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SMME Access To Finance In South Africa

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By

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ABSTRACT

The challenge of development in South Africa is to increase employment, broaden distribution of wages and enhance skills of all workers, but particularly those workers disadvantaged by apartheid. The high unemployment rate and unemployability of a large section of the population, self-employment through small business presents the only realistic solution. But successful start-up and sustainability of such enterprises requires readily available access to robust and effective microfinance and business support programmes. This research studied SMME access to state and commercial financing vehicles and how this impacted on their growth prospects. The results from case studies show pervasive lack of access to finance by the SMMEs and that business start-ups and cash flows are financed mainly from savings and, to a lesser extent, from simple instruments, such as bank overdraft; While these kinds of financing have led to increased stock carrying and modest revenue growths, it has led to neither expansion of business nor significant increases in employment. Although the results show that banks have made big strides in reaching out to previously excluded and unbanked consumers and that they are more visible to the SMME than state institutions, the business owners show high levels of risk and debt aversion by not taking advantage of available SMME focused loans offered by the banks. Albeit the study could not satisfactorily and authoratively establish causes of this aversion beyond information deficiency and incoordination within banks, it is clear that it (aversion) led to a form of self-censure to obtaining loans. More research is needed to get a better understanding of this phenomenon.

Keywords: Access to finance; Unemployability; Microfinance; Support; state institutions

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GLOSSARY OF TERMS

AMFISA	Association for Pro-poor Micro Finance Institutions for South Africa
BEE	Black Economic Empowerment
BRAIN	Business Referral and Information Network
BSM	Business Sophistication Measurement
COSATU	Confederation of South African Trade Unions
CPPP	Community Public Private Partnership Programme
DED	Department of Economic Development
DST	Department of Science and Technology
Dti	Department of Trade and Industry
FI	Financial Intermediaries
FNB	First National Bank
GDP	Gross Domestic Product
GEM	Global Economic Monitor
GEP	Gauteng Enterprise Propeller
HDI	Historically Disadvantaged Individuals
MFI	Micro Finance Institution
MFSA	Microfinance South Africa
MSME	Micro Small Medium Enterprises
NAMAC	National Manufacturing Advisory Centre
NCR	National Credit Regulator
NEF	National Empowerment Fund

NGO	Non Government Organisation
NYDA	National Youth Development Agency
OECD	Organisation for Economic Co-operation and Development
RFI	Retail Finance Intermediaries
R & D	Research and Development
SAMAF	South African Micro-finance Apex Fund
SAWEN	South African Women Entrepreneurs' Network
Seda	Small Enterprise Development Agency
SMB	Small and Medium Business
SME	Small and Medium Enterprises
SMME	Small Medium and Micro Enterprises
Spaza	Small informal, home-based business
STP	Seda Technology Programme
TIA	Technology Innovation Agency
VAT	Value Added Tax

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1.0 INTRODCUTION

The landscape of South Africa is dominated by a plethora of informal small business, the majority of which are survivalist enterprises and subsistence-like in nature. These enterprises are fuelled by the endemic poverty and high unemployment rate that characterizes most of the South African population. Sustainability of these enterprises is critical to poverty alleviation and job creation. Micro-finance is, therefore, an important element in ensuring start-up, maintenance and growth of these enterprises. MFIs play an important role in the facilitation of credit and financing of these enterprises.

This research will review microfinance and other support programmes provided by organizations such as Khula, SAMAF, the DTI, etc; this will be achieved through analysis of the relevant SMME databases. In addition to this overall review of the of the national SMME landscape, a benchmark study will be carried out in Soweto to enhance the research.

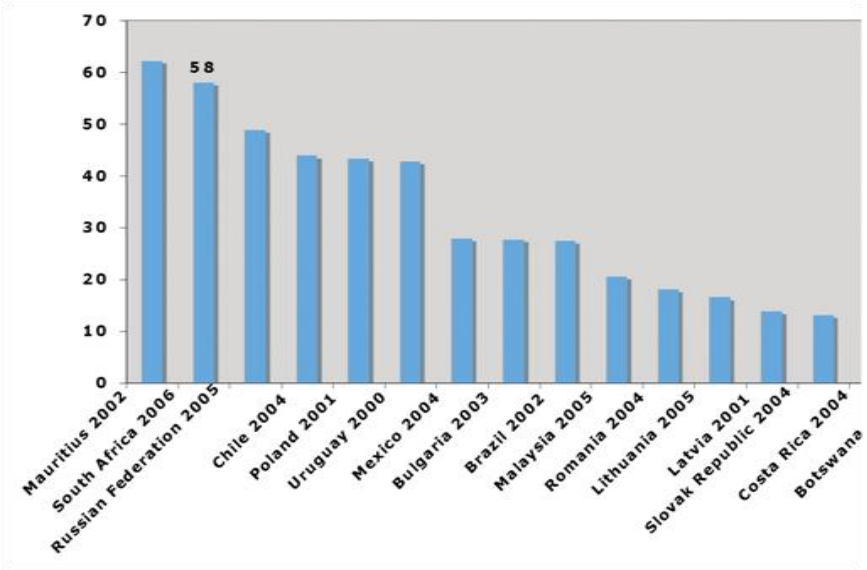
1.1 Research Area

Microfinance has gained ground in South Africa in the last ten years. This is in response to the persisting unemployment and poverty and the recognition of the need for state support in extending credit to the unemployed poor, which the commercial banking sector has been largely unwilling to do. Hull (2012) found that in South Africa bank loans were used primarily for consumption purposes rather than to fund micro-enterprise and that salaried workers were the main beneficiaries, rather than self-employed, informal sector workers.

The role of Small, Medium and Micro Enterprises in the economic life of developing economies is critical in the alleviation of poverty and creation of jobs. Support for these enterprises, financially and otherwise, plays an important role in ensuring effective start-up, growth and sustainability of income for these enterprises. Survivalist enterprises, characterized by owner/family-run businesses with below-the-breadline incomes, experience high failure rates due to their sensitivity to slight market fluctuations or family illnesses; these can rapidly push survivalist enterprises into bankruptcy. Yet, because of the relative ease of entering the survivalist SMME sector, such enterprises are often the

first entry point into employment. Thus, most developing countries seek to provide some form of support to this informal sector, hoping to encourage both business growth and formalization (Toomey, 1998:94). Recognition of this need has catalysed the formation of numerous state finance agencies, NGOs and international Micro-Finance Institutions (MFIs), which are playing a vital, but limited role in reaching out to the alienated poor households and informal enterprises. The following diagram shows the number of SMMEs per 1000 inhabitants in various countries.

Figure 1: SMMEs per 1000 Inhabitants for some Upper-Middle-Income Economies



Source: Berry, A. and von Blottnitz, M

Due to pervasive unemployment and poverty, fuelled by the mismatch between the number of entrants into the labour market and the number of available jobs, many poor South African households find themselves faced with destitution and, as a last resort, turn to informal survivalist enterprises. This move is, therefore, undertaken out of dire need to put bread on the table, rather than by entrepreneurial choice. It is not surprising, then, that such an entrepreneur will readily switch to formal employment anytime, should such an opportunity arise.

The high unemployment rate in South Africa is further exacerbated by the influx of legal and illegal immigrants from the neighbouring countries, such as Zimbabwe, Mozambique, Zambia, etc. Todaro (in Rolfe, Woodward, Ligthelm, and Guimarães, 2010:6) postulated that the informal sector served as a waiting place for migrants wishing to enter the formal employment sector. Thus, it can be argued that a large majority of this kind of entrepreneurs lack the motivation, innovation and the wherewithal to grow their enterprises into formal profit-driven enterprises; this state of affairs may lead to adverse selection in that micro-loan borrowers may largely be 'circumstantial' entrepreneurs, and not truly motivated entrepreneurs seeking to grow their enterprises (Paradigm Shift, 2009).

Given the importance of household-based enterprises in the provision of subsistence to the poor and unemployed, some writers suggest that this group of entrepreneurs should be given affordable access to finance so that they can grow their income and asset bases. The United Nations also see micro-finance as an important contributor to achievement of the Millennium Development Goals (Lensink, 2007:F1).

Notwithstanding the fact that mainstream financial services are reluctant to provide micro-finance to the poor household and small businesses, high interest rates, lack of collateral and tedious credit application processes all serve to exclude the poor from economic participation and development (Hamada, 2010).

The proposed research will focus on accessibility to financing by SMMEs and how this influences their failure, growth, mobility or progression to next level, namely Survivalist to Micro enterprise.

1.2 Problem Statement

According to Kothari (2004), a research problem relates to some difficulty experienced by the researcher and seeks to solve.

South Africa comes from a past where the majority population was marginalized and, among other things, deprived of meaningful education, economic activity such as employment and entrepreneurial opportunities. One result of this exclusion has been high

levels of unemployment and poverty that still persist today, long after the dawn of democracy. The South African government and various development agencies duly identified development and growth of the Small, Medium and Micro Enterprise (SMME) sector as the most direct way of stimulating self-employment and economic growth and, through multiplier effect create more jobs and impact the endemic poverty that has come to characterizes South Africa.

Given the importance of the SMME sector, as a solution to the high unemployment and poverty alleviation in South Africa, the government has encouraged establishment of micro-finance institutions (MFIs), as an alternative to formal commercial bank finance. The mandate of the MFIs is the support and financing of the SMMEs to ensure acquisition of the appropriate entrepreneurial skills and facilitation of access to cheap and softer financing, with lesser stringent requirements than those demanded by the mainstream bankers.

As part of the learning process and in effort to improve their services, micro-finance practitioners, donors, and governments continuously want to gather knowledge on the extent of reach and impact of their credit interventions on SMME development and support. There is, therefore, an increasing demand for quantitative and qualitative impact assessment studies to determine the effectiveness and failures of micro-credit in promoting growth and sustainability of SMMEs and poverty alleviation (Afrane, 2002). To this end, the proposed study hopes to provide more knowledge on access to finance by SMMEs in South Africa.

1.3 Purpose and Significance of the Research

The main purpose of the proposed study is to establish the access levels to and impact of microfinance on the promotion of growth and upward mobility of enterprises, especially from Survivalist to Growth-orientated Micro enterprises, with the following objectives:

1. Examine SMME accessibility to microfinance and credit and effectiveness of microfinance institutions in this regard;

2. Study the effect of microfinance on the growth and graduation/mobility of SMMEs in South Africa
3. Study the barriers to growth and causes of SMME failure in South Africa.

The research will shed light on effectiveness of microfinance and its accessibility to the SMME, the results of which will aid all stakeholders in assessing the impact, effectiveness and reach of the microfinance industry in general. This knowledge can, in turn, inform future policy decisions and strategies of all interested parties, such as state institutions, commercial banks, business owners, etc.

1.4 Research Questions and Scope

Determining the research question(s) is an extremely important step in both quantitative and qualitative research processes because these questions narrow the research objective and research purpose to specific questions that researchers attempt to address in their studies (Creswell; Johnson & Christensen in Onwuegbuzie and Leech, 2005).

Given the subsistence nature of the Survivalist entrepreneurs, their main business driver becomes the provision of security and steady household income, not growing of profits. In addition, due to the need to support extended family members, it is difficult for these enterprises to accumulate enough capital to finance growth. Given these realities, Survivalist enterprises will seek to diversify rather than specialise (Berner, Gómez, Knorringa, 2008:1). Wright (in Berner, Gómez, Knorringa, 2008:9) wrote that "the poor are too smart or too risk-averse to put all their eggs in one basket and invest exclusively in one activity or enterprise". 20% of the households in India had a second and even third source of income (Banerjee & Duflo in Berner et al., 2008:1).

The lack of profit and growth appetite of the survivalist enterprise and their sensitivity and vulnerability to economic upheavals provide no motivation for microfinance institutions, which prefer financing profit-making business concerns which have the ability to meet interest and capital repayments. Even when they receive assistance, such as finance, training, etc., the survivalist orientation my still persist (Berner et al., 2008:8). Even where

the survivalist entrepreneurs may secure finance, the amounts may not be enough for a growth-oriented entrepreneur (Zandniapour et al. in Berner et al., 2008:10) .

The proposed study seeks to explore access to microfinance and how it affects the growth and failure of SMMEs, especially the survival-orientated enterprises. The study will also test the hypothesis that survivalist entrepreneurs are not focused on growing profits, but rather on security of subsistence and smoothing of income, and become trapped in their 'survivalist state' and hence they can neither grow nor graduate out of this sector of the economy (Berner et al., 2008)

The proposed study will examine SMME access to finance and other support through answering the following primary questions:

1. Are SMMEs aware of the microfinance institutions and their services?
2. Are microfinance institutions accessible to the majority of SMMEs?
3. Do microfinance support programmes lead to growth and success of SMMEs?

The research of secondary data analysis covers state SMME finance and support institutions – Seda, SAMAF and GEP - and commercial banks: Absa, First Rand and Nedcor. Figure 2 illustrates the range of data or indicators reviewed.

Figure 2: Secondary Data Fields

INSTITUTION	DATA POINTS	
GEP / SAMAF	• Deals Approved • Funds Approved • Disbursement Amounts • Commitments • Approvals by region and product • Institutional Capacity	• SMME Training • Financing by PDI • Ownership • Turnover • Customer Satisfaction Indices • Repayment Rates
Seda	• SMME Registrations • SMMEs Established • SMME s supported • Jobs created	• SMME Turnover • SMME Serviced • PDI Statistics • Training

	• Institutional Capacity • Customer Satisfaction Indices
Commercial Banks	• BEE Procurement Statistics • Targeted Financing • Microfinance Approvals • Funding Profile • Loss by Customer Type

In addition to secondary analysis, 10 case studies are recorded across different locations in Soweto to ensure representivity and minimization of bias in enterprise profiles covered.

1.5 Research Assumptions

Simon (2011) says assumptions in a study constitute things that are outside the control of the researcher, but without which the study would not exist, and assumptions are integral parts of scientific explanations (Steuer, 2009); assumption have to be justified if the study has to continue.

Assumption can be on methodology, the sample chosen, results, variable results, etc. The following assumptions characterised this study:

- Respondents willingly participated in the study and all responses sincere and reflects true state of affairs at the enterprises visited because of guaranteed anonymity and confidentiality;
- Sample profile, behaviors and experiences reflective of the average SMME population in Soweto because the sample was carefully chosen from a typical environment;
- Secondary data analysed reflect a true account of MFIs and commercial bank performance with respect to SMME support and financing;
- Sample size and the hypothesis on the data will be sufficient to support decisions making on relationships between selected variables;
- SMME data is normally distributed and parametric analyses can be run on it;
- The combined methodologies used in case study and secondary data analysis were appropriate;

- Variables being investigated are measurable of can be coded in a way that engenders measurability;

2.0 LITERATURE REVIEW

2.1 Introduction

In the aftermath of the South Africa's first democratic elections, two factors stimulated the emergence and proliferation the SMME sector. The first factor was the removal of the draconian apartheid laws that had hitherto made it difficult for blacks to go into business; the new dispensation encouraged South Africans to establish new business by promising state support for small businesses. The second an main driver for the SMME emergence and proliferation was the high unemployment that characterised the period immediately after the first democratic elections; this was mainly due to the economic restructuring that saw many industries scaling down and shedding jobs. The growth of the informal sector and the resultant surge in the number of small businesses was, therefore, caused by necessity rather than opportunity (GEM, 2011).

With unemployment in South Africa currently estimated at more than 25%, and a growing awareness of the role of entrepreneurship in stimulating economic growth and reducing joblessness, access to credit finance is vital for survival of the small businesses and lack of it is an impediment to their growth and sustainability, especially in the poorer communities. There is a debate raging on whether it is more meaningful and beneficial to provide micro-finance to the economically active micro-enterprises to stimulate their growth and development into formal economic units, or alternatively target such finance at the poorest sections of the community, such as the survivalist enterprises, to alleviate poverty there. Often, the poor have no access to loans from the mainstream banking system because of one or more of the following: of lack collateral, unacceptably high transaction costs and information asymmetry (Hermes & Lensink, 2007). This gap - in the provision of micro finance caused by several factors, such as lack of collateral and reluctance of commercial banks to finance informal business - led to the relaxation of regulations and permission for operation by the Micro Finance Institutions (MFIs). To some extent, MFIs have demonstrated that it is feasible to lend to the poor and, with proper institutional design, they are capable of keeping good repayment records (Hamada, 2010).

Many study results in South Africa, and across the developing the world, have shown with monotonous regularity that the biggest impediment to small business development, growth and sustainability is lack of access to finance.

The objective of this study is to investigate SMME access to finance and other related support in South Africa and the effect of this on the surveyed enterprises.

2.2 Rationale for the SMME Sector

Unemployment in South Africa, which is growing by the year, is exacerbating the plight of the poor majority. Mining used to be a source of mass employment for poor and uneducated South Africans, with labour shortfalls being filled by migrants from neighbouring countries, such as Mozambique, Lesotho, Malawi, etc. But over the last decade or so there has been a marked decline of the mining sector, which resulted in massive retrenchments and closure of inefficient operations. Other industries have, and continue, to experience a decline; these have had a collective negative effect on the economy resulting is a loss of thousands of jobs. The declining economy is incapable of absorbing new and young job seekers, further worsening the existing situation in South Africa. Rogerson (1990, page 175) remarks that "the conditions of recession in the formal economy is the core explanatory variable for the surge in survivalist enterprise in often already "overtraded" income niches such as spazas and hawker operations."

Due to pervasive unemployment and poverty, fuelled by the mismatch between the number of entrants into the labour market and the number of available jobs, many poor South African households find themselves faced with destitution and, as a last resort, turn to informal survivalist enterprises. This move is, therefore, undertaken out of dire need to put bread on the table, rather than by entrepreneurial choice. It is not surprising, then, that such an entrepreneur will readily switch to formal employment anytime, should such an opportunity arise. Berner, Gómez and Berner (2008, page 15) suggests that "finding a waged job is the most realistic option for a better and more secure livelihood of survival entrepreneurs…."

The high unemployment rate in South Africa is further exacerbated by the influx of refugees, legal and illegal immigrants from the neighbouring countries, such as Zimbabwe,

Mozambique, Zambia, etc. Todaro (cited in Rolfe, Woodward, Ligthelm & Guimarães, 2010) postulated that the informal sector served as a waiting place for migrants wishing to enter the formal employment sector. Thus, it can be argued that a large majority of this kind of entrepreneurs lack the motivation, innovation and the wherewithal to grow their enterprises into formal profit-driven enterprises; this state of affairs may lead to adverse selection in that micro-loan borrowers may largely be 'circumstantial' entrepreneurs, and not truly motivated entrepreneurs seeking to grow their enterprises (Skowronski, 2009).

The proliferation of informal and home-based trade in Johannesburg is manifest in the number flea markets, hawkers, taxis, street barbers, spaza shops, shebeens, hairdressers, backyard motor mechanics, etc. Formalised enterprises can be seen in rented offices in middle of town or small manufacturing outfits located in small business or industrial parks in Soweto, for example (Rogerson, 1990)

2.3 Definitions

2.3.1 Entrepreneurship

Before examining the definitions and nature of SMMEs per se, it is important to put perspectives on entrepreneurship as a discipline. Reynolds et al in GEM report (2005, page 208) observe that "although there seems to be no generally accepted definition of entrepreneurship, many assessments are unified by the notion that entrepreneurship is about creating something new." Entrepreneurship also involves risk and initiative-taking and organizing social and economic mechanisms to transform resources (Hisrich, Robert, Peters, Dean & Shepherd, 2005). Entrepreneurs have also been generally described as bearers of risk, agents that bring together the factors of production or organizers of innovation (Schumpeter 1942 cited in Lingelbach, De La Vina & Asel, 2005). Berner et al (2008) makes the point that conventional economic theory posits that entrepreneurs take risks, specialize, maximize profits, accumulate and do everything necessary to make their businesses grow. Entrepreneurship also combines positive dimensions of taking advantage of opportunity, innovation on the one hand and negative in the sense that the true success of entrepreneurship can only be determined after the fact (Roger & Osberg, 2010).

2.3.2 Entrepreneurship - Developing Vs Developed World

Whilst entrepreneurship across the world shares some common traits, studies continue to show that fundamental differences and opportunities exist for entrepreneurship in developed and developing worlds. However, none of the thinkers on entrepreneurship "distinguished between entrepreneurs operating in different business environments or considered differences between entrepreneurship in wealthy and poor countries at various stages in economic history." (Lingelbach et al, 2005, page 2). From their paper, Lingelbach et al found that opportunities for entrepreneurs in developing countries are broader in scope than in developed markets and that they also faced different set of circumstances due to different economic realities they operate under. In general, emerging markets in developing countries are more unstable than their mature counterparts in the developed countries; this disparity creates more opportunities for entrepreneurship in emerging markets. These authors also note that while western entrepreneurs operate on the periphery of the economy, emerging market entrepreneurs operate closer to the core of the economy, making them more encompassing in their reach.

According to Abor and Quartey (2010), SMMEs in the developing world are mostly characterised by sole proprietorship, which tends provide the largest employment for the proprietors and retailing enterprises are often found in urban environments and their ownership is dominated by women.

2.3.3 Small Medium and Micro Enterprises

There are various definitions and acronyms that describe small businesses, depending on where one is in the world; even in the same country, such as South Africa, there are numerous definitions. Authors and researchers use different definitions of small businesses based on various characteristics such as relative size, industry type, etc; some writers use capital assets, skill of labour, turnover, legal status or method of production (Abor and Quartey, 2010). In South Africa, small businesses are usually typified as Small Medium and Micro Enterprises (SMMEs) or interchangeably SME. Elsewhere in Africa, these are characterised as MSME – Micro Small and Medium Enterprises. In Europe the commonly used term is SME (or SMB) for Small and Medium Enterprises/Business (Mahembe,

2011). The following matrix, Figure 3 from a National Credit Regulator report (2011) shows the different definitions of small businesses across the world.

Figure 3: Synopsis of SME Definition by Region

						BRIC					
	EU	USA	ASIA(Mlysia)	EGYPT	GHANA	BRAZIL		RUSSIA	INDIA	CHINA	RSA
						Industrial	Commercial				
WORDS	Small and Medium Enterprise	Small and Medium Business	Small and Medium Enterprise	Micro,Small and Medium Enterprises	Micro, Small and Medium Enterprises	Small and Medium Enterprise	Small and Medium Enterprise	Small and Medium Enterprise	Micro,Small and Medium Enterprise	Small and Medium Enterprise	Small, Medium and Micro Enterprise
# of EMPLOYEES											
Micro	< 10	0	< 5	1 to 4	up to 5	Up to 19	Up to 09	0	0	0	< 20
Small	< 50	<100	5 to 50	5 to 14	6 to 29	20 to 99	10 to 49	15 to 100	0	<300	50-99
Medium	< 250	<500	51 to 150	15 to 49	30 to 99	100 to 499	50 to 99	101 to 250	0	300 to 2000	100-200
TURNOVER											
Micro	$3m	0	RM250.000	0	$10 k	0	0	0	<Rs50m	0	<R150k
Small	$13m	0	RM250.000 to< RM10m	0	$100k	0	0	400 m RUB max	Rs50-60m	<Y30	R2m to R4.5m
Medium	$67m	0	RM 10m to RM 25	0	$1million	0	0	1 B RUB max	Rs60-99m	Y30 to Y300m	R4.5 to R50m

Source: National Credit Regulator (2011)

SMMEs are sometimes categorized based on their progression or business maturity. Rogerson (1996) proposes two main groupings, namely Survivalist and Micro enterprises. Rogerson describes Survivalist enterprises as undertaken by people who are unable to secure regular paying jobs or have no access to an economic sector of their choice, and dominated by female owners with incomes usually below the minimum standard, mostly driven by poverty and desperation. Micro enterprises, which are growth-oriented, are small with about four employees and mostly informal with respect to licensing, business systems, training, etc. Unlike the Survivalist, the Micro enterprises have the potential to grow and prosper (ibid).

Liedholm and Mead (cited in Lingelbach et al, 2005) identify four types of enterprises, namely: newly established, established but not growing, established but growing slowly, and graduates to a larger size. Interestingly, the two categories of 'established but not growing' and 'established but growing slowly' coincide with Rogerson's 'Survivalist' enterprise; 'graduates to a larger size' matching Rogerson's definition of 'Growth-oriented' enterprises.

In South Africa, SMME definitions can be broadly categorised into economic or statistical; the former referring to the following criteria: relative market share (small), owner managed through informal management structure and independent of other larger enterprise. The

latter is based on: sector size, employment, exports and contribution to GDP (Mahembe, 2011).

The official South African definition of small business is established by the Small Business Act of 1996 (amended in 2003 and 2004) as follows:

> … a separate and distinct business entity, including co-operative enterprises and nongovernmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy mentioned in Column I of the Schedule14...

This definition is further refined to categorise small businesses into Survivalist, Micro, Medium and Small enterprises as shown in the Figure 4. This is the most widely used framework in South Africa (Abor & Quarterly, 2010).

Figure 4: Broad definitions of SMMEs in the National Small Business Act

Enterprise Size	Number of Employees	Annual Turnover(S A. Rand)	Gross Assets, Excluding Fixed Property
Medium	Fewer than 100 to 200,depending on Industry	Less than R4 million to R50 m depending upon Industry	Less than R2 m to R18 m depending on Industry
Small	Fewer than 50	Less than R2m to R25 m depending on Industry	Less than R2m to R4.5 m depending on Industry
Very Small	Fewer than 10 to 20 depending on Industry	Less than R200 000 to R500 000 depending on Industry	Less than R150 000 to R500 000 depending on Industry
Micro	Fewer than 5	Less than R150 000	Less than R100 000

Source: National Credit Regulator (2011)

The following narrative gives a detailed description of the small business categories captured in Figure 4:

Survivalist enterprise: The income generated is less than the minimum income standard or the poverty line. This category is considered pre-entrepreneurial, and includes hawkers, vendors and subsistence farmers. In practice, survivalist enterprises are often categorised as part of the micro-enterprise sector;

Micro-enterprise: The turnover is less than the value added tax (VAT) registration limit (that is, R150,000 per year). These enterprises usually lack formality in terms of registration. They include, for example, spaza shops, minibus taxis and household industries. They employ no more than 5 people.

Very small enterprise: These are enterprises employing fewer than 10 paid employees, except for the mining, electricity, manufacturing and construction sectors, in which the figure is 20 employees. These enterprises operate in the formal market and have access to technology;

Small enterprise: The upper limit is 50 employees. Small enterprises are generally more established than very small enterprises and exhibit more complex business practices;

Medium enterprise: The maximum number of employees is 100 or 200 for the mining, electricity, manufacturing and construction sectors. These enterprises are often characterised by the decentralisation of power to an additional management layer;

2.4 Legislative Environment

In conditions where robust legal and regulatory conditions prevail, informal enterprises get encouragement to enter the formal sector, and so get exposure to better financing opportunities and access to markets that enhances their growth prospects and increased job creation (African Development Bank, 2011).

The recent changes to the Companies Act in South Africa, has been lauded as providing protection and opening significant opportunities to SMMEs on equal footing as their bigger counterparts, in terms of growth, professionalism (for example, requirement of prepared financial statements) and access to local and global markets (Mmotlane, 2010)

Since the advent of liberation, the South African government has removed a significant number of legislative and regulatory barriers and restrictions; this has improved SMME

sustainability and growth. In his study Rogerson (1990) found that legal restrictions were no longer regarded as a major limiting factor in the growth of small enterprises in South Africa. While some structural reforms have introduced improvements in SME development, Abor and Quartey (2010) warn that intervention still has to be applied at firm level; further they see licensing and registration requirements, and start-up costs as onerous to potential entrepreneurs.

2.5 Policy and Strategy

The importance of the SMME sector as part of the solution in the redressing of past deprivation, unemployment and poverty of the black majority was articulated by the post 1994 Apartheid government early in its reign. In line with this, the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (1995) highlighted the fact that "Small, medium and micro enterprises represent an important vehicle to address the challenges of job creation, economic growth and equity in our country" (Mahembe, 2011, page 7). This sentiment was later reinforced by Mandela (1997) who reiterated that the success of SMME support strategies and institutions will depend on localization of interventions, such as townships (Tshabangu, 2009).

The development and growth of small enterprises is a desirable prospect, given that it has a ripple effect on the entire economy of a country. The South African Government SMME strategy (1995) identifies the following aspects as typical problems: unfavourable legal environment, lack access to markets and procurement, lack of access to finance and credit, low skills levels, lack of access to information and shortage of effective supportive institutions.

Reconstruction and Development Plan (1994) introduced by the post Apartheid government has, as its short-term goal, the relief of the effects of unemployment and for the long-term, the creation of employment through economic growth, especially through invigoration of the informal economy (Rogerson, 1996).

The national small business development strategy provides for an integrated approach that sets uniformity between big and small business and positions SMME development as part

of rural and urban spatial development, urban renewal, rural development and skills development strategies.

2.6 Institutional Support Organisations

The South African government disburses funds and non-financial support through five main state organs, namely the Department of Trade and Industry (the Dti), the Department of Economic Development (DED), the Department of Science and Technology (DST), Department of Agriculture and the Presidency (Mahembe, 2011). Figure 5 provides a brief description of state business support institutions. Some of these institutions may also provide the following non-financial services: business plans, market research, managing a small business, legal requirements, marketing, etc. These institutions often face criticism for the disparate and uncoordinated manner in which they approach SMME support, and lack of awareness around their services, and according to FinScope (2011), only 3% of surveyed SMME owners were aware of Khula, and only 1.2% aware of SAMAF. Figure 6 provides awareness synopsis of state SMME support organizations.

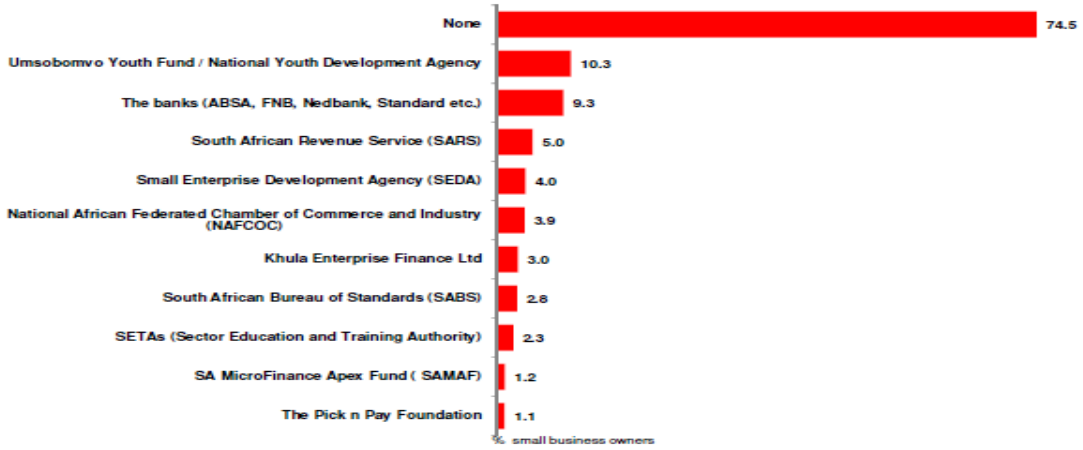
Figure 5: Government SMME support institutions

DEPARTMENT	INSTITUTION	SERVICES	TARGET
DTI	Small Enterprise Development Agency (Seda)	Seda provides non-financial support to small enterprises. Seda came out of a merger of Ntsika Enterprise Promotion Agency, National Manufacturing Advisory Centre (Namac) and the Community Public Private Partnership Programme (CPPP). The Godisa Trust and the Technology Programmes were integrated into Seda in 2006, becoming Seda Technology Programme (STP).	
	National Empowerment Fund (NEF)	The NEF funds black small and big businesses. It is estimated that R1.5 billion was disbursed by the organization between 2003 and 2010	
	National Small Business Advisory Council (NSBAC)	NSBAC provides advice to the Minister of Trade and Industry on small business support strategy and policy.	
Department of Economic Development	Industrial Development Corporation	Supports and funds various industrial development programmes.	Predominantly large scale projects, but some small to medium enterprises. Has a specific BEE mandate.
	Khula	Provides access to finance through: Khula Credit Guarantee Scheme – provide guarantee products to banks. Other institutions and NGOs, referred to as Retail Finance Intermediaries (RFIs) which borrow from Khula to make loans to SMMEs Khula-Start: access to micro credit in rural areas	Mainly targets very small, small and medium enterprises, with two small programmes for the survivalist and micro sector.
	SA Micro-finance Apex Fund (Samaf)	Samaf provides access to microloans and support to SMMEs survivalist businesses to boost their income and asset base. Poverty eradication and unemployment reduction, especially in non-urban localities, form the main objectives of Samaf. The organization provides wholesale microfinance to Cooperatives and MFIs.	

DEPARTMENT	INSTITUTION	SERVICES	TARGET
Department of Science & Technology	Technology Innovation Agency (TIA)	Established in 2009, this body funds innovation projects and comprises Tshumisano Trust, the Council for Scientific and Industrial Research (CSIR)'s Advanced Manufacturing Technology Strategy.	
The Presidency-	National Youth Development Agency (NYDA)	The NYDA was born out of the amalgamation of the National Youth Commission and the Umsobomvu Youth Fund. The NYDA provides assistance to the youth for career skills and new enterprise development through micro loans.	The MACs are mainly for small and medium, more formal businesses. BRAIN for the entire spectrum of SMMEs.
Department of Agriculture -	Micro-Agricultural Financial Institute of South Africa (Mafisa)	Mafisa was established to support micro-level aspirant and emerging farmers in the tenancy and takeover and subsequent commercial management of existing agricultural holdings.	From small to large scale farmers.

Source: Adapted from various literatures

Figure 6: Awareness of support available (% Small business owners)



Source: FinScope Trust Trust (2011)

2.7 South African SMME Sector

Survivalist Vs Growth Orientated Enterprises

Conventional thinking has always passed off Survivalist enterprises as being growth-averse and preceding and eventually graduating to the growth-orientated Micro enterprise. Berner et al (2008) argue, based on their studies, that even where graduation happens, it becomes clear that survivalist and growth-orientated enterprises belong to different groups as opposed to different stages of business maturity. The lack of motivation for growth by Survivalist entrepreneurs is underpinned by the fact that they have been forced into business by destitution born out of unemployment, poverty and other "economic shocks, while growth-oriented entrepreneurs make an affirmative choice based on the identification of a specific business opportunity." (Reynolds et al. cited in Berner et al., 2008), and Cotter (cited in Berner et al., 2008, page 8) makes the point that the objective the survivalist entrepreneur is "to feed their families and preserve their precarious, subsistence-level micro-enterprises 'in the hope that something good will happen." Despite any form of assistance, financial or non-financial, the survivalist entrepreneurs remain entrenched in their modus operandi (Berger et al., 2008).

Several study results have repeatedly shown that where there is lack of both education in general and credit finance, there is high rate of survivalist enterprise proliferation (Rogers, 1986).

Growth-oriented micro-enterprises show the capacity to accumulate capital and growth through reinvestment (Mead & Liedholm cited in Gerber et al, 1998). On the other hand, Survivalist enterprises are incapable of capital accumulation due to their obligation to support poorer members of their extended families, and this limits their growth and graduation prospects. The lack of stability of retained income in the survivalist business encourages diversification, through creation of new enterprises instead of expanding existing operations; this is in order to cushion against the severity of failure by any one of the income streams (Wood & Afenyadu et al. cited in Berner et al., 2008). Juxtaposed with growth through reinvestment, growth through diversification represents a weaker strategy characterizing the business attitude of the survivalist entrepreneur (Olomi et al. cited in Bergner et al, 2008).

In his research, Rogerson (2001) suggests that the growth of an enterprise may be influenced by location, noting that while home-based enterprises faced various hazards that limited their growth prospects, most growth-orientated micro enterprises are located close to commercial centres; McPherson (cited in Berner et al, 2008) concurs that a dominant factor determining growth is proximity to growing markets. In their 'slum walk', Gerber et al (2008, page 5) observed that the survivalist enterprises "operate in an environment characterized by overcrowded market 'niches', unreliable institutions, negligent or even predatory government agents…'

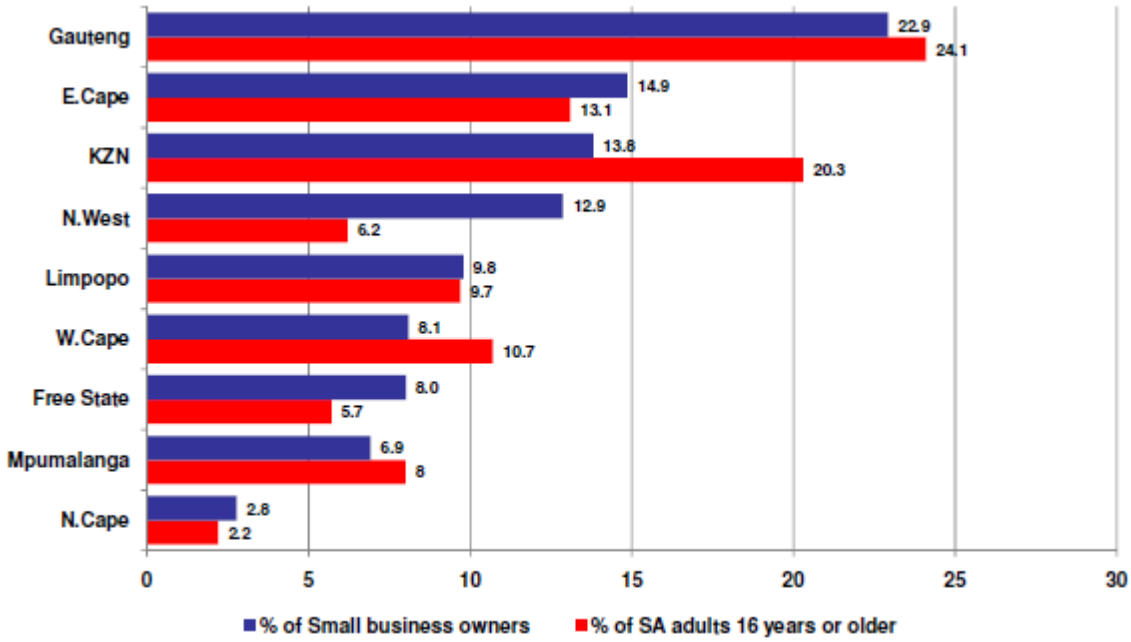
The Gemini Project, led by Carl Liedholm and Donald Mead (cited in Berger et al., 2008), sought to empirically test assumptions about enterprise survival, death, growth and graduation over a fifteen year period (in the Dominican Republic, Botswana, Kenya, Malawi, Swaziland, Zimbabwe, Sierra Leone, Bangladesh, Jamaica, Honduras, Thailand and Egypt). According the project findings, less than 20% of enterprises with 4 workers or less showed growth, while 1% graduated to the next level of more than 10 workers. These findings led to the conclusion that "most enterprises that start small continue to be small…" (Liedholm & Mead as cited in Berner et al., 2008, page 8). Biggs (as cited in Berger, 2008) reported similar findings in Sub-Saharan countries over a period of 12 years: less that 10% of enterprises with less than 10 workers grew to 10-59 worker category; while in the category 10-59, 22% of the firms experienced growth beyond their class size. A slightly different figure was painted by a 2004 World Bank report on Ghana, Kenya, Zimbabwe and Cameroon during a period spanning 6 years: graduation rate of 20% in Ghana; 10% in Kenya; micro enterprises never jumped two

levels to the Medium enterprise level. It is worth noting that this report covered the manufacturing sector, which might explain the higher graduation rates.

2.8 Size of the SMME Sector

The South Africa economy is dominated by SMMEs, which play a pivotal role in the provision of employment and innovation. According to FinScope survey (2010), there are close to 6 million small businesses in South Africa with over 5 million owners, more than 50% of them providing proprietor employment, as shown in Figure 7: the highest number of the businesses (over 20%) are in the Gauteng province, with lowest number being in the Northern Cape.

Figure 7: Geographical distribution of small business owners in South Africa



Source: FinScope (2011)

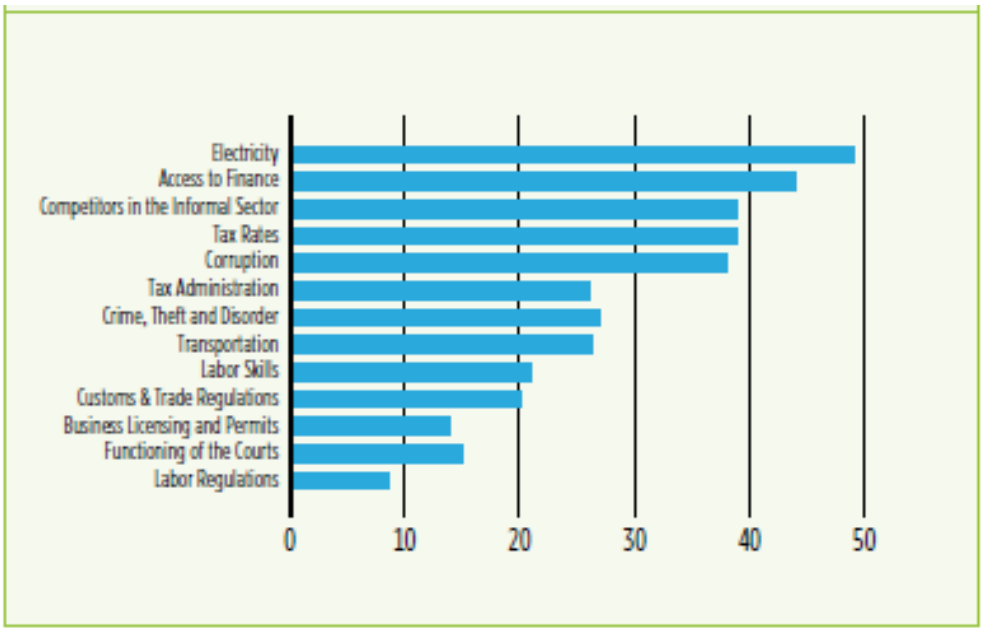
2.9 SMME Performance

2.9.1 Barriers to Success and Growth

The African Bank Annual Report (2011, page 8) makes the point that "to achieve economic outcomes that lift greater numbers of people out of poverty requires a vibrant private sector in which micro, small, and medium-size enterprises (MSMEs) can thrive alongside large firms. This demands the removal of constraints to the business environment, improved access to finance, and the provision of adequate infrastructure to support private sector activities….." Figure 8 from the World Bank report (2011)

identifies access to finance as the second most dominant constraint to private sector development.

Figure 8: Ranking of major constraints for private sector development



Source: World Bank & African Development Bank (2011)

The development and growth of small enterprise is a desirable prospect, given that it has a ripple effect on the entire economy of a country. The national small business strategy (1995) identifies unfavourable legal environment, lack access to markets and procurement, lack of access to finance and credit, low skills levels, lack of access to information and shortage of effective supportive institutions as the challenges facing SMMEs in South Africa. Abor and Quartey (2010) also identify the following constraints as limiting development and growth of SMMEs: lack of access to appropriate technology, limited access to international markets, regulations and rules that impede the development of the sector, weak institutional capacity, lack of management skills, training and finance. These observations are corroborated by the GEM report (2011), whose survey of experts in South Africa found that lack of financial support, government policy, education and training hindered entrepreneurial activity; a summary of GEM findings is shown in Figure 9.

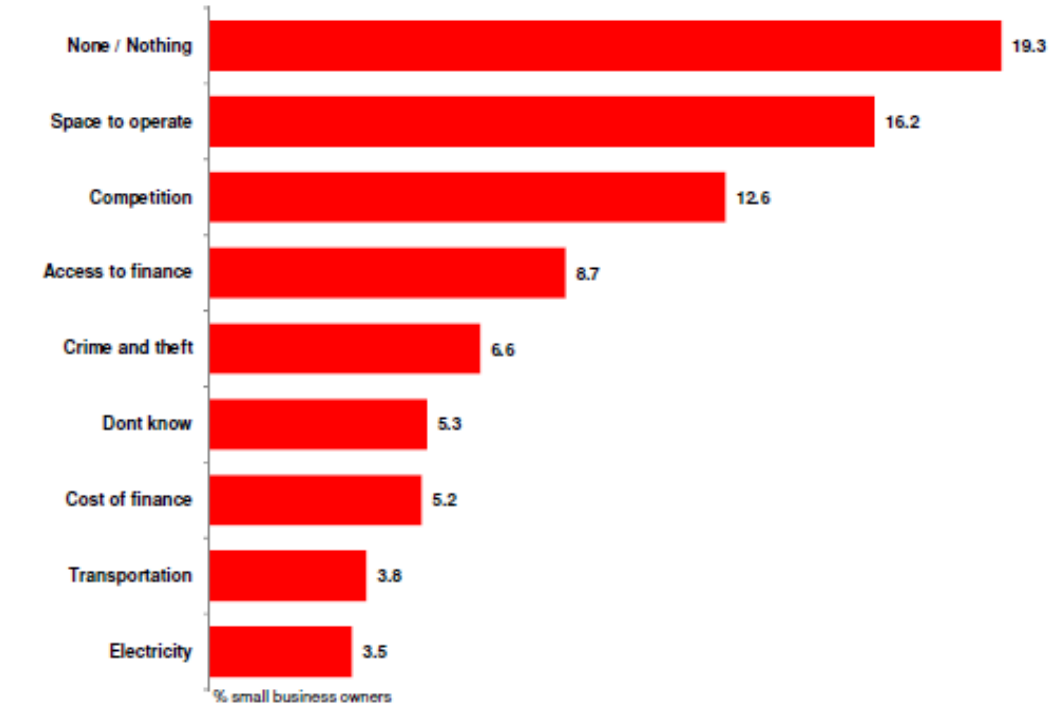
Figure 9: Experts views of key factors constraining entrepreneurship in South Africa

Constraining factor	Percentage of South African experts citing this factor	Average percentage of GEM 2011 experts citing this factor
Financial support	59.5	49.1
Government policies	70.3	46.6
Government programmes	16.2	14.5
Education and training	35.1	27.1
R&D transfer	0	5.6
Commercial and professional infrastructure	10.8	8.1
Market openness	10.8	10.0
Access to physical infrastructure	5.4	7.2
Cultural and social norms	10.8	27.4
Capacity for entrepreneurship	16.2	11.5
Economic climate	2.7	13.3
Workforce features	10.8	10.5
Perceived population composition	0	1.6
Political, institutional and social context	18.9	28.7

Source: GEM South Africa (2011)

To improve SMME sustainability and growth, the South African government has removed a significant number of administrative, legislative and regulatory barriers since the advent of liberation. In his study, Rogerson (1990) found that legal restrictions were no longer regarded as a major limiting feature in the growth of small enterprises in South Africa. According to a study conducted by FinScope (2010) on small businesses, the top three constraints to SMME growth in South Africa were identified as facilities to run businesses (16.3%), competition (12.6%) and access to finance (8.7%); the results of the study are shown in Figure 10.

Figure 10: Obstacles to growth (% of small business owners)



Source: FinScope (2010)

According to the South African GEM Report (2011), South Africa outperforms the majority of other SADC states in the areas of cost of starting a business, construction permits, credit and protection of investors; the report attributes this to the new company law, which has removed a lot of red tape in the registration and other associated processes.

2.9.2 Gender Bias

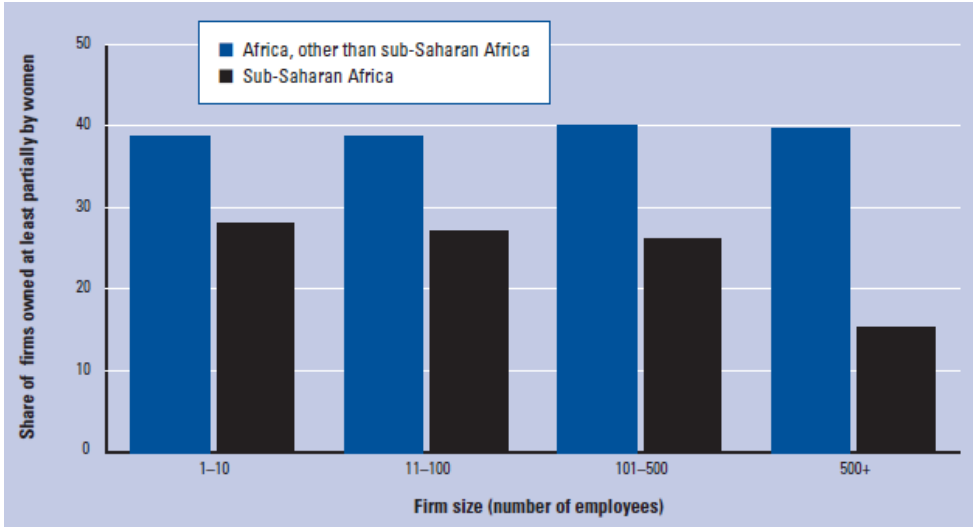
Gender discrimination, especially against female-run enterprises, means that women are less likely to be favourably considered for financing, and other forms of assistance, than their male counterparts. Abor (2008) argues that women-owned businesses are less likely to use debt for a variety of reasons, including discrimination and greater risk aversion.

The South African government has stepped up efforts to catapult women into the SMME space through various vehicles, such as SAWEN, etc. Karumbidza (2009, page 24) observes that women empowerment and poverty alleviation through

development and involvement in SMMEs has become a burning issue, with emphasis placed on encouraging women's involvement in the economy through the development of SMMEs. The author continues to say that this participation by women is seen to engender "positivity in social, cultural and institutional revolution in which women can be enhanced."

Studies have shown, with convincing regularity, that a large proportion of woman-entrepreneurs are found in small, informal and 'lower-value-added" industries (World Bank & African Development Bank, 2011, page 67). GEM studies (2011, page 21) have also consistently shown that "men are more likely than women to be involved in entrepreneurial ventures." In the same study, it emerged that while it may seem on the surface that women are less favoured for financing of their businesses, the picture changes when some controls are introduced: women enterprises may be receiving less finance than their male counterparts because they (women) run much smaller enterprises, with the conclusion that enterprise size may be a more accurate predictor for the level of access to finance, as shown in Figure 11. Some authors are questioning whether the size of women owned firms is a self-fulfilling prophesy, given the perception of gender bias around access to finance; this is an important question that current data has not been able to satisfactorily answer (World Bank & African Development Bank, 2011).

Figure 11: Share of firms owned by women, by size (formal)

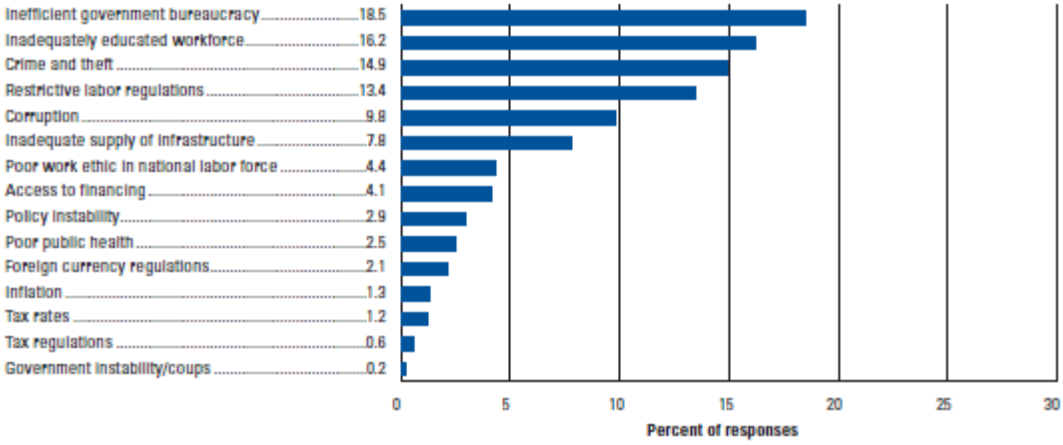


Source: World Bank & African Development Bank (2011)

2.9.3 Economic and Business Environment Impact on SMMEs

The majority of South African business experts surveyed by South African GEM (2011) confirmed that the South African business environment did not auger well for establishing new businesses and/or growing existing ones, citing one key issue as the dominance of big business in the areas of price, quality and supply of goods and services. According to The Africa Competitiveness Report (2011), the top three factors that present problems in doing business in South Africa are inefficient government bureaucracy, inadequately educated workforce and crime and theft; see Figure 12.

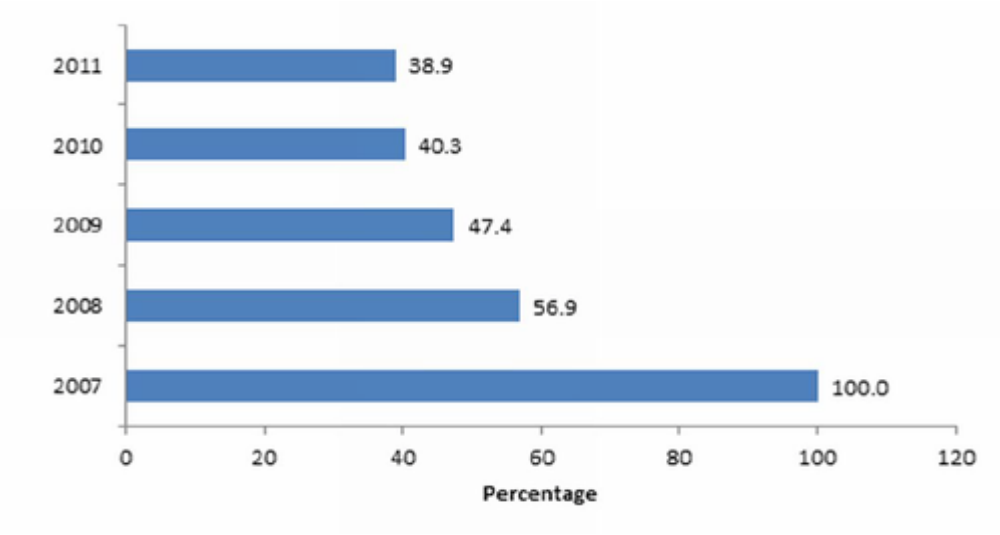
Figure 12: The most problematic factors for doing business



Source: World Bank & African Development Bank (2011)

In a yearly small business sustainability and mortality study, conducted in Soweto over a period of between 2008 and 2011 to determine the effects of increasing competitive environment in the face of emergence of proliferation of shopping malls, the following results were obtained: 2011 results show that only 38.9% of the original small businesses were still in operation and an overall decline of 50%, given the reduced number of new businesses in the same period (Ligthelm, 2011). The study also found that survival was lowest among hawkers and home-based enterprises, and highest among older businesses. Figure 13 depicts survival rates in the period of the study.

Figure 13: Survival rate of small businesses in Soweto (2007-2011)

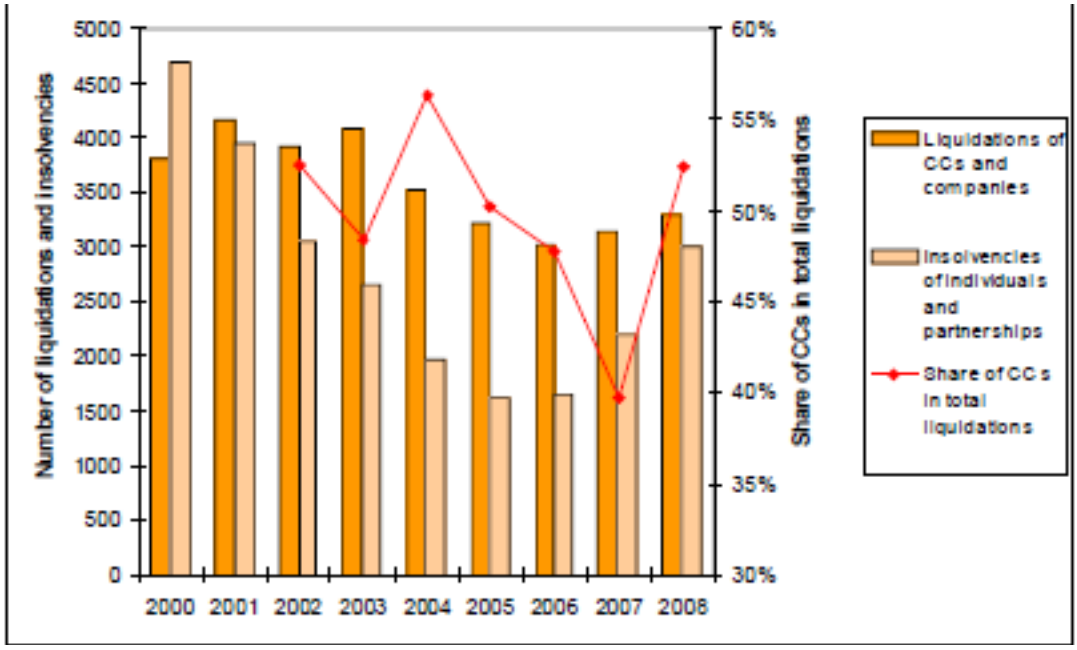


Source: World Bank & African Development Bank (2011)

Due to their unsophisticated financial structures and low revenues, SMME may be more vulnerable to negative economic environment than their bigger counterparts; this is borne out by Seda's Small Business Monitor (2009) which showed that insolvencies and liquidation were more prevalent for the smaller and informal enterprises than for the bigger businesses, as they do not have the tenacity and flexibility to withstand turbulent economic episodes. Contrary to this view and according to Abor and Quartey (2010), SMEs are more adaptable to market conditions and this is corroborated by Kayanula and Quartey (cited in Abor & Quartey, 2010) who found that SMEs are able to survive adverse economic environments because they are more flexible than their bigger counterparts.

Figure 14, from Seda (2009), shows graphs of the spread of liquidations and insolvencies; closed corporations and companies make, on average, 50% of the liquidations over the period under consideration.

Figure 14: Insolvencies and liquidations (2000-2008)



Source: Seda (2009)

According to Zandniapour et al. (2004), it is both difficult and irrational to expect the creation of new market niches for low-skilled, under-capitalized entrepreneurs and hope that this will protect them against better-equipped competitors.

2.9.4 SMME Contribution to the Economy

The contribution made by SMMEs to the economy or national product is through their manufacture of goods and delivery of services for local or export consumption (Abor & Quartey, 2010). Entrepreneurship is pivotal to the growth and development of an economy in that it generates innovation that spurs the economy of a country (World Bank & African Development Bank, 2011). While it can be argued that entrepreneurship effects on an economy depend on the development maturity level of a country, studies have found that in the less developed countries, entrepreneurship can create self-employment opportunities (GEM, 2011).

The importance of the SMME sector - as part of the solution in the redressing of past deprivation, unemployment and poverty of the black majority - was articulated by the post-1994 Apartheid government very early in its reign. In line with this, the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (1995) highlighted that SMMEs "represent an important vehicle to address the

challenges of job creation, economic growth and equity in our country" (Mahembe, 2011, page 7).

According to Abor and Quartey (2010), 91% of the formal business entities in South Africa are SMEs and contribute between 52-57% to GDP and account for approximately 61% of employment (Mahembe, 2011).

SME's are the biggest employers, through self-employment. They are also income generators among the poverty-stricken communities and serve as stimulators of innovation and economic revitalization (Monks, 2010). SMEs are recognized by most policy makers as conduits for economic development, employment creation in developing countries and equitable distributors of income through their dispersion between small urban and rural business districts (Abor & Quartey, 2010), while Buys (2009, page 12) concludes in her article that, "When everything is said and done, the future of entrepreneurship in Africa must be in the hands of visionary African people who are dedicated to the growth of the continent."

Figure 15 from NCR (2011) provides an overview of SMME numbers and contribution to economies of selected countries; from the table, we can see that in 2007, the SMME sector provided employment to 39% of the working population in South Africa.

While the micro-enterprise sector productively harnesses the unemployed, economically active population and raises total output in the economy at little opportunity costs, the SMME sector is a determinant of success or failure of a country in its fight against unemployment, and labour productivity levels are good enough for workers' income to surpass the poverty line (Berry, von Blottnitz, Cassim, Kesper, Rajaratnam & van Seventer, 2002).

The full extent of small business contribution to the South African economy can neither be fully nor accurately quantified because they are not recorded with the appropriate offices and, consequently, their contribution to the GDP is distorted (Joshi, Amoranto & Hasan, 2011).

Figure 15: SME participation and contribution to the economy (selected countries)

Country Name	Structure of the MSME Sector (% of all MSMEs)			SME Participation in the Economy		
	Micro	Small	Medium	SMEs	SMEs per 1,000 people	SME employment (% total)
Brazil	93.9	5.6	0.5	4 903 268	27.4	67.0
China	n/a	n/a	n/a	8 000 000	6.3	78.0
Egypt	92.7	6.1	0.9	1 649 794	26.8	73.5
United Kingdom	95.4	3.9	0.7	4 415 260	73.8	39.6
Ghana	55.3	42.0	2.7	25 679	1.2	66.0
India	94.0	3.3		295 098	0.3	66.9
Mexico				2 891 300	27.9	71.9
Malawi	91.3	8.5	0.2	747 396	72.5	38.0
Russian Federation				6 891 300	48.8	50.5
United States	78.8	19.7	1.5	5 868 737	20.0	50.9
South Africa	92.0	7.0	1.0	900 683	22.0	39.0

Source: National Credit Regulator (2011)

According to Fatoki and Garwe (2010), the Accelerated and Shared Growth Initiative South Africa (2009) required a growth rate of 5% between 2004 and 2014 in order to achieve the required state social objective, and the expectation is that SMMEs will contribute the most to the projected growth rate, though a damper on this is that new small businesses fail to grow as most of them were established out of necessity, as opposed to opportunity.

2.9.5 African Perspective

The following comparative analysis of SMME economic contribution, derived from the African Development Bank and the Organisation for Economic Co-Operation and Development, provides an interesting insight into the role played by small businesses in African countries:

Micro and very small businesses in provides South Africa provided more than 55% of total employment and 22% of GDP in 2003. Small firms accounted for 16% of both jobs and production and medium and large firms 26% of jobs and 62% of production. In Morocco, 93% of all industrial firms are SMEs and account for 38% of production, 33% of investment, 30% of exports and 46% of all jobs. SMEs in Kenya employed some 3.2 million people in 2003 and accounted for 18% of national GDP. SMEs in Senegal contribute about 20% of national value added. Nigerian SMEs account for some 95% of formal manufacturing activity and 70% of industrial jobs. (Kauffmann, 2005, page 4).

2.10 SMME Access to Financial and Non-Financial Support

2.10.1 Demand for Finance and Support

For SMEs to survive and grow, access to debt finance is critical. According to Fatoki (2010), the second most cited cause of low business creation and failure in South Africa is lack of financial support. FinScope (2006) found that only 2% of new SMEs in South Africa can access bank loans. According to Foxcroft et al. (cited in Fatoki, 2010), 75% of applications for loans by new SMEs in South Africa are rejected.

Businesses require financial resources in order to start trading and to fund growth (Fatoki, 2010). Start-up SMMEs can be funded by owners, family, friends or formal external finance from banks, or venture capital providers (ibid). Figure 16 shows funding requirements at different maturity stages of an enterprise.

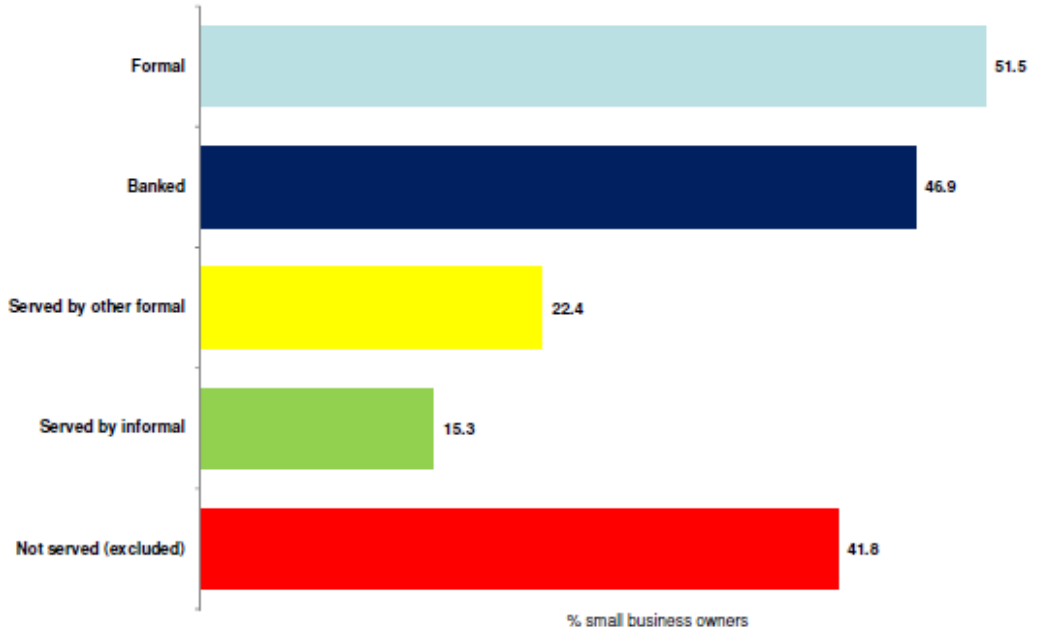
Figure 16: Growth phases and funding requirements of SMEs

	Start-up Phase	Growth Phase	Stable/ Consolidation	Exit
Type of SME	Source of Finance			
Traditional small business. Provides employment for individual, family and friends	Family, friends, savings, **equity in residential property, loans underwritten by government**	**Asset-backed finance, bank debt**, **factoring,** trade credit	**Bank debt** if required	N/a
High Potential. Possibly export business	Angel finance, **Team's equity,** some venture capital	Venture capital, private equity, **asset-backed finance, some bank debt**	Venture capital high-yield debt market, **bank debt**	Exit via capital markets or direct access to stock market
High-tech, information and life sciences intellectual Property	Angel finance, venture capital, corporates	Venture capital, corporates, **Asset-backed finance**	Corporates, bank **debt**	Exit typically through trade sale

Source: National Credit Regulator, South Africa (2011)

Growth of SMMEs is usually financed from profits, or from debt obtained from financial institutions. Where debt is required, collateral becomes a critical component of the loan application process, and can take the form of personal or business assets (Fatoki & Asah, 2011). As a result, SMMEs without collateral find it difficult to survive and grow their operations (ibid). A FinScope survey (2010) found that 41.8% of surveyed small businesses did not benefit (or were excluded) from financial services, while 22.4% accessed informal financial services, as illustrated in Figure 17.

Figure 17: Overall levels of financial inclusion



Source: FinScope (2010)

Collateral is an important determinant of credit access. This implies that SMEs without collateral find it difficult to obtain debt finance from commercial banks. It is therefore necessary for owners of SMEs to have either business or personal assets that can be used as collateral when applying for credit facilities from commercial banks (Fatoki & Asah, 2011). Bygrave (cited in Lingelbach et al, 2005) found that entrepreneurs in emerging markets depended significantly on informal financing, 87-100%.

According FinScope Small Business Survey (2010) conducted in South Africa, the probabilities for Business Sophistication Measure were highest for Gauteng: (BSM) 7 was 11.8% and 9.0% for BSM 8; the survey also found that small businesses in Gauteng were much bigger in size, had more likelihood of owners possessing post-Matric qualification and provided more employment opportunities than those in other provinces, such as Limpopo. These differences translate into different business needs, and hence different credit needs and financial support. Because of the higher BSMs, Gauteng business are more likely to access credit because they are more formalized than their counterparts in Limpopo, for example. Table 18 shows typical loan size accessed by the different SME categories.

Figure 18: Average loan size by SME category

Sector	Description	Number of employees	1. Annual turnover 2. Loan sizes 3. Access to banking facilities
Survivalist	• Income generated is below poverty line	• No employees	1. < R10 000 2. Average R500 3. None
Micro (0)	• Turnover is less than VAT registration limit • Not usually formally registered for tax or accounting purposes	• No employees	1. R10 000 to R25 000 2. Average R1 000 3. Possibly individual account
Micro (1-4)	• Same descriptors as Micro (0) except the number of employees are 1-4	• Less than 5 employees	1. R25 000 to R50 000 2. Average R7 000 3. Individual account
Very Small	• Operate in formal market	• Less than ten employees	1. R50 000 to R200 000 2. Average R25 000 3. Entry Level Business Account
Small Enterprises	• Distinguished by some form of managerial co-ordination	• Less than 50 employees	1. R200 000 to R5 000 000 2. Average R70 000 3. Business account
Medium Enterprises	• Further decentralization of decision making • More complex decision making • Increased division of labour	• Less than 100 employees (200 in mining)	1. R 500 000 to R50 000 000 2. Loan size is dependent on sector, region and institution providing finance. Average R150 000 3. Business Account with additional facilities

Source: National Credit Regulator, South Africa (2011)

2.10.2 Non-Financial Needs of the SMME Sector

Some SMME support organizations also provide non-financial benefits to the sector. This support may range from training, assistance in the compilation of business plans to loan applications. In South Africa, these kinds of support are provided by organisations such as National Youth Development Agency, Seda, Khula, etc. Given the unskilled nature of the SMME owners in South Africa, training in the area of business and related topics is crucial if these enterprises are to survive and prosper. Development programmes need to focus and harness the abilities of the targeted small entrepreneurs to "find a way to allow these people to reach their potential, utilise these abilities, and create positive change in this world that so needs change." (Karumbidza, 2009, page 24)

Provision of relevant information, and access to it, is a critical element in the support of small enterprises. Often, the small entrepreneur neither knows where to find information nor has the wherewithal to efficiently access it. Where access to information is provided, these entrepreneurs may lack the ability of consolidating and arranging this information into a useful tool in the leveraging of credit and other support elements in order further empowerment of their businesses.

2.10.3 Public Sector SMME Finance and Support Programmes

According to Mahembe (2011), support programmes in South Africa can be categorized into three main streams, namely access to finance, market access and business support. State SMME support organs are organized and mobilized around these three themes. The majority support programmes have been developed as incentive providers, with SMMEs and support organizations co-funding national priority projects or businesses in targeted economic sectors, such as Tourism, Manufacturing, Mining, Export/Import, etc. Support is delivered through state sponsored institutions. There are some 90 distinct development programmes available to SMMEs in South Africa, ranging from Key national support programmes, Industry – specific programmes, Venture Capital to Women enterprise programs.

2.10.4 Effectiveness of SMME Support Programmes

Despite good government policies on SMME credit programmes being pivotal elements in the development of entrepreneurship and job creation, their effectiveness is still in doubt. South African government losses of at least R68 million on failed SMMEs during 1997-2000, forced a rethink of the concept of micro-finance and the efficacy of agencies such as Khula (Bauman, 2001). This notwithstanding, the state again indicated its commitment to the micro-finance by providing capital of R1,142,3 million in 2001; with Khula issuing over 200,000 million loans to SMMEs and NGOs; over 152,00 guarantees to the banks between 1997 and 2000 (ibid).

SMME support programmes, especially those at the behest of the South African government, often fail to address specific needs or sore points of the SMMEs in that they are generic, ”one size fits all” solutions that provide no specific responses (Lever cited in Dunford, 1999, page 10).

Access to government sponsored SMME support organizations is often limited by lack of information, ignorance and lack of communication to the small enterprises by these organizations. In her survey of SMMEs in KwaZulu Natal, Chetty (2009) found that 72% had never accessed local government support against only 24% that had accessed this support, and 68.4% of these rated the service as average to poor. Chetty also found that the private sector was more effective than the public sector in the provision of business development services.

According to Fatoki et al. (2009), a significant number of respondents to their research indicated that they failed to use products provided by Khula Finance Enterprises because they were unaware of such products; this paints a typical picture of awareness about other support organizations as well, as evidenced by Figure 19. Lever (1997) believes that business support organisations need to be more visible and need to market themselves more broadly.

Figure 19: Small business awareness and use of Government support

Government initiative	% of businesses which are aware of programme	% businesses which have used programme
SETAs	61	32
IDC	45	7
Competitiveness Fund	32	11
Ntsika	13	1
Export incentives	12	2
Manufacturing Advisory Centres	11	1
Khula	9	1
Brain	9	1
Umsobomvu	4	1

Source: National Credit Regulation – SME Survey (2004)

According to GEM (2011, page 42), most experts surveyed in South Africa are of the view that government entrepreneurship programmes "are not effective in developing entrepreneurs and contributing to the growth of entrepreneurship…" According to Mmotlane (2010), concerns among participants in their study included poor implementation of SMME support policy, failure to offer services at one-stop decentralized centres, private consultants failing to fulfil contractual obligations in the support of SMMEs.

Rogerson (2006) suggests that public SMME support institutions should focus on being "business-like and demand-led" and treat SMMEs as client and not as beneficiaries. Lever (1997) goes on to say that specific responses for SMME market needs have to be clearly defined, based on size, sector, business cycle and gender specific requirements.

2.10.5 The Commercial Banking Sector

Traditionally commercial banks have been loath to lend to small enterprises, let alone informal micro-enterprises. Many authors and researchers have blamed this on, among other things, the indifference of the banks to the development imperatives of South Africa, informality of the small businesses and information asymmetry between the SMME and the banking sector. According to Fatoki and Asah (2011), lack of business information and managerial skills form part of the reasons why the banks are reluctant to finance small businesses.

Commercial banks have been under sustained political pressure to develop programmes that are inclusive of the poor and previously disadvantaged individuals and businesses. This has solicited some innovative responses from banks, both in the personal and business financial products, such as Mzanzi accounts from Absa Bank, eWallet from FNB, etc. Some of the responses by the major banks to challenges and criticism by the government and activist organizations on the question of support for small businesses comprised the indemnity agreement between Nedbank and Khula to support SME development; the FNB Enablis Business Launchpad that facilitates and encourages entrepreneurs to develop business plans for new businesses and growing of existing ones; these business plans then form the basis for access to funding (Malembe, 2011).

In general, the commercial banks have significantly increased their exposure to SMEs, with the historically disadvantaged individual (HDI) clientele gradually increasing, spurred by the surge in the black middle and upper-class account holders (FinScope, 2010). Despite this, a World Bank study (2007) found that despite barriers to bank loans being low in South Africa, compared to international average (4.13 versus 11.03), it still takes twice as long to process a SMME loan than other business loans.

Some of the factors that have led to the inevitable changes by banks, in general, are the following:

- The realization and acceptance of the growing black middle class;
- The power of the black market and the concomitant growth potential of the SMME sector;
- The proliferation of black executives/decision makers in the boardrooms of most of the major banks;

- Pressure from government and lobby groups for accelerated transformation of the banking sector to embrace development objectives of the country, such as access to finance for SMMEs, housing, etc.

Figure 20 shows a spread of small business loans across the 5 major South African banks.

Figure 20: Small business book of major banks

	Standard	Nedbank	ABSA	FNB	Total
SME clients	367 500	346 500	210 000	126 000	1 050 000
Total book			R2.6 billion		R13 billion*
Average size of loan	R39 000		R47 000		
Market Share	35%	33%	20%	12%	100%

Source: National Credit Regulator (2011)

Furthermore, there is a need for awareness programmes by commercial banks on their requirements for SMME lending requirements for loans. This will enable the SMEs to understand what is expected of them by the commercial banks when requesting for loans. (Fatoki et al, 2009).

2.10.6 Microfinance Sector

Exploiting the finance gap left by the commercial banks and other big financiers, and also driven by the realization that poor micro entrepreneurs were prepared to "pay handsomely" for loans, all manner of Micro Finance Institutions (MFIs) came into being (Dunford, 1999:10). Due to the nature of their market, high transaction costs and high debt write-off rates, financial sustainability remains a challenge for many MFIs to a point where some also rely heavily on donor funding. According to Robinson (cited in Hermes & Lensink, 2007), the sustainability conundrum of MFIs has brought sharp focus on the dichotomy and merits of the financial systems and the poverty lending approaches; the former approach argues for non-discriminatory interest for the poor, as there is no empirical evidence to suggest the poor cannot afford higher interest rates; the latter argues for subsidized interest rates for the poor because they cannot afford higher rates (Hermes & Lensink, 2007).

2.10.7 Micro Finance Institutions in South Africa

The microfinance credit sector grew exponentially after this industry was formalized and legally permitted to operate in South Africa in the 1990s. The sector is divided into two distinct umbrella institutions, namely Microfinance South Africa (MFSA) and the Association for Pro-poor Micro Finance Institutions for South Africa (AMFISA) (Mahembe, 2011). The following table outlines the salient features of the major MFIs in South Africa.

Figure 21: Selected Micro Finance Institutions

MFI	Active Loans	Active Loans	Average Loan Size
Small Enterprise Foundation	91,193, 000	57,425,000	1,588,000
Marang Financial Services	24,522,000	24,522,000	1,163,000
Women's Development Services	32,078,000	32,078,000	722,000
Akanani Financial Services	1,782,000	1,782,000	812,000
Tiisha Financial Services	2,136,000	2,136,000	997,000

Source: Calvin and Coetzee (2010)

2.10.8 The Financing Gap

Numerous study results have consistently shown that lack of access to finance is most mentioned reason for SMME failure. The failure by financial institutions to advance credit to SMMEs that may be deserving - but being deprived of this credit for some ostensible structural reasons, such as informality - constitutes a financing gap. According to Mahembe (2011, page 9), "Only formal SMEs (by virtue of being formally registered and having a bank account) have access to banks, capital markets or other suppliers of finance. Informal SMEs are excluded completely from the formal financial market." Figure 22 from FinScore Survey (2010) calculates the finance gap.

Figure 22: Financing gap in terms of SME numbers

Description	Number of SMEs		
	FinScore Survey (2010)	Stats SA LFS (2007)	Label
Total SMEs	5 979 510	2 432 000	A
Registered SMEs (Formal): 17.3%	1 034 455	420 736	B
Ave applying for a loan: 84.4%	873 080	355 101	C
Avge loan application success rate (Formal): 33.2%	343 439	139 684	D
Those who receive funds after succeful appl: 27.3%	93 759	38 134	E
Financing Gap (C-E)	779 321	316 967	F
Total Informal: 41.8%	2 334 439	1 016 576	G
Less: Informall served (15.3%)	357 169	155 536	H
Total Financially Excluded (G-H)	1 977 270	861 040	I
Total Financing Gap (Formal and Infromal): F+I	**2 756 591**	**1 178 007**	**J**

Source: National Credit regulator, South Africa (2011)

FinScope Survey (2010) found that, of the formally registered SMEs, only 27.3% received funding from formal financial institutions, and that 84.7% of the informal and unregistered businesses were financially excluded; this scenario translated to a financing gap of between 45-48%.

2.11 Conclusion

The literature review undertaken has been wide, so as to assimilate academic thought from as widely as possible in order to elucidate balanced views and study findings across various environments and study settings.

We have learnt from the review that although the constant and common denominator in the SMME sector failure is access to finance, there are other equally critical elements to the growth and sustainability of small businesses, which in a way culminate in the decision by the supply side not to provide credit finance; these are access to information, educational level of the entrepreneur, owner business proficiency, legislation, business environment, crime levels, etc.

The learning from readings is also that public support institutions play a critical role in the support of SMMEs, and that albeit substantial amounts of funds are disbursed by these organizations, a majority of potential beneficiaries are still not aware of their services (FinScope, 2010) and there exist structural and administrative weaknesses in

these organizations that renders them less effective and unable to fulfil their envisaged mandate.

From the literature, it is also clear that the commercial banks have moved somewhat, although reluctantly, to meet the developmental need of the country by beginning to fashion some of their credit products to include the previously disadvantaged and small businesses. In this space we see innovative products emerging from major banks, such as FNB Enablis, business support agreement between Nedbank and Khula, etc. (Mahembe, 2011). More still remains to be done by the banks to truly incorporate developmental parameters into their credit products.

Serious, but surmountable barriers to SMME growth and sustainability have been identified; among these are gender bias against female-owned enterprises, ineffectiveness of support state programmes, red tape, lack of collateral and competition from main stream business.

Some contrasting findings and thoughts have also come through, such some researchers concluding that some entrepreneurs are averse to growth irrespective of any level of financial injection, but rather prefer to diversify (Berner et al., 2008); on the other hand, there are those who believe that with appropriate financing and conducive environment, business will grow and provide additional employment. On the question of effects of economic downturn of small businesses, Abor and Quartey (2010) believe that these enterprises are more capable of surviving economic upheavals because of their flexibility, which bigger enterprise lack; but on the other hand the small unsophisticated businesses are more likely to fail during tough economic spells (von Blottnitz, 2009).

3.0 RESEARCH METHODOLOGY

Kothari (2004, page 8) posits that research methodology can be taken as a systematic way of solving a research problem and can also be understood as the science doing research.

This section will discuss the research methodology under component headings of approach and strategy, data collection, research questions and scope, and research scope.

3.1 Research Approach and Strategy

The research was based on mixed methods (combination qualitative and quantitative) approach, shown in Figure 23.

Figure 23: Research Approach

Quantitative	• This aspect was mainly carried out through secondary data secondary analysis of annual reports of the 3 state SMME finance and support institutions – GEP, SAMAF and Seda – and the 3 big commercial banks, namely Absa, Nedcor and First Rand. • All analyses cover a period of 3 years, spanning 2009 – 2011.
Qualitative	• The qualitative part of the research was driven by 10 case studies conducted in Soweto, characterised by face-to-face interviews with business owners; • Case studies were carefully planned to be in different townships around Soweto and, as much as possible, cover different commercial sector

3.1.1 Primary Data

Case study numbers were also reduced from 20 to 10, to ensure a balanced allocation of time between this area of study and the data analysis leg of the research.

3.1.2 Secondary Data

The research approach aimed at analyzing SMME databases at either Khula (now Small Enterprise Finance Agency) or DTI, or both and Seda. After several weeks of unsuccessful attempts to get cooperation from these two organisations, a compromise was reached with my supervisor to perform data analysis on the annual reports of these organizations; this also proved unhelpful, especially in the cases of Sefa and DTI, as their reports were sketchy and inadequate on SMME data.

Given the above scenario, analysis was then focused on 3 government SMME finance and support institutions, namely Seda, SAMAF and GEP. Three commercial banks' SME finance support data was also reviewed across Absa, First Rand and Nedcor.

To avoid use of obsolete and irrelevant data, analysis under consideration covered period 3 years, form 2009 to 2011.

3.2 Data Collection, Frequency and Choice of Data

Kothari (2004) identifies two types of data as primary and secondary. Primary data is collected fresh from source and is original in nature, while secondary data is gathered or compiled from. It follows, therefore, that the two data types required different methods for collection.

The study collected both primary and secondary data through case study interviews and compilation of micro finance data re3spectively. These methods are described in the paragraphs.

3.2.1 Primary Data

Questionnaire based case studies were conducted in Soweto on a systematically chosen sample. The questionnaire was administered through structured open-ended interviews with the participants. This approach was to ensure accuracy and 100% response rate, given that only 10 of the questionnaires were to be completed.

3.2.2 Secondary Data

Secondary data was compiled from reviews of microfinance data reported by state 3 microfinance institutions, namely GEP, SAMAF and Seda. Data was also compiled from 3 commercial banks, namely Absa, First Rand and Nedcor.

3.2.3 Questionnaire Design

The questionnaire forms the heart of the research, and improperly designed questionnaires may cause failure of intended studies (Kothari, 2004).

The design was carefully considered in order to ensure it could collect both qualitative and quantitative data. Some questions were deliberately designed to be open-ended to encourage deeper discussion.

The case study part of the research was guided by a questionnaire designed to collect both quantitative and qualitative data results. Care was also taken keep the

questionnaire short, ensure proper sequencing of questions and keep it devoid of ambiguities.

The questionnaire and interviews will collect both quantitative and qualitative data from individual entrepreneurs along the following main themes: Demographic Profile, Business Profile, enterprise performance, Enterprise finance Information; these are expanded in Figure 24 below. The full questionnaire is attached in Appendix 1.

Figure 24: Case Study Questionnaire Parameters

Section A: Demographic Information • Name of entrepreneur • Age of entrepreneur • Gender • Nationality of the entrepreneur • Educational level • Employment status of owner/s	**Section C: Enterprise Performance** • Employee number at start up; number now • Asset value/list at start-up ; assets now • Sales / Revenues • Profit levels and use
Section B: Business Profile • Name of enterprise • Location of enterprise • Enterprise classification at start-up ; classification now • Business sector at start-up ; sector now • Business start date	**Section D: Enterprise finance / Credit Information** • Source of start-up capital and amount • Source of further finance and amount. How finance was applied to the enterprise • Awareness of Micro Finance Institutions and access to information • Assistance from MFIs / NGO, etc. Description; Experience

3.3 Sampling

While there are no hard and fast rules on the choice of a sample (Baum & Patton cited in Tuckett, 2004), sampling uses small numbers to study desired topics to some depth and detail (Miles & Huberman and Patton cited in Tuckett, 2004).

Primary data collection for this was based on non-probabilistic sampling. This type of sampling is based on the by the researcher's judgement and is characterised purposeful choice of a sample of a population on the basis that it is typical and representative of that population (Kothari, 2004).

Ten case studies were systematically selected across different locations in Soweto to ensure representivity and minimization of bias in enterprise profiles. Where data is required on a specific area or subject, sampling may be executed with purpose rather than randomly (Reed et al. , Mays & Pope & Ezzy cited in Tuckett, 2004).

Seda, GEP and SAMAF were purposely selected for secondary data analysis based on the availability of adequate, relevant and usable data in their annual reports.

3.6 Data Analysis Methods

Outputs from case study interviews and secondary data reviews were captured in a spreadsheet. A coding of 1 to 10 was allocated to case study subjects.

For the secondary data review, key SMME indicators related to financing and support were identified and related data recorded. Because of the limited range and history of data that can be gleaned from annual reports, trending or correlation was impossible, instead graphing of data was extensively used.

Case study results were populated in a spreadsheet. Totals, averages and percentages were then calculated to support discussion.

Participating enterprises have been coded from 1 to 10. Figure 25 and 25a show the allocation of the codes for the enterprises and their location, respectively.

Figure 25: Case Study Enterprise Name Codes

Code	Enterprise Name	Code	Enterprise Name
1	HD Dube Promotions and Hardware	6	Koena Ya Batebang Projects and Logistics
2	Dimpho Tsa Rona	7	Shine On Polish
3	Dicky's Cakes	8	Maphalane Driving school
4	Walker Juniors General Dealer	9	Moss Inn & General Dealer
5	S TV Enterprises	10	Pinky's Hair Salon

Figure 25a: Enterprise Location Codes

Code	Prot	Map	WC	Orl	Mol	Nan	Tla	Nal
Name	Protea	Mapetla	White City	Orlando	Molapo	Nancfield	Tladi	Naledi

3.5 Research Reliability and Validity

Joppe (cited in Golafshani, 2000, page 599) refers to reliability "as the extent to which results are consistent over time and an accurate representation of the total population under study.."

The case study research was guided a by questionnaire which ensured consistent questions to which solicited reliable responses from all respondents.

The secondary data analysis looked at commonly reported parameters, with common definitions to ensure results consistent.

Validity checks whether the research meets the initial objectives and that it measures the exact phenomena or parameters that it set out to measure. Validity can be determined by looking at other research findings (ibid). For this study, elements of the literature review have corroborated the findings of this research in many areas, as indicated throughout the discussion of the findings under various aspects.

3.9 Limitations

Limitations simply represent likely weaknesses in a research study that cannot be controlled by the researcher (Simon, 2011).

It is important that identified limitations to a study are accompanied by explanations of how these limitations will be mitigated to avoid compromising results of the study. The following bullets identify limitations of this study:

- There were several inconsistencies across individual institutions in the way they reported and presented performance statistics each year. This made it analysis difficult. Limited parameters common and consistent across the financial institution were used to offset this limitation.
- The quality, granularity and the extent of periods covered by the annual reports of the institutions reviewed presented a problem in that no long-term trends could be established. 3-year data, which was consistently for 2009-2011 was used for all institutions.
- The number of businesses surveyed (10) for the case studies is extremely low, which may not truly be representative of the SMME landscape and may, therefore, skew the final results. Sampling was systematically spread across Soweto to reduce bias.
- The truthfulness of the responses to the case study questionnaire may affect the authenticity and accuracy of the study results. This was mitigated by the participant anonymity and confidentiality guaranteed during the interview process.
- The narrow definition of the research problem may leave out some important parameters that may prove important in enhancing deeper understanding of microfinance challenges. Aspects that are properly elucidated by the study may have been covered by reviewed literature, failing which they represent opportunities for future research;

- The accuracy of hypothesis testing, given the small sample data, may have been compromised. Secondary data analysis was used to corroborate study case sampling.
- The case study sampling was systematic, not random; this may mean the participants did truly represent SMME population in Soweto.
- Interpreting case study results if often difficult, with the danger that sweeping conclusions may be made based on a 'single atypical individual. (Eysenck, 2004). To offset this, case studies finding were interpreted alongside secondary data analysis findings.

3.10 Conclusion

This section discussed the research approach. The scope of the research, data sampling collection methods, questionnaire design and the analysis approach were detailed.

The chapter ended with the identification and discussion of research limitations. The next chapter details results from the study.

4.0 RESEARCH FINDINGS, ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter will discuss classes used to meaningfully group data for easy interpretation and manipulation, and then the analysis of the results will be discussed under 3 categories of case study, commercial banks and state finance/support organisations.

The chapter will end with a conclusion

4.2 Classifying Data

The research is premised on two approaches of data collection, namely case study based questionnaires and analysis of secondary data. The study is, therefore, based on two main data classes, namely primary data derived from case study questionnaires and secondary data from the analysis of the annual report data from Seda, SAMAF, GEP, Absa, First Rand and Nedcor.

4.3 Analysis of Results

4.3.1 Commercial Banks

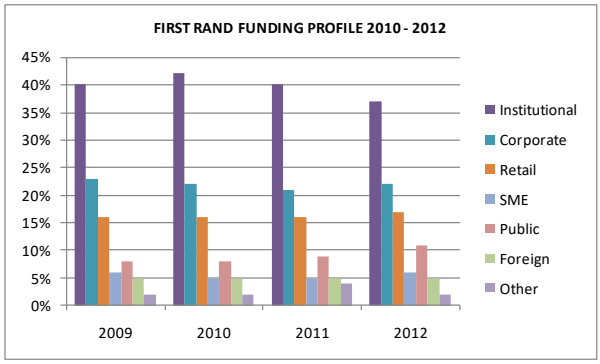
The analysis results are first discussed under individual banks and then a consolidated account given at the end.

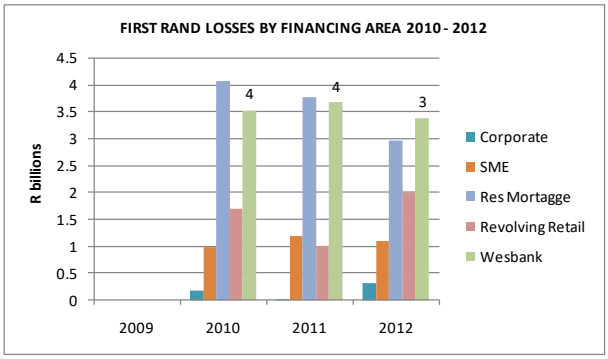
The analysis of bank data looked at key variables linked to SMME financing and support in effort to quantify provision of and access to this by the businesses. The key variables comprise levels of funding, number of businesses reached, BEE procurement, etc.

a) First Rand

The total funding for SME for First Rand constitute an average of 5% of total funding, as shown in Figure 26. The graph also shows reported losses during 2010 – 2012, with SME accounting for less than 10% throughout the period.

Figure 26: First Rand Funding Profile and Losses by Area





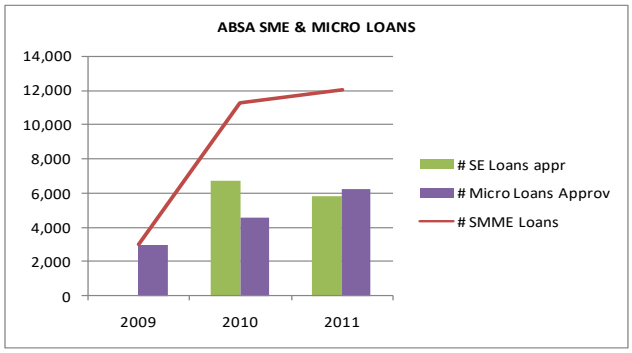
b) Absa Bank

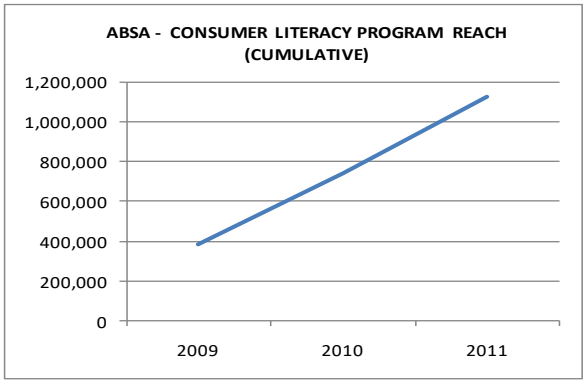
Whereas the number of microloans approved increased steadily from 3 thousand in 2009 to 6 thousand in 2011, the amount disbursed R3 to R2 billion or an average of R984,000 to R308,000 per approved loan.

Small enterprise loans dropped from 6,706 to 5,811 between 2009 and 2010. These changes are graphically illustrated in Figure 27.

For the at least the 3 years, Absa has invested in a consumer literacy programme, where consumers (the majority of which are none bankable) are educated on the available and suitable products for the target markets. At least, 1.1 million consumers have been exposed to the Absa literacy programme. The consumer literacy programme is delivered through the so-called business enterprise development centres

Figure 27: Absa SMME Loans and Consumer Literacy Programme





c) Nedcor Group

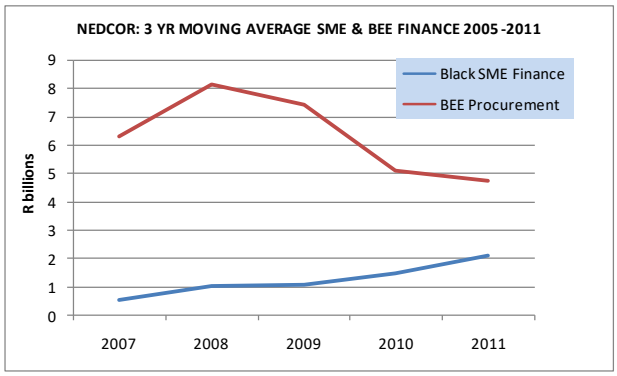
Nedcor's black SME financing data goes back to 2004 and shows a spike in 2008 to R2 billion, followed by a slum the following year to below R1 billion. From 2009 to 2011, there has been 134% increase from R1,6 to R3,9 billion.

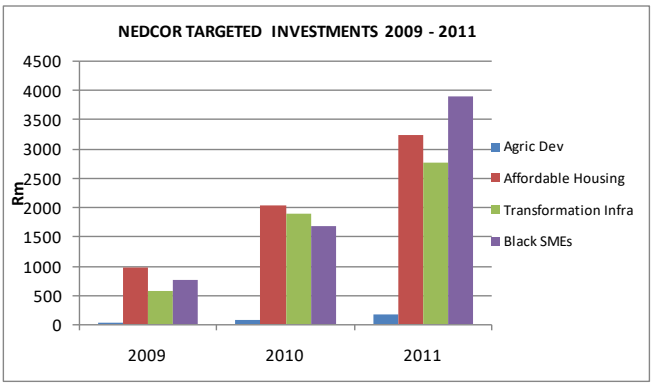
BEE procurement has fluctuated significantly since 2004. The following 3-month moving average in Figure 28 was used to smooth BEE and Black SME financing data.

Nedcor social investment embraces programmes such as agriculture development, affordable housing, transformation infrastructure and black SME financing.

The graph in Figure 28 also shows SME finance relative to other categories of finance mentioned above. One can see that SME finance has grown rapidly to eclipse all other categories, at R3.9 billion in 2011.

Figure 28: Nedcor 3-Year Moving Average SME/BEE Finance & Targeted Investments

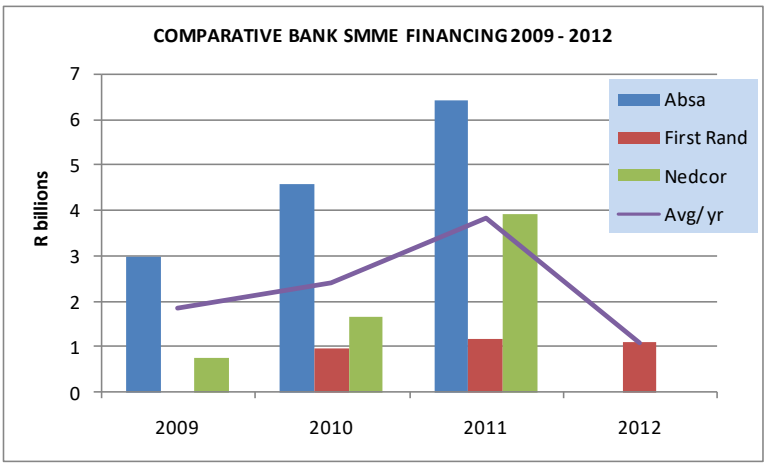




d) Overall Bank Results

While the amount of finance advanced by the varies significantly across the banks, Absa is by far the leading SME financier of the 3 banks reviewed, peaking at over R6 billion in 2011; Nedcor is steadily increasing reaching close to R4 billion in 2011. First Rand lagging behind Nedcor and has remained flat at R1 billion for the 3 years up to 2011. Figure 29 compares the 3 banks over 4 years.

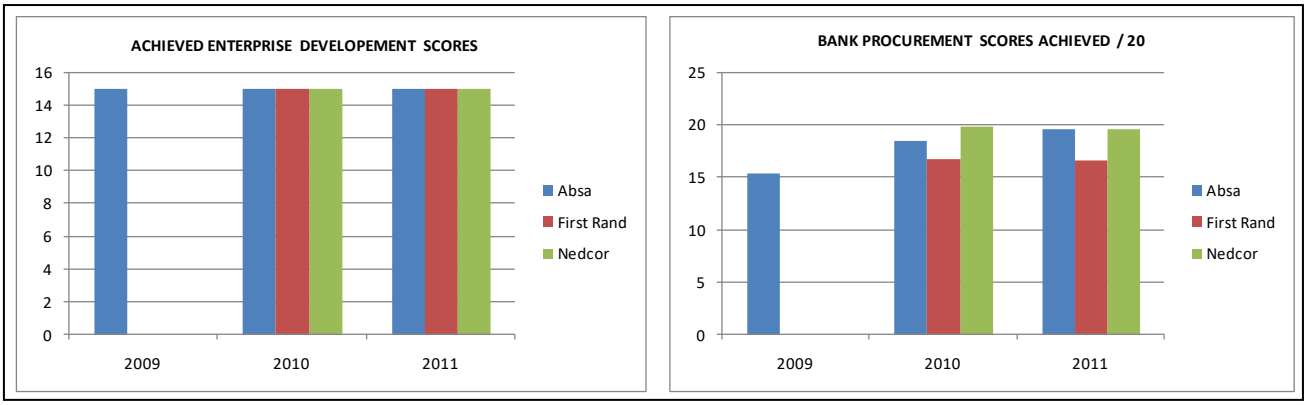
Figure 29: Comparative Bank SMME Financing



The 3 banks reviewed subscribe to the requirements of BBBEE procurement, enterprise development and social development as set down by the DTI.

As can be seen from Figure 30, all the 3 banks have consistently achieved maximum points of 15 for enterprise development by exceeding the requirements for this indicator. Similarly, the 3 banks are scoring high for BBBEE procurement, as evidenced by the graph on.

Figure 30: Bank Scorecard Achievement



4.3.2 Government Finance and Support Institutions

a) Small Enterprise Development Agency (Seda)

Seda is mandated to provide non-financial support to SMMEs in order to capacitate them to operate their operations efficiently and profitably and ensure their sustainability.

Seda derives its budget from the DTI and Sefa (formerly Khula) and from the President's Development fund.

The span of Seda services and assistance to the SMME comprise, but not limited to, business plan development, business registration, creation of market opportunities, mentoring, enterprise linkages, etc.

To facilitate reach into as many areas as possible in the country and accessibility to its services by the SMMEs, Seda has several provincial and regional offices; the 2011/12 annual report put the number at 42.

The following table shows the geographic spread of Seda personnel across branches and the load calculated per number of client traffic reported for the year 2011.

From Figure 31, Gauteng has only one branch and services the highest number of clients per staff member at 185, and the lowest load is in Mpumalanga at 24 clients per staff member. Highest number of branches per province is in the Eastern Cape at 56.

Figure 31: Seda Support by Province

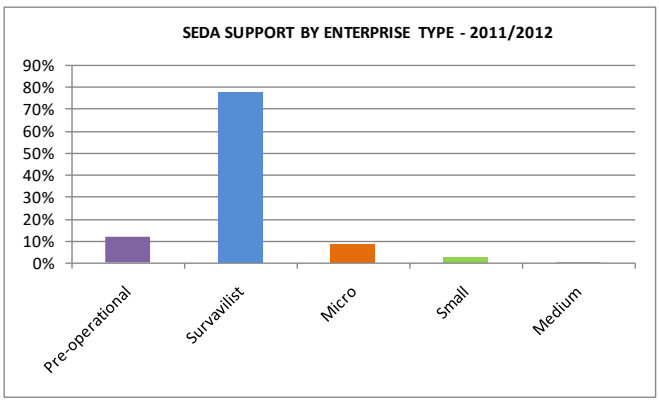
	Seda Staff	Branches	EICS	Incubators Supported	New Clients	Clients working with	Total	Staff Load Per Branch
					2011-12			
EC	56	6	1	6	10,965	3487	14,452	43
FS	49	6	0	1	12,086	1905	13,991	48
GP	28	1	0	8	4,661	521	5,182	185
KZN	55	6	0	7	10,057	2502	12,559	38
LP	49	5	0	2	11,269	2263	13,532	55
MP	58	5	0	5	6,214	742	6,956	24
NC	52	5	0	0	6,383	773	7,156	28
NW	53	5	1	1	10,441	682	11,123	42
WC	55	3	1	2	7,494	2516	10,010	61
	455	**42**	**3**	**32**	**79,570**	**15,391**	**94,961**	

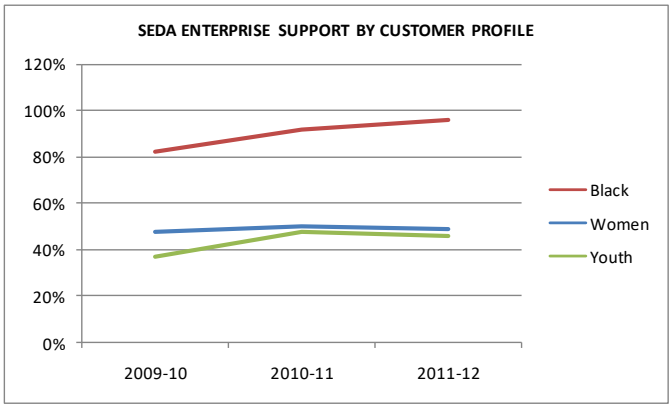
In addition to branch offices, Seda has Enterprise Information Centres, Incubators and partners – some of which are mobile – that complement Seda by providing access to information and services. In some instances, municipal offices are used to host Seda representatives.

From Figure 32 below, survivalist enterprises constitute the highest number of enterprises serviced by Seda at about 80%. Medium enterprises are almost at zero.

The customer base of Seda is almost more than 90% black in 2012 from about 80% in 2010. Women customer numbers remain flat at approximately 50%, and young have increase from less than 40% in 2010 to 50% in 2012.

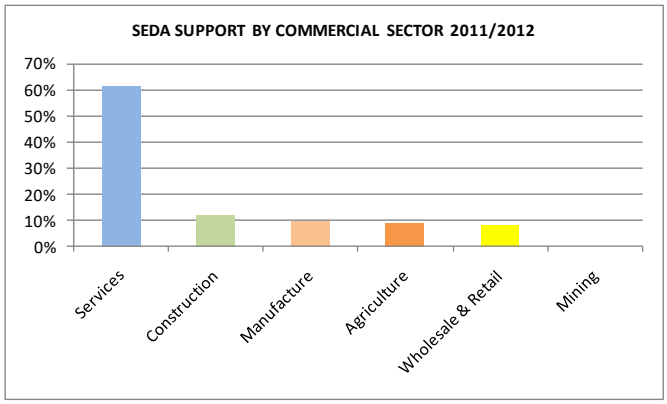
Figure 32: Seda Support by Enterprise and Customer Type

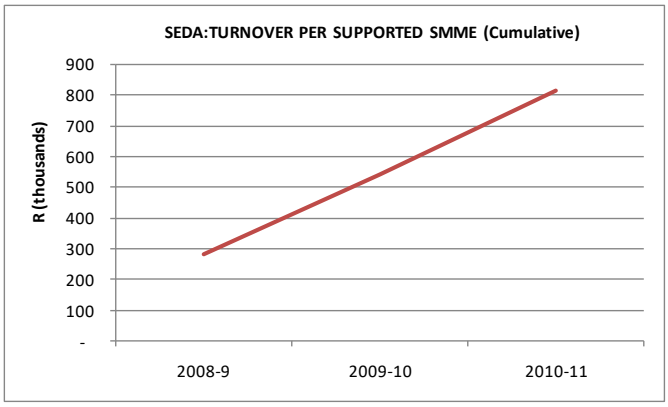




The following graph shows that the majority of SMMEs accessing Seda facilities are in the services commercial sector (60%), with rest being in construction, manufacturing, agriculture, wholesale and retail and mining.

Figure 33: Seda Support by Sector& SMME Annual Turnover





b) Gauteng Enterprise Propeller (GEP)

GEP's mandate is to actualize the Gauteng Provincial Government's policy of economic invigoration through job creation through promotion, development and support of small enterprises and access markets.

GEP provides financial and non-financial support to SMMEs and NGOs in key developmental and renewal economic areas.

Financial assistance comes in the form of loans to qualifying SMMEs, followed by an 'after-care' programme that supports the financed SMMEs to ensure profitability, sustainability and ability to repay their loans.

GEP strategic initiatives include the Township Renewal Programme whose objective is to develop and support SMME infrastructural creation and renovation ……..

GEP has transversal agreements with other SMME support outfits, such as Seda to facilitate – among others, access of their clients to technology incubators. To further ensure economic participation of their candidate SMMEs, in 2009-10 GEP established a partnership with Acerllor Mittal through which a consortium of SMMEs acquired a stake in the company.

To ensure capacity to meet it ever growing client base, GEP underwent organizational and operational systems restructuring; systems and applications such as SMME portal, Customer Relation Management, Financial, etc. have since undergone several iterations of upgrades.

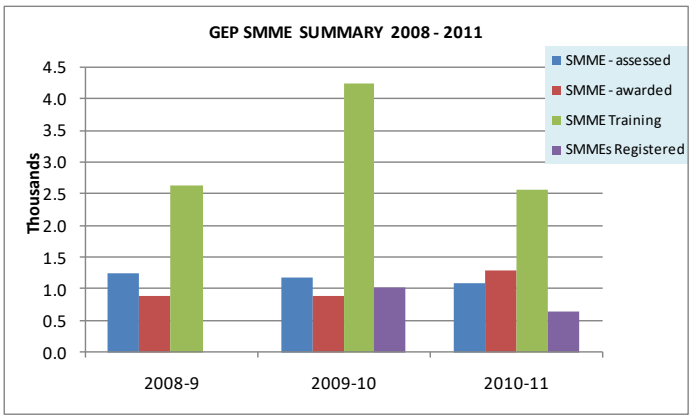
For the period 2008 to 2011, GEP has been assessing around 1000 SMME finance applications per year and awarding less than a thousand projects between 2008 and 2010. The period 2010-2011 saw about 1,250 awards.

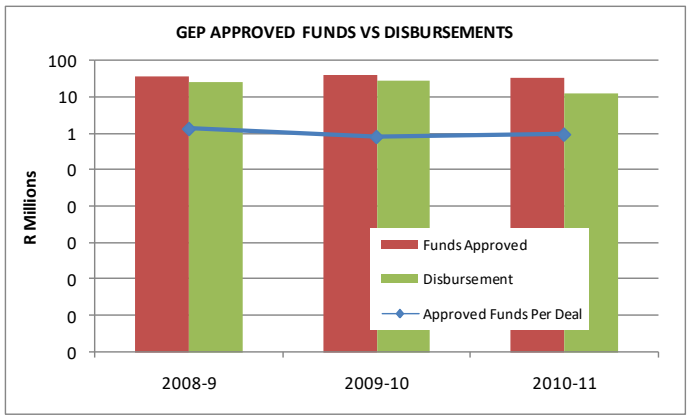
Enterprise registrations with CIPRO (now renamed CIPC) have been under 1000 for period 2009-2010.

GEP has been strong on enterprise training: over 2,500 in during 2008-9 and peaking at about 4,200 during 2009-10. The next period saw a drop to 2008-9 level. Figure 34 provides a summary of this. Figure 34 also shows another graph the compares the amount of funds approved against actual funds disbursed to borrowing enterprises.

The graph shows that disbursed are consistently lower that the approved amount and the line graph shows that the approved amounts per deal averages R1,200,000.

Figure 34: SMME Turnover (Cumulative) & Approved Vs Disbursed Funds

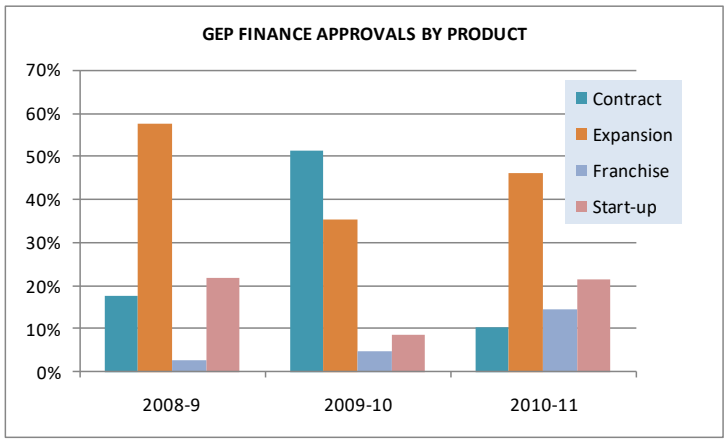




From Figure 35 below, shows that a significant amount of loan disbursements went to financing growth and expansion of enterprises.

Start-up financing reached a maximum of 20% in two separate periods (2008/9 and 2010/11) and other time is below 10% of total approved funds. Contract financing started low at about 18% and peaked at 50% (2009/10), only to drop to 10% (2010/11). Franchise financing rose steadily from 3% in 2008/9 to 15% during 2010/11.

Figure 35: GEP Approval by Product



c) South African Micro-Finance Apex Fund (SAMAF)

SAMAF is now part of a merged troika with Khula and DTI under the banner of Small Enterprise Finance Agency (Sefa). For the purposes of this report SAMAF is referred to in its original form and mandate.

SAMAF's mandate was to implement the South African government drive of poverty reduction and job creation through creation of robust microfinance sector and viable environment for financial intermediation.

As a result of government focus of ramping up poverty reduction and streamlining microfinance provision, SAMAF moved from the DTI to the Ministry of Economic t Development in 2011.

SAMAF whose primary focus in the rural areas, disburses loans through a network of Financial Intermediaries (FIs) located throughout the country. FIs - who can take the form of financial Services, co-operatives or micro-finance organisations – interact with beneficiaries or finance-seeking entities and carry out the administration and processing of loans and also take savings on behalf of SAMAF.

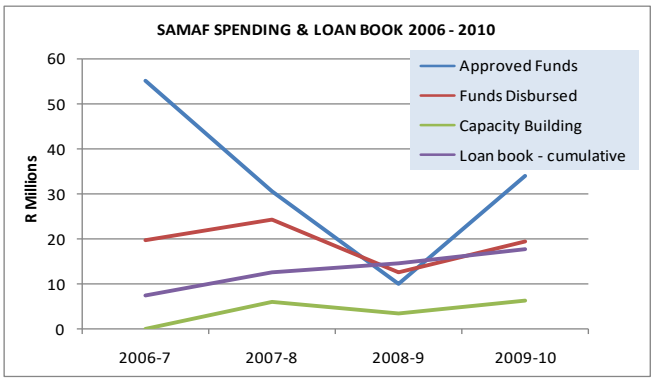
The only data available from SAMAF's website covered the years 2006 - 2010.

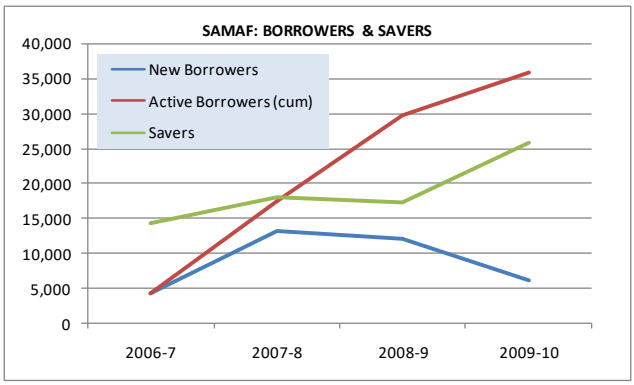
Loan approval amounts decreased from about R55 million during 2006/7 to R10 million in 2008/9 and then picked up sharply to approximately R35 million in 2009/10, as shown in Figure 36 Disbursed funds have varied between a maximum of about R25 million and a minimum of approximately R12 million in the period 2006 to 2010.

Capacity building spending, though lower in magnitude, has tracked the disbursement graph reaching R6 million in 2009/10. The total loan book has grown steadily from R7.5 million (2006/7) to R18 million (2009/100, as shown in Figure 36.

Figure 36 also shows that the number of borrowers (or approved borrowers) declined steadily from 2007 up to 2010, resulting in a noticeable slowing of the cumulative number of borrower form 2008/9. The number of savers is on the increase from about 15 million to over 25 million in the duration 2006 – 2010.

Figure 36: SAMAF Funding and Loan Book & Net Borrowers and savers



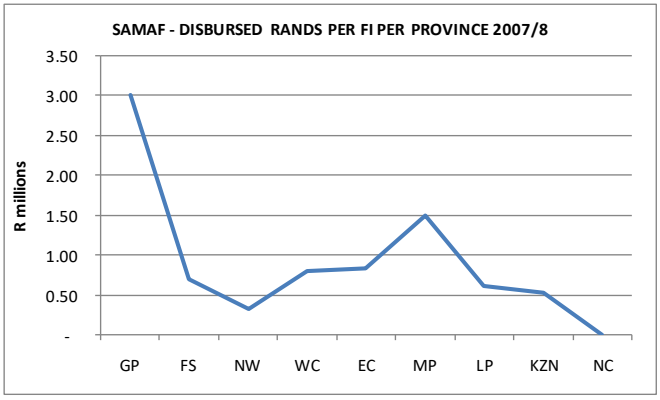


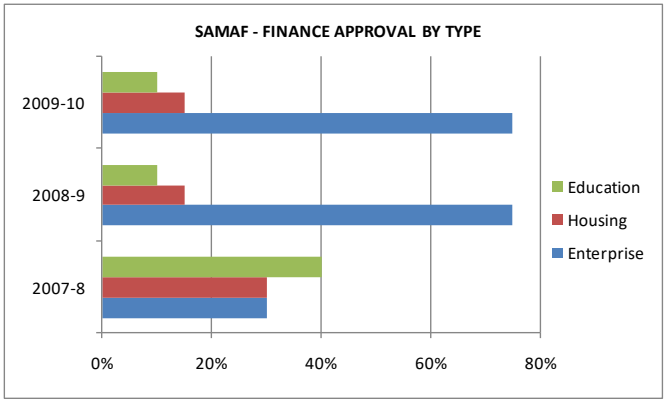
In order to ensure effective discharge of its services, SAMAF has a network of Financial Intermediaries across all provinces. The following graph in Figure 37 illustrates the workload per FI in terms of the amount of funds approved in e specific province. Intuitively, the higher the number, the less efficient the service can be expected.

Gauteng has the highest workload of R3 million to be disbursed per FI, followed by Mpumalanga at R1.5 million per FI. The lowest load occurs in North West at less than R0.5 million per FI.

Figure 37 also shows where the borrowers applied funds. Borrowings by SMMEs far outstrip the other categories, reaching and staying at 75% from 2008 to 2010. Borrowing to finance education came from being the highest (40%) of all categories during 2007/8 to become the lowest at 10% from 2008 to 2010. Housing loans also declined by half to 15% in 2010. The increase in enterprise financing seems to have been at the cost of education and housing spending

Figure 37: Disbursed Funds per FI & Finance Approval by Type





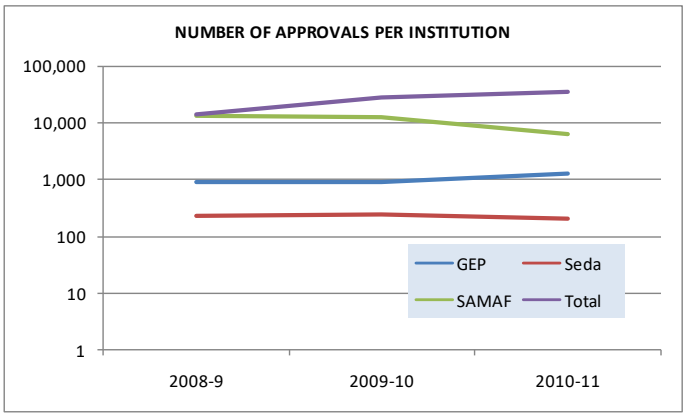
d) Overall State Finance and Support Institutions

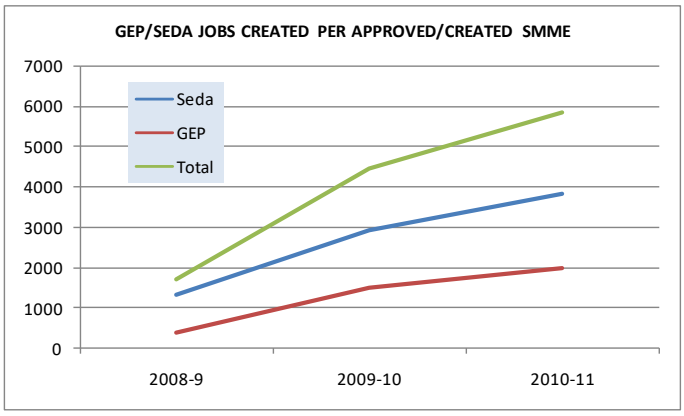
This section gives a complimentary and consolidated view of the finance institutions performance overall in the combined customer space.

The number of approved finance applications per institution for GEP, Seda and SAMAF are captured in Figure 38, which shows SAMAF has the highest approval rate followed by GEP and then Seda.

The paramount objective of state SMME finance institutions is job creation. According to the following graph in Figure 38, Seda – through its MME support services – has facilitated the highest job creation for newly established enterprises, teaching a cumulative magnitude close to 4,000 jobs in 2011 against GEP's 2,000

Figure 38: Approvals and Jobs Created per Institution



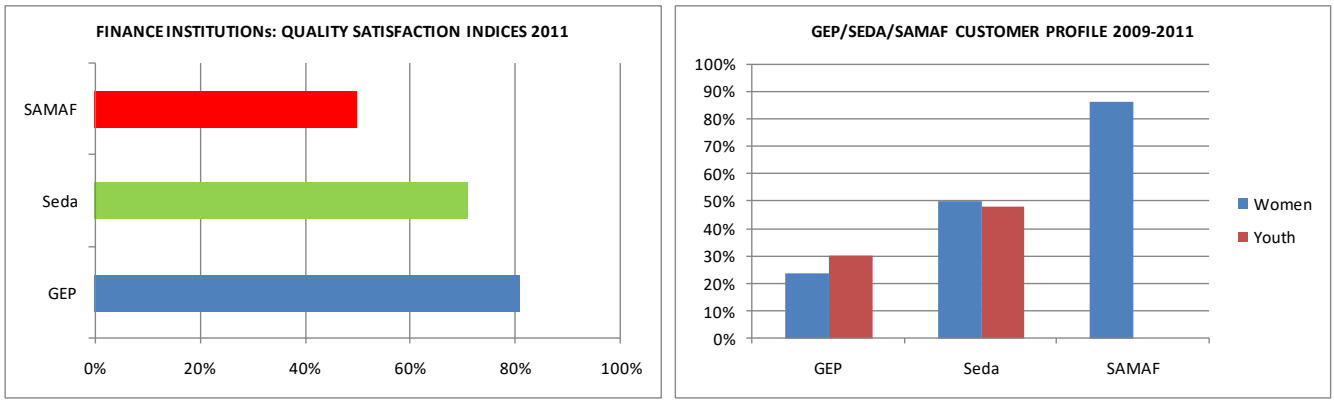


One of the critical factors in the indicators of efficiency and effectiveness of state finance institutions is the level of customer delight and satisfaction. Figure 39 shows that during

2011, 80% of surveyed customers were satisfied with GEP's services, followed by Seda at about 70% and SAMAF recorded about 50%.

SAMAF's customer base, shown in Figure 28, consists of 85% woman entrepreneurs and no youth recorded; Seda woman entrepreneurs constitute 50% with youth at roughly 48%. GEP has the lowest women and youth representation at 24% and 30% respectively.

Figure 39: Quality Satisfaction Achievement & Institutional Customer Profile



4.3.3 Case Study Results

Ten case studies were undertaken in Soweto as part of the research. The studies were recorded in different parts of Soweto to remove any possible bias in the resulting findings.

This section gives a consolidated account of the interview results. Detailed interview outputs are attached in Appendix 2.

Table 1: Age of Entrepreneurs

Below 20	0%	From the table, the majority of entrepreneurs (80%) are over the 45 years, with 30% over 60 years old.
20 – 30	10%	
31 – 40	10%	
45 - 50	20%	
51 - 57	30%	
Over 60	30%	

Table 2: Gender

Female	30%	70% of participating entrepreneurs were female
Male	70%	

Table 3: Citizenship

SA	100%	All interviewed entrepreneurs were South African citizens.
Non-SA	0%	

Table 4: Marital status

Single	10%	80% of participants were married, with single and widowed each at 10%.
Married	80%	
Living with a partner	0%	
Divorced	0%	
Widowed	10%	

Table 5: Highest Level of Education

Never attended formal schooling	10%	10% 0f business owners never went to school, 70% have Matric or diploma and 20% have university degrees.
Matriculated	30%	
Ordinary Diploma	40%	
Degree	20%	
Postgraduate	0%	
Other (please specify)	0%	

Table 6: Previous Work Experience

Student	0%	70% of respondents were previous to going into business, 20% had businesses before the current ones and 10% were unemployed.
Employed	70%	
Unemployed	10%	
Housewife	0%	
In another business	20%	
Other *(specify)*	0%	

Table 7: Motivation for Business Start-up

Dropped out of school	0%	The desire to be self-employed motivated 50% of respondents to go into business. 30% started businesses due to retrenchment, while 10% continued family businesses.
Retrenched	30%	
Retired	10%	
Incapacitated	0%	
To own business / self employment	50%	
Continue Family Business	10%	

Table 8: Enterprise Registration Status

Unregistered	Start	80%	80% of businesses were not officially registered at start-up, 60% are currently sole proprietorships, 10% limited liability companies and 10% started off as NGOs.
	Now	0%	
Sole proprietorship	Start	20%	
	Now	60%	
Partnership	Start	20%	
	Now	10%	
Limited Liability Company	Start	0%	
	Now	10%	
NGO	Start	10%	
	Now	0%	

Table 9: Business Sector

Building and construction	10%	20% of all businesses are in the professional services sector, while the rest of the sectors are each at 10%.
General Dealer	10%	
Liquor business	10%	
Professional services	20%	
Transport	10%	
Computer services	10%	
Catering services	10%	
Hairdressing, beauty and health services	10%	
Manufacturing	10%	

Table 10: Age of Business

Less than 3 years	20%	40% of the businesses have been trading for 10 years or more. The rest of the businesses: less than 3 years, 4-5 years, and 6-10 years arte each at 10%.
4 – 5 years	20%	
6 – 10 years	20%	
10 years and above	40%	

Table 11: Average Turnover per Annum

	< R150,000	R150 - R500k	R500 -R2m	50% of business had revenues less that R150,000 at start-up and presently the same percentage is now in the R500,000 – R2 million range.
At start-up	50%	30%	20%	
Presently	20%	30%	50%	

Table 12: Revenue Growth

% Revenue Growth	>50%	50% < >100%	>100%	60% of the businesses have experienced revenue growth between %0 and 100% since start-up and 10% of them the growth was less than 50%
	10%	60%	30%	

Table 13: Number of staff

	Less than 5	More than 5	50% of enterprises surveyed have an average of 5 staff members, as well as those the other half.
Number of family members are supported by the business	50%	50%	

Table 14: How Business was started

I founded the business	80%	80% of respondents started their businesses from start, while 20% took over existing ones.
I took over the business from previous owners	20%	
I inherited the business	0%	
Other *(please specify):*	0%	

Table 15: Job Opportunity Options

Take up the job & close the business	Yes	10%	Given a job opportunity, only 10% of the participants would oblige and close their businesses. All participants would not take up the job opportunity and close their businesses.
	No	90%	
Take up the job & still continue with my business	Yes	0%	
	No	100%	

Table 16: Business Development Challenges

Being a woman	Yes	20%	The biggest challenges at starting and developing a business are lack of institutional support (60%), lack of Government support (50%) and lack of family support (30%). Challenges due to being a woman was recorded at 20%.
	No	20%	
	N/A	30%	
Being a man	Yes	0%	
	No	40%	
	N/A	10%	
Being an expatriate	Yes	0%	
	No	10%	
	N/A	40%	
Lack of family support	Yes	30%	
	No	40%	
	N/A	0%	
Lack of institutional support (banks, support agencies, etc.)	Yes	60%	
	No	30%	
	N/A	10%	
Lack of government support	Yes	50%	
	No	40%	
	N/A	10%	

Table 17: Business Financing Options

Credit from the bank	At start	20%	90% of the business owners used their own savings to finance their business start-ups, while 50% continue using their savings to shore up business cash-flows presently. Only 20% got finance from banks for start-up, and the percentage continue to access credit to support business operations.
	Now	20%	
My own savings	At start	90%	
	Now	50%	
Credit from family and friends	At start	10%	
	Now	10%	
Credit from MFIs	At start	0%	
	Now	0%	

Table 18: Awareness of SMME Support Organizations

Yes	100%	All participants were, in general, aware of the existence of SMME support organisations.
No	0%	

Table 19: Finance Requirements for Start-up

<25,000	Needed	50%	50% of the businesses needed less than R25,000 to start up, but 20% were able to get the desired amount. Only 1 business (10%) required and was able to get finance of over R1 million.
	Secured	20%	
25,000 – 49,000	Needed	10%	
	Secured	0%	
50,000 – 99,000	Needed	10%	
	Secured	0%	
100,000 – 499,000	Needed	10%	
	Secured	10%	
500,000 – 1 million	Needed	10%	
	Secured	0%	
Over 1 million	Needed	10%	
	Secured	10%	

Table 20: Use of Financial Institutions

ABSA	Start-up	10%
	Additional	30%
	Amount	0%
FNB	Start-up	20%
	Additional	20%
	Amount	0%
STD	Start-up	20%
	Additional	10%
	Amount	0%
Nedbank	Start-up	10%
	Additional	30%
	Amount	0%

African Bank	Start-up	0%
	Additional	10%
	Amount	0%
IDC	Start-up	0%
	Additional	0%
	Amount	0%
Khula Enterprises Financial Limited	Start-up	0%
	Additional	0%
	Amount	0%

All participants approached only banks to satisfy their finance requirements, with none indicating that they had approached IDC, Khula of like organsations.

Table 21: Factors Negatively / Positively Impacting Finance Applications

Credit history	Positive	30%
	Negative	40%
Collateral	Positive	20%
	Negative	40%
Business account	Positive	30%
	Negative	30%
Business plan	Positive	10%
	Negative	50%
Track record / Book-keeping	Positive	10%
	Negative	60%
Interest rates	Positive	10%
	Negative	20%

Application procedures	Positive	10%
	Negative	40%
Access to credit information	Positive	10%
	Negative	50%
Location of the business	Positive	20%
	Negative	20%
Gender bias	Positive	10%
	Negative	10%
Education Level	Positive	20%
	Negative	10%
Other (please specify):	Positive	0%
	Negative	0%

50% of participants believed that lack of business plans and lack of access to credit information may have negatively affected their applications for finance, while 40% blame lack of collateral and application procedures for their failure to secure credit.

30% of participants believed that their credit history stood them in good stead in securing finance.

Table 22: Finance Institution Application Response Times

Less than 7 days	50%	50 % of participants indicated a turnaround time of less than 7 days for finance applications with commercial banks, 10% experienced a wait of 2 to 3 weeks.
Within 2 – 3 weeks	10%	
1 – 3 months	0%	
4 – 6 months	0%	
No response	0%	

Table 23: Institutional Application Processing Effectiveness

Very Ineffective	0%	40% of business owners believed financial institutions were good in the manner in which they dealt with their applications, and 30% believed the institutions were effective.
Poor	0%	
Not know	30%	
Good	40%	
Effective	30%	

Table 24: SMME Finance/Support Product User-friendliness

Support Aspect	1	2	3	4	50-60% of entrepreneurs do not have an opinion on the finance and support products offered by financial institutions, while 20% allocate a score of 'Good' for all categories.
Range	20%	20%		60%	
Suitability	20%	30%		50%	
Repayment Terms	20%	10%	10%	60%	

Table 25: Support Type Received

Business plan training	Mark	10%	10% of businesses each received the non-financial support in the form of training and services: business plan (SETA), business management (Department of Science & Technology), business registration (DTI) and food supplied (Food Bank).
	Institution	SETA	
Business management	Mark	10%	
	Institution	DSS	
Registration	Mark	10%	
	Institution	DTI	
Computer	Mark	0%	
	Institution	-	
Food Supplies	Mark	10%	
	Institution	Food Bank	

Table 26: Growth Type

More staff	90%	The growth of all businesses surveyed was characterised by increased revenues, 90% experienced increased staff, 70% increased stock and 40% increased their outlets.
Increased revenues	100%	
Increased stock	70%	
More outlets	40%	
No growth	0%	

Table 27: Factors contributing to Growth and Sustainability

Commercial Banks	Strongly Disagree	20%
	Disagree	0%
	Neither Agree nor Disagree	0%
	Agree	40%
	Strongly Agree	10%
Government Support agencies	Strongly Disagree	40%
	Disagree	0%
	Neither Agree nor Disagree	0%
	Agree	20%
	Strongly Agree	10%
MFIs	Strongly Disagree	50%
	Disagree	0%
	Neither Agree nor Disagree	0%
	Agree	0%
	Strongly Agree	0%
Informal Lenders (Machonisa)	Strongly Disagree	20%
	Disagree	0%
	Neither Agree nor Disagree	0%
	Agree	30%
	Strongly Agree	0%

Family / Friends	Strongly Disagree	0%
	Disagree	0%
	Neither Agree nor Disagree	10%
	Agree	30%
	Strongly Agree	30%
Own Savings	Strongly Disagree	0%
	Disagree	0%
	Neither Agree nor Disagree	0%
	Agree	0%
	Strongly Agree	80%
Business cash flows	Strongly Disagree	0%
	Disagree	10%
	Neither Agree nor Disagree	0%
	Agree	30%
	Strongly Agree	50%
Other		0%

Half the respondents strongly agree that success of their business can be credited to use of cash-flows generated by the business; 80% strongly attribute growth to use of own savings, while 50% and 40% respectively strongly disagree that that MFI nor government contributed to their enterprise growth.

Table 28: Enterprise Plans for Next 5 Years

Continue with the business at the same size	0%	70% of business owners want to increase the scale of their businesses in the next 5 years; 60% wish to diversify their businesses or products; 30% will pass the businesses to family members and 10% will sell the business
Slightly increase the size of the business	70%	
Change to another line of business	0%	
Diversify into more products / businesses	60%	
Start another business and sell the current one	20%	
Pass the business to one of family members	30%	
Sell the business	10%	

Table 29: Environmental Factors Affecting Business

Challenges	Rank 1	Rank 2	
Crime / Theft		10%	50% of entrepreneurs ranked completion as the biggest factor limiting business growth.
Regulations / Business permits		20%	
Protection / Security			
Financing / Cost of finance	40%	10%	40% of entrepreneurs ranked finance and/or cost of finance as the biggest factor impeding operations and growth of their businesses.
Informality of business			
Location	10%	20%	
Competition	50%	20%	
Supporting family			
Information			10% ranked economic as the biggest impeder of enterprise growth.
Education level			
Rent		10%	
Economic Climate	10%		

4.4 Hypothesis Testing

Statistical inference involves generating generalizations about population form samples results. Hypothesis testing determines the probability that it is supported by facts (Landman, 1988)

Hypothesis testing is characterized by two main errors, namely:

Type I - means rejecting the null hypothesis when it is true.

Type II – means not rejecting the null hypothesis when it is false.

Possible errors in hypothesis testing are tabulated below.

Table 30: Hypothesis Testing Errors.

Result of hypothesis test	Null is actually true	Null is actually false
Reject null, accept alternative	Type 1 Error	Correct decision
Do not reject null	Correct decision	Type 2 Error

The significance level represents the possibility of making a type 1 error, or the probability that the null hypothesis will be when it is true. A significance level of 0.05 means there is a 5% chance of making a type I error. A significance level is specified before test statistic calculation.

The methods followed will the hypothesis test for proportion for the following reasons:

- The sampling method is simple random sampling.
- Each sample point can result in just two possible outcomes.
- The sample includes at least 10 successes and 10 failures.
- The population size is at least 10 times as big as the sample size.

Hypotheses 1

The hypotheses stated as follows:

- Null Hypothesis H_1 :

  Only a minority of SMMEs have access to microfinance

  $H_1 : P < 0.50$

- Alternative Hypothesis H_{1a} :

  A majority of SMMEs have access to microfinance

  $H_{1a} : P > 0.50$

A one-tailed test will be done. The null hypothesis will be rejected if the sample proportion is too small; this happens when the P-value is less than the significance level of 0.05.

Analysis Plan

Significance level is set at 0.05, with one-sample z-test method.

Data Analysis

Sample in Table 34 is used with the hypothesized proportion (P):

Standard deviation Ȯ = square root [P x (1-P)/n] = square root [0.50 x (1-0.50)/10] = 0.158

P = hypothesized population proportion in the null hypothesis;

p = sample proportion;

n = sample size.

P-value is the probability that the z-score is -0.633.

From the normal distribution tables:

P(z<-0.633) = 0.7357

Interpretation

The P-value (0.7357) > significance level (0.05), implying that the outcome is not statistically significant. This means the null hypothesis cannot be rejected.

We can conclude from the analysis results that less than 50% of SMMEs who accessed microfinance.

a) Hypotheses 2

- Null Hypothesis H_2 :

  SMMEs who received financial support did not experience 100% growth in revenues.

  $H_2 : P < 0.50$

- Alternative Hypothesis H_{2a} :

  SMMEs who received financial support experienced more than 100% in revenues.

  $H_{2a} : P > 0.50$

Data comes from Table 29. Same assumptions and analysis procedure will be the same as in a) above.

Standard deviation Ȯ = square root [P x (1-P)/n] = square root [0.50 x (1-0.50)/10] = 0.158

Z-score test statistic z = (p-P)/Ȯ = (0.70 – 0.50)/0.158 = 1.266

P(z<1.266) = 0.9147

Interpretation

The P-value (0.9147) is bigger than the significance level (0.05), implying that the outcome is not statistically significant. This means the null hypothesis cannot be rejected.

We can, therefore, conclude from the analysis results that most of the SMME who accessed microfinance did not experience growth in excess of 100%.

4.5 Conclusion

This section presented detailed analysis results and a brief commentary against each of result finding.

The chapter concluded hypotheses testing, from which it was concluded - in agreement with literature review - that only a minority of SMMEs had access to finance; secondly SMME revenue growths are unlikely to exceed 100%, also in agreement with literature that survivalist enterprises are growth-averse (Reynolds et al. cited in Berner et al., 2008).

The following chapter provides incisive discussion of the research results.

5.0 RESEARCH CONCLUSIONS

5.1. Introduction

The last section outlined the research detailed findings form secondary data analysis and case study interviews.

This section of the report starts by discussing finding at the level of study research question and ends with these being tied back to the principal research questions as stated in the research proposal, and are restated below:

- Are SMMEs aware of the enterprise finance institutions and their services?
- Are enterprise finance institutions accessible to the majority of SMMEs?
- Do enterprise finance support programmes lead to growth and success of SMMEs?

5.2. Findings from Research Questions

The discussion of the results will be done in two ways, firstly the case study and secondly the commercial banks.

5.2.1 Case Study

a) Business and Entrepreneur Profile

60% of the business owners surveyed are over 51 years old, while 50% are either retired or retrenched. Given that 60% of the businesses are younger than 10 years old, it can perhaps be deduced that most of the entrepreneurs are in business because of retirement or retrenchment. They are, therefore, in business to support their livelihood and can be described as survivalist; this corroborates Cotter (cited in Berner et al., 2008, p.8) who makes the point that the objective the survivalist entrepreneur is "to feed their families and preserve their precarious, subsistence-level micro-enterprises…"

Contrary to what is professed by the literature, 90% of the entrepreneurs interviewed have at least a Matric qualification, which would suggest most of them would have been able to hold down a job and hence get a better income security. This would suggest retrenchment/retirement, or being in business by choice.

A significant 80% were founded from scratch, and the same percentage of the business started off informally and unregistered. This suggests that these enterprises would, at the most, have started in a survivalist mode and remained so even after formal registration. This is in agreement with Reynolds et al. (cited in Berner et al., 2008) who makes a point that lack of motivation for growth by Survivalist entrepreneurs is underpinned by the fact that they have been forced into business by destitution born out of unemployment, poverty and other severe economic factors, unlike other entrepreneurs who made a choice based on specific business opportunities.

60% of the businesses are now sole proprietorships, and this confirms findings of Abor and Quartey (2010) that SMMEs in the developing world are mostly characterised by sole proprietorship.

It is conceivable that given a job opportunity, a survivalist entrepreneur would take up the opportunity and Berner, Gómez and Berner (2008, p. 15) suggests that "finding a waged job is the most realistic option for a better and more secure livelihood of survival entrepreneurs…." But contrary to this, 90% of the interviewed business owners indicated they would not take up such a job opportunity if offered.

b) Access to Finance

The study showed that 90% (Table 34) of the entrepreneurs financed business start-up from their own savings, 20% from both commercial banks and own savings. None of the enterprises accessed MFI funding. This observation may indicate increasing commercial bank inroads into SMME space, as shown in Figure 24.

A Finscope (2010) study also found that commercial banks have significantly increased their exposure to SMMEs, with the historically disadvantaged individual clientele gradually increasing, spurred by the surge in the black middle and upper-class account holders.

60% of entrepreneurs experienced challenges accessing support from institutional finance and support agencies, with 50% of them requiring R25,000 for start-up but only 20% being approved for this amount with commercial banks. This is not

surprising when one reads this with Figure 6, which shows that SMME finance constitutes a miniscule 5% of First Rand's total spending on loans, for example; this may also be reflective of the other 2 banks.

The low-level of bank loan approval rate is explained by Fatoki and Asah (2011) who say that lack of business information and managerial skills form part of the reasons why the banks are reluctant to finance small businesses.

These findings are in agreement Fatoki (2010), who found that the second most cited cause of low business creation and failure in South Africa is lack of financial support. FinScope (2006) also found that only 2% of new SMEs in South Africa can access bank loans and also according to Foxcroft et al. (cited in Fatoki, 2010), 75% of applications for loans by new SMEs in South Africa are rejected.
On a continuum of 'strongly disagree-strongly agree', 30% agreed that they had used informal money lenders to shore up business cash-flows; A FinScope survey (2010) found that 22.4% of small businesses accessed informal financial services.

Also notable from the study is that only 10% of participants accessed services of state financial institution, name IDC for non-financial support, such as business registration, permits, etc. 40% and 50% respectively strongly disagreed that government support agencies and MFIs had contributed to success and sustainability of their businesses. But 40% and 10% respectively agreed and strongly agreed that commercial banks had contributed to the success of their businesses, mainly facilities like overdraft facilities.
The foregoing finding is supported by Chetty (2009) who found that the private sector was more effective than the public sector in the provision of business development services, and Fatoki et al. (2009) found that a significant number of respondents to their research indicated that they failed to use products provided by Khula Finance Enterprises because they were unaware of such products. While Lever (1997) believes that business support organisations need to be more visible and need to market themselves more broadly.

c) Business Performance and Growth

All businesses experienced growth in terms of revenues, staff numbers, stock items and outlets as follows: 90% increased staff, 100% had revenue growth, 70% increased stock and 40% created more outlets.

Business growth was financed as follows: 20% accessed banks loans, 50% from own savings and 10% got money from family/friends or informal lenders.

50% of the business surveyed had revenues below R150,000 at start-up and 30% had revenues between R150,000 and R500,000, which suggests that these businesses started in the categories of survivalist and microenterprise respectively.

A large number of research literature concur with the foregoing finding in that the most start-up businesses are, by far, survivalist in nature, followed closely behind by microenterprises. Only 20% of the businesses started off with revenues higher than R500,000; the owners had previous businesses and, as a result, may have had easier access to significant amounts of credit from commercial banks.

All businesses grew their revenues; 60% realized growths between 50-100%, while 30% grew the revenues by more than 100%. Revenue growths were realized with minimal staff growth, but more with increased stock levels and product ranges.

Revenue growths has resulted in a slight shift in revenue brackets: 50% are now in R500,00-R2m bracket, 30% in now in R15,000 – R500,00 range. 20% still languish under R150,000.

50% of the entrepreneurs ranked competition from big business, especially the emergent malls in Soweto, as the number impediment to their business growth, 40% ranked lack of finance second. This finding is corroborated by Finscope (2010) study results, in which small businesses identified competition (12.6) and lack of access to finance (8.7%) as constraints to business growth.

70% of business owners want to increase the scale of their businesses in the next 5 years; 60% wish to diversify their businesses or products; 30% will pass the businesses to family members and 10% will sell the business.

The high percentage (60%) of business, who want to grow through diversification in the next 5 years, highlight the conservative nature of the owners. Olomi et al. (cited in Bergner et al., 2008) argue that, juxtaposed with growth through reinvestment, growth through diversification represents a weaker strategy characterizing the business attitude of the survivalist entrepreneur. This argument can be extended to the current/reported growth in that 70% of businesses realized through ‘increased stocks’,

which just means increases variety of stock items as opposed to increased inventory levels.

The majority of the entrepreneurs, who want to scale up their businesses in the next 5 years, hope to move away from the current constraining small business premises (residential homes) and move to green sites. Most of these businesses have no significant collateral to talk about, outside of the family home that doubles up as business premises. So the desired expansions may prove difficult and unachievable in the absence of significant financing. Fatoki and Asah (2011) say that where debt is required, collateral becomes a critical component of the loan application process and SMMEs without collateral find it difficult to survive and grow their operations.

On the question of collateral, one finds that it becomes critical when one looks at SMME finance losses suffered by both banks and MFIs. Results show that First Rand lost no less than R1 billion annually during 2010-12 period, SAMAF had a debt repayment rate of only 48% (200-2010).

d) Effectiveness of Finance Products

Businesses were asked to rank SMME products (Good/Average/ Poor/ Don't Know) in terms of range, reliability and payment terms. 20% said range was good, while 20% said it was average and 60% did not know; 20% good, 30% and 50% did not know; on payment terms, 20% good, 10% average, 10% bad and 60% did not know.

Although all participants in the study had a vague knowledge about some of the microfinance institutions, the majority did not have a sense of what these institutions were about because they had not been exposed to any information about them.

The finding above find resonance in a study by Chetty (2009) in KwaZulu Natal, which found that access to government sponsored SMME support organizations is often limited by lack of information, ignorance and lack of communication to the small enterprises and also found that only 24% that had accessed this support, 68.4% of which rated the service as average to poor.

5.2.2 Financial and Support Institutions

a) Customer Profile

In line with the drive to promote and empower women and youth owned businesses, the banks and state finance and support institutions have steadily increased their funding in this area. In 2011, SAMAF's loan portfolio consisted of 85% woman, Seda

50% with youth at roughly 48% and GEP 24% and 30% youth. Karumbidza (2009) observes that women empowerment and poverty alleviation through development and involvement in business has become a burning issue, with emphasis placed on encouraging women's involvement in the economy through the development of SMMEs.

The majority of supported enterprises by Seda are survivalist in nature; they formed approximately 80% of all businesses in 2011/12, with each of the other categories below 10%. Supported enterprises have shown growth in their revenues the period under review, with an average of 100% in 2010/11.

The banks also followed the same trend as the MFI in the profile of SMMEs financed. There is a concerted effort to achieve compliance to DTI standards with respect to SMME, BBBEE procurement, support and financing of women owned enterprises, etc.

b) Access to Finance

GEP has consistently spent a significant amount on financing enterprise growth and expansion, about 68% in 2008/9, 35% in 2009/10 and 45% in 2010/11. To assist financed enterprises and projects to remain viable, profitable, sustainable and, therefore, able to service their loans, GEP provides non-financial services such as aftercare, information, facilitating exhibitions, assistance to access markets etc. This type of support is often done in conjunction with Seda.

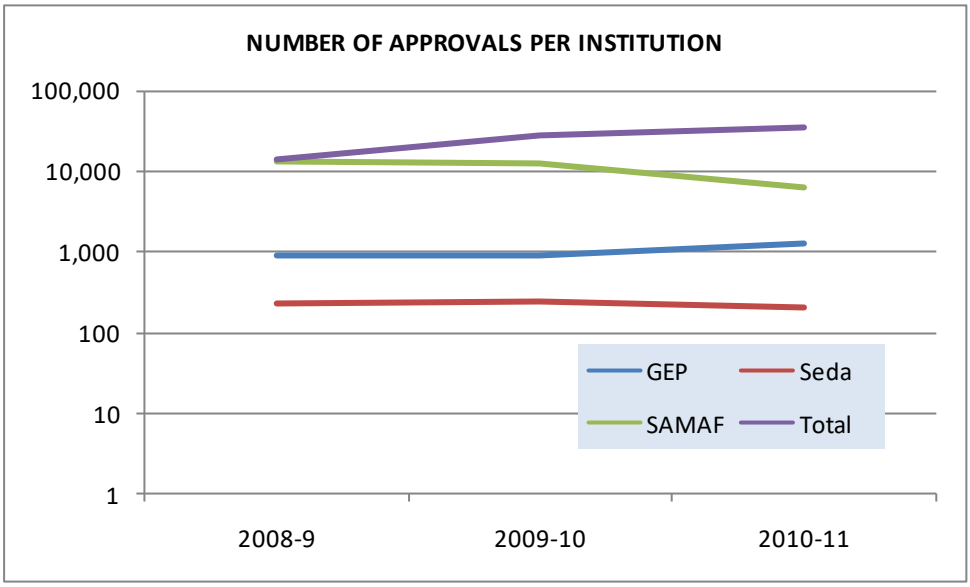
SAMAF's loan has remained below R20 million for the 3 years, annual disbursement have fluctuated around R10 and R25 million, indication lack of growth in disbursements. Active borrowers were over 35,000 in 2009/10. It is interesting to note that new borrower numbers halved from about 13,000 to approximately 6,000 between 2007 and 2010. This can be explained by the growth in on-lending budget, which may be financing existing business expansion and growth.

The highest disbursement in was in Gauteng at R3 million (2007/8) and is twice the second highest of R1.5 million in Mpumalanga. According FinScope Small Business Survey (2010), Business Sophistication Measure was highest for Gauteng: (BSM) 7

was 11.8% and 9.0% for BSM 8. Because of higher BSMs, Gauteng business are more likely to access credit because they are more formalized than their counterparts in Limpopo, for example

The combined spending of GEP, Seda and SAMAF are shown in Figure 38, indication a total figure of R35 million in 2010/11.

Figure 38: Disbursed Funds per Institution



In an effort to continuously improve their products and customer experience, commercial banks and some of the state finance institutions conduct customer satisfaction surveys to get a sense of customer perceptions about quality of their products and service in general. Results from the analysis show that in 2010/2011 GEP, Seda and SAMAF achieved scores of 81%, 71% and 50% respectively, while Absa's satisfaction index was 44 and Nedcor's stood at 62 for 2011.

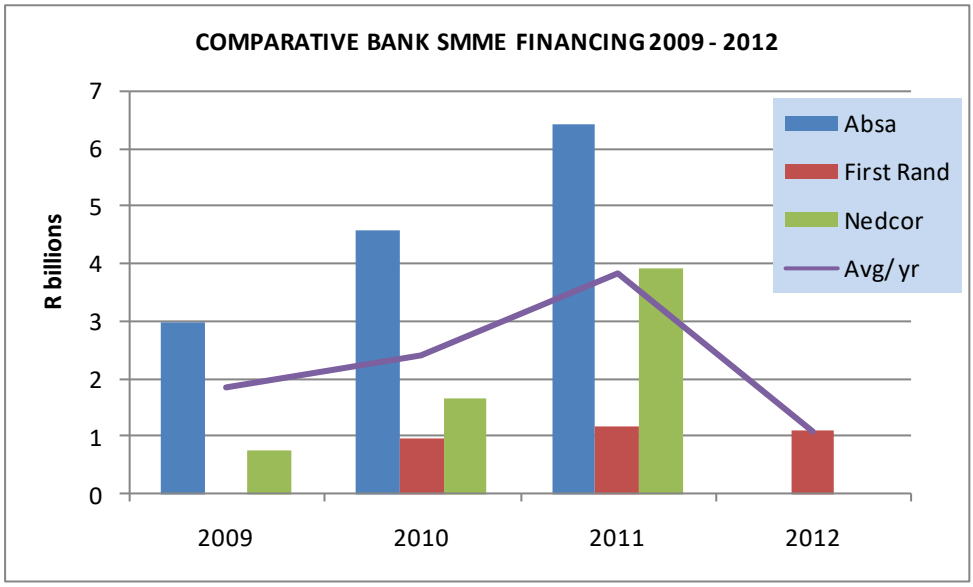
Commercial banks, such as Absa, now have small divisions focused on servicing the small businesses, not only through financing, but also through customer education and enterprise development.

From Figure 30, spending on SMME finance by the 3 banks; Absa has significantly increased their share of the SMME finance, reaching R6,4 billion 2011, total 3-bank annual average of R9.2 billion. This result can be seen in two way, firstly this increasing spending could be in response to the overbearing pressure put on banks by

the state and Labour movements – such as Cosatu - to play a meaningful role in the SMME financing and development, secondly it could be that the banks have found it in themselves to take advantage of the huge untapped markets as part of venturing into the lucrative unsecured lending market, characterised by high risks and equally rewarding profit margins.

This increased exposure by the banks is confirmed by a Finscope (2010) study commercial banks' exposure to SMMEs owned by the previously disadvantaged had increased significantly.

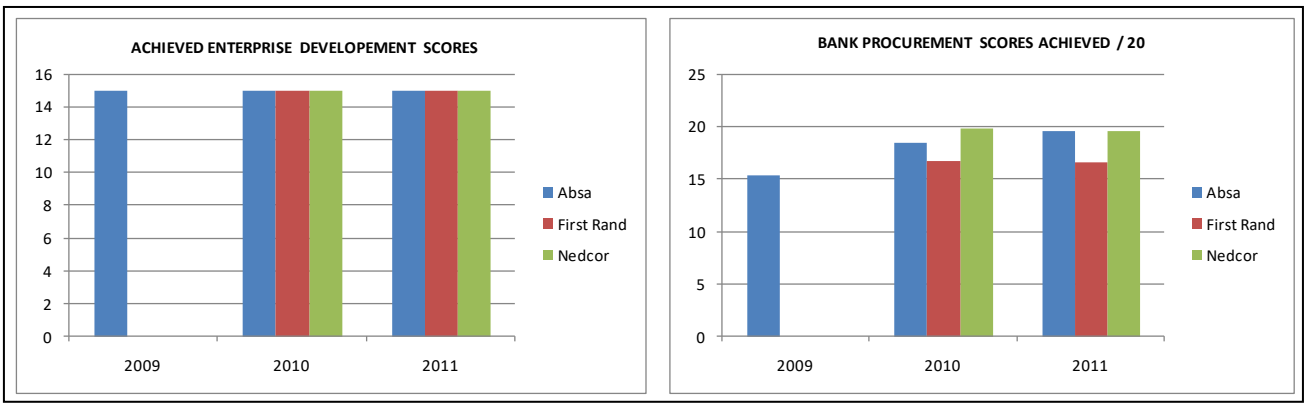
Figure 30: Comparative Bank SMME Financing



Another way that banks indirectly finance black SMMEs is through black economic empowerment initiatives, such preferential procurement, black women empowerment, etc. Most of these initiatives are driven by the need to comply with various regulations and standards form the government. The ease with which the banks are meeting and exceeding standards set by the DTI shows that the target are low and that the banks are just doing enough to meet them. It further shows that the banks have capacity to achieve far more than they are doing presently with regard to SMME loan book.

Figure 31 shows banks' achievements on the DTI score cards with regard preferential procurement (target=20) and enterprise development (target=16).

Figure 31: Bank Scorecard Achievement



5.3 Findings and Principal Research Questions

The discussion in this section seeks to establish that the principal research questions have been adequately and satisfactorily addressed by the research findings and the preceding discussion. Discussion will be guided by each of the principal questions.

5.3.1 SMMEs Awareness of the Enterprise Finance Institutions and Services

It is clear from the results that, albeit 100% of respondents to the questionnaire had vaguely heard or known of some of the finance institutions (with the exception of banks), 90% of them were oblivious to the nature and range of their services and qualifying criteria for potential borrowers.

Although 90% of the businesses were banked clients, the only credit facility accessed is the overdraft facility. This could be due to several reasons which can be reduced to the following 3 main factors:

Lack of awareness or information on other credit plans targeted at SMMEs, due to bank indifference and lack of information coordination between divisions in the bank;

Use of small overdraft thresholds indicates that the funds sought cannot be meant for business development or expansion but, on the contrary, are used to smooth cash flows or replenish stock. One can conclude, therefore, that hitherto these SMMEs have had no desire to invest in growth and so it is not surprising that they have not incurred big loans with the banks.

The third factor could simply boil down to risk and debt aversion of the entrepreneurs; as discussed elsewhere in this document, debt is perceived as an entrapment and bad for the business;

The last factor may be self-censure born out of the believe that they (entrepreneurs) may not qualify credit for several reasons, such as bad credit history, bad management of the business account, lack of collateral, etc.

Reluctantly, the study has to find that there is pervasive ignorance on the nature of MFIs and their services and products on the one hand, and lack of awareness on extended services/products and benefits that mainstream banks can offer to existing and reliable clients on the other hand. This corroborates a study finding by FinScope (2011) that only 3% of surveyed SMME owners were aware of Khula, and only 1.2% aware of SAMAF.

The conclusion above is made reluctantly because the researcher believes more research is required in this area to elucidate the real factors that underlie aversion to bank finance by SMMEs.

5.3.2 Accessibility of Enterprise Finance Institutions to Majority of SMMEs

It follows from the last discussion that the lack of awareness around both MFIs and their services on the one hand and ignorance on the extent of bank products (outside of overdrafts) on the other, renders these institutions and/or their products virtually inaccessible to the SMME.

Of the businesses visited, only 10% had made use of non-financial support services from a non-bank financial institution. This forces the finding that, on the whole, there is more awareness of the banks - maybe less so of their other services beyond their traditional savings mobilization in the poorer communities (such as Soweto) - than there is awareness about institutions such as GEP, Seda and SAMAF.

Though, as discussed above, banks see more SMME clients than other financial institutions, they (SMMEs) still form a very small part their loan portfolio; for example, at First Rand, year-by-year SMME finance has stuck closely about 5% during the period 2009-2012.

Notwithstanding the fact that these organisations have not been around as long as banks, what is clear is that their message and services are not reaching the target beneficiaries of microfinance.

5.3.3 Growth and Success of SMMEs as a Result of Enterprise Support

The results from case studies show growth across all enterprises, in terms of revenues, with 60% of businesses experiencing between 50-100% growth. Because the businesses are small and survivalist in nature, small improvements and increases in product range can result in synergistic surges in revenues. The SMMEs experienced said growth in the face of competition and lack of finance, which were cited the top 2 inhibitors of growth.

Seda supported SMMEs achieved over 100% overall growth in turnover between 2010 and 2011.

In 2007/8, 74% of SMMEs supported by Seda Technical Programme survived the first year of operations and 80% was recorded in2010/11; 83% survived the second year during 2007/8. Adeniran and Johnston (cited in Fatoki, 2012) found that the failure rate of SMEs in South Africa was between 70% and 80%. One can only assume that this failure rate is experienced among unsupported businesses, which would make a strong a case for increasing both budget and reach of support agencies such as Seda.

From analysis results, Seda is, by far, the main non-financial supporter of SMMEs and on average supported 620 per year during 2008-2011, which equates to 0.01% of total SMME population (according to Finscope (2011), there are about 6 million SMMEs in South Africa).

Albeit supported enterprise statistics present positive growth and survival rates, it is clear from the discussion above that this only applies a very small part of the SMME population, and the majority of SMME failure is high, and can be as high as 70%-80% (Fatoki, 2011).

The research findings, to a large extent, corroborate the literature review and therefore indicate convergence on the following:

SMMEs access to financial institutions and financial products is severely limited;

A significant number of SMMEs do not have access to information on state microfinance institutions and their finance products;

The reach of microfinance institutions is limited, leaving a large number of potential beneficiaries underserved;

Commercial banks show excessive risk-aversion bias with small businesses than they do with more established enterprises, and as a result SMME loan books are kept very low;

Access to microfinance stimulates and results in revenue growth and expansion of SMME businesses.

5.4 Conclusion

The discussion has revealed important findings which show that, albeit there is a focus on SMMEs as key cogs in the growth and revitalization of the South African economy, a lot still remains to be done to raise awareness of small businesses about available support and financial products that can benefit them.

The discussion has also argued that results although, traditional banks are more accessible than state finance institution, with regards to number of SMME owners walking through their doors, their extended products – such as SMME specific finance, etc. – are being exploited by the SMME clientele; possible reasons for this behaviour were also explored.

Despite the existence of the most cited inhibitors of SMME growth, namely competition and lack of finance, case study businesses experienced high levels of revenue growths. Possible reasons for this were discussed.

Secondary analysis also showed increased revenues for Seda-supported enterprise, evidence that mentorship, incubation, market exposure, etc. do enhance SMME performance and are, therefore, critical to a vibrant economy.

The inadequate information on available support products, financing requirement and qualifying criteria have made the business owners debt-averse, so that they perceive loans as an entrapment and a drain on the profits; this, in part, can explain why on their part, they do not make an effort to get more information on small business finance per se;

The banks are making big strides in their endeavours to embrace previously excluded unbanked consumers and the black SMMEs. In addition to this they have extensive enterprise development strategies and programmes, such training of consumers, preferential procurement, etc. A large part of this is, of course, driven by the need to comply with various regulations and standards set by Government.

The number of changes to structure of microfinance institutions and the sector in recent years shows the importance the Government attaches to SMME success and sustainability

Big strides have been made in the area of policy development on small businesses financing and support.

The recent merger of Khula, DTI and SAMAF is further indication of Government intent of streamlining small business support function, improving efficiencies and realizing synergies in the delivery area.

5.4.1. Policy Framework

The Government needs to initiate and drive policy that have at their centre efficient delivery mechanisms that are focused equally on rural and urban small businesses. The focal point of such policies should be information empowerment of the target beneficiaries.

5.4.2 Financial institutions

a) Commercial Banks

Commercial banks have made big strides in the microfinance space, thanks to the subtle and explicit pressure from Government, pressure groups and such as labour organisations, such as Cosatu.

Banks can integrate their internal process more than they are presently, to give a more rounded service to their SMME clientele. For example, detecting a business account transaction, their systems could be configured to trigger a display offerings and attendant benefits available to the SMME; these can then be communicated to the entrepreneur verbally or in written form. The system can then keep a record of this communication for follow-ups.

Banks have to develop more SMME-tailored and flexible products based on their specific needs, and treat SMMEs as credible business in their own right. Many banks treat SMME finance as part of their social responsibility function, hinging on the attitude of ‘nice to have’ or politically correct thing do. This attitude encourages the entitlement paradigm among the small business owners and consequently reluctance to pay back loans.

Because of their presence almost everywhere in the townships, banks are well placed to play a significant role in the surrounding businesses by gathering information about these businesses through direct engagement of the owners.

b) State Financial Institutions

State institutions need to significantly ramp up their awareness campaigns. Results indicate their nature and that of their product are virtually unknown by the people they are meant to serve. These campaigns have to take the form of physical business calls, not only to disseminate information, but also to acquire an understanding of the SMMs.

Budgets need to increased in order cover more small businesses and also cater for extensive awareness campaigns.

The ratio of customers per intermediary needs to be reduced; this can be achieved by deploying more intermediaries. This will ensure more time can be afforded the entrepreneurs.

5.4.3 Business Development Services

Banks have well considered, measurable development services, the targets of which they consistently exceed. This indicates that the banks can do more than they are achieving by taking on and supporting more small businesses.

Although state finance institutions engage in business development, one gets a feeling that it is more to ensure business can meet their loan repayment commitments than a long term strategy that ensures continued sustainability that goes well beyond the terms of the loans. This is sensible, given that the core function and focus of microfinance institutions should be lending and recovery of loaned money.

The recommendation here would be for these organisations to specialize according their dedicated functions and skills. Development should then be shifted to support focused organisations such as Seda. This would then free up the resources of financing institutions to focus on the right business.

5.4.4 SMME Finance Outlook

A lot of effort and investment from Government and microfinance institutions - in the form of human resources, thought and money – are continually being applied to increase the reach and efficiency of the microfinance sector. This notwithstanding, the results show that there is still a long to go before proper, effective and SMME-friendly finance access mechanisms can be realized that will benefit the majority of needy business across the length and breadth of South Africa.

But there commitment by government to the eradication of poverty and reduction of unemployment through creation self-employment opportunities based on SMME concept. This engenders immense promise that the country is on the right path to vibrant, sustainable small business sector capable of invigorating the South African economy.

RECOMMENDATIONS FOR FUTURE RESEARCH

6.1 Introduction

The previous chapter discussed to some depth the study results finding and put them into perspective.

This chapter makes recommendations on further research in the area of small business.

6.2. Recommendations

The study in Soweto showed clearly that there is a pervasive debt aversion on the part of SMME owners, which may be driven by lack of appetite for risk, poor access to information and self-censure. The researcher believes more incisive research is needed to remove speculation around this and to properly elucidate factors behind debt aversion among SMMEs in Soweto.

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APPENDIX 1: Research Questionnaire

Research Questionnaire

Consent for participation in academic research study
UCT Graduate Business School

SMME Access to Finance in South Africa.

Dear Respondent

I am currently an MPhil student at the University Of Cape Town Graduate School Of Business. I am conducting academic research on the ***SMME Access to Finance in South Africa.***

Please note the following:

- This study involves an ***anonymous*** survey. Your name will not appear on the questionnaire and the answers you give will be treated as ***strictly confidential***.
- You cannot be identified in person, based on the answers you give.
- This survey will give us a better understanding of the South African SMME microfinance needs, access to financial and non-financial support and how these affect enterprise growth.
- By completing this survey, you indicate that you are voluntarily participating in this research and that, should you want, you may withdraw at any stage without any penalty.
- Please ensure that **ALL** questions are answered as completely as possible. This questionnaire should take no more than 15 minutes of your time to complete.
- The results of the study will be used for academic purposes. A summary of the research findings will be provided to you on request.

If you have any concerns or questions, please contact me or my supervisor. Our contact details are provided below.

I would like to take this opportunity to thank you for your participation in this research.

Researcher's Name
Khotso Ndjwili-Potele

Email
khotso@mpese-bv.co.za
Contact Number

083 291 1101

Supervisor’s name

Professor Joshua Abor (University of Ghana Business School)

Supervisor's email

joshabor@ug.edu.gh

PART A: PROFILE OF ENTREPRENEUR:

General information:

*(Please mark the appropriate box with an **X** or click once to check or un-check a box)*

a) Age (in years) – select one:

1	Below 20		45 - 50	
2	20 – 30		51 - 57	
3	31 – 40		Over 60	

b) Gender:

Female	
Male	

c) Citizenship – select one:

1	South African	
2	Non-South African	

d) Marital status:

Single	
Married	
Living with a partner	
Divorced	
Widowed	

e) Owner's highest level of education *(please mark one):*

Never attended formal schooling	
Matriculated	
Ordinary Diploma	
Degree	
Postgraduate	
Other *(please specify)*	

PART B: BUSINESS INFORMATION:

*Please mark all applicable responses with **X***

a) Previous experience: What were you doing before stating this business (please tick one)

Student	
Employed	
Unemployed	
Housewife	
In another business	
Other *(specify)*	

b) What motivated you to start your business *(select one)*

Dropped out of school	
Retrenched	
Retired	
Incapacitated	
Other:	

c) Legal status of the business when you started and now *(select one each side)*

	When started	**Now**
Unregistered		
Sole proprietorship		
Partnership		
Limited Liability Company		
NGO		

d) Location of business

e) Business Sector

Accommodation, Travel, and Conferences	
Administrative Services	
Building and constructions services	
Liquor business	
Professional services	
Sales and marketing services	
Spaza Shop	
Transport	
Hawker	
Computer services	
Catering services	
Events management	
Legal services	
Transport, courier and shuttle services	
Security and surveillance services	
Hairdressing, beauty and health services	
Other *(please specify)*	

f) For how many years has the business been in existence?

Less than 3 years	
4 – 5 years	
6 – 10 years	
15 years and above	

g) What is the average turnover per month of the business?

At start-up	
Presently	
Number of Employees	
Number of family members supported by the business	

h) How did you become the owner of this business? Please mark the appropriate column

I founded the business	
I took over the business from previous owners	
I inherited the business	
Other *(please specify):*	

i) If presented with new job opportunities, which of the following would you do?

	Yes	**NO**
Take up the job & close the business		
Take up the job & still continue with my business		
Not take up the job		
Other:		

j) Starting and developing this business, did you experience any challenges related to the following?

	Yes	**No**	**N/A**
Being a woman			
Being a man			
Being an expatriate			
Lack of family support			
Lack of institutional support (banks, support agencies, etc.)			
Lack of government support			

PART C: ACCESS TO FINANCE

a) How did you finance your business at start-up and how do you finance it now?

Source:	At start	Now
Credit from the bank		
My own savings		
Credit from family and friends		
Credit from Micro-Finance Institution		
Other *(Please specify)*		

b) How much was required for start-up, and how much finance was offered by institution/s?

Amount	Needed Amount	Actual Secured
<25,000		
25,000 – 50,000		
50,000 – 100,000		
100,000 – 500,000		
500,000 – 1 million		
Over 1 million		

c) Have you used any of the following financial support institutions? If so, please also indicate what the finance was for and how much.

Institution	Start-up	Addi-tional Funds	Approximate amount in Rand
ABSA			
FNB			
Nedbank Business Banking			
African Bank			
Industrial Development Corporation (IDC)			
The Department of Trade and Industry (DTI)			
Khula Enterprises Financial Limited			
Business Partners			
The Business Place			
Development Bank f South Africa (DBSA)			
Other *(Please specify):*			

d) Which of the following do you believe may have negatively/positively affected your application for credit / support in the past?

Reason	Positive	Negative
Credit history		
Collateral		
Business account		
Business plan		
Track record / Book-keeping		

Interest rates		
Application procedures		
Access to credit information		
Location of the business		
Gender bias		
Education level		
Other *(please specify):*		

PART D: INSTITUTIONAL SUPPORT EFFECTIVENESS AND EFFICIENCY

a) If have applied for business finance with any institution, please indicate their response time to your application.

Less than 7 days	
Within 2 – 3 weeks	
1 – 3 moths	
4 – 6 months	
No response	

b) How efficient was the finance institution's assistance during the application processing.

Institution:	**Very Ineffective**	**Poor**	**Don't Know**	**Good**	**Very Effective**

c) What do you think of the SMME finance and support products offered by the finance institutions?

	Range	**Suita-bility**	**Repay ment terms**
Good	1	1	1
Average	2	2	2
Bad	3	3	3
Don't know	4	4	4

d) Please indicate what type of non-financial support you have received from any institution.

Support	**Mark with X**	**Institution that offered support**
Business plan training		
Business management		
Book keeping		
Computer		
Other – please specify:		

PART E: INSTITUTIONAL SUPPORT AND ENTERPRISE GROWTH

a) How can you describe the growth/expansion of your business since start-up?

More staff	
Increased revenues	
Increased stock	
More outlets	
No growth	
Other, specify:	

b) I can attribute the success/growth/sustainability of my business to the support I got from one or a combination of the following:

To what extent do you agree or disagree with the following	**Strongly Disagree**	**Disagree**	**Neither Agree nor Disagree**	**Agree**	**Strongly Agree**
Commercial Banks					
Government Support agencies					
MFIs					
Informal Lenders (Machonisa)					
Family / Friends					
Own Savings					
Business cash flows					
Other					

c) What are the plans for this business in the next five years?

Continue with the business at the same size	
Slightly increase the size of the business	
Change to another line of business	
Diversify into more products / businesses	
Start another business and sell the current one	
Pass the business to one of family members	
Sell the business	
Other *(specify)*	

d) Please rank the following challenges that may be impeding your business operations and/or growth?

Crime / Theft	
Regulations / Business permits	
Protection / Security	
Financing / Cost of finance	
Informality of business	
Location	
Competition	
Supporting family	
Information	
Education level	
Other *(specify):*	

PART F:

The researcher would like to thank you for your participation in this research. We trust that the information you provided will go a long way in increasing the understanding and the body of knowledge in the area of entrepreneurship and microfinance.

THANK YOU VERY MUCH

APPENDIX 2: Research SMME Responses

PART A: PERSONAL INFORMATION:

a) Age (in years)

		1	2	3	4	5	6	7	8	9	10	Totals	%
1	Below 20											0	0%
2	20 – 30			1								1	10%
3	31 – 40										1	1	10%
4	45 - 50					1				1		2	20%
5	51 - 57	1	1				1					3	30%
6	Over 60				1			1	1			3	30%

b) Gender

Female		1								1	1	3	30%
Male	1		1	1	1	1	1	1			7	70%

c) Citizenship – select one:

1	SA	1	1	1	1	1	1	1	1	1	1	10	100%
2	Non-SA											0	0%

d) Marital status:(can do without this)

Single											1	1	10%
Married	1		1	1	1	1	1	1	1		8	80%
Living with a partner											0	0%
Divorced											0	0%
Widowed		1									1	10%

e) Owner's highest level of education *(please mark one):*

Never attended formal schooling	1										1	10%
Matriculated		1		1				1			3	30%
Ordinary Diploma			1				1		1	1	4	40%
Degree					1	1					2	20%
Postgraduate											0	0%
Other *(please specify)*											0	0%

PART B: BUSINESS INFORMATION:

*Please mark all applicable responses with **X***

a) Previous experience: What were you doing before stating this business (please tick one) –why relevant?(you can do away with this section)

Student											0	0%
Employed		1	1	1	1	1		1	1		7	70 %
Unemployed										1	1	10 %
Housewife											0	0%
In another business	1						1				2	20 %
Other *(specify)*											0	0%

b) What motivated you to start your business *(select one)*

Dropped out of school											0	0%
Retrenched			1	1				1			3	30 %
Retired						1					1	10 %
Incapacitated											0	0%
To own business / self employment		1			1		1		1	1	5	50 %
Continue Family Business	1										1	10 %

c) Legal status of the business when you started and now *(select one each side)*

Unregistered	Start	1	1	1	1	1			1	1	1	8	80 %
	Now											0	0%
Sole proprietorship	Start						1	1				2	20 %
	Now	1	1			1	1		1		1	6	60 %
Partnership	Start				1			1				2	20 %
	Now									1		1	10 %
Limited Liability Company	Start											0	0%
	Now			1								1	10 %
NGO	Start		1									1	10 %
	Now											0	0%

d) Location of businesses	Orl	Nal	Map	Mol	Prot	Nal	Nan	WC	Prot	Tlad	0	0%

e) Business Sector

Accommodation, Travel, and Conferences											0	0%
Administrative Services											0	0%
Building and construction	1										1	10%
General Dealer				1								0%
Liquor business									1		1	10%
Professional services		1						1			2	20%
Sales and marketing services											0	0%
Spaza Shop									1		1	10%
Transport						1					1	10%
Hawker											0	0%
Computer services					1						1	10%
Catering services			1						1		2	20%
Events management											0	0%
Legal services											0	0%
Transport, courier and shuttle services											0	0%
Security and surveillance services											0	0%
Hairdressing, beauty and health services										1	1	10%
Manufacturing							1				1	10%

f) For how many years has the business been in existence?

Less than 3 years						1		1			2	20%
4 – 5 years			1							1	2	20%
6 – 10 years		1					1				2	20%
15 years and above	1			1	1				1		4	40%

g) What is the average turnover per month of the business?

per annum R000	300	42	130	540	324	480	3,000	180	84	72	5152
Presently R000	720	105	250	720	540	900	5,500	300	240	120	9395
Number of family members are supported by the business	6	4	5	6	5	6	10	10	10	4	66
% increase	140	150	92	33	67	88	83	67	186	67	

h) Number of staff	14	2	6	7	2	6	20	3	5	2	67

i) How did you become the owner of this business? Please mark the appropriate column

I founded the business	1	1			1	1	1	1	1	1	8	80%
I took over the business from previous owners			1	1							2	20%
I inherited the business											0	0%
Other *(please specify):*											0	0%

j) If presented with new job opportunities, which of the following would you do?

Take up the job & close the business	Yes								1			1	10%
	No	1		1	1	1	1			1		6	60%
Take up the job & still continue with my business	Yes											0	0%
	No	1		1	1	1				1	1	6	60%
Not take up the job	Yes	1	1	1	1	1	1	1				7	70%
	No									1		1	10%
Other:												0	0%

k) Starting and developing this business, did you experience any challenges related to the following?

Being a woman	Yes		1								1	2	20%
	No							1		1		2	20%
	N/A	1		1		1						3	30%
Being a man	Yes											0	0%
	No	1		1		1		1				4	40%
	N/A									1		1	10%
Being an expatriate	Yes											0	0%
	No							1				1	10%
	N/A	1		1		1				1		4	40%
Lack of family support	Yes								1	1	1	3	30%
	No	1		1		1		1				4	40%
	N/A											0	0%
Lack of institutional support (banks, support agencies, etc.)	Yes	1	1		1	1	1				1	6	60%
	No			1				1		1		3	30%
	N/A								1			1	10%
Lack of government support	Yes	1	1		1	1					1	5	50%
	No			1			1	1		1		4	40%
	N/A								1			1	10%

PART C: ACCESS TO FINANCE

a) How did you finance your business at start-up and how do you finance it now?

Credit from the bank	At start						1	1				2	20%
	Now	1			1							2	20%
My own savings	At start	1	1	1	1	1	1		1	1	1	9	90%
	Now			1		1	1		1	1		5	50%
Credit from family and friends	At start					1						1	10%
	Now	1										1	10%
Credit from MFIs	At start											0	0%
	Now											0	0%

b) Are you aware of Support organisations?

Yes	1	1	1	1	1	1	1	1	1	1	10	100%
No											0	0%

c) How much was required for start-up, and how much finance was offered by institution/s?

<25,000	Needed		1	1		1			1	1		5	50%
	Secured					1					1	2	20%
25,000 – 50,000	Needed										1	1	10%
	Secured											0	0%
50,000 – 100,000	Needed	1										1	10%
	Secured											0	0%
100,000 – 500,000	Needed				1							1	10%
	Secured						1					1	10%
500,000 – 1 million	Needed						1					1	10%
	Secured											0	0%
Over 1 million	Needed							1				1	10%
	Secured							1				1	10%

d) Have you used any of the following financial support institutions? If so, please also indicate what the finance was for and how much.

ABSA	Start-up							1				1	10%
	Additional	1				1		1				3	30%
	Amount											0	0%
FNB	Start-up						1	1				2	20%
	Additional						1	1				2	20%
	Amount											0	0%
STD	Start-up	1						1				2	20%
	Additional							1				1	10%
	Amount											0	0%
Nedbank	Start-up							1				1	10%
	Additional	1			1			1				3	30%
	Amount											0	0%
African Bank	Start-up											0	0%
	Additional										1	1	10%
	Amount											0	0%
IDC	Start-up											0	0%
	Additional											0	0%
	Amount											0	0%
Khula Enterprises Financial Limited	Start-up											0	0%
	Additional											0	0%
	Amount											0	0%
	Start-up											0	0%
	Additional											0	0%
	Amount											0	0%
	Start-up											0	0%
	Additional											0	0%
	Amount											0	0%
	Start-up											0	0%
	Additional											0	0%
	Amount											0	0%

e) Which of the following do you believe may have negatively/positively affected your application for credit / support in the past?

Credit history	Positive			1			1	1				3	30%
	Negative	1	1			1					1	4	40%
Collateral	Positive						1	1				2	20%
	Negative		1	1		1					1	4	40%
Business account	Positive					1	1	1				3	30%
	Negative		1	1							1	3	30%
Business plan	Positive							1				1	10%
	Negative	1	1	1			1				1	5	50%
Track record / Book-keeping	Positive							1				1	10%
	Negative	1	1	1		1	1				1	6	60%
Interest rates	Positive							1				1	10%
	Negative			1		1						2	20%
Application procedures	Positive					1						1	10%
	Negative		1	1			1				1	4	40%
Access to credit information	Positive							1				1	10%
	Negative		1	1		1	1				1	5	50%
Location of the business	Positive		1					1				2	20%
	Negative			1		1						2	20%
Gender bias	Positive			1								1	10%
	Negative		1									1	10%
Education Level	Positive			1		1						2	20%
	Negative		1									1	10%
Other (please specify):	Positive											0	0%
	Negative											0	0%

PART D: INSTITUTIONAL SUPPORT EFFECTIVENESS AND EFFICIENCY

a) If have applied for business finance with any institution, please indicate their response time to your application.

Less than 7 days	1		n/a	1	1	1	1	N/a	n/a		5	50%
Within 2 – 3 weeks										1	1	10%
1 – 3 months											0	0%
4 – 6 months											0	0%
No response											0	0%

b) How efficient was the finance institution's assistance during the application processing.

DSS	Very Ineffective			n/a					N/a	n/a		0	0%
	Poor											0	0%
	Not know											0	0%
	Good		1			1	1				1	4	40%
	Effective	1			1			1				3	30%
												0	0%

c) What do you think of the SMME finance and support products offered by the finance institutions? Please rate from Good (1), Average (2), Bad (3) and Don't Know (4).

											1	**2**
Range	4	2	4	1	2	4	1	4	4	4	20%	20%
Suitablity	4	2	4	1	2	2	1	4	4	4	20%	30%
Repayment Terms	4	3	4	1	2	4	1	4	4	4	20%	10%

d) Please indicate what type of non-financial support you have received from any institution.

Business plan training	Mark with X		1	n/a		N/a	n/a		N/a	n/a		1	10%
	SETA											0	0%
Business management	Mark with X		1									1	10%
	DSS											0	0%
Registration	Mark with X							1				1	10%
	Institution							DTI				0	0%
Computer	Mark with X											0	0%
	Institution											0	0%
Food supplies	Food Bank		1									1	10%

PART E: INSTITUTIONAL SUPPORT AND ENTERPRISE GROWTH

a) How can you describe the growth/expansion of your business since start-up.

More staff	1	1	1	1	1	1	1	1	1		9	90%
Increased revenues	1	1	1	1	1	1	1	1	1	1	10	100%
Increased stock	1		1	1	1	1	1		1		7	70%
More outlets	1		1		1		1				4	40%
No growth											0	0%
Other, specify:											0	0%
											0	0%

b) I can attribute the success/growth/sustainability of my business to the support I got from one or a combination of the following:

Commercial Banks	Strongly Disagree			1						1		2	20%
	Disagree											0	0%
	Neither Agree nor Disagree											0	0%
	Agree	1				1	1				1	4	40%
	Strongly Agree							1				1	10%
Government Support agencies	Strongly Disagree	1				1	1			1		4	40%
	Disagree											0	0%
	Neither Agree nor Disagree											0	0%
	Agree		1					1				2	20%
	Strongly Agree			1								1	10%
MFIs	Strongly Disagree	1		1		1	1			1		5	50%
	Disagree											0	0%
	Neither Agree nor Disagree											0	0%
	Agree											0	0%
	Strongly Agree											0	0%
Informal Lenders (Machonisa)	Strongly Disagree			1						1		2	20%
	Disagree											0	0%
	Neither Agree nor Disagree											0	0%
	Agree	1				1	1					3	30%
	Strongly Agree											0	0%

Family / Friends	Strongly Disagree											0	0%
	Disagree											0	0%
	Neither Agree nor Disagree			1								1	10%
	Agree		1			1				1		3	30%
	Strongly Agree	1					1		1			3	30%
Own Savings	Strongly Disagree											0	0%
	Disagree											0	0%
	Neither Agree nor Disagree											0	0%
	Agree											0	0%
	Strongly Agree	1	1	1		1	1		1	1	1	8	80%
Business cash flows	Strongly Disagree											0	0%
	Disagree						1					1	10%
	Neither Agree nor Disagree											0	0%
	Agree		1	1				1				3	30%
	Strongly Agree	1			1	1			1	1		5	50%
Other												0	0%

c) What are the plans for this business in the next five years?

Continue with the business at the same size											0	0%
Slightly increase the size of the business	1	1	1			1	1	1		1	7	70%
Change to another line of business											0	0%
Diversify into more products / businesses	1		1		1	1	1	1			6	60%
Start another business and sell the current one				1					1		2	20%
Pass the business to one of family members	1	1							1		3	30%
Sell the business											0	0%
Closed branch & focus on profitable one					1						1	10%

d) Please rank the following challenges that may be impeding your business operations and/or growth?

Crime / Theft	4			2	2					2	10
Regulations / Business permits	2	2		3							7
Protection / Security				4	5		3		3		15
Financing / Cost of finance	1	3	1	5	3	1	1		2	3	20
Informality of business								3	4		7
Location			2		4				1		7
Competition	3	1		1	1	2	2	1		1	12
Supporting family											0
Information	5		3			3		4		4	19
Education level											0
Rent								2			2
Economic Climate							1				1

MOSS INN & GENERAL DEALER

Overview

Moss Inn and General Dealer is situated in Protea North, Soweto, in a modified dwelling sprawling 2 stands. It ideally situated on a busy main thoroughfare that also serves as a taxi route.

The business is woman-owned. The 46-year old owner comes from a business-minded family that owned a liquor business (popularly referred to as tavern in the local lingo). So her motivation for establishing her business came from her family business tradition.

The business, which is now in its seventeenth year, started off as an events management company after Grace had completed a course in flower-arranging and other aspect of events management. This business later grew to include a tavern and a spaza shop at the same site.

Financing of the Business

The business was financed from start-up up to now from the owner's personal savings and family contributions. Although the owner is well aware of various finance instruments and institutions, her reason for not exploiting these channels is her debt-averse posture and, in terms of shoring up current cash flows, she relies on the 30-day payment window afforded by the South African Breweries. Depending on the size of bulk orders, SAB discounts (in the form of free cases of beer) can be significant; this is also used as a form of financing for the business.

Although the business has a business account with an overdraft facility, it is rarely used as a form of financing for the business.

Business Performance

The business is doing well and is not experiencing any competition worthy no note. The owner did cite security, especially in the liquor side of the business, as a challenge given the frequent brawls there; as a result, the envisaged future business model excludes the liquor business and put more emphasis on events management.

Institutional Support

The owner of Moss has neither sought nor received any form of support from any of the private or public support organisations.

Business Growth

The past growth, from small events to include the tavern and the spaza shop, has been financed from the owner's savings. For the future, Grace indicated that she plans to move from the current site to bigger site to focus mainly on events management, leaving the liquor business at the current site with a member of her family. She indicated that this move would also be financed from savings of the current business, though it is doubtful that this would be adequate. It may be that at this juncture, Grace will realize she needs to access financial institution to make up for her shortfall.

Access to Information

Despite the fact that Grace is risk-averse, the researcher believes that if she had had adequate information on the nature of various SMME financial instruments available, she would have tried to access them.

DICKY'S CAKES

Overview

Dicky's Cakes is situated in Mapetla, Soweto. It is situated on a main road that also serves as a taxi route.

The business is male-owned and its main products are breads, scones, muffins and special order cakes for birth days, weddings, etc. As is the case with many SMMEs, Dicky's Cakes started as an informal and unregistered enterprise and later converted to a limited liability company.

The business, which is premised in the family residence, was taken over by current owner 5 years ago after the owner had lost his job through retrenchment.

Financing of the Business

The business was financed from start-up up to now from the owner's personal savings. The owner believes that the only variables that could stand his business in good stead for finance application are his credit history, gender and education level, which constitutes only 27% of the possible considerations.

The owners have never approached any institution for financial support, and hence are neither versed on products on offer nor of efficiencies of these organisations.

Business Performance

Dicky's Cakes has grown over the years to include subsidiaries in the Johannesburg central business district and Spruitview in the East Rand.

The business has seen revenue increases from R10,000 at start-up to the present R250,000 per month. This performance has been achieved despite stiff competition in the area; the researcher counted 3 more other home bakeries in the same street as Dicky's Cakes.

Dicky's Cakes has been able to beat the completion by positioning itself as more professional, customer-oriented, use of latest baking equipment and timely delivery of orders

Institutional Support

Dicky's never sought or received any form of support from any of the private or public support organisations.

Business Growth

Dicky's Cake growth - characterised by increased in revenues, staff, stock and outlets - is evidenced by two additional subsidiaries in Johannesburg CBD and East Rand.

Future plans are to grow the business through diversification to other related products. The envisaged growth is to be financed through existing business cash flows.

Access to Information

The owners of the business are vaguely aware of SMME support organisations, but have not had sufficient exposure to information to enable them to approach these organisations.

WALKER JUNIORS GENERAL DEALER

Overview

Walker Juniors General Dealer (Walker Juniors) is situated in Molapo, Soweto. It ideally situated on a busy main thoroughfare that also serves as a taxi route to town and Chris Hani Hospital. Walker Juniors is a grocery shop that sells mainly staple groceries and prepared foods, such as fat cakes, chips, fish, etc. to local community

The business is a partnership between husband and wife, both in their sixties. After losing their jobs through retrenchment, the couple bought the shop, which was a small grocery shop then. The business, which has operated for more than 15 years, started off as unregistered and registered as a sole proprietorship.

Financing of the Business & Institutional Support

The purchase of the business required between R100,000 and R500,000 and was financed from family savings. Currently the business has an overdraft facility on their business account, which they access sparingly to support operations.

No form of support received from any of the public finance organisations.

Business Performance and Growth

In the 15 years of its existence, the shop has grown its revenues from about R25,000 a month to R60,000 and staff has increased from the 2 owners to 10 in the same period.

Access to Information

Although the owners had some basic knowledge of financial support institutions, it is not sufficient for them to appreciate the application process and qualifying criteria. As a result, no financial assistance has ever been applied for or

H. DUBE PROMOTIONS DECO WHOLESALE & HARDWARE

Overview

H. Dube Promotions Deco Wholesale and Hardware (Dube Promotions) is situated in Orlando West in an Industrial Park, Soweto on a busy arterial road.

Dube Promotions supplies furniture and hardware fittings to construction companies and households in the area. Most of the furniture fittings are drawn from their factory situated in the same industrial park.

The business is run by a father-son partnership, the father in the 51-57 age group and the in the 31-40. The business was formed as an extension of another family business from a generation before. The founder (the father) never attended any school and was never employed, but has always been assisting in previous family businesses.

Dube Promotions started off in 1975 as an unregistered business and was formally registered in 2000 as a sole proprietorship.

Financing of the Business

The purchase of the business required between R100,000 and R500,000 and was financed from family savings. Currently the business has an overdraft facility on their business account, which they access sparingly to support operations.

Business Performance

The current revenues are estimated at R60,000 per month. The staff complement is 14. The business supports livelihoods of 5 family members.

The partners believe that lack of credit history, proper business plans and good book keeping routines has compromised the business' standing with respect to obtaining financial assistance to shore up development, growth and cash flows.

Institutional Support

Dube Promotions start-up was financed from the founder's and family savings to an amount between R25,000 and R50,000 against R50,000 – R100,000 ideally required. No funds were borrowed from finance institutions.

The Dube Promotions runs 3 business accounts with ABSA, FNB and Standard Bank. The business operates an over-draft facility with only FNB to the tune of R20,000 – hardly enough for a business of the size of Dube Promotions. This signifies the debt-averse nature of most business owners in Soweto, who see debt as entrapping and associated costs as a drain on their hard-earned incomes.

The partners disagreed strongly on the question of government and MFI support, agreed to some extent on commercial and informal lenders supporting the sustainability of the business; there was strong agreement on sustainability of the business having been facilitated by owners, friends' and business cash flows.

Business Growth

Since its inception the business has increased staff from 2 employees to 14 and has expanded with the introduction of an additional shop in Grasmere, in the Vaal Triangle. The business has seen growth in joint revenues.

Future plans for the business comprise slight increase in the size of the business, diversification into more products/businesses and passing the business to other family members when the main partner retires in the next 5 years.

Competition was ranked as the most impeding factor in terms of business growth, followed by theft, then cost of finance and lack of information on available enterprise support programmes or institutions. As an example of the level of competition that obtains, there are at least 5 businesses involved in the manufacture and supply of furniture fitting in the same business park from which Dube Promotions operates.

Access to Information

Although the owners had some basic knowledge of financial support institutions, it is not sufficient for them to appreciate the application process and qualifying criteria. As a result, no financial assistance has ever been applied for or accessed save for an overdraft facility.

MAPHALALA'S DRIVING SCHOOL

Overview

Maphalala's Driving School is located in part of Soweto called White City, next to the world famous Morris Isaacson High School (initiator of the 1976 Soweto Uprising).

The driving school makes its revenues from providing driving lessons and coaching to aspirant drivers of all ages in the catchment area of Soweto.

The business, run by a sole owner in his sixties, was founded 3 years ago after the founder was retrenched due to employer bankruptcy. The business is run from rented space that used to serve as a shopping centre, but now a rundown building. Like other small businesses in Soweto, the driving school started informally and only got officially registered as a sole proprietorship much later.

The owner is South African, married and has only gone up to Matric in his education.

Financing of the Business

The business, which has no operating business accounts, was financed from the owner's saving from start to now. The owner feels that the business lives 'hand-to-mouth' at the moment and that the revenues are too low bank them, but instead are used to support the daily operating costs, such as fuel, ad hoc maintenance, contingencies, etc. The start-up cost are estimated to have less than R25,000.

Business Performance and Growth

The current revenues are estimated at R25,000 per month, up from the initial start-up of R15,000. Based on the time spent at the site and the number of customers coming through its, it was evident that business was very slow; the owner said on some days there was no business at all due to excessive competition, driven by the high number and proliferation of driving schools in Soweto. Entry barriers are extremely low in this sector due to poor regulation, low capital requirements and easy access to trainers.

Lack of a differentiation strategy by Maphalala seems to be the major factor impacting negatively on the traffic coming through their doors; to customers it more of 'much of a muchness' across the many driving schools.

Institutional Support

Maphalala's Driving School is not aware of any SMME support organizations and consequently has not accessed any during its existence.

As indicated earlier, the business has no open business account with any of the banking institutions and hence no access to facilities such as overdraft or business loans.

Access to Information

The owner of the business is ignorant of types of support and institutions available to small enterprises; he has never been approached with such information nor has he seen any literature on such.

DIMPHO TSA RONA EARLY CHILD DEVELOPMENT

Overview

Dimpho Tsa Rona is located in the family dwelling in Naledi Extension, Soweto.

The enterprise provides child care for working community members for a monthly fee.

The business is run by a 55 year old windowed mother of 3. The owner was previously employed as child minder at a more formal and established child care institution, which she left to establish herb own.

Dimpho Tsa Rona was established informally about 10 years ago and gained official registered status 4 years later.

Financing of the Business

The business was funded solely from family savings. The owner could not secure funding from government or commercial financial institutions due to lack of credit history, poor level of education, lack of collateral and the business location which contravened government regulations.

Institutional Support

The business has received has received support from the Department of Social Development in the form of training on requirements to be properly registered as a child care facility. Some assistance has also come from the Food Bank in the form of high nutrition food packages for the children

No financial assistance or loans have been accessed by the business.

Business Performance& Growth

Initial business revenues of R42,000 grew with the increase in child enrolment figures to R105,000 per annum. The staff remains at 2, same as at start-up.

Competition - characterised by poor regulation, entry of unregistered care centres and low fees - is the biggest threat to the business.

One of the impediments to business is the owner's poor education level, as the Department of Special Development can only financially assist owners who have attained certain levels of education and proficiency

Access to Information

The owner is aware of available assistance from state institutions and the attendant requirements and qualifying criteria.

S TV ENTERPRISES

Overview

The enterprise is situated in a small shopping centre in Protea, Soweto. The business supplies television and other home electrical accessories.

The business is run by a manager, whilst the owner is running a similar outfit in another part of Soweto. The owner, who is degreed and in the 45-50 age group, resigned from a previous job in the same business line to establish S TV Enterprises about 15 years ago.

Financing of the Business

The business has always been financed by the owner's savings and family member contributions.

Business Performance and Growth

The current revenues are estimated at R540,000 per annum (from R324,000 at start-up) and has a staff complement of 2 and supports a family of 4.

Institutional Support

No support from any of the finance organisations has ever been accessed.

Access to Information

Although the owner had heard of financial support institutions, he was not fully conversant with their products and application requirements.

KOENA YA BATEBANG DISTRIBUTION AND PROJECTS

Overview

Koena Ya Batebang Distribution and Projects (KYB) is a young company situated in Naturena, Soweto. The company was founded 3 years by a military veteran. KYB operates under contract to distribute Jive soft drinks throughout South Africa.

KYB is currently distributing Jive beverages in Gauteng and to other centres provinces such as North West, Northern Cape and Free State

Financing of the Business

The establishment of the business was financed from bank advances and owner's savings. The owners is not aware of various SMME finance and support organisations, hence no assistance was sought from them.

Bank finance was recently used for the purchase of two 4-ton delivery trucks Bank in an effort to increase the number of deliveries and revenues.

Business Performance and Growth

The business has increased its fleet of delivery trucks from 2 to 4; this has resulted in increased delivery volumes and, therefore, increased revenues.

The business is doing well and has experienced some growth in revenues despite increasing competition in the road transport industry.

Institutional Support

The business has not received form of institutional support.

Access to Information

The owner has had very little exposure to SMME financing and support organisations.

SHINE ON POLISH

Overview

ShineOn is located in Nancefield, Soweto. The factory, which was established in 2002, is father-son partnership. The ShineOn factory manufactures polish products, such as floor and tyre polish, pine and citrus gels.

The factory started off with only floor polish, but gradually added more products in subsequent years.

The father had other businesses before diversifying into the polish business.

Financing of the Business

Given the history of previous businesses owned by the senior partner, it was relatively easy for ShineOn to secure bank finance for start-up. So the business was mainly finance through bank financing. The business has a banking relationship with, at least, all the major banks.

Business Performance and Growth

The business started operations with manufacture of floor polish and later expanded this to other product lines, such as shoe and tyre polishes, and gels.

Products are distributed through carefully chosen branches, and these are increasing all the time. What started off as a R3 million revenue business has now grown to R6 million and a staff complement of 20.

Institutional Support

ShineOn makes full use of all credit facilities at their disposal with the banks.

Non-financial support was extended to the business by the Dti, in the form assistance with registration, certification, etc.

Access to Information

ShineOn partners were well aware of most of the microfinance institutions (outside of the banking sector) and their requirements for extending loans. The requirements and turnaround times associated with these organisations were not acceptable to the business and so chose to deal with the banks, which they found more suitable and accommodative of their business model.

PINKY'S HAIR SALON

Overview

Pinky's Hair Salon is located in Tladi, Soweto. The business is woman-owned and was started about a year ago.

The business started after the 35-year owner was retrenched and could not find another job.

Financing of the Business

The business start-up was funded by combined family savings, as no bank was willing to put up its money because of lack of credit and collateral by the owner.

Business Performance and Growth

The business has achieved modest growth in its revenues due to increased clientele numbers, without any increase in staff.

Institutional Support

No support from any institution.

Access to Information

No access to any information on SMME support organisations.