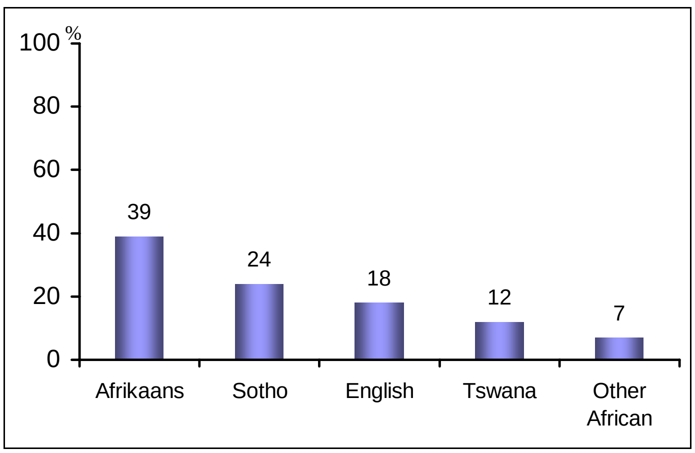
Table 5.1 Descriptive information for Age (n = 198)

	Minimum	Maximum	Mean	Std. Deviation
Age	27	64	42.21	7.60

The average age of entrepreneurs is 42 years of age. The youngest respondent is 27 years of age while the oldest is 64 years old. A relatively small standard deviation of 7.6 indicates that 66% of the sample is between the ages of 34.6 years and 49.8 years.

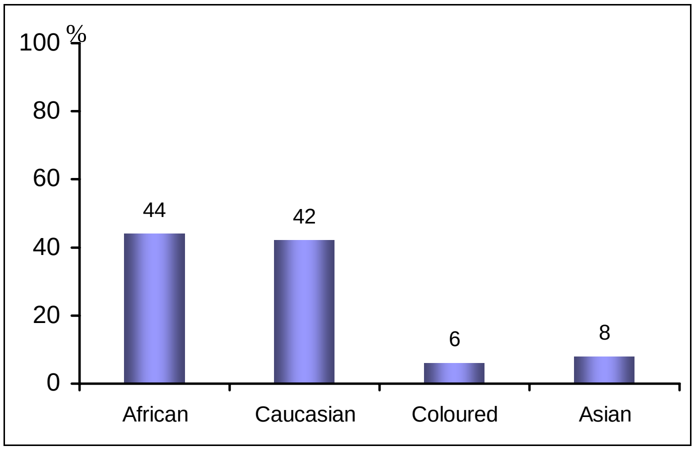
Figure 5.2 presents the language distribution of entrepreneurs in the sample. Respondents mostly speak Afrikaans (39%), Sotho (24%) and English (18%). Some African languages with very low incidence of 0.5% - 3% were grouped into one category, namely “Other African”. Other African languages include Zulu, Ndebele, Pedi and Swati.

Figure 5.2 Home language (n = 200)



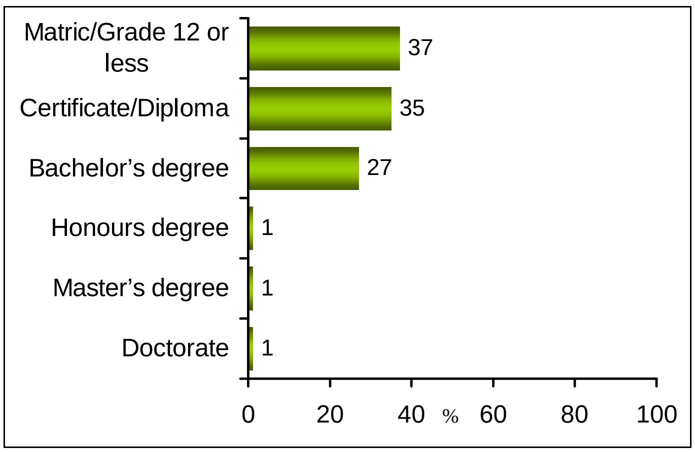
The ethnic group of respondents is given in Figure 5.3. 44% of the sample is African and 42% is Caucasian. Coloured and Asian respondents represent a small percentage of the sample (6% and 8% respectively). Due to the small representation within the Coloured and Asian segments, these ethnic groups will be excluded from any subsequent inferential statistical analysis.

Figure 5.3 Ethnic group distribution of the sample (n = 200)



Generally entrepreneurs in the sample have only a Grade 12 or less qualification (37%) or a certificate or diploma (35%). 1 in 3 respondents do have a university degree, either a Bachelor's degree (27%) or post graduate degree (3%).

Figure 5.4 Education of the sample (n = 199)



As part of an in-depth exploration of the demographic variables, the ethnic group and education distribution of males and females are examined through a cross-tabulation of the variables. Table 5.2 presents the cross-tabulation between gender and ethnic group and Table 5.3 the cross-tabulation between gender and education.

Table 5.2 Cross-tabulation between Gender and Ethnic Group (n = 200)

	Gender	
	Male	**Female**
	%	%
African	45.0	41.7
Caucasian	42.1	41.7
Coloured	6.4	5.0
Asian	6.4	11.7
Total	**100%**	**100%**

There is no difference between the ethnic group distribution of males and females as the significance value is not below the set level of significance of 0.05 (Chi-square = 1.692; p = 0.639).

Table 5.3 Cross-tabulation between Gender and Education (n = 199)

	Gender	
	Male	**Female**
	%	%
Matric/Grade 12 or less	38.8	31.7
Certificate/Diploma	37.4	28.3
Bachelor's degree	22.3	36.7
Honours degree		3.3
Master's degree	0.7	
Doctorate	0.7	
Total	**100%**	**100%**

No significant difference is seen between the education level of male and female entrepreneurs in the sample (Chi-square = 10.329; p = 0.066), although the males tend to have a slightly lower general level of education – 22% or males have a Bachelor's degree compared to 37% of females.

A cross-tabulation between ethnic group and education also reveals that there is no real significant difference between the education levels of entrepreneurs from different ethnic groups in the sample (Chi-square = 20.224; p = 0.163).

Table 5.4 Cross-tabulation between Education and Ethnic group (n = 199)

	Ethnic group			
	Black	**White**	**Coloured**	**Asian**
	%	%	%	%
Matric/Grade 12 or less	47.7	28.9	41.7	12.5
Certificate/Diploma	23.9	38.6	41.7	68.8
Bachelor's degree	25.0	31.3	16.7	18.8
Honours degree	1.1	1.2	0	0
Master's degree	1.1	0	0	0
Doctorate	1.1	0	0	0
Total	100%	100%	100%	100%

The average age of males and females were also compared using the T-test for independent measures which revealed that males are slightly older on average (43 years) then females (40 years). The average ages of the different race groups are also close together, ranging from 40-43 years.

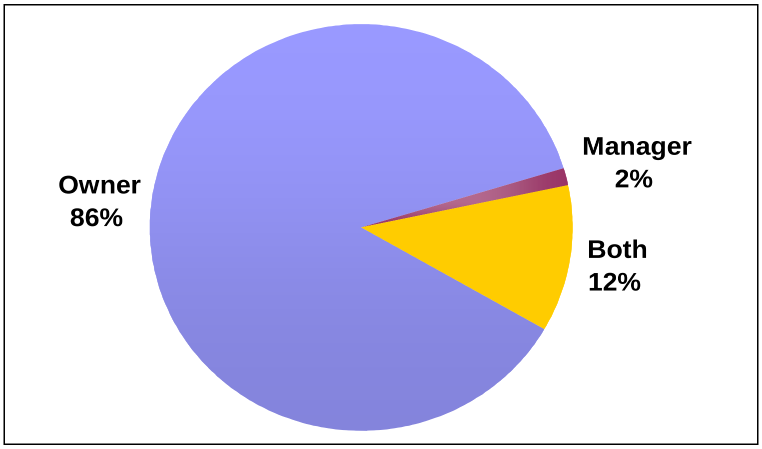
In summary the sample shows a good balance between the demographic profiles of males and females and different race groups.

5.3 Profile of business activities

This section focuses on providing the profile of the entrepreneur's businesses in the sample. Aspects covered include the role of respondents in the business, the length of time the business has been in operation, the economic sector in which entrepreneurs operate and the size of the business in terms of employee numbers.

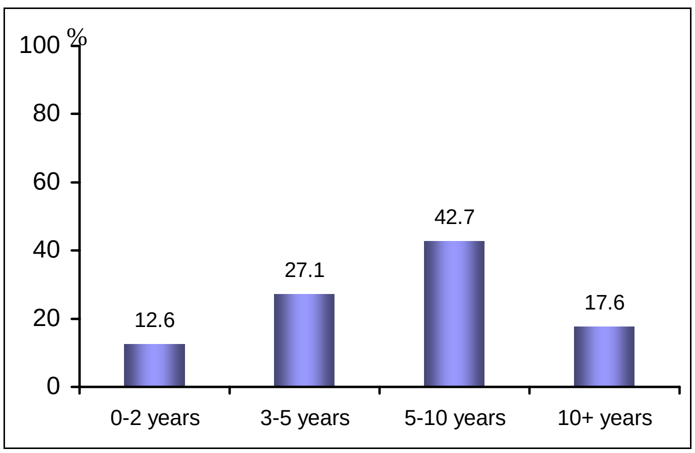
Most respondents are the owners of their own businesses 86% and in addition 12% are also managers of their businesses.

Figure 5.5 Role of respondents in the business (n = 199)



Most of the businesses in the sample have been in operation for more than 5 years (60.3%) as is seen in Figure 5.6 below.

Figure 5.6 Length of time in operation (n = 199)



Respondents were asked to classify their business into an economic sector. Table 5.7 below presents the number of businesses in each sector.

Figure 5.7 Economic sector (n = 199)

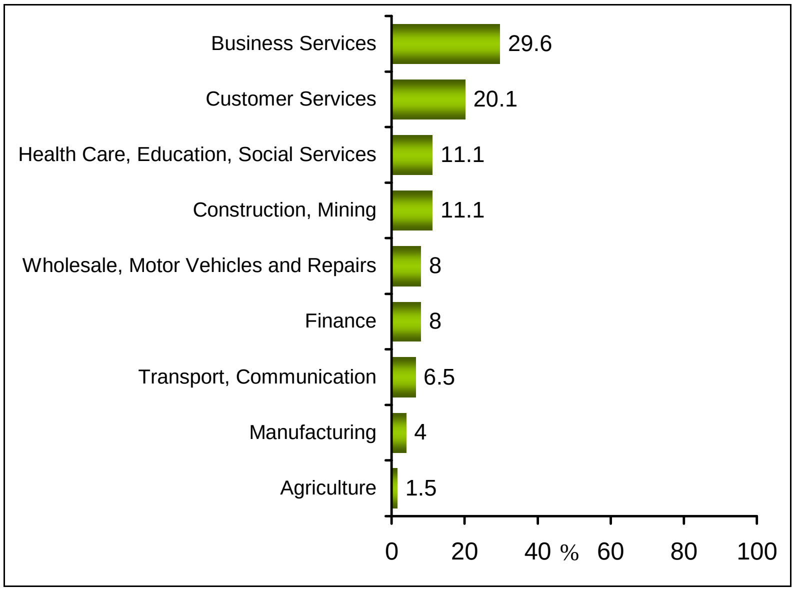
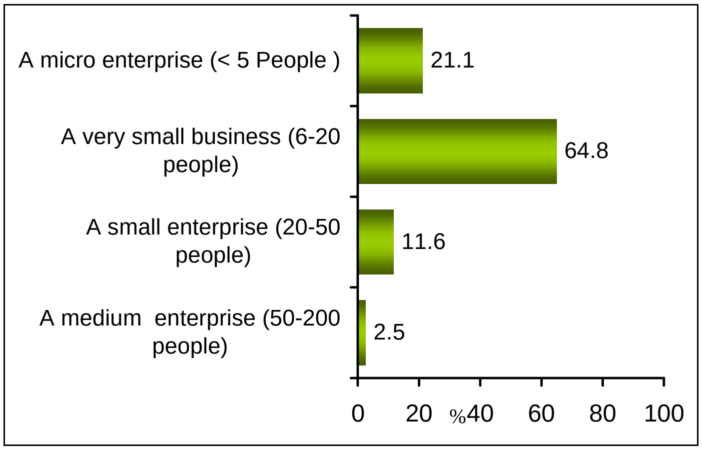


Table 5.5 Economic Sector

Sector	Frequency	Percentage
Business Services	59	29.6
Customer Services	40	20.1
Construction, Mining	22	11.1
Health Care, Education, Social Services	22	11.1
Finance	16	8.0
Wholesale, Motor Vehicles and Repairs	16	8.0
Transport, Communication	13	6.5
Manufacturing	8	4.0
Agriculture	3	1.5

The largest economic sector is Business Services, with 29.6% of the sample classifying their businesses into this sector. Customer Services also has a relatively large representation in the sample (20%).

Figure 5.8 Size of the business (n = 199)



Most business are small rather than medium enterprises. 64.8% have between 6-20 employees and 21.1% have 5 or less employees.

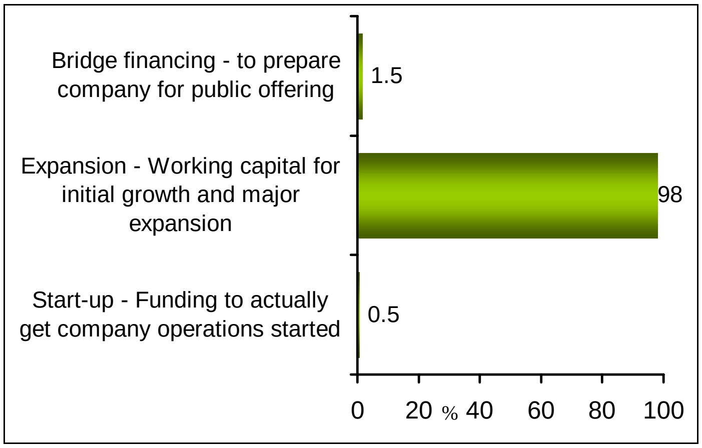
5.4 Small and medium business financing

5.4.1 Methods of obtaining business financing

This section focuses on the core results of the survey, the financing of small and medium enterprises and the obstacles they experience.

The first question in this section asked respondents to identify the current life cycle phase of their business in terms of financing. Nearly all businesses (98%) are in the Expansion phase, which involves obtaining working capital for initial growth and major expansion. This figure is in line with the length of time the businesses have been in operation (see figure 5.6), considering that most have existed for more than 5 years.

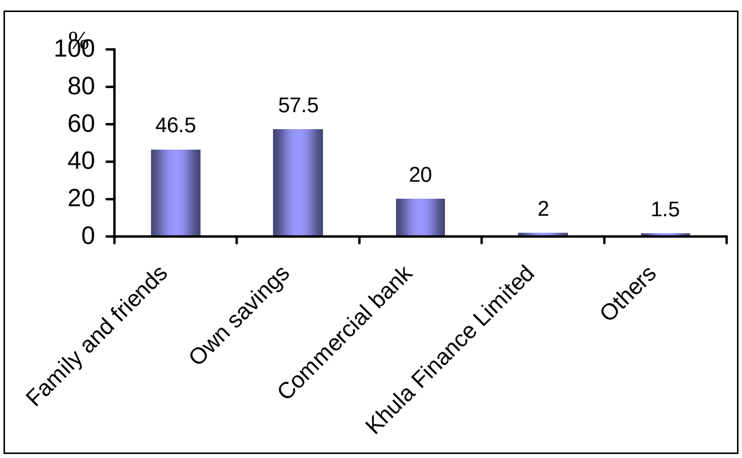
Figure 5.9 Phase in Life Cycle (n = 199)



The methods employed to raise start-up capital is given below in Figure 5.10. 57.5% made use of their own savings and 46.5% obtained money from friends and family. Only 20% obtained money from commercial banks, and 2% used Khula Finance limited.

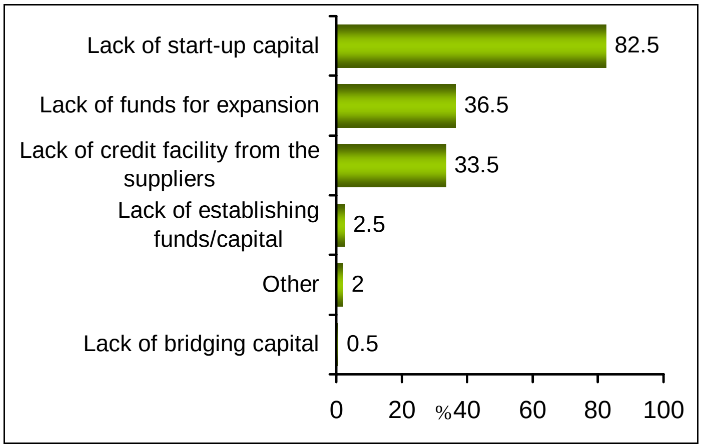
While respondents could indicate more than one method, the most overlap between the methods is between "own savings" and "family and friends". 23% of entrepreneurs used a combination of these to obtain start-up capital. Only 17% of those that obtained money from commercial banks also sublimated this with their own savings.

Figure 5.10 Methods of raising start-up capital (multiple answers possible)



Entrepreneurs were given a list of problems in respect of financial support for their businesses and asked to indicate which ones they have experienced. The results are presented in Figure 5.11.

Figure 5.11 Financial support problems experienced (multiple responses possible)



A lack of start-up capital is by far the biggest problem among the entrepreneurs in the sample (82.5%), a lack of funds for expansion and a lack of credit facilities from suppliers are experienced by 36.5% and 33.5% respectively.

The financial entities which the entrepreneurs approached for financial assistance, are given in Table 5.8 below.

Table 5.6 Financial entities approached for assistance (multiple responses)

Financial entity	Frequency	Percentage
ABSA Bank	119	59.5
Standard Bank	113	56.5
First National Bank	69	34.5
Nedcor Bank	29	14.5
Khula Finance Limited	17	8.5
Micro Lenders	11	5.5
Business Partners	4	2
Others	4	2
Stokvel	1	0.5

Respondents were more likely to approach one of the four major banks in South African as opposed to trying alternative lending entities. Of the four banks, ABSA and Standard Bank were approached the most (59.5% and 56.5% respectively). Nedcor was approached by only 14.5% of respondents.

5.5% of entrepreneurs tried to borrow money from Micro lenders. Black entrepreneurs were more likely to attempt to access funds through Micro lenders (6 of the 11).

Although entrepreneurs might have approached the above mentioned financial entities, their applications might not have been successful. They were therefore also asked to indicate where their applications have been successful.

As not all respondents applied and received money from financial entities and the base size for the above question is only 149. To determine the success rate of the particular financial entities in awarding finance, the percentage of awarded is calculated by the following formula:
*number awarded/ number applied * 100*

Table 5.7 Financial entities granting finance (n = 149)

Financial entity	Frequency	Percentage	Success Rate
ABSA Bank	57	38.3	48%
Standard Bank	34	22.8	30%
Micro Lenders	13	8.7	118%
Nedcor Bank	13	8.7	45%
Khula Finance Limited	9	6	53%
First National Bank	8	5.4	12%
Business Partners	3	2	75%
Stokvel	1	0.7	100%
Others	11	7.4	48%

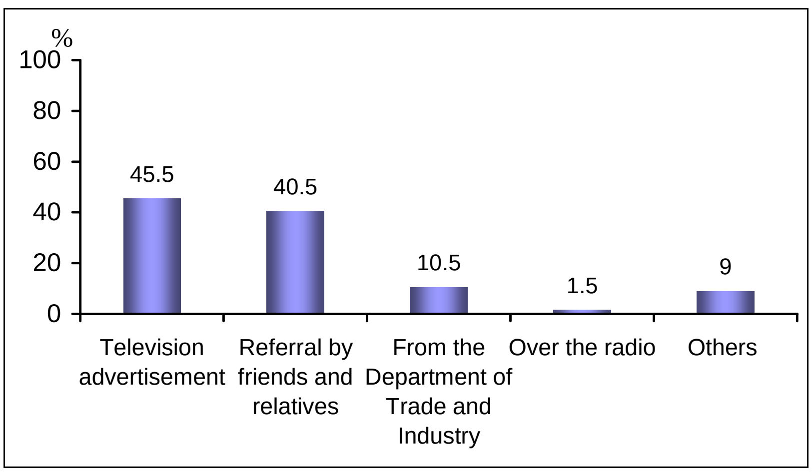
ABSA awarded the most applications of the four banks (48%). Although relatively few people applied at Nedcor, 45% of applications were successful at this bank. First National Bank is the least successful, awarding only 12% of applications.

The above 100% seen for Micro lenders indicates that respondents did not understand the pervious question completely, i.e that they should mention all places applied. However this does present interesting information as it seems that more people turned to Micro lenders for finance when rejected by the formal institutions.

Respondents were asked how they had become aware of these financial lending entities. Most have heard about the institutions, particularly the major banks, through television advertising (45.5%). Yet family and friends also play a large part, with 40.5% indicating that they were referred to the financial entity by family or friends.

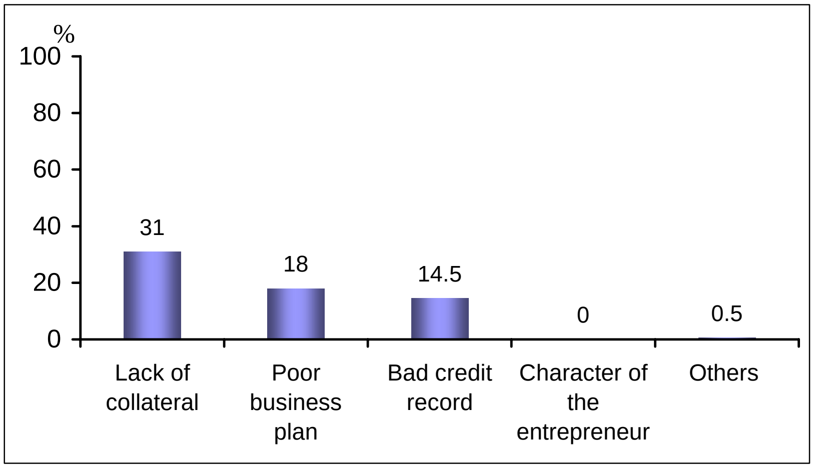
The department of trade and industry played a role in increasing awareness in 10.5% of the cases.

Figure 5.12 Methods of learning about financial entities (multiple responses possible)



Those respondents who were rejected by a financial institution were asked to indicate the reason provided for this.

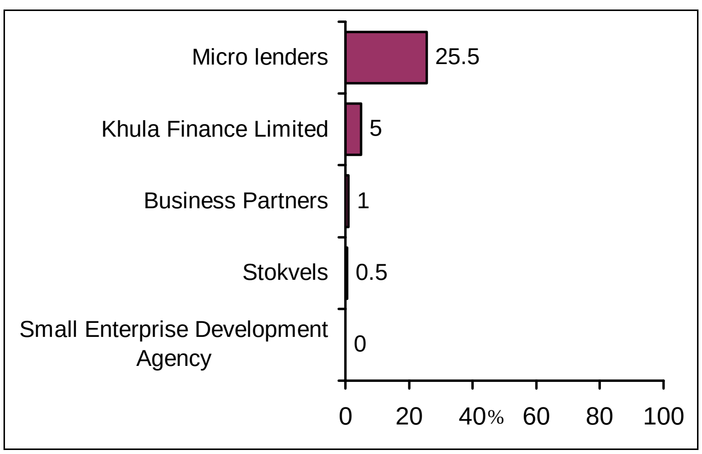
Figure 5.13 Reasons for rejection during the application of finance



The most prominent reasons for failing to award credit applications is a lack of collateral (31%), poor business plan (18%) and a bad credit record (14.5%). The character of the entrepreneur was never given as the reason for decline of applications.

Once rejected, respondents were asked to indicate which other institutions they approached for finance. Figure 5.14 indicates that most respondents who had to turn to other institutions for finance approached Micro lenders.

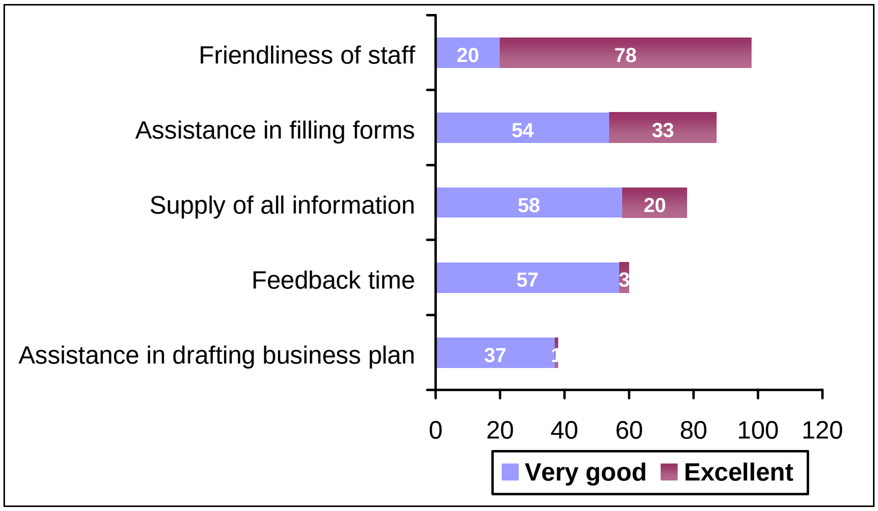
Figure 5.14 Alternative financing entities approached after rejection



5.4.2 Perceptions and attitudes towards financial entities and the application process

Respondents were asked to rate the service quality of financial institutions that they applied for. This is a general question on perception of institutions as the question did not specify which of the financial entities to rate (respondents applied at multiple entities).

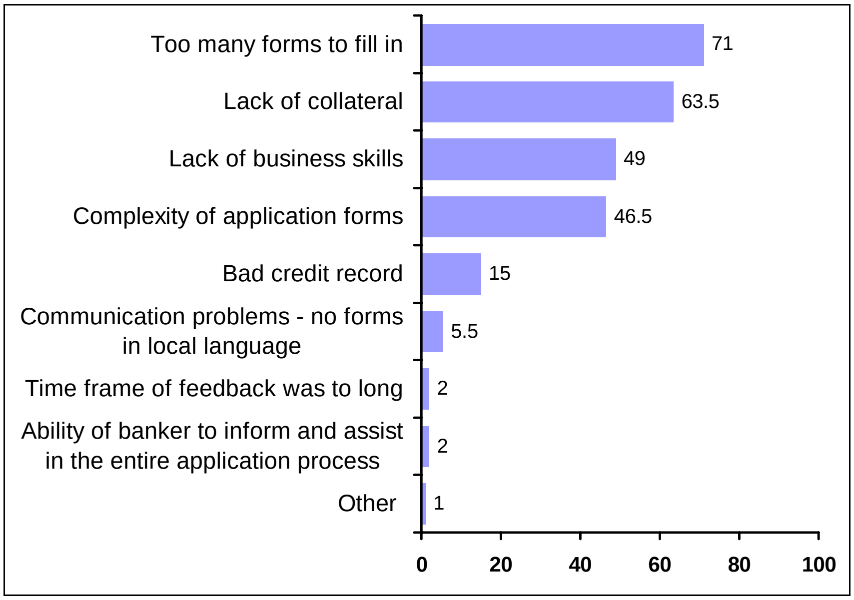
Figure 5.15 Percentage Very good/excellent on service attributes



Institutions are friendly and provide respondents with assistance in *filling in forms* (98% very good/excellent). They are also forthcoming with *information that they require* (87% very good/excellent) but were rated less satisfactory in terms of *timely feedback* and *providing assistance in drafting business plans*.

Certain obstacles exit during the application for finance. The figure below illustrates the obstacles that respondents experienced in the application process.

Figure 5.16 Problems experienced during the finance application process



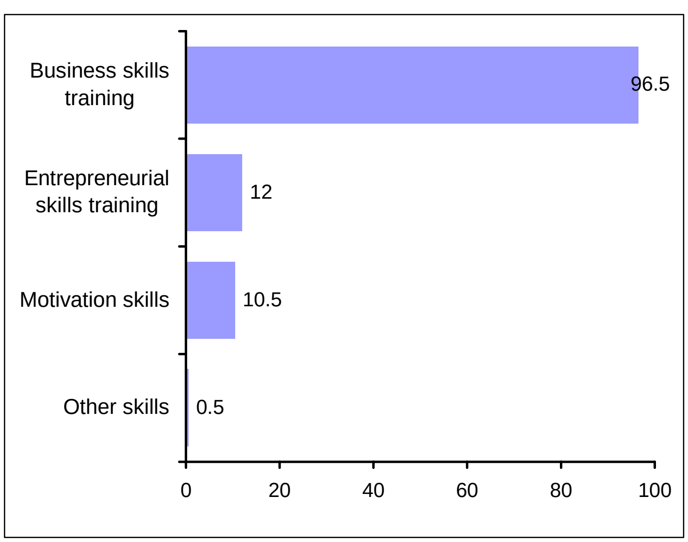
Too many forms to complete (71%) and a lack of collateral (63.5%) were the two main problems experienced during the application for finance. A lack of business skills and the complexity of the forms were also relatively large obstacles experienced (49% and 46.5% respectively).

5.4.3 Need for training of entrepreneurs

All entrepreneurs in the sample think that training for entrepreneurs is needed.

Training needed revolves primarily around business skills (96.5%). Entrepreneurial skills training(12%)is not particularly desired by most entrepreneurs.

Figure 5.17 Skills training most needed (multiple responses possible)



5.5 Comparison of demographic groups in terms of obstacles experienced during the application for finance

To ensure that the researcher gains a comprehensive view of the obstacles experienced by entrepreneurs during the application for finance, the views and experiences of males and females, different race groups and age groups are compared.

5.5.1 Differences between gender groups

The table below indicates the average perception of service quality between males and females. The t-test for independent measures was used to test for significant differences.

Table 5.8 Differences in the perceptions of service quality of males and females: t-test for independent measures

	Male		Female		T-test	
	Mean	Std. Deviation	Mean	Std. Deviation	t-value	P-value
Friendliness of staff	4.70	0.535	4.87	0.391	-2.06	0.041
Feedback time	3.59	0.629	3.63	0.525	-2.34	0.691
Supply of all information	3.85	0.824	4.06	0.656	-0.39	0.102
Assistance in filling forms	4.15	0.682	4.28	0.627	-0.43	0.243
Assistance in drafting business plan	3.04	0.915	3.28	0.763	-1.64	0.092

Although the male entrepreneurs in the sample were slightly less satisfied with all services there is only one aspect where males and females experienced statistically significant differences. The p-value of 0.041 for “Friendliness of staff” is less than the 0.05 level of significance which indicates that there is a statistically significant difference between males and females. Males are less satisfied with the friendliness of staff.

The degree to which different obstacles were experienced by males and females are given below in Table 5.10. As respondents could indicate more than one obstacle no test for significance is performed, and the results are interpreted qualitatively.

Table 5.9 Obstacles experienced by male and female entrepreneurs

Obstacles	Males	Females
Too many forms to fill in	71%	70%
Lack of collateral	61%	70%
Complexity of application forms	48%	43%
Lack of business skills	44%	60%
Bad credit record	18%	8%
Communication problems - no forms in local language	6%	5%
Time frame of feedback was to long	3%	0%
Ability of banker to inform and assist in the entire application	2%	2%
Other	0%	3%

Males and females had very similar problems with some notable differences in terms of lack of business skills and Bad credit records. Females had more problems with a perceived lack of business skills (60% vs. 18% of males) and males with bad credit records (18% vs. 8% of females).

5.5.2 Differences between ethnic groups

As the Coloured and Asian ethnic groups have such small representation in the sample, only the results of the African and Caucasian ethnic groups are compared.

The table below indicates the average perception of service quality between African and Caucasian ethnic groups. The t-test for independent measures was used to test for significant differences.

Table 5.10 Differences in the perceptions of service quality of African and Caucasian ethnic groups: t-test for independent measures

	African		Caucasian		T-test	
	Mean	Std. Deviation	Mean	Std. Deviation	t-value	p-value
Friendliness of staff	4.73	0.475	4.79	0.546	-0.78	0.43
Feedback time	3.46	0.613	3.69	0.544	-2.50	0.01
Supply of all information	3.74	0.833	4.05	0.705	-2.53	0.01
Assistance in filling forms	4.10	0.663	4.26	0.657	-1.53	0.13
Assistance in drafting business plan	3.00	0.900	3.19	0.844	-1.40	0.16

African and Caucasian respondents differ significantly in terms of their satisfaction in regard to the feedback time and the supply of all information that they needed. African respondents are slightly less satisfied with the service of financial entities in these regards.

Table 5.11 Obstacles experienced by entrepreneurs from different race groups

Obstacles	African	Caucasian
Lack of collateral	78%	45%
Too many forms to fill in	72%	70%
Complexity of application forms	57%	37%
Lack of business skills	55%	42%
Bad credit record	25%	5%
Communication problems - no forms in local language	13%	0%
Time frame of feedback was to long	1%	4%
Ability of banker to inform and assist in the entire application	1%	4%
Other	0%	1%

African respondents were more likely to have experienced obstacles such as a lack of collateral (78%) and a bad credit record (25%). Caucasian entrepreneurs experienced less obstacles overall.

5.4 Conclusion

This chapter has presented the findings of the research survey. The results of the survey were analysed using the SPSS statistical package for Windows version 11.1 which presented the statistical results in terms of frequencies and arithmetic means. Data was collected using a structured questionnaire for this study. The data has been analysed using techniques such as tabulation, correlation and statistical graphs.

CHAPTER 6: SUMMARY, RECOMMENDATIONS AND CONCLUSION

6.1 Introduction

Within the context of SMME financial support it is clear from the study that the primary issue at hand evolves as the access to financial resources. This is a problem common to many countries in the GEM scope of analysis, with the evidence suggesting that entrepreneurs across the globe find it difficult to secure formal financing for new venture creation unless they have collateral or some other form of credit history which serves to mitigate the inherent risk in starting a new business.

The importance of SMMEs to the economy expresses itself in their contribution to the GDP and employment which is likely to be as high as the large enterprises' contribution. With the current context of negative growth in employment creation by both large enterprises and the government sector, SMMEs have a major socio-economic role to play as already shown in the study. However, this objective fails to materialise due to the high failure rate of small businesses in South Africa. A major factor attributed to this high failure rate pertains to the lack of access to finance especially at start-up phase as shown in the study. However, as portrayed in the literature study in chapter three, it has been shown that entrepreneurs across GEM universe are heavily reliant on their own savings or friends and family for start-up finance (Orford *et al* 2003:18).

This study endeavoured primarily to create a platform from which further research can be conducted. It has evaluated the current position with respect to problems of accessing SMME finance in South Africa. Expectantly the study will assist potential entrepreneurs, academics, SMME support agencies, government, SMME organisations and funding institutions to understand the problems of accessing SMME finance.

This chapter discusses the findings in relation to research objectives and the propositions. A summary and overview of the research is then presented, followed by the shortcomings of the study, recommendations and additional research opportunities will be identified.

6.2 Summary and overview of the research

Chapter 1 presented the background to the research, followed by a problem definition and research objectives. The chapter was concluded with a research structure and discussion on the chapter layout.

Chapter 2 and Chapter 3 presented a literature review regarding problems of accessing SMME finance worldwide and in South Africa. Firstly the term entrepreneurship was defined and a distinction made between entrepreneurship and small business management. The study also showed that it is internationally accepted that the SMME sector is an essential factor in promoting and achieving economic growth and development and the widespread development of wealth and employment creation.

From Chapter 3 it has been shown that other obstacles small firms frequently experience include lack of training and support, marketing risks from a limited product range, lack of education, inefficiencies and policy-generated costs that constrain financial development. Thus, the South African entrepreneurial climate has a number of strengths but there are many challenges to be overcome before South Africa can be considered as a country that induces an entrepreneurial culture. Consequently the objective of identifying the obstacles experienced in accessing small business finance is achieved.

Chapter 4 focused on the empirical research phase. The empirical study consisted of primary data collected from an explorative structured electronic questionnaire gathering both qualitative and quantitative data.

Chapter 5 provided a discussion of the results obtained from an empirical investigation conducted on the problems of accessing small business finance in the Tshwane Metropolitan area. Descriptive statistical analysis was predominantly used in the presentation of results.

Chapter 6, the final phase and component of the research study, aimed at applying the information obtained from the literature study and the empirical study as background to provide a solution to the problems of accessing small business finance.

6.3 Primary Objectives

(1) To determine the basic demographic profile of entrepreneurs in the Tshwane Metropolitan area with reference to gender, age, language group and level of education.
(2) To identify the obstacles faced by entrepreneurs in accessing small business finance from financial institutions.
(3) To determine the entrepreneur's work experience and the phase of entrepreneurial process in which the entrepreneur is in.

6.3.1 Secondary objectives

(1) To identify the industries in which the entrepreneurs operate.
(2) To determine the kind of training and support that entrepreneurs require
(3) To determine possible solutions to make accessibility of small business finance easier and in consequence improve on the success rate of this sector.
(4) To determine how government can intervene to improve the accessibility of small business finance to entrepreneurs

The primary and secondary objectives have been met. The study has shown that the problems experienced by entrepreneurs in accessing small business finance include the following:

- lack of start-up capital, is by far the biggest problem among entrepreneurs in the sample (82.5%)
- lack of funds for expansion
- lack of credit facilities from suppliers
- poor business plan
- lack of collateral (63.5%)

- bad credit record
- lack of business skills (49%)
- too many forms to fill during the application process, administrative burden (71%)
- Complexity of forms (46.5%)

In terms of the training that entrepreneurs need, the study has revealed that most of them require business skills training (96.5%), while an additional 12% need entrepreneurial skills training as well. Thus it can be safely concluded that entrepreneurs are often ill-equipped to development a business concept and present it confidently. Lack of confidence in language and numeracy skills intimidates entrepreneurs from approaching banks for financial support. The performance of an entrepreneurial venture is critically influenced by the experience of the entrepreneur. According to Driver *et al* (2001:23), South African entrepreneurs often lack experience thereby hindering them from successfully pursuing business opportunities. The study showed that the average number of years of personal entrepreneurial experience is five to ten years.

The study also endeavoured to determine the stage of the entrepreneurial process the entrepreneur is in. From the study it can be safely concluded that the majority of the entrepreneurs are in the expansion phase. The longer the period of experience the higher the success rate of entrepreneurs.

6.3.2 Hypothesis Testing

H1 Small, medium and micro-enterprises (SMMEs) do not perceive obstacles in accessing finance from financial institutions in Tshwane

H1a Small, medium and micro-enterprises (SMMEs) perceive obstacles in accessing finance from financial institutions in Tshwane.

Hypothesis1a is rejected based on the findings illustrated in figure5.11 and 5.16. Lack of start-up capital is by far the biggest problem among entrepreneurs in the sample

(82.5%), a lack of funds for expansion and lack of credit facilities from suppliers. According to Figure5.16 entrepreneurs experienced two other major problems namely too many forms to complete (71%) and a lack of collateral (63.5%) during the process of applying for finance.

H2 Gender differences do not exist in terms of the perceived obstacles in obtaining finance by small, medium and micro-enterprises (SMMEs) in the Tshwane area.

H2a Gender differences exist in terms of the perceived obstacles in obtaining finance by small, medium and micro-enterprises (SMMEs) in the Tshwane area.

Based on the findings displayed in table 5.9 and 5.10, hypothesis 2a is accepted. The results indicated that male entrepreneurs were slightly less satisfied with all the services offered except one aspect where males and females experienced significant differences. The p-value of 0.041 for "friendliness of staff" is less than the 0.05 level of significance which indicates that there is a statistically significant difference between males and females. Males are less satisfied with the friendliness of staff.
According to table 5.10, males and females had very similar problems with some notable differences in terms of lack of business skills and bad credit records. Females had more problems with a perceived lack of business skills (60% versus 18% for males) and males with a bad credit record (18% versus 8% for females).

H3 Ethnic differences do not exist in terms of the perceived obstacles in obtaining finance by small, medium and micro-enterprises (SMMEs) in the Tshwane area.

H3a Ethnic differences exist in terms of the perceived obstacles in obtaining finance by small, medium and micro-enterprises (SMMEs) in the Tshwane area.

Hypothesis statement 3a is accepted, based on the findings displayed in table 5.11 and 5.12. African and Caucasian respondents differ significantly in terms of their satisfaction with regard to the feedback time and the supply of all information that they needed. African respondents are slightly less satisfied with the service of financial entities. African respondents were more likely to have experienced obstacles such lack of collateral (78%) and bad credit record (25%). Caucasian entrepreneurs experienced less obstacles overall.

6.4 Shortcomings of the study

Several shortcomings were identified during the study. There has not been much documented research on the problems of accessing small business finance in South Africa, within an entrepreneurship research context. The documented research on this topic fails to explicitly convey empirical findings indicating obstacles of nature. Secondly, one of the initial aims of the study was to explore from financial institutions what problems they encountered in financing small business entrepreneurs. However, this objective could not materialize because of the low response rate from the financing institutions, due to non-disclosure issues. Therefore this pursuit was excluded from the final result generation.

The use of an electronic questionnaire was a problem due to the fact that not all entrepreneurs have access to e-mail facilities or are computer literate enough to be able to read instructions and respond. Therefore, a high percentage of questionnaires were not responded to. In instances where the entrepreneur had neither e-mail nor fax facilities, a postal questionnaire was made use of, nor an interview process was applied. Therefore, this study is intended to act as a platform from which other researchers can work from, with specific reference to the inclusion of the perceptual factors as present in financial institutions operating in the SMME sector.

6.5 Recommendations

Management capability strengthens the financial capacity of SMMEs. Lenders are prone to be favourably biased towards SMMEs who can demonstrate eloquence in areas such as financial management (including basic book keeping), marketing and technology upgrading. It is therefore recommended that government and other service providers incorporate additional simplified components to their training packages to cover such areas as bookkeeping and compilation of business plans. Educational background of entrepreneurs also has a direct influence in how they respond to training. From the interview with the lenders, it was noted that funding institutions regard at least some basic management and financial grounding within entrepreneurs as a guarantee that their funds will be utilised profitably resulting in the growth of SMMEs. Also, more non-financial services, better tailored to the needs of financial intermediaries should be put in place so as to facilitate greater access to debt and equity finance for entrepreneurs. Specialised capacity building support (training, workshops, and conferences) should be provided in areas such as individual lending methodologies for small scale and start-up equity investments for equity financiers.

From the study it was noted that very few people know about the Khula Credit Guarantee scheme and very few entrepreneurs have managed to get finance through this scheme if they do not have resources. Thus the banking system requires some security and collateral because banks do not see these entrepreneurs as investors. For someone without assets, it is impossible to get a loan. Therefore, the Khula Credit Guarantee Scheme should be revised and expanded significantly to facilitate greater access to finance for entrepreneurs. Also, financial contracts and collateral laws should be revised so as to facilitate the registration and realization of collateral.

Financial institutions should make financial contributions to non-financial support services such as provision of financial management skills and mentoring. An environment should be created to allow a far greater level of competition between banks, as well as between banks and non-bank financial service providers, in the provision of financial services – and particularly debt finance – to SMMEs.

Access to information about SMMEs should be increased to ensure that all providers and potential providers of finance have a sufficient knowledge to assess the risk of SMME applications for finance. Any intervention that improves the ability of financial providers to accurately assess risk would increase their willingness to extend credit and other financial services to SMMEs. Funding institutions should advertise their services so that the entrepreneurs are aware of where to go when they need money to start-up or grow their businesses. From the results of the study, it was noted that bad credit record is one of the obstacles in the accessing of small business finance by entrepreneurs. Therefore, it is recommended that there should be an improved regulation of credit bureaux in order to enhance their credibility and the integrity of the information being distributed by the credit bureau.

6.6 Further Research

Further research that can be conducted includes the following:

- The view of financing institutions on why small SMME entrepreneurs fail to secure finance from formal institutions. Further research could be conducted on the reasons why banks reject most of the applications for finance submitted by entrepreneurs.

- Certain skills are a pre-requisite for a successful application for finance such as book-keeping, cash flow management and drafting of comprehensive business plan. Further research could be conducted into how banks/government could impart these skills to the potential entrepreneur.

- Further research can also be conducted to determine what strategic alternatives can be implemented to assist SMMEs in their endeavours

6.7 Conclusion

Unleashing the growth potential of the SMME sector is often seen as a solution to South Africa's job crisis and a means of increasing the growth rate. However, government's efforts to support the sector have so far been dismal. As shown by the study there is a high failure rate for small business mainly due to lack of access to finance to start-up and expand businesses. What is needed is an entirely new approach. Rather than overemphasizing costly interventions to support small enterprises, the state should focus on eliminating the barriers created by excessive regulation and the absence of effective markets.

Although government has tried to put in place policies and institutions with an aim of improving the accessing of finance by small business owners, their success has been minimal. It is therefore imperative that management capability and financial management acumen be regarded as key to easy access for funding by the entrepreneurs themselves, and the parties involved in supporting and promoting them.

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Annexure 1

Covering letter

Dear Respondent,

RESEARCH SURVEY OF THE PROBLEMS OF ACCESSING SMME FINANCE: AN EMPIRICAL PERSPECTIVE OF TSHWANE.

The Department of Trade and Industry (DTI) has identified access to finance as an important part of their SMME Strategy. However very little empirical evidence is available about the obstacles regarding this issue.

This research project will assist, in trying to gain a better understanding of the problems South African entrepreneurs experience in an effort to access SMME funds.

Your participation is needed and greatly appreciated. By answering this questionnaire you will be contributing towards a better understanding of this vital intervention in the field of entrepreneurship and small business management. Be assured that all information provided will be treated in the strictest confidence.

Please acquaint yourself with the following terminology and instructions before completing the attached questionnaire:

<u>Instructions to complete questionnaire:</u>

The questionnaire is a MS Word document and can be answered via Email or fax. My fax number is **(012) 429 3456,** to my attention – Ashley.

Email Instructions:

1. Please save the attached Questionnaire to your hard drive.
2. Close your Email and open the saved questionnaire.
3. Proceed to answer the questions by using your mouse, click on the appropriate square/s or by filling in the required information.
4. Once you have completed the questionnaire save the alterations and return the document to me using the following E-mail address **muteza@unisa.ac.za** by the **31st of July 2005**

Thank you for participating in this research process.

If you face any difficulties with the questionnaire, please phone

Ms. Ashley Mutezo at (012) 429 4595 OR 082 746 9314 .

Yours Sincerely

Ashley Mutezo (Mrs)

Annexure 2

Questionnaire

<u>QUESTIONNAIRE</u>: **ENTREPRENEUR**

OBSTACLES IN THE ACCESS TO SMME FINANCE: AN EMPIRICAL PERSPECTIVE OF TSHWANE.

Answer each question by filling an X in the suitable box provided or write your answer in the shaded space provided (open questions).

Respondent

1	2	3

Demographic information

a. What is your gender?

Male	☐	**1**	
Female	☐	**2**	**4**

b. What is your age in completed years?

years	
	5 **6**

c. Which of the following languages do you mostly speak at home?

Language			
Afrikaans	☐	**1**	
English	☐	**2**	
Ndebele	☐	**3**	
Pedi	☐	**4**	
Sotho	☐	**5**	
Swati	☐	**6**	**7** **8**
Tsonga	☐	**7**	
Tswana	☐	**8**	
Venda	☐	**9**	
Zulu	☐	**10**	
Xhosa	☐	**11**	
Other	☐	**12**	

d. What is your race?

Black	☐	**1**	
White	☐	**2**	☐☐
Coloured	☐	**3**	**9**
Asian	☐	**4**	

e. What is your highest formal educational qualification?

Matric/Grade 12 or less	☐	**1**	
Certificate/Diploma	☐	**2**	
Bachelor’s degree	☐	**3**	☐☐
Honours degree	☐	**4**	**10**
Master’s degree	☐	**5**	
Doctorate	☐	**6**	
Other	☐	**7**	

f. Shortly describe any current/previous entrepreneurial ventures established.

Business	Time (months)
1	
2	
3	
4	
5	

			11-13
			14-16
			17-19
			20-22
			23-25

1. What is your position/role in the business?

Owner	☐	**1**	
Manager	☐	**2**	**26**
Both	☐	**3**	
None - specify	☐	**4**	

2. For how long has your business been in operation?

0-2 years	☐	**1**	
3-5 years	☐	**2**	**27**
5-10 years	☐	**3**	
10+ years	☐	**4**	

3. In which economic sector would you classify your business (mark with an X)?

Agriculture	☐	**1**	
Manufacturing	☐	**2**	
Construction, Mining	☐	**3**	
Business Services	☐	**4**	**28**
Finance	☐	**5**	
Transport, Communication	☐	**6**	
Health Care, Education, Social Services	☐	**7**	
Wholesale, Motor Vehicles and Repairs	☐	**8**	
Customer Services	☐	**9**	
Others	☐	**10**	

4. How many people do you employ?

A micro enterprise	(< 5 People)	☐	**1**	
A very small business	(6-20 people)	☐	**2**	
A small enterprise	(20-50 people)	☐	**3**	**29**
A medium enterprise	(50-200 people)	☐	**4**	
A large enterprise	(> 200 people)	☐	**5**	

5. In which stage of life cycle phases is your business currently in? (Mark with an X).

Seed capital – relatively small amounts to prove concepts and finance feasibility studies	☐	**1**		
Start-up – Funding to actually get company operations started	☐	**2**		**30**
Expansion – Working capital for initial growth and major expansion for enterprise with growth	☐	**3**		
Bridge financing – to prepare company for public offering	☐	**4**		
Other (Specify)	☐	**5**		

If answered **other**, please explain:

6. How did you raise your start-up capital?

Family and friends	☐	**1**		**31**
Own savings	☐	**2**		**32**
Commercial bank	☐	**3**		**33**
Khula Finance Limited	☐	**4**		**34**
Others (Specify)	☐	**5**		**35**

7. Which of the following problems have you experienced in your business in respect of financial support?

Lack of start-up capital	☐	**1**		**36**
Lack of establishing funds/capital	☐	**2**		**37**
Lack of credit facility from the suppliers	☐	**3**		**38**
Lack of bridging capital	☐	**4**		**39**
Lack of funds for expansion	☐	**5**		**40**
Other	☐	**6**		**41**

If answered **other**, please explain

8. Which of the following financial entities have you **approached** for financial assistance? (indicate one or more)

ABSA Bank	☐	**1**		**42**
Business Partners	☐	**2**		**43**
First National Bank	☐	**3**		**44**
Khula Finance Limited	☐	**4**		**45**
Micro Lenders	☐	**5**		**46**
Nedcor Bank	☐	**6**		**47**
Standard Bank	☐	**7**		**48**
Stokvel	☐	**8**		**49**
Others (Specify)	☐	**9**		**50**

If answered **other**, please explain

9. At which of the following financial entities was your application successful?

ABSA Bank	☐	**1**		
Business Partners	☐	**2**		
First National Bank	☐	**3**		
Khula Finance Limited	☐	**4**		**51**
Micro Lenders	☐	**5**		
Nedcor Bank	☐	**6**		
Standard Bank	☐	**7**		
Stokvel	☐	**8**		
Others (specify)	☐	**9**		

If answered **other**, please explain:

10. Rate the service quality experienced at the financial institution/s in the application process.

Characteristic	**Very poor**	**Poor**	**Average**	**Very good**	**Excellent**		
	1	**2**	**3**	**4**	**5**		
Friendliness of staff	☐	☐	☐	☐	☐		**52**
Feedback time	☐	☐	☐	☐	☐		**53**
Supply of all information	☐	☐	☐	☐	☐		**54**
Assistance in filling forms	☐	☐	☐	☐	☐		**55**
Assistance in drafting business plan	☐	☐	☐	☐	☐		**56**
Other (specify)	☐	☐	☐	☐	☐		**57**

If answered **other**, please explain:

11. Which of the following **obstacles** have you experienced in the application process?

Communication problems – no forms in local language	☐	**1**		**58**
Lack of collateral	☐	**2**		**59**
Bad credit record	☐	**3**		**60**
Lack of business skills	☐	**4**		**61**
Other (Specify)	☐	**5**		**62**

If answered **other**, please explain

12. How did you know of the funding institutions for SMMEs?

Referral by friends and relatives	☐	**1**		**63**
Over the radio	☐	**2**		**64**
Television advertisement	☐	**3**		**65**
From the Department of Trade and Industry	☐	**4**		**66**
Others (Specify)	☐	**5**		**67**

If answered **other**, please explain:

13. Which of the following obstacles have you experienced in the **application process for financial assistance**?

Complexity of application forms	☐	**1**		**68**
Too many forms to fill in	☐	**2**		**69**
Lack of collateral/security	☐	**3**		**70**
Time frame of feedback was to long	☐	**4**		**71**
Ability of banker to inform and assist in the entire application process	☐	**5**		**72**
Other (Specify)	☐	**6**		**73**

If answered **other**, please explain:

14. If your application was rejected, what were the **reason/s for the rejection**?

Bad credit record	☐	**1**		**74**
Lack of collateral	☐	**2**		**75**
Poor business plan	☐	**3**		**76**
Character of the entrepreneur	☐	**4**		**77**
Others (Specify)	☐	**5**		**78**

If answered **other**, please explain:

15. Which other institution did you approach to finance your business?

Khula Finance Limited	☐	**1**		**79**
Business Partners	☐	**2**		**80**
Ntsika Enterprise Promotion Agency	☐	**3**		**81**
Micro lenders	☐	**4**		**82**
Stokvels	☐	**5**		**83**

16. If you have not approached any of the above 4(Q15), please indicate why:

No knowledge of the entities	☐	**1**		**84**
Inaccessible (eg phones just ringing)	☐	**2**		**85**
Got money from friends and family	☐	**3**		**86**
Play the lotto for hope	☐	**4**		**87**
Other (Specify)	☐	**5**		**88**

If answered **other**, please explain:

17. Do you believe entrepreneurs need training?

Yes	☐	**1**		**89**
No	☐	**2**		

18. If you select yes, in question 17 above, please indicate in which field the need for training exists

Motivation skills	☐	**1**		**90**
Entrepreneurial skills training	☐	**2**		**91**
Business skills training	☐	**3**		**92**
Other skills, please specify	☐	**4**		**93**

Thank you for participating in this research intervention.