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The township-based MSME's perspective: Understanding the challenges and benefits associated with DFI Business Development Services in South Africa

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by

Thomas, Tayla

THMTAY002

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Supervisor: Assoc./Prof. Abdul Latif Alhassan

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What started out as a dissertation, ended up being my most prized passion project.

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"The system doesn't speak township"
– Bulelani Balabala

ABSTRACT

It is universally recognized that micro, small and medium enterprises (MSMEs) are extremely valuable in creating social and economic development. It is for this reason that many countries have adopted MSME development policies as part of their national development strategies. In South Africa, the post-Apartheid government rolled out development policies and established institutions through the Department of Trade and Industries (DTI) with the aim to boost development of previously marginalised MSMEs. Up to 85% of the MSMEs in South Africa are informal and survivalist businesses, the majority of which are based in the townships. 70% of MSMEs in South Africa fail within their first 5-7 years. It is evident that the development of the MSME sector in South Africa is lagging behind, even with the existence of these government-led business development service (BDS) institutions. Against this background, this study sought to explore the benefits and challenges associated with utilising these development services from the perspective of the township-based MSME. The study employed the thematic qualitative analytical technique to analyse primary interview data from 17 township-based MSMEs in South Africa.

The study found the main challenges to be a demand-supply mismatch, poor access to finance, lack of aftercare programmes, lack of trust in government services and poor quality and duration of services. In terms of the positives, a demand-supply match was found with the outsourced training, the quality of financial services was found to be advantageous and assistance with regulatory compliance was highly beneficial.

Based on the findings, it is recommended that institutions should focus on outsourcing to the specialised and sector-specific incubation hubs rather than utilising inhouse training. Development Finance Institutions (DFIs) should outsource training to specialised township-based incubation hubs. Instead of pressurising informal township businesses to formalise, DFIs should aim to support a transition from the traditional informal sector to the modernising informal sector. In terms of government monitoring, policies driven by measurable targets need to be put in place and reviewed on a quarterly basis. Other recommendations include consultations, mentorship provision in clusters, an alumni network, feedback surveys, government service procurement backed by legislation, the adoption of e-procurement, the use of public-private partnerships (PPPs), an effective monitoring system, an ongoing entrepreneurship campaign and the adoption of the integrated model.

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GLOSSARY OF TERMS

BDS	Business Development Services
BEE	Black Economic Empowerment
CINDE	Costa Rican Investment Promotion Agency
CIPC	Companies and Intellectual Property Commission
CSD	Central Supplier Database
DFI	Development Finance Institution
DTI	Department of Trade and Industry
GDP	Gross Domestic Product
GEP	Gauteng Enterprise Propeller
GIIN	Global Impact Investing Network
IDC	Industrial Development Corporation
IFC	International Finance Corporation
IT	Information Technology
MFI	Micro-Finance Institutions
MSME	Micro, Small and Medium-sized Enterprises
NGO	Non-Governmental Organisations
NSB Act	National Small Business Act
NSRA	National Skills Research Agency
NYDA	National Youth Development Agency
PPP	Public-Private Partnership
SARS	South African Revenue Service
SAWEN	South African Women Entrepreneurs' Network
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Financing Agency
UCT	University of Cape Town

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Micro-finance is not a new phenomenon. Origins of the concept date back to as early as the 1500s, when money lenders in Nigeria would perform the role of what we now consider formal financial institutions (Awojobi, 2014). However, it was not until the 1970s when the Grameen lending model in Bangladesh was born that micro-finance saw global traction (Mia, Lee, Chandran, Rasiah, & Rahman, 2019). At the time, the Bangladeshi economy was suffering from poverty, especially in the rural areas, following the Liberation War (Hossain, 2013). The Grameen Bank lending model was essentially a government-led initiative to help meet the credit demands of the poor, mainly the farmers in rural region (Hossain, 2013).

Today, microfinance is used as a tool by various institutions, including - but not limited to - DFIs, in providing funding to those who cannot access formal credit. Of this financially excluded population, micro, small and medium-sized enterprises (MSMEs) make up a large portion. In South Africa, a survey by the International Finance Corporation (2018) identified inaccessibility of finance as the biggest barrier to MSME growth. The growth of MSMEs is one of South Africa's biggest development opportunities because it is one of the most important pillars contributing to South Africa's township economy and to job creation (International Finance Corporation, 2018).

However, access to micro-credit is not the sole constraint to MSME development. There is an increasing awareness of the importance of non-financial constraints that hinder the development of MSMEs, regardless of their access to finance (Jackson, 2004). These factors include a lack of information, business skills and training and are limitations that can be addressed through the delivery of Business Development Services (BDSs).

The legacy of Apartheid's spatial planning can still be observed in the large informal settlements along the peripheries of South Africa's urban cities (Gauteng Provincial Government, 2015). Townships were, by design, to provide urban areas with an accessible supply of cheap and unskilled labour. Today, these areas still suffer major challenges in terms of low skills and education levels. There is a need for a reallocation of existing social capital

and skills to be transferred from the urban, mainstream economy to the remote township regions (Gauteng Provincial Government, 2015).

In order to address this challenge, the post-Apartheid government put in place various intervention efforts. One of these efforts was the roll out of Business Development Service providers across the country. These public sector institutions, established through the Department of Trade and Industries (DTI) include the Small Enterprises Development Agency (SEDA, Industrial Development Cooperation (IDC), Umsobomvu Youth Fund (UYF) and the National Youth Development Agency (NYDA), to name a few (Mazanai & Fatoki, 2011). Despite the existence of these BDS providers, township-based MSMEs are still struggling to develop and access finance (Mazanai & Fatoki, 2012). It is imperative to assess the role played by these BDSs in addressing the challenges faced by one of the most marginalised of all enterprises. After all, township-based MSMEs face unique challenges that cannot be compared to MSMEs operating in formal cities (Bvuma & Marnewick, 2020).

1.2 DEFINITION OF RESEARCH PROBLEMS

In the South African context, not much empirical literature has been written on the true impact of BDS on the development of township-based MSMEs. The need for location-specific research to take place exists due to the uniqueness of South Africa's township economy. As stated by Afrane (2002), South Africa's environment of inequalities means it has a tendency to produce extreme impact results on either side of the spectrum.

Township MSMEs have the potential to positively impact the South African economy. In 2020 it was recorded that as a direct result of government organisation's BDS, township MSMEs in the Gauteng province created approximately 150,000 jobs in a single year (Bvuma & Marnewick, 2020). It is thus deeply concerning that, according to Bushe (2019), over 70% of small businesses in South Africa fail within the first 5 to 7 years of their inception.

A considerable amount of the empirical literature studied points to evidence that BDS and funding can be utilised conjunctly as a successful development tool for MSMEs (Audet, Berger-Douce, & St-Jean, 2007; Kessy and Temu, 2010; Simeyo et al, 2011; Quartey & Asamoah, 2017). The government has put in place many intervention efforts in the form of institutions to improve access to debt finance through enterprise services. The question to consider is whether these BDS providers are facilitating the growth of these township MSMEs. It is important to

identify any potential hindrances of such growth in order fully to reap the rewards of a sector that contributes to 50-60% of the national workforce and 34% of gross domestic product (GDP) (International Finance Corporation, 2018).

1.3 RESEARCH QUESTION AND OBJECTIVE

The specific research question answered in this research is;

a) What are the benefits and challenges associated with government-led business development services for township-based MSMEs?

The corresponding research objective covered in this research is;

a) To explore the challenges and benefits that township-based MSME owners experience when using government-led business development services

1.4 SCOPE AND JUSTIFICATION OF THE STUDY

The results of this paper provide new, first-hand insights based on township MSME accounts of the challenges and benefits associated with DFI support services. With small businesses ultimately being the engine of growth for South Africa's economy, and the township economy's immense entrepreneurial potential, it is imperative to investigate how these enterprise services are promoting the growth of these MSMEs. This will provide clarity as to which channels the DFI support services should focus on, for improvement in the township context.

The MSME sector in South Africa is growing slowly, with a high failure rate of start-ups (International Finance Corporation, 2018). Township MSMEs are largely the only available source of employment in poor and rural regions (Moyo, 2019), therefore they play a vital employment role in South Africa where approximately half of its population reside in townships (Mahajan, 2014).

Although there are many government-led agencies and institutions tailored towards assisting these MSMEs, Mdezi (2011) finds a gap in terms of programmes designed specifically to suit the needs of businesses in rural areas. DFI support services should not be a one-size-fits-all prototype, and it is important that it is tailored to fit the needs of the township economy, taking into account the population's unique characteristics and informality. The challenge is to provide solutions for both the DFIs and township-based MSMEs in a landscape of complex social

inequality, in order to align both of their interests. The results of this study will benefit DFI practitioners, donors and policy makers within South Africa.

1.5 ORGANISATION OF THE FINAL DISSERTATION

Chapter 1 will include an introduction to the study, separated into 5 sections. The first will include a background on the main context, themes and landscape in South Africa. The rest, respectively includes: defining the research problem, stating research objectives and questions, justification of research and organisation of the study.

Chapter 2 will encompass a full literature review. This review will be split into 2 sections, namely: Introduction to key concepts, theory and context and empirical evidence of the challenges and benefits that arise from government-led enterprise services.

Chapter 3 will discuss all aspects of the methodology, data and research of the dissertation. This will include describing the research approach, as well as the research design. This section will encompass a qualitative approach, and is exploratory in nature. Sampling techniques, scaling, statistical analysis, units of analysis, the data collection process and analytical framework will all be defined, justified and explained.

Chapter 4 will include a discussion of the data results in order to clearly set out the evidence from the investigation.

Chapter 5 will conclude and recommend policies on the findings in chapter 4. This chapter will deal with the implications of the results and, subsequently, the suggested way forward.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

This second chapter outlines the theoretical and empirical literature available on the subject. Firstly, there will be an exploration of the different definitions and aspects of MSMEs. Following this, there will be an analysis of the specified market: the township economy. Then there will be an overview of the defining features, theoretical frameworks and theories behind business development services, MSME financing and DFI services. Lastly, the chapter will review existing empirical studies on the impact of microfinance and business development services on the growth and performance of MSMEs.

2.2 DEFINING MSMES

MSMEs have an immense range of definitions, with the defining features including - but not limited to - firm size, formality, and the entrepreneur's aspirations. Across countries, the classification of MSMEs vary. Size is generally measured using either the criteria of annual turnover, number of fixed assets or number of permanent employees (Biswas, 2014). In South Africa specifically, the parameters used to define MSME size are utilized according to what is most appropriate to the stakeholder in question. For example, The South African Revenue Service (SARS) uses turnover requirements to decipher which firms fall under the Small Business Tax regime – a system intended specifically for micro enterprises (International Finance Corporation, 2018). However, government development agencies Small Enterprise Finance Agency (SEFA) and Small Enterprise Development Agency (SEDA) utilize the National Small Business Amendment Act of 2003 which has a much more comprehensive list of criteria for defining MSMEs. Their criteria embody all three major parameters (turnover, assets and number of employees) and define different thresholds for the 11 different sectors of the economy (International Finance Corporation, 2018). Generally, across the sectors, micro-enterprises have approximately 5 employees, small enterprises around 50 staff members and medium enterprises employ 200 people (International Finance Corporation, 2018). This dissertation will adopt the definition according to the National Small Business (NSB) Act of South Africa, as shown in the table below.

Table 1: Definition of MSMEs according to NSB Act of South Africa

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

Source: Bvuma & Marnewick (2020)

Regarding the MSME formality criterion, one must consider the firm in question's operating market. Businesses operating in the formal sector commonly adopt the characteristics of tax registration, contracted employment, large-scale operations and capital-intensive operations, to name a few (International Finance Corporation, 2018). In South Africa, MSMEs that have VAT or income tax registration are conventionally recognized as formal (International Finance Corporation, 2018). In South Africa, it is estimated that only 86% of the entire MSME market likens to informalized MSMEs, many of which are township-based (International Finance Corporation, 2018).

Mahajan (2014) distinguishes between the traditional informal sector and the modernising informal sector. The traditional informal sector is what we know as businesses that are micro-sized (3 or less workers) and typically categorised by slow growth, low labour productivity, low incomes and static technology. The modernizing informal sector, on the other hand, is larger in size (up to 10 workers), more dynamic in use of technology and often linked to the formal sector (Mahajan, 2014). The latter is a category of firm that appears to be in short supply in South Africa's township regions (Mahajan, 2014).

Then there is the consideration of entrepreneurial aspiration, or the entrepreneur's main objective for the firm. Typically, the survivalist is an MSME owner who started the business to achieve personal financial survival (International Finance Corporation, 2018). These entrepreneurs started the MSME journey to gain a necessary means of employment, although typically, they have very little financial or business expertise. MSMEs owned by survivalists tend to be micro and informal (International Finance Corporation, 2018). In South Africa, a study found that approximately 85% of the entire MSME sector is comprised of informal, survivalist enterprises (International Finance Corporation, 2018). These businesses struggle

with red tape constraints and a tough business environment, making for a poor rate of formalization in the sector (International Finance Corporation, 2018). Growth-orientated MSMEs, on the other hand, are opportunity-driven (International Finance Corporation, 2018). Unlike survivalists, these MSMEs typically tend to be a source of economic growth and job-creation in the formal sector (International Finance Corporation, 2018). Most of the township-based MSMEs in South Africa fall under the survivalist category (Mahajan, 2014).

2.3 Overview of the township economy

South African townships are a result of a forced geographical marginalisation from economic mainstream cities (Jürgens, Donaldson, Rule & Bähr, 2013). Namely, non-white neighbourhoods were established on the peripheries of cities, deliberately separating them from characteristically European urban areas of major economic activity (Jürgens et al., 2013). These neighbourhoods, or townships, were defined as under-developed, dormitory-like settlements without any substantial urban components or amenities (Jürgens et al., 2013).

Following this segregationist administration, South Africa is still commonly referred to as a dual economy, twenty-five years after Apartheid (Morris, 1992). On the one hand, there are predominantly traditional white city centres and suburbs, characterized by sophisticated infrastructure and services comparable to first-world economies (Klemz, Boshoff & Mazibuko, 2006). The other end of the economy consists of the townships where the vast majority of black South Africans still reside (Klemz et al., 2006). These areas are typical third-world equivalent, emerging economic environments with limited access to sophisticated services and substandard infrastructure (Klemz et al., 2006). According to Mahajan (2014), many of the residents in townships across South Africa still survive below subsistence levels.

This legacy of exclusionary policies and structural challenges has hindered the growth and development of township-based MSMEs (Sanchez, 2008). Rogerson (1996) shows evidence that many MSMEs in townships operate as survivalists existing to make ends meet. In several studies, township MSMEs have identified the main challenges impeding their development as a lack of skills and knowledge, lack of finance, poor business acumen, poor technological skills and a lack of training and education (Mrasi, Mason & Jere, 2018; Mbonyane & Ladzani, 2011; Bhorat, Asmal, Lilenstein & Van der Zee, 2018).

Although these survivalist MSMEs are typically characterized by slow-growth, Neves and Du Toit (2012) noticed that township enterprise activity exists in a social environment where relationships of reciprocity and mutual support are equally as important as economic motives. Economic participation is largely based on people's sense of community and trust. This is another market feature which makes the township economy unique to urban cities. The types of township MSMEs that appear to succeed and have particular potential for growth were identified by Charman (2017) as grocery shops (spaza shops), taverns (shebeens), hair salons and businesses providing childcare (educare). A study by Bvuma and Marnewick (2020) revealed that township MSMEs are dynamic and face complex challenges; needing numerous interventions in order for them to be sustainable. The most common challenges these MSMEs face include but are not limited to: lack of skills and knowledge, poor access to finance, crime, poor business acumen, lack of infrastructure and high competition (Bvuma & Marnewick, 2020). Many of these above challenges have the potential to be overcome by the appropriate and effective execution of business development services.

2.4 Business Development Services

2.4.1 BDS overview

The majority of literature on small businesses has been devoted to exploring the relationship between the impact of the owner/manager's skills, knowledge base and training on the success of the business. It is undeniable that training and mentoring programmes can play a role in developing skills and increasing the competitiveness of MSMEs to some extent. Skills such as personal skills, financial skills, managerial skills and technical skills are generally important in order for an owner to run a successful business (Rogerson, 2008). Rantanen (2001) finds that the smaller the firm, the more likely it is that they will engage in informal management practices rather than assume the use of sophisticated techniques. Another common presumption is that, although MSME owners may have adequate technical knowledge, they lack sophisticated managerial skill and training practices (Maes, Sels & Roodhooft, 2004). Martinsuo and Karlberg (1998) also found that MSMEs in their study had limited capacity for marketing and planning, as well as limitations in terms of knowledge and technology. However, small firms are found to have an advantage in terms of being close to their customers and knowing their market (Storey, 2000).

In line with national frameworks, South Africa's local governments are responsible for creating a favourable environment for MSMEs to prosper. One of the main tools that local government

departments use to achieve this is through Business Development Services (BDS). There are many different definitions of BDS in literature, with several authors attempting to define the term. The Committee of Donor Agencies for Small Enterprise Development (2001) defines BDS as an assistance that aims to improve enterprise performance, overall competitiveness and ability to access new markets and finances. The IFC (2006) defines it specifically as non-financial products and services that are offered to business owners at the various stages of the MSME's life cycle. Brijlal (2008) asserts that the provision of BDS seeks to correct market failure by providing missing information required by small businesses in the form of consultancy services, training, technology adoption and subsidized access to infrastructure.

The Committee of Donor Agencies for Small Enterprise Development (2001) further asserts that in order to be effective, business services must provide both strategic (medium- to long-term issues) and operational (day-to-day) support to small businesses. This gives way to the notion of after-care services. After-care support refers to the follow-up services post-training and/or post-funding which includes advisory and mentorship services, to name a few (Myrick, 2009). Apart from the training aspect of BDS, some of the institutions additionally provide mentorship services. This mentoring can be independent of a training programme, but typically it is used as an after-care support to MSMEs at the completion of their training (Myrick, 2009). It typically entails a mentor following up on the business owner, ensuring that the business is moving in the right direction post-training, and that the newly acquired skills are being implemented post-training.

Conventionally, BDS is accepted to include only non-financial assistance (Brijlal 2008). However, many authors include the provision of financial services, as BDS is traditionally offered in combination with micro-credit and other financial services. In South Africa, the Department of Monitoring, Planning and Evaluation (2017) elaborates to define it as both the financial and non-financial business support services including training, consultancy and advisory services, marketing assistance, information services, access to technology and business linkage promotion (Department of Monitoring, Planning and Evaluation, 2017). The Malaysian National SME Development Council (2012) defines the BDS provided to their MSMEs in terms of targeted outcomes, including: increasing business formation, expanding growth of firms, raising firm productivity and formalization of MSMEs.

The traditional BDS model faces a fair amount of demand-side criticism in modern literature. For one, the conventional BDS model is seen to take away from the evolutionary innovation theory (Romijn, Caniëls, & de Ruijter-de Wildt, 2003). Evolutionary innovation theory states that for true market development, firms need to undergo an iterative and evolutionary learning process (Romijn et al., 2003). This entails direct and ongoing interaction between the generators and end users of the innovation. The argument is that BDS facilitators are seen as the main sources of new initiatives and ideas, while the MSME owners are merely the implementors of these ideas. In other words, the process is seen to takes away from the entrepreneur's innovation which is a key element to the evolvement of new products and services that are truly market-demand-driven (Romijn et al., 2003). They argue that the provision of these services should be strictly participatory, meaning that customers should play a role in co-determining the product's innovative design and direction.

A second argument entails an agency conflict. Namely, BDS donors are concerned about their financial sustainability and, naturally, the short-term financial impact of the organisation which directly depends on the MSME's pay-back ability. Romijn et al. (2003) liken the relationship between BDS donors and MSMEs to that of commercial shareholders in western corporations. Thus, it is argued that the organisations would prioritise the MSME's short term financial gain at the expense of options that offer long-term improvements to the MSME and entrepreneur's welfare (Romijn et al., 2003).

However, the aforementioned criticisms to BDS models can be seen as a generalization of the model. Mcvay and Miehlbradt, (2000) even allude to the possibility that the BDS model has evolved from its traditional form as a solely supply-side instrument, to a more encompassing demand-side approach. Brijlal (2008) asserts that the failure of traditional approaches to BDS (in terms of achieving its sustainability objectives) has led to an overall paradigm shift in recent years. It is evident that some modern-day BDS organisations can specifically tailor their services to fit the market and to promote entrepreneurial innovation. Organisations are being designed more to serve individual business as opposed to a larger generalized business community (Mazanai & Fatoki, 2011). For example, the Farm Tools and Implements programme in Kenya and Ghana emphasizes the importance of innovation - the dynamic interaction between the MSME owner and clients - in their mission statement (Romjin et al., 2003). Furthermore, the programme specifically identifies the need for their services to be adaptable in order to suit the particular market to which they are catering (Romjin et al., 2003).

In the South African context, the provision of business development services by government must be critically scrutinised. Empirical evidence offered by Minniti and Bygrave (2004) shows that small enterprises in their study were largely unimpressed with the business support offered by government agencies. The policy implications of the study's findings was to rethink government's role in the provision of these services. The authors' consensus was that, in line with international best practice, the focus should be on facilitating commercially-driven private sector provision of BDSs.

2.4.2 Conceptual frameworks: Business Development Services for MSMEs

The new development approach to provide BDS brings with it a new framework regarding MSME development. It asserts that BDS markets only succeed if the BDS providers have the relevant incentive and capacity to meet the demands of the consumers of the operating MSMEs (Palakurthi, Maddocks, Amha, & Ageba, 2006). The design of these BDS support should consider market constraints and opportunities of the MSME operators. As mentioned above, this entails a shift from the traditional subsidized, supply-driven BDS provision to few MSME operators, to a demand-driven BDS market catering to a large number of MSMEs. This new approach to BDS is specifically geared toward increasing the impact on the performance of these small enterprises (Palakurthi et al., 2006). A summary of the conceptual difference between the traditional and market development BDS provision can be seen below in table 2.

Table 2: Conceptual difference between traditional and market development interventions of BDS

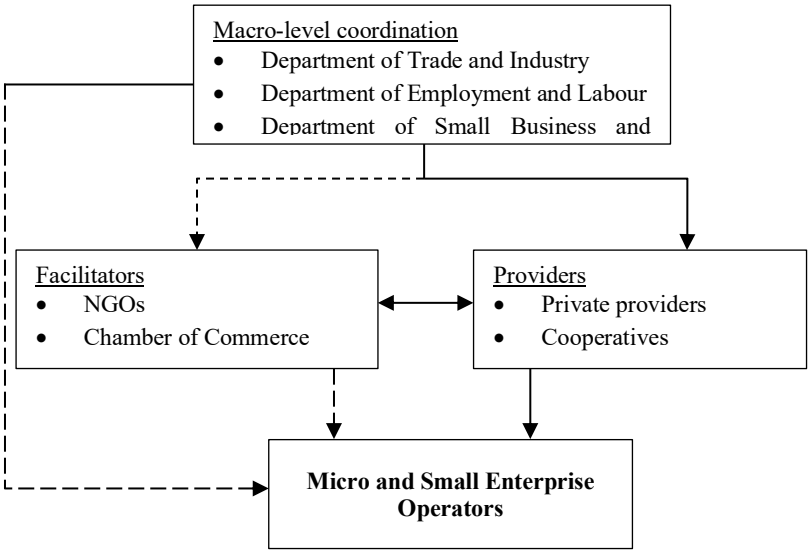
	Traditional interventions of BDS	Market development interventions of BDS
Vision	A non-profit or government organization provides BDS to MSE	A sustainable, primarily private sector market, made up of competing suppliers, sells a wide range of service to MSE
Objective	Provide services that MSE can afford	Encourage others to provide services for, which MSE are wiling to pay full cost
Starting point	Diagnosis of needs surveys	Assess MSE development of the market (demand, supply, potential)
Point of intervention	"First, Tier": direct provision through a single, local institution	"Second Tier": facilitate, regulate, and develop products for and work with more than one supplier
Duration of involvement	Permanent: donor-funded programs must continue if services are to be available to MSE	Temporary: withdraw as markets develop
Subsidies	Support free or low-cost services to clients. Justified in the long run. MSE cannot be expected to pay full costs	Support assistance to suppliers or temporary grants to clients. Justified in the short run if market development impact outweighs market distortion impact

Source: McVay & Miehlbradt (2002)

One of the main differences in the concepts lies in the roles of the players involved in BDS provision. For one, the role of government institutions moves away from traditionally being direct providers to facilitators of BDS in the market development model. Their role involves facilitating an enabling macro environment which, in turn, promotes the delivery of BDS more efficiently (Palakurthi et al., 2006). Although government institutions may be BDS providers initially/in the short term, this role ideally gets taken over by the private sector. This agrees with Minniti and Bygrave's (2004) recommendation of commercially-driven BDS provision, as stated above.

According to Palakurthi et al. (2006), BDS facilitators (such as SEDA, donors, NGOs, etc) are expected to initially provide BDS services during a 'transition period' whilst building the capacity of the private-sector BDS providers. This may be called the transitional agenda (Palakurthi et al., 2006). The support provided by these institutions (during the transitional agenda) should continue until such time as the market becomes commercially-oriented and sustainable. The goal is that, in the interim, the private sector develops a market-appropriate BDS product design and delivery for the MSME (Palakurthi et al., 2006). Implementing effective market-led BDS is said to be as essential for small business development as microfinance (Hochschwender et al, 2001). The institutional framework for the new development BDS in South Africa can be seen in figure 1 below.

FIGURE 1: INSTITUTIONAL FRAMEWORK FOR NEW DEVELOPMENT BDS IN SOUTH AFRICA



Source: adopted from Palakurthi et al. (2006)

2.4.3 BDS in South Africa

In 1995 the South African government, through the Department of Trade and Industry (DTI), started to roll out policy initiatives and institutions targeted to support MSMEs. Given the country's Apartheid history, the focus of these policies was on enterprises owned by black South Africans who were formerly disadvantaged (Rogerson & Rogerson, 2012)). Amongst these institutions included national-level agencies such as Khula Enterprise Finance Ltd, SEDA, NYDA and UYF, and at a provincial level there were agencies such as the Eastern Gauteng Enterprise Propeller (GEP) in Gauteng and the Western Cape's Red Door agency in partnership with SEDA (Rogerson & Rogerson, 2012). Other institutions, listed in terms of their main function, include:

- Access to finance: Khula Enterprise Finance Limited, SEFA, IDC
- Youth focused enterprise development: NYDA, UYF
- Women-owned enterprises: South African Women Entrepreneurs' Network (SAWEN), Technology for Women in Business (TWIB)
- Skills development measures: a variety of sector education and training authorities (SETAs). These include business incubators and training academies.

Government-level BDS institutions such as SEDA do not only provide non-financial support. Additionally, SEDA outsources training through small business incubators and training academies that have passed the test of time, as long as they have the capacity and capability to provide the training. There are also many non-governmental and institutions in the private sector that are dedicated to providing enterprise support to MSMEs. However, the focus of this study is limited to government-led institutions. Generally, government support agencies in South Africa do not combine financial and non-financial services (Maluleke, 2013). They either provide debt-financing or they provide non-financial enterprise support services.

South African government-level BDS institutions and agencies, such as SEDA, SEFA, the IDC, and the NYDA are classified as Development Finance Institutions (DFIs) – a concept to be defined and further elaborated on in Chapter 2.6. To fulfil their mandates, the agencies and institutions must provide business support services that target micro and small businesses in particular, from all sectors throughout South Africa (SEDA, 2011). SEDA's target market, for example, is indicated as 80% towards microenterprises and survivalist entrepreneurs: a target

population that fits the profile of most township-based MSMEs (Maluleke, 2013). The business support services and products offered by the programmes include, but are not limited to, assisting with business registration, business plans, providing access to markets and access to finance, co-operative support, small enterprise training and mentoring as well as access to technology (Maluleke, 2013). These enterprise services are rendered in-house or through an affiliated incubation centre or business incubation hub, which tend to provide more specialized services.

2.5 THEORIES ON MSME FINANCING

It is evident that MSMEs typically struggle to gain access to finance from traditional banks and institutions. Estimates of access to formal credit in South Africa, for example, have ranged between 3% by 2010 FinScope Business Survey to 22% by the 2014 Small Business SME Growth Index (International Finance Corporation, 2018). The implication is that the lending market for MSMEs is not equilibrated through the price mechanism (Biswas, Srivastava & Kumar, 2018). The potential reasons are extensive: the increased banking regulations coupled with MSME's generalized traits – including lack of collateral and lack of or poor credit history - make it an improbable marriage. There are also many financial theories that attempt to explain this premise – both demand and supply-side theories. The most prominent theories are the credit rationing theory, asymmetric information theory and the pecking order theory.

The credit rationing theory states that banks are unwilling to advance additional funds to a borrower even as the interest charge rises (Calomiris & Longhofer, 2008). In economic terms, the demand for commercial loans exceeds the supply of these loans at the commercial rate quoted (Jaffee and Modligliani, 1969). De Meza and Webb (1987) explain that the credit market differs to the market for other goods and is not based solely on demand and supply. This is because the potential credit borrowers – MSMEs who may be willing to pay the higher interest rates – will likely be unable to repay the loan at maturity owing to the high interest charges (Hodgman, 1960). The assumption is that the cost of borrowing will likely be greater than the rate of return generated by the MSME within the given time frame (Biswas et al., 2018). Thus, the theory indicates that banks would practice credit rationing with riskier clients as a buffer to protect themselves against potential loan defaults.

The information asymmetry theory refers to a situation where there is unequal or dissimulated knowledge between two economic agents engaging in a transaction: in the case of the credit

market, between the borrower and the bank. Information asymmetry leads to two main issues: adverse selection and moral hazard (Tupangiu, 2017). Adverse selection occurs when banks decide to lend to economic projects that are not viable due to the absence of adequate information on the MSME (Biswas et al., 2018). These information asymmetries could be concerning the applicant's market position, contingent liabilities, prospects of economic activity and credit history to name a few, leading the bank to potentially selecting a poor-quality borrower (Tupangiu, 2017). The general informality, credit history and overall opaqueness of MSMEs makes for a significant gap in information (Biswas et al., 2018). The moral hazard, which occurs post-loan agreement, occurs when the MSME borrower may not have the intent nor ability to repay the loan (Tupangiu, 2017). This gap in information ultimately leads banks to increasing their monitoring costs, cost of scrutinizing applications, screening borrowers and so forth (Chiyah & Forchu, 2010). With an increase in transaction costs, and the opaqueness of MSMEs, the information asymmetry theory asserts that financial institutions are not compelled to finance MSMEs.

The pecking order theory, a demand-side concept, postulates that a firm's capital decisions are based predominantly on perceived asymmetric information. Thus, the highest perceived rank of capital is internal funding, followed by debt financing, followed by the selling of equity (Bhuyan, 2016). According to the pecking order theory, MSMEs will initially obtain their first set of funding internally. However, as their financing needs increase, the enterprise will start seeking debt capital. Holmes and Kent (1991) reiterate that MSMEs generally follow this pecking order mostly because they struggle to obtain funds externally.

2.6 DFI SERVICES AND FINANCING

The market and institutional failures mentioned in the theories above, coupled with the informality of MSMEs, sees traditional banks generally denying these enterprises the access to financial services (Kasekende & Opondo, 2003). There is a bias towards larger firms. However, Development Finance Institutions - commonly coined the catalysts of development finance - are institutions that can play a real role in financing these small enterprises (Khadiagala, 2015). These firms form part of the micro-finance industry. Micro-finance is a term that refers to the rendering of financial services to end-users who are generally excluded from the traditional financial system due to their low economic status (Moruf, 2013). These services include the delivery and provision of small loans (termed micro-credit), savings deposits, micro-insurance and group lending amongst other small-scale financial services (Taiwo, Agwu & Benson,

2016). Micro-saving is another aspect of micro-finance services that provide the clients the opportunity to safeguard their funds and other assets, whilst giving them the possibility to earn interest (Abor, 2016).

DFIs are defined by Mudaliar, Moynihan, Bass, Roberts, and DeMarsh's (2016) as government-backed financial institutions that provide funding to the private or public sector in order to create positive social, economic or environmental impact. Massa (2011) offers a more extensive definition describing DFIs as multilateral, bilateral or regional financial institutions that exist in order to achieve sustainable growth and economic development by investing in the private/public sector whilst maintaining financial viability in the long term (Mabasa, 2017). Either way, these institutions exist in order to service investment deficiencies in the economy. As put by Dalberg (2011), their objective is to provide capital that would not otherwise be provided by other parties. Simply put, these institutions aim to promote financial inclusion: a phenomenon defined by individuals and or enterprises having the equal opportunity to access affordable and useful financial products and services (World Bank Group, 2013).

The objective of DFIs to finance underserved markets, coupled with their goal to drive economic growth and social transformation, makes them a brilliant partner for MSMEs and entrepreneurship (Likotsi, 2014). Due to its extensive job creation and economic contribution, the MSME sector is generally accepted as the engine of economic growth and equitable development in emerging economies (Bhuyan, 2016). In South Africa, for example, MSMEs reportedly employed 50-60% of South Africa's total workforce and contributed to approximately 34% of the total country's gross domestic product (GDP) in 2019 (International Finance Corporation, 2018).

However, it should not be overlooked that SME lending is a high-cost product (Hasheela, 2016). This is because not only are MSME clients generally inherently riskier, but the loan sizes are usually small and the transaction costs per loan are relatively constant (Hasheela, 2016). The clients themselves are generally riskier due to their poor business acumen, access to collateral, and/or credit history. To fully understand this in the South African setting, it is vital to revisit the historical context.

Apartheid South Africa forcibly excluded non-white South Africans from every formal division of the economy, including the financial sector, creating a state with racially-based access to

finance. The ruling government eventually succumbed to the pressure of international isolation and sanctions and resorted to intervening in the economy (Khadiagala, 2015). This fortification tactic saw the Apartheid government utilising DFIs to reverse their previously racially-based economic development (Khadiagala, 2015). Needless to say, by the time of political settlement in 1994, there was no miraculous transformation after a legacy of unequal access to finance and white monopoly capital (Ashman, Fine & Newman, 2011). To this day, South African DFIs continue to finance development objectives in an effort to correct the inequalities created by the Apartheid state (Khadiagala, 2015).

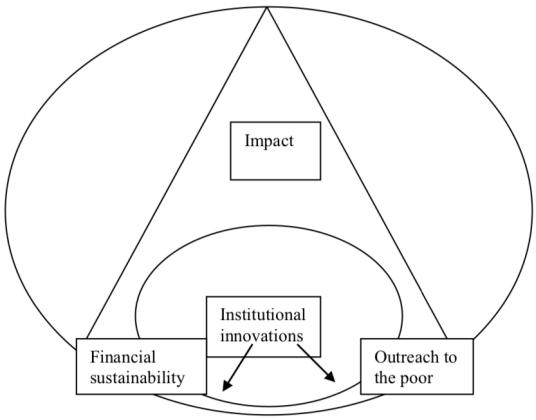
DFIs and institutions alike naturally have a higher risk appetite for MSMEs than traditional banks, and they price this micro-credit accordingly. However, issues such as agency problems, asymmetric information and monitoring challenges still play a big role in the high-risk nature of SME financing (Nkosi, 2017). As explained by the asymmetric information theory, the borrower could be omitting unfavourable information leaving the lender vulnerable to making uninformed funding decisions, leading to potential adverse selection and moral hazard (Hasheela, 2016). Thus, as a screening strategy, the DFIs hike up the interest rate in an attempt to solve the problem of adverse selection (Chiyah & Forchu, 2010). This, however, operates on the assumption that the riskier borrower is willing to pay a higher premium than the less-risky borrower. This assumption becomes problematic because the target market for micro-finance constitutes a financially destitute and ignorant population desperate for credit at almost any cost. The result is that the non-risky clients suffer with a high interest charge at the expense of the risky clients (Graham Bannok & Partners, 1997).

This gives way to the debate surrounding the micro-credit paradox. The fundamental reason for the enigma is due to the paradoxical nature of the dual missions of DFIs themselves (Caserta, Monteleone, & Reito, 2018; Okoye & Siwale, 2017). That is, serving the poor whilst maintaining profitability to preserve their institutional sustainability (Ran & Wang, 2019). However, there is growing concern over DFI mission drift. Namely, DFIs are said by Lopatta, Tchikov, Jaeschke, and Lodhia, (2017) to be shifting focus from their social mission to profitability-orientation and high-interest charging. Jackson (2016) states that the biggest evil to micro-credit is the risk of adverse selection of solidarity lending (Ran & Wang, 2019). Additionally, finance is heavily regulated in South Africa and banks will get fined by the Banking Institute for every account that is in arrears. This regulation plays a part in deterring even DFIs from issuing micro-loans.

One should not ignore the important role that micro-credit plays: without access to credit, the poor in developing countries would undoubtedly remain poor (Coleman, 1999; Fletschner, 2009; Karnani, 2007). However, it may lead to a slippery slope, as DFIs may no longer be alleviating the poor out of poverty, but instead, exploiting their already destitute circumstances and making them even poorer.

The triangle of microfinance – a concept created by Manfred Zeller and Richard Meyer in 2002 – illustrates the three model policy objectives that DFIs should simultaneously strive toward. These objectives include outreach (effectively reaching the poor in terms of numbers and depth), financial stability (meeting financial costs and minimising risk in the long-run) and impact (having a noticeably positive effect on the client's quality of life). Zeller and Meyer (2002) argue that these three goals' synergies, although sometimes inevitably trade-offs, will lead to the most economically sustainable DFIs. The outer circle, as seen below in Figure 2, shows the macro-environment and sector/governmental policies that could potentially affect the outreach and/or financial sustainability of the institutions (Zeller and Meyer, 2002). The inner circle symbolises the institutional innovations (for example, cost-reducing techniques or screening capacities) that improves the firm's financial sustainability.

FIGURE 2: THE TRIANGLE OF MICROFINANCE



Source: (Zeller and Meyer, 2002)

DFI services fall under what can be defined as four broad categories: financial intermediation, social intermediation, enterprise development and social services (Abor, 2016). Financial intermediation refers to the DFI's primary function; their products and services that predominantly include micro-savings, credit, payment systems and insurance (Abor, 2016).

Social intermediation is imperative to achieve sustainable financial intermediation. Generally subsidized by donor agencies, this servicing refers to building human and social capital of the DFI's employees to ensure effective supply-side service delivery. This includes services such as group formation and leadership training (Abor, 2016).

Enterprise development services, as explained in section 2.4 of this study, refer to the non-financial services that exist to support the clientele in skills development, business planning, technology and so forth (Abor, 2016). These training resources are usually contingent on the client's willingness to fund – or ability to gain funding for - these additional services. Similarly, social services are non-financial services that promote MSME training (Abor, 2016), the difference being that these services focus on promoting the welfare of the poorer spectrum of clientele and micro-enterprises. Examples of such training include education, health and literacy training. Like social intermediation, this type of service usually requires continuous government subsidies and/or donor-supporting NGO assistance (Abor, 2016).

When micro-finance institutions (MFIs) offer these non-financial services in addition to their standard credit products and services, this is commonly known as an integrated lending model (Orbuch, 2011). Another model that is commonly used by DFIs is the group-lending model. This requires borrowers to apply for credit in voluntarily formed groups (Kodongo & Kendi, 2013). Concerning what is a sort of social collateral, the members are required to choose the co-debtors they want to be in their group (Abor, 2016). This achieves creditworthiness screening by the lenders, mitigating information asymmetry and the adverse selection problem (Armendariz and Morduch, 2010). Simultaneously, it uses peer pressure to ensure repayments and obligations are upheld, as the members are linked by a joint liability (Madajewicz, 2011).

Other products and services that protect DFIs from the inherent risk associated with their clients include graduated loan schemes, frequent collection of loan instalments, compulsory savings and use of guarantors (Abor, 2016). With varying opinions on the usefulness of these tools, it is imperative to investigate which specific DFI funding mechanisms lead to positive outcomes in a township context.

2.7 EMPIRICAL LITERATURE

Increasingly, the integrated lending model has been accredited to benefit MSMEs. Micro-credit alone is not found to be significantly sufficient in facilitating sustainable growth of small

businesses (Mokhtar and Ashhari, 2015). More and more literature suggest that MSME training programmes play a significantly beneficial role in fostering the development of the MSME sector (Audet, Berger-Douce, & St-Jean, 2007).

Rotich, Lagat and Kogei (2015) found that the access to saving schemes, managerial training as well as a grace period for loans was a significant and positive aspect in determining MSME performance in Kenya. Moreover, Simeyo et al. (2011) finds that savings mobilisation, financial training and loan provisions have the largest statistically significant impact on MSME performance. According to a study by Quartey & Asamoah (2017), providing other services such as business development and book-keeping training by DFIs is imperative for a successful funding experience. Concurrently, most of the microenterprises in the study did not have evidence of having a book-keeping system (Quartey & Asamoah, 2017).

This all leads to the notion that micro-loans alone cannot solve the financial issues MSMEs face without the complement of business development services. Kessy and Temu (2010) conducted a study on the impact of training on a sample of micro-credit beneficiaries. The study was conducted on a sample of 225 Tanzanian MSMEs, of which some had complementary training and some had not. The results of the study proved the MSMEs that had training to generate a higher level of revenues and assets than those beneficiaries who had received no training. Similarly, Atmadja, Su, and Sharma (2016) conducted a study to test whether participation and interaction group lending programmes enhanced the impact of microloans on woman-led microenterprises in Indonesia. The results were conclusive: the MSMEs that received social capital generated positive business performance, whilst those who solely took out the microloan performed negatively. This reinforces Kessy and Temu (2010)'s findings that microlending alone does not guarantee a positive outcome, and that business development training matters.

Not all of the research agrees with this conclusion, however. Kisaka and Mwewa (2014) found that the training provided by MFIs in Kenya was statistically insignificant, the rationale being that the training was not based on the true needs of the beneficiary MSMEs. Additionally, Kessy and Temu (2010) reiterate that aside from training, the establishment of new sales channels and adoption of new technologies is equally as contributory in generating beneficial outcomes.

This leads to the need to investigate the potential challenges associated with business development services. In South Africa, assessments that have undertaken to evaluate the impact of government agencies BDS provision on MSMEs have disclosed several areas of underperformance (Rogerson 2004). As disclosed by Rogerson (2008), a particular area of concern is that the major share of benefits from these agencies have been taken up by larger (typically white-owned) medium-sized enterprises. There is tendency to favour the larger, more formalized MSMEs rather than focusing on the core target groups of black-owned emerging MSMEs that continue to be economically marginalized. This finding was shared by a World Bank (2010) survey that found South African government support programmes assist MSMEs at the larger end of the spectrum (Region, 2010). Elaborating on this, a review on SEDA in April 2010 found the services provided to be more relevant to existing, established firms than start-ups, and favoured larger businesses over small and micro-businesses (Rogerson & Rogerson, 2012).

Additionally, shortcomings in terms of the quality of BDS have been reported. In 2010, it was recorded that banks had complained of the poor quality of business plans that are the outputs of SEDA support services (NSRA, 2010). The survey suggested that the trainers were under-skilled to meet client needs. Rogerson (2008) believes that many of the trainers are not properly accredited and do not have the appropriate skills from which the client will effectively benefit. Yusuf (2010) elaborates that in some cases, it is not an issue of inadequate skills, but a mismatch between the trainer's expertise and what the beneficiary needs.

Expanding on the issue of not meeting client needs, Monkman (2003) proclaims that South African enterprise support programmes are ineffective due to being overly supply-driven. SEDA, amongst others, has been criticized for having a more generalist approach (NSRA, 2010). The consensus is that the programmes and services are based on views of the service providers, not necessarily based on factual evidence of the client's needs. (Rogerson, 2001). In other words, training courses are not necessarily based on entrepreneurial attributes; they are broad-based and non-specific. This one-size-fits-all approach does not take into account that individual MSMEs are not all the same and have different needs. This was found to be ineffective for every company. Njiro and Compagnoni (2010) agree that the programmes must relate to the sector of the market the MSMEs are operating in as well as the circumstances they are in. Gibb (1997) argues that institutions and the trainers need to work towards developing a deeper understanding of the MSME in terms of its unique culture, values, environment,

business development process and stakeholder relationships. Consequently, programme design should be responsive to these demands and criteria. Masutha and Rogerson (2014) acknowledge the difficulty for big government institutions to achieve this customisation approach, and alternatively recommend a network of business incubators as a more viable option in targeting and nurturing small businesses in South Africa.

The majority of limited literature available points to the concept that short-term training is inadequate without follow-up. Loucks (1988) argues that no type of training programme would be sufficient in providing the range and depth of knowledge necessary to run a sustainable business. Prior research shows that SEDA's clients indicated a lack of ongoing support after the start-up phase left their businesses vulnerable and contributed towards not making it past the survival stages (Maluleke, 2013). However, mentorship and after-training services in South Africa have been found have a significantly positive impact on the development of MSMEs (Kent, Dennis & Tanton, 2003; Swanepoel, Strydom & Niewenhuizen, 2010). However, institutions typically find it difficult to organise these after-care programmes because they are less politically attractive than conventional training, and hence they struggle to receive adequate funding (Garavan & O'Cinneide, 1994). Furthermore, the after-care services are typically more expensive than training programmes as they require customization of training for the established entrepreneur (Garavan & O'Cinneide, 1994). Loucks (1988) argues that once business owners enter the real business world to implement their business plans, they will be put to the test and will often find limitations to their acquired skills. This is because training programmes are not able to adequately prepare trainees to handle certain situations, whereas hands-on mentorship can become beneficial. The United Nations (2007) credit the after-care services provided by Costa Rican Investment Promotion Agency (CINDE) for its continuous consultation with MSMEs on challenges post-funding. In turn, CINDE then reports any recurring or significant issues to the relevant stakeholders to prompt the implementation of corrective measures.

In terms of formalization, it has been found that many businesses struggle not only due to regulatory red tape, but due to uncoordinated support (International Finance Corporation, 2018). The IFC (2018) suggests that, in order to boost the ease of the formalization process, there should be one-stop-shops and technology-enabled business registration processes help these MSMEs.

There is a general perception in South Africa that government services and initiatives are less effective than that of the private sector. In terms of MSME intervention efforts, there is factual evidence that government-led services have been less effective than they originally envisaged (SBP, 2009). This has seemingly caused a lack of faith in MSMEs with regards to further government interventions that are aimed to improve and grow their business operations (Berry et al., 2002). Additionally, according to Monkman (2003), the failure of these DFI support institutions to raise general awareness about their existence and promote their services has amplified the issues of distrust amongst small businesses.

2.7 CHAPTER SUMMARY

This chapter summarized the theoretical and empirical evidence on the topic being studied. From the point of view of township-based businesses, literature covering the benefits and challenges associated with business development services is limited. There is, however, evidence that business development services can play a significant role in bolstering the development of small businesses. In fact, research goes as far as to say that micro-loans are entirely ineffective without it. However, the research clearly indicates that there are many challenges that may inhibit the potential positive impact of these institutions. Thus, it is imperative to investigate the perceived strengths and weaknesses of the system in order to work towards effective change.

CHAPTER 3

METHODOLOGY

3.1 INTRODUCTION

This chapter discusses the methodology employed in collecting data for the research. There are six subsections in this chapter, including the introductory section. The second section describes the nature and size of sample size of the population from which the sample was drawn. The third section describes the relevant research instruments utilized in administering and collecting the data. The last two sections explore the frameworks used in analysing the data, and an exploration on the validity and reliability of the findings.

3.2 RESEARCH APPROACH

The research design approach used in this study was qualitative research due to the research questions' exploratory nature. This is because it is the most comprehensive strategy to acquire data that is unobservable and ultimately unavailable. Furthermore, the research was able to be responsive to the specific local context of township-based businesses. The research question encompasses an interpretive philosophy and falls under the interpretivist research paradigm (Thanh & Thanh, 2015). A case study was conducted on 17 township-based MSMEs in South Africa through interview surveys with the owners of the firms over the telephone.

3.3 UNITS OF ANALYSIS AND SAMPLING

The units of analysis for the interview questionnaires is 17 township-based MSMEs located in South Africa. The interviewees were beneficiaries of DFI support services, such as SEDA. This primary data was collected using the sampling technique of ethnography i.e. 10-20 MSME owners were interviewed (Sim et al., 2018).

Jensen (2002) states that results of survey studies can only be implied when the sample is representative of the entire population from which they are drawn. All elements of the population must have an equal chance of being in the sample. Thus, the selection of MSME respondents must be selected at random in order to be representative. This sampling method is known as the probability sampling method. The first few candidates were chosen at random (from online articles, reviews, through acquaintances). From here, the second phase of sampling entailed snowball sampling (Stuwig & Stead, 2001). Struwig & Stead (2001) describe this as a

referral procedure whereby initial intervewees may suggest another potential interviewee to participate in the survey (Struwig & Stead, 2001).

However, finding township-based business owners that actually managed to secure a loan alongside development services was extremely difficult to find. One of the measures used included using a Khayelitsha-based consultancy service to network and find loan beneficiaries on my behalf. After 3 weeks, they could not find a candidate. After 3 months of searching, I secured 8 candidates through online searching and use of snowball sampling.

3.4 DATA COLLECTION PROCESS

The questions in the survey are semi-structured in order to get a broader and more personalised insight into the area of research. More open-ended questions allow the interviewee freedom from being pushed into constrained alternatives (Koboekae, 2012). Furthermore, avoidance of leading-questions, bias, indiscretion and repetition in the questions and the interviewer's delivery was avoided in order for the investigation to remain as objective as possible. Self-administered surveys have been used in the data collection process. In other words, respondents will be at different locations at different times when the surveys are filled out. After obtaining ethical clearance on 27th January 2021 from the university, telephonic interviews were conducted during the period February to March of 2021. The questions were open-ended in order to allow the respondents to answer in their own words, instead of giving the candidates a predetermined set of answer choices.

3.5 ANALYTICAL FRAMEWORK

Thematic analysis is a qualitative research method used for identifying, analysing, and reporting themes found within datasets (Braun & Clarke, 2006). As is generally the case with qualitative data, there is not one clear step-by-step method for thematic analysis. Instead, it is a rather reflective and iterative process that involves a continual back and forth between the phases (Nowell, Norris, White & Moules, 2017).

Once the surveys have been conducted, the researcher must familiarize themselves with the data before beginning the process of coding the data (Braun & Clarke, 2006). Coding is the initial step to structuring the data by identifying important sections of the survey responses, in order to index them as they relate to an issue (King, 2004). This phase is in place in order to spark ideas in the researcher and requires revisiting and reflection of the data.

Subsequently, content analysis is utilized in order to formally establish key trends and to ensure limited bias in the analysis of the interview's outcomes (Koboekae, 2012). This will ultimately determine the presence and frequency of words and or/themes in the answers. During this phase, inadequacies in the initial coding of themes will be revealed and they may need alterations (King, 2004). As emphasised by Braun and Clarke (2006), the requirement of recoding the dataset is presumed, as coding is an organic and ongoing process.

The last step involves quantifying and analysing the presence, meanings and relationships of the words and or/themes. Only then can inferences be made about the themes and their relative importance and ranking.

3.6 VALIDITY AND RELIABILITY OF THE FINDINGS

Adams et al. (2007), pointed out reliability and validity as the two essential criteria for evaluating the effectiveness of a measurement. This is especially important to ensure given the ambiguous nature of qualitative research. Validity refers to the precision and representativeness of the findings in relation to the data, while reliability concerns maintaining consistency within the analytical procedures (Noble & Smith, 2015). In order to maximise validity, three measures have been put in place for the pre-testing phase. For one, engagement with other researchers pre-interview was done in order to minimise potential research bias (Noble & Smith, 2015). Additionally, during the interview, meticulous record-keeping took place - and the interviews were recorded and transcribed – in order to ensure consistent interpretation of the data. Lastly, respondent validation was incorporated into the interview process whereby respondents were invited to comment on the transcript and provide feedback on whether the recorded findings accurately reflect their experiences and the phenomena being tested (Noble & Smith, 2015).

In terms of reliability, potential issues could come in at the stage of wording the questions and piloting the survey. The main measure that was taken to mitigate this issue was sending the survey questions to the research supervisor for verification before the sample population is surveyed. Sequentially, a pre-testing phase took place where the survey questions were asked to a group, similar to the sample being questioned, in order to identify errors or inconsistencies in the design elements of the survey.

CHAPTER 4

DISCUSSION OF FINDINGS

4.1 INTRODUCTION

This chapter will lay out the findings in line with the methodology discussed in Chapter 3. A summary of the sample's description is provided to show that the sample is representative of the greater population. Then the findings are broken down under two different categories: challenges and benefits. First the findings are split to their first-order dimensions, then second order themes and then finally their aggregate dimensions. The aggregate dimensions will represent the main themes of the challenges and benefits identified by the township-based MSME owners with regards to business development services.

4.2 DESCRIPTION OF THE SAMPLE

The description of the sample covered in the data collection described in chapter 3 is summarised in Tables 3 and 4. This sample consisted of 17 individuals, all of whom are township-based MSME owners in South Africa. Eight of these candidates received loan funding alongside development services/training.

Table 3: Characteristics of the sample

Characteristics of the sample	
Sample size	17
Loan beneficiaries	8
Number of women owners	5
BDS recipients pre-2014	10

Source: Researcher's estimate from study data

All 8 of the loan candidates' businesses fall under the 'formal business' category. Ten out of the 17 candidates received business development services prior to 2014. This was useful in evaluating potential trends and how the perceived challenges and benefits have changed over time. The businesses run by the business owners in this sample covered 6 industries, with the majority falling under the manufacturing, services provision, construction and retail categories. The businesses operated in 16 different townships across five provinces, with the most common region being Gauteng.

Table 4: Population representation

Population representation		*Description*
Provinces covered	5	*Gauteng, North West, Mpumalanga, Limpopo, Eastern Cape*
Townships covered	16	
Age range of candidates	21-37 years	
BDS providers	7	*SEDA, NYDA, Umsobomvu Youth Fund*
Outsourced BDS providers	3	*Mafihub, Furntech, Lovedale*
Time period studied	1996-2019	
Number of sectors covered	6	*Manufacturing, service provision, retail, agriculture, technology, construction*

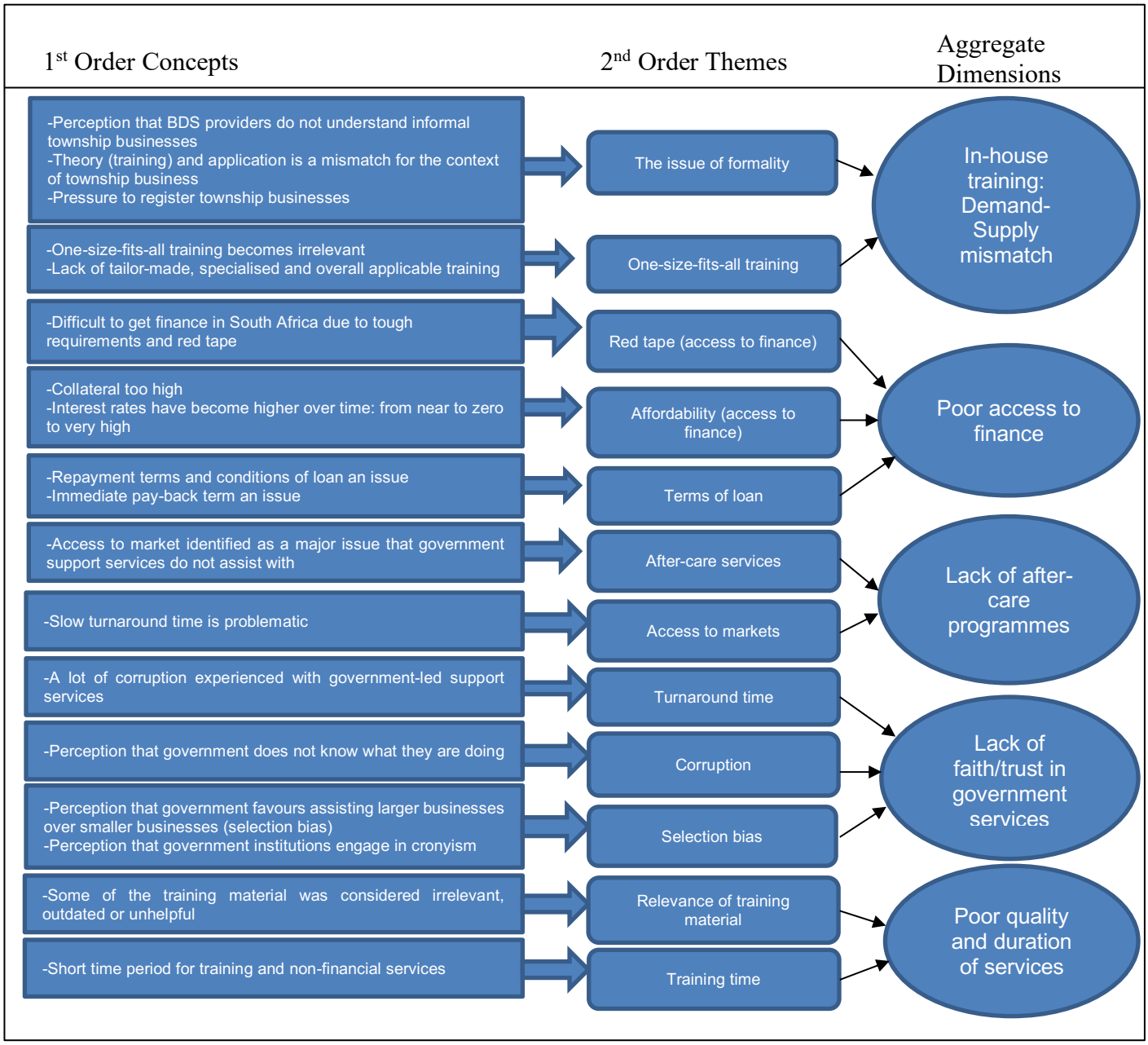
Source: Researcher's estimate from study data

In terms of service providers, most of the candidates were beneficiaries of SEDA and NYDA. Three of the candidates received their business development services from incubation centres that are affiliated to and outsourced by SEDA: namely, Mafihub (a technology hub), Furntech (an upholstery training centre) and Lovedale (an agricultural training centre).

4.3 THEMATIC FINDINGS: CHALLENGES WITH GOVERNMENT-LED BUSINESS DEVELOPMENT SERVICES

The thematic analysis of the response to the questions on challenges associated with government-led business development services for township-based MSMEs revealed five key challenges: demand-supply mismatch, poor access to finance, lack of aftercare programmes, lack of trust in government services, and poor quality and duration of services. The data structure showing the flow from condensed response (first order concepts) to aggregate themes are presented in Figure 3.

FIGURE 3: DATA STRUCTURE: THE CHALLENGES



Source: Author's design from research adapted from Corley and Gioia (2004)

4.3.1 Demand-supply mismatch

4.3.1.1 The issue of formality

With most township businesses being informal, many of the business owners brought up the issue of formality in the context of business development services. Often, to even be acknowledged by BDS organisations, you need to be registered. Or, you need to register with

help from the organisation which was said to be a very time-consuming and drawn-out process. Interviewee 10 needed to register just to qualify for a website voucher from the NYDA. Many interviewees asserted that the theory and practice are different models in a township context: governmental institutions *"try to teach the formal economy to the informal sector"* (Interviewee 1). According to their experiences, the business development services emphasise things like offtake agreements and contracts, which are processes that simply do not hold value in the township setup. Instead, things like building relationships and trust between business owners is more valuable. There is too much uncertainty and hesitation in the market to sign contracts in townships. It is as if the organisations are *"trying to take off a tyre with a screwdriver"* (Interviewee 5).

"We seem to think that every business must be formalised, but some businesses just would not cope in the formal sector. They are not like that, you know, we've had the taxi industry for years and years, and trying to formalise them would confuse the whole thing." (Interviewee 15). According to their experience with BDS, Interviewee 15 believes that government institutions do not know how to help the informal sector and are stuck in the former academic way of thinking. Furthermore, many candidates proclaimed that the pressure to formalise strangles these small township businesses in terms of costs. In order to register, you need your business documents in order, which in itself requires funding. According to Interviewee 13, this becomes a "*bottleneck to registration"*. Once registered, you need to comply with SARS, you need to be on CSD and you must do your annual returns with CIPC – all costs before you have received any revenue. Interviewee 15 refers to this as *"at least four red tape systems"* to clear.

4.3.1.2 One-size-fits-all training

Another theme that arose from the candidates was the consensus that the training programmes do not take into account the differing needs of the MSME owners arising from their unique business operations and needs. This is an element that was said to render the BDS exercise ineffective. This theme is in line with literature by Monkman (2003) and NSRA (2010) who criticise South African enterprise support programmes for being overly supply-driven and taking a generalist approach to development. Instead of supplying BDS that is needed by township entrepreneurs, *"they come up with programmes around what they think will help business people"* (Interviewee 17). Interviewee 15 proclaimed that even if the beneficiary business does not necessarily need a website, they will provide them with a website *"because*

it's a package that government offers" (Interviewee 15). Instead of tailor-making marketing material for individual businesses, they provide a mass of standardised products.

In terms of actual training, Interviewee 13 stated that instead of working with skills that respective business owners already have a foundation in, they will be trained about a sector that is totally new and different. Interviewee 13 expressed that BDS providers *"take someone that that can cook and say to this person, let me teach you about construction"* instead of enhancing what they already have experience in. This ties in with Njiro and Compagnoni's (2010) stance that programmes must focus on the circumstances and skills that the MSME is working with. In another account, a BDS provider gave a R50,000 grant that could only be used on machinery to a home textile manufacturing business owner. The candidate expressed that this was completely unhelpful, as their line of work uses a lot of stock (material), and so the *"machinery just sits in the office and does nothing"* (Interviewee 17).

4.3.2 Poor access to finance: red tape, affordability and terms of the loan

According to 8 out of the 17 interviewees, the consensus was that access to finance is a major issue for these small business owners. One highly esteemed and well-connected township entrepreneur expressed that *"I don't know anybody in my circle of network of entrepreneurs that have actually got money from SEFA"* (Interviewee 6). The candidates mostly referred to the issues of red tape and affordability being the major constraints to accessing loans from these government agencies and institutions. Interviewee 6, whose loan application was rejected, stated that *"the conditions are very strict and close to impossible for small [township] businesses"*. Interviewee 17 has been trying to get a loan for four years without any luck, and their experience regarding to barriers to finance included *"all sorts of things from affordability to not having assets. They just come up with tons and tons of excuses to make the loans inaccessible"*. Interviewee 12 emphasised that the security requirements were much too high for them. However, they raised the funding and still got turned away. Interviewee 12 stated *"you go out there you hustle for it. You get it, still they don't grant it"*.

Almost half of the interview candidates (7) had received a loan from government institutions alongside receiving BDS, while the other portion of the candidates did not receive a loan. Of those who did receive loans, all brought up the issue of interest rates. The candidates who received loans pre-2014 from NYDA expressed having extremely low interest rates, helping the affordability aspect of repayment. The more recent beneficiaries of loans, however, mostly

stated that interest rates were too high. Many of these beneficiaries also complained about loan terms and conditions being too harsh. Interviewee 8 expressed that they struggled with having to start paying instalments immediately without having the used the money *"to work for itself"*. They expressed that they would have needed approximately three months' grace period.

4.3.3 Lack of after-care programmes

4.3.3.1 Lack of after-care services

Of all the candidates that had emphasised the need for after-care services, only two actually received the services and both occasions were pre-2014. These after-care services mainly included mentorship. In line with the research on SEDA by Maluleke (2013), most of the candidates interviewed expressed that there is currently a lack of follow-up and mentorship after the BDS programmes. Interviewee 1 experienced that after receiving development services and taking out the loan, *"the only follow up is the credit office"*. The two candidates that did receive mentorship in the past commended the after-care services from NYDA and expressed that the follow-ups by the mentors were both ongoing and helpful. Both candidates found that they were able to expand their business and employ more people prior to training.

All but one of the recent beneficiaries (post-2014) was left without any after-care support. Interviewee 13 experienced that there is no accountability with checking up on the entrepreneur. They went on to exclaim that they believe that without the after-care, the entire enterprise development programme becomes a futile exercise: *"At the end of the day, they can claim that they trained 100 people. But there's no monitoring, therefore there's no development… Whether those people can use the training to uplift themselves or not, it becomes irrelevant to [the BDS providers]"*. Interviewee 16 expressed that post-training, they felt they needed support in terms of getting things rolling. However, they expressed they were left entirely on their own.

4.3.3.2 Access to market

Many of the candidates complained that BDS providers do not enable networking opportunities post-training. Most of the business owners brought up the topic of access to market, and how they struggle to enter the market post-training. Interviewee 11 expressed that he/she wanted NYDA to utilise their database of contacts and procurement services to help township businesses with access to market.

4.3.4 Lack of trust in government services

Another theme that emerged from the interviewees was an overall lack of trust and confidence in government-led services: an issue previously raised by Berry et al. (2002). A major concern that arose included perceptions of corruption and consequently, selection bias when it comes to accessing the enterprise services and funding. According to Interviewee 5, *"big business got most of the assistance than us small businesses".* This criticism is in line with the findings from the studies conducted by the World Bank (2010) and Rogerson and Rogerson (2013). It was also expressed that connections and cronyism determine who qualifies for funding and benefits. Interviewee 15 experienced this in terms of grants: *"it's the who-and-who who get [the grants]. And if you are unknown, you will be told funding has finished".*

Another prominent frustration was that of turnaround time when it comes to government-led institutions and agencies. The candidates experienced a long wait time in terms of applications to the programmes, funding, actual services and generally hearing back from the organisations. Interviewee 10 expressed *"If you rely too much on [NYDA] you're going to waste your time. Just put them halfway, they will put you halfway, you will go far."* Interviewee 13 was discouraged after applying for a loan with SEFA as they did not hear back from them for a while, expressing their perception that *"they don't know what they're doing"*. Several recipients further expressed their frustration with the lack of clarity and awareness around the services offered and their accompanying requirements. Interviewee 5 stated that SEDA should do more in terms of *"promoting their products so that we're fully aware of the requirements".* This concern is shared by Monkman (2003), who stated that the failure of DFI support services to raise general awareness about their services amplifies the levels of distrust.

4.3.5 Poor duration and quality of services

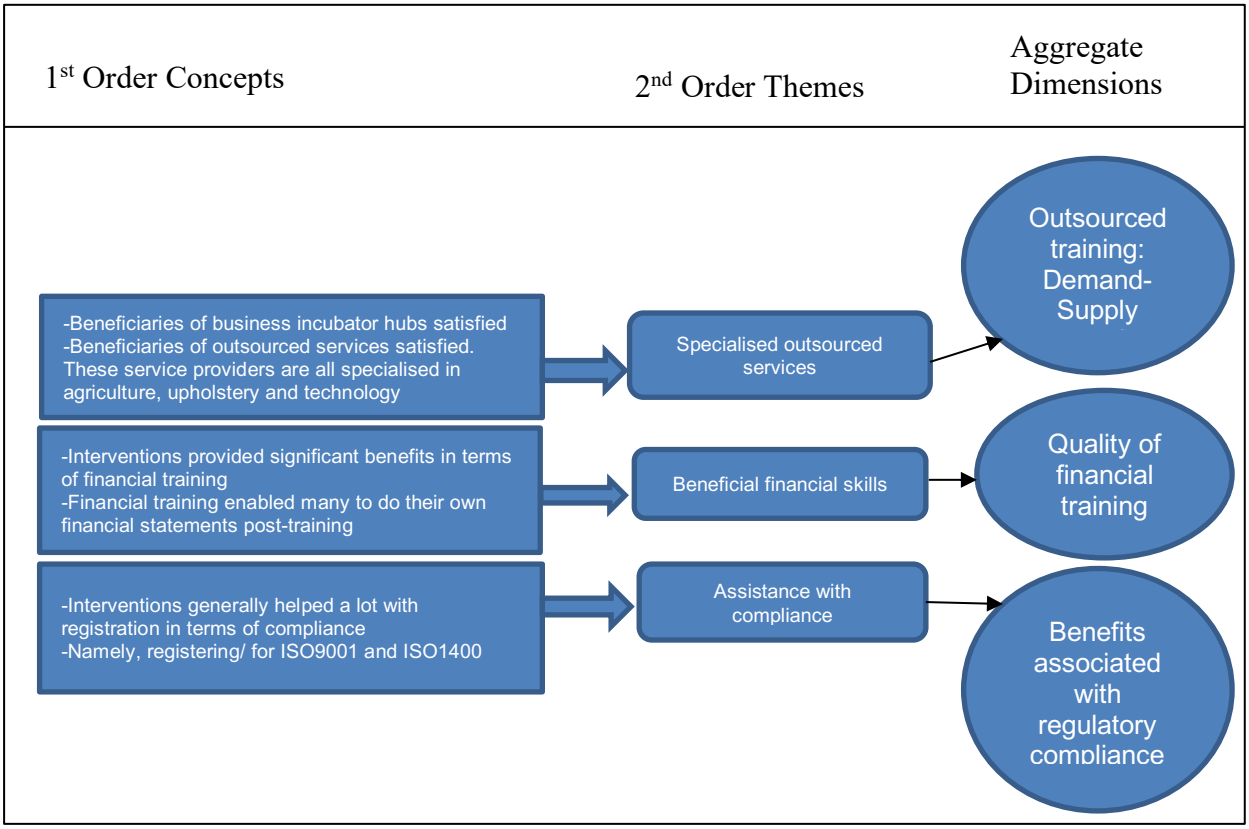
Of all of the respondents that were satisfied overall with the services they received, all but one correlated to having interventions over the course of one or more years. Most of the respondents that were dissatisfied expressed that their training period was much too short. A short training period was the main theme across the respondents. Interviewee 1 expressed "*It was not many [days] at the training, So, it would be five days training, a day training, two day's training.".* Interviewee 3 expressed that, although his upholstery training was beneficial, it was not enough to uplift his business. He needed to acquire level 3 training which the government agency expressed they could not help him with due to funding constraints.

In terms of quality, a sub-theme that emerged related to outdated/irrelevant training material for recipients of large government organisations. Interviewee 4 stated *"The marketing material didn't really help me that much. It was just something it's fancy: things like your banners, your lanyards and rubber-bands."*

4.4 THEMATIC FINDINGS: THE BENEFITS OF GOVERNMENT-LED BUSINESS DEVELOPMENT SERVICES

The results of the thematic analysis also identified three key benefits associated with challenges associated with government-led business development services for township-based MSMEs : demand-supply match (outsourced training), quality of financial services and benefits associated with regulatory compliance. The data structure showing the flow from condensed response (first order concepts) to aggregate themes is presented in Figure 4.

FIGURE 4: DATA STRUCTURE: THE BENEFITS



Source: Author's design from research adapted from Corley and Gioia (2004)

4.4.1 Outsourced training: Demand-supply match

The candidates who utilised enterprise services that were outsourced from SEDA were all satisfied with the training provided. These outsourced service providers included business

incubation hubs, and specialised enterprise service providers (specifically, including upholstery, agricultural and technology hubs). Recipients of these services were satisfied with their service quality and found the material to be relevant and useful to their firm.

4.4.2 Quality of financial training

In contrast to findings by NSRA (2010), the quality of the financial training in particular was seen to be beneficial across the board. Interviewee 5 experienced that SEDA helped a lot in terms of financial clean-up: *"SEDA actually structured our financial management system where we are now able to get financial reports at the end of the year, or find financial statements that we are able to present to the bank"*. They expressed that the financial clean-up was *"the most valuable intervention from [SEDA's] side"*. Interviewee 10 expressed that the financial training has saved them the cost of an accountant/auditor: *"Even now, I can do my own financial statements. I don't have to wait for anybody else."*

4.4.3 Benefits associated with regulatory compliance

Another theme that emerged amongst the candidates was that the enterprise development services helped a lot with compliance. The registration processes, of which ISO9001 and ISO1400 are mentioned, has been said to be very daunting and requires a lot of documents and costs which in many of the cases, needed to be dealt with before the businesses could operate. SEDA would do the registration processes on behalf of the owners, which was expressed to have really helped their businesses. Interviewee 11 expressed that the compliance obtained helped them to secure a contract for a project with a government department.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

In this chapter, the final summaries and conclusions will be drawn. Then, the appropriate policy recommendations will be proposed in order to address the challenges and capitalise on the benefits of these enterprise development services.

5.2 SUMMARY AND CONCLUSIONS

The purpose of the study was to understand the challenges and benefits related to DFI business development services from the township-based business's perspective. Evidently, there were many more challenges than benefits that arose when analysing interview responses. Drawing from the findings above, it is evident that these services are lacking in terms of after-care support. A large amount of MSMEs do not have access to long-term support in the form of mentorship, guidance or any sort of assistance with market access. Given that after-care is vital in supporting MSME's long-term sustainability, the lack of these programmes is a huge threat to the MSME's survival. Furthermore, DFIs such as SEDA have a mandate to promote access to market and overall MSME development in South Africa, which ultimately means by failing to provide these services, they are not meeting their mandate.

In terms of meeting MSME needs, it is evident that DFIs such as SEDA and NYDA are missing the mark. There was no evidence that the training programmes provided any sort of targeted or sector-specific training to the business owners. The only cases where specialised/sector-specific training took place was when the training was either outsourced to smaller enterprise service providers or with a smaller business incubator. Moreover, BDS providers are not catering to the needs of informal businesses. The evidence suggests that their training, programmes and approach to development services do not take into account the informality aspect of the businesses nor the township-specific economy.

Another challenge addressed is the short duration of the training. Considering the lack of skills and undereducated population within the township area, the knowledge that the programme is

meant to impart and the complexity of the task of running a small business successfully: a couple of days is far too short to make any meaningful impact on the MSME in question. Furthermore, the quality of marketing material – being outdated and at times irrelevant – amplifies the need for the BDS providers to consult with the MSMEs before rendering unhelpful services.

The challenge of lack of faith in government services is a complex one to solve. However, it is important to address it, as it creates a barrier to further intervene and potentially lead to MSME development. Corruption, selection bias and slow turnaround time were identified as the main challenges under this category. Corruption and red tape in many of these support institutions makes the administration process for both training and lending a cumbersome one. An equally complex challenge identified is that of poor access to finance. In terms of the red tape, affordability and terms of loans, access to finance plays a large part in hindering MSME growth in South Africa.

It must be noted that, on average, the benefits of DFIs have decreased whilst the challenges have simultaneously increased over time. Issues of unaffordable, high interest rates on loans are only a recent challenge identified by these firms, as the charge used to be next to zero. There was an abundance of mentorship with pre-2014 beneficiaries, and many of the candidates were satisfied with their services overall. Most accredited significant growth to the assistance of these government-led interventions.

On the positive side, there were significant benefits noted by the business owners. For one, the quality and benefits reaped from financial training is recognised across the board. Although a non-specific skill, it is an imperative and invaluable one for the running of any business, and is especially lacking in the township context. Long-term development was noted in the aspect of being able to supply banks with financial statements without the assistance of an accountant.

In terms of regulatory compliance, the government service providers were credited for assisting with what can be a cumbersome and lengthy process. The construction company owners interviewed in this study identified the advantages of gaining compliance through the agencies, enabling them to operate on a larger scale and land significant contracts with government and the likes.

5.3 POLICY IMPLICATIONS AND RECOMMENDATIONS

The challenges faced by township MSMEs when using government services have considerable negative consequences on their development. It is imperative for these state institutions to channel and focus on their current strengths, whilst simultaneously working on cost-effectively improving on their weaknesses.

For one, government institutions should focus on outsourcing to more of the specialised and sector-specific incubation hubs rather than utilising inhouse training in order to eliminate the current demand-supply mismatch. These hubs are more personalised and enable businesses to receive more customized services. Furthermore, organisations like SEDA and NYDA should outsource training to specialised township-based incubation hubs, where trainers understand the township economy and all of the contextual intricacies of operating in an informal environment. As a positive result, this will also eliminate commuting costs and time for the business owners, making the services more attractive.

Looking to Brazil as a benchmark, South Africa should look for more involvement for incubation by universities such as UCT's Solutions Space, as well as company research arms and private business consultants (Timm, 2011). Other important lessons to learn from Brazil in terms of incubation include top-down incubation supportive policies, other innovative funding models (such as the enterprise development code from BEE) and the notion that incubators must adopt monitoring systems to report on their impact.

Annually, online surveys should be sent out in bulk to township-based business owners in order to collect updated data on what exactly is needed by the business owners in this space. This will allow for consistent updating and reviewing of the relevance of material in a township context. Furthermore, it will aid in lessening the supply-driven training material.

In the case of informal township businesses, instead of the pressure to formalise, there should be a focus on the creation of a modernising informal sector, as explained by Mahajan (2014). The strategy should involve capitalising on the comparative advantages of the township economy (the abundance of affordable labour, more affordable land space and a potential customer base that is largely still untapped) by strengthening the linkages and integration with the formal urban sector. With the right BDS support, this will boost their viability and these businesses will be in a position where they can either compliment or compete with the formal

economy. This holds significant potential for township business expansion and contribution toward the country's growth.

Additionally, alternative funding options should be promoted by the DFIs. As an example, support organisations could promote crowdfunding between the beneficiary small businesses and promote the supporting of one another's businesses.

Consultation prior to training is an imperative aspect in terms of understanding the needs of the business and the time frame needing to be allocated. Although this may initially be costly, it saves the wasteful expenditure on unwanted resources. To be more cost-effective, online or telephonic consultations can be administered.

In terms of mentorship, the organisations can provide mentorship in clusters. These MSME clusters should be based among firms in a shared geographic region that share something in common, such as products, processes, technologies or distribution channels. Creating such clusters of MSMEs would be helpful in saving costs. It will also create benefits in terms of inter-business co-operation and networking. This may lead to a well-developed network of suppliers and buyers, reducing costs and ultimately promoting economies of scale. This will, in turn, improve the competitiveness of MSMEs and access to market. Another option for mentorship is that it can be provided by ex-beneficiaries from the same sector on a volunteer basis: building on the theme of networking and co-operation. The idea is to create an alumni network.

Business development government institutions should utilise their database of MSMEs to procure products and services across their supply chains. In other words, the government should support the businesses of their beneficiaries, promoting a form of market access. In Brazil, legislation requires that certain government contracts must be set aside for small businesses (Timm, 2011). Currently, South Africa has some local and provincial governments that have set aside targets for purchasing from small businesses (40% for the City of Cape Town, for example). However, these are merely targets that are not backed up by any legislation (Timm, 2011). South Korea and Australia found that developing e-procurement systems was successful in getting more small businesses into public procurement. These e-procurement systems brought down the bidding costs and made tendering more accessible.

Furthermore, government institutions should do more to advertise and promote their products and services available. Hosting roadshows in the townships is important. It is vital that the organisations advertise and communicate the benefits that can be gained, and explicitly state the requirements needed in order to register for training or funding. This open dialogue and promotion of activities could, in turn, create a foundation of trust and faith in government-led interventions.

Ultimately, the convergence of loan-provider and development-service-provider to one single institution (i.e. the integrated model) would be an ideal solution. This is because it will increase the level of collaboration between the institutions and allow for the ease of simultaneous performance and credit monitoring, allowing for performance-based loans for example. At the very least, if not integrated, they should lessen the disconnect between institutions like SEDA and SEFA.

Government should also utilise PPPs in the business development space. In Tunisia, the Tunisian Start-up Act is a conducive legal framework and initiative to create a favourable legal framework and ecosystem for start-ups. Smart Capital, the organisation in charge of administering the Act, is privately managed, although there is public shareholding. Smart Capital works with the Ministry of Communication Technologies and Digital Economy and Minister of Finance, exampling coordination and collaboration between all parties. By handing over administration of the Act to the private sector, it has said to save the Act from issues including bureaucracy and inefficiencies that plague most government agencies across Africa.

There are additional lessons that South Africa can learn from Brazil, as the countries have similar development and equality issues (Timm, 2011). Brazil's president set out policies in their overarching development plan called Plano Plurianual (Moraes, de Camargo Neto, Orellana, & Menezes, 2020). These policies are driven by measurable targets that are backed by recent laws. These measurable targets include number of loans given to MSMEs, amount of finance given to MSMEs, the amount of MSMEs that received after-care programmes etc. Regular reviews are undertaken to make sure that MSMEs are being supported according to set targets.

In terms of a broader level recommendation, South Africa should adopt a significant and ongoing entrepreneurship campaign that targets all levels of the community. Their target market

should include learners at schools all the way up to existing entrepreneurs. As in Brazil, South Africa's long-term planning in terms of economic ownership should shift focus from wage-based employment to a more entrepreneurial-based system. Global Entrepreneurship Week encourages aspiring entrepreneurs to engage in activities pertaining to entrepreneurship for seven days (Moraes et al., 2020). Brazil's entrepreneurship campaign, hosted by Endeavor Brazil, has been highly successful and attracted over 1.4 million participants in 2009 (Timm, 2011). It is imperative to build confidence and promote the idea that entrepreneurship is a viable career path of choice amongst South Africans, where entrepreneurial spirit is considerably low.

Lastly, effective monitoring systems must be put in place by government. Both Brazil and India's governments have effective monitoring systems in place for their business development service organisations and programmes (Timm, 2011). Although the DTI does carry out reviews on programmes, the government should implement an IT system which can be used to monitor lending, clusters and performance in real time. This will help government identify problems quickly, and to monitor whether actual impact is on track with the goals set out in the planned policies.

5.4 Avenue for Future Studies

There is no doubt that collecting primary data during the COVID-19 pandemic posed many challenges, and certainly limited the amount of data points that could be obtained for this study. Furthermore, this topic related to very sensitive information (especially the loans element) which was not a topic many candidates were open to speaking about over the phone, regardless of any non-disclosure agreement. I decided not to go the route of obtaining beneficiary contact details from the DFI organisations themselves because of the concern that the list of candidates they would give me might skew the data in favour of the DFIs. In other words, they might have been inclined to give me contacts of township MSME success stories in order for the data to reflect well on themselves. In a non-COVID world, I would have rather attended SEDA, NYDA and other functions to meet and secure potential candidates in person.

This study aimed to get a broad oversight on the benefits and challenges associated with using DFI services according to the township business owner. The selection of township business owners was randomized, other than the intentional collection of the data of 7 business owners who managed to obtain a loan. Although factors such as the type of DFI, the MSME's operating area and business segment were all taken into account when identifying all the themes.

In terms of further research, the service-providers' point of view could be taken into account, as this study would be more holistic in getting both demand- and supply-sided information. Furthermore, there is opportunity for studying the feasibility of adopting improvements and strategies (such as the ones outlined in the recommendations) in the South African setting.

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ANNEXURE A: Survey Questions

Questionnaire Survey
Development Finance Centre (DEFIC), Graduate School of Business
University of Cape Town

Participant name:……

I volunteer to participate in a research project conducted by Tayla Thomas as partial fulfilment of the requirements for the **MCom Development Finance Degree** at the Graduate School of Business. I understand that the research is designed to gather information about: **The micro-finance paradox: owing or growing? Investigating the true impact of BDSs on township-based MSME performance in South Africa** and that I will be one of approximately 30 of people being interviewed for this research.

Background and purpose of the research

The results of this paper should provide new, first-hand insight how DFI support services impact the performance of township-based MSMEs. With small businesses ultimately being the engine of growth for South Africa's economy, and the township economy's immense entrepreneurial potential, it is imperative to investigate what it is that hinders the growth of these MSMEs. This research will provide clarity as to which channels the DFI support services should focus on with regard to township MSMEs.

DFI support services are not a one-size-fits-all prototype, and it is important that it is tailored to fit the needs of the township economy. The challenge is to provide solutions for both the DFIs and the township-based MSMEs in a landscape of complex social inequality, in order to align both of their interests. The results of this study will benefit both DFI practitioners, donors and policy makers within South Africa at large.

Ethics approval

Ethical consent for the study has been approved by the *GSB Ethics in Research Committee*. The ethical clearance was approved on 27th January 2021.

Participation and confidentiality

I understand that my participation in this research is voluntary, that I will not be compensated and that I may withdraw at any time. The interview will take approximately 30-45 minutes to complete and will be audio recorded.

I understand that I will not be identified by name in any reports using information obtained from this interview and that my confidentiality as a participant in this study will remain secure. Subsequent uses of records and data will be subject to standard data use policies which protect the anonymity of individuals and institutions.

Should you have any questions or concerns please contact me on +2769789595 or thmtay002@myuct.ac.za

Consent

I consent to participate in this interview, based on the terms outlined above and subject to the following additional condition of my own (if any).

---------- **----------**

Agreed by interviewee **Date**

…….. **…….**

Read by Student **Date**

1. Type of ownership of business?
2. Gender of owner/s:?
3. Age of owner?
4. Type of business (in terms of your main business activity)?
5. When was your business established?
6. Which township/s does your business operate in?
7. Would you still be running this business if you could sustain employment elsewhere with the same pay? Y/N
8. Which organization's enterprise services did you utilize?
9. Did you obtain a grant?
10. Did you obtain a loan?
    a. If so, what was the classification of the loan?
    b. Amount taken out?
    c. Length/term of loan?
    d. Interest charge? (And any other charges above interest?)
    e. Primary reason for loan

11. What was the form of non-financial assistance obtained from the organisation? For example, loan mentoring/monitoring, business and tech support, business planning and/or financial training?

12. When did you use the BDS services?

13. How long was the training?

14. What was your experience in terms of the services provided? (i.e. any potential benefits, challenges)

15. What was your experience in terms of funding? (i.e. any potential benefits, challenges)