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FINANCING CONSTRAINTS FACING SMALL ENTERPRISES IN THE PRETORIA CENTRAL BUSINESS DISTRICT

by

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DECLARATION

I, Nyiko Sehlangu (student number 212074489), hereby declare that I am aware of the Tshwane University of Technology's plagiarism policy and what it implies. I certify that this study's topic is entirely original. Any time that someone else's work (either from a source that is printed, on the Internet, or any other type of source) was used, it was cited properly and in accordance with departmental guidelines. I did not copy and paste any data into this document from a digital source (such as a web page, an electronic journal article, etc.). I present this thesis as my own work and did not use any of another student's earlier work.

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2024/06/02

Submission approved by:

Prof. Mulatu Fekadu Zerihun (PhD, DBA)

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Signature and date: _____

2024/06/02

DEDICATION

I dedicate this excellent work to my Lord and my God, Jesus Christ, who has given me strength, courage, and wisdom to start and complete this value-adding research project. This is also dedicated to my family, friends, and the City of Tshwane.

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ABSTRACT

Small enterprises (SEs) are not able to grow effectively due to inadequate financial support from both financial institutions and the government of South Africa. Various financial institutions continuously reject loan applications from SEs due to a lack of collateral, lack of financial literacy, poor managerial skills, insufficient own capital, and government regulations. SEs contribute significantly towards employment and economic growth, yet few studies have examined the financing constraints faced by SEs. This study aimed to identify the financing constraints that prevent small enterprises (SEs) from accessing loans through financial institutions, and to provide guidelines and strategies to improving small business loan accessibility. A mixed-methods research approach, which involved qualitative and quantitative methods, was used to draw conclusions from the collected data. Qualitative analysis through Directed Content Analysis (DCA) was used to analyse and interpret textual data, which was sourced from existing literature, whereas quantitative analysis through descriptive and inferential analyses, utilising data drawn from questionnaires, were used to categorise, organise, analyse, and interpret the collected primary data. The collection and analysis of data were only limited to SEs in the Pretoria CBD, South Africa. The study found that lack of collateral, regulations, and lack of business management skills constrain SEs from accessing finance from financial institutions and government agencies. The study recommends the implementation of a collateral register, the reduction of compliance requirements, credit extension incentives to financial institutions, awareness programmes, and business management training programmes for SEs to improve their access to finance. These recommendations will assist SEs to acquire the required skills, capacity, business, and regulatory compliance. The recommended solutions will reduce barriers associated with access to business loans

for SEs, enable SEs to source financing from financial institutions, which will consequently lead to business growth and sustainability.

Keywords: entrepreneurship, small enterprises, financing constraints, financial institutions, Pretoria CBD

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LIST OF ABBREVIATIONS

AltX	*Alternative Exchange*
B-BBEE	*Broad-Based Black Economic Empowerment*
BEE	*Black Economic Empowerment*
BER	*Bureau for Economic Research*
CBD	*Central business district*
COVID-19	*Coronavirus disease of 2019*
DCA	*Directed content analysis*
DPME	*Department of Planning, Monitoring and Evaluation*
DSBD	*Department of Small Business Development*
ERF	*Economic Research Forum*
ERRP	*Economic Reconstruction Recovery Plan*
GDP	*Gross domestic product*
OECD	*Organisation for Economic Co-operation and Development*
POPI	*Protection of Personal Information [Act]*
SARS	*South African Revenue Service*
SE	*Small enterprise*
SEFA	*Small Enterprise Finance Agency*
SME	*Small and medium enterprise*
SMME	*Small, medium and micro enterprise*
Stats SA	*Statistics South Africa*
UNCTAD	*United Nations Trade and Development*
USA	*United States of America*
USAID	*United States Agency for International Development*
VAT	*Value-added tax*

CHAPTER 1:

INTRODUCTION AND CONCEPTUAL FRAMEWORK

1.1 INTRODUCTION AND BACKGROUND OF THE STUDY

South Africa is characterised by high levels of unemployment (Dladla, 2021:60), with an unemployment rate of 33.6%. The total unemployment rate increases to 44% when including discouraged workers (Statistics South Africa [Stats SA], 2022). The South African economy has been experiencing stagnation, and is recorded to be in the worst recession relative to a decade ago (Nguyen & Nguyen, 2021:15). High levels of unemployment and slow economic growth can be addressed by encouraging the growth and sustainability of small enterprises (SEs) (Mago & Modiba, 2022:6). In South Africa, SEs have been reported to be key role players in job creation and economic growth (Mutezo, 2005:1). SEs employ a large portion of the labour force in the country and contribute substantially to the economy's gross domestic product (GDP) each year (Ndou, 2010:1). The South African government continues to acknowledge the importance of SEs towards economic growth, employment, and poverty alleviation (Bhorat *et al*., 2018:47). Even with government endorsement, SEs do not receive financial support from financial institutions to help finance business operating costs and capacity expansion (Organisation for Economic Co-operation and Development [OECD], 2022:1). SEs often do not meet the credit requirements set by financial institutions (Abdisa & Hawitibo, 2021:4). In the broad literature, it has been widely agreed that in order to improve their creditworthiness, SEs need to acquire financial management skills and management capabilities (Mutezo, 2005:94; Agwa-Ejon & Mbohwa, 2015:1). This study only examined aspects that limit SEs' access to

finance to enable the researcher to comprehend limitations that prevent SEs from accessing business loans.

This study adopted the definition of SEs as rendered by the Department of Small Business Development (DSBD, 2019), which defines SEs according to full-time employees and total annual turnover. Accordingly, an SE does not employ more than 250 permanent employees and it makes less than R220 million annual turnover (DSBD, 2019).

To reduce financial constraints in order to allow and assist SEs to access funding, the study utilised various theoretical frameworks. These include the theory of small business borrowing and control and theories of change. The theory of small business borrowing and control postulates that SEs face a trade-off between borrowing money from banks, which in turn reduces their independence, and not borrowing at all, which in turn constrains their revenue growth but retains their business independence. In addition, this study used the theories of change, which advocate for the growth of SEs (United States Agency for International Development [USAID], 2019:2). A mixed-methods approach, where both qualitative and quantitative analysis are used, was adopted for this research. Directed content analysis (DCA) was used for qualitative analysis of existing literature. Questionnaires were designed and distributed to SEs in the Pretoria central business district (CBD), and descriptive analysis was used for quantitative data analysis.

The motivation for this study was to recommend solutions to alleviate financing constraints that prevent SEs from gaining access to finance. The purpose of this study was to identify financing constraints facing SEs in the Pretoria CBD and to suggest policy recommendations that will reduce financing constraints in order to facilitate

growth and sustainability among SEs. This study found that lack of collateral, lack of business management skills, and regulations constrain SEs from accessing finance from financial institutions and government agencies. The study also found that SEs are not benefitting from existing government initiatives aimed at assisting small, medium, and micro enterprises (SMMEs) to access financing. More medium-sized enterprises have been accessing finance from existing initiatives than SEs.

The contribution of this study involves investigating the limitations that prevent SEs from gaining access to financing. If the extent to which limitations that affect the financing of SEs are established, guidelines that will lead to SEs gaining increased access to financing can be recommended. These recommendations involve the reduction of compliance requirements, the implementation of a collateral register, awareness programmes, credit extension incentives to financial institutions, and business management training programmes for SEs to gain more access to finance. These recommendations are aimed at assisting SEs to acquire the required skills, capacity, business, and regulatory compliance, which will in turn enable SEs to source financing from financial institutions, which will lead to business growth and sustainability.

1.2 PROBLEM STATEMENT

South Africa is reported to have one of the lowest successful SE creation rates in the world (Bureau for Economic Research [BER], 2016:18). On average, more than half of SEs fail in their first year of existence, and many of the survivors only remain for the following five years, and very few continue to exist beyond five years (OECD, 2022). SEs fail because the financial sector does not provide adequate financing to SEs (Cameron & Hoque, 2017).

SEs in the City of Tshwane are faced with constraints that prevent them from accessing financing from financial institutions (Mutezo, 2005:3). The lack of collateral, entrepreneurial skills, and management capabilities has been cited to be among the main inhibitors of acquiring financing (Agwa-Ejon & Mbohwa, 2015:1). Without business financing, SEs have poor prospects of achieving sustainable growth (Mago & Modiba, 2022:15).

Studies, such as by Worku (2013:10; 2015:6), Scheers (2014:4), Nyugen (2017), and Santos *et al*. (2021), have explored how the lack of access to financing impairs SE growth. However, these studies did not particularly focus on factors that prevent SEs from acquiring finance. This study explored aspects that impede SEs' access to finance. Given the importance of unlocking access to finance for SEs, there is a need to explore the financing limitations that prevent SEs from securing funds, which constrains their growth and effectiveness. As a result, recommendations that will assist in developing and suggesting policy measures and guidelines, which will enhance SEs' access to financing, are provided by this study.

1.3 RESEARCH OBJECTIVES

The study's research objectives are presented below

1.3.1 Primary objective

The primary objective of this study is to identify the financing constraints that prevent small enterprises (SEs) from accessing loans through financial institutions.

1.3.2 Specific objectives

The study pursued the following specific objectives:

- To determine the specific evaluation criteria used by financial institutions for small enterprise loan applications.
- To identify the barriers within these criteria that hinder SEs from securing financing.
- To develop guidelines and strategies for improving small business loan accessibility through financial institutions.

1.4 RESEARCH QUESTIONS

The following research questions guide this study:

- What are the specific evaluation criteria used by financial institutions for small business loan applications?
- What barriers within these criteria prevent SEs from securing financing?
- What guidelines and strategies can be developed to improve the accessibility of loans for small enterprises through financial institutions?

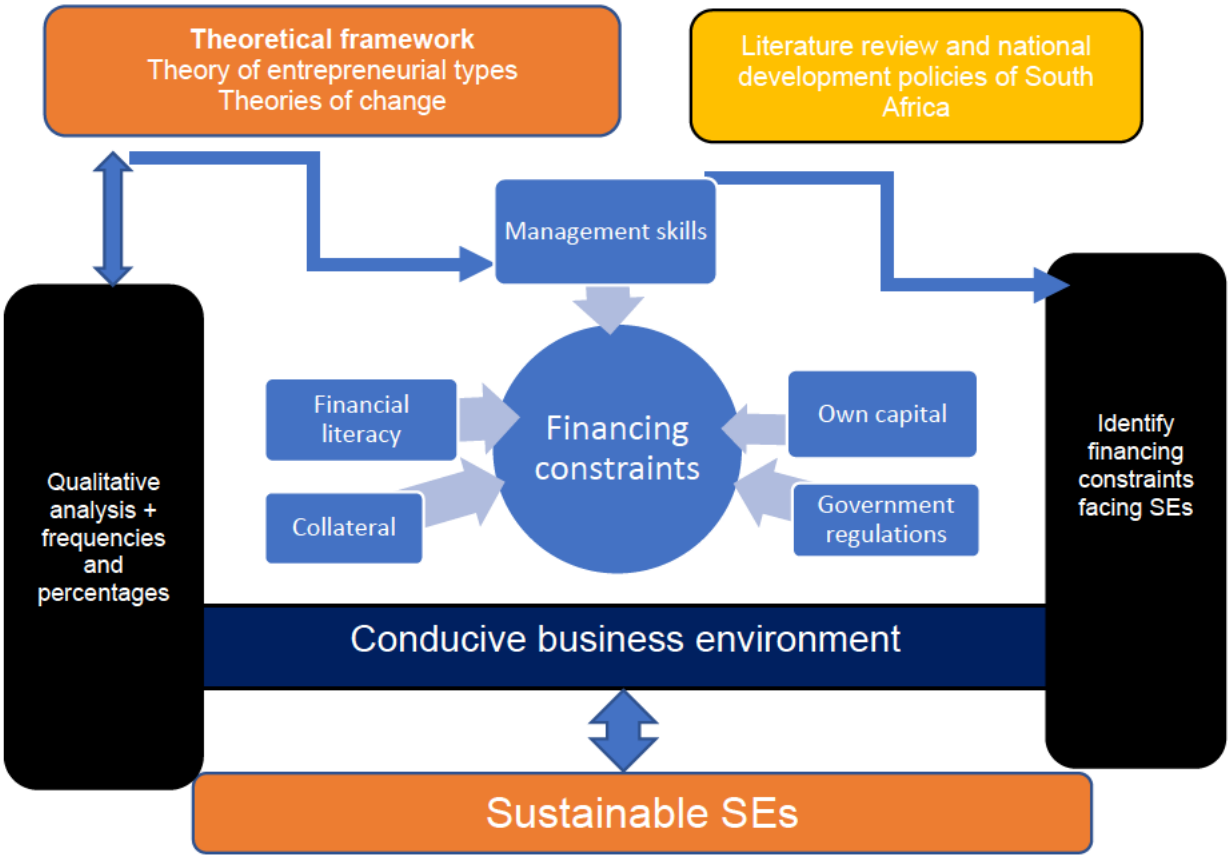
1.5 SIGNIFICANCE OF THE STUDY

With less financing constraints, and adequate access to finance, SEs are more likely to contribute significantly to the overall development and growth of any economy (Bhorat *et al*., 2018:45). Few studies have focused on collateral, deficient entrepreneurial skills, and managerial capabilities as financing constraints (Nyugen, 2017:55). Examining financing constraints within SEs will help to provide policy recommendations, which will reduce financing limitations and enable growth and expansion among SEs. This will in turn create more employment, reduce poverty, and possibly address income inequality.

1.6 CONCEPTUAL FRAMEWORK

The conceptual framework presented in Figure 1.1 demonstrates what the research study intended to achieve; and the theories, and research methodology on which the study is based. The diagram shows how collateral, financial literacy, managerial skills, own capital financing, and government regulations feed into small business financing constraints; added together, these factors constitute the financing constraints that prevent small enterprises from accessing financing from financial institutions. An enabling business environment gives rise to sustainable businesses (Cumming & Hornuf, 2021:30), and the diagram below also shows the positive feedback effect that exist between a conducive business environment and sustainable SEs.

Figure 1.1: Conceptual framework of the study



Source: Own compilation, as derived from the literature review

1.7 ETHICAL CONSIDERATIONS

An ethical clearance certificate was obtained from the Tshwane University of Technology. The study requested informed consent from all the voluntary participants. The identities of the individuals who completed the questionnaires were not required. This research was carried out in observance of the South African Protection of Personal Information (POPI) Act. This study observed the conditions for the legitimate processing of all personal information, and the sharing of such information with other parties. People whose information are collected and maintained is strictly based on their consent. For further processing, the information is presented in an aggregate and average form, and only for academic purposes according to the POPI Act as per Government Notice Regulations 21 of 22 June 2020 published in Government Gazette No. 11136, Vol. 660.

1.8 SCOPE AND LIMITATIONS OF THE STUDY

The gathering and analysis of data were only limited to SEs that were registered in terms of the Companies Act of 2008 in the Pretoria CBD, South Africa. The exclusion of informal businesses from data collection is justifiable because only registered SMMEs can apply for financing from the banks. The conclusions drawn from the study will generally reflect the experiences and challenges faced by SEs in Pretoria.

1.9 ORGANISATION OF THE DISSERTATION

The dissertation commences with Chapter 1, which entails the introduction and conceptual framework of the study. This chapter is very important because it provides in detail the reasons why this study was conducted and what it sought to achieve. The problem statement and the significance of the study are also clearly defined in

Chapter 1. Chapter 2 consists of the theoretical and empirical literature review, which examines various theoretical frameworks and previous studies. Chapter 3 discusses the methodology that this study followed. Chapter 4 presents the data analysis and findings, and Chapter 5 contains the study's conclusion, policy implications, and suggestions for further research.

CHAPTER 2:

THEORETICAL FRAMEWORK AND LITERATURE REVIEW

2.1 INTRODUCTION

This study investigated the financing constraints facing SEs in the Pretoria CBD. SEs are confronted with financing constraints, resulting in decreased growth and sustainability. Chapter 2 examines existing studies on financing constraints facing SEs and draws important insights and knowledge from different scholars. A theoretical framework is thoroughly executed by examining existing theories in relation to SEs, financing constraints, and access to finance, while the empirical framework is utilised with the aim of identifying financing constraints facing SEs. For SEs to grow and remain sustainable, they need to conduct business with fewer or no financing constraints. Irrespective of the initiatives that have been introduced by the government to alleviate financing constraints, SEs remain financially constrained. There is a need for more research on the financing constraints facing SEs. This study aimed to identify financing constraints facing SEs in the Pretoria CBD and to provide guidelines on how to increase access to finance for SEs.

2.2 THEORETICAL FRAMEWORK OF THE STUDY

2.2.1 Small business borrowing and control: A theory of entrepreneurial types

Cressy (1993:3) developed a small business borrowing model that elucidates non-borrowing and non-growth as the best solution to the problem of disputes between the productivity of financial capital and the preference for business independence from external control. The idea of avoiding external control by lenders is central to the theory. Even though the productiveness and ability of loan capital to increase business

revenue are appreciated, the theory contends that borrowing brings the firm under the financial institution's control. The control here does not involve the bank seizing a stake in the business, but may be in the form of overdraft facilities regulation, monitoring of activities, and the requirement of business plans. In the small business borrowing and control model, SEs are faced with a trade-off between profit and control. A desire to increase profits through borrowed funds will bring more external control. A desire to retain independence from external control will lead to less or no borrowing, and thus forfeiting profits that could have been generated from the productivity that is induced by loan capital. This theory therefore suggests that the resultant trade-off between borrowing and control implies that the business' best option is to borrow less than the amount that optimises profits. The theory acknowledges that loan capital increases business' revenue and profits. This theory is helpful to meet the objective to address the financing limitations of small businesses in accessing business loans to realise business growth.

2.2.2 Theories of change: High-growth small and medium enterprise (SME) development

The following are important theories of change that advocate for high growth in SMEs (USAID, 2019:2).

2.2.2.1 Access to credit

According to this theory, credit information and credit laws can be improved by strengthening credit bureaus and reviewing collateral laws to also accommodate moveable assets. This will make it possible for SEs to provide the required collateral. Credit guarantees can help SEs grow faster, even though the guarantees are

associated with a high risk of default. To mitigate the increased risk of default, the loan guarantor should consider the following best practices from the World Bank (2008):

- Allow the private sector to conduct credit assessments and decision making.
- Wait for the lender to take loan recovery actions and then pay the guarantee.
- Encourage the use of risk-management tools.

The theory further claims that subsidised credit facilities, in which financial institutions receive funds from the government for extending loans below commercial rates, have not yielded significant returns for SEs.

2.2.2.2 Business management

This theory states that customised and tailored coaching and consulting services are more productive than basic classroom training. Tailored consulting services are created to match business goals, which in turn will lead to increased sales and employment. Basic finance training is more likely to result in cost-cutting, which may reduce employment. Because training is costly compared to other interventions, the effort to acquire training should be paired with access to finance initiatives.

2.2.2.3 Innovation

Encouraging product innovation has a generally positive effect on SME growth. According to the innovation theory of change, innovation can be encouraged by developing and improving the enabling environment. This can be done by lobbying for more government support for innovation, developing a strong intellectual property rights system, increasing capacity-building to improve SME employment of capital and human resources, and improving access to finance. Donors should also consider

accelerator models to build effective innovative systems that are effective, efficient, and self-sustaining.

2.3 SOUTH AFRICAN SMALL ENTERPRISE (SE) INDUSTRY

The lack of entrepreneurial abilities among SEs calls for government intervention (Cooney, 2012:11). Entrepreneurs who are well trained are more likely to have fewer financing barriers compared to those without training (Scheers, 2014:217). In South Africa, SEs are not only deprived of financing from financial institutions, but also from government funding programmes. This happens because even when applying for government funding schemes, most SEs do not have the required business documents, such as Black Economic Empowerment (BEE) certificates, tax clearance certificates, and financial statements (Mbonyane & Ladzani, 2011:555). The government is also obligated to grant funds to well-organised and sustainable businesses, and on many occasions, SEs are found wanting in terms of the requirements of government funding schemes (Lim & Foster, 2020:180). In an effort to assist SEs to access business financing, the government has established institutions such as the Industrial Development Corporation, the National Empowerment Fund, the Small Enterprise Finance Agency (SEFA), and the Small Enterprise Development Agency (Cameron & Hoque, 2017:1242).

Despite the efforts made by the government to support SEs through policy reforms and the provision of grants to eligible SEs, only a few SMMEs manage to meet the eligibility criteria to receive government financial aid (Stoiljkovic & Maric, 2021:10). Moreover, previously disadvantaged groups, which include black entrepreneurs, do not benefit as much as white entrepreneurs from the assistance offered by the government. This is mainly because white entrepreneurs still possess more business

skills and competencies when compared to black people (BER, 2016:32). SMEs are an indispensable component of the South African economy, yet the most vulnerable. Across the country, SMEs constitute more than 98% of businesses, provide jobs for an average of 60% of the economy's workforce in all sectors, and produce a quarter of private sector employment growth (Stats SA, 2019:1).

According to Stats SA (2019:3), the formal business sector generated R10.5 trillion in 2019, and R2.3 trillion, which is 22% of the total turnover, was attributed to SEs. The turnover contributed by SEs has improved from 16% in 2013 to 22% in 2019, while the contribution of large business declined from 75% in 2013 to 68% in 2019. According to the DSBD (2023), the Small Business Survey conducted by the National Small Business Chamber in 2016, 75% of SMEs did not apply for business finance. According to Chisasa and Makina (2015), more than half of firms do not apply for business loans because they think they will not be granted the funds. Furthermore, due to a lack of collateral to qualify for business finance, 30.9% of businesses avoid applying for loans from financial institutions. SEs contribute impressively to economic growth and will certainly promote development if offered adequate financial support.

2.4 SEs' EMPLOYMENT CREATION

The importance and relevance of SEs in employment creation and development have been confidently acknowledged and endorsed by the government and the international community (Du Plessis & Marnewick, 2017). Several studies have expounded on the ability of financial management skills to ease access to funding for SMMEs (Ndou, 2010:61). A business' financial viability plays a major role in its ability to access financing. The South African government should make financing more accessible by introducing a conducive institutional and regulatory environment for entrepreneurship

(Ndou, 2010:67). The fight against financial illiteracy is not easy among SMMEs because those that cannot afford trained employees must compete with big and well-established businesses for the scarce financial and management skills in the labour market. SEs create employment in South Africa; they thus deserve to be afforded the same opportunities to source funds with ease from financial firms (Cameron & Hoque, 2017:1242).

2.5 FACTORS THAT AFFECT SEs

2.5.1 Collateral

Mutezo (2005:1-3) conducted a study to investigate the financial constraints that affect SMMEs in the City of Tshwane, South Africa. The lack of collateral to serve as security for business loans is reported to prevent SMMEs from securing financial aid from conventional financial institutions (Cressy, 2003:7). The inability of SMMEs to align with the collateral requirements of the financial institutions prevents them from accessing credit (Ngcobo, 2017:72). According to Nguyen and Nguyen (2021:1547), a large portion of SEs' financing is sourced from entrepreneurs' personal savings and from family and friends.

2.5.2 Traditional lending

Traditional lending involves the issue of a grant, with the obligation of repaying the principal amount and interest (Tudose, 2012:1). In general, most SMMEs are not able to access traditional lending facilities (Stoiljkovic & Maric, 2021:9). This is due to their inability to meet the financing qualifying requirements (Worku, 2015:123). According to Mago and Modiba (2022:8), many financial institutions do not finance SEs because they are perceived and labelled as "unbankable". Various financial institutions are of

the view that SMMEs are unreliable borrowers who present moral hazards because of information asymmetry (OECD, 2015:18). It is also alleged that these businesses do not provide all the information that is needed by the banks to make informed lending decisions (Wagenvoort, 2003:25). The regulatory environment, such as the National Credit Act with its regulation of reckless lending, reduces access to finance for SMMEs (Simon *et al*., 2020:3). The OECD (2015) has emphasised the importance of other forms of financing and policy reforms to strengthen financing facilities.

2.5.3 Uneven competition

According to Bhorat *et al*. (2018:47), the financial constraints faced by SMMEs accelerate their negative growth. This happens because their larger counterparts can secure financing and exploit economic opportunities (Lim & Foster, 2020:179). Compared to SEs, large companies are presented with many financing opportunities by financial institutions and are thus able to expand and take over larger territories (Bhorat *et al*., 2018:46). Moreover, credit constraints also reduce SMMEs' productivity in comparison to larger businesses (Dladla, 2021:63).

2.5.4 Credit criteria

Formal financial institutions and government agencies always require the borrower to provide a comprehensive proposal and cash flow projections (Rogerson & Rogerson, 2020:1000). Due to the SEs' insufficient knowledge of financial and accounting processes, most entrepreneurs fail to supply financial institutions with the required documentation (Economic Research Forum [ERF], 2015:22). SEs ignorance of accounting principles makes banks very reluctant to offer substantial loans to SEs (Hassan *et al*., 2014:165). Despite the efforts that governments in developing

economies make to enable SE access to funds, government agencies are among the institutions that require these SEs to meet criteria that many of them cannot satisfy (Tsai, 2001:4).

SEs' inability to meet the credit criteria as presented by government institutions also exacerbates the lack of confidence that private financial institutions have in SEs (Ali, 2019:250). Under normal circumstances, one would expect the credit criteria of government financial agencies to be more accommodating of SEs. In South Africa, the government makes financing provision for SEs through various government departments and agencies. The problem with the funds that are supposedly made available to SEs is that many of the businesses do not satisfy the eligibility criteria that are required to benefit from such government financial aid (Elly & Kaijage, 2017:33). The Department of Trade and Industry and the Department of Tourism, among others, provide funds to SEs for them to supplement their operating capital. The problem with this, however, is that very few SEs benefit from these funds, and, moreover, those who benefit are often SEs that are owned by white people, and not the previously disadvantaged groups, which include black, coloured, and Indian people (Elshaarawy & Ezzat, 2022:10).

2.5.5 High interest rates

High interest rates have always been a major hindrance to SEs' access to finance (Cumming & Hornuf, 2021:32). SEs are perceived to be high-risk borrowers by mainstream financial institutions (Cumming *et al*., 2020:380). According to Cumming and Hornuf (2021:36), many SEs default on high-interest business loans. In South Africa, some of the banks do extend business credit to SEs, but such loans are often offered at very high interest rates and cost of borrowing (Ahlers *et al*., 2015:98).

Banks also have a tendency of issuing relatively lower amounts of credit with high interest rates, which does not provide enterprises with a financing tool that can help them to induce significant capacity growth (Allen *et al*., 2021:270). There are entrepreneurs who generally avoid high-priced bank loans, but there are also those who accept the same overpriced loans (Ahlers *et al*., 2015:95). The latter generally default on the repayment of the loans (Cumming *et al*., 2020:360). The high interest rates associated with loans offered to SEs can be very devastating in terms of access to financing from mainstream financial institutions. Some of the government funding designed for SEs requires that an enterprise should have privately sourced a certain amount of capital to qualify for the financial aid. The high cost of borrowing makes it impossible for many SEs to source financed capital, which is a requirement for some government funds (Ahlers *et al*., 2015:95). According to Cumming and Hornuf (2021:40), entrepreneurs with poor endowments and lack of collateral will always be charged very high interest rates for low amounts of credit. This has been the case for South African SEs, and many of them will continue to experience lack of access to finance.

2.6 INTERNAL FACTORS THAT AFFECT SEs' ACCESS TO FINANCE

2.6.1 Entrepreneurial interest

According to Santos *et al*. (2021:284-285), entrepreneurship is a function of people and processes that converts ideas into opportunities. When the opportunities have been exploited, a successful business emerges, and this should lead towards the generation and accumulation of wealth in a society, economic growth, and an improved standard of living for the population (Joseph & Tambandini, 2022:5). Due to high levels of unemployment and poverty in South Africa, some SMMEs are failing

(Nguyen & Nguyen, 2021:1563). This is because they ventured into business for subsistence purposes, and not because they had an interest in business, and such individuals are most likely to possess less business know-how (Worku, 2013:78). However, through business and financial education, any entrepreneur can acquire the necessary business know-how (Sameh *et al*., 2019:7). The skills required to overcome access to financing and barriers to growth include technical skills, managerial skills, and entrepreneurial skills (Cant, 2012:1115). Technical skills involve communications, research, and development; managerial skills involve the ability to plan, make the right decisions, and manage the finances of the business; and entrepreneurial skills involve the ability to take calculated risks, innovate, and persist to achieve set objectives (Cooney, 2012:8).

2.6.2 Financial literacy

SMMEs often need to source funding for the purpose of supplementing their budget for operational costs and business expansion (Kamunge *et al*., 2014:18). However, SMEs face various financial challenges (Nkwabi & Mboya, 2019:6). A lack of financial management skills and expertise contributes to SMMEs' inability to source funds from mainstream commercial banks (Agwa-Ejon & Mbohwa, 2015:1).

2.6.3 Personal financial management behaviour

Personal financial management behaviour has been classified as one of the major concepts and research areas in the financial fraternity (Xiao & Dew, 2011:43). This concept has been assigned various definitions. Van Horne and Wachowicz (2001) explain the concept of financial management as a behaviour and an attitude regarding the utilisation of limited financial resources, as informed by a predetermined goal.

Weston and Brigham (1981:34) state that financial management behaviour involves financial decision making, which is shaped by the goals and motives of the individual. According to Deacon and Firebaugh (1988:90), personal financial management involves actions that are taken when planning how cash will be spent and on what it will be spent. Xiao and Dew (2011:45) argue that good financial management behaviour can be expected to enhance an individual's financial position, while failure to manage personal funds can lead to damaging consequences. Accordingly, personal financial management is primarily focused on finance management (OECD, 2022).

An individual's poor financial management can lead to negative consequences for the individual, enterprise, and society (DSBD, 2023). Personal financial management is very important and has been the centre of attention for many researchers in the finance discipline (Elshaarawy & Ezzat, 2022:10). Personal financial management, as defined by Xiao and Dew (2011), rests on the pillars of investing, saving, credit, and cash flow management. Various studies have focused on narrow areas of financial management behaviour such as using credit (Nguyen & Nguyen, 2021) and saving (Elshaarawy & Ezzat, 2022:10). Many SEs operate as sole traders and rely on the owner's creditworthiness to source financing. Poor personal financial management by the owners of SEs prevents them from accessing financing (Nguyen & Nguyen, 2021).

2.6.4 Innovation

Elshaarawy and Ezzat (2022:5) investigated the effect of a firm's innovation on its financing constraints. The relationship between the two variables was analysed using the probit model. The study concluded that a high level of firm innovation leads to less financing constraints, which is made possible by investors who are more attracted to innovative firms. In South Africa, many SEs are characterised by less innovation,

which leads to more financing constraints (Nguyen & Nguyen, 2021). According to Ayyagari *et al*. (2011:47), it is not difficult for financial institutions and other investors to measure a firm's level of innovativeness. All the company documents that are made available to investors contain information that demonstrates the firm's investment in innovation, which encourages or discourages potential lenders (Elshaarawy & Ezzat, 2022:10). Cheng *et al*. (2022:3547) state that innovativeness is deemed by investors as an indicative tool of the future and continuity of the business in the long run. This perception by lenders informs their decision to grant or restrict financing to SEs. As much as low levels of innovation translate into more financing constraints, the same financing constraints restrict innovation, which is referred to as the feed effect (Nguyen & Nguyen, 2021).

2.6.5 Technological capacities and SEs

Technological capacity can indirectly contribute to financing constraints that confront SMEs. According to Drucker (1985:17), the application of new technologies increases efficiency, improves production, and increases profits for SMEs. New technologies can broaden SMEs' market share (Morse *et al*., 2007:145). Lee (2001:120) conducted a study that concluded that SEs that adopt the latest technologies grow faster than businesses that are technologically backward. Romijn (1989) and Yusuf (2003) also concluded that lack of technological capabilities prevents SEs from realising their full potential. Morse *et al*. (2007:150) also note that high technological capacity is positively related to entrepreneurial growth. Given that technological capabilities affect SEs' profitability and growth, SEs with a lack of technological capabilities will not have sufficient internal sources of finance; this is because with less profits, there are less retained earnings and therefore less internal finance (Scheers, 2014:200). Banks in

countries with SEs that do not have technological capabilities also extend credit to very few businesses (Elshaarawy & Ezzat, 2022:9).

2.6.6 Ethnic orientation

Irwin and Scott (2010:30) state that some ethnicities are not able to source business loans and must rely on financing from their families and friends. According to Elshaarawy and Ezzat (2022:10), some ethnic groups have higher prospects of attaining external finance. Ram and Jones (2008:8) suggest that different entrepreneurs from varying cultures often show different attributes of entrepreneurship, and such differences can be associated with their cultures (Elshaarawy & Ezzat, 2022:10). Ethnic groups with a high motivation for entrepreneurship are most likely to start businesses that have higher possibilities of receiving financial support. Irwin and Scott (2010:40) observed that entrepreneurs from ethnic minorities are less likely to receive financing from financial institutions.

2.6.7 Entrepreneurs' networks

According to Curran *et al*. (1993:25), effectual and productive networking contributes to attaining information, business advice, and capital for SMEs. When networking is utilised properly, entrepreneurs are able to know about more channels of financing. In some cases, a successful participant in the network can introduce new members to their business financiers. Through networking, SEs can share information with bigger and more experienced establishments, which provides an opportunity for SEs to learn from established firms in the market (Levitt & March, 1988:30). Entrepreneurs' networks therefore provide an opportunity to obtain important information and gaining access to finance.

2.6.8 Firm age

Diamond (1994:2) explains that an enterprise's longevity is generally perceived as a good indicator of its reputation and sustainability. During the years of its existence, a firm will improve and build more capacity and increase investor confidence, which will lead to more access to capital funding (Elshaarawy & Ezzat, 2022:10). A business with rich experience is perceived to be more adaptive and strategic in dealing with issues that may constrain its growth (Nguyen & Nguyen, 2021). It is generally accepted that older businesses are more likely to have had enough time and opportunities to build their credit records, and are thus deemed to be creditworthy (Omri *et al*., 2015:1077).

2.6.9 Firm size

Wald (1999:3) and Titman and Wessels (1988:8) state that smaller businesses are more likely to exacerbate the information asymmetry between the business and potential investors. For this reason, capital lenders are more likely to charge higher interest rates on the debt provided to SEs (Sarapaivanich, 2006:21). Large-sized businesses tend to have more diversity in the functions, products, and services they offer, which has a positive impact on these businesses' ability to obtain external financing (Omri *et al*., 2015:1077). Short-term debts demand higher interest rates than long-term debt (Alhassan & Sakara, 2014:35). It is unfortunate that smaller businesses are generally interested in short-term loans, which decreases their likelihood to obtain business loans (Cheng *et al*., 2022:3547).

2.6.10 Firm growth

The growth of a business necessitates capital funding for capacity expansion. Continuous growth cannot be sustained by internal financing. According to the pecking

order theory, short-term loans are the first financing option, then long-term debt (Cosh & Hughes, 1994:5). Michaelas *et al*. (1999:13) state that there is a linear relationship between business development and short- and long-term debt. Jordan *et al*. (1998:30) opine that only growing and well-performing firms are more likely to have access to debt than poorer-performing firms. This suggests that higher growth is associated with increased access to finance (Cassar & Holmes, 2003:20). According to the study conducted by Demirgüç-Kunt *et al*. (2008:22) on the debt maturity of smaller enterprises, SEs in emerging economies depend more on short-term debt than SEs in advanced economies.

2.6.11 Legal form of the firm

The firm's legal form is very important and has a significant influence on its capital structure (Cassar, 2004:40). Access to external finance for SMEs is vitally affected by the business' ownership structure. An incorporation is perceived by investors as an indicator of the enterprise's formality and the intention to operate in a formal business environment. In business, ownership liability plays a vital role in attracting or repelling external finance (Robb & Wolken, 2002:45). For example, shareholders with limited liability have less exposure to liability against losses. On the other hand, sole proprietors and partnerships have unlimited liability. Limited companies are in an advantageous position of financing business operations with debt and equity, while companies with unlimited liability can only rely on the limited debt available (Fowewe, 2017:17). Many SEs in South Africa operate as sole proprietorships, which reduces their financing avenues (Nguyen & Nguyen, 2021).

2.6.12 Volatility of earnings

Both the pecking order and trade-off theories consider the volatility of earnings to be linked to how much leverage a firm has. According to the pecking order theory, the high volatility of earnings discourages potential investors because they are not able to predict and forecast the future earnings of the business (De Angelo & Masulis, 1980:33). Volatile earnings also influence lenders to charge high interest rates when extending credit (Cassar, 2004:44). The trade-off theory postulates that less volatility of earnings likely lessens the costs of bankruptcy, which allows a business to get more credit (Drobetz & Fix, 2005). The preceding theory also states that a high volatility of earnings will effectively increase default risk, thereby decreasing the prospects of acquiring finance. The discussed theories explicitly demonstrate an inverse relationship between the volatility of earnings and leverage. SEs experience volatile earnings, which leads to less confidence from prospective lenders (Cassar, 2004:66).

2.6.13 Age of the entrepreneur

According to Coleman (2004:20), the risk attitude of an entrepreneur is largely determined by their age, which affects their access to finance. Young entrepreneurs are risk takers while older businesspeople are risk averse. Older entrepreneurs are well established and require less debt for their business needs. Younger businesspeople are the high demanders of debt because they are very new to the business world and still need to finance their business operations and expansion (Sarapaivanich, 2006:21).

2.6.14 Family business generation

The recorded good business history associated with an entrepreneur's family name affects the business' access to finance (Elshaarawy & Ezzat, 2022:10). Businesspeople who are connected to a successful family business are more likely to enjoy access to finance without much scrutiny of their creditworthiness (Ahlers *et al*., 2015:999). This is due to the business confidence that financial institutions have in their family name (DSBD, 2018). A good family name also allows the entrepreneur access to quality business networks and existing investors in the industry (DSBD, 2018). SEs with a good family history are less likely to remain small for a prolonged period (Baskin, 2001:8).

2.6.15 Business plans

A proper, well-structured, and presentable business plan plays an instrumental role in convincing potential funders to invest in a small business (United Nations Trade and Development [UNCTAD], 2005:44). The absence of a well-articulated business plan may lead to the inability to persuade financiers to invest in a fund-seeking enterprise. A good business plan helps to demonstrate the profitability and financial soundness of a business, and can therefore minimise financing constraints (Ahlers *et al*., 2015:999). According to Wattanapruttipaisan (2003:8), a good business plan is one of the most effective communication channels with prospective investors and lenders. A well-detailed and well-designed business plan also serves as a guide to how business resources can be allocated for the most efficient use (Cheng *et al*., 2022:3543). Many SMEs lack the skills and know-how of drafting sound business plans, and this limitation contributes significantly to their financing constraints (Fatoki, 2012:6).

2.6.16 Working capital (liquidity) management

The trade-off theory holds that there is a positive relationship between liquidity and leverage (Drobetz & Fix, 2005). A business with high liquidity is assumed to have the ability to pay its short-term creditors on time. The pecking order theory poses a different view to the relationship between liquidity and leverage (DBSD, 2023). This theory posits that an inverse relationship exists between liquidity and leverage (Fatoki, 2012:5). According to the pecking order theory, a business with high liquidity will most likely finance its operations with its own internal funds, which decreases the business' appetite for debt (Deesomsak *et al*., 2004:4). According to Osei *et al*. (2021), most SEs in South Africa have very low liquidity and demonstrate a high demand for debt financing. The pecking order theory, which postulates a negative relationship between liquidity and leverage, seems to be more relevant in the South African context (DSBD, 2023). Cheng *et al*. (2022:3544) conducted a study to explore how and to what extent an organisation's capital affects financing constraints faced by Chinese SMEs. Using SMEs in the Shenzhen Stock Exchange between 2001 and 2019, the study established that an organisation's capital notably reduces financing constraints. The results also showed that information asymmetry and operational efficiency are potential facilitators of the relationship between the organisation's capital and financing constraints. This effect is, however, experienced more by bigger firms, with larger technological capabilities.

2.6.17 Educational background

According to Dobbs and Hamilton (2007:17), entrepreneurs' educational background influences their ability to access finance from financial institutions. The level of education improves communication and research skills, and these skills play a vital

role in increasing the chances of access to finance (Adjabeng & Osei, 2022:2945). Educated entrepreneurs and managers have better management and financial knowledge, and these attributes have a direct impact on the ability to access external finance (Drobetz & Fix, 2005). Effective management of business functions such as finance, sales, advertising, and human resources enhances business growth and stability, and as a result increases access to external finance (Adjabeng & Osei, 2022:2945). Han *et al*. (2009) have a different view and assert that managers and entrepreneurs with formal education are exposed to financial constraints as opposed to those without formal education. The argument is that educated entrepreneurs own and manage bigger businesses, and bigger businesses are generally prone to more financial constraints and thus often require external finance (Cumming & Hornuf, 2021:33).

2.7 THE IMPACT OF GLOBAL FINANCIAL CRISES ON SMEs' ACCESS TO FINANCE

The 2008/2009 global financial crisis was a product of the real estate bubble that burst. The crisis was primarily caused by high subprime mortgage lending (Udell, 2020:21). When the subprime borrowers could not pay back their debt, it caused a financial crisis, first in the United States of America (USA), then Europe, and then the rest of the world (Agwa-Ejon & Mbohwa, 2015:5). The crisis not only affected mortgagees and mortgagors, but SMEs as well. The global financial crisis caused a restructuring and induced a review of the assessment criteria used to judge those who apply for finance from banks (OECD, 2022). Due to the crisis, many banks the world over introduced more stringent assessment criteria for loan applications (Agwa-Ejon & Mbohwa, 2015:1). SMEs thus found themselves at a disadvantage because many of

them cannot comply with the new requirements imposed on them when applying for external finance (Udell, 2020:21). Because many larger businesses have more resources, advanced business experience, and access to business networks, they are able to comply with the new loan requirements (Osei *et al*., 2021:35).

The global financial crisis created a damaging impact on SMEs' access to finance. During the crisis period, as more data became available, many researchers started examining the impact that the crisis had on SMEs (Udell, 2020:21). The effects were not experienced the same way in the affected countries. In the USA, the impact was more severe than in European countries and other countries of the world (Chen & Divanbeigi, 2019:78). The contraction of bank credit to SMEs also inspired the inception of various initiatives to remedy the damage that SMEs suffered (Karadag, 2015:30). The global financial crisis caused a significant credit crunch, and, as a result, necessitated various government policies aimed at easing the damaging effects that would be experienced by SMEs regarding access to finance (Benzing, 2010:19). Although the global financial crisis started in the USA, the spillover effects affected the whole world.

2.8 OVERVIEW OF FACTORS THAT CAUSE FINANCING LIMITATIONS AMONG SEs IN AFRICA

The following factors that cause financing limitations among SEs in Africa are discussed in this section: land ownership, lack of government support, corruption, bureaucracy, the effect of high taxes on financing constraints, financial management among SEs in Africa, unfair competition from the informal sector, political instability and access to finance, and the cost of financing SEs.

2.8.1 Land ownership

According to Adjabeng and Osei (2022:2945), SEs are the key drivers of growth, as publicly proclaimed by the Ghanaian government and widely acknowledged by various African governments. However, it is also generally reported that SEs in Africa experience more operational constraints than bigger businesses (Ayyagari *et al*., 2017:2944). Fungwe and Kabubi (2019:20) mention access to business loans as one of the major hindrances to business growth. In many African countries, many entrepreneurs do not own any economically viable land that can be used as collateral, which prevents SEs from attaining funds from financial institutions because they cannot provide any viable collateral. The complexity surrounding the regulations of land ownership inhibits those with land from offering their land as collateral in the most efficient way (Osei *et al*., 2021:57). The lack of a clear title deed on land ownership in some countries only makes available a very limited amount of land that can be offered as collateral (Dobbs & Hamilton, 2007:6). Some countries have had their governments restrict the transfer of family land.

Aryeetey (2009) and Fungwe and Kabubi (2019:14) agree that the challenges in accessing bank finance exceed all other constraining forces to business growth. These studies assert that land collateral has an impact on banks' willingness to extend credit to SEs. Collateral is perceived by banks as a good incentive to repay the debt in the case of potential default. SEs often receive business loans that are far less than what they applied for, and lack of land collateral has been cited as one of the major reasons why banks reject or restrict their applications (Osei *et al*., 2021).

Aryeetey (2009) also mentions that without land as part of collateral, transaction costs and default probability increase, which discourages banks from extending credit to many SEs to avoid unprotected credit.

2.8.2 Lack of government support

Countries such as Nigeria and Kenya are reported to have introduced initiatives and measures to support SEs in both the formal and informal sectors. In addition to increasing credit facilities, these two governments have also minimised government involvement in business operations (Benzing & Hung, 2012:63). Kenya has introduced special funds that are accessible to SEs that belong to women and the youth. The funds are administered by public and private financial institutions (Elshaarawy & Ezzat, 2022:25). Some private banks have been very instrumental in empowering SEs (Di Tella *et al*., 2001). Like other countries such as Ghana and Rwanda, the South African government has put measures in place to reduce financing constraints to enable SEs to grow (Elshaarawy & Ezzat, 2022:20). The countries mentioned above are some of the few examples that have shown dedication to the improvement and development of SEs (Cheng *et al*., 2022:3544). It is public knowledge that most of the interest to grow SEs has been well articulated in policies and development plans, but many of those plans are not actualised, which continues to frustrate those who are supposed to benefit from these government development plans (Chu *et al*., 2010:8).

2.8.3 Corruption

African governments are generally known for their widespread corruption (Elly & Kaijage, 2017:8). The problem of corruption also affects SEs in various ways. SEs often find themselves in a situation where they must divert their government business

grants from wholly financing their operations or expansion plans to non-investment activities, such as paying a certain amount to a government official for undisclosed reasons (Chu *et al*., 2010: 20). Acts of corruption have become normal in many countries, and it is well known that government officials often make a demand for financial gain before they render services. Due to such unlawful demands by government officials, SEs must often make provision for extra unwarranted costs, which affect their budgets and reduce their revenue, and as a result hinder business performance (Benzing & Hung, 2012). Entrepreneurs who decide not to pay unwarranted moneys to public officials often experience intimidation and constant harassment from legal authorities (Chu *et al*., 2010:20). Such harassment comes in the form of confiscation of business merchandise and assets, which is done in the name of non-compliance with business licences (Di Tella *et al*., 2001). Corruption plays a big role in constraining SE growth, and therefore preventing governments from actualising their policies and development plans. Africa has some of the most corrupt countries in the world (Transparency International, 2007). Corruption practices fundamentally damage well-designed plans and commitment to enable business growth and stimulate economic development in Africa.

In South Africa, corruption is rampant among SEs (Chen & Divanbeigi, 2019:16). Some SEs are used as vehicles for money laundering (Elly & Kaijage, 2017). Government officials often award tenders irregularly to SEs and even control how the funds are spent (Chu *et al*., 2010:20). Corruption, coupled with asymmetric information associated with SEs, discourages financial institutions from increasing their financial engagement with SEs (Chu *et al*., 2010:20). As a result, many businesses that are not involved in acts of corruption have become victims of the unethical conduct of the few SEs that are participating in money laundering activities (Elly & Kaijage, 2017).

This means that some of the financing constraints on SEs are because of the externalities that are made possible by the unethical actions of some SEs. Financing constraints faced by SEs in South Africa are effectively exacerbated by high levels of corruption in the government and lack of government support (Benzing & Hung, 2012:90). According to Elly and Kaijage (2017:31), African governments should get rid of corruption from all levels of public office, and work on actualising their development plans.

2.8.4 Bureaucracy

The bureaucracy associated with government business regulations and processes accelerates financing constraints faced by SMEs in Africa (Scheers, 2014:218). Formalising a business in African countries is often associated with very long and sometimes unnecessary procedures (Bouazza *et al*., 2015:110). African SMEs face serious difficulties in developing administrative and operational procedures. Without updated permits and licences, it is impossible to acquire finance (Elly & Kaijage, 2017:90). Bureaucracy remains a serious stumbling block for many businesses, because government authorities are incompetent, and often fail to provide or renew business permits and licences on time (Scheers, 2014:217). In Africa, many government officials are characterised by gross incompetence and inefficiency (Elly & Kaijage, 2017:56). As a result, SE entrepreneurs and managers in Africa use much of their time trying to fulfil government requirements and adhere to regulations (Chen & Divanbeigi, 2019:75). Many African countries, South Africa in particular, report uncertainty in regulatory frameworks as a hindrance to access finance. In an environment with too much bureaucracy, financial institutions and other investors are

not motivated to extend credit to businesses that are affected by lengthy bureaucratic processes (Nguyen & Nguyen, 2021).

2.8.5 The effects of high taxes on financing constraints

Many African countries impose very high taxes on businesses. The high tax rates do not discriminate by business size. Small and large businesses are obligated and expected to pay the same taxes (Bouazza *et al*., 2015:100). These high taxes effectively reduce net profit, which is the major source of internal financing. In many parts of Africa, SEs are less motivated to expand their capacity as this could attract government scrutiny, and, as a result, increase the cost of doing business (Karadag, 2015:26). In Algeria, many SEs report that high taxes impose a direct financing constraint on them because their retained earnings are constantly reduced by continuously rising tax rates (Bouazza *et al*., 2015:105).

2.8.6 Financial management among SEs in Africa

Strategic financial management has become a growing research area, which is due to its contribution to the growth and profitability of SMEs (Elly & Kaijage, 2017:60). A study conducted by Karadag (2015:26) reports poor financial management as a key cause of business failure among SMEs. Many SEs are characterised by poor management capabilities (Schreiner, 2000:2). This is not uncommon, especially considering that many of these enterprises cannot afford to employ educated and trained financial managers (Chu *et al*., 2010:20). Businesses that lack proper financial management are not able to articulate their financial activities through financial statements. These handicaps affect SEs' ability to access financing (Benzing & Hung, 2012:90).

The impact of financial management on the performance and growth of SEs in different emerging economies has been investigated by various empirical studies (Nyugen, 2017:55). The primary area of focus in SE financing literature has always been on how poor financial management practices affect SEs' ability to access finance from mainstream financial institutions (Bhorat *et al*., 2018:47). It is also important to acknowledge SEs' poor management and utilisation of business loans (Abdisa & Hawitibo, 2021:8). Many SMMEs in South Africa mismanage the funds that they received from the government or banks (Bhorat *et al*., 2018:45). There are reports of some entrepreneurs who sourced funds in the name of financing business expansion, but instead used the money to build personal homes and buy personal cars (Nyugen, 2017:30). Such entrepreneurs eventually default on their loan repayments and damage the confidence that funders have in their financial management capabilities and integrity (OECD, 2022). Due to a lack of financial management capabilities, SEs mismanage the funds that they receive from government agencies. According to Scheers (2014:211), various financial institutions continue to steer clear of conducting financing transactions with SEs due to the high risks associated with extending loans to these kinds of enterprises. Lack of financial skills presents serious financing constraints for SEs.

Elly and Kaijage (2017:8) conducted an investigative study to find out how financial management practices influence external finance for SMMEs in Kenya. An exploratory survey using quantitative techniques was used for data collection and analysis. The study concluded that financial management has a direct impact on access to finance.

2.8.7 Unfair competition from the informal sector

SMEs in African countries experience more hardships relative to larger businesses (Bhorat *et al*., 2018:47). Such challenges stem from various policy reforms and regulatory constraints arising from imperfect markets (USAID, 2019:8). Financial constraints in SMEs are also caused by stunted business growth. The informal sector poses a challenge to SMEs in the formal sector (USAID, 2019:1). According to Freedom House (2011), most young people in Algeria are employed by the informal sector. Firms operating in the informal sector present the formal sector with unfair competition because they do not incur costs and expenses from licences and taxes (Agwa-Ejon & Mbohwa, 2015:1), which allows them to sell goods at a low cost compared to companies in the formal sector (Nyugen, 2017:55). This phenomenon significantly impacts the growth of the SMEs in the formal sector. As a result, financial institutions have reduced interest in financing SMEs, which is attributed to, among other reasons, the stagnation that such formal businesses experience (Karadag, 2015:26).

2.8.8 Political instability and access to finance

Countries that continuously experience political stability do not have stable and efficient financial markets (Omri *et al*., 2015:1083). Due to the high risk of investing in such countries, many foreign investors refrain from investing in unstable economic environments (Abdisa & Hawitibo, 2021:3). Political instability also affects domestic investors. It is very difficult for SEs to obtain external financing in countries with political instability (Cameron & Hoque, 2017:1242). Banks that operate in such countries often refrain from issuing long-term loans to businesses. South Africa is becoming an unstable economy, with the government failing to maintain and develop new

infrastructure, which could in turn encourage economic activity and lead to more business investments. Most businesses, especially SEs, have become unsustainable and very unstable (OECD, 2022). Banks are constantly reducing the volumes of credit that they issue to businesses. Due to economic hardships, many SEs have become credit unworthy and banks thus reject their loan applications (Cameron & Hoque, 2017:1240).

2.8.9 The cost of financing SEs

Alhassan and Sakara (2014:35) conducted a study on whether financing SMEs in Southern African countries was costlier than financing larger businesses. The study found that, on average, it took 25 business days for banks to perform screening and credibility assessment of SME applicants. The study also found that it took only 16 days to complete all the needed loan screening and assessments for larger businesses. This therefore indicates that it is more expensive to engage in a loan transaction with an SME than it is to conduct a lending transaction with larger businesses. Despite SMEs' need for bank credit, financial institutions would rather work with larger companies that bring less transaction costs and risks.

2.9 ACCESS TO FINANCE AND FIRM PERFORMANCE IN AFRICA

Access to finance by firms, irrespective of their size, plays a pivotal role in how the enterprise will generally perform (Cumming & Hornuf, 2021:26). Ali (2019:29) states that the broad literature shows how a lack of access to finance adversely affects firm performance and development. On the other hand, access to finance has been proven to increase enterprise performance and profitability (ERF, 2015:3). Fowewe (2017:6) conducted an empirical investigation of how access to finance affects the profitability

of small firms in Africa. The results from the study showed that enterprises that have adequate access to finance experience more profitability and growth than enterprises that are credit constrained.

Insufficient finance hinders firm performance (Cumming & Hornuf, 2021), and the literature shows that smaller firms experience more challenges in sourcing finance than bigger firms (Elshaarawy & Ezzat, 2022:13). Many African economies are mainly dependent on SEs for economic growth, development, and employment (Fowewe, 2017:1). According to Adjabeng and Osei (2022:2948), efforts to minimise the credit constraints that confront SEs are well justified. As much as SEs in Africa are facing financing constraints, this is not much of a problem in advanced economies because banks have introduced various strategies to help them minimise risks associated with extending loans to small firms (Elshaarawy & Ezzat, 2022:10). SEs in African countries are encouraged to participate in financial markets as this is likely to increase their access to finance and profitability (Adjabeng & Osei, 2022:2945). Enterprises that want to experience growth should overcome financing constraints and obtain more external finance. Financial institutions, governments, and society should work together to enable access to financial services for SEs. According to Fowewe (2017:1), financing constraints can be resolved by encouraging and providing incentives to financial institutions to create financial products that are suitable for SEs. SEs should also acquire more knowledge on how to position themselves in such a way to convince banks to offer them business loans (Chu *et al*., 2010:20). The nature of financing constraints that are faced by South African SEs is very similar to those faced in other African countries (Bouazza *et al*., 2015:105).

According to Muriithi (2017:37), SEs in Africa have the potential to contribute to development, which will create more employment, increase productivity, and alleviate poverty. Governments only need to provide relevant and effective legal frameworks, industrial infrastructure, and promote access to finance.

2.10 INFORMAL FINANCE AND SEs

Informal finance involves agreements undertaken by parties to exchange cash for a promise of payment in the future. These agreements are undertaken outside of the legal system (Schreiner, 2000:2). SEs in developing economies are faced with various constraints. The lack of access to finance is often cited as the main operational constraint these enterprises face (Allen *et al*., 2021:300). The use of bank loans and business accounts by SEs is very low, and this is because of a higher use of informal borrowing by SEs (World Bank, 2014:26). Many SEs do not meet the criteria required to receive business loans from financial institutions (Ozili, 2020:11). As a solution, many SEs resort to informal borrowing, which involves sourcing funds from moneylenders, business partners, and friends or family (Fowewe, 2017:4). The problem of lack of access to financing by SEs is not new. Adams (1989) conducted a study to explore credit programmes that are designed to offer loans to SEs in low-income countries. The study could only ascertain a few credit programmes. According to Adams (1989), many SEs in low-income countries depend on informal finance to fund their daily operations.

A study conducted by Turvey *et al*. (2008) revealed that in many parts of rural China, SEs, especially farms, rely on loans from friends and relatives and not formal financial institutions. Many SEs in the urban areas of China are also heavily dependent on the informal finance sector for sourcing business funds (Cheng *et al*., 2022:3556).

However, SEs that have access to formal financing have been proven to experience faster firm growth compared to their counterparts that only depend on informal finance (World Bank, 2008:4).

Steel *et al*. (1997:820) conducted a research project that produced survey evidence from four African countries on how the informal finance system serves those members of society that are deemed by banks as “unbankable”. The study found that informal financing agents use methodologies that significantly reduce transaction costs and risk of default relative to formal financial institutions. The liberalisation of former colonial oppressive financial policies has not meaningfully improved formal financial inclusion. On the other hand, informal finance continues to grow. The study concluded that informal financial institutions provide an important mechanism for mobilising household savings and financing SEs.

For a financing system to play a productive role, the issues of adverse selection and moral hazard, which come from asymmetric information and mechanisms for recourse in the case of non-payment should be addressed (Allen *et al*., 2021:30). Asymmetric information associated with SEs has been widely cited as the major reason for inadequate financing from formal financial institutions (Udell, 2020:20). According to Elshaarrawy and Ezzat (2022:20), informal financial institutions have sufficient borrower information through social networks, and such information reduces adverse selection problems and moral hazards. Due to the availability of debtor information, informal lenders are in a better position to enforce debt repayment (Elshaarawy & Ezzat, 2022:37).

Hassan *et al*. (2014:165) state that informal financial institutions rely on relationships and the reputation of the borrowers, and can more efficiently monitor and enforce

repayment from a class of firms than formal financial institutions. The informal financial system presents various benefits for those who are excluded from the formal financial system. Some of the benefits of informal finance involve minimal transaction costs, substitution of confidence and trust in the borrower's character for physical collateral, and a flow of repeated transactions (Cheng *et al*., 2022:3555). However, this kind of finance has its own shortfalls in that there are no large loans, no long-term loans, and there is no law to regulate and enforce lending agreements (Schreiner, 2000:3).

As much as informal finance is instrumental in providing financing to SEs, informal financial systems do not provide a perfect substitute for formal financial systems, which is because of their ill-equipped and unlawful monitoring and enforcement mechanisms (World Bank, 2014:7).

2.11 HOW MUCH DO SEs RELY ON PERSONAL CREDIT?

After the 2008 financial crisis, banks in the USA drastically reduced the extension of business loans to SEs. Due to this decline in access to business loans, some entrepreneurs who had good credit scores and high income substituted business loans with personal credit (Fonseca & Wang, 2022:26). In South Africa, SEs often rely on the entrepreneur's personal credit for their financing (Muriithi, 2017:12). Owners of SEs often borrow money from the banks in their personal capacity to finance their business operations. Entrepreneurs also source financing in their personal capacity from informal lenders, such as *stokvels*, family, and loan sharks (Chen & Divanbeigi, 2019:16).

2.12 PREVIOUSLY DISADVANTAGED GROUPS

The issue of financing constraints among South African SEs is not evenly severe for all racial groups (Abdisa & Hawitibo, 2021:4). Previously disadvantaged groups consist of black people, Indians, and Asians. These groups of people have inherited a disadvantaged legacy from the apartheid era (USAID, 2019:2). Many of the SEs that belong to the previously disadvantaged groups are not able to acquire any formal financing, which is mainly due to their owners/managers who are not well capacitated to pioneer a formal business (Nyugen, 2017:23). Much of the government funds made available with the intent to prioritise the development of businesses that are owned by entrepreneurs from previously disadvantaged backgrounds are often accessed by white entrepreneurs (Stats SA, 2022). Many black entrepreneurs are not able to satisfy the government requirements for financial aid. White-owned SEs, on the other hand, can often supply all the documentation required for government business development aid (Mago & Modiba, 2022:5). The apartheid legacy still affects many previously disadvantaged groups (Cameron & Hoque, 2017:1242). Many SEs owned by black people are not strategically positioned, and this is because of the previous segregation by the apartheid regime (Stats SA, 2022). Many black people were placed in less business-conducive areas, and these are the same places where many of their SEs are situated (Cameron & Hoque, 2017:1242). A study conducted by Anderson *et al*. (2022:3) concluded that SEs that are situated in rural areas experience more financing constraints than businesses that are located in urban areas. In the context of South Africa, most black-owned enterprises are located in rural areas, townships, and low-value urban areas. Financial institutions do not expect businesses that are positioned in the aforementioned areas to grow and become sustainable (Nyugen, 2017:55),

which causes financial institutions to perceive SEs from such backgrounds as high risk and very unpredictable, which often leads to less or no extension of credit.

The South African government has introduced various redress mechanisms, which include Broad-Based Black Economic Empowerment (B-BBEE). B-BBEE was introduced to help entrepreneurs from previously disadvantaged backgrounds gain access to business financing and general business support (Stats SA, 2022). However, this initiative has not helped many of the targeted groups because there were no plans to capacitate black entrepreneurs with the necessary know-how and skills to start and grow their own businesses (Bongomin *et al*., 2018:651). Financing constraints are experienced by many SEs; however, black-owned SEs are more financially constrained than white-owned SEs (Dladla, 2021:64).

2.13 DISCOURAGED SEs AND FINANCING CONSTRAINTS

Because most loan applications from SEs are not approved by banks, some entrepreneurs have given up seeking funding from formal financial institutions (Mago & Modiba, 2022:6). Most SEs are financially constrained and are no longer trying to source funds from financial institutions (Stats SA, 2022). The issue with this discouraged attitude towards formal financing is that, even when funds are made available with fewer requirements, SEs will not even know that there are funds available for them (Cameron & Hoque, 2017:1242). Government agencies will often issue calls for SME fund applications, but only a few SEs will submit applications. This behaviour is damaging to government efforts to try to supply funds to the most vulnerable enterprises. It has been observed that among SEs, the few that are able to acquire financing are the same that benefit from government funds that would have otherwise been given to the most disadvantaged enterprises (Dladla, 2021:60).

However, less privileged SEs are often not aware of the government funds that are available to them. The challenges faced by SEs in acquiring financing have also demotivated some SEs from keeping their business documentation up to date (Cameron & Hoque, 2017:1242). SEs that are discouraged from sourcing financing from financial institutions have no incentive to legalise their operations, and, to a great extent, they operate like informal businesses (Dladla, 2021:60). There has not been any effort by either the government or financial institutions aimed at encouraging discouraged businesses, which leaves the vulnerable in a more constrained situation. It is very important for policymakers to take interest in assisting discouraged entrepreneurs because, in doing so, many SEs will reach a state where they can add more value to the economy and society (Cameron & Hoque, 2017:1242).

2.14 FINANCIAL INCLUSION IN THE FORMAL FINANCIAL SECTOR STRUCTURE

The formal financial sector structure is set up in such a way that it must avoid systemic risk at all costs (Ozili, 2020:1). The 2008/2009 global financial crisis brought about many stiff regulations around the extension of credit to borrowers in many parts of the world (Ali, 2019:271). South Africa's financial sector is one of the sectors that responded to the global call for more stringent regulations in the issue of credit by banks (Chen & Divanbeigi, 2019:13). It is to this effect that the formal financial sector is very resistant to the call for the financial inclusion that is being advocated by various policymakers (Bongomin *et al.*, 2018:650). Financial inclusion involves banks having to relax some of their requirements for credit granting to include potential borrowers that are not able to access credit in the present financial system. The financial institutions have become very risk averse and would rather not risk or invite a systemic

risk to the formal financial sector. SEs fall within the group of those that need to be included in the current financial sector. The currently heralded financial inclusion by policymakers cannot yet be justified; banks are therefore not obliged to make provision for such so-called financial inclusion (Chen & Divanbeigi, 2019:14). The structure of the current financial sector excludes most SEs (Mago & Modiba, 2022:6). It therefore remains that for SEs to participate in the formal financial sector, there needs to be a realignment of their business design and operations to the formal financial sector. A study conducted by Ozili (2020:10) indicated that financial inclusion is affected by poverty levels, financial innovation, and the financial sector's stability.

2.15 THE EFFECTS OF THE COVID-19 LOCKDOWN ON SMEs' FINANCIAL CONSTRAINTS

According to Rogerson and Rogerson (2020), the COVID-19 pandemic had devastating economic and social consequences in the Global South. The impact of the lockdowns affected various businesses, and this impact was especially felt among SMMEs in South Africa (Anderson *et al*., 2022:10). The tourism sector is one of the industries that has a large population of SMMEs (Elly & Kaijage, 2017:45). Almost all the SMMEs in the tourism sector were forced to close because no tourists visited the country. Local tourists also reduced their travelling activities in fear of contracting the virus. The reduced economic activity imposed by the lockdowns affected most businesses (Rogan & Skinner, 2020:5). The tourism sector experienced the biggest impact because the industry depends on travel, which was the main activity that was restricted by the lockdowns. Due to the uncertainty presented by the pandemic, many financial institutions immediately closed credit avenues to tourism enterprises (Anderson *et al*., 2022:10). Banks could not risk financing businesses that did not know

when they would resume their normal business operations. However, the government, through the Department of Tourism, initiated the Tourism Relief Fund, which was aimed at assisting SMMEs in the tourism sector to finance some of the unforeseen costs that came because of the shutdown on tourism activity. The fund was offered at a maximum of R50 000, which was not sufficient to finance tourism enterprises for the prolonged economic shutdown. The Tourism Relief Fund was a once-off payment to each qualifying tourism enterprise, and the project was started in April to July 2020. However, the lockdowns continued beyond July 2020. The speed at which SMMEs were degraded, and some destroyed, was not the same speed at which the remaining enterprises recovered (Anderson *et al*., 2022:12). Prior to COVID-19 and the lockdown period, some SMMEs had grown and developed themselves in such a way that improved their access to bank financing. The SEs that were previously asserted to be creditworthy are now struggling to acquire external finance (Fungwe & Kabubi, 2019:15). The government seems to show a special interest in developing and advancing the tourism sector (Gries & Ha, 2014:900). There are constantly new policy regulations aimed at improving the sector (Elly & Kaijage, 2017:45). These ever-changing regulations, however, cause instability and confusion among the stakeholders in the industry. The government seems intent on improving the sector, but industry stakeholders accuse the government of not having enough consultations with the industry players before introducing these so-called chaotic regulations (Ozili, 2020:11). The COVID-19 pandemic and the lockdown response by the governments exacerbated financing constraints facing SEs in South Africa (Anderson *et al*., 2022:5).

2.16 SUMMARY OF PREVIOUS STUDIES

In many studies, access to finance is a major component among other aspects that hinder SEs' growth and sustainability (Falavigna & Ippoliti, 2021:2; Tudose, 2012:1). Various studies conducted by different scholars have pointed out that lack of access to finance is a major hindrance to SE sustainability (Mbonyane & Ladzani, 2011). Table 2.1 summarises the methodologies and research findings from some of the studies included in the study's literature review.

Table 2.1: Summary of previous studies

Author(s)	Methodology used	Contributions and main findings
Nkwabi and Mboya (2019)	Mixed-methods approach: Content analysis and descriptive analysis using frequencies and percentages to determine factors that constrain SME growth.	Financial constraints, capital constraints, poor technology, and strict regulations have a significant inverse relationship with SME growth. The study showed that financial constraints have a significant impact on SME sustainability. The study also suggested that the factors that affect SE growth should be studied individually in future research projects.
Lim and Foster (2020)	The model of credit constraint: Estimation is applied to predict the likelihood of credit constraints among SMEs from 2009 to 2014.	The study ascertained that how credit constrained a firm depends on how long it has been in existence, and how much indebted the firm is compared to assets and its total cash flow.
Ngcobo (2017)	Applying a simple random sampling process, questionnaires were sent to a sample of 183 out of 350 SEs. The responses were summarised in tables showing the SEs' loan application results.	Business age, poor business plans, deficient owner/manager educational background, lack of collateral, and poor owner/manager business experience have an impact on banks' loan decisions. The study also established that the inaccessibility of funds constrained business operations and growth.
Cameron and Hoque (2017)	Interviews with financial specialists were conducted to collect data. NVivo, a qualitative data-analysis	The results revealed that the lack of basic training, education, collateral, mentoring, and passion are the major obstacles that prevent SEs from acquiring finance.

Author(s)	Methodology used	Contributions and main findings
	program, was used to analyse the collected data.	
Mbonyane and Ladzani (2011)	Semi-structured interviews were used to gather data. Content analysis based on grounded theory was used to analyse the data.	SEs have constrained growth due to a lack of funding, which is affected by the entrepreneur's lack of financial management skills and a lack of legal knowledge. Most SEs were found to have not been licensed.
Stoiljkovic and Maric (2021)	Parametric quantitative procedures involving Pearson's correlation coefficient were used to analyse the relationship and connectivity between the research variables.	The study found that financing volume and own capital have a positive effect on SEs' performance, which is measured in terms of total revenue and profit.

2.17 CHAPTER SUMMARY

The literature review for this study involved the analysis of various theoretical frameworks and previous empirical research studies. A proper theoretical framework serves a fundamental purpose in guiding the initiation and execution of a study. The involved theories include the theory of small business borrowing and control and theories of change. The theory of small business borrowing and control postulates that SEs face a trade-off between borrowing money from banks, which in turn reduces their independence, and not borrowing at all, which in turn constrains their revenue growth but retains their business independence. The theories of change advocate for SE growth through three pillars, namely access to credit, business management, and innovation (USAID, 2019:2). Various research studies included in the literature review have demonstrated the financing constraints that SEs in South Africa are faced with (Cooney, 2012:11; Scheers, 2014:217; Lim & Foster, 2020:180; Cameron & Hoque, 2017:1242). Through the literature review that the study was able to provide an overview of the state of SEs in relation to access to finance. The research studies from broad research works provided similar results on the factors that affect SEs. Lack of

access to finance has been a major factor in all the challenges that SEs face (Elshaarawy & Ezzat, 2022; Allen *et al*., 2021:270). The literature review also revealed that there are various factors that contribute to the financing constraints facing SEs, namely lack of collateral, government regulations, inadequate managerial skills, high interest rates, stringent credit criteria, and many more others, as explained in detail in the chapter. Subsequent to the intense review of existing literature on financing constraints facing SEs, the study discovered a gap in terms of research works with the sole purpose of identifying financing constraints facing SEs in the Pretoria CBD. Most research studies have focused on factors that affect the growth of SEs in general, with financing constraints being among those factors; hence the need to conduct this study, which aimed to identify financing constraints facing SEs in the Pretoria CBD.

CHAPTER 3:

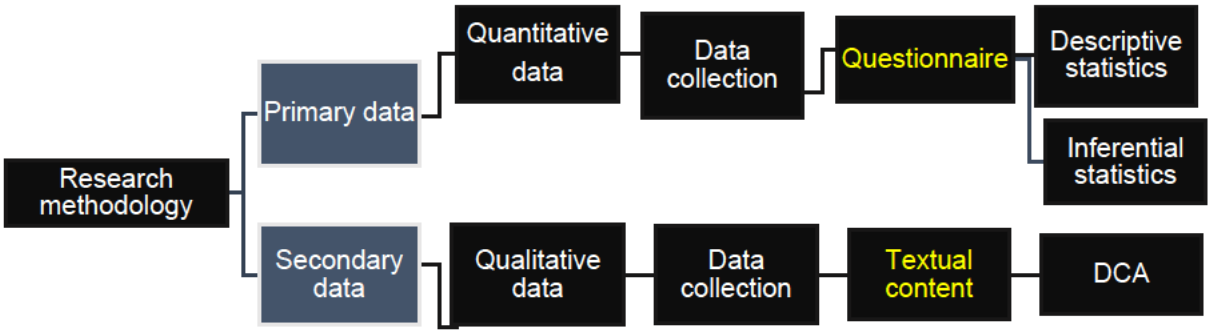
RESEARCH METHODOLOGY

3.1 INTRODUCTION

The literature review examined and discussed various previous research works and gaps. The literature review reported existing financing constraints that affect SEs. In consultation with the conducted literature review, a mixed-methods approach was adopted. The mixed-methods approach combines both the qualitative and quantitative methods, which enables a richer and a fuller scale of research and assists in complementing the limitations of each method. The mixed-methods approach allows the integration of both qualitative and quantitative approaches, and benefits from the strengths of both methods. The advantage of the mixed-methods approach is that it allows a research study to have credibility and contextualisation. As per the main research objective, this study sought to identify the financing constraints that prevent small enterprises (SEs) from accessing loans through financial institutions, and finally, to provide a guideline for small business loan accessibility through financial institutions. For the qualitative method, DCA was conducted, using secondary data collected from journal articles, institutional reports, and other literature sources. For the quantitative method, descriptive analysis, involving frequencies and percentages, of the primary data collected from sampled participants through questionnaires, was conducted. Inferential analysis in the form of the chi-square test was also conducted. After data collection and analysis, the results were compared in order to draw a tangible and satisfactory conclusion. Using the mixed-methods approach, the study became more reliable as it utilised various methods of data collection on the same

subject, which also provided better context and allowed a substantially detailed conclusion. This section discusses the data collection and analysis of the study.

Figure 3.1: A visual illustration of the mixed-methods approach



Source: Researcher's own compilation

3.2 STUDY AREA

The study was conducted in the Pretoria CBD, in the City of Tshwane Metropolitan Municipality in the Gauteng province. This is the largest municipality in terms of surface area of approximately 6 368 km² of Gauteng's 19 055 km² surface area and has around 2.9 million residents. The municipality is very economically active, contributing at least 27% of the province's GDP and 9% of the national economy GDP (Stats SA, 2022). The Gauteng province has the most economic and business activities, which made it the best area to conduct this study (Stats SA, 2019:20). The Pretoria CBD was the chosen research area for this study. The SEs that are included in the study were all from the Pretoria CBD. Studying SEs found in the country's capital city is important for policy recommendations (Worku, 2015:120).

3.3 RESEARCH PARADIGM AND PHILOSOPHY

The adoption of a clear and concise strategy to conduct a study is important. The philosophical approach and the paradigm that a study uses are important in dictating how data are collected and analysed (Holden & Lynch, 2004:397). This study used the

pragmatist research philosophy, which states that the methods, procedures, and techniques that should be used to achieve the study's research goal are determined by the research problem (Žukauskas *et al*., 2018:123). The pragmatist research philosophy deals with facts, and mostly uses interviews, questionnaires, case studies, and surveys to establish what is currently happening in a real-world setting (Alghamdi & Li, 2013:5). In line with this paradigm, this study extracted information on SEs using existing literature and a questionnaire.

3.4 RESEARCH APPROACH AND DESIGN

In line with the pragmatist paradigm, a mixed-methods approach was followed (Žukauskas *et al*., 2018:123). For this reason, the study used both qualitative and quantitative methods to investigate the constraints that affect the financing of SEs. A study's research design informs the method and structure by which data are collected, measured, and analysed (Cameron & Hoque, 2017:1242). For this research project, the research design was inspired by the studies of Nkwabi and Mboya (2019), Ngcobo (2017), Cameron and Hoque (2017), and Mbonyane and Ladzani (2011), which also employed a mixed methods approach to investigate the financing limitations that affect SMEs. Using existing literature by means of journal articles, institutional reports, and other literature sources, DCA was used for qualitative analysis. Secondary data were used for qualitative analysis. Primary data were collected from SEs by means of a questionnaire. The quantitative data, obtained from the distributed questionnaire, were analysed using descriptive and inferential statistics. Descriptive analysis, using frequencies and percentages, and inferential analysis, using chi-square test analysis, were used to review all the similarities and differences from the questionnaires' feedback, and to determine the significant factors that constrain SE financing. The

mixed methods, which comprise of qualitative and quantitative analysis were used to address the same research objectives. The reason for using both methods is informed by the limitations of each method. The qualitative method involved using existing literature to investigate the financing constraints that face SEs; this method uses limited sources that have been extracted from existing research work that may not have adequately captured all the experiences of SEs. The quantitative method uses primary data, which have been extracted through a questionnaire, where participants respond to the questions relating to financing constraints facing SEs. The use of questionnaires captures the information and experiences that might not have been included in the chosen existing literature as per the qualitative analysis. All the participants were SEs based in the Pretoria CBD, South Africa.

3.4.1 Data gathering

3.4.1.1 Qualitative Data-Content analysis

For qualitative analysis, data were extracted from existing literature, which consisted of journal articles, institutional reports, and other various literature sources. Content analysis was conducted on secondary literature sources, using the information as provided in the scholarly body of knowledge, which have been found to be inhibitors of sourcing funding by SEs. These include lack of collateral, government regulations, entrepreneurship, and managerial skills (Mbonyane & Ladzani, 2011:8; Ngcobo, 2017:10; Lim & Foster, 2020:16; Nkwabi & Mboya, 2019). According to Bayatzis (1998), Miles and Huberman (1994), there is no size rule for materials to be analysed in a qualitative content analysis, but the number of materials selected are based on the relevance to the study goal. However, this study selected twelve (12) materials for content analysis and this is considered to be a reasonable size by Kibiswa (2019). The

databases from which the textual materials were extracted include JSTORE, EconLit, World Bank Databank, and Science Direct.

3.4.1.2 Quantitative Data-Questionnaire

For quantitative analysis, data were gathered by means of a questionnaire, which was distributed to SEs in the Pretoria CBD, South Africa. The questionnaire comprised of closed-ended and open-ended questionnaire, and also included a Likert-scale questions, which was developed by the researcher, where the participants were asked to indicate their level of satisfaction with the services that they receive from the financial institutions. The questionnaire consisted of four sections and required the participants to take about 25 minutes to complete. The participation was absolutely voluntary; no participant was forced to participate and no penalty was imposed upon withdrawal. The questionnaire was primarily administered online, and the participants were assured of anonymity of their responses. The online questionnaire was presented on Google Forms. The Google form link was administered through the participant's cell phone number or email address. The researcher observed that some of the participants were not very comfortable with opening the online link and therefore the researcher had to travel to their respective locations to assure them that the google form link was not a scam but a legitimate item to help access the questionnaire platform. When all the participants had completed the questionnaires, the data was then coded and analysed using Stata version 17. The questionnaires were distributed to 120 participants, belonging to four various sectors, with each sector receiving 30 questionnaires, all the 120 completed questionnaires were returned. The response rate was 100%, which was sufficient for data analysis. The data analysis therefore consisted of 120 questionnaires.

Using primary data, the study sought to provide more specific information on the limitations that prevent SEs from receiving financial support from both the government and mainstream financial institutions. The questionnaires that were distributed sought to obtain feedback on aspects that prevent SEs from receiving financing from financial institutions. The questionnaire was, however, not limited to asking questions about predefined financing constraints but also included inductive questions. This was done to allow the participating SEs to provide information that might not have been sourced and captured by the existing literature.

3.4.1.3 Sampling technique

Purposive sampling was deemed to be the most appropriate for this study; and this sampling technique helped address the vast heterogeneity that exist between small enterprises. Selecting participants with similar characteristics and experiences ensured that homogeneity and representativity among SE's under study was achieved. According to Mason (2010:2), an average sample size of 30 is acceptable for a research study that uses a questionnaire to collect data. SEs have diverse characteristics and operate in various markets. Due to the heterogeneity of SEs, only SEs in the retail market, wholesale market, transport services, and hospitality were considered for data collection. When SEs are segregated per distinctive sector, homogeneity is achieved (Guest *et al*., 2006:78). The concept of saturation was adopted for data collection. The sample for each market was 30, which was done to reach saturation. The total sample was 120, which comprised 30 participants for each of the four markets.

The questionnaires were distributed to 120 owners/managers of SEs that were registered according to the Companies Act, No, 71 of 2008. Only registered

businesses are eligible to apply for funding from both financial institutions and the government. The questionnaires were distributed online for the convenience of all the participants. For any participant that declined to participate, another participant was added. The study ensured that the minimum number of participants was no less than 30 per market sector. However, the study acknowledges the limitations associated with purposive sampling, which involves the possible biases that might have been committed when selecting the sample units, and therefore compromising the extrapolation of the results to broader populations, and constraining the reliability and of the study findings.

3.4.2 Data analysis

3.4.2.1 Qualitative analysis

For qualitative analysis, Directed Content Analysis adopted. DCA is a deductive approach which involves the use of existing theory or framework, and the use of data to build upon that existing theory or framework. DCA also uses existing research to develop an initial coding scheme before starting to analyse data (Kyngas & Vanhanen, 1999:5).

To achieve an effective analysis of the textual data, the study adopted a three – phase schema of textual analysis as recommended by Kibiswa (2019:2062). The first phase is a preparation phase, which involves using the conceptual framework, which is informed by the literature review to define, categorise and develop themes, which will be the subject of data analysis; followed by the data analysis phase, which involves arranging data in a manner that ensures accurate data analysis, and lastly, followed by the reporting phase, which presents all the data interpretation and findings.

The three steps adopted for content analysis ensured that the selected text materials were intensely reviewed and understood, and the information from the content analysis was grouped into themes as identified by the literature. When the text materials were reviewed, they were analysed and then reported.

The use of DCA provided the study with the opportunity to gain insights on financing constraints that have been identified by the existing literature, and this will complement the results extracted from quantitative analysis in areas where some of the important information seem to not have been captured.

The primary objective of this study is to identify the financing constraints that prevent small enterprises (SEs) from accessing loans through financial institutions, and the use of content analysis has allowed the study to identify the financing constraints facing SEs, and because content analysis makes use of existing research, possible guidelines and recommendations are also provided by the existing research works, and this is aligned with one of the specific objectives of providing guidelines and strategies for improving small business loan accessibility through financial institutions

3.4.2.2 Quantitative analysis

For quantitative analysis, descriptive statistical analysis was used to draw conclusions from the data collected via the questionnaire. Descriptive statistics enabled data visualisation, which allowed the data to be analysed and interpreted quantitatively.

The descriptive statistics were used to produce the frequency distribution of numerical data. The data were analysed and the results were presented in different formats, such as socio-demographic tables, and bar graphs.

Inferential statistical test, which involves a chi-square test was used to measure how expectations compare to actual observed data or model results. The results were displayed in chi-square test tables for analysis and interpretation. The chi-square test enabled the study to assess whether there were significant levels of association between the variables. The use of descriptive statistics and inferential statistics to analyse the responses received from the questionnaire enabled the study to examine the financing constraints facing SEs and therefore achieve two specific objectives, which involved the determination of the specific evaluation criteria used by financial institutions foe small enterprise loan applications and the identification of barriers within these criteria that hinder SEs from securing financing.

The information gathered from both the qualitative and quantitative analyses provided enough guidance to identify the financial constraints that SEs in the Pretoria CBD are facing; thus, addressing all the research objectives.

3.5 METHODOLOGICAL LIMITATIONS

The use of textual data for DCA has its advantages, such as easy access to data, data-collection scope, and time efficiency. However, content analysis is not without its limitations (Ezzat, 2022). Every research study has limitations that may affect its validity and generalisability (Kibiswa, 2019). Using a limited source of information reduces the identification of new themes in the data, and it may not include multiple perspectives; It limits the identification of new patterns or themes in the data, and may not accommodate multiple perspectives. One limitation was limited control over the data quality and availability. Issues such as data accuracy, completeness, and consistency affect reliability (Creswell, 2014). Moreover, the interpretation bias or

subjectivity was another limitation. Content analysis involves interpretation, which could be influenced by preconceptions or prior knowledge (Creswell, 2014).

The data collected from the questionnaire had its advantages, such as the gathering of rich information, and the direct engagement with SEs provided an understanding of their experiences. However, the limitations associated with this method involves Incorrect feedback on sensitive questions, limited response options, language barrier, and hastiness in answering questions, leading to insincere answers.

By navigating the limitations and employing rigorous analysis techniques, this study aimed to provide valuable insight into identify the financing constraints that prevent small enterprises (SEs) from accessing loans through financial institutions and to providing guidelines and strategies for improving small business loan accessibility through financial institutions. The study acknowledged the limitations of the research design and data-collection methods, which included the use of primary and secondary data.

3.6 CHAPTER SUMMARY

This chapter focused on the methodological framework of the study. It provided insight into the data-collection and data-analysis approaches to determine financing constraints facing SEs in the Pretoria CBD. The study collected both primary data in the form of a questionnaire and secondary data in the form of textual materials for DCA in order to identify financing constraints facing SEs and to provide guidelines for SE loan accessibility.

The following chapter reports on the data analysis and subsequent findings.

CHAPTER 4:

DATA ANALYSIS, FINDINGS, AND DISCUSSIONS

4.1 INTRODUCTION

This research study aimed to identify the financing constraints that prevent small enterprises (SEs) from accessing loans through financial institutions. The study sought to achieve its main objective by pursuing the following three specific objectives: firstly, to determine the evaluation criteria applicable to small business loan applications by financial institutions; and, secondly, to identify the barriers within these criteria that hinder SEs from securing financing; and, thirdly, to develop guidelines for small business loan accessibility through financial institutions. As part of the mixed-methods approach used in the study, DCA, which primarily involves a systematic analysis of data from texts from various published writings without involving any numerical quantification, was used. This method was useful in providing important information from existing literature on the subject under study. With content analysis, there is no strict rule on how to structure it; however, for more coherent and effective analysis and interpretation, Kibiswa (2019:2062) recommends a three-phase schema of textual analysis. The phases comprise (1) the preparation phase, which involves devising a working framework that outlines and defines the themes that are the subject of analysis and interpretation of the selected qualitative data; (2) the data-analysis phase, which involves organising the data in a way that enables good data analysis and interpretation; and (3) the reporting phase, which presents the insights gained and the findings. Each of the phases is outlined below. This study also used primary data to achieve its objectives. The primary data were analysed and interpreted through descriptive statistics and displayed in tables and graphs. Frequencies and

percentages were also used for all responses in relation to challenges and barriers faced in relation to accessing funds. The participants' feedback was also subjected to a chi-square test, which was done to assess whether there were significant levels of association between the categorical variables under study. The data analysis was conducted through the use of Stata version 17.

4.2 QUALITATIVE ANALYSIS: DIRECTED CONTENT ANALYSIS (DCA)

DCA was conducted to perform qualitative data analysis. This method involved the systematic analysis of contextual text, as extracted from various sources, which included journal articles and institutional reports. The focal content of analysis was based on predetermined themes from the conceptual framework.

4.2.1 Preparation phase

The study used its conceptual framework, in consultation with the research objectives, to select and determine subjects of investigation and organised them into the following operational theme framework:

- Government regulations
- Collateral
- Financial literacy
- Management skills

The study conducted an investigative review of existing literature, guided and directed by the predetermined themes. Government regulations, collateral, financial literacy, and management skills have been reported as factors that influence SE access to credit. A focused analysis of content in connection with the themes helped the study

to gain more insight from the existing body of research into factors that influence financing constraints.

The frame contains themes that are the focus of the research study and that guided the study on which materials and content to focus on when deducing information from existing literature. Table 4.1 lists the text material selected for qualitative content analysis.

Table 4.1: List of text materials selected

No.	Title	Author & year	Genre	Findings
1	Small business constraints: The influence of time	Visser *et al.* (2019)	Journal article	Lack of financial support is the main growth constraint for SEs.
2	Challenges, barriers and policy development for South African SMMEs – Does size matter?	Botha *et al.* (2021)	Journal article	Government and institutional regulations impede SEs' access to finance.
3	The challenges/barriers preventing the South African youth in becoming entrepreneurs: South African overview	Radebe (2019)	Journal article	There is a lack of entrepreneurial skills among start-up SEs, which contributes to the financing constraints facing SEs.
4	Consequences of failure and challenges of small business in South Africa: A theoretical review	Eze and Lose (2023)	Journal article	Lack of collateral and complex compliance requirements exacerbate financing constraints among SEs.
5	The effect of regulations and legislation on small, micro and medium enterprises in South Africa	Nieuwenhuizen (2019)	Journal article	Government regulations and red tape to accessing credit discourage SEs from applying for finance.
6	Challenges of financing small and medium enterprises' growth through public equity in South Africa	Semenya and Dliwayo (2020)	Journal article	Government and institutional regulations impede SE prospects of accessing finance.

No.	Title	Author & year	Genre	Findings
7	An exploration of challenges faced by small-medium enterprises caused by Covid19: The case of South Africa	Chiloane-Phetla and Mathipa (2021)	Journal article	Government regulations do not serve the interests of SEs. Such regulations are often developed without consultation with SEs.
8	Annual report: Investing in SMMEs and co-operatives to enhance their resilience in a low growth environment	SEFA (2023)	Report	Banks do not accept moveable assets as collateral. A fund of funds, which will serve as a guarantor to banks, could reduce banks' risk perception of SEs.
9	SMMEs and co-operatives funding policy for South Africa	DSBD (2023)	Policy	The Economic Reconstruction Recovery Plan (ERRP) aims to reduce regulatory hindrances, to allow ease of access to important credit facilities.
10	Financing SMEs and Entrepreneurs 2022: An OECD Scoreboard	OECD (2022)	Report	Banks do not accept moveable assets as collateral. An effective asset register will help SEs supply such assets as collateral.
11	Report on the Evaluation of the Integrated Strategy for the Promotion of Entrepreneurship and Small Enterprises (ISPESE)	Department of Planning, Monitoring and Evaluation (DPME) and DSBD (2018)	Report	Inadequate business training and strict regulations cause delays in accessing finance.
12	Small Business Research Review: A Report Prepared for the Capacity Building Programme for Employment Promotion	DSBD (2018)	Report	Lack of skills, complex compliance requirements, and banks' preference of medium enterprises over SEs result in the financial exclusion of SEs.

4.2.2 Data-analysis phase

This section discusses the collected and analysed content related to financing constraints that affect SEs. The findings and conclusions from each source are presented in their own paragraph. Each paragraph is assigned a theme(s) as per the findings that relate to the predetermined theme in the operational themes frame. The data analysis is divided into two major clusters, namely information gathered from journal articles and information extracted from institutional reports and other texts.

4.2.2.1 Journal articles

Visser *et al*. (2019:1) investigated the constraints and limitations facing SEs that restrain their growth in the City of Tshwane. The study distributed questionnaires to various SEs in the city to find out from them what were the constraints that were deemed to be challenging and prevalent for business owners. The study concluded that lack of financial support was the main growth constraint facing SEs in the City of Tshwane (Visser *et al*., 2019:12).

(a) Government regulations and collateral

SEs have various challenges that hinder their growth and sustainability in South Africa. A robust study conducted by Botha *et al*. (2020:159) revealed how SEs in South Africa continue to suffer from less access to finance and high levels of red tape. Such difficulties continue to prevail, despite all the government initiatives and efforts to support SEs.

A contextual study conducted by Eze and Lose (2023) investigated the reasons for the high failure rate among SEs in South Africa. The study found that lack of access to credit is one of the major reasons for business failure and that this lack of access to

finance is caused by strict requirements that are imposed by financial institutions. Financial institutions often require a business to provide information such as credit position, business strategy, and collateral, with few SEs being able to meet such requirements.

A comprehensive study, which used both secondary and primary data to draw conclusions on the impact of regulations on SEs, revealed that the hostile regulatory environment in South Africa has been a major contributory factor in challenges facing SEs (Nieuwenhuizen, 2019:669). Such a regulatory environment has a spillover effect on lack of access to financing. SEs must constantly align with the ever-changing regulations surrounding business operations. Government regulations and red tape indirectly set a standard for the basis on which businesses and their applications for finance are evaluated by financial institutions.

Semenya and Dliwayo (2020:14) investigated the reasons why SMEs are not interested in listing on the Johannesburg Stock Exchange's Alternative Exchange (AltX) platform, although the AltX was created to allow SMEs to gain access to equity funding. The study found that the listing requirements, procedures, and regulations of the platform were too stringent for SEs.

The study conducted by Chiloane-Phetla and Mathipa (2021) found that existing regulations and compliance requirements surrounding access to credit were designed without any consultation with SEs. Government initiatives that are introduced to assist SEs to access financing often do not reach their objectives because the targeted enterprises seldom meet the regulatory requirements to participate in such initiatives. Many of the government funds require SEs to provide tax compliance certificates and

financial statements that are prepared by a certified accountant. Many SEs are not able to afford accountants and their tax matters are not always in order.

(b) Entrepreneurship skills

A robust study by Radebe (2019:67-68), using various literature sources to analyse data, revealed that early education on entrepreneurship is important in South Africa and could improve entrepreneurial prospects among the youth. A lack of information and know-how in the business sector exacerbates the unavailability of finance for start-up SEs.

4.2.2.2 Institutional reports

(a) Collateral and policies

According to SEFA (2023:5), there is a large credit gap among SEs in South Africa. To address the credit gap, the DSBD developed an SMME and Co-operatives Funding Policy. The policy is aimed at increasing access to credit by SMMEs by encouraging financial institutions to accept moveable assets as collateral. Such assets may include livestock, vehicles, and industrial equipment. Through the policy, the DSBD aims to reduce risks associated with credit extension to SMMEs through creating a fund of funds, which will serve as a guarantor for SE loans.

SEs were adversely affected during the COVID-19 pandemic. In an effort to boost economic recovery in the post-pandemic period, the ERRP was introduced. This plan places more emphasis on reducing the regulatory inhibitors and encourages the development and introduction of more inclusive financial products to resolve the SMME credit gap, which is estimated to be more than R350 billion (DSBD, 2023:2).

The OECD (2022) states that many SEs do not have immovable assets, which can serve as reliable collateral. Instead, they own moveable assets, but financial institutions do not accept moveable assets because it is difficult to ascertain their availability in case of a default. The government is exploring the development of a moveable collateral register. A moveable asset register will consist of a legal and institutional framework that would record the ownership and use of moveable assets as collateral for SEs, and legitimise creditors' legal claims on the registered collateral, should debtors fail to honour their credit obligations. This initiative is expected to reduce the risk averseness that banks have towards SEs when extending loans and will also lessen the cost of borrowing for SEs (OECD, 2022).

(b) Management skills and government regulations

The South African government conducted a survey in a quest to explore the widely reported challenges facing SEs in the country. The survey, in the form of case studies, was conducted in the Gauteng, Free State, Western Cape, and Limpopo provinces. The case studies consisted of desktop research and analysis of policies and economic trends; consultations with local, provincial, and national government officials in each province; and a focus group discussion with SEs in each province. The report revealed that SEs are fundamentally excluded from the credit economy. Some of the challenges reported by the respondents included inadequate business development and training, complex regulatory requirements, and excessive red tape, which cause delays and inconveniences in accessing finance from institutions such as SEFA (DPME & DSBD 2018:21).

A research project conducted by the DSBD (2018) to investigate and ascertain factors that derail SMMEs from growing as expected revealed that the research participants

emphasised the need for business-related education and skills, the provision of business loans by government financial institutions, and the reduction of unattainable compliance requirements for accessing credit. The research subjects also mentioned that with the minimum funds made available to SMMEs in general, the medium-sized enterprises receive the funds while SEs receive virtually no funding.

4.2.3 Data interpretation

The reviewed content on financial constraints facing SEs in the Pretoria CBD has revealed a pattern in the reasons for limited or no access to finance by SEs. Government regulations, in the form of red tape, have been a dominant factor in restricting access to finance from both government financial institutions and banks. The redress of compliance requirements can improve the evaluation criteria applicable to small business loan applications by financial institutions. The lack of necessary skills and collateral also contributes negatively to the access of finance. The eradication of these limitations is therefore important in developing guidelines for small business loan accessibility through financial institutions.

4.3 QUANTITATIVE ANALYSIS (DESCRIPTIVE AND INFERENTIAL DATA ANALYSES)

The primary data that were collected were analysed and interpreted through descriptive statistics and displayed in tables and graphs. Frequencies and percentages were also used for all responses in relation to challenges and barriers faced in relation to accessing funds. The chi-square test was also performed to test the level of statistical significance among the involved variables.

4.3.1 Participants' demographic details

Table 4.2 shows the participants' demographic details in terms of ownership structure, designation in the company, business sector, monthly revenue range, owner's level of education, owner's/manager's business management experience, and the enterprise's years of existence.

Table 4.2: Demographic statistics

Variables	Frequency (134)	Percentage (%)
Business ownership structure		
Sole proprietorship	69	51.5%
Partnership	21	15.7%
Private company	36	26.9%
Public company	2	1.5%
Franchise	4	3%
Other	2	1.5%
Total	**134**	**100%**
Designation in the company		
Manager	44	32.8%
Owner	90	67.2%
Total	**134**	**100%**
Type of business sector		
Primary sector	6	4.5%
Secondary sector	21	15.8%
Tertiary sector	106	79.7%
Total	**134**	**100%**
Enterprise's monthly revenue range		
Below R20 000	7	5.2%
R20 000 to R40 000	10	7.5%
R41 000 to R60 000	26	19.4%
>R60 000	91	67.9%
Total	**134**	**100%**
Level of education		
Below Grade 12	37	27.8%
Grade 12	36	27.1%
Certificate	14	10.5%
Diploma	20	15.0%
Degree	14	10.5%
Postgraduate	12	9.0%
Total	**134**	**100%**
Owner's/manager's business management experience		

1 – 5 years	25	19.4%
6 – 10 years	45	34.9%
11 – 15 years	17	13.2%
16 years+	42	32.6%
Total	**129**	**100%**
Enterprise's years of existence		
1 – 5 years	37	30.3%
6 – 10 years	37	30.3%
11 – 15 years	17	13.9%
16 years+	31	25.4%
Total	**122**	**100%**

The feedback from the completed questionnaire shows that more than half of the enterprises were sole proprietorships (51.5%), followed by private companies (26.9%), with the lowest types of ownership being the public company (3%) and franchise (3%). The majority of the enterprises are managed by the owners (67.2%), with 32.8% of the enterprises being managed by appointed managers. Most of the SEs traded in the tertiary sector (79.7%), followed by those in the secondary sector (15.8%), and then the primary sector (4.5%). Most of the SEs (67.9%) indicated that they made more than R60 000 revenue per month, followed by those that made between R41 000 and 60 000 (19.4%), and only 5.2% made less than R20 000 per month. Most of the owners/managers who completed the questionnaire indicated that their level of education was below Grade 12 (37%), followed by those with a Grade 12 certificate (36%), while very few of them had a postgraduate qualification (12%). Most of the owners/managers indicated that they had between one and 10 years' worth of business management experience (34.9%), followed by those with more than 16 years' experience (32.6%), and the least business management experience being between 11 and 15 years (13.2%). The majority of the SEs have been in existence for 10 years (60.6%), followed by those in existence for more than 16 years (25%), and only 13.9% of them having been in existence for between 11 and 15 years.

4.3.2 SEs' characteristics and credit experiences

This section shows the characteristics of SEs and the limitations they experienced when attempting to source finance from financial institutions.

Table 4.3: SEs' characteristics and experiences

Variables	Frequency (134)	Percentage (%)
Do you have an interest in sourcing financing from financial institutions?		
No	*7*	*5.2%*
Yes	*127*	*94.8%*
Loan application in the last five years?		
No	*30*	*22.4%*
Yes	*104*	*77.6%*
Loan application outcome in the last five years?		
Approved	*35*	*26.3%*
Rejected	*65*	*48.9%*
Not applicable	*33*	*24.8%*
Do high interest rates discourage accessing financing from financial institutions?		
No	*14*	*10.5%*
Yes	*119*	*89.5%*
Do you think there are limitations that hinder access to business funding for SEs?		
No	*10*	*7.5%*
Yes	*124*	*92.5%*
Have you received financial assistance from the government?		
No	*34*	*25.4%*
Yes	*100*	*74.6%*
Do you have all legal documents and permits to operate?		
No	*44*	*32.8%*
Yes	*90*	*67.2%*
Which of the following documents does the business have? (multiple-response question)		
Business plan	*94*	*20.3%*
Business bank account	*112*	*24.2%*
Financial statements	*63*	*13.6%*
Credit reports	*99*	*21.4%*
Tax pin (in good standing)	*89*	*19.3%*
Other	*5*	*1.1%*
Owner's/manager's certified business skills (multiple-response question)		
Management skills	*122*	*40.9%*

Variables	Frequency (134)	Percentage (%)
Financial skills	*92*	*30.9%*
Organisational skills	*84*	*28.2%*
Your financial behaviour		
Poor	*46*	*34.3%*
Good	*73*	*54.5%*
Excellent	*15*	*11.2%*
Level of your financial literacy		
Poor	*42*	*31.3%*
Good	*75*	*56.0%*
Excellent	*17*	*12.7%*
Your financial knowledge		
Poor	*48*	*36.1%*
Good	*67*	*50.4%*
Excellent	*18*	*13.5%*
Level of your financial risk tolerance		
Low	*32*	*24.2%*
Average	*71*	*53.8%*
High	*29*	*22.0%*
Sales during COVID-19 pandemic		
Increased	*6*	*4.5%*
Decreased	*122*	*91.0%*
Unchanged	*6*	*4.5%*

The majority of the SEs indicated that they have interest in sourcing financing from financial institutions (94.8%); most of the SEs have applied for loans in the last five years (77.6%); and most of the loan applications were rejected (48.9%), with 24.8% of the SEs not applying for loans, and only 26.3% being approved. Most of the SEs indicated that high interest rates discouraged them from accessing financing from financial institutions. Of the SEs, 92.5% indicated that there are limitations that reduce their access to financing. Only 67.2% indicated that they had all the legal documents to operate the business. More than any other document, most of the SEs had a business bank account, a business plan, and a tax certificate. Most of the owners/managers indicated that they possessed business management skills more

than any other skill (40.9%), followed by financial skills (30.9%), and organisational skills (28.2%). Half of the enterprises indicated that they had good financial behaviour (54.5%), followed by those who indicated poor financial behaviour (34.3%), while only 11.2% indicated excellent financial behaviour. Half of the SEs indicated that they had good financial knowledge (50.4%), followed by those who indicated poor financial knowledge (36.1%), while only 13.5% indicated excellent financial knowledge. Around half of the SEs indicated that they had average financial risk tolerance (53.8%), followed by those with low financial risk tolerance (24.2%), while only 22% indicated high financial risk tolerance. Ninety-one percent of the SEs experienced decreased sales during the COVID-19 pandemic.

Table 4.4: Participants' feedback on multiple-response questions

Variables	Frequency (134)	Percentage (%)
Why would your business need financing?		
To finance operating expenses	96	24.6%
To finance research and development	74	19.0%
To finance new business ventures	73	18.7%
To expand the enterprise's capacity	73	18.7%
To acquire assets	74	19.0%
Which factors do you consider to be hindering your access to financing?		
Lack of collateral	110	26.6%
Poor bookkeeping	91	22.0%
Lack of own capital	99	24.0%
Stiff lending regulations	113	27.4%
Where do you get information about your financing options?		
Television and radio	93	20.4%
Organisational reports	97	21.2%
Family members and colleagues	103	22.5%
Journals and magazines	92	20.1%
Agents and advisers	72	15.8%
Recommended initiatives to improve access to finance		
Training programmes	116	24.1%
Workshops and seminars	99	20.5%

Variables	Frequency (134)	Percentage (%)
Social media	98	20.3%
Advertisements	98	20.3%
Investors'/financing meetings	71	14.7%

Among the reasons for needing business financing, the highest percentage of participants (24.6%) indicated financing operating expenses, followed by financing research and development (19%), acquiring assets (19%), expanding the enterprise's capacity (18.7%), and financing new business ventures (18.7%). The participants were asked to indicate which factors they considered to be hindering their access to financing. Stiff lending regulations represented 27.4% of the factors that hinder financing, followed by lack of collateral (26.6%), lack of own capital (24%), and poor bookkeeping (26.6%). Regarding where participants' information for financing options came from, 22.5% said it came from family members and colleagues, followed by organisational reports (21.2%), television and radio (20.4%), journals and magazines (20.1%), while only 15.8% of information came from agents and advisers. Regarding the recommended initiatives to improve access to finance, training programmes were the most recommended (241%), followed by workshops and seminars (20.5%), social media (20.3%), advertisements (20.3%), and investors'/financing meetings (14.7%).

4.3.3 SEs' relationships with financial institutions

This section examines the relationship that exists between SEs and financial institutions. The participants were asked to rate their level of satisfaction with the services that they received from financial institutions.

Table 4.5: SEs and financial institutions

Variables	Frequency (134)	Percentage (%)
Offering SEs various financing options		
Poor	96	71.6%
Good	32	23.9%
Excellent	6	4.5%
Providing full transparency to SEs in relation to financing products		
Poor	95	70.9%
Good	34	25.4%
Excellent	5	3.7%
Providing SEs with sufficient information on the cost of financing		
Poor	97	72.4%
Good	30	22.4%
Excellent	7	5.2%
Offering a tailored financing product that best satisfies the needs of an SE		
Poor	99	73.9%
Good	29	21.6%
Excellent	6	4.5%
Offering financial advice at lower costs		
Poor	104	78.2%
Good	24	18.0%
Excellent	5	3.8%

The majority of the SEs (71.6%) indicated that they were offered poor financing options, followed by those who indicated that they were offered good financing options, while only 5.5% indicated having received excellent financing options from financial institutions. The majority of the SEs (70.9%) indicated that financial institutions provided them with poor transparency in relation to financing products, 25.4% indicated having been provided with good transparency in relation to financing products, and only 3.7% indicated excellent provision of transparency in relation to financing products. When the participants were asked if financial institutions provided sufficient information on the cost of financing, 72.4% indicated a poor level of satisfaction, followed by those who indicated a good level of satisfaction (22.4%), while

only 5.2% indicated an excellent level of satisfaction. When the participants were asked to rate their level of satisfaction on tailored financing products that satisfied the needs of an SE, 73.3% indicated poor satisfaction, followed by those who indicated a good level of satisfaction (21.6%), and only 4.5% indicated an excellent level of satisfaction.

4.3.4 Enterprises that applied for loans

Figure 4.1: Loan applications in the last five years

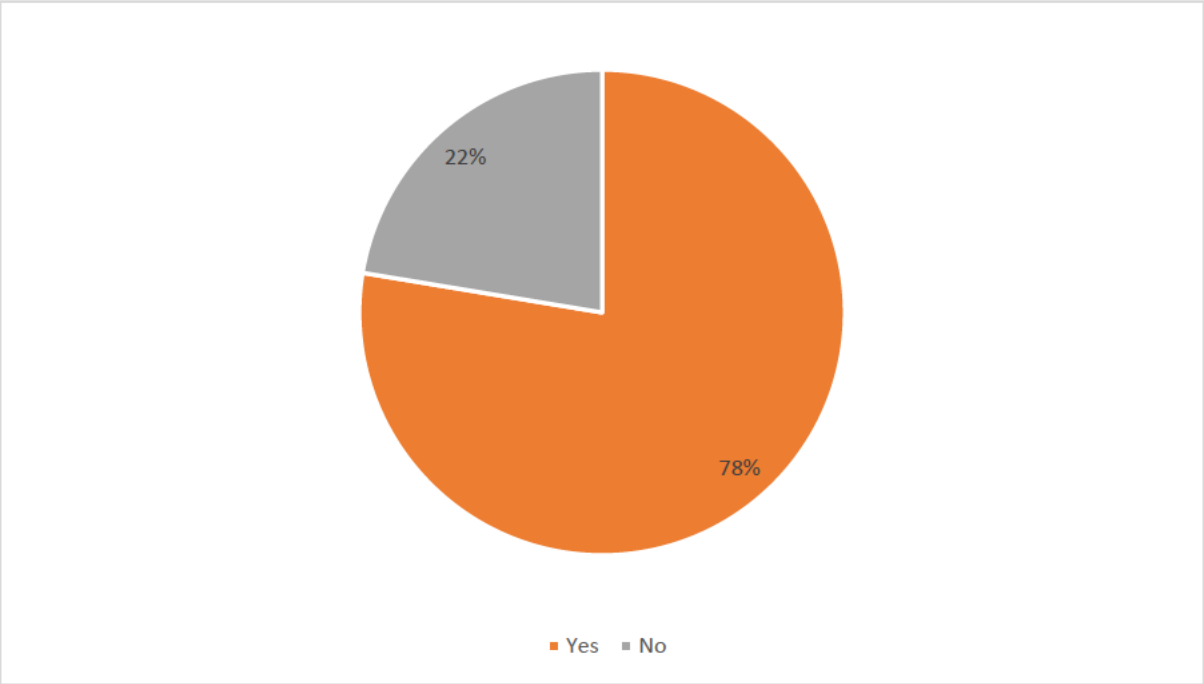


Figure 4.1 shows that 78% of the participants had applied for loans in the last five years, while 22% did not apply for any loan from financial institutions.

Figure 4.2: Intended purpose of the funds

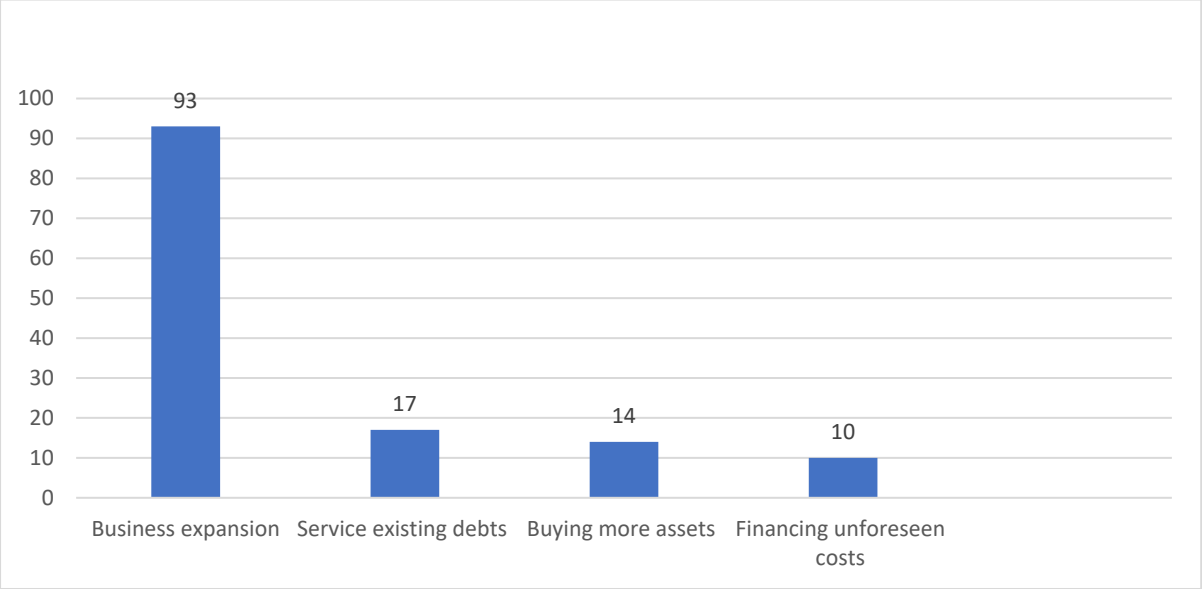


Figure 4.2 depicts various purposes of the required credit by SEs. The majority of the participants indicated that they intended to use the required credit for business expansion (93), followed by those who are intent to service existing debts (17), buying more assets (14), and finally, 10 participants indicated that they would want to finance unforeseen costs.

Figure 4.3: Sources of finance

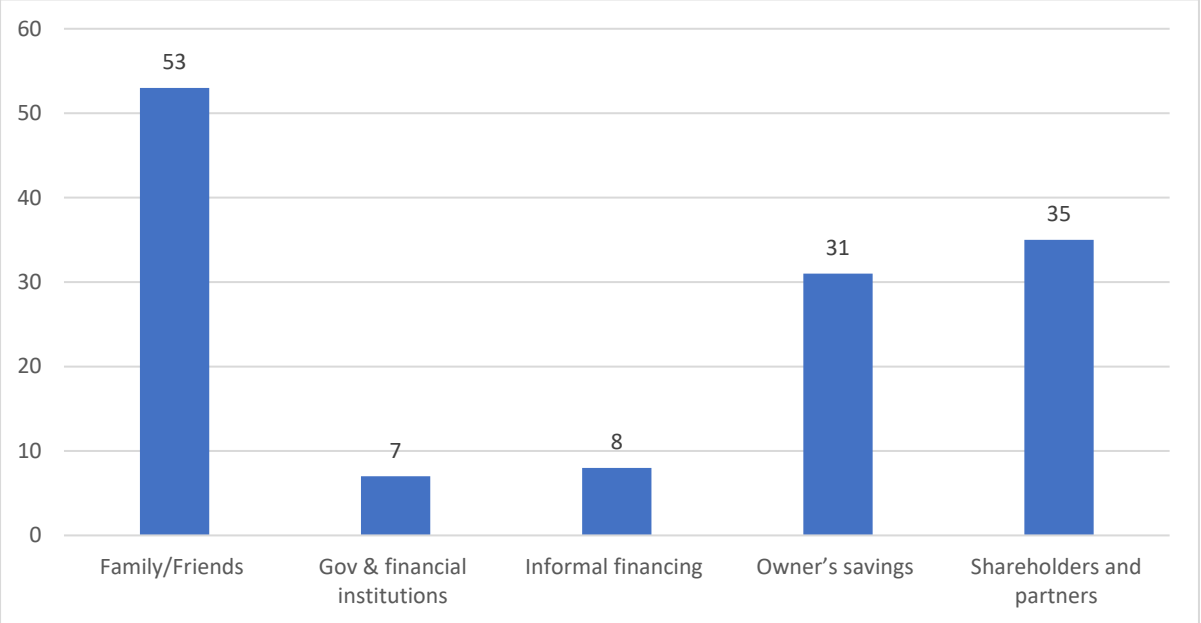


Figure 4.3 shows various sources of finance for SEs. Most of the participants (53) indicated that family and friends were their main sources of finance, followed by those who sourced finance from shareholders and partners (35), the owner's savings (31), informal financing *stokvels* (8), and financial institutions (7).

Figure 4.4: Source of limitations when accessing finance

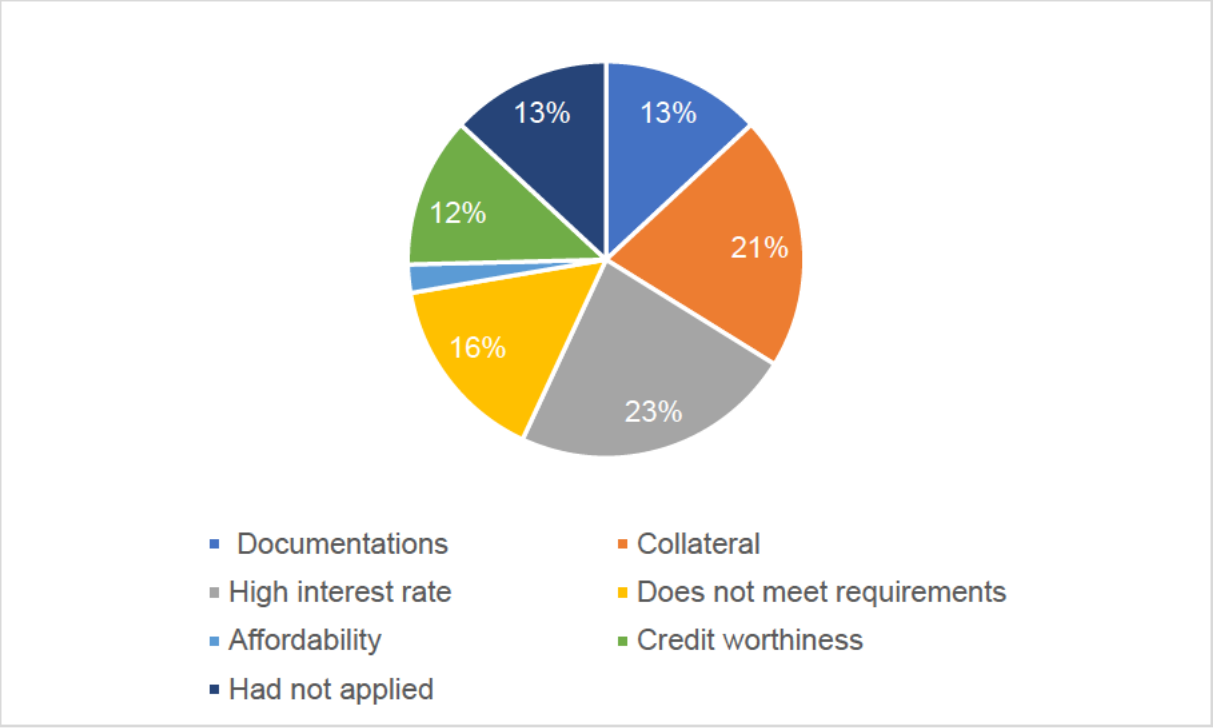


Figure 4.4 displays the participants' responses when they were asked to indicate the problems they encountered when applying for finance. High interest rate was the most prevalent reason that prevented the SEs from accessing finance (23%), followed by lack of collateral (21%), while the least mentioned reason was affordability (2%).

4.3.5 Inferential data analysis (chi-square test)

The chi-square test was used to test the level of significance among the variables.

Table 4.6: Various sources of finance

Business ownership structure	Family and friends	Banks	Informal lenders	Owners' savings	Shareholders' equity	P-value
Sole proprietorship	38 (55.07%)	2 (2.90%)	4 (5.80%)	17 (24.64%)	8 (11.59)	**0.00**
Partnership	3 (14.29%)	2 (9.52%)	1 (4.76%)	1 (4.46%)	14 (66.67%)	
Private company	9 (25%)	2 (5.56%)	3 (8.33%)	11 (30.56%)	11 (30.56%)	
Public company	0 (0%)	0 (0%)	0 (0%)	1 (50%)	1 (50%)	
Franchise	3 (75%)	0 (0%)	0 (0%)	0 (0%)	1 (25%)	
Other	0 (0%)	1 (50)	8 (5.97)	1 (50%)	0 (0%)	
Designation in the company						
Manager	12 (27.27%)	2 (4.55%)	3 (6.82%)	9 (20.45%)	18 (40.91%)	0.080
Owner	41 (45.56%)	5 (5.56%)	5 (5.56%)	22 (24.44%)	17 (18.89%)	
Business designation						
Primary sector	0 (0%)	3 (50%)	0 (0%)	2 (33.33%)	1 (16.67%)	**0.000**
Secondary sector	11 (52.38%)	0 (0%)	1 (4.76%)	4 (19.05%)	5 (23.81%)	
Tertiary sector	42 (39.62%)	4 (3.77%)	7 (6.60%)	25 (23.58%)	28 (26.42%)	
Monthly revenue range						
<R20 000	2 (28.57%)	2 (28.7%)	0 (0%)	3 (42.86%)	0 (0%)	0.061
R20 000 – 40 000	6 (60%)	0 (0%)	1 (10%)	3 (30%)	0 (0%)	
R41 000 – 60 000	11 (42.31%)	0 (0%)	3 (11.54%)	6 (23.08%)	6 (23.08%)	
>R60 000	34 (37.36%)	5 (5.49%)	4 (4.40%)	19 (20.88%)	29 (31.87%)	
Level of education						
Below Grade 12	16 (43.24%)	0 (0%)	3 (8.11%)	8 (21.62%)	10 (27.03)	0.399
Grade 12	17 (47.22%)	1 (2.78%)	2 (5.56%)	6 (16.67%)	10 (27.78%)	

Business ownership structure	Family and friends	Banks	Informal lenders	Owners' savings	Shareholders' equity	P-value
Certificate	5 (35.71%)	1 (7.14%)	0 (0%)	6 (42.86%)	2 (14.29%)	
Diploma	5 (25%)	4 (20%)	0 (0%)	5 (25%)	6 (30%)	
Degree	6 (42.86%)	0 (0%)	1 (7.14%)	4 (28.57%)	3 (21.43%)	
Postgraduate	4 (33.33%)	1 (8.33%)	1 (8.33%)	2 (16.67%)	4 (33.33%)	
Years of experience in business management						
1 – 5	12 (48%)	0 (0%)	0 (0%)	11 (44%)	2 (8%)	**0.029**
6 – 10	18 (40%)	4 (8.89%)	4 (8.89)	3 (6.67%)	16 (35.56%)	
11 – 15	8 (47.06%)	1 (5.88%)	1 (5.88)	4 (23.53%)	3 (17.65%)	
16+	14 (33.33%)	2 (5.43%)	1 (1.38%)	13 (30.95%)	12 (28.57%)	
Years of business existence						
1 – 5	17 (45.95%)	2 (5.41)	1 (2.70%)	11 (29.11)	6 (16.22%)	0.284
6 – 10	16 (43.24%)	1 (2.70%)	4 (10.81%)	3 (8.11%)	13 (35.14%)	
11 – 15	7 (41.18%)	1 (5.88%)	0 (0%)	6 (35.29%)	17 (17.65%)	
16+	10 (32.26%)	2 (6.45%)	1 (3.23%)	9 (29.03%)	9 (29.03%)	
Type of market						
Retail	20 (47.62%)	1 (2.38%)	1 (2.38%)	8 (19.05%)	12 (28.57%)	0.269
Wholesale	13 (43.33%)	0 (0%)	0 (0%)	8 (26.67%)	9 (30%)	
Transport services	8 (27.59%)	3 (10.34%)	3 (10.34%)	9 (31.03%)	6 (20.69%)	
Hospitality	12 (36.36%)	3 (9.09%)	4 (12.12%)	6 (18.18%)	8 (24.24%)	

Sources of finance were statistically significant with business ownership structure, business designation, and years of experience in business management. Among the participants, enterprises with sole proprietorship ownership were more likely to source finance from family and friends (55.07%), and owners' savings (24.64%). Partnerships were more likely to source finance from shareholders' equity (66.67%), and private companies were more likely to source funds from owners' savings and shareholders' equity. Participants in the primary sector were more likely to source finance from banks (50%) and owners' savings (33.33%). Those in the secondary sector were more likely to source funds from family and friends (52.38%) and shareholders' equity (23.81%). Participants in the tertiary sector were more likely to source funds from family and friends (39.62%), shareholders' equity (26.42%), and owners' savings (23.58%). Participants with business experience of less than five years were more likely to source finance from family and friends (48%) and owners' savings (44%), those with experience between six and 10 years were more likely to source finance from family and friends (40%) and shareholders' equity (35.56%), those with experience between 11 and 15 years were more likely to source finance from family and friends (47.06%), and those with more than 16 years of experience were more likely to obtain finance from family and friends (33.33%) and owners' savings (30.95%) and shareholders' equity. There was no significant association between sources of finance and designation in the company, monthly revenue range, level of education, years of business existence, and type of market.

Table 4.7: Purpose of acquiring finance

Business ownership structure	Business expansion	Servicing business debts	Acquiring more assets	Financing operational costs	P-value
Sole proprietorship	47 (68.12%)	11 (15.94%)	7 (10.14%)	4 (5.80%)	0.531
Partnership	12 (57.14%)	4 (19.05%)	4 (19.05%)	1 (4.76%)	
Private company	28 (77.78%)	2 (5.56%)	2 (5.56%)	4 (11.11%)	
Public company	2 (100%)	0 (0%)	0 (0%)	0 (0%)	
Franchise	3 (75%)	0 (0%)	0 (0%)	1 (25%)	
Other	1 (50%)	0 (0%)	1 (1%)	0 (0%)	
Designation in the company					
Manager	30 (68.18%)	3 (6.82%)	4 (9.09%)	7 (15.91%)	0.043
Owner	63 (70%)	14 (15.56%)	10 (11.11%)	3 (3.33%)	
Business designation					
Primary sector	4 (66.67%)	0 (0%)	2 (33.33%)	0 (0%)	0.421
Secondary sector	17 (80.95%)	2 (9.52%)	1 (4.76%)	1 (4.76%)	
Tertiary sector	71 (66.98%)	15 (14.15%)	11 (10.38%)	9 (8.49%)	
Monthly revenue range					
<R20 000	4 (57.14%)	0 (0%)	2 (28.57%)	1 (14.29)	0.778
R20 000 – 40 000	8 (80%)	1 (10%)	0 (0%)	1 (10%)	
R41 000 – 60 000	19 (73.08%)	3 (11.54%)	2 (7.69%)	2 (7.69%)	
>R60 000	62 (68.13%)	13 (14.29%)	10 (10.99%)	6 (6.59%)	
Level of education					
Below Grade 12	27 (72.97%)	4 (10.81%)	5 (13.51%)	1 (2.70%)	0.440
Grade 12	27 (72.97%)	5 (13.89%)	1 (2.78%)	3 (8.33%)	
Certificate	8 (57.14%)	2 (14.29%)	3 (21.43%)	1 (7.14%)	
Diploma	14 (70%)	1 (5%)	4 (20%)	1 (5%)	
Degree	9 (64.29%)	3 (21.43%)	0 (0%)	2 (14.29%)	
Postgraduate	8 (66.67%)	2 (16.67%)	0 (0%)	2 (14.29%)	
Years of experience in business management					
1 – 5	19 (76%)	2 (8%)	3 (12%)	1 (4%)	0.421
6 – 10	31 (68.89%)	7 (15.56%)	3 (6.67%)	4 (8.89%)	
11 – 15	8 (47.06%)	3 (17.65%)	3 (17.65%)	3 (17.65%)	
16+	32 (76.19%)	4 (9.52%)	5 (11.90%)	1 (2.38%)	
Years of business existence					
1 – 5	26 (70.27%)	3 (8.11%)	5 (13.51%)	3 (8.11%)	0.395
6 – 10	30 (81.08%)	5 (13.51%)	1 (2.70%)	1 (2.70%)	
11 – 15	9 (52.94%)	3 (17.65%)	2 (11.76%)	3 (17.65%)	
16+	21 (67.74%)	3 (9.68%)	5 (16.13%)	2 (6.45%)	

Business ownership structure	Business expansion	Servicing business debts	Acquiring more assets	Financing operational costs	P-value
Type of market					
Retail	30 (71.43%)	6 (14.29%)	3 (7.14%)	3 (7.14%)	0.148
Wholesale	22 (73.33%)	5 (16.67%)	3 (10%)	0 (0%)	
Transport services	16 (55.17%)	5 (17.24%)	6 (20.69%)	2 (6.90%)	
Hospitality	25 (75.76%)	1 (3.03%)	2 (6.06%)	5 (15.15%)	

The purpose of acquiring finance is statistically significant with designation in the company for owners and managers. The participants' feedback shows that enterprises that acquire finance for business expansion do so through the appointed managers (68.18%) and the owners (70%). There was no observed significant association between the purpose of acquiring finance and business ownership structure, business designation, monthly revenue range, level of education, years of experience in business management, years of business existence, and type of market.

Table 4.8: Reason for loan application rejection

Business ownership structure	Affordability	Credit-worthiness	Lack of collateral	Lack of documents	Not applied	P-value
Sole proprietorship	6 (10.17%)	6 (10.17%)	10 (16.95%)	11 (18.64%)	26 (44.07%)	0.831
Partnership	1 (4.76%)	3 (14.29%)	3 (14.29%)	4 (19.05%)	10 (47.62%)	
Private company	3 (9.38%)	7 (21.88%)	5 (15.63%)	8 (25%)	9 (28.13%)	
Public company	1 (50%)	0 (0%)	0 (0%)	0 (0%)	1 (50%)	
Franchise	0 (0%)	0 (0%)	0 (0%)	1 (33.33%)	2 (66.67%)	
Other	0 (0%)	1 (50%)	0 (0%)	0 (0%)	1 (50%)	
Designation in the company						
Manager	3 (7.63%)	6 (15.38%)	7 (17.95%)	6 (15.38%)	17 (43.59%)	0.0870
Owner	8 (10%)	11 (13.75%)	11 (13.75%)	18 (22.50%)	32 (40%)	
Business designation						
Primary sector	0 (0%)	0 (0%)	1 (20%)	2 (40%)	2 (40%)	0.884
Secondary sector	2 (11.11%)	4 (22.22%)	3 (16.67%)	3 (16.67%)	6 (33.33%)	
Tertiary sector	9 (9.47%)	13 (13.68%)	14 (14.74%)	18 (18.95%)	41 (43.16%)	
Monthly revenue range						

Business ownership structure	Affordability	Credit-worthiness	Lack of collateral	Lack of documents	Not applied	P-value
<R20 000	0 (0%)	0 (0%)	1 (16.67%)	1 (16.67%)	4 (66.67%)	0.424
R20 000 – 40 000	1 (10%)	2 (20%)	0 (0%)	5 (50%)	2 (20%)	
R41 000 – 60 000	4 (16%)	3 (12%)	3 (12%)	4 (16%)	11 (44%)	
>R60 000	6 (7.69%)	12 (15.38%)	14 (17.95%)	14 (17.95%)	32 (41%)	
Level of education						
Below Grade 12	5 (15.15%)	3 (9.09%)	5 (15.15%)	9 (27.27%)	11 (33.33%)	0.427
Grade 12	3 (9.68%)	7 (22.58%)	4 (12.90%)	3 (9.68%)	14 (45.16%)	
Certificate	1 (8.33%)	1 (8.33%)	4 (33.33%)	2 (16.67%)	4 (33.33%)	
Diploma	0 (0%)	5 (27.78%)	1 (5.56%)	4 (22.22%)	8 (44.44%)	
Degree	1 (7.69%)	1 (7.69%)	1 (7.69%)	3 (23.08%)	7 (53.85%)	
Postgraduate	0 (0%)	0 (0%)	3 (27.27%)	3 (27.27%)	5 (45.45%)	
Years of experience in business management						
1 – 5	2 (8%)	4 (16%)	3 (12%)	5 (20%)	11 (44%)	0.739
6 – 10	5 (13.16%)	3 (7.89%)	4 (10.53%)	11 (28.95%)	15 (39.47%)	
11 – 15	1 (6.25%)	3 (18.75%)	3 (18.75%)	4 (25%)	5 (31.25%)	
16+	3 (8.33%)	6 (16.67%)	7 (19.44%)	3 (8.33%)	17 (47.22%)	
Years of business existence						
1 – 5	4 (11.43%)	4 (11.43%)	5 (14.29%)	6 (17.14%)	16 (45.71%)	0.683
6 – 10	4 (12.12%)	5 (15.15%)	3 (9.09%)	8 (24.24%)	13 (39.39%)	
11 – 15	2 (12.50%)	0 (0%)	4 (25%)	4 (25%)	6 (37.50%)	
16+	1 (4.17%)	6 (25%)	5 (20.83%)	4 (16.67%)	8 (33.33%)	
Type of market						
Retail	4 (11.43%)	6 (17.14%)	5 (14.29%)	8 (22.86%)	12 (34.29%)	0.648
Wholesale	1 (3.45%)	6 (20.69%)	7 (24.14%)	6 (20.69%)	9 (31.03%)	
Transport services	4 (13.79%)	3 (10.34%)	2 (6.90%)	5 (17.24%)	15 (51.72%)	
Hospitality	2 (7.69%)	2 (7.69%)	4 (15.38%)	5 (19.23%)	13 (50%)	

There is no statistical significance between the reason for loan rejection and business ownership structure, designation in the company, business designation, monthly revenue range, level of education, years of experience in business management, years of business existence, and type of market.

Table 4.9: Hindrances encountered when sourcing financing

Business ownership structure	Business documents	Lack of collateral	High interest rates	Own capital	Affordability	Credit-worthiness	Never applied	P-value
Sole proprietorship	9 (13.43%)	13 (19.40)	17 (25.37%)	12 (17.91%)	0 (0%)	9 (13.43%)	7 (10.45%)	**0.027**
Partnership	1 (4.76%)	4 (19.05%)	4 (19.05%)	4 (19.05%)	0 (0%)	2 (9.52%)	6 (28.57%)	
Private company	7 (20.59%)	7 (20.59%)	7 (20.59%)	4 (11.76%)	1 (2.94%)	5 (14.71%)	3 (8.82%)	
Public company	0 (0%)	1 (50%)	1 (50%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	
Franchise	0 (0%)	1 (25%)	1 (50%)	0 (0%)	1 (25%)	0 (0%)	1 (25%)	
Other	0 (0%)	1 (50%)	0 (0%)	0 (0%)	1 (50%)	0 (0%)	0 (0%)	
Designation in the company								
Manager	5 (11.36%)	11 (25%)	13 (29.55%)	3 (6.82%)	0 (0%)	5 (11.36%)	7 (15.91%)	0.312
Owner	12 (13.95%)	16 (18.60%)	17 (19.77%)	17 (19.77%)	3 (3.49%)	11 (12.79%)	10 (11.63%)	
Business designation								
Primary sector	1 (20%)	0 (0%)	1 (20%)	1 (20%)	1 (20%)	0 (0%)	1 (20%)	0.457
Secondary sector	3 (14.29%)	4 (19.05%)	6 (28.57%)	3 (14.29%)	0 (0%)	4 (19.05%)	1 (4.76%)	
Tertiary sector	13 (12.62%)	22 (21.36%)	23 (22.33%)	16 (15.53%)	2 (1.94%)	12 (11.65%)	15 (14.56%)	
Monthly revenue range								
<R20 000	0 (0%)	2 (33.33%)	2 (33.33%)	0 (0%)	1 (16.67%)	0 (0%)	1 (16.67%)	0.289
R20 000 – 40 000	3 (30%)	1 (10%)	0 (0%)	2 (20%)	0 (0%)	3 (30%)	1 (10%)	
R41 000 – 60 000	4 (15.38%)	3 (11.54%)	7 (26.92%)	4 (15.38%)	1 (3.85%)	2 (7.69%)	5 (19.23%)	
>R60 000	10 (11.36%)	21 (23.86%)	21 (23.86%)	14 (15.91%)	1 (1.14%)	11 (12.50%)	10 (11.36%)	
Level of education								
Below Grade 12	8 (21.62%)	8 (21.62%)	4 (10.81%)	10 (27.03%)	0 (0%)	2 (5.41%)	5 (13.51%)	0.164
Grade 12	4 (11.76%)	5 (14.71%)	9 (26.47%)	5 (14.71%)	0 (0%)	6 (17.65%)	5 (14.71%)	

Business ownership structure	Business documents	Lack of collateral	High interest rates	Own capital	Affordability	Credit-worthiness	Never applied	P-value
Certificate	1 (8.33%)	5 (41.67%)	5 (41.67%)	0 (0%)	0 (0%)	1 (8.33%)	0 (0%)	
Diploma	1 (50%)	2 (10%)	6 (30%)	2 (10%)	1 (5%)	5 (25%)	3 (15%)	
Degree	1 (7.14%)	3 (21.43%)	3 (21.43%)	1 (7.14%)	1 (7.14%)	1 (7.14%)	4 (28.57%)	
Postgraduate	2 (16.67%)	4 (33.33%)	3 (25%)	1 (8.33%)	1 (8.33%)	1 (8.33%)	0 (0%)	
Years of experience in business management								
1 – 5	2 (8.33%)	5 (20.83%)	6 (25%)	1 (4.17%)	1 (4.17%)	6 (25%)	3 (12.50%)	0.429
6 – 10	5 (11.36%)	7 (15.91%)	8 (18.18%)	12 (27.27%)	2 (4.55%)	2 (4.55%)	8 (18.18%)	
11 – 15	3 (17.65%)	3 (17.65%)	4 (23.53%)	2 (11.76%)	0 (0%)	3 (17.65%)	2 (11.76%)	
16+	6 (15%)	10 (25%)	11 (27.50%)	5 (12.50%)	0 (0%)	4 (10%)	4 (10%)	
Years of business existence								
1 – 5	4 (11.43%)	10 (28.57%)	8 (22.86%)	2 (5.71%)	2 (5.71%)	6 (17.14%)	3 (8.57%)	0.595
6-10	4 (10.81%)	4 (10.81%)	9 (24.32%)	7 (18.92%)	1 (2.70%)	4 (10.81%)	8 (21.62%)	
11 – 15	3 (17.65%)	5 (29.41%)	4 (23.53%)	0 (0%)	0 (0%)	0 (0%)	2 (11.76%)	
16+	4 (13.79%)	6 (20.69%)	8 (27.59%)	4 (13.79%)	0 (0%)	5 (17.24%)	2 (6.90%)	
Type of market								
Retail	10 (24.39%)	9 (21.95%)	11 (26.83%)	2 (4.88%)	0 (0%)	6 (14.63%)	3 (7.32%)	**0.00**
Wholesale	3 (10.71%)	6 (21.43%)	5 (17.86%)	2 (7.14%)	0 (0%)	7 (25%)	5 (17.86%)	
Transport services	0 (0%)	3 (10.71%)	5 (17.86%)	13 (46.43%)	1 (3.57%)	1 (3.57%)	5 (17.86%)	
Hospitality	4 (12.12%)	9 (27.27%)	9 (27.27%)	3 (9.09%)	2 (6.06%)	2 (6.06%)	4 (12.12%)	

Hindrances encountered when sourcing finance are statistically significant with business ownership structure and type of market. For sole proprietorships, high interest rates (25.37%) and insufficient own capital (17.91%) are more likely to restrict access to finance. Partnerships are more likely to encounter hindrances to finance in the form of lack of collateral (19.05%), high interest rates (19.05%), and own capital (19.05%). Private companies are more likely to encounter hindrances when sourcing finance in the form of business documents (20.59%), lack of collateral (20.59%), and high interest rates (20.59%). Participants in the retail industry indicated that they were more likely to face hindrances from high interest rates (26.83%), business documents (24.39%), and lack of collateral (21.95%) when sourcing finance. Wholesalers are more likely to face hindrances through low creditworthiness (25%), lack of collateral (21.43%), and high interest rates (17.86%). Participants in the transport industry indicated that they were more likely to face hindrances to finance through low own capital (46.43%) and high interest rates (17.86%). Those in the hospitality sector indicated that they were more likely to encounter hindrances to finance through high interest rates (27.27%) and lack of collateral (27.27%). There is no significant association between hindrances encountered when sourcing financing and designation in the company, business designation, monthly revenue, level of education, years of experience in business management, and years of business existence.

4.4 OVERALL DISCUSSION OF THE RESULTS AND FINDINGS

This section discusses the results of the DCA and descriptive and inferential data analyses.

4.4.1 Discussion of the results from the DCA

The results from the DCA that was performed clearly indicate that SEs face financing constraints from different factors. Factors such as collateral, regulations, policies, and lack of entrepreneurial skills are hindrances that prevent SEs from accessing finance. The text material consulted for the content analysis indicated government and institutional regulations as major factors that prevent SEs from accessing finance from mainstream financial institutions. The results from the content analysis agree with the study's literature review, although the content analysis reported government regulations and red tape to be the most prevalent source of limitation to access to finance. The literature review also referred to collateral, entrepreneurial skills, and regulations to be among the contributing factors to financing constraints facing SEs in the Pretoria CBD. It has also been revealed that government initiatives aimed at assisting SEs to access finance often experience failure in achieving their objective. Most SEs do not meet the requirements imposed on them by government finance agencies that are supposed to assist them with low cost finance; instead, the medium-sized businesses enjoy access to the finance that is made available to SMMEs. In addition to funds being made available by the government, SEs also need to be trained to function and comply with regulatory requirements in order to access finance from both financial institutions and government finance agencies.

4.4.2 Discussion of the results from the descriptive and inferential data analyses

The study found that 78% of SEs have applied for finance in the last five years, and this high number of applications is due to the fact that such establishments require substantial financing amounts. Only 22% of enterprises indicated that they did not apply for business loans from financial institutions. The study also found that among the businesses that did not apply for loans, many of them received funds from informal sources. Some of the SEs expressed their discouragement in terms of applying for loans from financial institutions. According to the discouraged SEs, banks reject their loan applications without clear explanations. The study found that among the discouraged enterprises, many of the managers are not financially literate and therefore do not understand the written financial requirements for the loan applications. The prevalent reason given for loan application rejection by banks is the enterprises' lack of required documentation. Although many enterprises expressed their interest in loans from financial institutions, only a few enterprises received loans from financial institutions.

The study also found that SEs are often ignorant of industry legal compliance requirements. Most funding applications from SEs are rejected by financial institutions. The respondents were all registered business entities in South Africa, but they do not have any other industry-related certification, such as a tax clearance and financial statements. The majority of SEs operate like informal businesses, and due to that, they are not able to convince banks and government agencies to grant them financing and business finance. Loans that are sourced from family and friends, shareholders and partners, and owners' savings made up the largest part of the enterprises' fund

pool. The study found that most SEs have little interest in acquiring industry certifications that are required by financial institutions because even those who possess the required documentation are still rejected by the banks when applying for business loans. For SEs, non-compliance with industry regulations is a serious obstacle to accessing business financing.

SEs often need loans for acquiring and expanding business premises and other working infrastructure, and this is where collateral is often required by the banks. Some of the surveyed respondents indicated that they incurred substantial costs in ensuring their assets, which led to depletion of operational cash flow. Some SEs are required to have insurance cover according to industry regulators. Oftentimes, many of the SEs are not in possession of any insurance cover for their properties and therefore fall short of required documents by the banks and government financial agencies. Some of the SEs indicated that their incomes were seasonal; such enterprises often need financial assistance in their off-seasons to finance the continuity of their existence. The SEs expressed how they found it difficult to source financing from financial institutions due to the stringent requirements imposed on them. Despite limited access to finance from financial institutions, SEs in the Pretoria CBD continue to apply for funding.

4.5 CHAPTER SUMMARY

The study collected both primary data through a questionnaire and secondary data from existing literature. The secondary data include textual data on which the study conducted DCA, with a purpose of identifying financing constraints facing SEs. The results from the content analysis showed that factors such as lack of collateral, entrepreneurial skills, management skills, and government regulations prevent SEs from accessing finance from financial institutions. These results emphasise that

government regulations and complex compliance requirements are the major inhibitors of access to finance for SEs. The primary data were analysed using descriptive and inferential analyses. The results revealed that the majority of SEs have applied for business loans in the last five years, although without notable success. The results also revealed that most SEs sourced finance from family and friends. Both the content and descriptive analyses arrived at the same conclusion that SEs face financing constraints and are not able to easily access finance from mainstream financial institutions.

CHAPTER 5:
SUMMARY, CONCLUSION, AND POLICY IMPLICATIONS

5.1 OVERALL SUMMARY

This study sought to identify the financing constraints facing SEs in the Pretoria CBD. The study pursued two specific objectives: to determine the evaluation criteria applicable to small business loan applications by financial institutions, and to develop guidelines for small business loan accessibility through financial institutions. In order to achieve its objectives, the study collected secondary data from trusted existing literature and primary data from SEs through a questionnaire. The overall data that were collected and analysed provided a holistic approach to identifying financing constraints facing SEs and revealed the common and prevalent constraints facing SEs when sourcing finance. The financing constraints identified are government regulations, collateral requirements, management skills, and business documentation. The study also examined the relationship that SEs have with commercial banks, and the feedback from the SEs was that banks offer them very poor service in terms of financing options, financing products, cost of finance, and financial advice. The outcomes of the study confirmed the need for recommended solutions to reduce the financing constraints facing SEs in the Pretoria CBD.

5.2 RESEARCH OBJECTIVES AND RESEARCH QUESTIONS REVISITED

The study's main objective was to identify the financing constraints that prevent small enterprises (SEs) from accessing loans through financial institutions, with three sub-objectives, namely to determine the evaluation criteria applicable to small business loan applications by financial institutions, to identify the barriers within these criteria that hinder SEs from securing financing, and to develop guidelines for small business

loan accessibility through financial institutions. The main objective was achieved through content and descriptive analyses, which produced results that identified the financing constraints that prevent small enterprises (SEs) from accessing loans through financial institutions, namely lack of collateral, lack of managerial skills, regulations, and required documentation. The study makes recommendations (see Section 5.4), which address the three sub-objectives stated above. The study's research questions which were posed as questions to the three sub-objectives were simultaneously addressed with the study's achievement of the research objectives.

5.3 CONCLUSION

SEs play a pivotal role in economic growth and development. The South African government refers to SEs as one of the strategic role players in employment creation and poverty alleviation. However, SEs are confronted with financing constraints and have not been able to realise their full potential because of lack of funds. The mainstream financial institutions and the government financing agencies reject many loan applications from SEs due to non-compliance with various requirements of the formal credit providers. This study conducted an investigation to identify financing constraints facing SEs in the Pretoria CBD. The literature review and the study's findings confirm that different factors contribute to the financing constraints among SEs. The financing constraints are mainly due to the lack of collateral, lack of business management skills, regulations, and own capital required before a business loan application can be approved. It was found that many SEs are not able to source business funds from formal credit providers but rely on loans from family and friends, and owners' savings; such sources provide limited finance and are not able to assist SEs to achieve significant growth. Although the government has some existing

initiatives aimed at improving access to finance for SMMEs, many SEs do not have access to such funding. The study provides recommendations that can serve to improve access to finance for SEs. The study findings and recommendations are limited to SEs in the Pretoria CBD, but can be used in policy development for all SEs in South Africa. The study emphasised the importance of the government's role in reducing regulatory and collateral limitations and increasing SEs' eligibility to source funds from financial institutions. The banks may not prioritise assisting SEs to comply with requirements for finance, but the government is in a position of privilege when it comes to the availability of resources to assist SEs to develop and how they can access business finance from the major financial institutions.

5.4 RECOMMENDATIONS

SEs in the Pretoria CBD need to receive financial support from the financial sector. Their participation in the financial sector is critical in growing their businesses, which will in turn lead to their positive contribution towards economic growth. This study conducted an investigative analysis on financing constraints facing SEs in the Pretoria CBD. There are ways that SEs can be assisted to gain more access to finance from financial institutions.

This section presents ways on how both financial institutions and the government can play a role in enabling increased access to finance for SEs. The majority of the enterprises expressed interest in sourcing finance from financial institutions; however, they also expressed how difficult it was to have their loan applications approved. The study therefore suggests the intervention of the government and financial institutions to reduce the barriers that prevent access to finance. The government should increase the ease of access to finance by reducing the cumbersome regulatory compliance that

SEs are expected to satisfy, which can be done through reviewing and evaluating existing regulatory frameworks and assessing their impact on SEs. Non-compliance with South African Revenue Service (SARS) tax regulations is a major stumbling block for SEs that wish to access finance from government finance agencies. To alleviate this limitation, the government should appoint special experts to assist SEs in complying with tax-related issues such as value-added tax (VAT) at no cost to SEs. The government should be the first to extend loans to SEs. In order to ensure that such loans are used for their intended purpose, the recipients should be instructed to submit reports on how the funds were used, and incentives, such as reduced cost of finance, should be given to loan recipients that have achieved success from the funds. The government should also take the lead in terms of offering training programmes for SE managers and owners. Such training programmes should be aimed at providing and enhancing managerial skills, financial skills, business communication, and many more skills and knowledge that can assist SEs to understand their business environment, and possibly improve the financial sector's confidence in SEs. The government should implement a moveable collateral register; this is an innovation that will convert a moveable asset into reliable collateral. This can be done through developing a legal framework that registers the ownership of moveable assets as collateral for SE finance and legalises creditors' claims on the registered collateral upon failure to honour credit obligations (OECD, 2022). This initiative could make banks accept moveable assets as collateral, which would allow SEs to provide their moveable assets as collateral, which could in turn increase their access to finance.

The financial institutions are profit-making establishments, and they are likely to accept any initiative that will increase their profits. The government should introduce a loan subsidy to financial institutions when they extend credit to SEs. This subsidy will

reduce the cost of borrowing for the SEs and reduce the risk exposure for financial institutions, while assisting the SEs to access business funds from mainstream banks. The government can also encourage banks to design financing products for SEs by offering incentives such as tax holidays for financial institutions that extend credit to a certain number of SEs. Some SEs are improving and they just need support to be able to grow. The government should serve as a guarantor for some of the growing SEs when accessing business loans. The government should consider distributing some of its funds and loans to SEs via financial institutions. This will encourage financial institutions to design an enabling credit environment for SEs. By doing so, many SEs will become more familiar with accessing finance from financial institutions. The South African government has developed and implemented some programmes to assist SEs to access finance, but many SEs are unaware of these programmes. More awareness programmes should be conducted for the benefit of SEs. Banks can encourage SEs to improve their compliance by reducing some of the requirements, such as collateral and the borrower's own capital, and extend low-value loans to SEs. This will encourage the SEs to grow and comply with the requirements in order to qualify for higher-valued loans. SEs contribute to economic growth, and their sustainability is of paramount importance in the economy. Although the government already has programmes aimed at improving SEs' access to finance, many SEs do not benefit from such programmes, and it is therefore the government's responsibility to ensure that such programmes achieve their intended purpose, which can be done through capacitating SEs with the required knowledge and skills. It is important for the government to take the lead in alleviating financing constraints among SEs because, by doing so, many SEs will be developed and will eventually align with the formal financial institutions' qualifying criteria. With government interest and involvement in

SEs' access to finance, financial institutions will find it easier to work with these enterprises.

5.5 POLICY IMPLICATIONS

The outcomes of this study and the recommendations, in the form of guidelines to remove limitations that prevent SEs from gaining adequate access to finance, may be used by policymakers as a tool to take necessary actions to reduce the financing constraints facing SEs. The recommendations provided in this study may also be adopted to strengthen and help implement existing policies that have been lying dormant. It is the policymakers' responsibility to interpret the provided recommendations appropriately and to apply them in a way that will bring a positive change for SEs, and not cause further constraints. Moreover, it is important to consider the effect that a certain policy will have on all the parties involved, which, in this case, are the SEs, the government, and the financial institutions.

5.6 SUGGESTIONS FOR FURTHER RESEARCH

This study was able to achieve its main objective. However, the study's investigation was limited to the Pretoria CBD, which was as a result of a limited budget to conduct this research project. It would be interesting to see more research work being conducted on the successes, limitations, and failures of the existing initiatives and policies that have been developed by the government to help SEs to access finance. It is in the understanding of the limitations and challenges facing the existing initiatives and policies that one can contribute to the improvement of such initiatives and policies.

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ANNEXURES

Annexure 1: Study Questionnaire

QUESTIONNAIRE ON FINANCING CONSTRAINTS FACING SMALL ENTERPRISES IN PRETORIA CENTRAL BUSINESS DISTRICT

This questionnaire will help gather information on the financing constraints facing small enterprises (SEs) in the Pretoria central business district (CBD). The questionnaire comprises both closed-ended and open-ended questions. There are **FOUR** sections, and it should take between 10 and 15 minutes to complete. This is an anonymous and confidential questionnaire, and you cannot be identified. The participation is strictly voluntary, no one will be forced to participate, and no penalty is applicable upon withdrawal. The feedback will be strictly confidential and will be used for statistical analysis only. The data from this research will only be reported in the general form. Your information will be coded and will remain confidential.

Instructions: Please afford all the sections a high level of attention when giving feedback. Your responses to all sections are important in helping to examine all the financing constraints faced by SEs. Where you are unsure of the exact answers, please provide your estimations.

SECTION 1: DEMOGRAPHIC DETAILS (Please mark the correct answer with an X)

1. Business ownership structure?	Sole proprietorship	Partnership	Private company	Public company	Franchise	Other
2. Designation in company				Manager	Owner	Other
3. Which business sector are you operating in?			Primary sector	Secondary sector	Tertiary sector	
4. What is your monthly revenue range?			Below R20 000	R20 000 – R40 000	R41 000 – R60 000	>R60 000
5. Please estimate your monthly profit in rands	R_____					
5. Highest level of education?	1	2	3	4	5	6
	Below Grade 12	Grade 12	Certificate	Diploma	Degree	Postgraduate
6. Years of business activity?			1 – 5 years	6 – 10 years	11 – 15 years	16 years+
7. Business market?	Retail		Wholesale		Transport services	Hospitality

SECTION 2: ENTERPRISE EXPERIENCE WITH ACCESS TO CREDIT

(Please briefly explain your answers)

1. Do you have interest in sourcing financing from financial institutions?	Yes	No
2. For what purpose would you acquire a business loan? Please explain…….		
3. Have you applied for a business loan from any financial institution in the last five years?	Yes	No
4. What has been the outcome of your business loan application?	Approved	Rejected
5. If the loan application was rejected, what was the reason for the rejection thereof? Please explain……..		

6. Do high interest rates deter you from accessing financing from financial institutions?	Yes	No
7. As an SE, do you think that there are limitations that hinder access to business funding for SEs? If yes, what are the hindrances that you encounter when sourcing financing? Please explain……	Yes	No
8. In your opinion, what do you think contributes to a successful or failed business loan application outcome? ……..		
9. What is the prevalent reason rendered by financial institutions for not approving your business funding application? ……		
10. Have you ever received business financial assistance from the government? Please explain……		
11. Apart from banks and the government, where does the business often source its finances? Please explain ……		
12. Does the business have all the necessary legal documents and permits to operate? Please explain …….	Yes	No
13. Which of the following documents does the business have? A. Business plan B. Business bank account C. Financial statements D. Credit reports E. Tax pin (in good standing) F. Other……	A B C D E F	
14. Which business skills do you, as a manager/owner, possess? A. Management skills B. Financial skills C. Organisational skills	A B C	

SECTION 3: SEs' RELATIONSHIPS WITH FINANCIAL INSTITUTIONS

This section will help the researcher to examine the relationship that exists between SEs and the financial institutions. SEs are asked to rate their level of satisfaction with the services that they receive from financial institutions. SEs are also asked to highlight areas where financial institutions should improve.

Kindly use the scale below to rate your level of satisfaction with your experience with financial institutions. Also provide suggestions that you think will help financial institutions to improve customer experience. **Please mark the level of satisfaction answer with an X.**

Poor [1]	**Good [2]**	**Excellent [3]**

Financial institutions service SEs on financing options by:					
1. Offering SEs various financing options available	[1]	[2]	[3]	[4]	[5]
2. Providing full transparency to SEs in relation to financing products	[1]	[2]	[3]	[4]	[5]
3. Providing SEs with sufficient information on the cost of financing	[1]	[2]	[3]	[4]	[5]
4. Offering a tailored financing product that best satisfies the needs of an SE	[1]	[2]	[3]	[4]	[5]
5. Offering financial advice at lower costs	[1]	[2]	[3]	[4]	[5]
What should financial institutions do to enhance their financial services towards SEs? Please explain briefly.					

SECTION 4: ADDITIONAL TRIANGULATION QUESTIONS

1. According to a 2019 survey by Stats SA, the formal business sector generated a total turnover of R10.5 trillion, and R2.3 trillion of this, which is 22% of the turnover, was attributed to SEs. Given this figure, what is your annual turnover (revenue)? R_____.
2. Do you think you receive enough support from financial institutions?

   Please explain…….
3. How many employees has your business employed? _____ (in number).
4. How much is the average salary of your employees per month? R_____

5. What aspects do you think contribute to the limited business funding provided by financial institutions and the government?

   Please explain……..

6. Do you think the government should introduce a state-owned commercial bank that promotes SE financing in the City of Tshwane? Please explain……...

7. Would you appreciate educational programmes that are designed to educate you on ways to reduce your financial constraints? Please explain…….

8. According to the 2016 Small Business Survey conducted by the National Small Business Chamber, 75% of SEs did not apply for business finance from financial institutions. Given this information, have you applied for business finance in the last five years, and how was the experience? Please explain……

9. Why would your business need financing?

Item	**Tick the correct one**
To finance operating expenses	
To finance research and development	
To finance new business ventures	
To expand the enterprise's capacity	
To acquire assets	
Other, please specify	

10. Which factors do you consider to be hindering your access to financing?

Item	**Tick the correct one**
Lack of collateral	
Poor bookkeeping	
Lack of own capital	
Stiff lending regulations	
Other, please specify	

AWARENESS

11. Where do you get information for your financing options?

Item	Tick the correct one
Television and radio	
Organisational reports	
Family members and colleagues	
Journals and magazines	
Agents and adviser	
Other, please specify	

12. Please **assess** yourself on the following:

Item	Very poor	Poor	Fair	Good	Excellent
Your financial behaviour					
Level of your financial literacy					
Your financial knowledge					
Level of your financial risk tolerance					

13. Which of the following initiatives do you recommend to create awareness among SEs to enhance their access to finance?

Item	Tick the correct one
Training programmes	
Workshops and seminars	
Social media	
Advertisements	
Investors'/financing meetings	
Other, please specify	

14. How important is access to financing to the business? Please explain briefly.

_____

_____

_____

15. This last question is to measure the **revenue shock resilience** of SEs during the pandemic or any other revenue shock that happened in the last 12 to 24 months.

15.1 How did your lack of access to finance affect your sustainability, given the reduced economic activity during the COVID-19 pandemic? Please explain briefly.

_____

_____

_____

15.2 What happened to your **sales** during the COVID-19 pandemic?

Item	**Tick the correct one**	**Roughly by what percentage**
Increased		
Decreased		
Unchanged		

THE END. Thank you for your cooperation and your valuable time.

Annexure 2: Ethical Clearance Letter

Tshwane University of Technology

Faculty of Economics and Finance Research Ethics Committee [FREC-ECO]

The TUT Research Ethics Committee is a registered Institutional Review Board (IRB 00005968) with the US Office for Human Research Protections (IORG# 0004997) (Expires 19 Jan 2014). Also, it has Federal Wide Assurance for the Protection of Human Subjects for International Institutions (FWA 00011501) (Expires 31 Jan 2014). In South Africa it is registered with the National Health Research Ethics Council (REC-160509-21).The FREC-ECO is a subcommittee of the TUT Research Ethics Committee

2 June 2023

Mr N Sehlangu

Title: Financing Constraints Facing Small Enterprises in the City of Tshwane
Programme: Master of Business in Finance
Supervisor: Prof MF Zerihun

Thank you for submitting your proposal for ethics clearance.

The Faculty of Economics and Finance Research Ethics Committee reviewed the documents.

The committee approved the ethical clearance on condition that any questionnaires should be submitted for ethical clearance.

The Committee wishes you well with your research endeavours.

Signature

Klingelhöfer

Chair: ProfHE Klingelhöfer
Faculty Research Ethics Committee
[Ref#: 2023/002-ECO

cc Supervisor/HoD/etc.

Annexure 3: Turnitin Report

SEHLANGU Proposal Final Version Turnitin Report

ORIGINALITY REPORT

15%	12%	4%	5%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	Submitted to Teaching and Learning with Technology Student Paper	2%
2	www.marketlinks.org Internet Source	1%
3	Submitted to Tshwane University of Technology Student Paper	1%
4	vital.seals.ac.za:8080 Internet Source	1%
5	researchspace.ukzn.ac.za Internet Source	1%
6	ulspace.ul.ac.za Internet Source	1%
7	www.studymode.com Internet Source	1%
8	hdl.handle.net Internet Source	<1%
9	scholar.ufs.ac.za	

Annexure 4: Curriculum Vitae of the Candidate

NYIKO SEHLANGU

PROFESSIONAL SUMMARY

A dedicated economist with 8 years' experience, with very strong research, statistical, analytical, financial prudence and administrative skills.

EDUCATION

MASTER OF BUSINESS STUDIES IN FINANCE-*2021-Current*
Tshwane University of Technology-Pretoria
Dissertation: Financing Constraints Facing Small Enterprises in Pretoria CBD

BCOM (HONOURS) ECONOMICS
Economics | 2020
University of South Africa - Pretoria
Dissertation: The issue of foreign aid in developing countries

BACCALAUREUS TECHNOLOGIAE: ECONOMIC MANAGEMENT ANALYSIS
Economic Management Analysis | 2015
Tshwane University of Technology - Pretoria
Research Project: The impact of real exchange rate on real investments in South Africa

NATIONAL DIPLOMA: ECONOMIC MANAGEMENT ANALYSIS
Economic Management Analysis | 2014
Tshwane University of Technology - Pretoria
15 Distinctions

WORK HISTORY

Statistician
TransUnion | 2021-Current

- Conduct market research and present analysis that simplifies and makes sense of complex consumer data.
- Screening potential consumer data purchasers and furnishers.
- Using descriptive statistics and inferential statistics to analyse and interpret consumer data.
- Analysing general consumer behaviour and formulating a periodic market trend.
- Render statistical publications, reports, and presentations.
- Developing and adopting new and more efficient methods to collect data.
- Design and maintain database containing various datasets.
- Applying all company standard operating procedures for data collection, analysis, reporting and storing.
- Maintain all confidential information and file management systems, including responsibility for saving and storing all consumer data.

CONTACT

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REFERENCES

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082 572 0019

Ms Mputle Seloane
Department of Tourism
Deputy Director
076 457 7336

Ms Kgomotso Modiba
TransUnion
HR Manager
078 159 5982

Professor Mulatu Zerihun
Tshwane University of Technology
Head of Economics Department
061 613 1787

AWARDS & LEADERSHIP

- Dean's Scholarship 2015
- 1st position on Dean's top 5 Economics Graduates in 2014
- Voluntary Tutor in Applied Economics
- Academic Officer in the Department of Economics

SKILLS

- Financial Analysis and Modelling
- Statistical Analysis
- Stakeholder Engagement
- Project Management and Administration
- Problem Solving Skills
- Economic Research and Reporting

TRAINING

- Project Management
- EViews-Statistical analysis
- SAS
- Basic Accounting Systems (BAS)
- Breaking Barriers to entry into the Public Service
- Central Supplier Database