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Credit rationing: A growth obstacle to informal SMEs in the Western Cape City Bowl of Cape Town

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by

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GLOSSARY OF TERMS

GDP	Gross Domestic Product
FICA	Financial Intelligence Centre Act
NCA	National Credit Act
NYDA	National Youth Development Agency
SBA	Small Business Administration
SEDA	Small Enterprise Development Agency
SME	Small and medium enterprises

ABSTRACT

The study investigated the limit of credit by financial institutions which is an obstacle on the growth of informal survivalist and non-survivalist small enterprises which operate in the Western Cape, Cape Town City bowl area. The objectives of the study were to examine the impact that credit rationing has on the growth of informal survivalist and non-survivalist Small Medium Enterprises (SMEs). The research employed a simple random probability technique to sample fifty (50) informal survivalist and non-survivalist SMEs owners or managers operating in Western Cape, Cape Town City centre area. The regression model to examine relationship between credit rationing and SME growth was estimated using the ordinary least estimation technique.

The study results indicated that those enterprises that were granted a loan credit facility experienced growth in comparison to those firms who were not granted such facility. The experience of credit rationing was therefore reported to have a significant positive impact on the growth of informal survivalist and non-survivalist SMEs. The study recommends tax incentives benefits, financial institutions to support structure mechanism for informal SMEs through enabling tailor-made projects which entitles designing small amount lending financing packages at a lower return rate and less requirements for such enterprises. Additionally, the individual entrepreneurs have to focus on peer to peer lending, crowdfunding, borrowing from family members as alternative forms of borrowing from another without the mediation of financial institution and as a social network tool mechanism for also exchanging business growth information.

CHAPTER 1
INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Small and medium enterprises (SMEs) play a hugely significant pivotal role as catalytic drivers in many developing countries for economic growth and emerging markets (IFC, 2018). Admittedly, Yahuan and Sheng (2019) concur that SMEs play a unique role in increasing employment, the betterment of society's live-hood, being drivers of innovation and economic growth promotion. Furthermore DTI (2004) on the National Small Business Act of South Africa 1996 amended in 2003 defines SME as a separate recognisably business entity, together with its branches or subsidiaries governed by one owner or more individuals. In South Africa, SMEs have contributed approximately 56% of all employment and 36% to gross domestic product (Olawale & Garwe 2010) . In the SME's sector, 97.5% of companies in South Africa contribute 42% of total remuneration (Mzwanele, 2017).

In trying to curve such a hugely pivotal contribution mentioned above, SMEs promotion continued to take up in the South African government policies. As in 2001, the government was involved in programmes such as Umsobomvu Fund, known as the National Youth Development Agency (NYDA). The establishment of NYDA was to provide funding for youth operated and owned SMEs (Mzwanele, 2017). Further to this Mzwanele (2017) cites how 2004, the Small Enterprise Development Agency (SEDA) was instituted with a directive to facilitate the National Small Business Strategy by providing non-financial support to SMEs. Additionally, Rogerson (2008) cites how the South African government has further channelled to upgrade support, prospective capacity and potential opportunities to SMEs involved in the priority economic sectors.

The support of SMEs as a continual survival also featured prominently in the inscribed government's economic blueprint known as National Development Plan (NDP). The South African vision for 2030 targeted supporting SMEs upgrades and development through a call for the state's role in promoting SMEs access to credit. Through this vision 2030, the policy document sets out ambitions of creating about 11 million jobs, 90% of this ambition fulfilment is expected to come out from the SME economic contribution (National Planning Commission, 2012). In like manner, Masutha and Rogerson (2014) also convey the government's effort at

the national and sub-national level to mount interest and develop approaches to support business incubators networks. These will be increasing the lifespan and survival rates of start-up and existing SMEs. However, amidst all available efforts, about 75% of the newly established SMEs in South Africa still do not grow and prosper to be established firms that do not close down after being in existence for approximately two years (Fatoki & Asah, 2011).

Olawale and Odeyemi (2010), portray how a significant scaling SME's sector contribution might not have a long-lasting effect if it cannot be held up with the creation of new other SMEs and accurate survival strategies. Nevertheless, the SMEs crucial irreplaceable huge contribution to a developing country's economic growth, and face continuous enormous obstacles that impede growth and survival. This has been noted in issues such as a lack of infrastructure, the stability of operation, competition with already established private sectors entities (Olawale and Garwe, 2010), and other external environment regulations in which the respective SMEs will be operating.

Moreover, in addressing SMEs challenges Olawale and Odeyemi (2010) mentioned how the lack of management skills, especially in experience concerning business plan drafting, relationships with banks and the causes of banks not to offer credit. Mutezo (2015) portrays how variables such as collateral assessment, credit history and e-banking have a hugely positive impact on credit provision to SMEs by commercial banks. Govori (2013) confirms that SMEs face numerous external barriers in accessing funding, due to government policies, corruption and competition that sets-up an unfavourable growth environment.

Consequently, the behaviour of practising credit rationing by financial institutions like banks has been identified by Okurut, Olalekan, &Mangadi (2012) to be a challenge for SMEs growth obstacles. According to Matthew (2012), credit rationing is when financial institutions purposefully elect not to supply enough credit regardless of the demand at any expected rate of interest to the borrowers, based on a misjudgement of the provider called asymmetry information. Yahuan and Sheng (2019) indicate that SMEs and credit rationing has been a bank's choice for profit maximization since SMEs lack collateral assets size. Thus, involving high costs to the banks due to loan size and the high degree of information asymmetry with these institutions.

Mutezo (2015) points out how credit rationing condition has a significant impact on SMEs growth. Consequently, Varghese, Walker, Roche & Rodman (2008) point out a broad picture emerging from various SME financing surveys that strongly suggest the significance of a problem of funding access hindering business growth activities in South Africa. Such notification has a constraint that will lead to a lack of capital to purchase raw materials or stocks, equipment and resources to run daily business operations aimed for future improvements and enhancements.

SEDA (2018) also revealed that South Africa's nine provinces between 2017 to 2018 1st quarter had a decrease of 14% in the number of SMEs from 2.47 million 2017 to 2.44 million in 1st quarter 2018. Such a withering growth rate is shown by the breakdown of the number of SMEs throughout the nine provinces of South Africa, from 2017 to 2018 as provided in figure 1.1 below.

Figure 1.1 : Number of SMEs by province from 2017 -2018 1st quarter

Province	Number of SMMEs in 2017 (Quarter 1)	Number of SMMEs in 2018 (Quarter 1)	Percentage difference
Western Cape	281 062,00	269 256,00	-4,2%
Eastern Cape	236 608,00	212 292,00	-10,3%
Northern Cape	23 569,00	23 904,00	1,4%
Free State	117 145,00	114 584,00	-2,2%
KwaZulu-Natal	384 675,00	333 461,00	-13,3%
North West	130 883,00	125 535,00	-4,1%
Gauteng	830 923,00	847 329,00	2,0%
Mpumalanga	192 178,00	201 922,00	5,1%
Limpopo	281 835,00	314 880,00	11,7%
Total	**2 478 877,00**	**2 443 163,00**	**-14,0%**

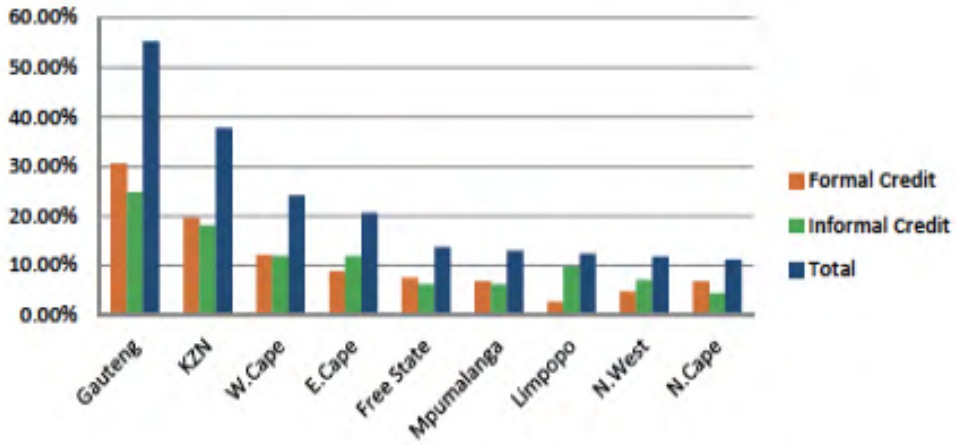
Source: SEDA (2018)

As shown in figure 1.1 above, nearly 35% of SMEs operated in Gauteng regardless of the fact that Limpopo province had the highest SMEs growth rate of 11.7%, followed by Mpumalanga with 5,1%, Gauteng 2% The area of focus, Western Cape had a decrease in SMEs growth rate of 4,2%.

As evidenced in a separate analysis which was conducted among the nine provinces by Makina Fanta, Mutsonziwa & Khumalo (2015), an SMEs data examination depicted that 21% of

SMEs were formally registered while 79% operated informally. Of those small firms about 55% of the SMEs in total who accessed credit are located in the Gauteng province followed by KwaZulu Natal (KZN) province with a total of 39% and then Western Cape province with a total of 25% (Makina et al., 2015). This is shown per province on figure 1.2 below.

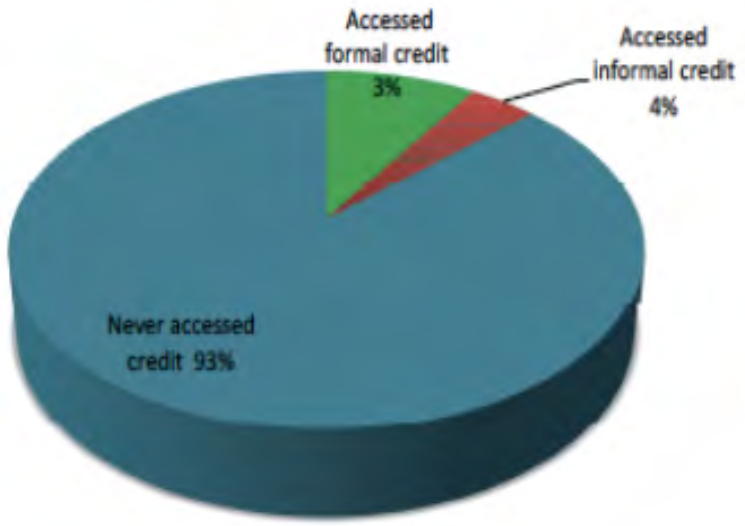
Figure 1.2 : Access to credit by province



Source: Makina et al. (2015)

Olawale and Odeyemi (2010) further mentions how about 75% of these small firms whose credit applications to financial institutions in South Africa are rejected . Furthermore, a study conducted by FinScope Survey of Small Business in South Africa further reports a trend that reflected 93% of small firms that never had access to credit whereas only 3% accessed formal credit and 4% accessed informal credit as shown on Figure 1.3 below (FinMark Trust, 2010).

Figure 1.3 : Access to credit by all SMEs



Source: FinMark Trust (2010)

The ability for SMEs growth according to Mazanai and Fatoki (2012) depends on the potential to invest, maintain innovation and restructuring which requires funds inflows and therefore access to finance. Consequently repeatedly, against this background it is therefore evident that in South Africa a high number of SMEs access to credit is an area of priority concern (Mazanai & Fatoki, 2012) . Beck (2007) additionally mentions the probability of small firms listing financing as a major growth obstacle to be 39% and 36% for medium-size firms compared to 35% for large firms.

It is evident not only statistically but also economically, that the relationship for SMEs constraint to credit access is indeed a vital limiting factor for their survival and growth (Bosma & Harding, 2007) . The rate to access credit is very poor amongst the informal SMEs (Varghese et al., 2008), with a total of 41.8% not be served at all as shown in the figure below.

Figure 1.4 : Financing gap in terms of SMEs 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: NCR (2011)

Access to credit is indeed a priority investigable issue for informal South African SMEs development progress. This study sought to investigate how credit rationing behaviour is an obstacle to the growth of informal SMEs in Western Cape, Cape Town City Bowl.

The rest of the study is organised as follows: Chapter 1 presents research problem questions, objectives or hypotheses. Followed by the scope, justification and organisation of the study. What other studies have indicated in the study including the theoretical framework of credit

rationing are presented in chapter 2.Chapter3 demonstrates the detailed applied methodological approach. While section 4 presents data presentation and analysis. Finally, chapter 5 represents the summary of findings, conclusions and recommendations.

1.2 RESEARCH PROBLEM AND RESEARCH QUESTIONS

SMEs play an essential stance in contributing to the economic growth of developing countries by providing job creation. Perversely, a daily business operation is imperative. The working capital funds workers and other business expenses. Thus necessary for SMEs to access funding from start-up and at any business lifecycle phase to facilitate growth. Heidrick and Nicol (2002) note that in Canada, 45% of SMEs can access to credit funding. The findings by FinMark Trust (2010) supports that in developing countries like South Africa various credit suppliers such as banks are taken as the main source of funding for SMEs, with only 2% of SMEs being able to have access to funding whilst the majority of the SMEs seem to find it very difficult to get credit funding . This had led to 75% of South African SMEs adding up to the failure statistics rate (Olawale and Garwe 2010).

IFC (2018) portrays an increase in access to credit amongst formal South African SMEs compared to the informal SMEs. Thus exhibit a total exclusion from borrowing due to lack of collateral. Okurut, Olalekan, and Mangadi (2012) also noted how the expansion of SMEs in Botswana, also strained by the lack of bank credit access. This can be traced from the perceived risk by the banks towards SMEs. The SMEs deemed as not having enough experience in financial record keeping. The performance of their bank accounts with the bank, the capability to make a profit is a common problem being experienced by the informal SMEs sector, the issue of financial constraints stigma placed on the SMEs sector by credit institutions providers due to information asymmetry (Yahuan & Sheng, 2019).

Mutezo (2015) likewise conveys how in some instance formally registered SMEs get first preference in getting credit access due to some meeting the lenders' requirements, research still portrays a lack in addressing the financing for SMEs who deserve credit at the start-up of the business stage and beyond and the intensity on how it affects their growth opportunities. SME financing tends to place more emphasis and coverage on the formal SMEs funding mishaps concerns. Therefore the deficiencies in literature fill the gap regarding how the segregation of

funding by financial institutions such as banks on informal SMEs at any business life cycle stage is a great hindrance to their growth.

Given this situation Okurut, Olalekan, and Mangadi (2012) further suggested that the government's intervention with specific policy frameworks and programmes that will assist SMEs is needed. Hence training and skill acquisition will enable them to better qualify for bank loans by reducing the likelihood of being rationed. Therefore, the study addressed how credit rationing behaviour placed by financial institution providers have acted as a hindrance to the growth at any life cycle phase of Western Cape, Cape Town city bowl informal (survivalist and non- survivalist) SMEs.

Sequentially, for survivalist and non-survivalist informal SMEs in any sectors for growing and flourish, the literature suggests the paramount need for mentorship and assistance in accessing finances. So they can increase their capital through trading. It will have a meaningful positive contribution to economic development. Currently, bank structures are inadequate to support this business sector which is a barrier to their growth and sustainability in the Western Cape, Cape Town city bowl area.

The research question to be investigated by the study is:

i. What is the impact of credit rationing on the growth of survivalist and non-survivalist informal SMEs in Western Cape, Cape Town city bowl area?

1.3 RESEARCH OBJECTIVES AND HYPOTHESES

The purpose of this research is to empirically investigate how credit rationing by financial institutions is hindering the growth of informal survivalist and non-survivalist SMEs within the Western Cape, Cape Town city bowl area. With a focus on uncovering why bank's discriminatory behavioural act towards providing credit to survivalist and non-survivalist informal SMEs is a great discouragement enhancer of their growth.

The study's specific objective is to:

i. To examine the impact of credit rationing on the growth of survivalist and non-survivalist informal SMEs in Western Cape, Cape Town city bowl area.

Research hypotheses

The study will test the hypothesis that the behaviour of credit rationing implemented by credit financial institutions such as banks is an obstacle towards the Western Cape, Cape Town city bowl informal survivalist and non- survivalist SMEs' growth.

The research hypothesis is:

H_0: There is no positive effect of credit rationing on the growth of informal survivalist and non- survivalist SMEs in Western Cape.

H_1: There is a significant positive effect of credit rationing on the growth of informal survivalist and non- survivalist SMEs in Western Cape.

1.4 SCOPE AND JUSTIFICATION OF THE STUDY

The study covers informal survivalist and non-survivalist SMEs in the Western Cape, Cape Town City bowl economy centre. This includes the pre-entrepreneurial entities categorised as hawkers, spaza or container shops or stalls which are immobile, temporary structures put by the merchants to display and shelter their merchandise in a street market. Hence owners run saloons, clothing and beauty accessories stalls, fresh food suppliers, or occasional home-based evening operators. The study was conducted within the framework of creating awareness amongst the credit financial institutions such as banks and additional evaluation of how credit rationing is an obstacle to informal survivalist and non-survivalist SMEs growth.

This study is useful for the improvement, development of sustainable techniques and processes for the survivalist and non-survivalist small business sector in Western Cape, Cape Town City bowl area. Simultaneously, the study will be useful for credit financial institutions like banks to strategize towards improvising tailor-made products that will best suit the operators of informal SMEs.

If accessing credit funding from a financial institution is next to impossible, relevant solutions need to be identified and implemented in order to increase the growth chances of these SMEs. This will aid the creation of employment and wealth creation.

1.5 ORGANIZATION OF THE STUDY

This research dissertation study is organised into five chapters. Herewith is a narrative of the chapters summary and the highlighted specific content being as follows:

The first chapter is a general introduction. It provides a background of the study, problem statement, the objectives of the study, research questions by looking at the significance and scope of the study outline. The second chapter is literature review. The purpose of the literature review is to show evidence on how SMEs have been to some extent impacted on their growth. This entails assembling facts on the subject matter from other relevant academic approved sources. It's objectively done with the aim of showing what other authors have mentioned or said about the study topic, with an outlay of the conceptual framework.

The third chapter is the research methodology. It explains the details regarding the methodology implemented in the study, including the adopted research paradigms, research design, data collection instrument furthermore the analysis procedure of the collected data. This chapter will also cover the model building as a way of analysing the collected data.

The fourth chapter data analysis and presentation of the results, validity, reliability tests, analysis and explanation of the results using the findings from the regression model thereby summarising the results of surveys. The fifth chapter presents the revaluation of the research objective, problem statement hypothesis with the aim of finally concluding and key findings of the research whilst providing the necessary respective recommendations and suggestions for further study.

CHAPTER 2
LITERATURE REVIEW

2.I Introduction

This chapter reviews relevant literature regarding SMEs credit rationing and how it is an obstacle to growth. It also lays theoretical literature and empirical literature evidence on credit rationing discoveries on whether it's an obstacle that affects the small and medium-sized firms growth potential.

2.2 Definition of terms and concepts

2.2.1 Small Medium Enterprises (SMEs) Definition

Economically, SMEs are being highly esteemed as being the engines for developing a country's growth objectives and as a catalytic agent as they play an important role through employment creation and economic growth (Mutezo 2015). In South Africa SEDA (2018) also concurs that the economy remains unperturbed for SMEs share a turnover total which has gone down to 40% from 41.7%. As previously reported in 2017 quarter 3 reports, this also is due to the rate of decline in SMEs moderated from 3.9% (in the year to 17 quarter 3) to 1.4% (in the year to 2018 quarter 1)**.** While according to DTI (2008), SMEs are as well also contributing towards the provision of the country's national goods and services to both consumers and suppliers and they account for 99% of business entities with a contribution ranging between 52% to 57% of GDP whist providing 62% employment .

Distinctively, Govori (2013) elaborates that SMEs are defined differently using various definitive guidelines often based on sales, employees' number, assets values in various different developing countries. The National Small Business Amendment Act of South Africa (DTI, 2004), defines SMEs as a separate identified distinct entity which includes cooperative enterprises and non-governmental organisation managed by one or more owners including subsidiaries.

Simultaneously, there are various business growth definitions and measurement procedures such as using the sales changes, employment, productivity, profitability margins that have been laid down as ways to measure for business growth (Olawale and Garwe 2010). However, Bennett and Robson (2000) point out how SME growth measurement is derived by being orchestrated and attributed by different purposes i.e. for government, economic researchers it

can be measured in terms of increase in SME employment, for concerns about economic competitiveness, SMEs growth in this respective context is measured by the increase in sales or turnover growth and there are various profitability measures. For the purpose of this study, growth is measured using asset growth from inception date to current data completion data.

SMEs are known as employment creation agencies whilst reducing poverty and playing the vital role of being social upliftment enhancers and sustainable economic growth achievers (Mutezo 2015). Defining an SME is a daunting task as every country has its own varied definition. Le Fleur, Javed & Chetty (2014) states a clear distinctive contrast between formal sector SMEs as being registered with tax authorities and company legislative authorities whereas informal is not registered with an authority which is a major category that distinguishes formal and informal sector SMEs.

Furthermore, while there is no clear universal exact acceptable meaning of what constitutes an informal business the consensus is that they are small in scale operating outside tax and other various registrations that formal enterprises are obliged to be in compliance to, 'precarious nature' informal economic activity (Western Cape Provincial Government, 2007). Additionally, Samawi (2016) portrays informal SMEs as entities with easy entry, with no formal registration, no restriction to age, gender criteria set and a reliance on indigenous resources. With no need for the importation of materials, an unregulated market with the majority of the owners having skills acquired through trial and error learning process outside the formal school system.

Informal SMEs businesses are further classified into two types; namely survivalist or non-survivalist businesses. According to Western Cape Provincial Government (2007), it defines survivalist businesses as those that do not employ anyone and are pre-entrepreneurial such as hawkers, spaza or container shops or stolen owners or occasional home-based evening jobs (DTI, 2008), and vendors. Contrarily, it further defines non-survivalist businesses as those that employ not more than four consistent permanent employees. Mutezo (2015) further defines survivalist businesses as those that generate income that is less than the minimum poverty line. IFC (2018) proclaims the sentiments that both informal businesses form part of the informal economy and they are not legally registered for tax purposes and any form of business legal compliance, therefore, making it difficult to count their exact number but with an estimation in South Africa having an assumed contribution size SMEs of 1.3 million.

Although in South Africa SMEs are recorded to be at the forefront of directly and indirectly impacting on the local economic development as well some SMEs currently being professed to positively contribute to the country's socio-economic problems as cited by Urban & Reggie (2012) they face a wide spectrum of constraints which hinder them from growing in their respective industry. The denial of financial resources is a major barrier to the mobilization of expansion. This is contributed mainly by developing countries SMEs, which suffer the consequences of having difficulties to access bank loans due to the consequences of failing loan high risk therefore reducing lenders profitability and lack of collateral for the borrower (Govori, 2013).

Additionally, this is an even more intense force for those SMEs in the informal sectors, which face numerous constraints such as operational infrastructure, access to the market, competition, training, business environment regulatory. Olawale and Garwe (2010) mention the inaccessibility of financing and complete exclusion by formal various financial credit suppliers due to the fact of not being registered and to some extent for having a bank account, clear credit record as mentioned by Mahembe (2011). Okurut et al.(2012) note a major obstacle of the informal SMEs as access to credit. Thus affecting the growth of informal SMEs. Mutezo (2015), concurs that the lack of SMEs to access loans from financial institutes is due to a lack of collateral security, credit history and financial information.

2.2.2 Survivalist and non-survivalist SME definition

Informal sector entrepreneurship is not a minor feature of the global economic landscape (Williams, 2016). Hypothetically, informal sector businesses are making licit money from their trading activities. Nonetheless, their cash flows not declared to the state for tax purposes. According to StatsSA (2014), approximately 70% of people are in informal businesses. This happens due to unemployment or as an alternative source of income. Statistics further convey information based on a study regarding non-registered SMEs in the informal sectors. Although 1,5 million people were running informal businesses in 2013. The findings depicted that turnover levels and profit margins for informal business are relatively small. Informal businesses' in our area of study comes in the form of survivalist and non-survivalist.

Ranyane (2014) defines survivalist and non-survivalist as entities setup based on dependence on little income they generate for survival in the daily informal entrepreneurial operations. Nevertheless, survivalist businesses operation defined by, Berner, Gomez & Knorringa(2012)

as those firms that are born out of desperation for lack of employment and not by choice. They are instituting an attempt to increase security, consumption smoothening rather than profit maximisation. The authors further details by indicating how these survivalists find it challenging to accumulate capital.

Choto, Tengeh, and Iwu (2014) describe survivalist and non-survivalist traders as entrepreneurs who manage to find ways to survive. This has a potential to access jobs in the formal sector. These individuals are not employed because they have low-income levels, and business venture requires minimal capital. Serviere as quoted by Ranyane (2014) also concurs with the notion of survivalist entrepreneurs as being pushed into entrepreneurship by factors that include unemployment, social marginalisation, low educational levels and low-income jobs. Fisher as quoted by Choto, Tengeh, and Iwu (2014) describes survivalist entrepreneurship as being business merely for economic survival with individuals depending on profits of the business daily with little long term wealth kept.

Moreover, Lerner and Schoar (2019) convey that survivalist entrepreneurship is a micro-business that does not grow beyond employing the owner or a family. Therefore, it provides limited employment opportunities. However, these businesses play a core role in communities by facilitating trade through bulk breaking, providing products at accessible locations and adding more value to products through breaking and reducing transaction cost for customers.

In South Africa according to Ranyane (2014), these survivalist and non- survivalist informal SMEs are common around busy sections of towns, such as taxi ranks, public transit stations and bus stations. Choto, Tengeh, and Iwu (2014), classified these into three categories. These are (1) Producer consisting of shoemakers, dressmakers, tailors. (2) Distributors, comprising of hawkers, vendors and street traders and (3) Service providers, consisting of saloon operators, flea markets, fresh fruit and food providers.

Additionally, Ranyane (2014) suggest that these entities also take the form of informal taverns known as shebeens, tuck shops known as spaza shops. The authors describe these to be family retail activities primarily selling food, beverages and various essential consumer goods. Container flea markets, where clothing accessories sold, saloons are operated with some used as providers of fresh foods, fruits and vegetables stall. Rather than sustaining family's needs and self-employment. Choto et al (2014) portrays that growth is a great driver of survivalist

and non-survivalists entrepreneurship. The authors further depict how about 90% of the survivalist and non-survivalist entrepreneurs who had enrolled in business incubation programs desired growth as a primary motivator. These entrepreneurs, pursue growth as a business objective, whilst on the contrary, they mention how finance has been a barrier that is hindering the desire for potential business venture expansion.

2.2.3 Growth definition

Growth is a crucial element for small business survival through increasing their chances to survive. Brush et al. as cited by Pelizza and Machado (2016) defined growth as "geographical expansion" whereby a business increase the number of branches, products and services, increase and attract new markets and clients. According to these authors, growth is an outcome of different dynamics and is built constantly by established entrepreneurs. Dobbs and Hamilton as cited by Pelizza and Machado (2016), further defined growth as a change in the size of a business during a determined period. Pelizza and Machado (2016), defined growth as a product of an internal process in the expansion of an enterprise and an increase in quality. Gupta et.al (2013), suggested that growth is an increase in revenue generation, the addition of value, volume expansion of opening more branches. Isaga (2015) portrays growth to be in terms of implication for the economy that can be organic in creating employment for acquisition of growth. Growth is an essential element that enterprises need to have. Thus, help in obtaining internal and external resources that help to achieve a competitive advantage (Kor, Mahoney, Siemsen, & Tan, 2016).

2.2.4 Credit rationing definition

Jafee and Russell (1976) define credit rationing as a situation in which there is a higher demand for commercial loans at a prevailing commercial loan rate. More, specifically Stiglitz and Weiss (1981), Jaffee and Stiglitz (2013) define two types of credit rationing that are;

i. Pure credit rationing occurs due to an individual obtaining a loan, while other similar separate individuals willing to borrow at the same price do not get the offer.
ii. Redlining, this occurs with identical groups of individuals with a given supply of credit, are unable to be given the loans at any given interest rate.

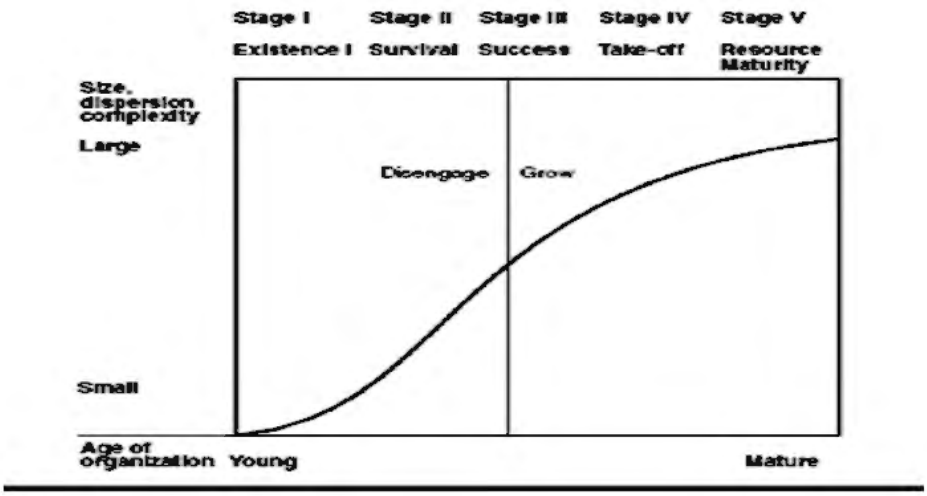
For the purpose of this study both definitions were taken into consideration in trying to analyse the persistent credit demand excess and the supply limitations on how it impacts on growth.

2.3 Theoretical Framework

2.3.1 Churchill Lewis Growth model

The informal SMEs sector has been poorly performing, shedding off 20 jobs every year resulting in an employment fall from 225 000 in 2000 to 174 000 in 2005 (Western Cape Provincial Government, 2007). Also is an indication of detrimental to growth. Churchill and Lewis as cited by Olawale and Garwe (2010) gives elaboration of the Churchill Lewis growth model that emphasises the small business owners role and the necessary skills required to keep up with each growth stage that identified as shown in figure 5 below to be existence, survival, success, take-off and resource maturity.

Figure 2.1 : Growth stages model



Source: Churchill & Lewis (1983)

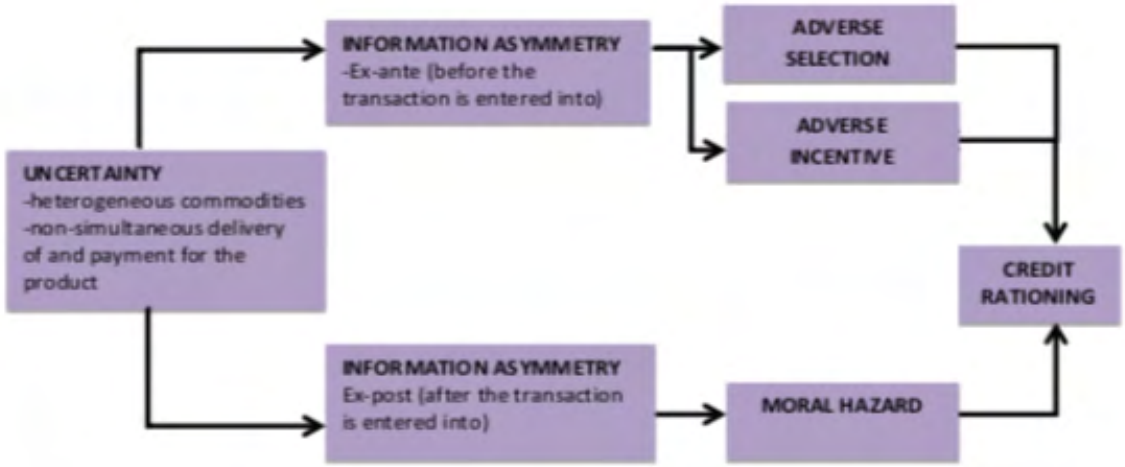
The Churchill Lewis model suggests SMEs growth dynamics with their predictable trends, problems and necessary growth requirements. With stage 1 portraying the problems a business face at the initial phase of obtaining enough customers, satisfactory product or service delivery. Stage 2 the survival stage which demonstrates the business being a workable entity satisfying customers. While stage 3, is the success phase where the business starts to exploit, expand also keeping the stability and profitability, while trying to pursue public awareness increase. Final stage 4 is where the company earns true economic health and has market penetration (Churchill & Lewis, 1983). The major concern is that due lack of funding, informal SMEs in South Africa hardly move from the first stage of existence to the other various growth stages.

2.3.2 Information asymmetry and credit rationing

On the contrary ,different factors drives banks to eliminate the loan approval of bank credit to the formal SME's which are legally recognised , only to discourage and only shun away informal SMEs in order to minimise the repayment risk factor. The process of credit rationing as described by Mutezo (2015) is where due to information asymmetry credit markets creates two fronts , (adverse selection which is a situation transaction that are lender have information that borrower do not have, or vice versa) before transaction is entered and (moral hazard which occurs when an entity gets involved in a risky event knowing that it is protected against the risk) after the transaction is entered.

This is done in order to reduce or motivate positive transaction by the mitigation of high-risk actions with the aim of reducing losses risk exposure of the lender. Due to lack of equilibrium in the credit market then credit rationing will follow. The credit rationing process is summarised in figure 6 below.

Figure 2.2 : The credit rationing process



Source: Mutezo (2015)

According to Mutezo (2015), credit markets are featured with homogeneous commodity where distribution of and payment of the goods or services occur concurrently. Assumption is that SMEs have private information regarding their financial strength and structure of the effective owners expected return risk intention (Mutezo 2015). Hence this uncertainty element of return risk on the side of the lenders is brought into the credit market due to this situation from both sides information asymmetry will feature in full force Mutezo (2015) consequently also due

the environment which South African SMEs are operating is perceived to be risky due to crime and different market related uncertainties. The prevailing circumstances of imperfect information results into the banks applying credit rationing in their lending options especially for informal SMEs and this eventually triggers as a hinderance towards their growth.

Adverse selection which refers to a behaviour that takes advantages of withholding private information before a credit relationship is entered into and moral hazard which refers to a behaviour that takes advantage of withholding private information after a transaction has been entered into according Kabinga (2019) these are the main causes of credit rationing. According, to Mutezo (2015) the party lacking the information, which is the principal, searches information while the agent having access to the information spreads to the market useful information.

Stiglitz and Weiss (1981), the core pioneers of the model of credit rationing on the basis of asymmetric information suggest that the equilibrium with credit rationing follows the principle-agent theory. It also further portrays how the application of this theory that the SMEs are in custody of vital information that relates to their financial position which the financial institutions may not obtain in good time and this makes it too costly for banks in process of obtaining accurate borrowers information even how to monitor their actions (F. Okurut et al., 2012) .The fact of SME's being unwilling to freely disclose this vital information triggers information asymmetry, which climax credit rationing on the side of credit financial institutional providers.

Financial markets uncertainty give rise to adverse selection and moral hazard. The imperfect information driven by the market leads to lenders protecting the interest of banks. Through decreasing rates by drawing low-risk borrowers (Stiglitz & Weiss, 1981). Okurut et al. (2012) highlights other factors influencing credit rationing like firms observable characteristics like risk profile, business experience and income. Furthermore, the bank screening process with various considerations is also an elimination act. Credit rationing process to the SMEs does is an obstacle to their growth since the need of funding is needed for all operations.

2.3.3 Credit rationing and growth

Stiglitz and Weiss (1981) of the theoritical model of equilibrium is based on the work of asymmetric information between the borrower and lender by explaining the relationship between risk and the interest rate. The authors, argue that an increase in interest rates makes it more difficult for borrowers to repay due to the higher borrowing cost at a given return on investment and this has an effect on the borrowers project (Stiglitz & Weiss, 1981).

This is also supported by Luçi (1997) who conveys that the probability of repayment of the loan interest rate , which give rise to the relation between the expected return of the bank and interest rate is important in the explanation of the existence of credit ratioing. Hence, it has been asserted that when interest rates are controlled, banks will automatically credit ration through non- price means (Mutezo 2015).However, even if interest rates controls are lifted it is therefore argued that the existence of imperfect information in credit markets creates risk, credit rationing logical, as well as profit maximisation behaviour for banks (Mutezo 2015).

According to the New Keynesian models it reviews a very narrow interpretation of asymmetric information in the explanation of credit rationing. Wolfson (2014), explains the main risk involved in lending money which cannot be categorised into a precise probability to originate with moral hazard behaviour where the borrowers have more information than the bank. This creates different perceptions of risk from both parties therefore, presenting the main fundamental uncertainties faced by the lender and borrower concerning the future (Luçi, 1997).

Nonetheless, the bank assumes increasing the interest rate charges to the borrowers may adversely affect the borrowers project and growth intentions. The level of confidence in which the bank estimates the creditworthiness of a borrowers is influenced by various factors (Luçi, 1997) . Since banks do not have full information about the survivalist and non- survivalist informal SMEs, this hinders making concrete decisions on the credit application. There is therefore decision risk for the lender to reject the credit application, a scenario referred to as adverse selection (Mutezo 2015). Under such conditions of adverse selection and moral hazard, these relate inversely to the age and size of the firm, thus according to Baas and Schrooten (2006) this becomes specific reasons why SMEs are confronted by challenges of constrained funding access which is a huge stumbling block to the their growth desire.

2.4 Empirical literature

Wagenvoort (2003) examined through a study of SMEs in Europe, whether structural financing is a stumbling block to their growth and cause them to suffer. The study concludes firstly, that a number of EU countries, SMEs protest to convey limited access to credit markets. This depicted from the analysis of SMEs to encounter finance constraints that prevent them fully on their growth potential due to having a sensitivity of not having cashflow. Secondly, the variation in balance structure within each size class is essential variation across the average firm of each size class with some SMEs more financially constrained than others. Young and non-transparent borrowers with little credit history are more vulnerable to imperfections in financial markets than more mature firms. On the other hand, geographical differences are also essential determinants elements of the liability structure of the balance sheet. Which denotes national factors needed also to be taken into account when addressing the financing constraints.

Also in a study conducted by Beck (2007), where it surveyed empirical evidence that shows SMEs facing financial constraints compared to the large entities. The conceptual framework reviewed that transaction costs and asymmetric information between lender and borrower is a major driving factor to SMEs accessing external finance for their growth development. Furthermore, the broad research agenda matter was on understanding SMEs financing needs in developing and emerging economies as a major force to their growth by identifying best practices by financial institutions. The study further suggests future research necessary to inform policy markers about cost and benefits of different interventions. With the focus point of better trying to understand the impact of institutional; structures, pricing credit guarantee schemes and funding on SMEs funds access .

This is further elaborated by a study which was conducted by Craig, Jackson, and Thomson (2007) where it focused on the study area on encouraging lending to small business such as a primary policy goal of the Small Business Administration (SBA) loan- guaranteed lending. It portrayed how access to lending has an impact on growth, and how it as well can be curved by developing policies around the area of concern. Olawale and Garwe (2010), in their study which looked into obstacles to the growth of new SMEs in South Africa through usage of the principal component approach. In their study where a self- administered questionnaire was administered to respondents of a sample size of one hundred and eighty- seven (187) in order to enable respondents to indicate their views and opinion on various factors that impact new SMEs growth. The study's aim was to investigate the internal and external obstacles of new

SMEs growth. Thirty obstacles variables were identified, the principal component analysis with varimax rotation being used to reduce the variables to five clusters. Access to finance was observed as a crucial essential internal factor for SME growth, other external factors being economic, markets and infrastructure.

While on a study conducted by Govori (2013), with a purpose of pointing out factors that influence growth and development of SMEs in Kosovo while emphasising on the impact of external factors and access to bank loans. The discovery was that although new enterprises and under established entities constitute 98.37% of the total enterprises in Kosovo , they greatly suffer from access to finance. Additionally, the study concluded that the entities involved in the sectors that are very important for the country's economic growth such as agriculture and production face funding difficulties in Kosovo. The research included other factors such as unfair competition which as a results of lack of access to funding respondents presume it to lead to increased corruption and hence affecting SMEs growth. The study further suggests, raising levels of awareness of their role and availability of access to finance growth and development of Kosovo SMEs.

Also on a study conducted by Chimucheka and Rungani (2013) on investigating the obstacles of accessing finance by SMEs operating in the Buffalo City Metropolitan Municipality, Eastern Cape South Africa. Where a triangular research design comprising of both qualitative and quantitative, while using the simple random sampling technique to select amongst the population of a total of two hundred (200) participates. The findings from the in-depth interviews and administered questionnaire from the participants respondence confirmed that lack of collateral, lack of knowledge of business plans, lack of financial deposit and other factors are obstacles to accessing finance for SMEs which also affect their operation significantly. There is further recommendation, that financial institutions. Government agencies are also urged to develop tailor-made financial products that aid SMEs in the operations and profitability. Other recommendations, being for SMEs not to only depend on the bank financing, but to look into venturing with other financing options for their growth opportunities.

Subsequently, Mutezo (2015) explored the supply and demand-side factors affecting the SMEs lending decision process and inability to access loans from commercial banks. With the study applying the positivist paradigm under a deduction research approach while utilising a

descriptive research design in order to achieve the research objectives. The study's data was collected through a questionnaire which was administered amongst banks and SME borrowers in the Gauteng Province of South Africa. The findings of the study was that commercial banks are eager to serve SMEs and are making efforts to invade this potentially profitable market segment. However, on the contrary there are several obstacles that are potentially restricting the indulgent of banks.

The findings revealed regulations such as Financial Intelligence Centre Act (FICA) and the National Credit Act (NCA) as strong major hinderances of bank financing SMEs. Furthermore, the compliance with NCA was highly ranked than credit history and profitability as a factor hindering the approval of SME loans. Additionally, through usage of the structural equation modelling (SEM) results show that there is a positive significant influence of lending technology for both supply and demand side, it comes out that technology is a predicator SME access of finance. The study finally anticipates that improvement of SMEs access to bank credit could be the essential element to the growth and sustainability of SMEs and this will aid in poverty alleviation and unemployment and finally leading to the overall growth of South African economy.

Okurut, Yunusa, and Mongadi (2011) investigated how the growth potential of the vibrant sector of SMEs in Botswana is constrained by the lack of bank credit access. Heckman Probit model with sample selection was used to investigate the factors that credit rationing behaviour using the Informal Sector Survey data and interviews of banks in Botswana. Findings portray that the experience of SMEs does reduce their probability of being credit rationed by the banks. From the supply side, the bank's perspective experience of SMEs is determined from their ability to keep proper financial statements, bank account performance with the bank and profit abilities. The authors suggest that capacity building of SMEs in their business management is essential if they are not to be credit rationed by the banks . Furthermore, the study outlays that banks need to improve on their efficiency by reducing the loan processing and the borrowing cost.

Ligthelm (2014), focused on the supply-side factors by contrasting the growth performance and prospects of formal and informal SMEs in Soweto, South Africa. The study indulged in gathering data amongst three hundred and fifty (350) informal business established in 2007 with a lifespan period of over a period of five years. Collected data was analysed using a

descriptive and econometric modelling techniques .The study indicated that entrepreneurship is not only crucial for business formation but for creating competitive advantage which are essential for SME growth.

Dong, Yong and Jian (2017) conducted a study where an examination of the effect of credit rationing on export performance of SMEs in China, usage of a detailed firm level data was provided by the Small and Medium- sized Enterprises Dynamic Survey. Findings were that SMEs which are credit rationed are less likely to export. This is more pronounced with export SMEs that have insufficient liquidity, obtain more external collateral and with high capital utilization rates. Furthermore, a novel firm-level instrument rather than province-level instruments to analysing the firm investments and receivables. It was discovered that a decrease on firm-level investments and receivables which portray reliance on external finance for SMEs in China to have an impact in their operations.

Yahuan and Sheng (2019) through their study established an endogenous enterprise size comprehensive credit rationing model, through systematically analysing the internal mechanism of credit rationing in SMEs. The findings portrayed the main reasons why it is difficult for SMEs to obtain funds in the formal credit financial markets, due to be the inability for the SME to transmit their risk levels. Additionally, SMEs lack tangible assets, increase consumption at the expense of future investment returns which decrease the borrowing enterprise's project returns. All these factors on the supply side has been observed to result in the loan been less profitable for banks hence considering rationing as a profit maximisation choice. The study also highlighted and suggested the importance for banks and government to remedy this distorted phenomenon and fundamentally solve the credit rationing problem by increasing credit availability to SMEs in order to improve their sustainability.

In their literature work where Makdissi and Tannous (2020), focus was on whether funding challenge was the main barrier to Lebanon's SMEs growth or whether its difficulty in processing funds either internally or externally. A survey was carried on a sample of one hundred and ten (110) Lebanese SMEs in different areas and sectors using theoretical study supported by questionnaires and banker's interviews. The findings display that today banks are finding it difficult to finance SMEs due to informalities, weak guarantees and low capitalisation. Whilst on the contrary in a company's life, financing is an important task to

facilitate support for their growth and sustainability. SMEs do face a lot of challenges in accessing funds which is further portrayed to have a huge impact on the growth of SMEs.

Access to finance has been noted as one of the major impeding challenges for the survival and growth of the SME sector of Ashanti region in Ghana. This was elaborated in a study conducted by Duffour et al. (2017) where the purpose was to investigate credit rationing determinants and its effects on SMEs growth and employment. In their study were random sampling was employed to one hundred and seventy-five (175) people in different districts, with a questionnaire being used as an instrument to collect data. The study found out that credit rationing amongst SMEs by financial institutions was a main issue hindering growth.

Furthermore, the study discovered that a higher percentage of SMEs were claiming the reason for loan application were driven by the envisaged vision of growth. The study findings established that though many SMEs expansions were dependant to a greater extent on additional capital for their growth, they were rationed due to lack of security, managerial capabilities, difficulty in getting personal guarantors, while other participants disagree that their lack of accounting information was an insignificant variable. Moyo (2015) research study purpose was on factors that influence Gauteng SMEs access to funding from the demand-side perspective.

With an entire population of four hundred (400) participants , the respondents from the survey were divided into two groups for the successful applicants and unsuccessful for SMEs in Gauteng. Questionnaires were administered as a data collection instrument in order to obtain the responses to the research questions, of which one hundred and fouty four (144) questionnaires were returned. Through usage of a descriptive and inferential statistics for data analysis for the variables,the main findings of the abilities of SMEs to attract funding were influenced by internal attributes such as size, age, type of the business, managerial competancy and availability of collateral. These attributes hinder their access to funding which ultimately has an effect on their overal growth. The study therefore recommends that SMEs need to be motivated to avail themselves for professional advices, and managerial competencies, upskilling to aid in the applicaion process. SMEs are urged to keep track of financial information and minimise cash flow constraints.

Apart from the findings that also reveal survivalist and non – survivalist entrepreneurs are discriminated when it comes to financing, only few enterprises in the Western Cape have intervention and support aimed at survivalist entrepreneurs (Choto et al., 2014).Therefore, this study seeks to use survivalist and non-survalist SME in Cape Town Western Cape city bowl area to address the gap in literature relating to the impact and intensity of how credit rationing is an obstacle that hinders their growth.

2.5 Conclusion

The above section has given the definitions of the key essential elements of the study. Above studies have shown empirical evidence of the consequences of credit rationing on SMEs growth and effects on expansion and creation of more employment and how facing this financial constraint compared to the large entities. But each study has failed to put across the effects of credit rationing on the growth of informal survivalist and non-survivalist SMEs . For this reason this study investigated at looking on credit rationing and how it affects the growth of informal SMEs in Western Cape , Cape Town.

CHAPTER 3
METHODOLOGY

3.1 Introduction

This chapter deals with the procedures and techniques used in carrying out the research through integrating the research design, population of the study, sample size and techniques. Moreover, the primary data source, the data collection technique, data collection instrument, the inferential analytical and data analysis framework.

3.2 Research Approach

Research approaches as mentioned by Saunders et al. (2009) entitles between deduction and induction. Deduction approach involves testing theoretical proposition through use of a research strategy design to perform a test while induction approach involves development of a theory as an outcome of analysing collected data .

For the purpose of this study the research questions was deductively examined through the adoption of the postpositivist knowledge claims that hold the philosophies with a perspective insight that identifies and assess causes that influences outcomes with the researcher and an inherent qualities of the researcher being independent of the researchers (Creswell 2014) . This involved the analysis of the collected data determined to yield statistical data and interpret the extent of the casual-effect against the stipulated growth variables, followed by testing the theory using the laid down hypothesis to support or refute it (Creswell 2009).

Rahman (2016) portrays quantitative research approach method to be a content analysis strategy that uses the deductive logic to validate collected data through quantifying it to facilitate measurement of reality. It seeks to portray numerically how separate dependant variables can be represented after exploration by using a statistical technique.

This research approach method has therefore been chosen for this study in order to:

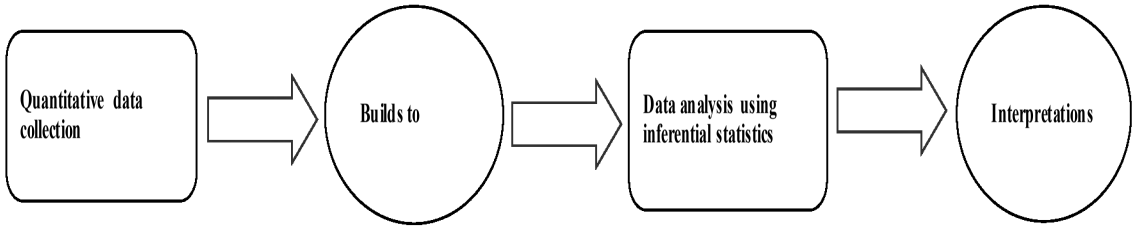
- Successfully seek an answer for the research question which entitles to obtain the numerically variations that will aid in interpreting the impact of credit rationing on SMEs growth. As well as to what extent has credit rationing hindered growth of survivalist and non- survivalist informal SMEs in Western Cape, Cape Town city bowl area.

- Prove or refute numerically the hypothesis testing of the significant impact between credit rationing and SMEs survivalist and non- survivalist informal SMEs in Western Cape, Cape Town city bowl area.

3.3 Research Design

The research design used is an non-experimental research utilising correlational approach with an explanatory design. Explanatory design emphasise is on studying a causal relationship between variables (Saunders et al., 2009), thus explanatory design gives the researcher the opportunity to build, elaborate, enrich on the study and determine the accuracy of the hypothesis test and providing appropriate evidence to support or refute the predictions. This design was chosen because the research sort to determine the causality relationship by observing variation of credit rationing as an independent factor on informal SMEs growth.

Figure 3.1 : Quantitative explanatory design flowchart.



(Source: Authors generated, 2020)

Figure 3.1, depicts how the research design involved data collection using a predetermined collection instrument against prescribed predetermined measurable variables matrix. This was analysed using a particular inferential statistical interface and finally results interpreted eventually also giving the necessary findings and recommendations derived from the study (Creswell 2009).

3.3.1 Population and sample selection

The population sample size of interest for this study comprised of fifty (50) randomly selected informal survivalist and non-survivalist SMEs owners operating business within Western Cape, Cape Town city bowl area. These included pre-entrepreneurial such as hawkers, spaza or container shops owners who run saloons, clothing and beauty accessories stall, fresh food

canteen suppliers, informal taverns known as shebeens or occasional home-based evening jobs, open market sellers and street vendors.

3.3.2 Data collection instrument and the data collection procedure

Probability sampling which entitles that every member in the sample population has a chance of being selected (Saunders et al., 2009). Simple random probability sample was employed as a sampling technique for this study. This was to make certain that the elements of a sample of the informal survivalist and non- survivalist SMEs in the Western Cape, Cape Town city bowl represent a cross- selection guaranteeing a fair view when capturing the needed data. These were chosen for the prime reason of proximity to the researcher, also quick and easy to implement as a selection parameter is not involved.

The researcher reviewed that the findings derived will be credible and a true reflection of set circumstances .The nature of the study was an explanatory one which used only primary data obtained from the field using self-administered questionnaires. Zikmund as cited by Mutezo (2015), explains the advantages of self-administered questionnaire as being flexibility, saver of time, respondent convenience since they can be administered by several means including face-to-face, telephone and internet. Saunders et al. (2009), mentions particularly how useful questionnaires are in collection of quantitative data from sample groups.

Included in these mentioned advantages, looking at this topic, a questionnaire was the most appropriate mode of administration for this study also because of it being the best economical way of gathering data from a lot of respondents at a considerably moderate cost. Moreover as clearly cited by Saunders et al. (2009), this type of instrument will enable examination and clarity of relationships between variables.

A structured questionnaire (Attached as Appendix 1) will be designed with mostly closed ended questions in order to gather relevant responses on the research questions addressed to informal SMEs in Western Cape , City bowl area. The layout had the first section of the questionnaire addressing demographic characteristic of the respondents. Second section will aim to gather enterprise information with respect to the firms number of years in existence, nature of activities offered. This has a purpose to aid in ascertaining respondents enterprise background information. Subsequently, with other sections with questions addressing the

study's key variables (Saunders et al., 2009), which are sales revenue, asset value , employees change and credit rationing.

The primary source of data collection obtained from the field was conducted using adopted self- administered questionnaire from Duffour et al. (2017) which was based on a structured five-point scale in order to obtain responses from strongly disagree to strongly agree. Furthermore, the collected data responses were scaled and grouped into three groups with scaling coded of 1 to 5. In some situations, this was coded splitted into three categories which was coded 3 represented as an increase, 2 represented as to have remained the same and 1 representing a decrease.

The data collection procedure involved three stages which are: a pilot test , pre-study sessions and the administration of the questionnaire for data collection. The pilot test was conducted amongst ten (10) randomly selected informal SMEs owners participates. The aim of the pilot testing was to identify any problems questioning, evaluate if participants understand the questions content and for reliability tests in order to confirm consistency of data collected. Furthermore, with an intention to request participants to suggestion of any improvement ideas as well track the time needed for answering the questions. Hence according to Mutezo (2015) also add on by conveying that pilot test are conducted as a clear measure for validity, relevance and reliability of the data collection instrument.

Fifty (50) questionnaires were administered to the pre-entrepreneurial owners such as hawkers, spaza or containers shops or stall owners who run saloons, clothing and beauty accessories stall, fresh food supplier, informal taverns known as shebeens or occasional home-based evening jobs, open market sellers and street vendors operating informal SMEs owners in the Western Cape, Cape Town City bowl area was analysed thereafter, with results interpreted accordingly. Non responses, with no applicable questions, was exempted from the analysis.

3.4 Regression equation

There is a small-scale agreement in the existing literature on how to measure growth, scholars have varied attempts using different metrics. These growth measurement metrics include examples such as sales growth, employees, assets, profits, equity and other (Davidsson, Delmar, & Wiklund, 2013). For the purpose of this study the dependent variable Small Medium Enterprise Growth **(SMEG)** was measured using asset value **(ASSV)**, over the life span of the enterprise existence.

Additionally, the study focused on the firms' or rationed borrowers' perspective view –where credit rationing (CRD) the i**ndependent variable** and SMEG the **dependent variable denoted by Y.** In addition, the study used cross- sectional data regression model to test the impact of CRD to SME participants from the City bowl in Western Cape, Cape Town. The following econometric model form was used in estimation to determine the impact on this research.

$$\boldsymbol{SMEG_i = \beta_0 CRD_i + \beta_1 X_i + \varepsilon_i}$$

Where $SMEG_i$ denoted the SME growth variables for SMEi measured as asset value (ASSV)CRD_i was the credit rationing dummy for SME I and X_i denotes a set of control variables SME age (SMA); SME sector (SMS) and owners' knowledge (OWK). ε_i the error term which captures unobservable enterprise-level factors

Furthermore, a correlation test which entitled the existence measurement of a connection was conducted. The change in size of one variable was connected with a change in the size of the other variable (Schober & Schwarte, 2018) .This was either- "weak", "moderate", and "strong" depending on the strength of the relationship between the two variables, with the linear correlation coefficient giving a description of the strength of the linear relationship between the two variables. The correlation coefficient is a measure that varies from -1 to 1.
Mathematically defined as follows;

$$\boldsymbol{r = \frac{S_{xy}}{S_x S_y}}$$

Where:

R is the Sample Coefficient of Correlation.

$\boldsymbol{S_x}$ *and* $\boldsymbol{S_y}$ Are sample standard deviations for x and y values

$\boldsymbol{S_{xy}}$ Is the sample covariance of x and y value.

3.4.1 Dependent variable

SME Growth

In this particular study, SMEs growth was an dependent variable.Pelizza and Machado (2016) convey that growth is a prime product from the internal or external development process of an enterprise which can be experienced through natural growth and or acquisition of existing firms (Carrizosa, 2007). Different ways are used to measure growth with most authors making distinction between relative growth and absolute growth (Delmar, Davidsson, & Gartner, 2003).Though empirically it has been discovered that these two methods have different results with relative percentage in favour of small firm growth ,whereas absolute tends to favour larger firm growth (Delmar et al., 2003) .

One major challenge in any discipline is to homogenise the criteria for classifying units of observation (Carrizosa, 2007). Analysis of enterprise's growth is not different because there are many various ways of measuring growth, which the diversification is derived sometimes by the authors purpose or lag of data (Correa, Acosta Molina, González Pérez, & Medina Hernández, 2003) . Kirchhoff and Norton as cited by Carrizosa (2007) shows a comparison of three growth measures which are employment, assets and sales. They portrayed their interchangeability over a period of time to produces the same results. While on the contrary, other findings showed a high correlation of growth and the number of employees and poor correlations between sales and assets (Isaga, 2015) .

Furthermore, as mentioned by Shepherd and Wiklund review studies of firm growth as quoted with Isaga (2015). The authors found out sales to be the most prevailing indictor, followed by employment. Moreno and Casillas (2007) convey sales growth has been considered as an important measure of growth because of its frequency being used by entrepreneurs for decisions making . Comparably, employment change is considered relevant because of the willingness of entrepreneurs' to disclose this type of information (Isaga, 2015) .

Isaga (2015) mentions how researchers have encountered problems in obtaining financial data from private firms due to the fact that maybe no proper accounting records are kept. This is a similar problem that can be encountered by informal SMEs who lack organisation in terms of poor record keeping of bookkeeping and administrative functions, also just having the business entity been born on the impulse of entrepreneurship without an in-depth of essential business survival and maintenance skills (Ackah & Vuvor, 2010).

Taking these findings into account for this study's purpose, considering record keeping as a questionable element to some extent with the survivalist and non-survivalist SME business nature. For the purpose of this study asset value was the matric attribute used for measuring growth. The measurement was conducted by asking the participants their exact or estimate asset value figures. This was conducted with a focus of checking the assets value at the inception and any changes that would have occurred over a period of time . The participants had to state the 3 enterprises' assets to determine any increase, decrease and remained the same for the entire existence period. With years were the participants will be unable to give estimated figures, since they are involved in the running of the entity estimation will be recognised (Isaga, 2015).

The asset value on the questionnaire consisted of the following categories: Below R1,500 ; R1,5001- R3,0000; R3,001 – R4,000; R4,001 -R6,000; over R6,001. Furthermore, for analysis purposes a reassignment of the assets categories was done since this would require multiple classification method of analysis which were applied as follows: *750* for **Below R1,500**, *2250* for **R1,5001- R3,000**, *3500* for **R3,001 – R4,000,** *5000* for **R4,001 - R6,000** and *7000* for **Over R6,001.** The calculated growth rate as = ("average" asset value at inception/"average" asset value currently) and use that as dependent variable in the regression analysis.

3.4.2 Independent variable

Credit Rationing

Jaffee and Stiglitz (2013), metions the major pitfall carried in evaluating credit rationing on investments is that the amount and number of those being credit rationed in the economy at a given time might not be readily available, due to the fact that the borrowers are not observably identical and underlying cause of rationing is lender perference (Charles & Guryan, 2007).Cox and Jappeli (2017) and some other authors have attempted to direclty measure credit rationing using suvey data to identify rationed borrowers. On the contrary, Cressy (2018) used sample data of new businesses that had open new accounts to ascertain credit rationing likehood on business survival. Although many authors attempt to measure outside factors affecting the likehood of being rationed , it remains not clear that the borrowers who self-report being denied credit have been rationed according to Stiglitz and Weiss (1981).

For this study credit rationing would be measured through questioning and evaluating the specific survivalist and non- suvivalist SME enterprenuers involved in order to derive information about a credit applied to any financial institution. When credit has been denied by a financial institution, a number of times. The credit applications have been made whether the amount of loan applied is granted or not granted. Furthermore, if the loan that was granted, was less than the amount applied for, then there is a credit rationing (Amofah, 2017).

3.4.3 Control variables

The reason why the least square method of regression analysis is being used for this specific study is because of the nature of the data type which was collected in order to reach the specific research objective which is called cross-sectional data. This data type is derived through the observations measured at the same time coming from different individuals or groups (Keller, 2014) . Furthermore, the regression technique involves ways that finds the correct set of data points by minimising the offsets point and also using to predict the behaviour of dependent variable.

Previous studies conducted by Almus and Nerlinger (1999); Becchetti and Trovato (2002) have shown how enterprise characteristics such as firm age, operational sector, owner prior skill and knowledge that it may influence business growth. Storey (2014) classification places a distinction between three groups of growth variables determinants which are those related to entrepreneur, also referred to as founder-specific inherited and learnt abilities e.g. motivation, prior sector experience or functional skills, training and age. Followed with those firm related factors referred to as manager specific and the comprise of the enterprise's age, sector, legal form, location, size and ownership. Finally, those related to strategy adopted by the firm such as marketing positioning, competition, planning(Storey, 2014).

Furthermore, the expectation is that the proposed independent variable not entirely explain all variance in the dependent variable. Adding control variable to the analysis will therefore, exclude interfering variables and uplift the explanatory power of the model (Damen, 2016). Three control variables were included in the questionnaire. These are SME age, SME sector, and the owner's knowledge.

The first control variable is the owners knowledge aimed to measure previous employment (industry specific skills) or any training for a skill obtained in aiding in the enterprise . This is measured by asking the participant whether previous employment or any training obtained does

aid in enterprise growth. The same field as the previous job as categorised will be: No and Yes; aid training received variable will be: to a Less extend; to a greater extent. This control variable position was used to control the ability of participant to provide information (Tundui, 2012). The higher the training and prior industry specific skills, which is being employed on the enterprise, the higher the chances of growth.

The second control variable was SME age represented by the period of operation was measured by recording how many years the enterprise has been in operation since existence from inception date till current research period (Hou Loi & Khan, 2012). This consisted of categories: < 6 months; 6months - 1year; 1-3years; 4-6years or over 6years.

The third control variable was owners training . This was a dummy variable represented with whether the entrepreneur had received any form of training . The categories consists of a Yes or No , and was measured through the respondents answers to the question (Hou Loi & Khan, 2012).

Table 3.1: Description of variables measurement

Variables	Measurement
Dependent variable	
Asset value	The calculated growth rate as = ("average" asset value at inception/"average" asset value currently How the change in assets have impacted on growth The variable takes the following form; 1 = Below R1,500, 2=R1,5001- R3,000, 3= R3,001 – R4,000, 4 = R4,001 - R6,000 and 5= Over R6,001.
Independent variable	
Credit rationing	Asking questions regarding the has the loan been granted, number of application times, application experience and is measured in the following form: 1= No; 2 = Yes. Variable denoted as **GrandLoan.**
Control variables	
Same field as previous job Aiding of training	A dummy variable aimed to measure: • Same field as previous job is : 1= No and 2=yes ; • Any training for a skill obtained to aid in the enterprise, the more training the higher the chances to aid in growth . • Aid training variable is measured in the following form :1= not helping; 2=Less extend; 3 =To a greater extend. Variables denoted as **Samefieldasprevjob and Aidingoftraining.**
Period of operation	A dummy variable measuring the total Years of the enterprise in operation or existence. The variable takes the following measurement form: 1= < 6 months; 2= 6months - 1year; 3= 1-3years; 4= 4-6years and 5=over 6years Variable denoted as **Periodofoperation.**
Owners training	A dummy variable representing whether an SME owner received any form of training if enterprise was not started in the same field as their previous employment. The measure of any training attendant is : 1= Yes and 2= No. Variable denoted as **Anytraining**

(Source: Author generated construct, 2020)

3.5 Estimation approach

This section of data analysis process aimed at portraying the operationalisation of the primary data using a descriptive statistics analysis. This process involved usage of statistical methods to quantitatively described and then summarised features from the collected data using the derived results (Saunders et al., 2009).

In the analysis of the data, in order to predict the value of one variable on the basis of other variable mathematical regression model analysis technique was used. This technique according to Keller (2014) involved the development of a mathematical model or equation that aimed at describing the relationship between the independent variable (x-variable) – credit rationing and the dependent variable (y-variables) SME growth. Furthermore, correlation analysis technique was used in order to determine a relationship that existed and aided in describing the association between the two interval variables.

The coefficients estimation of a straight line was derived by drawing a straight line. The objective of the sample data was to estimate that the line best fits the data set. Ultimately aiding in provision of a visual demonstration and affirmation of the relationship between the independent and the dependent variable. The straight line is called the least squares line represented by the below equation:

$$\hat{y} = b_0 + b_1 x$$

Where the parameters b_0 and b_1 represent the coefficients of a straight line . The least squares method is aimed to produce a straight line that minimises the sum of the squared differences between the points and the line (Keller, 2014). This method of regression analysis began with a set of dependant data points illustrated on the y-axis and the independent variable being illustrated on the horizontal x-axis graph.

According to Keller (2014) the first underlying assumptions for the least-squares includes the errors term equal to zero. An observation of the effects and outcomes of the X and Y variable of the study analysis. Thirdly, outside data values of full range outliners. The last assumption is to portray any occurrences of multicollinearity in the multiple regression analysis. The effects of variable X on the Y variable after holding a third variable Z constant are a linear combination of X.

3.7 Research limitations

The study was conducted during the time in the world history at large including Cape Town South Africa there was an outbreak of the Coronavirus (COVID 19) pandemic. This brought implementations of social distancing restrictions which lead to some business operations having to completely shut down in order to minimise human contact and as well the spread of the disease. Even though a random sampling technique was used to select the participants , due to the pandemic restrictions the trading arena of informal enterprises was not in its usual full capacity. Which meant that some of the enterprises which had a chance to be selected were not afforded such an opportunity, hence the study was biased towards few respondents on the bases of their presence by chance. This might not accurately be the representative of the general Cape Town city area informal business population as originally intended under normal circumstances.

3.8 Conclusion

This chapter gives a comprehensive review of the methodology undertaken for this study, with a sampling design which entitles convenience non-probability technique with the objective for a cross- selection guaranteeing a fair view when capturing the needed data. A dependent, independent and control variables that measure informal SMEs growth are stipulated with their respective measurement yardstick and how they will be analysed using the regression model and correlation coefficient . To finalise this chapter , a discussion is laid for the research limitations.

CHAPTER 4
DISCUSSION OF RESULTS

4.1 Introduction

This chapter presents data analysis, discussion and interpretation of the research results. This study sought to outline descriptive statistics results of respondents' demographic characteristics and the descriptive statistics of independent and dependent variables by addressing the following hypothesis : there is a positive or no positive significant effect of credit rationing on the growth of informal survivalist and non- survivalist SMEs in Western Cape, Cape Town city bowl area. Subsequently, the purpose of this chapter is to discuss how data were analysed and interpreted in discussing the study findings.

4.2 Demographic characteristics of the respondents

A total of fifty (50) questionnaires were administered to the owners of informal survivalist and non-survivalist SMEs in Western Cape, Cape Town city bowl area. The study had a 100% response rate, which is considered to be a statistically good response rate.

It sought to establish the demographic characteristics information of the respondents, the researcher gathered characteristics such as gender, age, marital status, number of children, level of education, the industry in which the enterprise operates in
. This allowed the researcher to examine and asses the respondents' calibre so as to determine the response quality which in turn ensures the quality of this study.

4.2.1 Gender distribution of the respondents

The below Table 4.1, shows an equally representation from the respondents of both genders (50% for female and 50% for male) to have been obtained for this research.

Table 4.1 Gender distribution of respondents

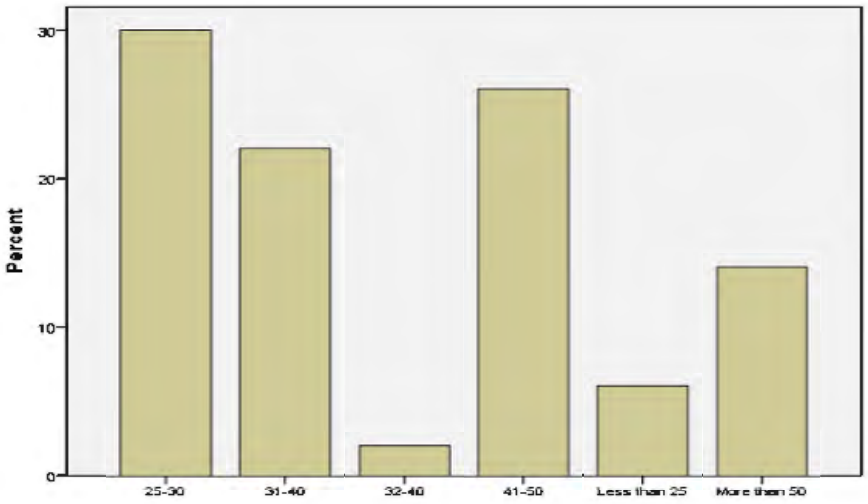
Gender	Frequency	Percent	Cumulative Percent
Male	25	25	50
Female	25	25	100
Total	**50**	**100**	

(Source: Fieldwork, 2020)

4.2.2 Age distribution of respondents

As shown on the above figure, bulk of the respondent was between the ages of 25-30 years. This age group contributed to 30% of the respondents, followed by those between the ages of 41- 50 years which contributed 26% . While the age group between 31- 40 years were 24%, age group of 50 years and above contributed 14% and the age group below 25 years contributed 6% of the total respondents. The participants age group data on this sample is an indication of how the relative matured age group is owning informal SMEs as also concurred by Amofah (2017). The figure below shows the outcome.

Figure 4.1 Distribution of respondents age



(Source: Fieldwork, 2020)

4.2.3 Marital status of respondents

From the below table, an overwhelming majority rate of the respondents indicated to being married. This is confirmed by the results which reflects in Table 4.2, that 50% of the respondents are married , 30% being single, 14% divorced and 6% with non-disclosure of their marital status.

Table 4.2 Marital status of respondents

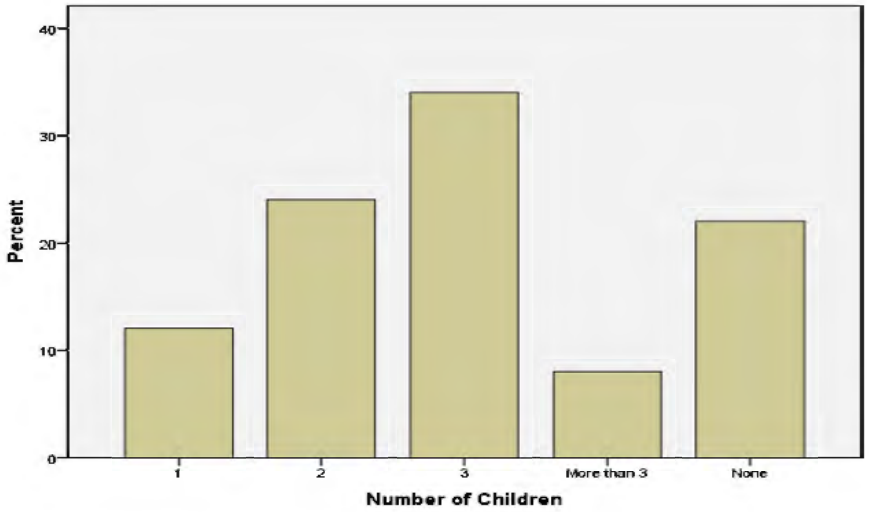
Marital status	Frequency	Percent	Cumulative Percent
Single	15	30	30
Married	25	50	80
Divorced	7	14	94
Other	3	6	**100**
Total	50	**100**	

(Source: Fieldwork, 2020)

4.2.4 Number of children

The respondents were also asked to indicate the number of children they have. The response depicted an overall indication that owners start the enterprise for sustenance reasons for providing their dependants and themselves . The response results are shown in Figure 4.2 below. Based on Figure 4.2, 34% of the participants had 3 children, 24% had 2 children whereas 22% had no children . Additionally, 12% had 1 child and 8% more than 3%.

Figure 4.2 Number of children of the respondents



(Source: Fieldwork, 2020)

4.2.5 Educational level of the respondents

Education aids to enhance the exploratory skills and improves communication abilities and foresight for the owners of the SMEs (Mzwanele, 2017). Olawale and Garwe (2010), points out how it also helps the owners in presenting positive financial information and strong business plans to any financial institutions.

The SME respondents' indicated that majority of the respondents with (46%) were the high school level. Those who had Diploma were 24% , 20% of the respondents had Bachelor's Degree while the remaining 10 % with a Higher National Diploma. A cross tabulation of the education levels of the owners are presented in Table 9 below:

Table 4.3 Distribution of respondents educational level

Educational level	Frequency	Percent	Cumulative Percent
Grade 12	23	46	46
Diploma	12	24	70
H. National Diploma	5	10	80
Bachelor's Degree	10	20	**100**
Total	**50**	**100**	

(Source: Field Work, 2020)

4.3 Descriptive statistics of independent and dependent variables

The research findings shows redundancy to be the main reason why the respondents started the informal enterprises , which is also concurred by StatsSA (2014), that almost 70% of people engaged in informal businesses' in South Africa due to unemployment .Furthermore, based on the research findings participating respondents conveyed to be not employed but focusing entirely on the enterprise daily routines.

The respective respondents had to further indicate whether they had started their enterprise in the same field trade as their previous employment by giving a responses to be a 'Yes' or 'No'. This was asked in order to derive if the owners bought-in skills from the previous employment to employ into the enterprise. As shown on Table 4.10 below, 80.56% of respondents started their enterprise different from their previous employment and 19.44% profess to have started their enterprise in the same trade as the previous employment.

Table 4.5 below further shows 75% of participants that confirm to a greater extent have witnessed the training received aiding in the enterprise daily running's. In contrast to 25% who conveyed training aiding to a less extend and no responses recorded for participants showing to have not helped with the training. The scale ranking items 'greater extent' has a growth rate of 1.34 and 'less extent' has 1.69. 22.22% of the enterprise has been in operation for less than 6months whilst 61.11 % have been in operation for 6 months to 1 year and 16.67% between 1 to 3 years. With a growth proportion rate of : > 6 months =1.62 ; 6 months – 1 year = 1.55 and 1 to 3 years = 0,55 as depicted on Table 4.5 below.

Table 4.5: Descriptive statistics for the dependent and independent variable estimates

Variable	Number of observation	% of total response	SME growth rate
Samefieldasprevjob			
No	*29*	*80,56%*	*1,50*
Yes	*7*	*19,44%*	*1,11*
Aidingoftraning			
Greater extend	*27*	*75,00%*	*1,34*
Less extend	*9*	*25,00%*	*1,69*
Periodofoperation			
6months-1year	*22*	*61,11%*	*1,55*
Lessthan6months	*8*	*22,22%*	*1,62*
1-3years	*6*	*16,67%*	*0,55*
Kindofbusiness			
Fruit &	*6*	*16,67%*	*1,60*
Salon or	*5*	*13,89%*	*0,96*
Clothing	*5*	*13,89%*	*1,08*
Dressmaker	*4*	*11,11%*	*2,06*
Flea Ma	*4*	*11,11%*	*1,11*
Food Can	*4*	*11,11%*	*1,56*
Street H	*2*	*5,56%*	*1,56*
Others	*4*	*11.11%*	*2.19*
Shoemake	*1*	*2,78%*	*0,93*
Tuckshop	*1*	*2,78%*	*1,00*
Grantedloan			
No	*33*	*91,67%*	*1,23*
Yes	*3*	*8,33%*	*3,63*

(Source: Author generated from Research Data, 2020)

Table 4.5 shows 16.67% of the businesses are selling fruits and vegetable, 13.89% operating salons and clothing store, dressmakers. 11.11% are operating flea markets and food containers, 5.5% are street hawker while 2.78 % cover of the market is composed of different other types of vendors, shoemakers and tuck shops. Overally, out of the participants 10 % of the small firms convey to have not experience growth, whereas 90% confirm to have experienced growth**.**

To provide insights on credit rationing among surveyed respondents, Table 4.5 above shows 91.67% of the respondents to have been granted a loan with 8.33 % not have been granted a loan. With the average growth rate for respondents in the variance of 1.23% and 3.63% respectively. This is congruent with a research done by Amofah (2017) that observed 97.7% of the surveyed respondents asserting to the need of credit to expand business and meet their business daily financial needs, repayment of debts and goods supplied to firms. Additionally, as conveyed by Ganbold (2008) that business expansion is capital intensive hence the need of credit as pivotal to a firms growth.

4.4 Correlation coefficients results

Correlation coefficients is a measure of relationship between variables with a resultant of a change in magnitude of another associated variable with a change which is either positively correlated (moving in the same direction) or negatively correlated (moving in a opposite direction). While a higher correlation doesn't necessarily mean causation (Schober & Schwarte, 2018). Table 4:6 shows the Pearson Correlation (r) analysis which was used to determine the relationship between each variable constructs.

Table 4.6: Pearson Correlation between variables

	SMEG	SMJP	ANT	ADOT	POOPR	GL
SMEG	1					
SMJP	0.13874	1				
	(0.419)					
ANT	0.09331	0.35093	1			
	(0.5883)	(0.0359)				
ADOT	0.13726	0.28365	0.19245	1		
	(0.4247)	(0.0936)	(0.2608)			
POOPR	0.34602	0.17372	-0.13572	0.10785	1	
	(0.0387**)	(0.3109)	(0.4300)	(0.5313)		
GL	0.59453	-0.10581	0.10050	0.05803	0.11968	1
	(0.0001**)	(0.5391)	(0.5597)	(0.7368)	(0.4869)	

Notes: SMEG= Asset Growth (Dependent variable) SMJP=Samefieldasprevjob; ANT= Anytraining ADOT= Aidingoftraning POOPR= Periodofoperation; GL= Grantedloan. P-values in parenthesis.
*** denotes significance at 5.*

(Source: Author generated from Research Data, 2020)

As displayed on the Table, the Pearson Correlation analysis portrays the existence of a statistically significant and much higher positive correlation between the two independent variables credit rationing and the growth control variable period of operation. The rest of the variables, Same field as previous job and aiding of training are also positively correlated with

SME growth. However, they are insignificantly correlated with SME growth as their p-values are above 5%.

4.5 Regression results

Multiple regression has been used to determine the effect that credit rationing has on SMEG growth through measuring independent variables and the control variables (Samefieldasprevjob, Aidingoftraning, and Periodofoperation)

Overall Model Fit

The results in table 4:7 below shows that the R^2 value is 0.4558, which measures the strength of association between the dependent and independent variables. This means that 45.58% of dependent variable (*SME asset growth*) variation is predicted by independent variables variation *Grantedloan*, *Anytraining, Aidingoftraning*, *Periodofoperation*, and *Samefieldasprevjob,* whereas 54.42% remains unexplained. *Grantedloan_Yes* variable is therefore, positively significantly associated with the asset growth of SME's. The p-value of the model which is 0.0046 which is less than 0.05 (F-test value =4.05) which means the group of variables, *Grantedloan*, *Anytraining, Aidingoftraning*, *Periodofoperation*, and *Samefieldasprevjob* (independent variables) can be used to reliably explain the SMEG (dependent variable).

The coefficients are the values for the regression equation that are used to predict the dependent variable (SME asset growth) using the independent variables (*Grantedloan, Anytraining, Aidingoftraning, Periodofoperation, and Samefieldasprevjob*), these are the estimated values which explains the relationship amongst the different variables.

A link between the same credit rationing, measured the potential of SMEs in obtaining loans (*Grantedloan_Yes*) and SME asset growth is observed to be positive 2.36502 which indicates that SME owners who have received loans are likely to achieve higher asset growth of SME compared to those who did not receive loans. This suggests that loans play a role in the asset growth of the business. The variable *Grantedloan_Yes (credit rationing) is* statistically significant at 1%. This is similar to the study which was conducted by Amofah (2017) were 97% of the respondents concerned with the assertion of credit been a major need in the expansion of the business.

Table 4.7: Regression results

Dependent Variable: Asset Value Growth				
Variables	**Coef.**	**Std.Err**	**t**	**significance**
Intercept	0.68024	0.41603	1.64	0.1128
Grantedloan_No				
Grantedloan_Yes	2.36502	0.59113	4.00	0.0004***
Samefieldasprevjob				
Samefieldasprevjob	-0.39451	0.44593	-0.88	0.3836
Anytraining_No				
Anytraining_Yes	-0.01917	0.34587	-0.06	0.9562
Aidingoftraning_Greater extend				
Aidingoftraning_Less extend	0.06594	0.38629	0.17	0.8656
Periodofoperation_1-3years				
Periodofoperation_6months-1year	0.70399	0.45092	1.56	0.1293
Periodofoperation_Lessthan6months	0.84773	0.52932	1.60	0.1201
F	4.05			
P-value	0.0046			
R^2	0.4558			
Adjusted R^2	0.3432			
Observations	36			

Notes *** denotes significance at 1%
(Source: Authors estimate from Research Data, 2020)

Admittedly, the relationship between same field as previous job and SME asset growth is observed to be negative -0.39451 which indicates that SME owners with experience for same field as previous job are less likely of achieving higher asset growth of SME compared with those with experience in different field. Owners experience from previous employment is knowledge which needs to be implemented with certain other contributory essential factors, on its own alone it can have to a less extent impact on growth (Isaga, 2015) .This variable is statistically insignificantly different from 0, because the p-value is greater than 0.05.

The relationship between *Anytraining_Yes* and SME asset growth is found to be negative -0.01917 which indicates SME owners with *Anytraining_Yes* are less likely of achieving higher asset growth of SME compared with those with *Anytraining_No*. Pelizza and Machado (2016), equally shows that training is an essential growth determinant associated with the enterprise because the competences acquired enable owners to make and take rightful decisions. The

variable for this study is statistically insignificantly different from 0, because the p-value is greater than 0.05.

The relationship between Aid of training and SME asset growth is found to be positive 0.06594 which indicates SMEs with *Aidingoftraning_Less extend* are likely to achieve higher growth compared with those *Aidingoftraning_Greater extend*. On the contrary, in a research study conducted by Mzwanele (2017) the survey revealed that entrepreneurs' who had had training related to the respective business undertaking had a chance to a greater extent prospectively contribute to the growth factor of the overall enterprise. However, the variable statistically insignificantly different from 0, because the p-value is greater than 0.05.

The relationship between period of operation *between_6months-1year* and SME asset growth is found to be positive 0.70399 which indicates that SMES that have been operating for a period of 6 months to a year are likely to achieve higher growth compared with those operating between 1 to 3 years. This element is highlighted by other studies regarding the entrepreneurship view that younger firms in their early years of existence are more innovative, risk takers and proactive than older firms (Lyon, Lumpkin, & Dess, 2000). Furthermore, as cited by Moreno (2007) the contributory factor to the reason for firms to be more flexible in their early lifespan is due to discoveries of newer exploitative opportunities and this increases their overall growth.

Additionally, the relationship between *Periodofoperation_Lessthan6months* and SME asset growth is found to be positive 0.84773 which indicates that SMEs with a *Periodofoperation_Lessthan6months* are likely to achieve higher asset growth compared with those *Periodofoperation_1-3years*. However, both these variables are not statistically insignificantly different from 0, because the p-value is greater than 0.05. Firms growth rate is negatively related to period of operation. While Kastrati (2015) concurs that the older the firm, the less chances it has to experience higher growth , on contrary Hamilton (2010) as cited by Pelizza and Machado (2016) where the investigation on growing firms portrayed a discontinuous growth where the firms age and size where found not to be significant on growth.

4.6 Conclusion

This chapter reported a comprehensive data analysis of the results based on the questionnaire. Descriptive statistic, discussion in relation to the questionnaire were presented within the

described frequencies. Correlation coefficient analysis was used to determine the relationship between each variable constructs. Additionally, multiple regression was used to analyse the effect that credit rationing has on SMEG growth through measuring independent variables and the control variables (Samefieldasprevjob, Aidingoftraning, and Periodofoperation).

Credit rationing was found to have an impact on informal SMEs growth. The research results finding showed the relation between credit rationing measurement and the potential of SMEs in obtaining loans (*Grantedloan_Yes*) and SME asset growth to be positive . This indicated SME owners who had received loans with the likehood to achieve higher asset growth of SME compared to those who did not receive loans.

CHAPTER 5
SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summaries results of the research findings through concluding the report, providing conclusions pointing the study's importance and findings as well recommendations based on the findings and proposals for future research study areas .

5.2 Summary and conclusion

This research study examined the effects of credit rationing on informal survivalist and non-survivalist SMEs which constitute of pre-entrepreneurial operators such as street hawkers, containers spaza shop owners, taverns clothing and beauty accessories stall owner's growth in Western Cape, Cape Town city bowl . This research study used Explanatory research design and implored a simple random sampling method to select respective participants. Moreover, this research study was administered on fifty randomly selected entrepreneurs. The results reflected that for those enterprises that were granted a loan credit facility experienced growth compared to those who were not granted such facility. The regression results depicts that those who were granted-loan to be significantly associated with credit rationing .

The evidence from the study shows that, informal survivalist and non-survivalist entrepreneurs granted credit loans by financial institutes use the funds for business operations and this yields into a positive growth results. This factor is in line with discussions highlighted by Choto et al (2014) which portrays growth being a major desire for this entrepreneurship nature and being driven to a greater extent by credit granted. Inevitably, a conclusion was derived that the informal survivalist and non-survivalist entrepreneurs who were not granted loans, suffered from fatal growth prospects.

5.3 Policy and general recommendations

Similar to Rogerson (2008) this study suggests the necessity of the South African government in making policies that channels towards the upgrade support and potential opportunities for informal SMEs involvement by closing the financial inclusion gap. Even though financial institutions are faced with constraints (Ackah & Vuvor, 2010), the study recommends enticement for financial institutions involvement through encouraging them to take risks in offering credit to these nature of entities. This can be done through the government offering lucrative tax incentives policies to those financial institutions that take part in offering different

credit lending options for these nature of entities. With an overall insight that this would motivate a lot of them to consider offering credit.

Furthermore, regulatory policies should be implemented around the development of explicit formal support defining rules that will apply for enterprises that need to crowdfund. This is a fund-raising project for the business firm without having to borrow or having the intermediation of any financial institution and as well using the idea as an mechanism of sharing business growth information awareness.

As the sector is a catalyst in contributing in reducing the negative socio-economic challenges i.e. poverty and unemployment (Chimucheka & Rungani, 2013), this can also be facilitated by motivating financial institutions to support informal small enterprises by designing tailor-made specialised financial and non- financial services to such business structures. This will cater for the nature of the business to access credit with reasonable lending requirements to be met as well as obtaining information through training on how to run and sustain the enterprise. This will benefit the enterprises operators in opening up growth opportunities and for the financial institutions profitability by increasing their customer base.

General recommendations would be to advice informal survivalist and non-survivalist operators not to only depend on financial institutions for credit but to urge the operators to locate and explore other alternative financing options such as peer to peer loans where borrowings are unsecured and done on an individual capacity level.

Further suggestion would be for entrepreneurs' to obtain knowledge on how to facilitate and implement self-help groups. These are voluntary group association where members who do not have access to formal financial institutions assistance come together to obtain adhesive funds from savings-led activities. Solving funding issues by trying alternative schemes of obtaining finance from family members and friends implemented in aiding growth.

5.4 Recommendations for future research

Section 3.6 presented the study's limitations regarding COVID-19 social distancing . There is further need for the same study to be conducted under normal full operational capacity with no distancing and interaction restrictions to increase a fair chance of participant selection. Also there should be considerations to study on the impact of credit rationing and growth in the informal SMEs during COVID-19 outbreak. Other avenues for further studies would be on the aspects of credit rationing and its impact on growth during the COVID-19 pandemic period.

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APPENDIX 1

QUESTIONNAIRE

This questionnaire is designed to extract information aimed at aiding the researcher to write a MCOM dissertation. The research has been approved by the Commerce Faculty Ethics in Research Committee and the topic of this dissertation is Credit rationing: A growth obstacle to informal SMEs in the Western Cape City Bowl of Cape Town .The information collected is purely for academic purposes, no request in some form of identifiable information. All collected data will be treated with strict extreme confidentiality and remain anonymous.

Please tick with an "X" where it applies.

SECTION A:

Demographic Information

1. Gender [ ] Male [ ] Female

2. What is your age group

[ ] Less than 25years [ ] 25-30years [ ] 31-40years

[ ] 41-50years [ ] 51years or more

3. Marital Status [ ] Married [ ] Divorced [ ] Single [ ] Others, Specify……..

4. Number of Children [ ] None [ ] 1 [ ] 2 [ ] 3 [ ] Above 3 Children

5. What is your highest level of education successfully completed?

[ ] Never attended school [ ] Grade 12/ A level [ ] High National Diploma

[ ] Diploma [ ] Bachelor of Degree [ ] Master's Degree

[ ] PHD [ ] Other, Specify…….

6. Indicate the reason for starting this enterprise.

[ ]Sustain a living [ ] Be own boss [ ] Grow a business

[ ] Due to redundancy [ ] Continue family tradition

[ ] Avoidance to work for others [ ] Other, Specify…….

7. Before you started this enterprise, what were you doing?

[ ] Student [ ] Unemployed [ ] Employed [ ] Other, Specify……

8. Are you still employed? [ ] Yes [ ] No

9. Did you start your enterprise in the same field as your previous employment?

[ ] Yes [ ] No

10. With reference to question 9, if enterprise was started in the same field as previous employment. What set of skills was obtained that were brought into the enterprise.

[ ] Carpentry [ ] Trading [ ] Dressmaking [ ] Upholstery

[ ] hairstyling [ ] Other, specify…….

11.With reference to question 9, if enterprise was not started in the same field as previous employment. Have you attended any training? [ ] Yes [ ] No

12. If Yes, please indicate which category best describes the time you have received the training.

[ ] This year [ ] 1-2 years ago [ ] 3-4 years ago [ ] Over the last 5years

13. To what extend do you think the training is aiding in running the enterprise in order to grow? [ ] 1.Not helping [ ] 2. Less extend [ ] 3.Greater extend

SECTION B:

Enterprise Information

14. Is your enterprise registered? [ ] Yes [ ] No

15. How long has your enterprise been in operation?

[ ] Less than 6 months [ ] 6months - 1year [ ] 1-3years [ ] 4-6years

[ ] Over 6years [ ] Others (Specify)……

16. What is nature of activities does your enterprise offer?

[ ] Shoemaker [ ] Dressmaker or Tailor [ ] Clothing distributor

[ ] Saloon or Barber shop [ ] Street hawker [ ] Flea market vendor

[ ]Tuck shop [ ] Food canteen [ ] Fruit and veg stall

[ ] Tavern [ ] Others (Specify)……

17. Do you think your business has grown since you started? [ ] Yes [ ] No

18.Which of the following stages best describes your enterprise's growth stage ?

[ ] Start [ ] Growth [ ] Maturity [ ] Decline

[ ] Don't know [ ] Others (Specify)……

19. How satisfied are you with your growth stage?

[ ] Very unsatisfied [ ] Not satisfied [ ] Neutral [ ] Satisfied [ ] Very satisfied

SECTION C:

Sales revenue information

20. How would describe your enterprise sales revenue behaviour from inception till current.

[ ] 1.Has decrease [ ] 2. Has remained the same [ ] 3.Has increase

21. How much is your sales revenue amount on average on a yearly basis?

[ ] between 0 to R3,000 [ ] R3001 to R5000 [ ] 5001 to 8000 [ ] Over R8001

22.With reference to question 20, If your enterprise sales revenue amount has increase from inception till now, which of the following percentages best describes the increment.

[ ] 0-10% [ ] 11-20% [ ] 21-30% [ ] 31-40% [ ] Over 41%

23. With reference to question 20, If your enterprise sales revenue amount has decreased from inception till now, which of the following percentages best describes the decrease.

[ ] 0-10% [ ] 11-20% [ ] 21-30% [ ] 31-40% [ ] over 41%

24 Rate enterprises' sales revenue in terms of being a measure of growth performance.

[ ] 1. No effect [ ] 2. To a less extend [ ] 3. To a greater extend

SECTION D:

Asset value information

25.Does the enterprise own assets?

[ ] Yes [ ] No

26. What was your asset value at start of the enterprise?

[ ] Below R1,500 [ ] R1,5001- R3,0000 [ ] R3,001 – R4,000

[ ] R4,001 -R6,000 [ ] Over R6,001

27.How would you describe your enterprise assets development over the period from inception till now. [ ] 1. Decline [ ] 2. Remain the same [ ] 3.Increase

28. What is your current asset value.

[ ] Below R1,500 [ ] R1,5001- R3,0000 [ ] R3,001 – R4,000

[ ] R4,001 -R6,000 [ ] Over R6,001

29. With reference to question 26, rate the asset decrease in relation to enterprise growth?

[ ] 1. Uncertain [ ] 2. To a less extend [ ] 3. To a greater extend

30. With reference to question 26, rate the assets non -change in relation to enterprise growth.

[ ] 1. No effect [ ] 2. To a less extend [ ] 3. To a greater extend

31. With reference to question 26, rate the assets value increase in relation to enterprise growth.

[ ] 1. No effect [ ] 2. To a less extend [ ] 3. To a greater extend

SECTION D:

Employees information

32. Besides you as the owner of the enterprise, did you have any employees at inception date?

[ ] Yes [ ] No

33. How many employees were there at inception date?

[ ] 0-2 [ ] 3-4 [ ] 5-7 [ ] 8-10 [ ] Over 11

34. How many employees does the firm have today?

[ ] 0-2 [ ] 3-4 [ ] 5-7 [ ] 8-10 [ ] Over 11

SECTION E:

Credit rationing

Please indicate your perception on each statement by ticking the appropriate box.

35. Have your enterprise once applied for loan credit with any financial institution?

[ ] Yes [ ] No

36. Reference to question 35, if yes, has your enterprise been granted the required credit amount applied for? [ ] Yes [ ] No

37.Reference to question 35, if yes, what type of financial institution was the loan credit application made to?

[ ] Commercial Bank [ ] Postal savings bank [ ] Credit unions

[ ] Development bank [ ] Microfinance institution [ ] Capital market

[ ] Financial cooperatives [ ] Group- based lending

[ ] Self-help credit groups [ ] Others (Specify)…….

38. How do you rate the enterprise's experience in accessing and application for loan credit during your period of business existence?

[ ] Uncertain [ ] Easy [ ] Neutral [ ] Difficulty [ ] Extremely difficulty

39. Number of times that loan credit has been applied with any financial institution.

[ ] None [ ] Once [ ] 2-3 times [ ] 4-6 times

40.Rate enterprises' credit rationing and its impact on SME growth.

[ ] 1. No effect [ ] 2. To a less extend [ ] 3. To a greater extend