

Examining the challenges in accessing funding for SMMEs

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DECLARATION

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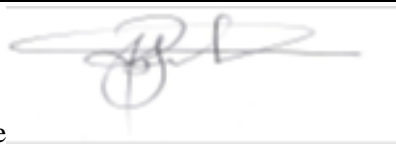
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ABSTRACT

This study examines the challenges that small, medium and micro-enterprises (SMMEs) face in accessing funding and the challenges that these SMMEs have to overcome without adequate support or funding and to learn from the experiences that they have been through. Information was gathered using interviews.

The study was motivated by increasing unemployment and the need to understand why SMMEs are not creating more employment and why they are unable to develop their companies, considering that the government has established a number of funding agencies. The fact that most developed countries have achieved their status in terms of gross domestic product (GDP) because of the role that SMMEs have played also motivated the researcher to establish what these countries have done differently and the lessons that they can learn from these countries.

The outcome of the study showed that South Africa is not doing well in terms of developing and creating avenues that are available for SMMEs to access funding from government funding institutions. The study found that banks funded 52.89% of the entrepreneur respondents in the form of a loan, followed by loans received from business partners at 11.11%. Funding from government funding agencies was zero percent. While it is accepted that a limitation of this study is that it is small scale and does not cover a wide sampling area, and the findings therefore cannot be generalised, the concern is that none of the sample size expressed any positive feedback when asked about the government funding agencies. This is a call to review the policies that look at supporting SMMEs. Perhaps the policies are not addressing the immediate challenges faced by SMMEs, or the mandate for these institutions is not in line with the immediate needs of SMMEs.

This study also supports previous findings that SMMEs struggle to access funding from banks if they do not have any form of collateral.

Key Words

Access, Business, Challenges, Ekurhuleni, Entrepreneur, Examining, Funding, Gauteng, GDP, Government, SMMEs, South Africa, Unemployment.

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TABLE OF CONTENTS

DECLARATION.....	ii
ABSTRACT.....	iii
ACKNOWLEDGEMENTS	iv
TABLE OF CONTENTS	v
LIST OF FIGURES.....	viii
LIST OF TABLES.....	ix
LIST OF APPENDIXES.....	x
LIST OF ACRONYMS	xi
CHAPTER 1: INTRODUCTION.....	1
1.1 Introduction	1
1.2 Research objectives	6
1.3 Problem statement.....	7
1.4 Benefits of the study	7
1.5 Delimitations and assumptions	7
1.5.1 Delimitations of the scope.....	7
1.5.2 Assumptions	8
1.6 Definitions of key terms.....	8
1.7 Classification of SMMEs	8
1.8 Summary of chapter	9
CHAPTER 2: LITERATURE REVIEW	10
2.1 Introduction	10
2.2 Types of SMMEs in South Africa	10
2.3 The role of the SMMEs in South Africa.....	12
2.4 Challenges faced by SMMEs.....	13
2.5 The gaps in terms of needs of SMMEs in Gauteng	15
2.6 Global perspective	17
2.7 SMME support.....	18
2.8 Summary	19
CHAPTER 3: EMPIRICAL STUDY	20
3.1 Introduction	20

3.2	Research design	20
3.3	Research population	20
3.4	Sampling	20
3.5	Data collection	22
3.6	Data analysis	22
3.7	Summary	22
CHAPTER 4: EMPIRICAL RESULTS		23
4.1	Introduction	23
4.2	Results analysis	23
4.3	Descriptive statistics	24
4.3.1	Demographic profile	24
4.3.2	Race by Gender by race	26
4.3.3	Education level by race (Option 1: keep race separate)	27
4.3.4	Education level by race (Option 2: keep blacks separate and combine other race groups)	28
4.3.5	Ownership by gender	29
4.3.6	Ownership by race	30
4.3.7	Ownership and size of the business	31
4.3.8	Ownership and number of years of operation	32
4.3.9	Background and experience	33
4.3.10	Number of year of operation against business size	35
4.3.11	Life-cycle and business size	35
4.3.12	Life-cycle and number of years of operation	36
4.3.13	Lack of bridging capital and race	37
4.3.14	Investigating access to funding (successful funding application)	38
4.3.15	Logistic and Poisson regressions for access to funding	38
4.3.16	Successful funding application and lack of bridging capital	41
4.3.17	Type of industry	42
4.3.18	Training requirements	43
4.3.19	Challenges in accessing funding	44
4.3.20	Tests of association between outcome of application for funding and other variables	45
4.3.21	Successful funding applications and lack of bridging capital	45

4.4	Discussion of factors identified	46
4.5	Summary	47
CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS		48
5.1	Introduction	48
5.2	Conclusions	48
5.3	Recommendations.....	49
5.4	Achievements of the objective of the study.....	51
5.5	Recommendations for future research.....	51
5.6	Summary	53
REFERENCE LIST.....		54
APPENDICES		58

LIST OF FIGURES

Figure 1.1: City of Ekurhuleni in the context of Gauteng	3
Figure 1.2: Towns in Ekurhuleni.....	4
Figure 2.1: Type of worker in South Africa	10
Figure 2.2: SMMEs by province and formal/informal.....	11
Figure 2.3: Tax to GDP ratios in relation to South Africa.....	14
Figure 2.4: Richest 1% earners.....	15
Figure 2.5: Specific training needs to improve the business	16
Figure 3.1: Sampling techniques.....	21
Figure 4.1. Distribution of races	25
Figure 4.2: Gender by race	26
Figure 4.3. Education level by race	Error! Bookmark not defined.
Figure 4.4: Demographics: race and level of education	28
Figure 4.5: Owner by gender.....	29
Figure 4.6: Owner per ethnicity	30
Figure 4.7: Owner and business size	31
Figure 4.8: Ownership and number of years of operation	32
Figure 4.9: Previous experience by industry	34
Figure 4.10: Number of years of operation and business size	35
Figure 4.11: Life-cycle and business size.....	36
Figure 4.12: Life-cycle and number of years of operation	37
Figure 4.13: Lack of bridging capital per race	38
Figure 4.14: Successful funding and bridging capital	42
Figure 4.15. Type of industry.....	43
Figure 4.16: Funding granted by institutions as a percentage of the total submitted	45
Figure 4.17: Successful funding and bridging capital	46

LIST OF TABLES

Table 1.1: Unemployment rate by province.....	1
Table 1.2: Unemployment rate by metropolitan municipality	2
Table 1.3: Key indicators 2015 Quarter 2.....	5
Table 1.4. Classification of SMMEs.....	9
Table 2.1: SMMEs by province	12
Table 2.2: SMMEs by economic sector	12
Table 4.1: Age analysis	24
Table 4.2: Race distribution.....	25
Table 4.3: Gender by race.....	26
Table 4.4: Education level by race	27
Table 4.5: Education level by race	28
Table 4.6: Owner by gender.....	29
Table 4.7: Owner by race	30
Table 4.8: Ownership and size of the business.....	31
Table 4.9: Owner against number of year operation	32
Table 4.10: Previous experience per industry	33
Table 4.11: Number of years of operation and business size.....	35
Table 4.12: Life-cycle and business size.....	35
Table 4.13: Life-cycle and number of years of operation.....	36
Table 4.14: Lack of bridging capital and race.....	37
Table 4.15: Logistic regression model.....	40
Table 4.16: Poisson regression coefficients	40
Table 4.17: Poisson regression coefficients	40
Table 4.18: Successful application and bridging capital	41
Table 4.19: Training requirements	43
Table 4.20: ChiSquare test of association.....	44
Table 4.21: Successful application and bridging capital	45

LIST OF APPENDIXES

Appendix A: Data collection instrument(-s)	58
Appendix B: Informed consent form	68
Appendix C: Application for ethical clearance	69
Appendix D: Letter from the statistician confirming analysis	70
Appendix E: Editing certificate.....	71

LIST OF ACRONYMS

Abbreviation	Meaning
BER	Bureau For Economic Research
GDP	Gross Domestic Product
IDC	Industrial Development Corporation
NCR	National Credit Regulator
LSE	The London School of Economics and Political Science
SEDA	Small Enterprise Development Agency
SMMEs	Small, Medium and Micro-Enterprises
StatsSA	Statistic South Africa
The dti/DTI	Department of Trade and Industry
UNIDO	United Nations Industrial Development Organization

CHAPTER 1: INTRODUCTION

1.1 Introduction

The recent unemployment data released by Statistic South Africa (StatsSA) for the quarter 2 year on year (2017:9) shows that unemployment is currently at 36.6%, the highest in 6 years, with Ekurhuleni having unemployment off 31.2% (Table 1.1). This means that three in five South Africans live below the poverty line, which equates to about 60% of the population (Table 1.2). The poverty trends shifted from 66.6% in 2006 to 53.2% in 2011 and then increased again in 2015 to 55%.

Table 1.1: Unemployment rate by province

	Official unemployment rate					Expanded unemployment rate				
	Apr-Jun 2016	Jan-Mar 2017	Apr-Jun 2017	Qtr-to-qtr change	Year-on-year change	Apr-Jun 2016	Jan-Mar 2017	Apr-Jun 2017	Qtr-to-qtr change	Year-on-year change
	Per cent			Percentage points		Per cent			Percentage points	
South Africa	26,6	27,7	27,7	0,0	1,1	36,4	36,4	36,6	0,2	0,2
Western Cape	22,2	21,5	20,7	-0,8	-1,5	24,6	24,7	24,6	-0,1	0,0
Eastern Cape	28,6	32,2	34,4	2,2	5,8	43,8	43,6	44,5	0,9	0,7
Northern cape	27,4	30,7	30,5	-0,2	3,1	39,8	43,9	45,3	1,4	5,5
Free State	32,2	35,5	34,4	-1,1	2,2	38,1	41,7	40,5	-1,2	2,4
KwaZulu-Natal	22,6	25,8	24,0	-1,8	1,4	39,7	41,0	40,4	-0,6	0,7
North West	27,3	26,5	27,2	0,7	-0,1	42,6	41,7	42,0	0,3	-0,6
Gauteng	29,5	29,2	29,9	0,7	0,4	33,0	32,0	32,9	0,9	-0,1
Mpumalanga	28,8	31,5	32,3	0,8	3,5	41,0	41,2	41,4	0,2	0,4
Limpopo	20,6	21,6	20,8	-0,8	0,2	38,6	38,2	37,1	-1,1	-1,5

Source: StatsSA(2017)

Table 1.2: Unemployment rate by metropolitan municipality

	Official unemployment rate					Expanded unemployment rate				
	Apr-Jun 2016	Jan-Mar 2017	Apr-Jun 2017	Qtr-to-qtr change	Year-on-year change	Apr-Jun 2016	Jan-Mar 2017	Apr-Jun 2017	Qtr-to-qtr change	Year-on-year change
	Per cent			Percentage points		Per cent			Percentage points	
South Africa	26,6	27,7	27,7	0,0	1,1	36,4	36,4	36,6	0,2	0,2
Western Cape	22,2	21,5	20,7	-0,8	-1,5	24,6	24,7	24,6	-0,1	0,0
Non-metro	20,7	18,8	17,1	-1,7	-3,6	25,8	24,2	25,3	1,1	-0,5
City of Cape Town	23,0	23,0	22,7	-0,3	-0,3	24,0	25,1	24,2	-0,9	0,2
Eastern Cape	28,6	32,2	34,4	2,2	5,8	43,8	43,6	44,5	0,9	0,7
Non-metro	26,8	33,8	35,9	2,1	9,1	49,6	50,2	50,1	-0,1	0,5
Buffalo City	29,8	29,5	29,1	-0,4	-0,7	32,5	32,4	33,3	0,9	0,8
Nelson Mandela Bay	32,0	30,2	34,5	4,3	2,5	32,9	30,4	35,4	5,0	2,5
Free State	32,2	35,5	34,4	-1,1	2,2	38,1	41,7	40,5	-1,2	2,4
Non-metro	33,7	35,9	34,8	-1,1	1,1	39,7	42,2	42,0	-0,2	2,3
Mangaung	28,8	34,4	33,4	-1,0	4,6	34,1	40,7	37,0	-3,7	2,9
KwaZulu-Natal	22,6	25,8	24,0	-1,8	1,4	39,7	41,0	40,4	-0,6	0,7
Non-metro	25,0	28,9	25,7	-3,2	0,7	46,9	48,5	47,4	-1,1	0,5
eThekweni	19,7	21,8	21,8	0,0	2,1	28,0	28,7	29,3	0,6	1,3
Gauteng	29,5	29,2	29,9	0,7	0,4	33,0	32,0	32,9	0,9	-0,1
Non-metro	30,8	30,7	31,7	1,0	0,9	39,3	36,6	37,9	1,3	-1,4
Ekurhuleni	34,6	30,8	31,2	0,4	-3,4	38,2	34,0	34,4	0,4	-3,8
City of Johannesburg	28,4	28,3	30,1	1,8	1,7	29,9	30,2	31,8	1,6	1,9
City of Tshwane	25,1	28,3	27,2	-1,1	2,1	28,9	30,1	30,5	0,4	1,6
Other*	25,6	26,9	27,0	0,1	1,5	40,5	40,5	40,4	-0,1	-0,1

Source: StatsSA (2017)

What do these figures have to do with access to funding? The study aims to highlight the role that small, micro and medium enterprises (SMMEs) play in reducing unemployment figures and their contribution to the economic growth of the country, hence the need to examine the challenges experienced by SMMEs in accessing funding.

The study focused on the SMMEs around Ekurhuleni. The City of Ekurhuleni is one of the biggest metropolitan cities in the country in terms of their contribution to spending power and production.

Ekurhuleni (formally known as East Rand) has nine local municipalities. These municipalities are:

- Alberton
- Benoni
- Boksburg

- Brakpan
- Edenvale
- Germiston
- Kempton Park
- Tembisa
- Nigel and
- Springs

The surface area is 1 975 square kilometres and houses about 3.1 million people which means that it houses 25.5% of the population of Gauteng province (Figure 1.1 and Figure 1.2).

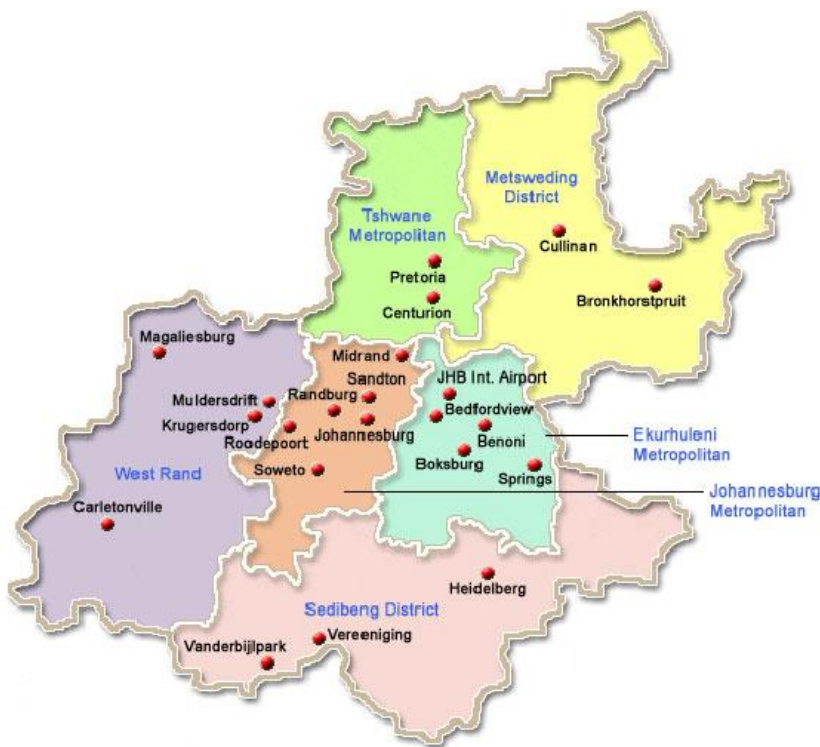


Figure 1.1: City of Ekurhuleni in the context of Gauteng
 Source: Ekurhuleni Maps (2017)



Figure 1.2: Towns in Ekurhuleni
 Source: Ekurhuleni Maps (2017)

According to Janse van Rensburg *et al.* (2015: 534) the continuous increase in unemployment rate is an indicator that the country lacks the ability to create and develop an entrepreneurial class which will develop the country's gross domestic product (GDP) and spearhead the growth process.

Unemployment is only one challenge facing the South African government. The South African Revenue Service is also not collecting enough tax to sustain the country's long-term commitments. A major commitment is the payment of over 18 million grant beneficiaries every month. This will require the government to explore alternative ways to collect tax. A short-term solution to these challenges is to support SMMEs that can create employment and grow the economy.

BER (2016) reported that there are 2 251 821 SMMEs in South African of which 667 433 were formal and 1 497 860 were informal (Table 1.3). BER concluded that there is a significant distinction between formal and informal sectors. The formal sector is mostly white owned and situated in Gauteng and in the Western Cape. The majority of the informal sector is black owned and operates in more rural provinces.

Table 1.3: Key indicators 2015 Quarter 2

KEY INDICATORS	2015Q2
Number of SMMEs	2 251 821
Number of formal SMMEs	667 433
Number of informal SMMEs	1 497 860
SMME owners as % of total employment	14%
% operating in trade & accommodation	43%
% operating in community services	14%
% operating in construction	13%
% operating in fin. & business services	12%
% contribution to GVA*	21%
% black owned formal SMMEs	34%
% operated by income group < R30k pa	7%

Source: BER (2016:2)

Mohr and Odendaal (2017) reported that there are 7.4 million registered individual taxpayers, but 6.5 million fall below the threshold and do not pay income tax in South Africa. The new top marginal tax bracket of 45% was recently adjusted to increase the tax in order to make up for the deficit that needs to be addressed to meet government expenditure. The new tax bracket will only apply to 103 000 tax payers and the average amount of extra tax collected will only be in the region of about R3 500 per tax payer.

To address the challenges of unemployment, more emphasis is needed on developing SMMEs. A study conducted by the National Credit Regulator (NCR) shows that SMEs employ 22% of the adult population in developing countries. The United Nations Industrial Development Organization (UNIDO) estimates that SMMEs represent 90% of businesses that are privately owned and these businesses contribute more than 50% of a country's GDP and reduce the unemployment figure quite drastically (NCR:2011)

The question to ask is why are SMME's not thriving and being developed and supported as a way of combatting unemployment as data shows that they employ more than any sector and they contribute a significant amount in terms of the

country's GDP. The South African government should create an environment that is conducive and that will allow more SMMEs to be successful and to compete in a space that allows them to grow and employ more people and thereby reduce the current unemployment rate.

A study conducted by Mahembe, (2011:7) shows that in South Africa 91% of formal business entities are SMEs and they contribute to between 52% to 57% of the country's GDP and to 61% of employment.

1.2 Research objectives

Accessing funding has been identified as the biggest challenge for most businesses at startup and at expansion phases. This has led to the failure of most businesses in South Africa. Another reason businesses have failed is due to the lack of experienced entrepreneurs.

The literature review in this study seeks to establish the challenges faced by SMMEs with regards to accessing funding. The information gathered will be used to establish ways of accessing funding for startup or funding required for growing existing businesses. The following questions are primary research questions:

- What are the factors that are affecting SMMEs access to funding?
- What can government agencies do to support SMMEs?
- Can funding agencies requirements be eased to allow SMMEs to access funding?

The research is aimed at covering both formal businesses that are classified as established businesses in cities and in informal businesses that are based in the township as well.

The primary objective of the study is to establish the following:

- The challenges faced by SMMEs in accessing funding
- The demographics of the population that will be sampled
- The background and experience of the entrepreneurs

The secondary objective will focus on the following:

- The type of the industry
- Identify possible training requirements

- Establish how funding institutions and government can assist with access to funding.

1.3 Problem statement

The study is aimed at understanding the challenges experienced by the SMMEs in accessing funding. It is also aimed at identifying gaps that prevent funding institutions from granting or approving the required funding. The study will compare the results of interviews and the common problems evident in the literature that result in the refusal of funding institutions to grant the required loan or funds. The study intends to establish why some of the applicants were not successful and establish common problems or common reasons as to why some of the applications were not approved.

1.4 Benefits of the study

The research will assist in providing the information that SMMEs are required to have in place to ensure that their chances of acquiring funding are maximised. The research will also assist in highlighting the options and organisations available to offer funding to small and medium size companies.

The study will add data and value to existing research in the areas that will be analysed.

1.5 Delimitations and assumptions

The main limitation within which this research is that it was conducted in the Ekurhuleni area of Gauteng, the findings do not represent a full picture of the challenges that are experienced by SMMEs in Gauteng or in South Africa.

1.5.1 Delimitations of the scope

The study will be limited to the area of Ekurhuleni, and as such, the findings cannot be generalised as applicable to Gauteng province or South Africa.

1.5.2 Assumptions

The researcher assumes that the data supplied by the funding institution for the applicants who were turned down, and the applicants whose application were approved, is correct.

1.6 Definitions of key terms

Key terms used in this study are defined below in order to establish a common understanding of the terminology.

- i. Entrepreneurship: *“the capacity and willingness to develop, organize and manage a business venture along with any of its risks in order to make a profit. The most obvious example is the starting of new business.”* (Business Dictionary).
- ii. SMMEs: as per Section 1 of the National Business Act of 1996 as amended by the National Business Amendment Act of 2003 and 2004: *“a separate and distinct business entity, including co-operative enterprise and nongovernmental organizations, managed by one owner or more which, include its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy mentioned in Column I of the schedule”*

1.7 Classification of SMMEs

According to Le Fleur *et al.* (2014:8-9), SMMEs can be classified in terms of the number of employees and/or by turnover.

Table 1.4. Classification of SMMEs

						BRIC					
	EU	USA	ASIA(M)	EGYPT	GHANA	BRAZIL		RUSSIA	INDIA	CHINA	RSA
						Industri	Comme				
	Small and	Small	Small	Micro,	Micro,	Small	Small	Small	Micro,	Small	Small, Medium
# of											
Micro	< 10	0	< 5	1 to 4	up to 5	Up to	Up to	0	0	0	< 20
Small	< 50	<100	5 to	5 to 14	6 to 29	20 to	10 to	15 to	0	<300	50-99
Medium	< 250	<500	51 to	15 to	30 to	100 to	50 to	101 to	0	300 to	100-200
TURNOVER											
Micro	\$3m	0	RM250.0		\$10 k	0	0	0	<Rs50	0	<R150k
Small	\$13m	0	RM250.000	0	\$100k	0	0	400 m	Rs50-	<Y30	R2m to R4.5m
Medium	\$67m	0	RM10m	0	\$1milli	0	0	1 B RUB	Rs60-	Y30 to	R4.5 to R50m

Source: Author's compilation from various sources

Source: Le Fleur *et al.* (2014:8)

If one were to look at the turnover and number of employees, one can see that in many cases a company's turn over can be above five million Rands and yet it will have less than twenty employees. For this reason definitions of SMMEs need to take both turnover and the number of employees into consideration when one is classifying the SMMEs to establish if they are small, medium or large.

1.8 Summary of chapter

This chapter focused on the challenges that the country is facing and why there is an urgency to develop SMMEs and entrepreneurs to address the current unemployment challenges. This chapter also described the context and the challenges that SMMEs face in Ekurhuleni where the research took place. The definition and classification of SMMEs were presented.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

SMMEs is a sector that is known to be the biggest contributor in terms of reducing unemployment and to be one of the highest contributors in terms of economic growth and GDP of the country. In some countries SMMEs are counted as the second if not the first contributor to the country's GDP. However in South Africa this seems to be a challenge because access to funding is difficult. Understanding the fundamental challenges of accessing funding could unlock access to the funding that is required by SMMEs to start their businesses and to develop or grow their businesses.

2.2 Types of SMMEs in South Africa

According to Marnevisk (2014), SMMEs are usually typically defined by three criteria namely: a) The assets they own, b) The number of employees that are employed, c) The revenue they generate per annum. Understanding this criteria assist in categorizing the SMMEs according to they're size.

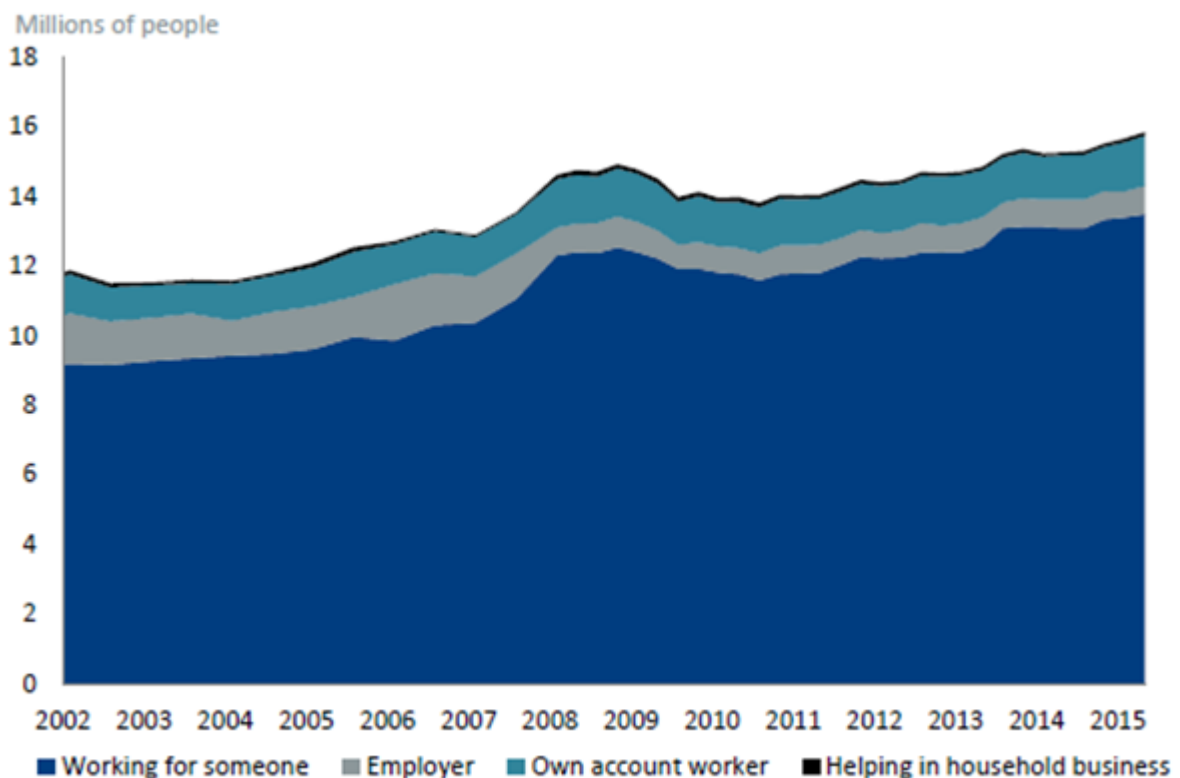


Figure 2.1: Type of worker in South Africa

Source: StatsSA (2016b)

Figure 2.1 clearly indicates the level of SMMEs contribution to the employment in the country. This figure further illustrates how SMMEs can be further classified according to the type of employment.

A study commissioned by SEDA (2016), states that SMMEs in the United States of America and Canada are classified as organisations that employ less than 500 employees and in the European Union, SMEs are classified as organisations that employ less than 250 employees. The most common SMEs are the ones that employ less than 50 employees and organisations that are classified as micro-enterprise usually employ not more than 10 employees and in some cases employ less than five.

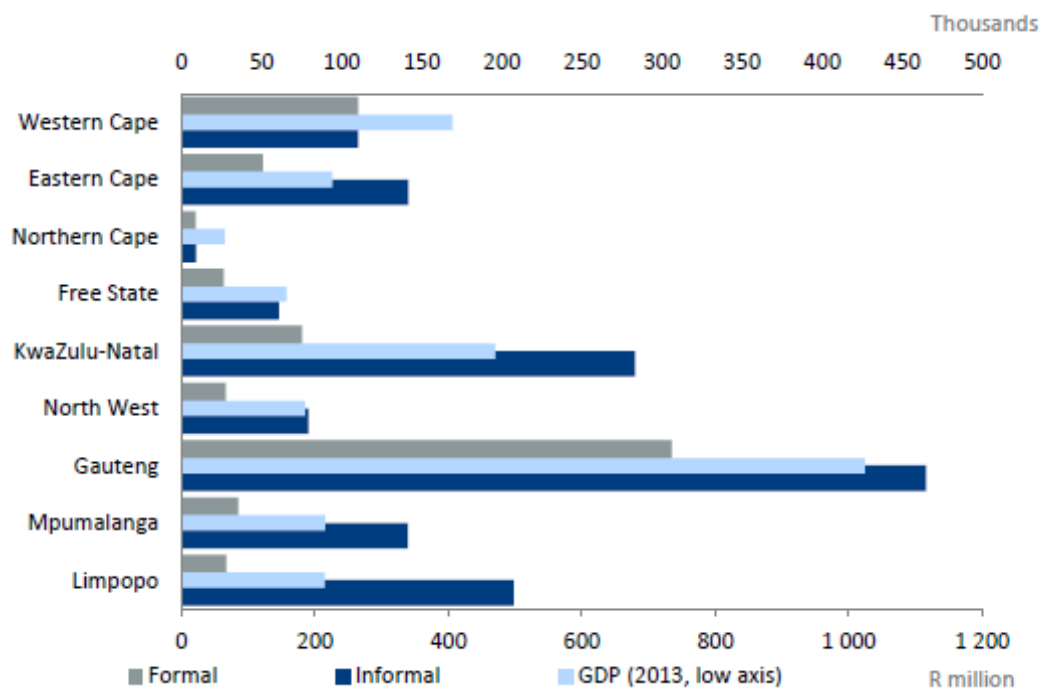


Figure 2.2: SMMEs by province and formal/informal
Source: BER (2016)

Table 2.1: SMMEs by province

SMMEs	Number (2008Q1)				Number (2015Q2)			
	Total	Formal	Informal	Other	Total	Formal	Informal	Other
Total	2 182 823	666 501	1 420 933	95 389	2 251 821	667 433	1 497 860	86 528
Western Cape	223 933	114 976	95 212	13 745	230 324	110 107	110 188	10 030
Eastern Cape	218 865	56 579	154 631	7 655	197 366	50 670	141 739	4 957
Northern Cape	29 894	11 450	11 768	6 676	20 611	8 534	9 058	3 019
Free State	114 949	31 040	76 127	7 783	96 846	26 224	60 816	9 806
KwaZulu-Natal	418 406	102 591	289 347	26 468	373 434	74 976	283 165	15 293
North West	109 860	25 817	76 855	7 188	112 856	27 430	79 153	6 273
Gauteng	687 556	270 093	405 180	12 283	785 321	306 231	465 100	13 989
Mpumalanga	193 259	29 760	156 814	6 685	185 399	35 208	141 129	9 063
Limpopo	186 101	24 193	155 001	6 907	249 663	28 054	207 512	14 098

Source: BER(2016)

As can be seen from Table 2.1 and Table 2.2, Gauteng is the leading province with regards to the number of SMMEs per province.

Table 2.2: SMMEs by economic sector

SMMEs	Number (2008Q1)	Number (2015Q2)				Turnover* (2015Q1)	GDP (2015Q2)	Turnover* /SMME
	Total	Total	Formal	Informal	Other	R million	R million	R million
Total	2 182 823	2 251 821	667 433	1 497 860	86 528	2 908 020	815 636	1.29
Agriculture	87 820	56 774	0	0	56 774	na	35 213	na
Mining	2 696	2 199	0	2 199	0	35 256	69 421	16.03
Manufacturing	267 817	201 459	62 657	138 801	0	658 740	111 672	3.27
Electricity, gas & water	4 252	7 456	6 656	801	0	7 488	38 647	1.00
Construction	252 233	299 242	77 098	222 143	0	229 016	38 804	0.77
Trade & Accommodation	974 083	944 467	186 798	757 669	0	1 160 560	129 144	1.23
Transport & Communication	122 370	133 134	56 620	76 514	0	134 152	87 612	1.01
Finance & Bus. Services	236 740	271 712	172 423	99 289	0	571 384	183 430	2.10
Community	227 243	305 624	105 181	200 444	0	111 424	50 982	0.36
Other	7 569	29 754	0	0	29 754	0	70 711	0.00

Source: SEDA (2016b)

According to the Entrepreneurs Toolkit (2009), SMMEs can be divided into established formal SMMEs, which are usually based in the urban areas and the emerging SMME's are usually situated in the settlements, rural areas and townships.

2.3 The role of the SMMEs in South Africa

In a report and a study that was commissioned by SEDA (2016), SMMEs are described as the heartbeat, backbone and the building blocks of an economy as they are the main drivers of economic growth and contribute significantly to job creation. that the report points out that worldwide 95% of businesses that SMMEs and their contribution accounts for 60% of private sector employment. Japan is reported to

have the largest number of SMMEs in the world accounting for over 99% of total businesses in that country. South Africa has an estimated 91% of formal businesses that are SMMEs. The contribution of SMMEs to the economy varies from country to country. The contribution of SMMEs in South Africa is about 40% to remuneration, 52% to 57% to GDP and 60% towards national employment. The informal sector contributes about 7% to 20% to the economy of the country – this figure is estimated due to the fact that the informal sector is not easily measured.

Considering that the role of SMMEs in the economy is now well known, the question arises as to why funding institutions are not providing the required support, even if it is only follow-up support. One of the reasons for the failure of SMMEs could be that there is not a link between the reasons why a particular SMME could not qualify for funding, and training. Funding institutions should provide training based on the reasons for failure to qualify, so that the second time the application is submitted, the SMMEs will be able to meet the requirements set out by the funding institutions. Training can also be provided ahead of time so as to avoid refusal in the first place, and monitoring systems could be set up so as to ensure that the organisations do not fail and are able to sustain themselves. Finally, institutions could be more flexible or relax some of their requirements.

According to Marnewick (2014), the importance and value of the SMME township sector is recognised not only in South Africa, but around the world, irrespective of a country's developmental status. They play a major role in terms of employment creation and economic growth.

2.4 Challenges faced by SMMEs

In the South African context, growing a small business is a challenge particularly because of the lack of business support from funding institutions, and because customers have little or no disposable income. Choosing a sector that is not exposed or dependent on these socio-economic challenges is crucial for the survival and business growth.

A study that was commissioned by SEDA in 2016 to establish the limitation of access to finance for SMME's found that a common challenge amongst SMMEs was access to funding. South African banks and business funders are reluctant to

support SMMEs because of their conservative nature therefore not wanting to lend money to small business during the startup stages or their development stages. Because of this conservatism they apply highly demanding risk assessment tests. From the study that was conducted by SEDA it can be seen that the challenges experienced by SMMEs are not only due to not meeting the criteria set by the funding institution, but SMMEs cannot access funding because of the risk associated with the newly established SMMEs. This means that many SMMEs are failing to access funding for their development purely by virtue of being a newly developed company and the perception that funding institutions have towards the SMMEs.

Other challenges that are faced by SMMEs when it comes acquiring a loan in South Africa is that banks tend to require collateral assets as security. Banks are reluctant to fund SMMEs because of their high failure rate (Standard Bank:2013).

Even with this conservative approach, Cant *et al.* (2014) note that banks are relatively the biggest lender when it comes to SMME funding, followed by funding from family and friends. This indicates a failure of the government funding institutions that were developed to grow the economy through funding SMMEs and ensuring that the funding is easily accessed by SMMEs.

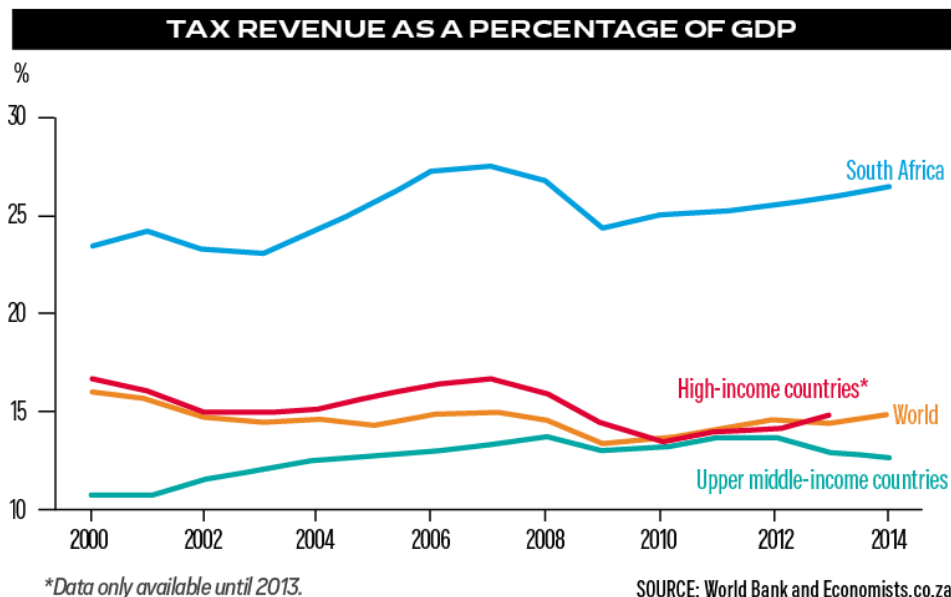
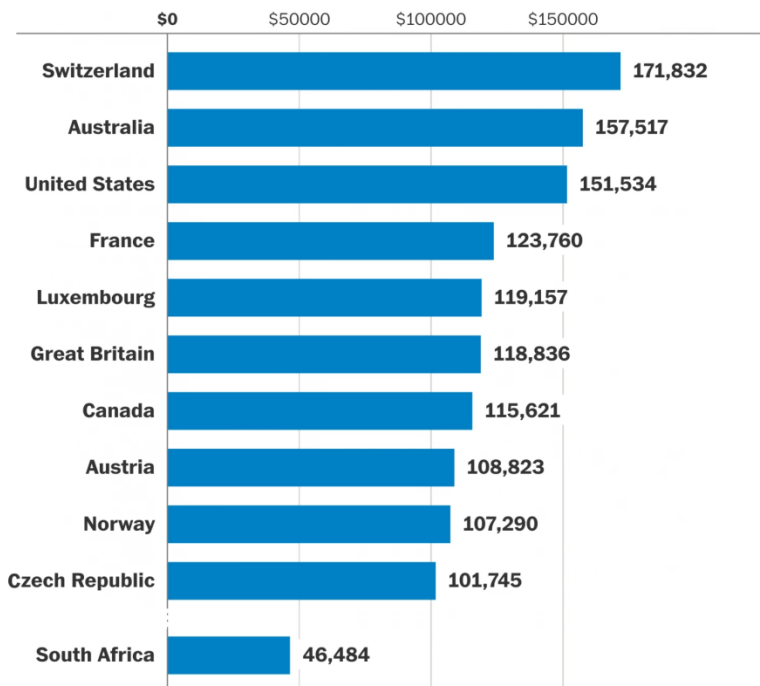


Figure 2.3: Tax to GDP ratios in relation to South Africa
Source: Business Tech, (2017)

What the richest 1% make

The average earnings per person of a member of the top 1 percent, adjusted for the "purchasing power" of money in those countries.



Source: Branko Milanovic / LIS

WAP0.ST/WONKBLOG

Figure 2.4: Richest 1% earners

Source: BusinessTech, (2017)

The lack of disposable income among consumers is an additional challenge for SMMEs. South Africans are amongst the most heavily taxed people in the world. South Africa has one of the highest overall tax to GDP ratios in the world today (Figure 2.3). World Bank data shows that South Africa is also one of the highest regional tax areas in the world (BusinessTech 2017). This can be seen from the tax that is paid by the top 1% richest earners and from the Tax to GDP ratios. These tax implications means that even the top earners can only spend their money on essential items.

2.5 The gaps in terms of needs of SMMEs in Gauteng

A study conducted by Cant *et al.* (2014) showed that 78.5% of respondents that were interviewed had not received any form of financial support. The study found that many SMMEs indicated that their biggest challenge was the cost of starting up a business. Among respondents, 56.9% received funding from the banks in a form of loans, 13.8% indicated that they received funding in the form of support from family

and friends and only 1.7% of the respondents mentioned that they received funding from government funding institutions. This figure is particularly important and interesting considering that SMMEs are considered to be a pillar for economic development in developing countries such as South Africa. The South African government encourages young people to start their business and to be part of the solution that addresses the unemployment rate in the country, but access to funding has not been addressed as the above figures are a clear indication that access to funding still remains a challenge. The Cant *et al.* (2014) study indicates that there is a disjuncture between the objectives of the government and the actual challenges that SMMEs are experiencing on the ground.

This research study sought to confirm the challenges that are experienced by the SMMEs and why there is such a low success rate. This will assist in developing training that can be used to ensure that the current gaps are closed so as to ensure that SMMEs are able to meet the minimum requirements to qualify for funding. Analysing only SMMEs without understanding the workings of the funding institutions would leave a gap in ensuring that both the research study and the requirements of the funding institutions are aligned.

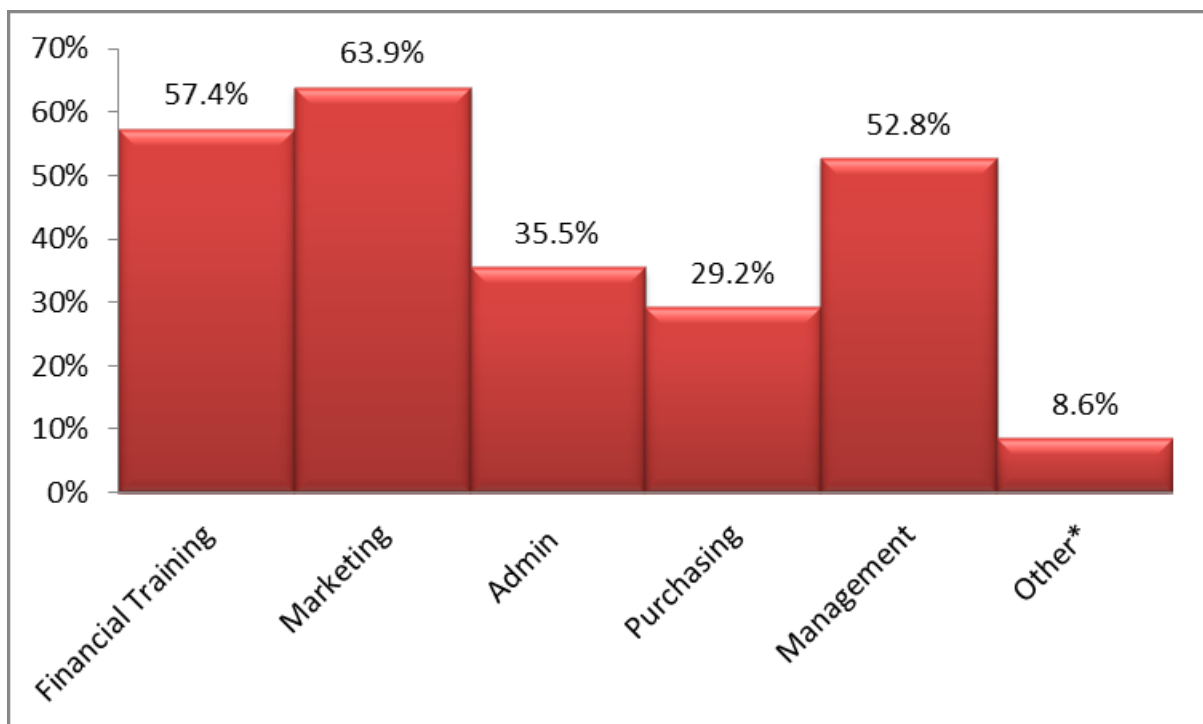


Figure 2.5: Specific training needs to improve the business
Source: SEDA (2016a)

A study conducted by SEDA (2016a) showed that there was a huge need for formal training of township entrepreneurs (Figure 2.5). From the 333 entrepreneurs that were surveyed by SEDA, a total of 63.9% said that they needed formal education or training in terms of marketing their business, 57.4% needed financial training, and 52.8 percent needed management training.

One way forward would be to fund institutions like SEDA to take into consideration the above findings and follow them up with training and support based on the reasons for the SMME's failing to meet their requirements. What is not clear is what most of the funding institutions do to address the gaps that they pick up during the risk assessment of the application. This could help in improving the 1.7% contribution that the government funding institutions are currently making towards the development of the SMMEs so that it is above 10% at least.

2.6 Global perspective

China is a great example when it comes to the development of SMEs and how the government has addressed the issue of funding. From 1978 China implemented three phases in terms of assisting and growing SMEs. The first phase was from 1978 to 1992, and focused on the expansion of the number of SMEs. The second phase was from 1992 to 2002 and focused on reforming the state owned SMEs. This involved mergers and acquisitions to speed up the reforms of state owned SMEs. The third phase began in 2002 with the promulgation of the small and medium-sized enterprises promotion law. The last phase aimed to further improve policies, remove institutional barriers, level the playing fields, promote scientific and technological innovations, optimise industrial structure and enhance the overall quality and competitiveness of SMEs (Chen 2006:141-142).

According to Morrison (2013), China was able to turn around its economy and address the economic policies that kept the Chinese economy poor, stagnant, centrally controlled, vastly inefficient, and relatively isolated from the global economy. This was done by means of policy reforms and opening up of its domestic markets. They then entered a high speed economic development phase. In so doing, China gradually became the largest world's second largest economy, largest trading economy, second largest destination of foreign direct investment, largest

manufacturing and largest holders of foreign exchange reserve. Real annual gross domestic product growth averaged nearly 10% in the decade prior to 2013. No other country has been able to achieve these numbers. This is an indication that the correct policy reforms and the correct implementation of these policies can increase not only the GDP, but also attract investors and increase the number of formal SMMEs that have a positive impact on the future of the country.

In the United Kingdom a study that was commissioned by the London School of Economics and Political Science concluded that the efforts of the government to promote the supply of credit to SMEs was poorly targeted and firms were not likely to grow. This led to funders being reluctant to fund more firms. The study further indicated that the key challenges that the firms were experiencing were more related to the terms of lending rather than the non-availability of or access to funding. The terms of lending were changed from using a 50/50 retained earnings and bank debt to fund expansion, to two-thirds retained earnings and one-third lending to fund growth (Brown & Lee 2014:36).

This proves that the key to supporting SMMEs is a strategy that can constantly evolve in order to meet the forever changing dynamics of the country and the world. The South African government should also consider learning from China and the United Kingdom in order to grow the local SMMEs and the economy of the country.

2.7 SMME support

The Department of Trade and Industry (DTI) has made a commitment to prioritise entrepreneurship and advancement of SMMEs as they are viewed to be the catalyst to achieve economic growth and development. Together with other government departments, the DTI has taken the lead in the implementation of SMME-related policies, to ensure that adequate financial and non-financial support is provided to the sector (DTI:2017).

The City of Johannesburg implemented the SMME development and support directorate as one of the eight directorates that constitute the Department of Economic Development of the City of Johannesburg. The mission for this directorate is to actively intervene and ensure that benefits and opportunities are equitably spread to all SMMEs within the city (City of Johannesburg:2017).

The Department of Small Business Development (2017) has initiated a programme to assist SMMEs that includes incentives, cost sharing grants and black business supplier development programmes (BBSDP). This initiative seeks to improve the competitiveness and sustainability of SMMEs and to ensure that they become part of the mainstream economy and to create employment.

This study sought to establish the effectiveness of this support and to determine who is able to access this support. It would be expected that if this support is actually available to the SMMEs, they should experience fewer challenges regarding accessing funding and development of their businesses.

2.8 Summary

This chapter focuses on the types of SMMEs in South Africa, the roles these SMMEs play in the country in relation to the eradication of poverty and unemployment, and examines the challenges that the SMMEs face including the impact of high unemployment and low available disposable income to support these SMMEs. The chapter further explores the training gaps in Gauteng and the global challenges that are faced by SMMEs from developed countries like China and the United Kingdom. The comparison shows that in South Africa SMMEs are still facing challenges in accessing funding while in China and UK SMMEs have different challenges in the form of collateral and growing their businesses.

CHAPTER 3: EMPIRICAL STUDY

3.1 Introduction

This study employed various methods and techniques in order to develop meaningful data to assist in establishing the relationship between different variables so as to understand what influences there are between the data. Some of the techniques will include the logistic and Poisson regression to establish the challenges in accessing funding that SMMEs face Ekurhuleni.

3.2 Research design

The research study was based on a qualitative method of data gathering, aimed at establishing and determining the reason why SMMEs fail to access funding. This was achieved by establishing the type or the category of SMME, checking if the SMME was properly register, or checking their registration documentation.

Qualitative research methods are mainly used when object of the study are feelings of consumers, their understandings, motivation, and way of thinking. Moreover, it allows for the researcher to be flexible during the research process (McDaniel & Gates, 2004).

3.3 Research population

After consulting with the statistician, it was agreed that in order to be able to do a proper regression and correlation analysis, and to understand the challenges that the participant entrepreneurs have experienced, it would be best that the study should focus on Ekurhuleni and that the population sample increase from 12 to 30 entrepreneurs.

3.4 Sampling

The sample was be obtained from the Ekurhuleni area. A list of SMMEs was compiled of company directors or managers of SMME businesses, who were contacted in order to arrange an interview with them.

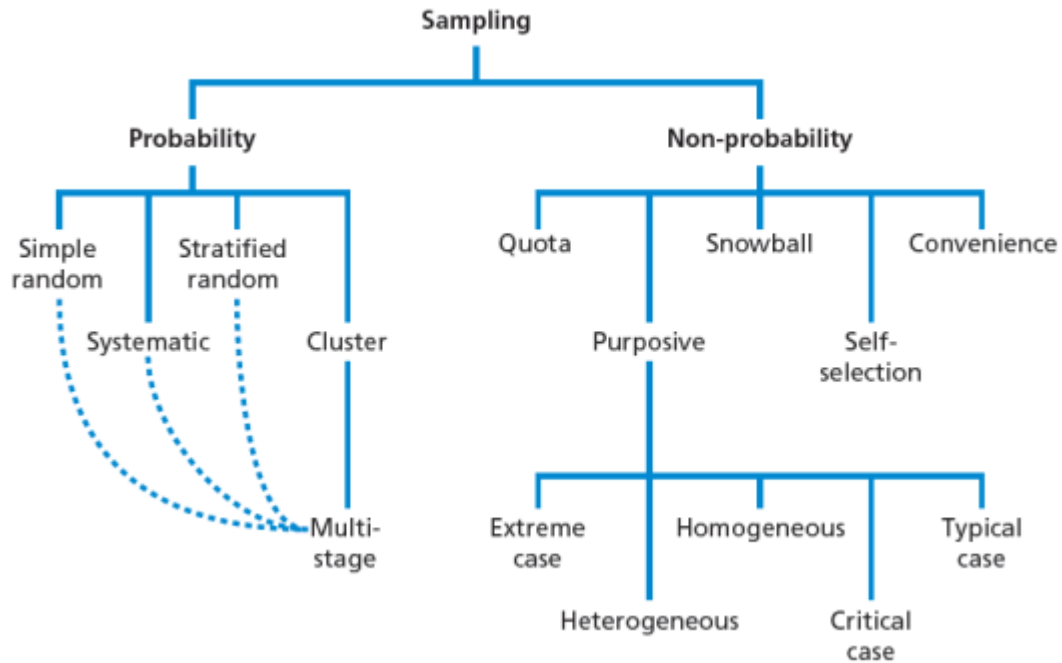


Figure 3.1: Sampling techniques

Source: Saunders, Lewis and Thornhill (2008)

Figure 3.1 shows the type of sampling techniques that can be used, but for the purpose of this research the researcher opted for convenience sampling.

According to Bickman and Rog (2008: 235), whenever you have a choice about when and where to observe, who to talk to, or what information sources to focus on, you are faced with a sampling decision. The decision in this case was practicality and the time allocated for sampling the area. The number of the sample to be collected and analysed was limited by the time allocated for the interviews. The final sample size was 30.

According to Maree (2007:178), the sampling size is very important as it would be disastrous to start analysing data and only then realise that the sample is too small and certain groups are not properly represented in the sample to provide good results. The author also advises that the practicality of time and cost has to be taken into consideration. These factors can lead to a researcher limiting the study, for example, to a regional study instead of a national study.

3.5 Data collection

The main data collection method used was the interview method and the secondary method was the questionnaire method (Appendix A). The instrument was designed to establish the gaps and the challenges or requirements that are difficult to meet as part of the criteria funding institutions use to assess risk.

According to Bickman and Rog (2008: 236), the research method has to be clear in terms of what questions have to be asked based on what is being measured or studied. To create a good data collection plan requires creativity and insight, not only a translation of research questions into methods.

The questionnaire has 19 questions. Any questions not answered were adjusted by means of skewness factoring.

3.6 Data analysis

The data collected was analysed using the services of a statistician and an economist (Appendix D). The researcher established the variables and set up the data matrix according to the main activity of the companies to establish which sector had more challenges. The different types of challenges per sector were categorised and compared by means of correlation. The coding of the different types of answers helped in summarising the data. Error tolerance was allowed in order to cater for the questions that were either not answered or were left out. Correlation and regression analysis was conducted by the statistician.

3.7 Summary

Chapter 3 focused on the collection of data and the data analysis and the process that was followed when the data was gathered.

CHAPTER 4: EMPIRICAL RESULTS

4.1 Introduction

The study focused on entrepreneurs in the Ekurhuleni area as a unit of measure and analysed their answers in order to understand the challenges faced by the SMMEs. The questionnaire was structured in two sections, as indicated below.

Section A: Demographic information

This section sought to gain an understanding of the participants and used close ended questions to gather information such as gender, age, language spoken at home and the level of education with the aim of understanding the relationship between success and failure in getting access to funding. The questions in this section were prepared in a multiple-choice format which allowed the participants to choose one or more alternatives. This allowed for a better understanding of the correlation between the demographics and also helped establish the behaviour of the entrepreneurs.

Section B: Profile of the business and its activities

This section comprised closed ended and open-ended questions. This included their experience and understanding of their positions and the role they are currently occupying in the organisation. This section also focused on how the participants raised the startup funding, who they approached, which institutions approved their required funding, and the size of the business they wanted to establish (micro, small or medium size). The participants were also asked whether they needed training and what training they needed.

4.2 Results analysis

Analysis of results will begin with the descriptive statistics of the variables involved in this study, presented along with the appropriate graphs where possible.

4.3 Descriptive statistics

Definitions for the variables used:

- Success: Binary variable indicating whether an application for funding was successful or not. The variable takes on the value 1 where funding was granted and zero where funding was not granted.
- Female: binary indicator for the gender of the applicant takes the value 1 if the applicant is female and zero otherwise.
- Age: captures the age of the applicant.
- Race: Captures the race of the applicant.
- Educ: indicator variable for the level of education of the respondent.
- Ownership: binary indicator taking the value 1 if the respondent is both the owner and manager of the business and zero if not.
- Less than 5 years: binary indicator taking the value 1 if the business has been operating for less than 5 years and zero if not.
- Small: indicator taking the value 1 if the business is small in size and zero if not.
- Lifecycle: binary indicator taking the value zero if the business is in the start-up phase and 1 if it is in the expansion phase.
- NoBridgCap: binary taking the value 1 if the respondent did not have bridging capital and zero otherwise.

4.3.1 Demographic profile

The youngest participant entrepreneur was 23 years, and the oldest was 48 years. The average age of the participants was 35.1 years with a relatively small standard deviation of 7.45 (Table 4.1).

Table 4.1: Age analysis

	Age
Minimum	23
Maximum	48
Average	35.1
Standard deviation	7.45

The following tables and graphs illustrate the distribution of race across the respondents to the survey (Table 4.2 and Figure 4.1). This shows a fair demographic coverage in terms of the sampling.

Table 4.2: Race distribution

Race	Frequency	Percentage
Black	23	76.7%
White	5	16.7%
Coloured	1	3.3%
Asian	1	3.3%
Total	30	100%

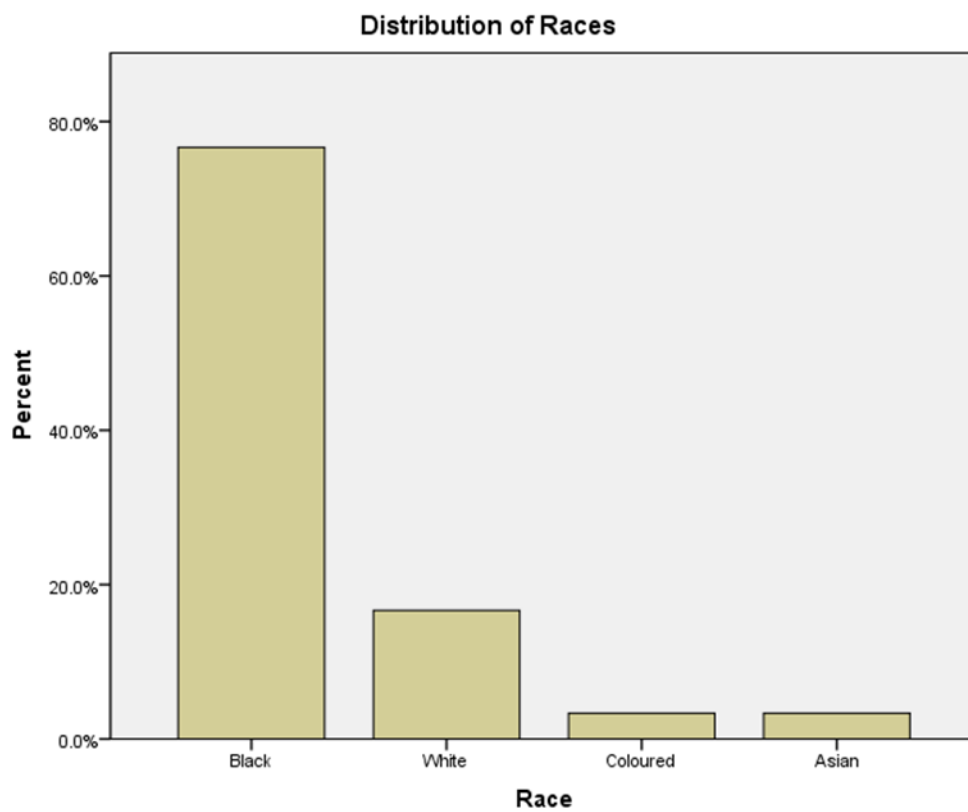


Figure 4.1. Distribution of races

4.3.2 Race by Gender by race

Table 4.3 and Figure 4.2 depict the distribution of the gender of the respondents against their race.

Table 4.3: Gender by race

Race	Gender	
	Male Entrepreneur	Female Entrepreneur
Black	14	9
White	4	1
Coloured	0	1
Asian	1	0

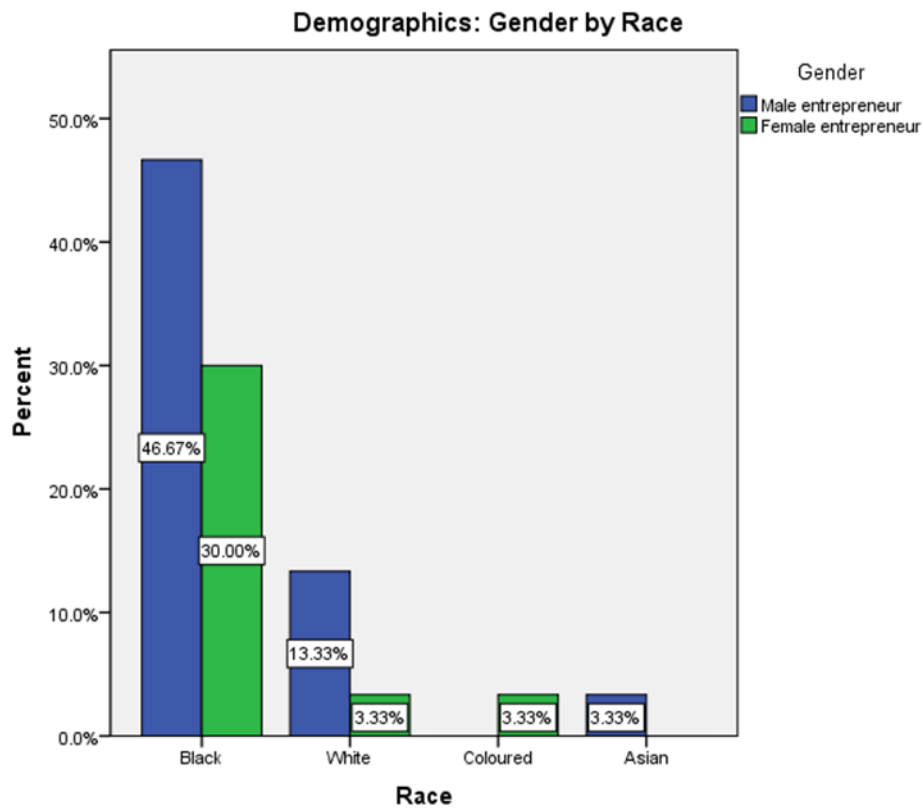


Figure 4.2: Gender by race

It is evident that blacks constitute the largest ethnic group in the sample. Furthermore, most of the entrepreneurs in the white and black groups were males.

4.3.3 Education level by race (Option 1: keep race separate)

Table 4.4: Education level by race

Race	Education Level			
	High school	Diploma	Bachelor	Postgrad
Black	7	12	3	1
White	2	1	2	0
Coloured	0	1	0	0
Asian	0	1	0	0

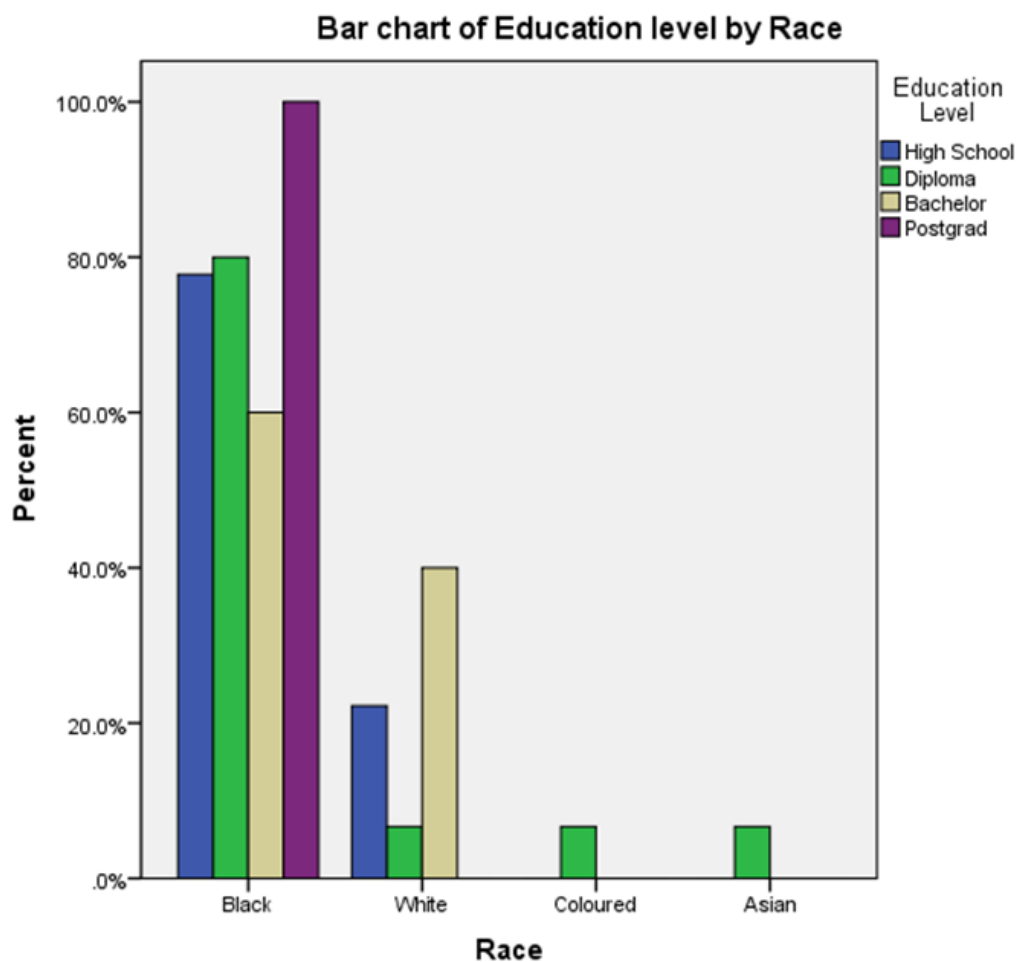


Figure 4.3. Education level by race

As can be seen from Table 4.4 and Figure 4.3, when race and education level are combined to describe the sample, most of the entrepreneurs are black and have a postgraduate education, followed by those with a diploma or certificate education. This shows a different analysis compared to past assessments regarding the

educational background of black entrepreneurs. This is an indication that more black people having acquired some form of education and could be a positive indication that more informal businesses will migrate from informal to formal SMMEs, if they receive financial support.

4.3.4 Education level by race (Option 2: keep blacks separate and combine other race groups)

Table 4.5: Education level by race

Skin colour	Education Level			
	High school	Diploma	Bachelor	Postgrad
Non-Blacks	2	3	2	0
Blacks	7	12	3	1

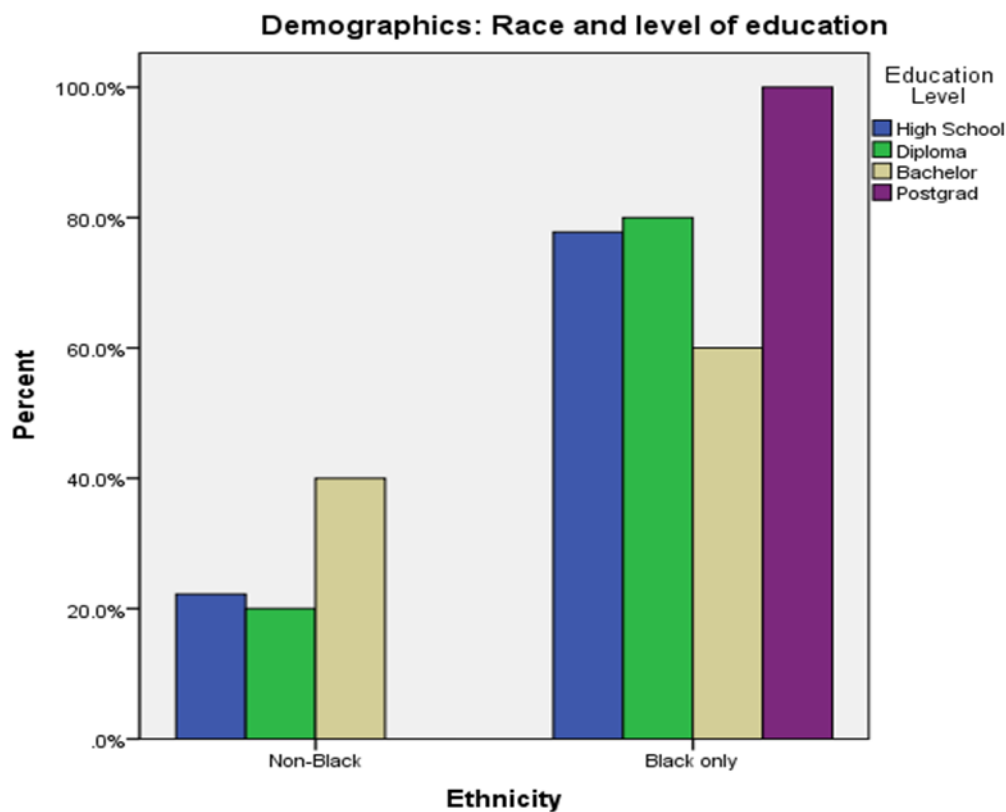


Figure 4.3: Demographics: race and level of education

The same observation as the previous assessment can be made here – when race and education level are combined to describe the sample, most of the entrepreneurs have received a minimum of matric qualification and have a diploma or certificate qualification (Table 4.3 and Figure 4.4). This could be an indication that the lack of employment has led to entrepreneurs starting their own businesses.

4.3.5 Ownership by gender

Table 4.6 and Figure 4.5 summarise the distribution of entrepreneurs per ownership status (whether they are owner and manager of the business or not).

Table 4.6: Owner by gender

Gender	Owner	
	Owner Manager	Owner and Manager
Male Entrepreneur	9	10
Female Entrepreneur	3	8

It is evident that there are more male than female entrepreneurs. The above results is represented graphically in Figure 4.5.

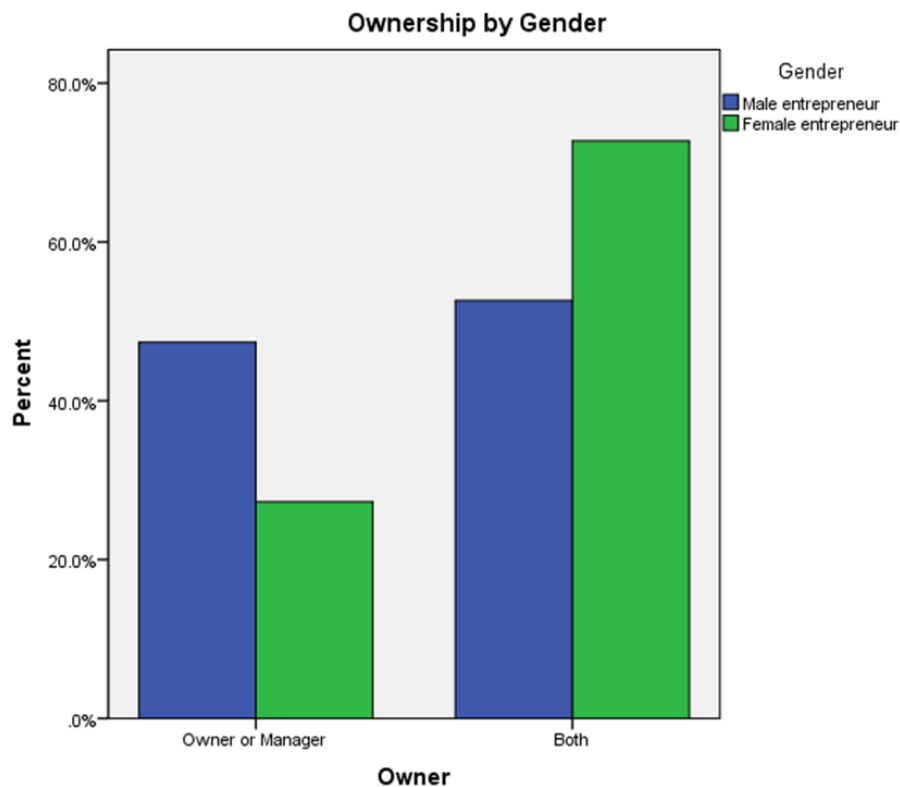


Figure 4.4: Owner by gender

4.3.6 Ownership by race

Table 4.7 provides a summary of the distribution of businesses per race.

Table 4.7: Owner by race

Ethnicity	Owner	
	Owner or Manager	Both
Non-Black	5	2
Black Only	7	16

Most of the businesses from the sampled population are owned and managed by black entrepreneurs. Graphically, the above stats can be illustrated using a graph (Figure 4.6).

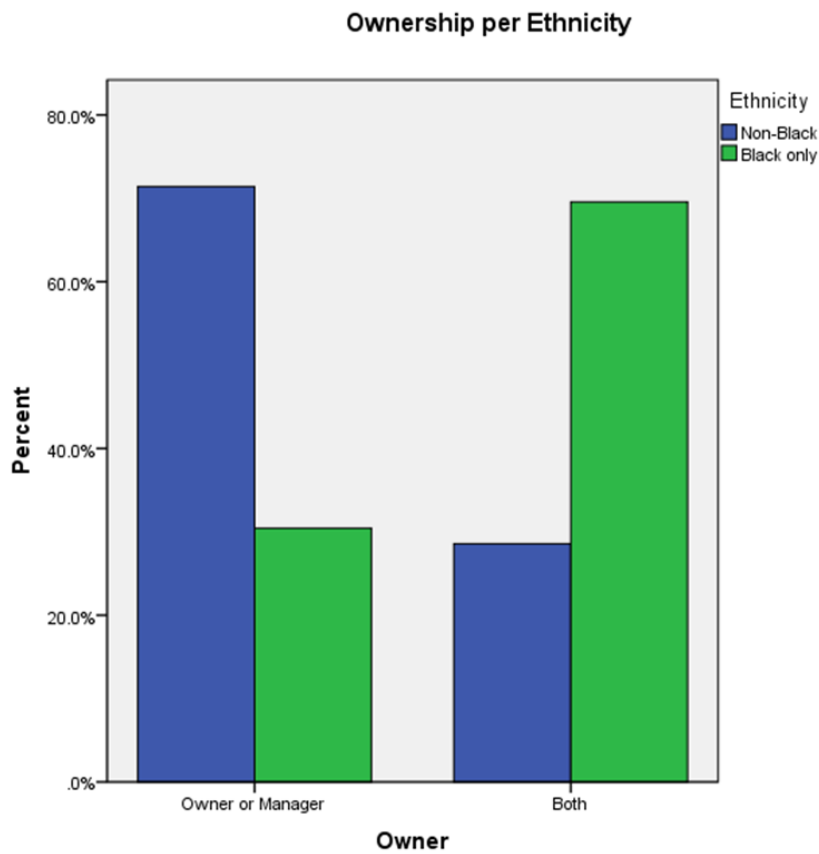


Figure 4.5: Owner per ethnicity

4.3.7 Ownership and size of the business

Table 4.8 provides a summary of the distribution of business ownership against the size of the business.

Table 4.8: Ownership and size of the business

Company size	Owner	
	Owner or Manager	Both
Medium or Large	6	1
Small company	6	17

This situation can be depicted using a bar chart (Figure 4.7).

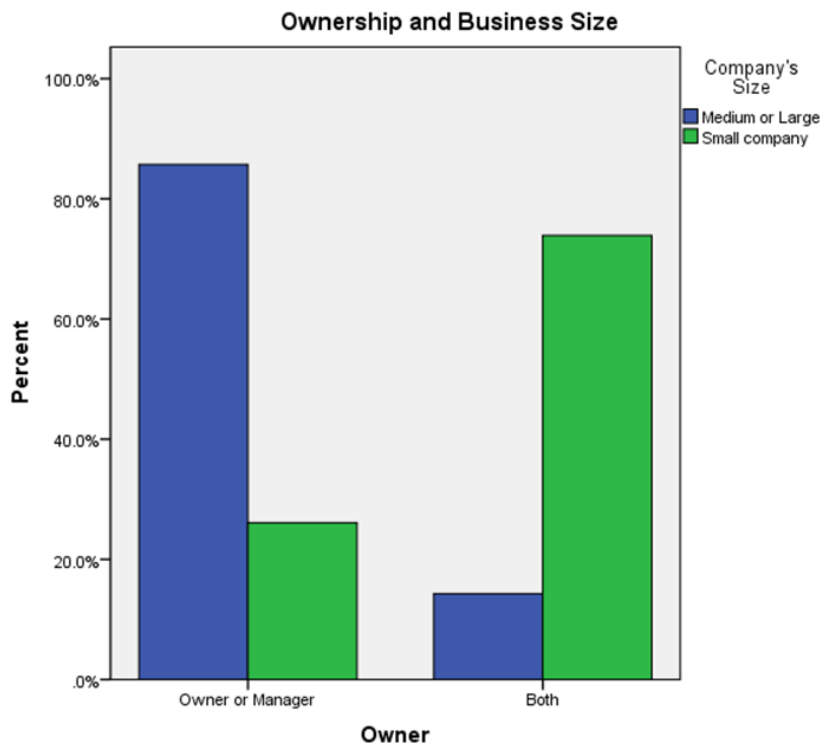


Figure 4.6: Owner and business size

Figure 4.6 indicates that companies that are large and medium are managed by someone other than the owner, while smaller organisations are mostly managed by the owners. This could be an indication that small businesses, because of their financial balance, are managed by the owners because they are still at the stage where the owners cannot afford to employ managers unlike the medium and larger organisations. Support should be provided to the smaller companies to ensure that they are provided with the training to equip them with the necessary skills because

they are unable to appoint managers to compliment the organisation with the necessary management skills required.

4.3.8 Ownership and number of years of operation

Table 4.9 and Figure 4.8 depict the distribution of the number of years a business has been operating against its size.

Table 4.9: Owner against number of year operation

Less than 5 years	Owner	
	Owner or Manager	Both
0	7	2
1	5	16

Table 4.9 is an indication that most companies, particularly the smaller companies, have to implement operating systems that do not require a high staff complement. Large companies that are managed by the owner were fewer than companies managed by someone other than the owner.

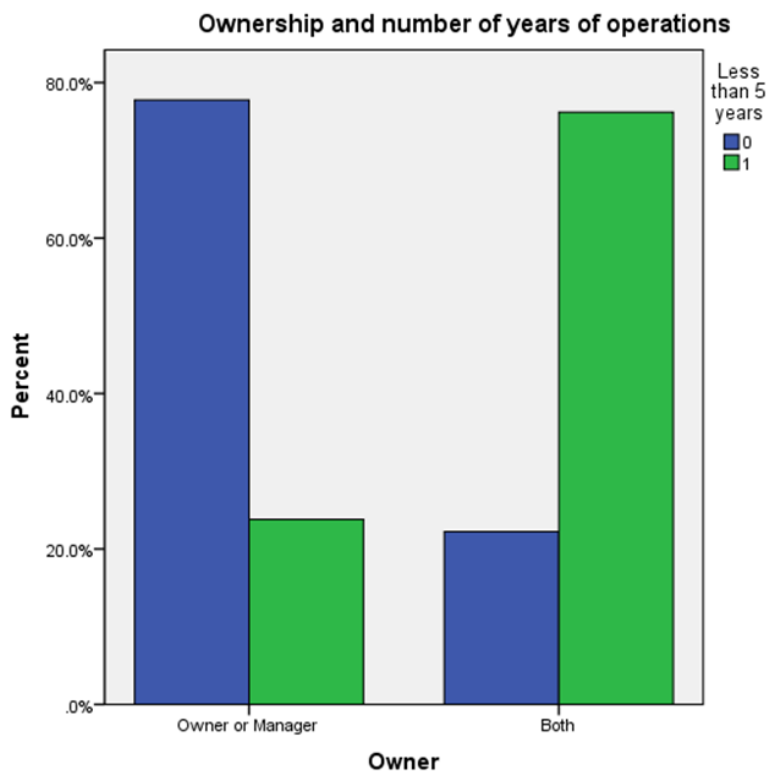


Figure 4.7: Ownership and number of years of operation

4.3.9 Background and experience

Table 4.10 summarises the distribution of previous experience per industry.

Table 4.10: Previous experience per industry

Industry	Previous experience	
	More than 2 years	2 years or more
Agriculture	0	0
Manufacturing	1	1
Construction	3	8
Business service	0	3
Finance	0	0
Transport	0	2
Health and education	1	0
Repairs	3	0
Customer service	4	2
Other	0	2

The construction sector appears to be the industry in which most of the participants are active, followed by customer services. The small size of the sample meant that it was not feasible to perform a statistical test of association between previous experience and industry.

Figure 4.9 depicts the previous experience of the respondents and the industry they are active in.

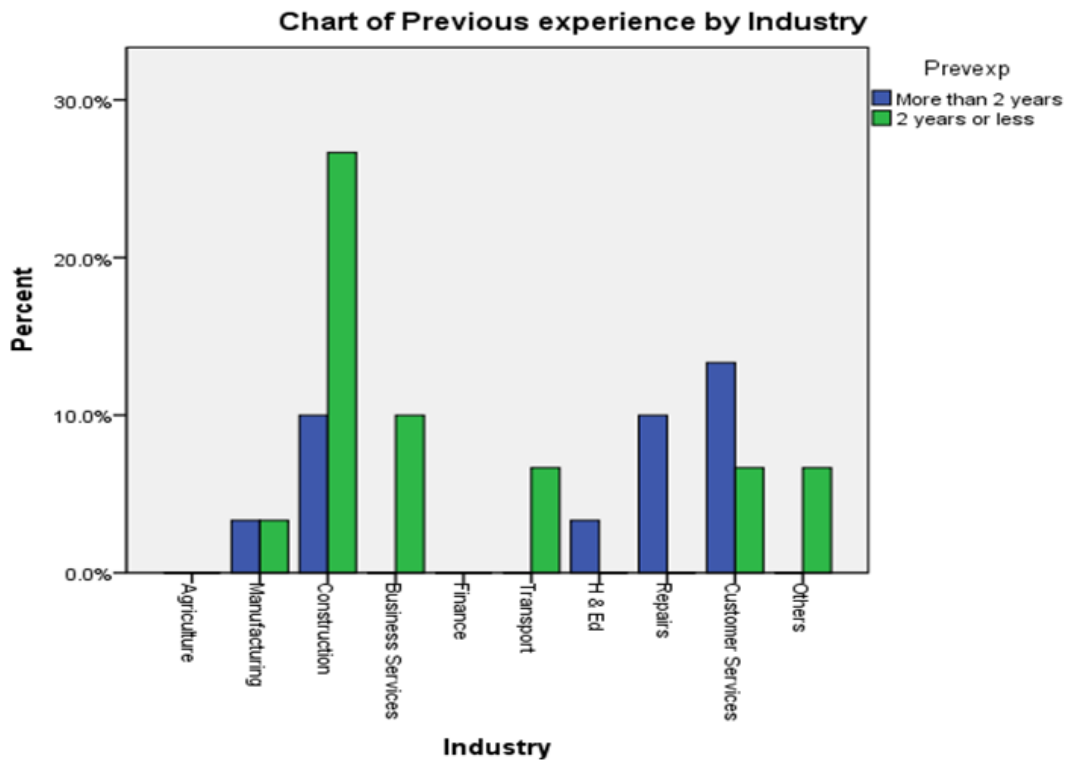


Figure 4.8: Previous experience by industry

Figure 4.9 shows that entrepreneurs operating in the construction industry and having previous work experience of less than 2 years constitute the majority of the respondents in the sample. The second largest group of entrepreneurs is made up of those working in the customer service industry with more than 2 years of prior experience.

4.3.10 Number of year of operation against business size

Table 4.11: Number of years of operation and business size

Company size	Less than 5 years	
	0	1
Medium or Large	5	2
Small Company	4	19

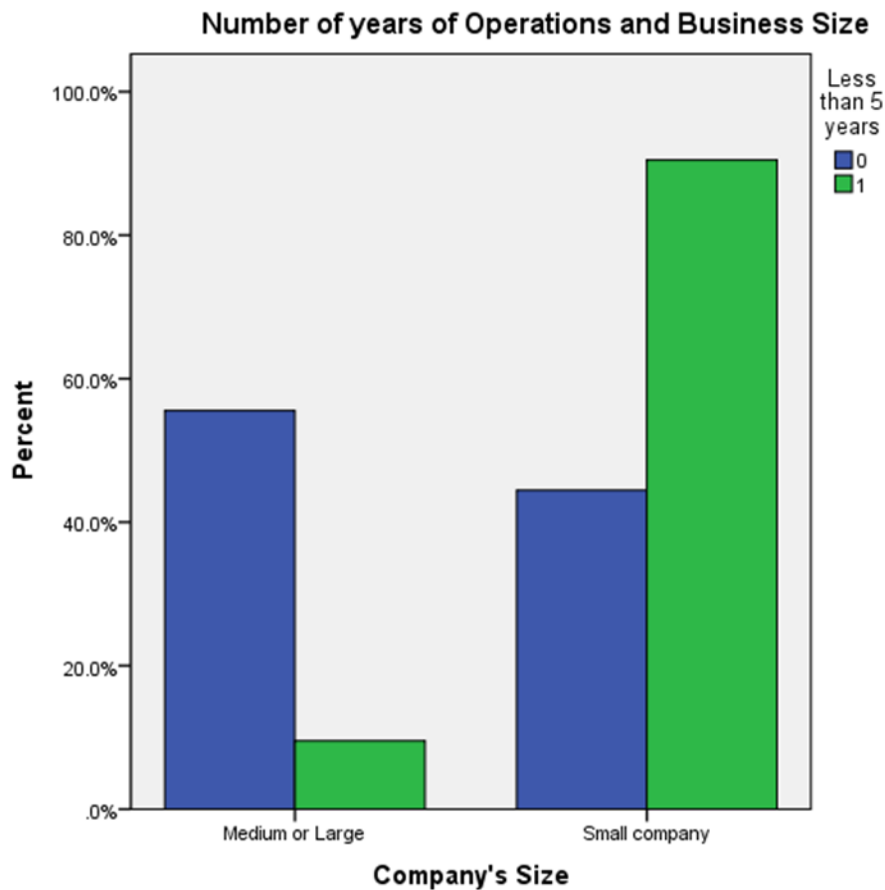


Figure 4.9: Number of years of operation and business size

As can be seen from Table 4.11 and Figure 4.10 similar patterns can be observed between the size of the business and the business life cycle on one side, and the number of years of operation of the business and its life-cycle on the other side.

4.3.11 Life-cycle and business size

Table 4.12: Life-cycle and business size

Life cycle	Company Size	
	Medium or Large	Small company
0	0	7
1	7	16

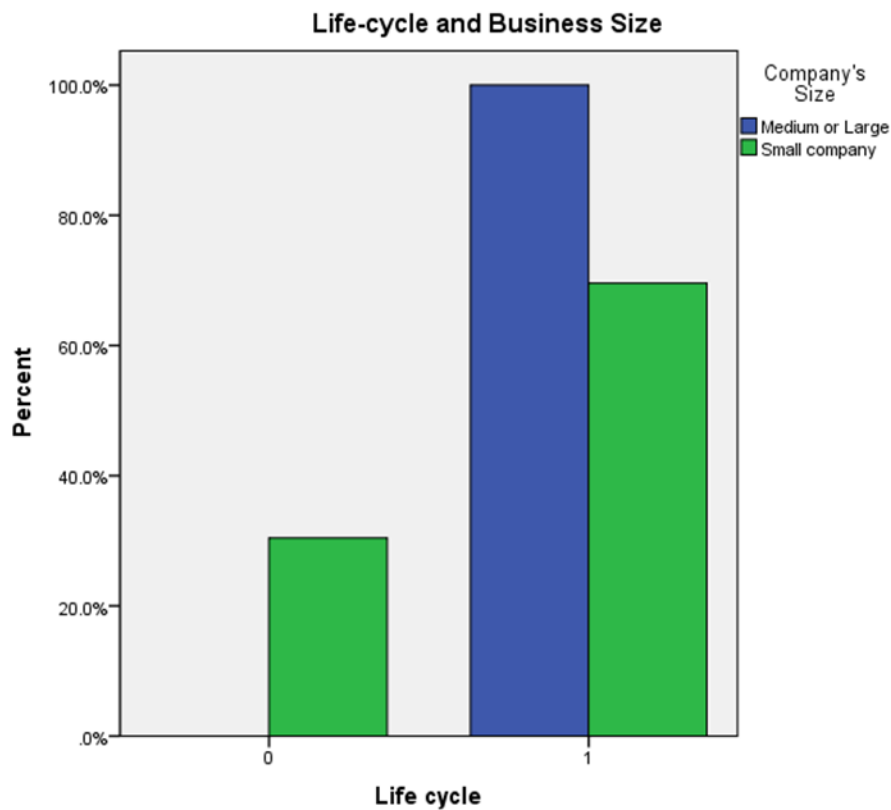


Figure 4.10: Life-cycle and business size

Table 4.12 and Figure 4.11 show that most of the companies are in the expansion phase of their life-cycle and are medium or large companies. These are the companies that could create employment as a direct consequence of the expansion. These companies should be supported or given credit to allow them to expand and to create employment.

4.3.12 Life-cycle and number of years of operation

Table 4.13: Life-cycle and number of years of operation

Life cycle	Less than 5 years	
	0	1
0	0	7
1	9	14

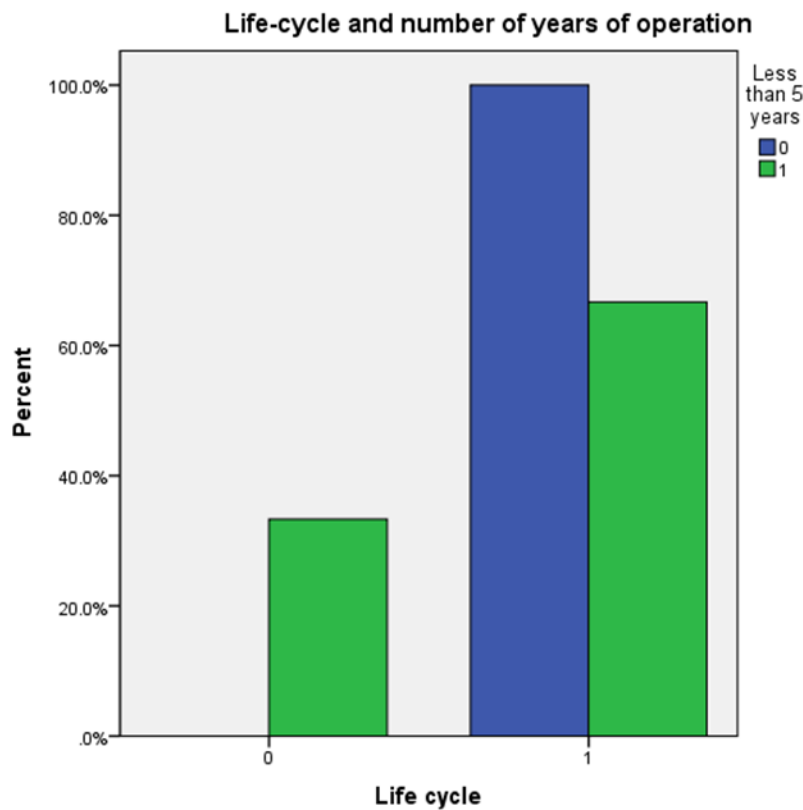


Figure 4.11: Life-cycle and number of years of operation

From Table 4.13 and Figure 12 it can be seen that most of the businesses are in the expansion phase of their life-cycle and have been operating for at least 5 years. These companies were also found to have struggled to access bridging funding or credit.

4.3.13 Lack of bridging capital and race

This section describes the interplay between the lack of bridging capital and race.

Table 4.14: Lack of bridging capital and race

No Bridging Capital	Ethnicity	
	Non-Black	Black Only
Available	4	17
No Capital	3	6

As can be seen from Table 4.14 and Figure 4.13, most of the businesses having access to bridging capital were run by black entrepreneurs. Fewer black entrepreneurs (comparatively) also run most of the business with no access to any bridging capital.

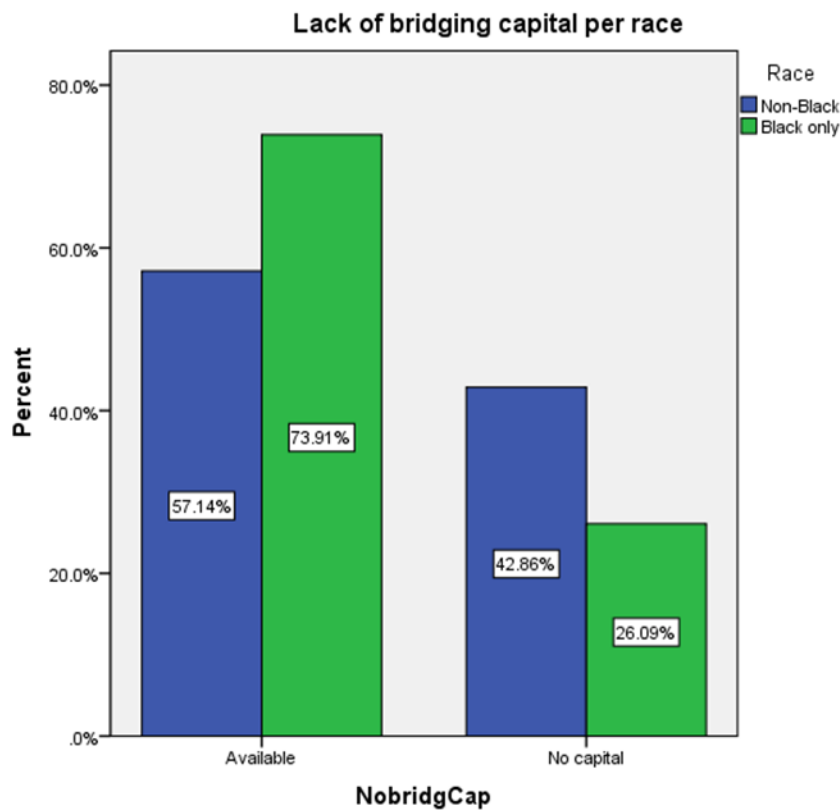


Figure 4.12: Lack of bridging capital per race

The next section of the analysis is devoted to examining the interplay between access to funding and other variables.

4.3.14 Investigating access to funding (successful funding application)

Using the answers to Question 9 of Section B, this analysis has been built with a variable denoted Success that captures the outcome of an application for funding. The variable takes on the value 1 when the applicant was successful and the value zero in case of an unsuccessful application.

4.3.15 Logistic and Poisson regressions for access to funding

Denoted by Y_j a binary random indicator of the outcome of the application for funding by a given entrepreneur, where Y is defined as follows:

$$Y = \begin{cases} 1: \text{the application is successful} \\ 0: \text{the applicant is not successful} \end{cases}$$

Corresponding to each Y_j (entrepreneur) there is a $(k \times 1)$ vector X_j of covariates with realisations X_j in the data and representing social-economic and demographic characteristics of the entrepreneur and his/her business. The set of independent variables (X_j) includes age, gender, race, education level, number of years the business has been operating, type of industry, business life cycle, business ownership status and many more.

Let π_j be the probability that $Y_j = 1$, that is, the probability that the outcome of the application for funding is successful.

To assess the determinants of a successful applicant for funding we used a logistic regression model that estimates the probability of an individual entrepreneur receiving funding from a financial institutions given a set of socioeconomic and demographic characteristics, that is $p_{ij} = P(Y_i = j, X_i = x_i)$, with $\sum_j p_{ij} = 1$.

Treating all explanatory variables as categorical (except for the age variable) and assuming the analysis follows a linear index formulation within the logistic function, the logistic regression models were estimated as follows:

$$\text{Logit}(\pi(Y_i = 1)/x_i) = \beta_0 + \beta_1 \text{gender} + \beta_2 \text{age} + \beta_3 \text{race} + \beta_4 \text{ownership} + \beta_5 \text{numberofyears} + \beta_6 \text{Business_size} + \beta_7 \text{Life_cycle} + \varepsilon_i$$

The dependent variable Y_i is a binary indicator capturing whether the outcome of an application for funding was successful or not. In a logistic model, the estimated coefficient are logarithms of odd ratio and their interpretations are not immediately intuitive Taking this into account, incident rate ratios (IRR) corresponding to each OR were estimated using a robust Poisson regression model with a sandwich estimator. For a categorical variable, each IRR shows how many times more(less) probable the outcome is in the actual group compared to the reference group.

The results of the estimated model given in Table 4.15

Table 4.15: Logistic regression model

Success	Coef	Std, Err	z	P>z	[95% Conf	Interval]
Female	-4.071	2.902	-1.40	0.161	-9.760	1.618
Age	0.476	0.354	1.34	0.179	-0.218	1.171
Black	-2.373	2.645	-0.90	0.370	-7.558	2.811
Ownership	-5.075	2.551	-1.99	0.047	-10.073	-0.076
Less than 5years	2.079	3.401	0.61	0.541	-4.587	8.745
Small	0.938	2.368	0.40	0.692	-3.703	5.578
cons	-13.21	13.385	-0.99	0.323	-39.453	13.018

Table 4.16: Poisson regression coefficients

Success	Coef	Std, Err	z	P>z	[95% Conf	Interval]
Female	0.645	0.238	-1.19	0.235	0.313	1.329
Age	1.057	0.035	1.68	0.093	0.991	1.127
Black	0.761	0.299	-0.69	0.488	0.352	1.647
Ownership	0.319	0.210	-1.73	0.083	0.087	1.162
Less than 5years	1.086	0.323	0.28	0.728	0.606	1.946
Small	0.963	0.345	-0.10	0.917	0.477	1.945
cons	0.122	0.181	-1.41	0.158	-0.007	2.263

While the results of the Logistic regression indicate that only the Ownership variable is significant, the Poisson regression suggest that both Age and Ownership are significant (at a level of significance of 10%).

To confirm this result, another analysis was run using a different regression model, this time, using only Age and Ownership as the explanatory variables.

The results are shown in Table 4.17.

Table 4.17: Poisson regression coefficients

Success	IRR	Std. Err	z	P>z	[95% Conf	Interval]
Age	0.476	0.354	1.34	0.179	-0.218	1.171
Ownership	-5.075	2.551	-1.99	0.047	-10.073	-0.076
Less than 5years	2.079	3.401	0.61	0.541	-4.587	8.745
cons	-13.21	13.385	-0.99	0.323	-39.453	13.018

Looking at the p-values (P>z), it appears that both age and ownership status are significant determinations of the outcome of an application for funding. The IRR for Age is 1.052. This means that when the age of an entrepreneur increases by one year, he/she is 5.2% more likely to receive a positive outcome from his/her application for funding than an entrepreneur that is one year younger. This could

also be linked to the number of years the business has been operating, meaning the longer the business has been operating the more collateral it is able to accumulate making it less risky business.

The IRR for Ownership status is 0.273, indicating that entrepreneurs that are both owner and manager are 72.7% less likely to receive a positive outcome from an application for funding than entrepreneurs that are only manager owner. This results is also confirmed by the fact that the oddsratio (z) from the logistic regression for ownership is negative.

The final regression equation can be written:

$$\text{Log}(\mu_i) = 0.117 + 1.052 \text{ age} + 0.273 \text{ ownership} + \varepsilon_i$$

After considering the results of the Poisson and logistic regressions that suggested that only Age and Ownership have a statistically significant impact on the outcome of an application for funding, tests of association were used to investigate if any statistical association can be found between successful funding application and other variables not included in the regression.

4.3.16 Successful funding application and lack of bridging capital

Table 4.18 and Figure 4.14 depict the interplay between successful funding applications and lack of bridging capital.

Table 4.18: Successful application and bridging capital

No bridging capital	Successful Application	
	Rejected	Successful
Available capital	13	8
No capital	3	6

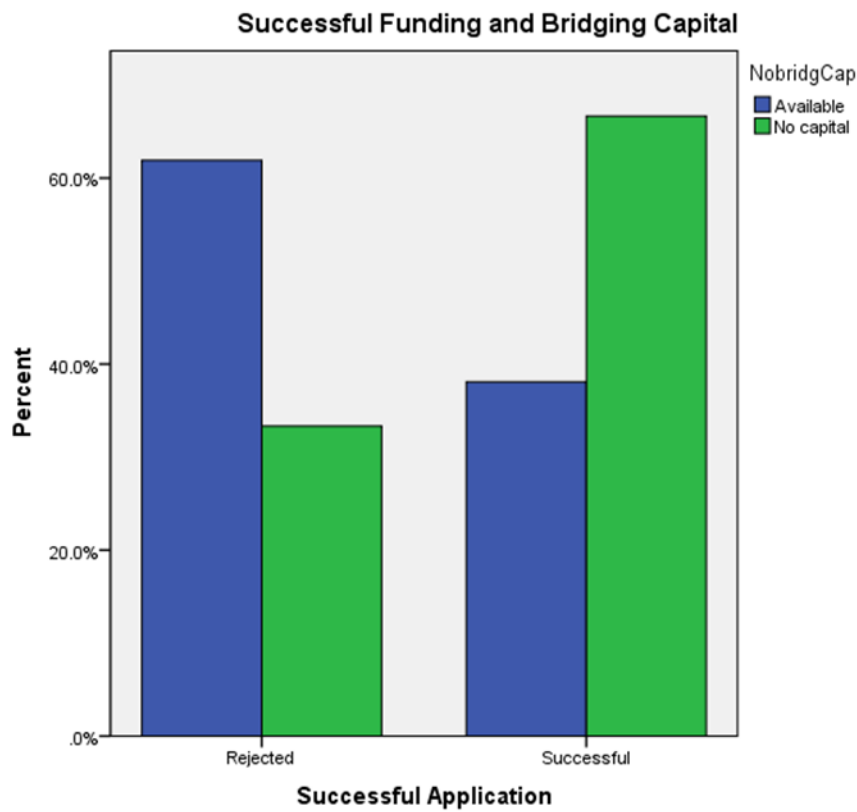


Figure 4.13: Successful funding and bridging capital

4.3.17 Type of industry

The type of industry in terms of representation is shown in the Figure 4.15. From the figure it is evident that the majority of businesses participants were engaged in were construction companies followed by customer services.

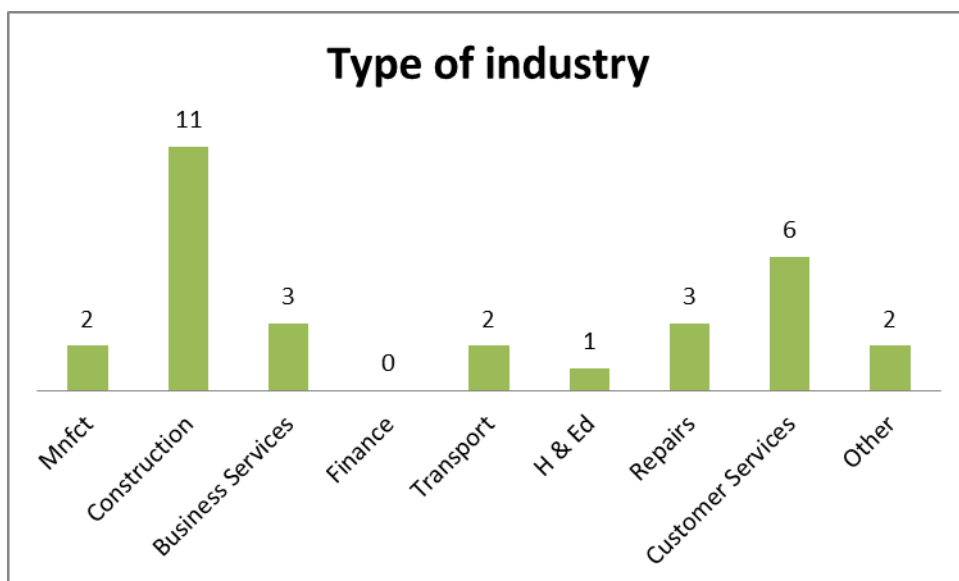


Figure 4.14. Type of industry

Figure 4.15 shows that very few of the participants were involved in manufacturing activities and this needs to be further investigated as to why more entrepreneurs choose to do other activities and not manufacturing because manufacturing can play a significant role in terms of increasing the country's GDP and reduce the unemployment rate.

4.3.18 Training requirements

In this section, the analysis focused more on the training requirements of entrepreneurs in the light of their socio-demographic characteristics such as race, gender, ownership status. The training needs are summarised in Table 4.19.

Table 4.19: Training requirements

		Gender		Ethnicity		Ownership	
		Male	Female	Non-Black	Black Only	Owner or Manager	Both
Motivational skills	No	11	7	6	12	9	9
	Yes	8	4	1	11	3	9
Entrepreneur skills	No	1	1	2	0	0	2
	Yes	18	10	5	23	12	16
Business skills	No	2	3	1	4	3	2
	Yes	17	8	6	19	9	16

Table 4.19 clearly shows that entrepreneurs feel they are in need of various forms of training to improve their skills. The analysis will focus on whether their training needs are somehow dependent on their gender, race or ownership status.

In order to establish whether there is an association between gender and motivational skills. The form of analysis that will be implemented is a Chi-Square test of association.

The hypotheses to be tested are:

- H0: there is no association between training requirements and gender, race or ownership status.
- H1: There is an association between training requirements and gender, race or ownership status.

The results of the tests are summarized in Table 4.20.

Table 4.20: ChiSquare test of association

	Gender		Race		Ownership Status	
	ChiSquare	Pvalue	ChiSquare	Pvalue	ChiSquare	P-value
Motivational skills	0.096	0.757	2.516	0.113	1.875	0.171
Entrepreneur skills	****	****	****	****	****	****
Business skills	1.407	0.236	0.037	0.847	1	0.317

None of the p-values are smaller than 5%, indicating that there is not enough evidence to conclude that an association exists between training requirements and gender, race or ownership status.

4.3.19 Challenges in accessing funding

Looking at the data sampled, it appears that one of the major challenges faced by SMMEs is that financial institutions are stringent in lending funds to entrepreneurs. Figure 4.16 depicts the number of successful applications for funding as a percentage of the total number of applications submitted.

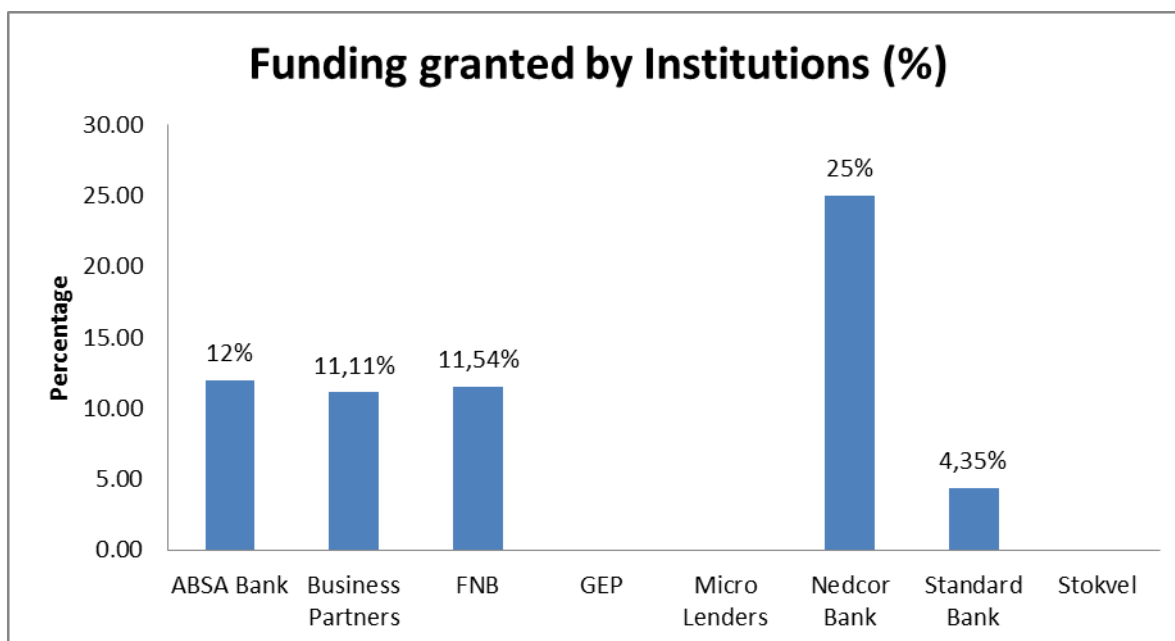


Figure 4.15: Funding granted by institutions as a percentage of the total submitted

4.3.20 Tests of association between outcome of application for funding and other variables

The results of the Poisson and logistic regression suggested that only age and ownership have a statistically significant impact on the outcome of an application for funding. Further analysis focused on the investigation of any statistical association between successful funding applications and other variables not included in the regression.

4.3.21 Successful funding applications and lack of bridging capital

Table 4.21 depicts the interplay between successful funding applications and lack of bridging capital.

Table 4.21: Successful application and bridging capital

No Bridging Capital	Successful Applicant	
	Rejected	Successful
Available	13	8
No Capital	3	6

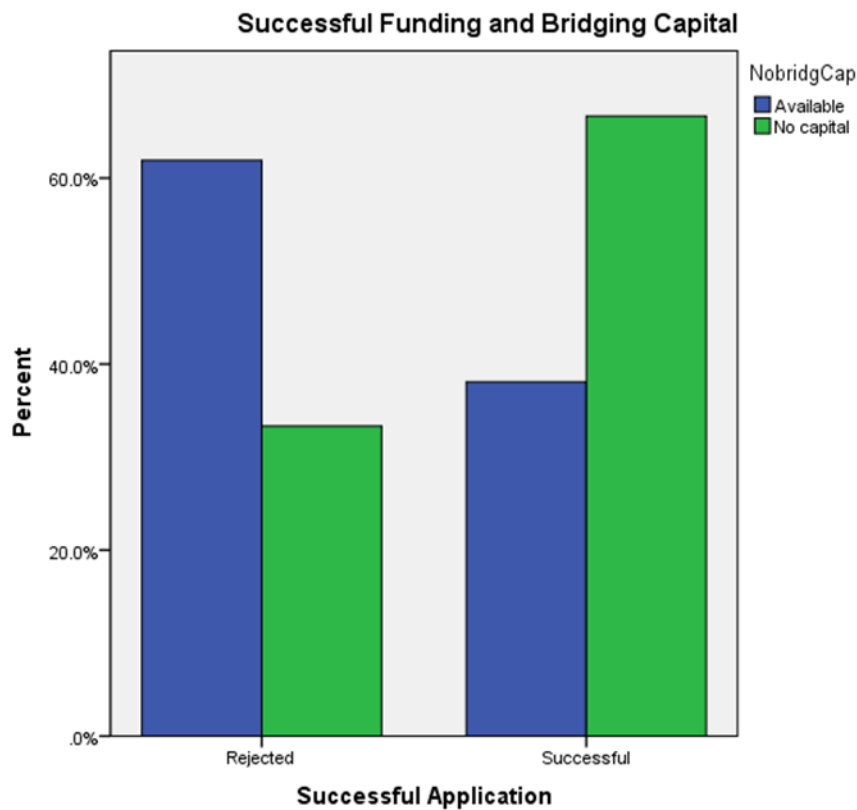


Figure 4.16: Successful funding and bridging capital

4.4 Discussion of factors identified

Analysis has shown a number of variables and factors that contribute to the challenges that are experienced by the entrepreneurs. These challenges include the lack of response time and taking too long to respond. Some of the contributory factors included the lack of awareness in terms of available funding institutions. Most of the organisations approached banks as the main form of funding and the lack of collateral from organisations was also observed.

The government funding institutions did not have a clear requirement or criteria that they are using to support or approve funding. Most organisations that received support received it in the form of training and not necessarily in the form of a cash injection to the business to procure the required tools and equipment that the organisations were aiming to procure. This could explain why fewer manufacturing companies were evident in the sample.

Government funding was most stringent in terms of funding approval. The banks were the leading form of funding in a form of loans to the entrepreneur. What the analysis or the questionnaires could not establish was if the loans from the banks were business loans or personal loans or overdraft.

The challenges experienced by SMMEs (Figure 4.16) is an indication that government institutions need to do more as it can be clearly seen that they provided minimal financial support to participants. The researcher is well aware that there could be a lot of factors that contributed to the lack of support from government funding institutions. This can be further explored in future research in order to address these gaps and to get a better understanding of why most government organisation are seen to be too stringent when it comes to approval of funding.

4.5 Summary

This chapter's aim was to provide a technical analysis of the collected data that was sampled in the Ekurhuleni area. The data results of the interviews were analysed using logistic and Poisson regression and other methods of establishing the relationship and the dependencies that contributed to the challenges that were experienced in accessing funding. The data was collected using a structured method of gathering data that covered all possible steps, experiences and challenges that entrepreneurs could face as part of the funding application process.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The results of the study show that SMMEs are still experiencing challenges in accessing funding. New companies experience an even greater challenge in getting any form of funding or loans. Businesses that have some form of collateral and a good credit history have the possibility of accessing funding from the banking sector. The government funding agencies seem to have requirements that are very stringent, as very few participants received funding from such institutions. It was evident that there are still no clear policies to address the issues and challenges experienced by the emerging or new companies in terms of accessing much needed funding. This is despite the role that SMMEs play in raising the GDP and reducing unemployment. It is clear that the government needs to focus more on the development of SMMEs and developing policies that will support and make it easy for them to access funding and reduce the time required to approve funding. In particular, special attention should be paid to the funding and development of the manufacturing and agricultural sectors.

The study gathered suggestions on training for entrepreneurs.

The aim of the study was also to generate additional data that can be utilised for further study thereby increasing understanding of the requirements of the SMMEs and the challenges they are experiencing.

5.2 Conclusions

That challenges faced by SMMEs are robbing the country of talent and innovation that will never be discovered should the status quo not change. Some of the ideas that were presented by the SMMEs are cutting edge innovations. It was also noted that most of the entrepreneurs that were interviewed started businesses because of the lack of employment. From this research most of the black entrepreneurs that started their businesses were from the previously marginalised group and are driven by the necessity to start their own businesses rather than opportunities that they have identified.

From the sample it was evident that most participants were not aware of all the institutions that offer funding. Institutions like SEDA need to publicise available funding channels and include a link on their website that lists different funding institutions and the criteria each institution uses to approve funding.

The lack of knowledge of other funding institutions was evident from the fact that in the questionnaire no participant filled in any names under “other funding institutions”.

It was established that the biggest constraint faced by the SMMEs was the lack of funding and support from the government. Many policies are in place, and there is now the Department of the Small Business Development, but not much can be claimed to have been achieved by the department. No significant change is noticeable as a result of the introduction of the department.

All the interviewed entrepreneurs agreed that training is important, and this was an indication that institutions like SEDA need to be visible and the service that they offer should be publicised as these institutions were established to assist SMMEs with training and funding support.

It can be concluded that both formal and informal SMMEs contribute to the employment of South Africans and the biggest contributor from the sample in this study was the construction sectors. Financial services, health and education and manufacturing were on the list in terms of numbers employed.

5.3 Recommendations

The following are some of the recommendations that can be considered as a way of promoting SMMEs and growing the formal sector by reducing the stringent requirements from registration to compliance that are seen as hurdles that stop most businesses from registering.

- **Policy review**

The government has to have a clear objective and should focus on inspiring local innovation and creating centres that support local manufacturing. These centres should be equipped with the required tools and test equipment. This will promote local innovations, designs and inventions and local manufacturing. The lack of

interest in manufacturing could be an indication that it is a sector where it is not easy to start a business that is not supported by the government and the private sector.

- **Local municipality support**

Local municipalities can create an enabling environment that will allow development of SMMEs without introducing requirements that is too stringent. This will allow SMMEs to grow and to acquire enough form of collateral for future expansion and growth.

- **Incentivise SMME supporters**

Introduce a policy that will incentivise banks to support SMMEs at startup and as they develop and grow their businesses. This could possibly work better than government institutions as most banks are equipped with systems that were observed to be much more efficient compared to government funding institutions. The benefits of using banking institutions as part of government support for SMMEs is that it will reduce the waiting period as banking institutions have systems in place that are available for evaluating and determining risk.

- **Create a demand for SMME products**

Motivate more and incentivise companies to support local entrepreneurs and for companies to support individuals to start manufacturing facilities locally and to support entrepreneurs who have ideas of starting manufacturing companies. This can be achieved by supporting and evaluating and supporting ideas that could see a success implementation of cutting edge solutions and technology.

- **Promote institutions like Fin-Find**

Institutions like Fin-Find (add REFERENCE) can be promoted on all government funding agencies websites to provide an alternative as they seem to have a link and explain the requirement for different funding institution and the list of available funding institutions.

- **Early development of entrepreneurial skills**

The government can consider introducing entrepreneurship and making some of the associated soft skills part of the education curriculum. This will help to introduce and

to offer some skills that an entrepreneur may require and can use should they not be able to afford to proceed to study further at universities or colleges.

- **Monitor and incentivise funding institutions**

Create a system that incentivises the teams or departments that are providing funding services. This system should focus on measuring the success rate and the turnaround time of responding to funding applications, the support and follow-up provided to the SMMEs, and include a feedback rating form from applicants.

5.4 Achievements of the objective of the study

The study established that more black entrepreneurs have acquired more information and have achieved at least a degree, and more black entrepreneurs have registered their businesses and this is a positive assessment in terms of indicating that there is a shift towards formal and registered business. This is a positive move, ensuring that there are more registered SMMEs moving more business from informal to formal business.

The study was also able to confirm that the SMME sector is not growing because there are still funding challenges which indicates that funding institutions have been lagging in terms of supporting and funding SMMEs. This was an indication that their processes and requirements are too stringent.

One point of note was the challenges experienced by both black entrepreneurs and white entrepreneurs with both groups of entrepreneurs struggling to get funding from government funding institutions.

5.5 Recommendations for future research

Future studies should cover some of the areas that were not analysed. This should close some of the gaps that were identified during the analysis of the data. These areas include the following:

- **Awareness of other government funding institutions**

A future study should include an assessment of the available government funding. This will assist in understanding if entrepreneurs are overwhelming

some institutions with applications and end up creating a backlog due to the number of applications that have to be evaluated.

- **Reasons for not getting funding**

It is also recommended that the questioners should include the reasons why the application for funding was never approved so that this data can be incorporated to establish the correlation and regression relationships.

- **Awareness of training provided to SMMEs**

One of the questions that was asked of all participants, was the question of training. It was acknowledged by all the participants that training was important. Future study should establish if all entrepreneurs are aware of the available training that is offered for free to all SMMEs.

- **Include interviews from funding institutions**

A future study should include information obtained from the funding agencies to establish the common reasons why funding is not approved. This will assist in establishing if there are specific sectors that have a specific programs to focus or fund specific sectors that needs to be prioritized. This will help to guide entrepreneurs to submit applications to the relevant funding institutions. The analysis of the funding institutions will assist with the challenges that these institutions face with the application that they receive from the applicants of entrepreneurs.

- **Time taken for funding institution to respond**

It is also important to measure the response time. Most entrepreneurs indicated that government funding institutions responded very late. One entrepreneur indicated that it took more than two years to get a response from one of the funding institutions. This is a critical unit that needs to be analysed as most entrepreneurs will miss an opportunity if the average awaiting period is as long as two years.

- **Feedback received form the funding institutions**

Analysing the feedback given to the applicant can also assist to understand the gaps in order to advise applicants properly and to look at possible interventions that SMMEs should focus on in order to meet the funding agencies requirements.

- **Analyse the Department of Small Business Development policies**

One area that can also assist to understand the challenges that the SMMEs are experiencing regarding funding, is to understand the policies that were implemented by the new Department of Small Business Development. It would help to understand the alignment of the Department of Small Business Development and look at the implementation plan of these policies.

5.6 Summary

Chapter 5 focused on the conclusion based on the results of the sample that was analysed and the recommendations that could be made based on the outcome of this analysis to improve the current challenges that are preventing SMMEs from accessing funding. This chapter also looks at the achievements of the study and makes recommendations for the future regarding the gaps that were identified in the data analysis process that will improve the data analysis process.

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APPENDICES

Appendix A: Data collection instrument(-s)



Dear Respondent:

Welcome to our NWU School of Business and Cooperate Governance Survey.

Research survey of the problems of Accessing SMME Funding

This survey takes approximately 5-10 minutes to complete, your time would be highly appreciated.

Disclaimer:

Please note that this survey forms part of the Research module for the NWU School of Business and Cooperate Governance for the MBA program. Data collected will be kept confidential and will only be used for the educational purpose. The survey is thus not designed by the NWU School of Business and Cooperate Governance Management Team.

Introduction:

The department of Trade and Industry(DTI) highlighted that addressing the unemployment and the challenges on growing the country's Gross Domestic Products(GDP) is directly linked to the opportunities that can be created for SMME's and the access to funding. However not much empirical studies are available other than studies that were commissioned by the funding institutions that explains the challenges that SMME's are experiencing regarding access to funding.

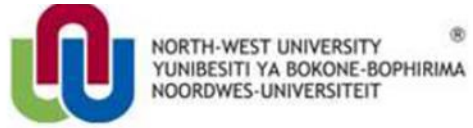
Purpose of these Questionnaires:

The purpose for the question is to collect data and analyse the challenges that SMME's have regarding accessing funding that is required for business start-ups or growing their businesses. The understanding of the challenges will assist in

unlocking the funding that SMME's require to start-up or grow their business. The questionnaire will also assist in understanding the role that funding institutions play in helping SMME's to meet their requirements in order to access the required funding. The study also aims to recommend possible solutions that SMME's can explore in order for them to access funding.

Your participation will be greatly appreciated, and it will assist in understand the challenges that SMME's have in accessing funding. All information provided will be treated in the strictest confidence.

Thank you for participating in this survey process.



Questionnaire: Examining the challenges in accessing funding for SMMEs: in the EastRand(Ekurhuleni),

Answer each question by filling an X in the box provided or written your answer in the greyed out area bellow.

Respondent Number

--	--

Demographic information

a. What is you gender?

Male	
Female	

b. What is your age in years?

Age	
-----	--

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

Language	
Afrikaans	
English	
Ndebele	
Pedi	
Sotho	
Swati	
Tsonga	
Tswana	
Venda	
Xhosa	
Zulu	
Other	

d. What is your race?

Black	
White	
Coloured	
Asian	

e. What is your highest formal educational qualification?

Matric/Grade 12 or less	
Certificate/Diploma	
Bachelor's Degree	
Honours degree	
Master's Degree	
Doctorate	
Other	

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

Business	Time(months)
1	
2	
3	
4	
5	

1. What is your position in the business?

Owner	
Manager	
Both	
None-specify	

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

0-2 years	
3-5 years	
5-10 years	
10+ years	

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

Agriculture	
Manufacturing	
Construction, Mining	
Business Services	
Finance	
Transport, Communication	
Health Care, Education, Social Services	
Wholesale, Motor Vehicles and Repairs	
Customer Service	
Other	

4. How many people do you employ?

A micro enterprise	
A very small business	
A small enterprise	
A medium enterprise	
A large enterprise	

5. In which stage of the life cycle phase is your business currently in?(mark with an X)

Seed capital- relatively small amount to prove concepts and finance feasibility studies	
Start-up- funding to actual get company operations started	
Expansion- Working capital for initial growth and major expansion for enterprise with growth	
Being financing – to prepare company for public offering	
Other(Specify)	

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

Family and friends	
Own savings	
Commercial banks	
Gauteng Enterprise Propeller(GEP)	
Other(Specify)	

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

Lack of start-up capital	
Lack of establishing funds/capital	
Lack of credit facility from the suppliers	
Lack of bridging capital	
Lack of funds for expansion	
Other	

8. Which of the following financial entities have you approached for financial assistance?

ABSA Bank	
Business Partners	
First National Banks	
Gauteng Enterprise Propeller(GEP)	
Micro Lenders	
Nedcor Bank	
Standard Bank	
Stokvel	
Others (Specify)	

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

ABSA Bank	
Business Partners	
First National Banks	
Gauteng Enterprise Propeller(GEP)	
Micro Lenders	
Nedcor Bank	
Standard Bank	
Stokvel	
Others (Specify)	

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					
Feedback time					
Supply of all information					
Assistance in filling forms					
Assistance in drafting business plan					
Other(specify)					

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

Communication problems- no forms in local language	
Lack of collateral	
Bad credit	
Lack of business skills	
Other(Specify)	

12. How did you know of the funding institutions of SMME's.

Referral by friends and relatives	
Over the radio	
Television advertisement	
From the Department of Trade and Industry	
Other (Specify)	

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

Complexity of application forms	
Too many forms to fill in	
Lack of collateral security	
Time Frame of feedback was to long	
Ability of banker to inform and assist in the entire application process	
Other(Specify)	

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

Bad credit record	
Lack of collateral	
Poor business plan	
Character of the entrepreneur	
Other(Specify)	

15. Which of the institutions did you approach to finance your business?

Gauteng Enterprise Propeller (GEP)	
Business Partners	
Industrial Development Cooperation (IDC)	
Micro Lenders	
Stokvels	

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

No knowledge of the entities	
Inaccessible(e.g phones just ring)	
Got money from friends a and family	
Play the lotto for hope	
Other(Specify)	

17. Do you believe entrepreneurs need training?

Yes	
No	

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

Motivation Skills	
Entrepreneurial skills training	
Business skills training	
Other skills, please specify	

I greatly thank you for your participation in this research intervention.

Appendix B: Informed consent form



Letter of Introduction and Informed Consent

NWU School of Business and Governance

Title of the study

Examining the challenges in accessing funding for SMMEs.

Research conducted by:

Mr. R. Mosia (27849007)

Cell: 082 889 3009

Date: 06 May 2017

Dear Participant

You are invited to participate in an academic research study conducted by Riccardo Mosia, Masters student from the School/Department of Business and Governance at the North West University in Potchefstroom.

The purpose of the study is to establish the challenges that SMME's face with regards to accessing funding and to determine the gaps and use those finding to establish how can the SMME's be assisted and to establish the actual requirements or specific needs for the SMME's in order to be assisted to ensure that they meet the funding requirements.

Please note the following:

- This is an anonymous study survey as your name will not appear on the questionnaire. The answers you give will be treated as strictly confidential as you cannot be identified in person based on the answers you give.
- Your participation in this study is very important to us. You may, however, choose not to participate and you may also stop participating at any time without any negative consequences.
- Please answer the questions in the attached questionnaire as completely and honestly as possible. This should not take more than 20 minutes of your time.
- The results of the study will be used for academic purposes only and may be published in an academic journal. We will provide you with a summary of our findings on request.
- Please contact my study leader/Supervisor: **Prof. Christoff Botha**, at the following e-mail address christoffbotha@nwu.ac.za, or contact him on **(018) 299 1672** if you have any questions or comments regarding the study.

Please indicate that:

- You have read and understand the information provided above.
- You give your consent to participate in the study on a voluntary basis. (Please tick)

YES

Date of consent:.....

Appendix C: Application for ethical clearance



27849007
MOSIA RE MR

NWU School of Business & Governance
North-West University
Private Bag X6001, Potchefstroom
South Africa 2520
Prof CJ Botha
Tel: (018) 299 1672
Email: christoff.botha@nwu.ac.za
25 April 2017

ETHICAL CLEARANCE

This letter serves to confirm that the research project of **MOSIA RE** has undergone ethical review. The proposal was presented at a Faculty Research Meeting and accepted. The Faculty Research Meeting assigned the project number **EMSPBS16/06/03-01/30**. This acceptance deems the proposed research as being of minimal risk, granted that all requirements of anonymity, confidentiality and informed consent are met. This letter should form part of your dissertation manuscript submitted for examination purposes.

Yours sincerely

Prof CJ Botha

Manager: Research - NWU Potchefstroom Business School

Original details: Wilma Pretorius(12090298) C:\Documents and Settings\Administrator\My Documents\Briewe MBA\2017\

Appendix D: Letter from the statistician confirming analysis

Alain Kaninda
Econometrics Lecturer
Department of Business and Economics
Monash South Africa

Pretoria, October 23rd 2017

Concern: Statistical Analysis for Mr Riccardo Mosia

To whom it may concern,

Dear Sir, Madame

I hereby certify that I have conducted the statistical analysis on behalf of Mr Riccardo Mosia, student number 27849007, for his research dissertation titled: Examining the challenges in accessing funding for SMME's.

I am an expert in statistics and am confident I am qualified for this task as I hold the following qualifications:

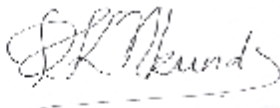
- Honours Degree in Statistics (Lubumbashi Institute of Statistics, 1994)
- Post-Graduate Diploma in Mathematical Statistics (Wits University, 2007)
- Master of Philosophy in Economics, with strong emphasis in Econometrics (University of Pretoria, 2015);
- PhD Candidate in Economics in the area of econometric modelling of Access to and Use of financial products and services in the SADC region.

I am currently a Lecturer in Econometrics and Statistics at Monash University, Department of Economics.

Please do not hesitate to contact me should you require any additional information.

Please accept, Dear Sir, Madame, the assurances of my highest consideration.

Alain Kaninda



Mobile : +27 72 244 6004 ; Office : +27 11 950 4108 ; alain.kaninda@monash.edu

Appendix E: Editing certificate

DR RICHARD STEELE

BA, HDE, MTech(Hom)

HOMEOPATH

Registration No. A07309 HM

Practice No. 0807524

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Associate member: Professional Editors'

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EDITING CERTIFICATE

Re: RE Mosia

Master's dissertation: Examining the challenges in accessing funding for SMMEs

I confirm that I have edited this dissertation and the references for clarity, language and layout. I am a freelance editor specialising in proofreading and editing academic documents. I returned the document to the student with track changes so correct implementation of the changes in the text and references is the responsibility of the student. My original tertiary degree which I obtained at the University of Cape Town was a B.A. with English as a major and I went on to complete an H.D.E. (P.G.) Sec. with English as my teaching subject. I obtained a distinction for my M.Tech. dissertation in the Department of Homeopathy at Technikon Natal in 1999 (now the Durban University of Technology). During my 13 years as a part-time lecturer in the Department of Homeopathy at the Durban University of Technology I supervised numerous Master's degree dissertations.

Dr Richard Steele
5 November 2017
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