

**The role of microfinance on entrepreneurial development: The case of Urban  
Maseru**

**By**

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**A Dissertation Submitted in Partial Fulfilment of the Requirements for Award  
of**

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## CERTIFICATION

We, the undersigned, certify that this dissertation entitled **The Role of Microfinance on Entrepreneurial Development: The Case of Urban Maseru**, submitted by Motsoeli TAU conforms to acceptable standards and as such is fully adequate in scope and quality. We hereby recommend for the acceptance by the University of the Free State, as a fulfilment of the Dissertation requirements for the award of the degree of Master of Development Studies (MDS) of the University of the Free State.

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## DECLARATION

I, Motsoeli J. TAU, declare that this research is my own original work except as indicated in the references. It has not been presented and will not be presented to any other University for a similar or any other degree award.

Signature:

Date:

## **DEDICATION**

This dissertation is dedicated to my beloved family, who have been my source of inspiration in my academic pursuit and tolerated my absence until the accomplishment of my studies. Indeed, all the family members contributed immeasurably and untiringly through support and encouragement in the entire period of my studies.

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## **ABBREVIATIONS AND ACRONYMS**

AfDB	-	African Development Bank
ANOVA	-	Analysis of Variance
BDS	-	Business Development Support
BEDCO	-	Basotho Enterprises Development Corporation
BED	-	Barriers the Impede Entrepreneurial Development
CFE	-	Constraints faced by Micro Entrepreneurs
CMS	-	Contributions of Microfinance Institutions in Supporting SMMEs
CSF	-	Challenges faced by SMMEs in accessing finance
EDP	-	Entrepreneurship Development Programme
EMG	-	Effects of microfinance on SMMEs growth
LNDC	-	Lesotho National Development Corporation
MFIs	-	Micro Finance Institutions
MTI	-	Ministry of Trade and Industry
NGO(s)	-	Non Governmental Organizations
ROSCAs	-	Rotation for Savings and Credit Cooperatives Society
SACCOs	-	Savings and Credit Cooperative Society
SFB	-	Sources of funding for business
SMMEs	-	Small, Medium and Micro Enterprises
SPSS	-	Statistical Package for the Social Sciences

## **ABSTRACT**

Small, Medium and Micro Enterprises have been identified as one of the key components to advancing growth and development in Lesotho. This study assessed the role of microfinance on entrepreneurial development with the aim to identify the key inhibitors for Small, Medium and Micro Enterprises (SMMEs) to have access to microfinance services. The study was conducted in Urban Maseru, Lesotho with the aim to assess the challenges faced by SMMEs in Urban Maseru in accessing microfinance services, then examine the impact of micro-finance on the output of SMMEs in Urban Maseru and further examine the contribution of microfinance on business growth of selected SMMEs in Urban Maseru.

The study made use of quantitative research method and questionnaires for collection of primary data and analysed by using Statistical Package for Social Sciences (SPSS) and tables and figures for the presentation of results. A descriptive variable sampling technique was employed and the Solvin's formula was used in selecting the sample of 400 respondents from SMMEs in Urban Maseru that have benefited from microfinance services between 2016 and 2019. The study concludes that there are various barriers that impede entrepreneurs' development. The fundamental impediment faced by SMMEs is the burdensome procedure that is related to access for credit of which high-interest rates and collateral security are major setbacks. The study submits that microfinance has had a positive influence on entrepreneurial performance measured in terms of output. In the same vein, the study concludes that microfinance has had a significantly positive effect on the business growth of the SMMEs sampled in Urban Maseru.

To this end, SMMEs need to be assisted to use the identified factors to promote growth in order to realise full potential of microfinance contribution on SMMEs development. As such Microfinance Institutions (MFIs) need to review their policies on the terms of credit extension and other finance related development to SMMEs to enhance accessibility to finance by SMMEs. Furthermore, government's support through appropriate policies and business extension services is necessary for SMMEs' capacity development.

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## CHAPTER ONE

### INTRODUCTION AND BACKGROUND TO THE STUDY

#### 1.0 Introduction

Developing countries such as the Kingdom of Lesotho continue to undertake various reforms with the aim to tackle poverty and attain sustainable development. In this regard, entrepreneurial development is gaining strength as the mainstay of economic development, in particular, its role in employment creation considering the growing labour force and the ability of entrepreneurs to provide sustainability in the economy at large. Nonetheless, achieving sustainability of the entrepreneurial establishments has become a challenge to governments and the private sector itself. This could be attributable to lack of and limited access to finance considering that SMMEs need capital to start and achieve sustainable growth of their businesses.

According to International Labour Organisation (ILO)(2003), capital is one of the major barriers to social-economic development and success for micro-enterprise initiatives. Kauffman (2005) further highlighted that the SMMEs in Africa do not have adequate access to finance which prohibited their emergence and development. AfriScope and FinMark Trust (2015) indicated that the majority of entrepreneurs in Lesotho started their businesses with low capital where 49% of SMMEs expressed the difficulty in sourcing money while 19% of the owners stated limitations on cash flow, which is closely connected to access to finance, as a problem. This research therefore aims at investigating the role of microfinance on entrepreneurial development in Maseru Urban. For the purpose of this study, microfinance is described as the provision of loans, savings and other basic financial services to low-income clients, which include SMMEs (Mecha, 2017). The term “development or growth” is used to mean an increase in the amount for example in output, exports or sales, which could lead to expansion of the entrepreneurial establishment, while the baseline covariates included gender, legal structure, size of SMMEs, annual turnover, age, marital status and educational level completed.

This chapter displays information on the background to the study, statement of the problem, the purpose and the significance of the study. It also highlights a brief

description of methodology. It finally provides the scope of the study as well as the definition of key terms that were used in the study.

### **1.1 Background to the study**

The nature and evolution of microfinance in Lesotho has hinged more on the nature of national policies that have been established. The underdeveloped policies on microfinance, based on the money lenders Act of 1989 (Central Bank of Lesotho Annual Report, 2018), have encouraged the establishment of informal microfinance service providers. As such, the microfinance services in Lesotho have in the longest time been delivered through informal arrangements where groups came together in an informal setting to assist each other (AfriScope and FinMark Trust, 2015). These groups evolved into more organised cooperatives which have to date been active in providing microfinance support to the low income communities.

Microfinance is explained by Randhawa and Gallardo (2013) as the provision of various financial services such as deposits, loans, payment services, money transfers and insurance products to the unemployed, low income individuals and small businesses with no or limited access to other forms of financial services. As a result, the importance of microfinance institutions continues to be significant as the main source of capital for small businesses. To this effect, it becomes necessary to investigate the effect of microfinance in facilitating entrepreneurial development.

The report of the Central Bank of Lesotho (2009) indicates that the Government of Lesotho in an endeavour to provide conducive legal environment that favours sustainable development of SMMEs, established a wide-ranging set of programmes through the three Ministries and two agencies which are broadly categorised into Financial Assistance and Business Support Services. The government financial assistance to SMMEs includes soft loans, grants, equity financing, guarantees and tax incentives. Ministries and agencies involved in microfinancing include: the Ministry of Small Business Development and Cooperatives, Ministry of Trade and Industry and Ministry of Finance, while agencies are the Basotho Enterprise Development Corporation (BEDCO) and Lesotho National Development Corporation (LNDC).

Despite having all these institutions, a lot is still needed to boost the SMMEs sector, as they continue to experience challenges in accessing finance and suffer significant

failure thus restricting SMMEs development (Mazanai and Fatoki, 2011). AfricaScope and FinMark Trust (2015) highlights that 2% of the SMME owners predominantly borrowed from the bank with less borrowing from other formal non-bank institutions. The author further indicates that 4% borrow from informal groups and 3% from family and friends. The majority of SMMEs constituting 91% do not borrow for fear that they may not be able to reimburse the money or service the loan and due to stringent lending terms and conditions including the collateral based lending required by microfinance institutions which mostly SMMEs do not have capital to finance.

The profile of SMMEs in Lesotho is generally dominated by micro-enterprises which mostly fall under the informal sector. According to AfricaScope and FinMark Trust, (2015), only 18% of the SMMEs were reported to have been registered while 80% is not registered (). Micro-enterprises constitute 97% of the total SMMEs in Lesotho. The distribution by districts places Maseru as the largest entrepreneurial hub with 49% of the total SMMEs established in Maseru. The SMMEs are engaged in activities within the retail and agricultural sectors. These SMMEs experience several challenges in their pursuit to expand and contribute significantly to the country's economy, which include sourcing finance, low market access, be it local, regional or international. The other challenge facing SMMEs is the high operational costs, inadequate infrastructure and cash flow problems as confirmed by AfricaScope and FinMark Trust (2015).

These financial constraints are due to the perception that SMMEs are considered a high risk group by the commercial banks in that are unable to provide trustworthy financial track records (AfDB; 2018). African Development Bank (AfDB) (2018) further asserts that 56% of SMMEs have been involuntarily excluded from access to finance and are in need of access to credit. AfriScope and FinMark Trust (2015) identify access to finance as one of the constraints to a growing business that was highlighted by the SMMEs. They further state that 49% of SMMEs reported that they had a challenge sourcing capital to start their businesses while an average of 26% indicated the challenge they experience with cash flow with access to finance as identified as the biggest obstacle to growth. The SMME sector in Lesotho is considered one of the significant contributors to the economy by providing income and employment to a substantial proportion of the population. According to AfriScope and FinMark Trust (2015), SMMEs employment share represents 10% out of the total employment of the total population that is over 17 years of age. This therefore highlights the importance

of microfinance to enhance the SMMEs' ability to realise growth in terms of increase in the amount of output and turnover as well as contribution to the economy.

In addition, the demand for business development support facilities have been relatively weak as a result of the very small scale that categorises the operations of the majority of SMMEs, coupled with their limited capacity to grow their businesses as a result of saturated markets, cash flow problems and poor access to credit. The SMME Policy for Lesotho states that SMME development is hampered by various issues which include limited access to finance (Ministry of Small Business Development, Cooperatives and Marketing, 2016).

To meet the unsatisfied demand for financial services in Maseru Urban, a variety of microfinance institutions and Non-Governmental Organisations (NGOs) have emerged in recent times. This emergence was observed as a positive development towards enhancement of SMMEs, nonetheless, the financial services sector in Maseru Urban is still characterised by poor access to financial products and services for low income communities including SMMEs. This is observed through the size of businesses which are in the majority of small entrepreneurs that do not depict high start-up capital and require financial support but rarely able to meet the requirements by the microfinance institutions.

Naidoo (2013) highlight that even in the event where there is an opportunity to access finance, people do not take that advantage due to high costs related to credit. Likhang (2000) also highlight that the financial services in Lesotho come with a high cost more particularly with the Central Bank of Lesotho increasing the interest rates; financial institutions tend to provide impossible conditions such as high security. According to ILO (2003), two-thirds (67.2%) of small entrepreneurs used their own savings to start businesses. The formal financial sector is currently comprised of the Central Bank of Lesotho, four commercial banks; Standard Lesotho Bank, NedBank, First National Bank and Post Bank, licensed money lenders, Savings and Credit Cooperative Society (SACCOs), and insurance companies and brokers according to Ministry of Finance and Development Planning (2012). Parallel to these are a number of informal saving and lending groups as well as community based approaches such as societies and rotating credit groups known as stokvels. These lending groups are not regulated, resulting in high interest rates that are imposed on borrowers and have substantially

deprived SMMEs of realising meaningful growth. Taking note of the importance of capital in the initiation as well as growth of businesses, it is important that micro finance services are well monitored to best facilitate the operational activities and growth of the SMMEs.

The choice of Maseru Urban as the main focus for the study was motivated by the presence of microfinance facilities and activities for a longer period of time including the concentration level of SMMEs activity, which is higher than in other areas within the country.

## **1.2 Problem Statement**

The application of microfinance in the Maseru Urban, Lesotho has generally been a strategy for poverty eradication including making available technical and financial instruments to support entrepreneurial development.

Despite the government's efforts in putting in place appropriate tools to support entrepreneurial activities, there is still low ability of SMMEs to access adequate and affordable financial resources. This has been a serious setback to the growth in this sector.

It is against this backdrop that this research work is undertaken to assess the role of micro financing on entrepreneurial development in Lesotho with the view to illustrate the extent to which the established micro-finance schemes in Lesotho, such as the Savings and Credit Cooperatives (SACCOs) play a role in provision of credit to SMMEs and in influencing their development.

## **1.3 Objectives of the Study**

### **1.3.1 General Objective**

The main objective of the study is to assess the role of micro finance on entrepreneurial development in Urban Maseru.

### **1.3.2 Specific Objectives:**

- To assess the challenges faced by SMMEs in Urban Maseru in accessing micro finance services;
- To identify the role of microfinance institutions in Maseru Urban;
- To identify challenges facing microfinance institutions in providing services to micro entrepreneurs; and
- To examine the contribution of microfinance on business growth of selected SMMEs in Urban Maseru.

The specific objectives are important as they highlight the significance of assessing the needs of the SMMEs in order to establish the elements that influence entrepreneurial development. They further emphasize the need to undertake an appraisal of the key issues that impede entrepreneurial development in Lesotho. In addition, it calls for attention to the availability of instruments that are aimed at providing financial support to SMMEs to develop their businesses. The specific objectives further intend to look into the investigation of existing literature relating to SMMEs support and development that sought to bring to the fore the financing challenges faced by small enterprises and the influence played by micro financing in the growth of SMMEs.

### **1.4 Research Questions**

The specific research questions that address the research problem are as follows:

- What are the challenges faced by micro entrepreneurs in accessing microfinance services?
- What are the roles of microfinance institution?
- What are the challenges facing microfinance in providing services to micro entrepreneurs?

- What is the contribution of microfinance on business growth of selected SMMEs in Urban Maseru?

### **1.5 Significance of the Study**

The study is foreseen to be an instrumental vector for improvement in the activities between micro entrepreneurs and microfinance institutions through identifying the key issues that would facilitate and contribute to the development or amendment of appropriate policies that would enhance the relationship between SMMEs and microfinance institutions. The findings would also inform the Ministries of Trade and Industry, and of Small Business Development, Cooperatives and Marketing of the needs of SMMEs in order to develop more relevant policies to aid SMMEs establishment and growth. Furthermore, the outcome of the study would enlighten the Microfinance Institutions (MFIs) on the requirements of the SMMEs in order to adjust their products. Coordinated work by both the SMMEs and MFIs would therefore enable the MFIs to improve accessibility of their services and as a result enhance access to finance by the SMMEs. Thus the study facilitated a common approach and position given that the study gathered common views of micro entrepreneurs in relation to the microfinance services. It further forms part of literature on microfinance and entrepreneurial development in Lesotho for future reference by other researchers and people who may require material on the same subject.

### **1.6 Delimitation and Scope of the Study**

The study was conducted in Urban Maseru with focus on small, micro and medium businesses that benefited from financial support within micro-finance institutions during the past four years starting from 2016 until 2019.

The researcher experienced time constraints in data collection, analysing data and in final presentation of the report. However, the researcher overcame these problems by engaging in aggressive follow-ups with the respondents through telephone conversation. Furthermore, the researcher experienced a problem of non-response from some respondents who were given the questionnaires to fill. This was partly due to the concern that some of the information required is sensitive. In this regard, the researcher assured the respondents that any information given in the questionnaire would be treated with maximum confidentiality. The situation of

COVID-19 also contributed in the challenges faced by the researcher as it became difficult to follow- up on the respondents physically which would hasten the data collection process. The researcher used the telephonic and electronic facilities.

### **1.7 Summary**

The chapter provided a brief introduction and background of the study. The chapter also outlined the problem statement of the study and intentions of the researcher in determining the objectives of the study. The next chapter covers literature review of the study. It highlights the conceptual framework, evolution of microfinance both at the global and national levels, both the theories of entrepreneurship and microfinance. It considers the barriers to entrepreneurship development as well as the contribution of microfinance institutions in financing SMMEs.

## **CHAPTER TWO**

### **LITERATURE REVIEW ON THE ROLE OF MICROFINANCE ON ENTREPRENEURIAL DEVELOPMENT**

#### **2.0 Introduction**

This section portrays the work of other researchers that relate to the topic of the current research in order to inform the development of the research questions. The fundamental aim of this section is to present the approach for executing a review of empirical evidence concerning the role and impact of microfinance on the development of SMMEs. The section initially provides a synopsis of the literature review. The section relates to the broad definition of the notion of entrepreneurship that is key in understanding the definition of SMMEs. It further considers the challenges or constraints that plaque entrepreneurial development with more focus on microfinance, which is defined in the subsequent section. Additionally, it reflects on the institutional and entrepreneurial capacity in providing and accessing support, respectively. Finally, the chapter concludes the main results of the literature review process.

#### **2.1 Conceptual Framework**

##### **2.1.1 Entrepreneurship**

Entrepreneurship can be explained as an action of designing and running a new business, which is usually a small business. It entails innovation, creativity, management or leadership and profit maximisation or initiation of the new business which results in creation of innovative work, employment generation and ultimately economic growth (Robbins and Coulter, 1999). In the similar vein, Muogbo and Tomola (2018) explain entrepreneurship as “the act of identifying business opportunities and organising to initiate a successful business activity”. Mondal (1998) highlights the two schools of thought in entrepreneurship as Schumpeter’s theory of entrepreneurship which emphasises innovation as the key ingredient that promotes innovative products, and Austrian theory of entrepreneurial discovery where the

entrepreneur produces in accordance with the demands of the customer at a cheaper rate than competitors.

The importance of entrepreneurship in generating additional jobs through their capacity to innovate and produce new products cannot be overemphasised (Babu, Krishna and Swathi, 2013). This therefore has a cascading effect in the economy. This emphasises the importance of entrepreneurial development in any given country to promote value addition as supported by El Hadidi (2018) in that “entrepreneurship is important to national development, poverty eradication and employment generation”. Having established a general understanding of the concept of entrepreneurship, it becomes critical to get a better appreciation of the key constituency of this study. This indicates that entrepreneurship is a process that leads to the creation of SMMEs. As a result, the next section will engage into the definition of SMMEs.

### **2.1.2 SMMEs**

The SMMEs are acknowledged as important engines that drive economic growth. SMMEs are usually defined based on issues such as their size in relation to fixed investments, sales turnover and the number of employees the company has. According to the classification of SMMEs by the Small Industries Development Organisation (SIDO), small scale industries are those industries that have employees that do not exceed 50. It defines micro enterprises as those enterprises that employ 10 people or less (Ščeulovs and Gaile-Sarkane, 2012).

Berisha and Pula (2015) indicate that the most general criteria for defining an SMME is by the number of employees that work in the establishment. The duo further indicates that there are two approaches to the definition of SMMEs, namely, the quantitative approach and the qualitative approach. They also explain that the quantitative approach is the one that is commonly used. This is the case in Lesotho as Darroll (2008) explains that small-sized businesses are defined as those that employ between three to nine people while medium- sized businesses employ between ten and fifty people. However, Stokes and Wilson (2010) indicate that as much as the qualitative method seems easier to outline the level of enterprises, it has its limitations as it assumes that the economic sectors are the same. The authors demonstrate that different sectors could require different numbers of employees. They also note that the

World Bank defines the SMMEs using three quantitative criteria, namely, the number of employees, the total assets as well as total annual sales.

The definition of SMMEs has some connection with the ability in accessing finance as well as the type of financial tools that could be available to such SMMEs. Evidently access to finance plays an important role in developing microenterprises and inaccessibility of these financial resources hinders development of entrepreneurs. Considering the challenges faced by SMMEs in accessing finance from, the formal financial institutions as the financial institutions consider SMMEs a high risk resulting from the size of the loans SMMEs take. These small loans, according to financial institutions cause high transaction and operation costs. Additionally, SMMEs have low capital to meet the collateral requirements. As a result, and to counter financial exclusion, SMMEs resort to obtaining financial support through the informal channels such as rotating savings and credit associations (stokvels), family members, friends and unregistered money lenders.

### **2.1.3 Microfinance**

Microfinance is the emerging tool for economic development; however, it has had many different definitions by different researchers. Lan (2004) explain microfinance as the act of facilitating access to financial services to the low-income groups and those that are self-employed. According to Wydick and Kevan (2001) access to credit by the poor is important for two reasons, namely, the possibility to invest the borrowed capital into small businesses and that it boosts economic development as it increases the capital that the company possess which in turn leads to employment creation. Tariq, et. al. (2015:184) explain microfinance as the “extended form of small collateral free institutional loans”. Ali, Hasaballah and Abu-Hadi. (2013) purport that the purpose of making micro-loans available to small business owners is to ensure availability of income for new projects including the extension of the existing businesses. According to Terano, Mohamed and Jusri (2015) microfinance as a minimal amount of credit provided to the poor at subsidised interest rates. In the same vein, Terano, Mohamed and Jusri (2015) define microfinance as the delivery of different forms of financial services to the poor.

There are established microfinance models, which according to Olubenga (2017) Grameen model and the progressive Lending-Banco Sol model are being the most common. According to Waithaka, Marangu and N'gandu, (2014) micro credit has been an effective tool for development of SMMEs as it assists them in accessing capital for their businesses whether they are start-ups or the already existing businesses. Ali, Hasaballah and Abu-Hadi (2013) confirm that access to microfinance service for SMMEs remains acknowledged as a significant element for their success in their quest to build their comparative advantage, job creation as well as meaningful contribution towards poverty eradication. Sayed and Trivedi (2016) explain SMMEs sector as subsidiary units that are complementary to large industries and contribute significantly to the socio-economic development of India. According to Maliehe (2014) the majority of the Basotho contribute to the economy through the SMME establishments which are predominately in these sectors: the retail, which constitutes the largest sector, the service, manufacturing, agro processing, and tourism, professional, financial, commercial and commercial farming sectors.

#### **2.1.4 Microfinance Schemes in Lesotho**

Microfinance schemes can refer either to the Savings or/and Credit Cooperative Organisations (SACCOs). These schemes are involved in the system of lending small amounts of money to entrepreneurs to assist with the start-ups or expansion. In most cases the microfinance schemes are formally registered and owned by members of the cooperative. It encourages members to save money and utilise collective funds to give loans to members at reasonable interest rates and to borrowers that are non-members of the cooperative. In most cases, the amounts of money that SACCOs lend out are significantly small to attract the interest of conventional lenders This has led to the emergence of micro lenders to address the need (Kwai and Urassa, 2015). Lesotho Times (2018) highlights that the People's SACCOS in Lesotho are anticipating to be of service to low income population to ensure that they have access to financial services by providing less stringent requirements. Lesotho Times (2018) indicates that there are 120 SACCOS in Lesotho.

The importance of microfinance credit schemes in facilitating the ability of impoverished persons to start businesses cannot be overemphasised. The

contribution of micro lending in changing the economic environment of the areas where it is most prevalent is evident.

Micro lending has been beneficial to people at both ends of the economic spectrum. The money is advanced to the needy entrepreneur who utilises the money to start or finance business operations, which if successful lifts the entrepreneur out of poverty. Resultantly, the repayment of the loan by the entrepreneur provides a return on investment for the lender.

## **2.2 Evolution and Development of microfinance**

### **2.2.1 The global context**

The existence of microfinance has been in various forms and dates as far back as the 15<sup>th</sup> century when the Mounts of Piety was formed in Europe with the objective of reintegrating the poorest populations into the acceptable community life (BNP Paribas, 2017). Furthermore, BNP Parabis (2017) expresses that in the 1800s, the microfinance evolved where the first savings and loan cooperation was established in German's Rhineland. This institution facilitated access to credit primarily by the working class. The cooperative movement soon expanded to other countries in Europe and North America and further to developing countries.

The more advanced microfinance services emerged during the 1970s in Bangladesh having noted that the microfinance tools that were developed in Europe could not sufficiently address poverty concerns (Mersland and Strøm, 2012). This microfinance system focused on providing poor communities with capital to initiate their own businesses and it started with support to a group of women to start a bamboo stools production company which became successful in generating employment thus combating poverty (Yunus, 2016). Further in the same period the Irish Loan Fund system extended loans to the poor families with no requirement of collateral.

This concept developed until early 1980s where the programme was upgraded into the status of a banking establishment, the Grameen Bank, which was also known as the Bank for the Poor. The main focus of intervention of donors and governments was provision of credit to small and marginalised farmers in view of improving productivity and income generation. These services grew and expanded into a number of branches across the country (Shukran and Rahman, 2011).

Furthermore, Shukran and Rahman (2011) highlight that during the 1980s to 1990s this model expanded across the world through the intermediaries of NGOs and financial institutions. A number of microfinance institutions were established across the globe. During this period, the microfinance model was adapted in Latin America where rural agricultural sector was supported. The traditional informal financial system known as the Rotating Savings and Credit Associations (ROSCAs) which were organised by the poor communities themselves became popular (Kabuya, 2015). Considering the low financial inclusion that prevailed in developing countries, particularly in Africa, the informal finance sector is huge with the majority of the populations utilising the service.

The convening of the first microcredit summit in Washington in 1997 demonstrated the importance of this concept. It was in the mid-1990s that the terminology evolved whereby 'microcredit' was replaced by 'microfinance' that emphasised the expansion in scope of support to go beyond credit to include services such as savings, insurance and money transfers (Cull and Morduch 2017).

The early 21<sup>st</sup> century marked the rise in international microcredit facilities with the UN marking 2005 as the International Year of Microcredit. The recognition at the global level that microcredit can be a viable vehicle for economic development saw the accreditation of Muhammad Yunus, the founder of the Grameen Bank, as a Nobel Peace Prize winner in 2006 (Robinson, 2001).

To date, the concept of microfinance has been modernised and expanded its mandate to provision of various financial tools that has to a large extent presented more benefits to the financially excluded part of the society. As Mutoko and Kapunda (2017), highlights that the number of financially excluded population in developing countries can better be served and benefit from microfinance services if such financial services are integrated into the three levels of financial systems, namely, micro, meso and macro levels.

### **2.2.2 The Lesotho context**

The microfinance concept in Lesotho dates as far back as early 1960s where the credit unions existed as a form of micro-credit to small business holders. With time it developed into microfinance, covering a broader financial base (Letete, 2013). There

is no policy that is specific to microfinance in Lesotho. Nonetheless, the microfinance institutions are regulated by the Central Bank of Lesotho under different Regulations and Acts (Central Bank of Lesotho, 2004).

During mid-1970s, the establishment of the Basotho Enterprises Development Cooperation (BEDCO) was executed by the government of Lesotho with the aim to support the Lesotho National Development Cooperation (LNDC) to effectively focus on the small and medium Basotho owned businesses (BEDCO, 2009). According to the report by BEDCO (2009), the institution had a mandate to also provide microfinance services to the SMMEs that are owned by Basotho. These services had wide range coverage across the ten districts of the country and the main beneficiaries were women. These beneficiaries obtained skills development support as well as marketing of their businesses. The microfinance services were not sustainable in their implementation due to failure of the beneficiaries to repay their loans.

The SMME Support Network-Lesotho (2007) indicates that previously it was possible for SMMEs in Lesotho to access loans easily as a result of availability of easy loans offered by the government through BEDCO. However, the high rate of businesses defaulting on their repayment of loans led to the foreclosure of BEDCO's facility to provide small holder loans. This undertaking led to more financial exclusion causing access to finance by the poor to become more challenging. The collapse of the financial services arm of BEDCO left the commercial banks as an option for the SMMEs to obtain capital. In the early 2000s, the Lesotho Post Bank was established to provide financial services and extend credit to the marginalised population (Lesotho Post Bank, 2010). During the same period, the Cooperatives Act was amended following which the Boliba and Letsema cooperatives were established and according to Ozer and Kamat (2012), these cooperatives have sustained their operations.

In mid-2000s, the government of Lesotho with the assistance of the donor community developed the Financial Inclusion Investment Programme that was aimed to promote the inclusive finance as an effective tool to enhance access to financial services (Letete, 2013). This was foreseen as a microfinance programme that would assist in improving the lives of the poor through mobilisation of domestic savings as well as support to small and medium scale projects with the aim to generate employment (UNDP, 2014).

To date, the microfinance sector has developed significantly with the informal financial institutions that comprise of Rotating and Savings Credit Associations (RoSCAS) and community societies increasingly being established. In the similar vein, the microfinance institutions such as commercial banks, money lenders and insurance companies continue to exist and avail themselves for financial support. The prominent challenge relates to the outdated regulatory framework which is not sufficiently comprehensive considering the current developments in the sector. The legal framework does not recognise the informal providers of microfinance such as the RoSCAS and burial societies as they are not required to register by law. Other institutions take advantage of the loopholes in the regulations and lack of capacity of the regulator and engage in illegal operations which bring challenges for entrepreneurs to access finance (Letete, 2013).

### **2.3 The concept of SMMEs in Lesotho**

The increasing rate of unemployment in Lesotho and the inability of the formal sector, namely, public sector, parastatals and private sector to fully absorb the jobless population in the labour market demonstrate the importance of SMMEs as alternative route for employment creation (African Development Bank, 2012). According to the SMME Policy, the SMME sector in Lesotho has become a significant contributor to employment. The Ministry of Trade and Industry, Cooperatives and Marketing (2012) highlighted that the inability of SMMEs to sustain pressure within the business environment and are driven out of business affect the economy negatively as it increases the level of unemployment.

According to FinScope (2015) the SMME sector has generated employment to approximately 118, 000 people, and representing ten per cent of the total population above seventeen years (FinScope, 2015). Tihomola (2011) concludes that there are prospects for potential impact of SMMEs in generating employment opportunities than it is the case presently, and their contribution will further be pivotal in the construct of economic development in Lesotho.

The organisation of SMME sector in Lesotho is characterised in line with the number of employees and turnover. Table 1.1 illustrates a comprehensive structure of SMMEs.

**Table 4.1 Structure of SMMEs**

	Micro	Small	Medium
No. of employees, including the owner	Less than 5 employees	6 – 20 employees	21-50 employees
Annual turnover	Less than M 200, 000	Less than M1, 000, 000	Less than M5, 000, 000
Legal structure	Informal	Formal	Formal
No. of business establishments (%)	97	3	0.3

Source: FinScope (2015)

The government in recognising the importance to the SMMEs sector in the economy developed a number of objectives in the National Development Plan to support the SMME growth and development through provision of incentives as well as to assist them in the acquisition of appropriate management and technical skills. SMMEs sector in Lesotho is identified as a key contributor to job creation and subsequently poverty reduction (Ministry of Development Planning, 2012). According to the SMME Policy of 2016, there are 14 categories of small, micro and medium enterprise businesses in Urban Maseru which consist of a heterogeneous group of agricultural and industrial sectors that are composed of clothing, agriculture and services sub-sectors.

### 2.3.1. Microfinance Operations in Lesotho

The financial sector in Lesotho is composed of four commercial banks, three of which are subsidiaries of South African banks and one being government-owned bank, nine insurance companies, fifty insurance brokers, eleven Microfinance Institutions (MFIs), two asset management firms, seventy-two money-lenders, and two money transfer

institutions (MTIs) (Lyn, 2019). According to the Central Bank of Lesotho, (2018) Financial Stability Report, the share of MFI assets to financial sector assets is 3.3 per cent, while all MFI assets amount to 9.3% of GDP.

While there is a wide range of institutions that provide microfinance services in Lesotho, there exist a wide discrepancy in the definition of microfinance by different practitioners in Lesotho, where others understand microfinance to mean financing for poverty reduction with particular focus on microenterprises while others perceive it as short-term cash loans to formally employed individuals.

The country offers a number of microfinance services that include:

### **2.3.1.1 Credit Extension**

The key factor that facilitates ease of starting businesses for the entrepreneurs is greater access to credit. On the other hand, the accessibility of credit makes it easier for households to spend. Nonetheless, excessive credit extension could make creditors vulnerable to adverse shocks and increase the risk to the financial system. Credit extension is linearly related to demand, as such when there is increase in demand for output, the entrepreneur naturally requires more capital hence increase in loans (Central Bank of Lesotho, 2013). The credit extension in Lesotho has recorded an increase during 2012, which the Central Bank of Lesotho (2013) perceives as encouraging considering the importance of private sector or entrepreneurs in the economy. The Central Bank of Lesotho's economic review of 2013, however notes that the economy of Lesotho is characterised by a higher share of credit to the households than enterprises.

The government of Lesotho undertook some policy measures that saw the increase in the credit to the private sector. These included the signing of Memorandum of Understanding with commercial banks for partial credit guarantee fund which was further supported by the establishment of the partial credit guarantee scheme by the Lesotho National Development Corporation (LNDC) to support investors who intend to start or expand SMMEs but are unable to access financial assistance from the banks due to lack of collateral (Central Bank of Lesotho, 2012).

Despite these efforts, most Basotho still access credit through informal providers or family and friends (AfriScope and FinScope, 2011).

### **2.3.1.2 Savings**

Savings positively impact the financial growth of the poor and at the same time the output for the institutions. The multipurpose cooperatives bank such as Boliba and Lephola have become most used by entrepreneurs for savings. The Lesotho Post Bank is licensed by the Central Bank of Lesotho and started operations by providing mainly savings products and later diversified into lending.

These provide a good avenue for the SMMEs to be able to access savings services and be able to save their money. As such they are prevented from taking risks by using mechanisms that are costly to them like investing in assets that would not bring profitable returns. Champion and White (2001) emphasise the importance of savings as they facilitate and contribute to the financial development of the poor as well as the output for the institutions. Savings further enable the SMMEs to guard against the unforeseen problems they may encounter. However, in most cases the banks require clients to have savings in that particular bank which could be seen as a way to guarantee repayment of loans.

Despite all the efforts to increase accessibility to finance for SMMEs in Lesotho, there still are SMMEs that remain involuntarily excluded from access finance, which according to AfDB (2018) accounts for 56 per cent of SMMEs in Lesotho.

### **2.3.1.3 Insurance Provision**

Microfinance institutions have incorporated new products such as insurance in order to assist their clients to also manage risks. According to Latortue (2003), Microinsurance is the protection of low-income people against specific perils in exchange for regular monetary payments (premiums) proportionate to the likelihood and cost of the risk involved. The commercial microfinance institutions in Lesotho is experiencing lack of knowledge about the effective operation of microfinance including ineffective legal system to enforce contracts as cited by UNCDF (2010). There have been a number of community based insurance groups that have been

operational in Sub-Saharan Africa which according to Jakab and Krishnan (2001) have been successful. Churchill (2002) emphasizes the importance of the multifaceted relationship with the client in strengthening customer loyalty or reducing desertion by making the switching costs expensive and as a result encourages microfinance institutions to adopt the models of community based micro insurance.

## **2.4 Theoretical Framework**

### **2.4.1. Theories of entrepreneurship**

There are a number of approaches to entrepreneurial process, which provide different definitions of entrepreneurship in relation to its social context, innovation, profit maximisation as well as creativity and risk taking. As such an entrepreneur is able to identify an external opportunity to exploit and capitalise on them. As a result, the entrepreneur has to be innovative which will pave the way to the ability to match the resources at hand with the opportunity in order to enable the entrepreneur to leverage such resources to develop competence that would enable him/her to acquire external resources for start-up or expansion. To realise success in entrepreneurship, some of the schools of thought that defined entrepreneurship include the Theory of Economic Development by Schumpeter, The Theory of Entrepreneurship by Mishra and Zachary as well as the Austrian Theory by Kirzner.

### **2.4.2 Theory of Economic Development – Schumpeter**

In the Theory of Economic Development, Schumpeter (1934) emphasised the role of the entrepreneur as an innovator and the bearer of the mechanism of economic change. Schumpeter (1934) defines the role of the entrepreneur as to develop new products through the combination of the productive factors. This exercise assists in maintaining the competitive edge of the entrepreneur in the market.

Schumpeter in delineating the economic development, expresses the importance of the activities of entrepreneurs in generating new ideas and product combinations through institution of a new product and the institution of a new method of production. Furthermore, the entrepreneur requires two things to be able to perform effectively, namely, the existence of technical knowledge which will enable the entrepreneur to develop new product or be able to introduce new factors of production. This according

to Schumpeter (1961) does not present any challenges considering the availability of unused technical inventions that are at the disposal of the entrepreneur. The second aspect relates to the execution of the first aspect which would require the entrepreneur to have the purchasing power in the form of capital or credit which can be solicited from financial institutions.

The consideration of the role of knowledge in entrepreneurship by Schumpeter is important and emphasises the differences between the routine action and the economic leadership. The function of the entrepreneur in this context is considered to be that of economic leadership whereby an entrepreneur is able to carry out new economic combinations or innovations. These according to Schumpeter are innovative entrepreneurs that are able to provide for general economic development of the country. This perspective becomes important and relevant to most developing countries for which entrepreneurship is perceived in the context of job creation.

According to Schumpeter (2011), provision of credit is important but only reasonable if it is extended to an innovative entrepreneur that will in turn have impact on economic growth. He illustrates that without credit provision, the economic system cannot yield the expected results. Credit creation is therefore an integral part of the process of development as it enables entrepreneurs to borrow from microfinance institutions in order to expand their businesses. He further emphasises that every new venture requires funding be it through borrowing or ownership.

There are however concerns that the theory advanced by Schumpeter is no longer relevant for the current business environment considering that the activities relating to innovation and invention are predominantly carried out by large corporations instead of individual entrepreneurs as suggested by Schumpeter. Furthermore, the assertion that innovation is effectively financed by the credit from banks is not valid in the current economic environment as the banks provide short-term loans while innovations require long-term financial support.

#### **2.4.3 Theory of Entrepreneurial Discovery – Kirzner perspective**

The entrepreneurial discovery theory was introduced by Kirzner (1973), in which Kirzner underscored the important role of the entrepreneur in eradicating price

disparities in the market, thus creating equilibrium in the market. The entrepreneur is driven by profit making incentive of buying goods at lower prices and selling at higher prices. Kirzner is of the view that entrepreneurs determine prices in the market. As such, the entrepreneur is motivated by prospective profit opportunities in the market. Kirzner's (1973) philosophy that entrepreneurs seek opportunities to achieve market equilibrium motivated the development of the individual-entrepreneurial process that entails the ability to identify an external opportunity.

#### **2.4.4 The Theory of Entrepreneurship - Mishra and Zachary**

Mishra and Zachary (2014) highlight that the entrepreneurial value creation theory analyses the substance of entrepreneurial process through consideration of the process that uses a two-stage value creation and appropriation framework. The authors indicate that during the foundational stages of the venture creation, the key motivation for the entrepreneur is the aspiration for entrepreneurial reward and discovery of an external opportunity.

The prospects for the entrepreneur are then transformed into developing an entrepreneurial competence, which becomes an asymmetric advantage for the entrepreneur. The entrepreneur will engage in effectuation throughout the first stage of venture formulation which can be possible if practised within and among the entrepreneur's social network through a phenomenon known as bricolage where resources are shared and traded (Baker and Nelson, 2005). This infers that the entrepreneur will be able to establish a business with the resources that are available and request support from other entrepreneurs and customers. It is appropriate that the entrepreneurial proficiency produced in the first stage of value creation offers a differential advantage to the entrepreneur thus allowing the entrepreneur to move to the second stage.

In the next level of the business monetisation, the business may acquire resources from outside. These could be in a form of business funds or strategic partnerships.

#### **2.5. Theories of microfinance**

Microfinance is critical to development of entrepreneurship considering that in the

absence of access to finance the innovative ideas by micro enterprises are not useful. The entrepreneurs, particularly the poor, can only see their ideas materialise if they have access to micro-finance services. There are three models of micro-finance that became popularly known, one is the Grameen Model with its origin in Bangladesh, while the other is Banco Sol that originates in Bolivia with the last being the Interest Free Islamic Microfinance Model.

### **2.5.1 The Grameen Model**

The Grameen Model was developed from the work of Professor Muhammad Yunus in Bangladesh in 1976. It concentrated on the poor and low-income households. The principles of the Grameen Model are as follows:

#### **2.5.1.1 The Community Banking Methodology:**

The Grameen Model is based on social collateral, which implies the extension of loans to groups of individuals as it assumes that the collective responsibility will minimise the rate of loan defaults. By virtue of lending to groups instead of individuals, the model increases the opportunity for high rate of loan recoveries as the members of the groups hold each other accountable for their loans and therefore pay back on time. The group members were only allowed to borrow again if the previous loan has been fully paid. In the event that one member defaults in their loan repayment, the entire group would get disqualified, which was the motivation for the group to closely monitor loan repayment of its members (Muhinuddin. et. al, 2020).

In this scenario, the community forms different groups of five members with potential to borrow and only two of the five are granted loans in the first instance with the aim to alternate other members with time. The Group is therefore placed under observation for a month in order to ascertain if participants are complying with the rules of the bank. The other members of the group that have yet to borrow, only become qualified to borrow if the first two that borrowed are able to pay back the principal amount plus interest over a period of 52 weeks. This arrangement therefore compels the entire group membership to put pressure on those that borrowed to abide by the rules and regulations that administer the procedures of the bank.

Moreno (2010), underscores the significance of the Grameen Bank's methodology in

promoting and proving the ability of microfinance in creating valuable conditions for poverty eradication. The Grameen Bank has demonstrated this by the implementing the expansion of services for access to credit to the poor communities across rural Bangladesh.

#### **2.5.1.2 The Direct Credit:**

This model also provides a possibility to borrow as an individual. This direct credit facility is provided to an individual borrower without being expected to be a member of a group. It therefore keeps the borrower from peer pressure in order to ensure repayment and confers such responsibility to the borrower. However, it is always important that the lender should be cognisant of the challenges of non-repayment that are likely to occur in this situation considering that peer pressure exerted by the group members facilitates high repayment rates. As a result, the bank needs to fully investigate and know the customers well enough before loans are granted (Muhinuddin. et. al, 2020).

#### **2.5.1.3 The Village Banking:**

The community creates groups of 25-50 individuals with low income to establish a community-based credit and savings facility in order to facilitate improvement of standard of living for such community members. There are direct economic benefits from the facility which include employment creation. It could be expected that the initial capital could be sourced from a loan, following which members themselves manage the credit and savings facility. The management of the facility involves member being able to elect members and drawing own by-laws, allocate loans to individuals, collect repayment and savings by themselves through the officers. Unlike the traditional banks, the facility only expects that loans are supported by moral collateral and the promise that the group is used as a guarantee for loan taken by other members of the group (Muhinuddin. et. al, 2020).

Adaju (2006) presents a microfinance model that advocates for a credit lending position of a “90-between” organisation: between lenders and borrowers. The intermediary between the lenders and borrowers plays a critical role in providing credit awareness

and education among the borrowers including the importance of starting savings. The motive of this model, therefore facilitates improvement in the credit worthiness of borrowers which would in turn mobilise borrowers to take up more credit. The borrowers also have an opportunity to establish an association that will enable different microfinance activities can be introduced. However, the focus of the association should respectively be on youth and women. The association may be a savings group, religious group, political, cultural or professional. The attributes of membership in the group is important as the group can be effective and work harmoniously if there are similarities in some aspects. This promotes trustworthiness among the group members as the expectation is that credit is taken interchangeably while other members of the group that await their turn to take credit serve as guarantors.

#### **2.5.1.4 The Bank Guarantees:**

The lending organisation requires a bank guarantee in order for the loan to be provided. The bank guarantee could emanate from different sources such as donors or government agency or from members of a savings group. In this regard the guarantee serves as credit collateral.

#### **2.5.1.5 The Credit Union:**

The credit union represents a group of people that come together to save money with the aim of extending loans amongst the membership at a rational level of interest rate. The union is managed by members who are commonly people that share some history, such as working in the same place, being affiliated to the same union or living in the same community.

### **2.5.2 Progressive Lending – BancoSol Model**

The progressive lending concept was introduced to provide loans to the poor entrepreneurs noting the depth of poverty and high unemployment rate in Bolivia and became an officially regulated financial institution in 1992 (Agion and Morduch, 2003). This access to different types of lending services by poor entrepreneurs facilitated their growth. BancoSol initially focused on group lending but at a later stage, in 1999 re-directed its services to individual loans. The shift to individual loans used other forms

of guarantees such as collateral assets and personal guarantors. The 2000s saw a significant change in BancoSol's service provision as it moved from providing microcredit services to offering microfinance.

### **2.5.3 Microfinance – Interest Free – Islamic Microfinance Model**

The practice that MFIs are providing micro lending on high interest rates reaching up to 30% and constituting higher rates than those offered by the commercial banks has increasingly become a concern for micro entrepreneurs. This places high level of pressure on the borrowers that could even impact negatively on the success of their businesses (Dhumale and Sapcanin, 2008). This results in the increasing uncertainties on the overall desired impact of microfinance on the poor. The MFIs however indicate that charging these high rates is mainly to offset the high institutional costs, the cost of providing small loan amount as well as the risk factors surrounding small entrepreneurs. The philosophy behind this model is that the entrepreneurial risk should be shared and the poor should also be involved in the entrepreneurial activities.

The Islamic microfinance model perceives microfinance as a social business albeit the possibilities of profit earnings though not at high rates. As such, it facilitates financial inclusion of all people. The interest free finance for microcredit is perceived by Raghuram Rajan (2008) as an effective mechanism to strengthen the vulnerable class.

## **2.6. Barriers to entrepreneurship development**

There are various challenges that confront small entrepreneurs in order for them to realise their full development potential. These include: limited access to finance, heavy costs of compliance and lack of information, education as well as appreciation of existing support services (Davidson, 2004).

### **2.6.1 Access to Finance**

The key impediment to growth in entrepreneurship has been identified as poor access to finance by the entrepreneurs. In most cases the SMMEs are reluctant to approach financial institutions for fear of rejection in terms of eligibility to borrow (Woldie et. al, 2012). Additionally, the SMMEs generally do not possess the requisite assets that are

considered valuable to be considered as collaterals (Woldie et. al., 2012). In most of the situations, the level of loans required by SMMEs is very low and generally criticised by the financial institutions to be attracting huge administrative costs. As a result, they are considered too costly as supported by Segrado (2005).

Beck (2007) and Chavis, et.al. (2010) established that access to capital has been a major challenge to enterprises and Liedholm and Mead (1998) were no exception in acknowledging this status. Tambunan (2014) reports that challenges that restrict development of SMMEs include the financial and structural weaknesses faced by the microfinance institutions.

### **2.6.2 Heavy costs of compliance**

One of the related to challenges to access to finance by SMMEs is the heavy costs of compliance they face with managing the loans from the financial institutions if they are successful in obtaining them.

Tariq, et. al. (2015) express that the small business owners face problems during the loan repayment phase as they may not be ready to part with the required amount. This is magnified by the limited time that the loan repayment is required, which places pressure on the small business owners as the business would still be progressing into stability and sustainability. This challenge of heavy cost of compliance with the terms of financial institutions which is indeed as a result of the size of the business restricts establishment and/or potential growth of such businesses.

Furthermore, borrowing from commercial financial institutions requires provision of personal securities and guarantees. Normally the SMMEs do not have adequate capacity to provide such securities making it difficult to be eligible for securing loans easily.

### **2.6.3 Education**

Entrepreneurs are generally characterised by low education and skill levels which present challenges in their ability to access different financial services offered to them. According to Tambunan (2014), the SMMEs also face concerns of the lack of capacity

to develop bankable projects for financing which are usually considered not economically visible or viable to warrant financial support. Darroll (2008) in agreement to the challenges already highlighted express that in Lesotho, SMMEs face key constraints relating to lack of demand or customers, inability to access finance, lack of collateral and high interest rates on the loans as well as lack of entrepreneurial and technical skills which has to a considerable extent hampered development of SMMEs, which is also supported by Lesotho Times (2011).

According to Damiani and Ricci (2013) entrepreneurial education plays a significant role in propelling the success of the business considering that the management of the business is the heart of the success of the business, as a result, management skills are key in building a successful business. Isaacs et. al. (2007) provides a South African experience in highlighting that entrepreneurial education and support form a significant component of business education.

Kerimova (2008) maintains that entrepreneurial skills including technical skills should be prioritised when providing business skills training which is considered as formal training. According to Richards (2006), education plays an important role in any country, in terms of its positive contribution to the gross domestic product (GDP). The low rate of the population with higher education credentials has been shown to result in lack of networking, and challenges in accessing resources that are important in attaining sustainability of small businesses. The low education rate is intensified by geographic, cultural, or social limitations as well as lack of resources.

The low educational attainment further places challenges in the ability of entrepreneurs to undertake the processes of requesting funding, such as completing forms for funding applications which constrain the development of SMMEs. This therefore demonstrates that the degree of education of the entrepreneur considerably impacts the development of the business entity, which can improve the capability of entrepreneurs to resolve challenges that affect their businesses. Isaacs et al. (2007) emphasise that literacy is an important asset for the business.

This section identifies lack of finance as a key impediment to the development of SMMEs. It therefore follows that the establishment of the possible financing modalities or mechanisms are identified and in this regard, microfinance will be assessed as a

potential financing instrument for SMMEs development.

## **2.7. Functions of Microfinance Institutions**

There are various issues that impact the growth of SMMEs, which Bekele and Zekele (2008) define in four categories, namely, macro-economic factors, factors affecting access to social capital, factors affecting internal efficiency of the SMME and micro finance services. Business growth as defined by Delmar, Davidson and Gartner (2003) relates to measurement of absolute or relative changes in physical outputs, profits and market share. To attain these factors, the intervention of microfinance institutions becomes necessary. Huynh and Petrunia (2010) highlight that companies that have high intentions to grow usually have higher levels of debt than those that have a low inclination towards growth.

The conventional financial institutions such as banks have had a limitation in providing loans to the poor for a number of reasons including lack of guarantee or collateral as asserted by Ledger (1999). As a result, it becomes challenging for the poor to obtain financial assistance from these banks. This situation therefore led to the emergence of microfinance. The development of the microfinance in most countries such as Lesotho was to break the barrier for small businesses to access capital. The microfinance institutions assist the underprivileged to begin and facilitate their enterprises and to accumulate assets for their economic security and stability.

This emphasises the ability for microfinance to strengthen micro enterprises (Waithaka, Marangu and N'gandu: 2014). However, the extent to which the SMMEs have taken advantage has not been clear. This could be the cause of the increasing levels of unemployment, as the foundation for industrial development of any country is entrepreneurial activities by their central role in utilising and undertaking value addition to local resources. According to El Hadidi (2018), one of the key reactions to the developmental challenges that face developing countries has been the pursuit of entrepreneurial development schemes that aim to enhance access to capital by the SMMEs.

It has been generally noted that access to capital by SMMEs has become an impediment to the growth of businesses in this sector. The key objective for

microfinance was to make capital accessible to the poor who were not privileged to get loans from conventional sources (Das: 2018). According to Darroll (2008), in the case of Lesotho, sixty-seven per cent of businesses have at no time made an effort to access finance from an officially recognised institution. This presents an overall understanding that the loans from the bank including overdraft services were not principally attainable to small and micro-businesses. However, this segment of businesses is generally incapable of providing the required security for the loan.

El Hadidi (2018) explains that microfinance institutions provide social support to businesses which include the formation of groups, training in financial literacy and developing self-confidence, indicating that microfinance institutions can provide both financial and social interventions that are important for sustainability and profitability of the small businesses. Gedion (2016) re-emphasises that, to avoid business failures, microfinance institutions should provide training for entrepreneurs.

Kumar (2017) highlights the key characteristics of microfinance institutions as the provision of small loans to the poor rural community for their working capital; they only undertake minimal assessment of borrowers and investments in comparison to commercial banks and their ability to settle for lower requirements in terms of compulsory savings and group guarantees instead of collateral security as demanded by commercial banks. Waithaka et. al. (2014) indicates that the purpose of microfinance institutions is to provide financial services to meet the needs of the unprivileged people in order to meet developmental goals. However, Sharma (2015) indicates that there are not sufficient numbers of MFIs in Nepal to adequately accommodate the financial needs of the poor.

In the same vein, the Standard Lesotho Bank administers the Entrepreneurship Development Programme (EDP) aimed at “addressing the challenges of unemployment, lack of finance for Small, Micro and Medium Enterprises (SMMEs), financial inclusion for unbanked and under banked sectors of society as well as capacity challenges that face the entrepreneurial sector in Lesotho”, (Standard Lesotho Bank: 2018).

## **2.7.2 Challenges faced by microfinance**

### **2.7.2.1 Unsupportive legal and regulatory environment and limited Donor funding**

The fact that there is minimal support to MFIs has an impact on the sustainability of the institutions. Moderno (2010) asserts that microfinance institutions are compelled to commercialise their services so as to reach the sustainability they require to minimise their reliance on funding from government and donors.

There is need for government to ensure that there is conducive legal and regulatory environment that would facilitate effective operation of the microfinance institutions. As such it is critical that the government and other regulators have clarity on the characteristics of traditional and formal microfinance in order to execute appropriate regulations.

Carrasco (2006) highlight that there are still cases of supervisors that do not understand the microfinance industry, while Campion (2001) express the need for such supervisors to understand the structure of the microfinance industry in order to ensure effective operation of microfinance institutions.

Having considered the background of microfinance institutions and their importance in supporting the SMMEs, it becomes important to highlight how and from what sources the SMMEs get their financing. The section that follows will identify the possible sources to microfinance schemes available to SMMEs.

### **2.7.2.2 Lack of right technical skills for the managers and staff**

There is a growing problem that most microfinance institutions do not have the capacity to effectively manage their institutions. Gallado (2001) in supporting this statement emphasises that the challenge is more acute in developing countries. The other challenge is the staff turnover within the microfinance institutions considering the high competition in the industry whereby institutions lose their trained staff to their competitors.

### **2.7.3.3 High Interest Rates**

The challenge faced by the SMMEs in accessing financial support is the high interest rates required on the loans. This also impacts on the microfinance institutions as it becomes difficult for the SMMEs to repay their loans with such exorbitant interest rates that significantly multiply the amount of money to be repaid. This default by SMMEs therefore leads to a collapse of most of the microfinance institutions (Woldie, et. al., 2012).

## **2.8 Contribution of microfinance Institutions in Financing SMMEs**

The growth of microfinance services has been substantial worldwide; however, the impact on entrepreneurship has not been clearly defined. Microfinance has offered a wide range of financial options to the portion of the population that is not able to access services from traditional banks. This view is supported by Anan (2002) who illustrates that the key values of microfinance comprise; access to financial services amongst the poor.

Park and Ren (2001) highlight that micro financing is constructed on the premise that the poor are able to repay loans and most importantly have the capacity to generate savings. Randhawa and Gallardo (2013) highlight that microfinance is a useful instrument for poverty eradication as a result, microfinance institutions' objective is to extend financial services to an escalating number of underprivileged people, which is in response to the lack of accessibility to finance by the small and medium enterprises. A number of initiatives have been considered, be it by government as well as development partners or donors. Some of the development partners have transformed their support to entrepreneurial development from the traditional focus on poverty eradication model to business enhancement model. El Hadidi (2018) emphasised that USAID employed the same approach targeting small businesses in the urban locations to enhance "self-sufficiency and sustainability" of such businesses and lessen reliance on donor support.

The governments have established the micro finance schemes as well as encouraging the private sector to jointly develop poverty reduction strategies with more focus on the development of the financial sector which covers microfinance. Furthermore, the regulatory framework should be designed in a way that is favourable to SMMEs.

Complimentary efforts by other players such as donor communities are that they are further supportive in relation to the promotion and facilitation of sustainable development programmes which filter in the concept of microfinance that is critical to build the competence of the communities (Latortue, 2004).

Microfinance institutions provide capital to entrepreneurs providing the means to start businesses or expand the existing businesses as well as use the funds as working capital to increase the potential for improved output and profit margins (Priyanka Ramath & Preethi, 2014). This has been demonstrated by the success of microfinance in promoting entrepreneurship in countries such as Bangladesh, Kenya and India.

Microfinance institutions do not only provide credit but opportunities for savings as well as micro-insurance. Jegatheesan, Ganesh and Kumar (2011) add to the functions of the microfinance institutions to include remittances as well as leasing activities to low income customers. The institutions therefore contribute to the ability of entrepreneurs to enter the economic mainstream. However, the effects of microfinance institutions can lead to either positive or negative performance of the SMMEs.

### **2.8.1 Financing**

There have been various studies undertaken to assess the influence that financing extended to SMMEs by microfinance institutions has on growth and development of SMMEs. According to Madya (2015), while Micro finance institutions (MFIs) have made provision for their structures to extend smaller loans in order to address the needs of SMMEs, the loans remain inaccessible as a result of high interest rates imposed by MFIs and as a result the is not affordable to micro establishments. There are other factors that impede SMMEs' access to credit which can be explained as deficiency of experience in business management skills and scarcity of information on products that are available to them.

The MFIs' intervention to address the financing needs of SMMEs was met with challenges of lack of collateral from SMMEs as well as poor legal structure which is not appropriate for promotion of innovative lending policy coupled with limited access to credit and financial services. The microfinance institutions in Lesotho were indicated not to be playing a significant role, however the Non-Bank Financial Institutions play a

bigger role in expanding financial inclusion (Central Bank of Lesotho: 2013).

### **2.8.2 Financial Literacy**

Financial literacy for SMEs is essential in ensuring that SMEs grow from small and medium to large enterprises. Buchdadi, et. al. (2020) highlight the importance of improving financial literacy has increased as a result of developments such as financial products including the complexity of financial markets. The support of microfinance institutions in providing educational services to SMMEs is important to facilitate access to finance by SMMEs.

Kotzè and Smit (2008) resolved that inadequate financial literacy was the main drawback for the success of SMEs. Davidson III et al. (2004) also established that there is an association between financial literacy and the performance of the firm.

### **2.8.3 Development of Management skills**

The microfinance institutions are expected to provide management services for SMEs in order to support in the shortfalls that are experienced by SMEs. According to (Armyx, 2005) it is generally recognized that SMEs (Small and Medium Enterprises) experience exceptional challenges, which has an effect on their development. One of these challenges as explained by Wanjohi (2007) is deficiency in managerial skills and experience.

## **2.9 Empirical Framework**

Many studies were conducted on the performance of microfinance institutions as well as on the challenges faced by SMMEs in Africa.

Manaye and Tigro (2017) undertook an empirical study on the Challenges for Small and Micro Enterprises in Accessing Finance: Case of Wolaita Soddo Town in Ethiopia. The main objective of the study was to evaluate access to finance by the small scale enterprises which are perceived as key vectors for economic development. The paper also engaged in a process of identifying the most common way in which small

businesses are able to access financing as well as the elements that have established that stimulate the level at which access to financing is practiced. These would assist in identifying the challenges that small businesses face in accessing finance from financial institutions in Wolaita Soddo town and target population of SMEs from the same town.

The collection of information used in the research was executed through the use of primary and secondary sources. There were 282 respondents that were selected through the use of stratified random sampling technique. The study adopted quantitative and qualitative data analysis methods. Additionally, descriptive statistics, the linear regression model were used. The outcome of the study is that participants sourced their start-up capital from their own savings, relatives and friends considering that they cannot meet the collateral requirements and for fear of high repayment costs required by financial institutions. This study suggests that the institutions that provide loans develop educational programs for MSEs in order to process the requests for credit with ease. Furthermore, credit provider institutions should create products that provide moderate collateral requirements for MSEs.

Woldie et. al. (2012) investigated the challenges that SMEs in Tanzania have in accessing microfinance. The research methodology used primary and secondary data from a purposively selected sample of SMEs. The collection of data was executed through questionnaires and interviews which were analysed by SPSS Statistics 17.0. The results highlight that the financial sector has not been successful in providing adequate microfinance facilities to SMEs as a result of high transaction costs, lack of collaterals and inadequate skills. The article advocates that introduction of strategies aimed at streamlining accessibility of microfinance by SMEs be considered.

Mwania, (2011) conducted a study on the effect that Biashara Boresha Loan (BBL) has on the performance of Micro and Small enterprises owned by Kenya Commercial Bank (KCB) Ruiru branch customers. The study aimed at reviewing the processes for providing loans by the Biashara Boresha Loan, to evaluate the effect of BBL on MSEs performance and to establish the problems encountered in extending loans to SMEs. The study used a case study in its exploration as a research strategy. It employed simple random, stratified, and purposive sampling techniques. Data were gathered using questionnaires, interview, observation and documentary review.

The study found out lack of access to credit and microloans were factors that prevent SMEs growth. The study further disclosed that the majority of SMEs are experiencing marginal or no growth as SMEs noticed a declining trend in their sales turnover compared to the previous as a result of the escalating operating costs due to the high interest rates on the loans provided. The study further established a positive correlation between BBL and entrepreneurs' business performance and concluded that new businesses need more financial assistance in order to complement their working capital. The study recommends that MFIs should play a facilitative role for the SMEs to be able to access credit and microloans.

Kuzilwa and Mushi (1997) undertook a systematic review of the impact of the Microfinance on growth of the Small and Medium Entrepreneurs (SMEs) in Morogoro Municipality in Tanzania. The objectives of the study were to find out the degree at which ease of access of microfinance leads to increased capacity of gross sales of participants and to identify additional elements contributing to enhancement of SME's growth. The study employed the cross-sectional research design in which 150 SMEs were selected as a sample size. The researchers used questionnaires, direct observations and documentary reviews for data collection. Descriptive statistical procedures including descriptive and frequency distributions were used and a Linear Regression Model was run. The findings revealed that the output of enterprises increased as a result of entrepreneurs' access to credit. The results further emphasised the importance of capacity enhancement in increasing output. The study recommended that efforts to develop a conducive environment to facilitate ease of access of the financial institutions by micro and small businesses.

Another systematic review of the empirical evidence on the impact of microfinance on the growth of micro, small and medium enterprises in Namibia was conducted by Uusiku, E.P. (2019). The study employed a cross-sectional analysis on 45 small enterprises in Oshana region. The sample was drawn from a list of MSMEs who have accessed microfinance services offered by the Development Bank of Namibia. It used the multiple regressions to test the influence of a group of variables on productivity.

The research concluded that a blend of microcredit and training including the age of the business had a substantial impact on productivity. Subsequently, microcredit as a core variable did not significantly contribute to MSMEs growth. Thus, the study

contends that attaining access to microcredit on its own cannot influence growth of small businesses but rather a combination of other important variables such as education are crucial for MSMEs' development. The recommendations thereto are that Microfinance Institutions should aim to offer additional services such as advisory, training and mentorship services.

Kinyua (2014) conducted a research on factors affecting the performance of small and medium enterprises in the Jua Kali Sector in Nakuru town, Kenya. The study aimed at examining the role of finance, management skills, macro-environment factors and infrastructure on performance of small and medium-sized enterprises in the Jua Kali sector in Nakuru town. The study used a survey research design and utilised a stratified random simple sampling. 262 study participants were used as a source of primary data through the distribution of structured questionnaires. The data analysis used the descriptive and inferential methods of analysis and the presentation through figures, tables and percentages. The findings indicate that the SMEs performance could potentially be influenced by access to finance. However, management skills were identified to have a positive and significant effect on performance of SMEs. The study recommends that banks should offer better lending terms in order to improve access to finance by SMMEs.

A study by Elhadidi (2018) investigated the impact of microfinance on entrepreneurial development in Egypt. The research executed the questionnaire as a tool of primary data collection. Tables and simple percentages were used for data presentation. The researcher constructed and tested three different hypotheses through a number of statistical tools which include; chi-square test, analysis of variance and simple regression analysis. The study established that there is no significant effect of microfinance institutions activities in predicting entrepreneurial development.

## **2.12 Summary**

This section was mainly focused on the review of literature that was done in order to distinguish similar studies on the role of microfinance on entrepreneurial development. It was observed that the range of the literature review was wide, with various areas of

the review questions studied more extensively than others. However, the process of review was useful in accomplishing the aim and objectives of the review. Moreover, the review assisted in determining existing gaps in literature that this study intends to address, which will guide the empirical work. These gaps can be summarized as follows: there is a challenge of poor institutional and legal frameworks that in many cases fail to meet the needs of the entrepreneurs by virtue of the high cost that the SMMEs are unable to afford. Furthermore, there is a potential challenge in the extent of education that SMMEs possess which in turn has negative implications on their ability to access finance.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.0 Introduction

This chapter presents the methods adopted and applied for this study in order to respond to the research objectives. The chapter further provides explanations on research design, sampling techniques, data collection methods and data analysis. In addition, the chapter highlights the reliability and validity approaches for the data to be collected as well as ethical considerations for the study.

#### 3.1 Research Approach

The proposed study used a quantitative research approach as it provides structured cause-and-effect relationships. The key objective of the quantitative researches is to analyse theory (Eyisi, 2016). In this regard, they evaluate variables on a sample of themes and articulate the link between variables using effect statistics such as correlations, relative frequencies, or differences between means. Stainback and Stainback (1988) highlight three principal objectives of quantitative research: to describe, to compare and to attribute causality.

Creswell (2008) further states that the inferential analysis enables the researcher to establish the causal impact of independent variables on one or more groups through examining variations in the dependent variable. Furthermore, the study points out that this method presents an opportunity to the researcher to examine data from a representative group of the population being studied and come up with findings that can be applicable to the general population.

The research approach assisted the researcher in identifying the cause-and-effect relationship between the microfinance and entrepreneurial development. As such, this method was employed to quantify the problem by way of generating numerical data such as enumerating identified variables to produce required statistics. The statistical nature and random process for data collection of the quantitative research design

removes to a large extent bias thus enabling the researcher to apply and generalise the results to the rest of the population group under study. According to Polit and Beck (2008), statistics refer to a prediction of a factor that is derived from data that is representative of the relevant population. These researchers highlight that data are utilised to test hypotheses and assess the credibility of results. It can further generalise results from a larger population sample.

The choice of quantitative research approach is to ensure that the researcher has more control on the modalities for data collection considering that the researcher uses a structured method (Apuke, 2017) In the context of this study, the quantitative testing was used based on the numeric statistics gathered through the use of questionnaires. This research used both the descriptive and inferential statistical analysis in view of its focus to establish the association between micro finance and entrepreneurial development including consideration of the causal effect between the two variables.

### **3.2 Research Design**

This section contains an account of the type of survey used in the study. It is anticipated to provide a definition of the population, the sample size as well as the sampling technique adopted in selecting the sample size. Sources of data collection, data analysis and data presentation are part of the research design. This research is designed to study the impact of microfinance institutions on the small scale businesses to which the institutions provide services. The purpose is to assess the role of such services in promoting SMMEs' development. Urban Maseru constitutes the scope of field survey.

A research design offers a set of methods that are utilised in data collection as well as analysis so as to allow the researcher to respond to issues that are defined in the problem statement. Churchill (2007) defines research design as a plan that is used to guide the researcher in collecting and analysing data. In the same vein, Remenyi, et. al. (2003) indicate that research design offers an overall direction to the research including the way that the research has to be undertaken.

The research design further facilitates the ability of the researcher to derive accurate evidence to ensure the ability to respond to the questions and test the theories. This is supported by Burns and Groove (2001) in asserting that the research design is

important for the researcher to organise and execute the study appropriately to obtain more realistic results. The research design can be applicable to different research methods, such as qualitative, quantitative or mixed-methods (Creswell, 2008).

There are three possible forms of research design, namely, exploratory, descriptive and explanatory (Robson, 2002). Robson based his classification on the purpose of the research area as each design serves a different purpose. Saunders et. al. (2007) defines exploratory research design as a more appropriate design in the case where there is not enough knowledge about the phenomenon and the design's objective is not to provide decisive answers to the research questions, but to simply explore the research topic. Explanatory approach is used to explain and account for the descriptive information by looking at the actual reasons a phenomenon occurs through identifying the causes and reasons as well as providing evidence to support or refute and explanation or prediction (Grey, 2014).

This study adopted the descriptive research design considering that the objective of the study is to assess the effect of microfinance on entrepreneurial development. It therefore assisted the researcher to establish how microfinance affects entrepreneurial development as well as to find out the correlation between microfinance and entrepreneurial development. Descriptive research design can be defined as a way of describing events as they are without the researcher having any influence on the subject. It further enables the researcher to classify, analyse, compare and interpret data. This entails that a researcher describes the state of affairs as they exist, reports the findings as well as formulates important principles of knowledge and solutions to significant problems (Kothari, 2004). Descriptive designs "may be used to develop theory, identify problems with current practice, justify current practice, make judgements or determine what others in similar situations are doing" (Grove, Burns and Gray, 2013, p.215).

In addition, a descriptive survey is a process of gathering data by interviewing or administering a questionnaire to a sample of individuals. It is employed when gathering information about people's attitudes, opinions, habits or any of the variety of environmental and social issues which is applicable to this study.

### **3.3 Research Target Population**

The target population for the study comprised the small, medium and micro enterprises within Urban Maseru due to the high level of concentration of the establishments as well as ease of reach by the researcher. The study comprised of small, medium and micro entrepreneurs that have benefited from microfinance services in order to be able to undertake a comparison on the performance of the business before and after accessing microfinance services to determine the effect that microfinance has on entrepreneurial performance. To be able to reach the micro entrepreneurs for the study, the Ministry of Small Business Development as well as the Ministry of Trade and Industry was contacted to provide a list of the relevant SMMEs. The classification of data that the Ministry uses in registering the SMMEs identifies whether the SMMEs have benefited or are benefiting from the microfinance support. The target population used was 37, 273 SMMEs (Ministry of Trade and Industry annual report, 2012). The researcher has chosen the Ministry of Small Business Development and the Ministry of Trade and Industry as their mandate is to facilitate development of SMMEs and register SMMEs. As such they remain custodians of information related to SMMEs. The information is available as a resource for different groups of community such as researchers, upon request and confirmation their credentials.

### **3.4 Sampling Design**

The study used sampling to select the population size within the entrepreneurs. Ruane (2005) refers to a sample as a subset of the population whose results can be generalised to represent the whole population.

The sampling method employed for this study is non-probability convenience sampling. The non-probability convenience sampling is the sampling method that enables the researcher to draw the sample from the population that is readily available and that meets the inclusion criteria (Polit and Beck, 2006). The non-probability convenience was used as a preferred method because of its ability to provide a quick turn-around time of the administration of questionnaires, considering the limited time of data collection. Furthermore, this sampling method is defined to be highly efficient taking into account that the respondents are conveniently available to participate in the study (Sekeran & Bougie, 2013).

Non-probability sampling was selected as a preferred sampling method because the

population members, which in this case are the small and medium entrepreneurs in Urban Maseru, do not have predetermined probabilities of being selected as respondents. The non-probability sampling therefore utilises subjective methods to select potential respondents, which is contrary to the probability sampling, whereby the random selection of elements is done. The selection was based on the subjects that are conveniently available to participate at the time when the researcher distributes the questionnaires. As a result, the method becomes an appropriate approach for the researcher by its possibility to use the first available primary data source. However, the challenge with this sampling method is that it has a low level of generalisation of research findings to a larger population. The findings of the sample thus cannot be generalised to the entire Lesotho entrepreneurial population with confidence.

In consideration that quantitative testing is based on a large number of participants to attain a minimum amount of sampling bias, the study used a sample of 400 entrepreneurs that are resident in Lesotho. The 400 entrepreneurs were sampled from the total research population and was considered large enough to achieve reasonable accuracy of results. It was computed using the Solvin's formula.

### **3.5 Inclusion and Exclusion criteria**

The inclusion criterial that applied for this study was as follows:

- The respondent had to be either a woman or man owning a small and medium enterprise that has had access or benefited from microfinance institutions for at least 2 years being the minimum period in which the change in the performance of the business in terms of profit-making could be realised (Akalp, 2015) and that the relevant information that can be obtained from the Ministry of Trade and Industry dates back to 2016 since the Ministry only started registering additional details such as source of capital in 2016.
- The business should be in existence for at least 4years since the average period in which the profitability of the business could be determined is 2 to 3 years (Akalp, 2015). Also considering that the businesses that partook in the study have not been classified according to age. The period of focus is 2016 to 2019 as the data available was for this period

### 3.6 Sampling SMMEs

The sample size is influenced by a number of factors including the purpose of the study, population size, the risk of selecting an unsuitable sample, and the sampling error that can be allowed. The sample size is selected based on the size of the target population and the desired precision of the study. The sample was therefore out of the entrepreneurs in urban Maseru, Lesotho that have benefited from the services of microfinance institutions. The total number of SMMEs is 76, 068 in Lesotho while the total of 37,273 (FinScope, 2015) represent entrepreneurs in urban Maseru. In this study, the sample of 400 SMMEs were selected using a convenience sampling technique and by the application of Solvin's formula as it enables the researcher to estimate how large the sample needs to be to ensure reasonable accuracy of the results (Ellen, 2018). The researcher does not assume that the population to be studied is normally distributed in terms of the parameters for interpretation of their perceptions of the effect of microfinance services on the development of their businesses. In this context, the Slovin's formula could be considered suitable for determining an appropriate sample size as applied in the study by Chelangat Rono (2018) when calculating the sample size.

The use of Slovin's formula is as follows:

$$n = N / 1 + Ne^2$$

(Source: Stephanie (2013))

n= Number of samples or sample size N= Total population e= Error tolerance

The population size of this research is 37, 273 SMMEs. According to Hussey and Hussey (1997) no survey can ever be deemed to be free from error or provide 100 % surety and error limits of less than 10% and confidence levels of higher than 90% can be regarded as acceptable. We take a sampling error of 5% because the smaller the sampling error, the more the confidence level, which was suggested by Kothari (2004), and then the sample size will be:  $n = 37, 273 / 1 + 37, 273(0.05^2)$

$$n = 37, 273 / 37, 274 * 0.0025 \quad n = 37, 273 / 93.183 \quad n = 400$$

The researcher has calculated a sample size of 400 SMMEs that was surveyed, at 95% confidence level and 5% margin of error.

The level of precision or confidence level is estimated at 95% considering the

proportion of the population size to be studied against the overall population size of SMMEs. This means that there are 95 chances in 100 (or .95 in 1) that the sample results represent the true condition of the population within a specified precision range against 5 chances in 100 (or .05 in 1) that it does not (Kothari, 2004). The sample size dictates the amount of information that would be collected and therefore, in part, determines the precision or level of confidence that exists in the sample estimates. The larger the sample size the more information is gathered and so the level of uncertainty reduces.

### **3.7 Data Collection methods**

Data collection instruments are defined by Canals (2017) as strategies utilised in the collection of information such as questionnaires, tests, structured interview schedules and checklists. In this research, two techniques that were used are the primary data and secondary data. The primary data is explained by Kombo and Trompt (2006) as the information that the researcher directly or through the research assistant gathers from respondents. The data that was collected related to the barriers that impede entrepreneurial development, challenges faced by entrepreneurs in accessing microfinance services, constraints faced by microfinance entrepreneurs, contributions of microfinance institutions in supporting SMMEs, sources of funding for business and effects of microfinance on SMMEs growth.

This study used the questionnaires based on the cost effectiveness and time efficiency of this method. Furthermore, it allowed the researcher to gather the information in a quantified form and to obtain the opinions of respondents in a structured manner. The researcher was able to analyse data collected by questionnaire more scientifically and objectively than other forms of research which was also used by Salum (2014). It also enabled the researcher to collect data without getting into contact with the respondents in the advent of COVID 19 virus.

The researcher used internet-based data collection method whereby the questionnaires were sent to the respondents through emails and fax in order to comply with World Health Organisation's and national COVID 19 regulations. The respondents filled in the questionnaires and return to the researcher through email. The researcher further distributed the questionnaires through WhatsApp messaging

platforms to those respondents that do not have access to internet facilities. The respondents would then make print outs and fill the forms and sent back to the researcher by the same mode. As a result, the researcher does not foresee any significant challenges to the data collection processed

The secondary data is the data that is sourced from a variety of sources such as archives, websites, books and journals including data prepared by microfinance institutions showing the trend on financial services and credit application and uses by participants. The secondary data is helpful in providing supportive information over the one collected by use of questionnaire. Secondary data further assists in understanding the contribution made by these micro-finance programs in different areas supporting SMMEs while seeking to explore the magnitude of the problem as documented by other researchers.

### **3.7.1 Questionnaire**

To facilitate collection of primary data, a questionnaire was developed as an appropriate data collection instrument to gather information about the role of micro-finance on entrepreneurial development in Maseru Urban, Lesotho. The questionnaire was utilised to collect data from the 400 entrepreneurs. The questionnaires have continuously been considered as the most convenient instrument for collection of information because they are easy to be adapted to different situations and that they are time and cost efficient (Bell, 1999).

Furthermore, the decision to use structured questionnaire enables the respondents to provide precise information and the researcher to reduce variability in the meanings of the questions as a way of ensuring comparability of responses (Ruane 2005). Additionally, the method has been chosen because it is cost effective and less time

consuming. The researcher will be able to either distribute the questionnaires in person or send them through emails which allow the researcher to gather necessary information at minimal cost. The questionnaire therefore assists the researcher to secure standardised results that would then be analysed and interpreted. Taiwo (2012) and Luyirika (2010) also administered questionnaires to assess the impact and effectiveness of microfinance institutions on different aspects.

The Likert scale was also utilised to measure the attitude/opinion of SMMEs towards the services provided by micro-finance institutions in order to enable the researcher to assess the effect of microfinance on entrepreneurial development. The Likert scale was further used because it is flexible and can be constructed more easily than most other types of attitude scales (Joshi, et. al., 2015). The statements in the Likert scale reduce the tendency of respondents to respond with a certain preconceived mental set (Amin, 2005). The Likert scale follow the five category response continuum, namely, very satisfied, satisfied, neutral, not satisfied and very dissatisfied (Joshi, et. al., 2015). In this regard, each respondent will select the response that best describe their reaction to the statement.

### **3.8 Data Analysis**

Data analysis is the assessment of the information that has been collected from the field to make interpretations. Kombo and Tromp (2006) suggest that data analysis involves examining information gathered from the sample population to make inferences. The information that was collected was quantitative through the utilisation of quantitative instruments like questionnaires and the collected data be classified into relevant categories, edited and calculated. The study used the descriptive statistics to analyse quantitative data and present the results as tables, graphs or charts to be evaluated with the Statistical Package software for Social Sciences (SPSS) as it has broad analytical capability as adopted by Taiwo, 2012. The SPSS analysis were based on an implicit cardinal interpretation of the Likert scale whereby for each respondent the scores for expected and perceived views were calculated and results will be presented in form of graphs or charts. The data was also analysed based on the demographics and other characteristics including gender, legal structure, size of SMMEs, annual turnover, age, marital status and educational level completed.

In the context of this research, the bivariate analysis that is descriptive was used in the comparison between the independent variable which is the microfinance and the dependent variable being entrepreneurial development. According to Bernard (2000) bivariate analysis aims at establishing associations between variables where one variable is dependent and the other is independent. Furthermore, bivariate analysis can be descriptive or inferential. In addition, data was presented in percentages, graphs, frequency distribution tables and charts for further data analysis to determine whether there was a positive correlation or a negative correlation between the two variables as well as the strength of the correlation. The interpretation of bivariate data results considered that an association between two variables where the value of one variable being an outcome variable is explained by to the values displayed by the explanatory variable as used by Goto, et. al. (2016).

The multivariate analysis was performed to examine multiple variables simultaneously. The regression analysis and correlation coefficients were computed to establish the relationship between microfinance and entrepreneurial development. The regression equation that was used was based on Clark (2018) :

$$Y_i = b_0 + b_1X_i + \epsilon_i$$

In this model,  $Y_i$  represents outcome variable Effects of Microfinance institutions on entrepreneurial development. and  $X_i$  represents its corresponding predictor variable Barriers that impede on entrepreneurial development, Constrains faced by SMMEs, Contributions of Microfinance Institutions on Entrepreneurs Challenges faces by SMMEs in accessing Finance, Sources of Funds for Business. The equation also contains numerical relationships between the predictor and the outcome. It can be used to assess the relationship even where there are more than one independent variables where the relationship between entrepreneurial development and the independent variables was analysed.

The results were presented in a statistical form. The "Pearson Chi-Square" with the p value tells us that there is no statistically significant association when  $\alpha < 0.05$  and when p is above alpha ( $\alpha > 0.05$ ) there is no statistical association. The inferential data such as analysis of variance (ANOVA) as used by Taha (2012) was also applied to analyse data to establish if there are any significant differences between the groups.

This analysis is done by looking at the standard deviation (StDev) column of the one-way ANOVA output to determine whether the standard deviations are approximately equal. The researcher also used the F-value to calculate the p-value, which was used to make a decision about the statistical significance of the terms and modes. Moreover, in line with the study by Nendakulola (2015), independent t test was also used. The test at a specific alpha (significance) level was compared with the p-value on the output to the chosen alpha level. Alternatively, the researcher reported the p-value, rather than reporting whether the result is statistically significant or not at an arbitrary alpha level(s).

The Secondary data was presented in tables and graphical illustrations in accordance with the defined variables Primary data was collected through questionnaires. Secondary data was gathered from records of Ministry of Trade and Industry and of the Ministry of Small Business Development, Cooperatives and Marketing as well as from the reports of the Central Bank of Lesotho forming the basis for data triangulation. (Taylor, Kermode, and Roberts, 2007) define triangulation as the application and combination of several research methodologies in one study. The relationships was therefore analysed using the linear regression model.

### **3.9 Validity and Reliability**

Data reliability was tested by using Cronbach's Alpha. The Cronbach's Alpha was employed because the study used the questionnaire that is based on a multiple Likert questions that form a scale which the researcher intends to determine if it is reliable or internally consistent. The same instrument was applied by Sugathadasa (2018). Cronbach's Alpha was also used to measure the strength of the consistency of the scale. The Cronbach's Alpha was run on a sample size of 15 entrepreneurs. It was applied with the acceptable reliability of  $\alpha = 0.81$ . According to Gliem and Gliem (2003) the reliability coefficients range from 0 to 1.0 in which a coefficient of 0 means there is no reliability and 1.0 means perfect reliability. The reliability coefficient never reaches 1.0 since tests have some error. In essence, if the reliability of a standardised test is above 0.7, it is said to have good reliability while below 0.7 it has poor reliability.

The validity and reliability of the quantitative research method motivated the investigator to use it in this study. The notion is supported by Smith (2008) in identifying

that quantitative research method is objective, controlled, systematic, valid and reliable. In addition, Weinreich (2006) also indicates that quantitative research adopts methods from the physical sciences that are intended to maintain objectivity, generalizability and reliability. As a result, the researcher observed that the use of this method will yield reliable results, particularly because of the ways research participants are selected. These ways include random selection from the study population and the use of the standardized questionnaire which yield measureable and dependable data that are usually generalized to a larger population.

The validity of the research instruments were also tested by obtaining opinion or validity through a pilot study.

### **3.10 Pilot study**

A pilot study according to Hulley (2007) is a small scale preliminary study conducted in order to evaluate feasibility, time, cost and adverse events prior to performance of a full-scale research project. In an attempt to test data collection instruments, predict an appropriate sample size and improve upon the research design, a pilot study therefore be conducted in Maseru.

It was conducted among the entrepreneurs in Urban Maseru that were excluded from the main study. The number of participants that was sampled for the pilot study was 15 to whom the objective and instructions relating to the study were explained and handed over. The researcher selected 15 respondents using simple random sampling as estimation for pilot trial. According to Cooper and Schindler (2003) random sampling often moderates the sampling error in the population, which then increases the precision of any estimation methods used. The pilot tested was used to ensure that the questions and the language that were used were comprehensible and clear to the participants.

The researcher used the same selection criteria for the pilot study as for the final study, being the SMMEs that benefited from microfinance services for the past two years and have been in existence for the past four years. Following the evaluation of the appropriateness and clarity of the questionnaire, the main study was therefore conducted in Urban Maseru.

Content validity was done by giving the questionnaire to 15 respondents who were used to test the appropriateness of the questions and their comprehension. This assisted in establishing clarity and adequacy of the questionnaire before it was administered to the broader population of respondents and thus reduce biases. It ensured that the respondents understood the questions, and there were no ambiguities in questions El Hadidi (2018) also conducted a pilot study prior to the actual study to assess the appropriateness and clarity of the questionnaire.

### **3.11 Research ethics**

There is need for ethical considerations where people are considered as study participants in any research and as such appropriate care to ensure that the rights of such participants are protected should be exercised as described by Polit and Hungler (1999). The researcher therefore gave due consideration to the respect to ethics of each participants. Additionally, each participant was given the requisite privacy in terms of adhering to anonymity by not linking the responses to participants. Furthermore, the collected data was treated with confidentiality. Furthermore, the data collected would not be disclosed to anyone but remain to be used for this study only.

To ensure anonymity the researcher had not included the names of respondents on the questionnaires. Numbers were used instead to identify the questionnaires. In addition, the completed questionnaires and the consent forms would be kept in locked cabinets with the researcher. To ensure confidentiality of the data collected, the researcher would keep the information secure in protected filing system through creation of passwords for the computer and the related files. The information was filed using codes that are created by the researcher to identify specific information collected. After a year following completion of the research, the data will be disposed by shredding the questionnaires.

The researcher equally sought approval from the Research Ethics Department of the University. Furthermore, Participants were enlightened on the study and its aim to collect data that would assist in the improvement of the relationship between MFIs and entrepreneurship.

Participants were also sensitised on the liberty they have should they wish to withdraw at any point in time during the course of the study, they were free to do so without any threat. Curry (2010: 56) asserts that as “consideration, good researchers should observe the right to participation of subjects and participants should never be forced at any given point in time to participate in a study”. During the process of data collection for communication purposes, the researcher used both English and Sesotho as these are official languages in Lesotho to ensure clarity of issues and questions to participants.

### **3.12 Informed Consent**

The informed consent form was issued having been compiled by the researcher and the supervisor. Each participant was enlightened on the nature of the research and implored to take part in the research and fill the questionnaires. Participation in the study would assist the participants with information and recommendations that would guide and improve their relationship with the MFIs that could facilitate SMMEs access to finance. Furthermore, the outcomes of the study could enlighten the SMMEs on the potential services being offered by MFIs to contribute to the development of SMMEs.

### **3.13 Summary**

This section considered the descriptive research design as the research design that was applied for this study, the non-probability convenience sampling method that assisted the researcher to draw a sample from the wide population. The questionnaire was used as a data collection instrument and the primary data and secondary used were considered under data collection techniques. Ethical concerns that have a potential to impact on the smooth conduct of the study were addressed. The following section presents the data analysis approach for the data obtained from conducting a survey from 400 entrepreneurs in Urban Maseru.

## **CHAPTER FOUR**

### **DATA ANALYSIS AND PRESENTATION**

#### **4.1 Introduction**

This chapter is a presentation of the results and the analysis thereof. The chapter continues from the methodology that was tabled in Chapter 3 and discussed these findings with incorporated tables, graphs, and descriptions. In addition to the presentations, the analysed data was interpreted and compared to the literature in Chapter 2. This chapter also presents the findings of the study on the role of microfinance institutions in entrepreneurial development. The outline of the chapter is as follows; response rate, background of respondents, and the impact of microfinance institutions on growth and development entrepreneurship.

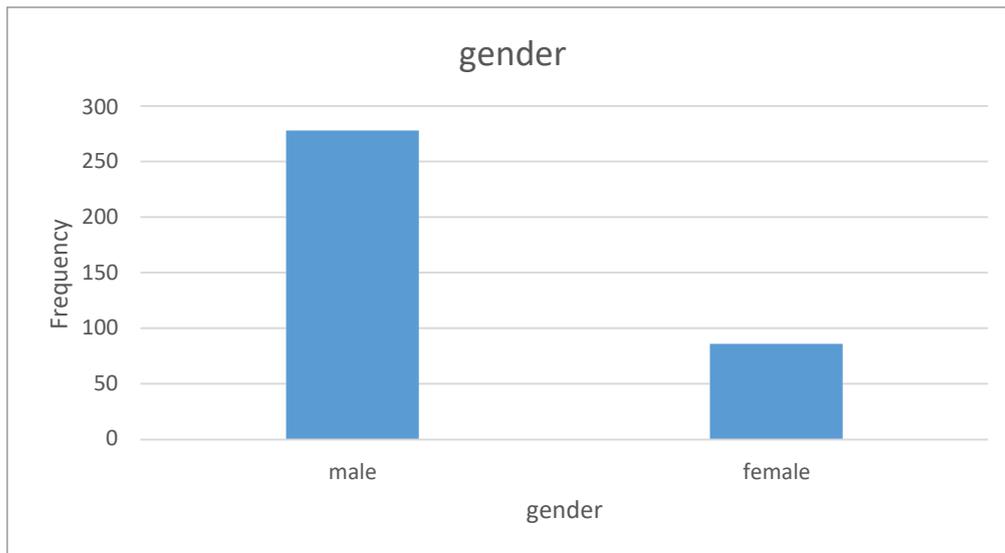
#### **4.2 Response rate**

The study was focused on 400 respondents in the SMMEs sector to whom 400 questionnaires were administered. However, only 385 participants were able to complete the questionnaires, out of which 367 were properly filled while 18 were invalid. This represented the response rate of 91% from the sample size shows a good response because only 19% of the respondents did not turn up. Fincham (2008) affirms that response rates reminiscent of 60% for most research should be the goal of researchers as it only leaves the nonresponse bias of 40% rendering the research sufficient to enable generalisation of the results to the target population.

#### **4.3 Descriptive statistics**

The survey considered the demographics and background characteristics of participants based on gender, age, legal structure, size of SMMEs, annual turnover, marital status and educational level completed.

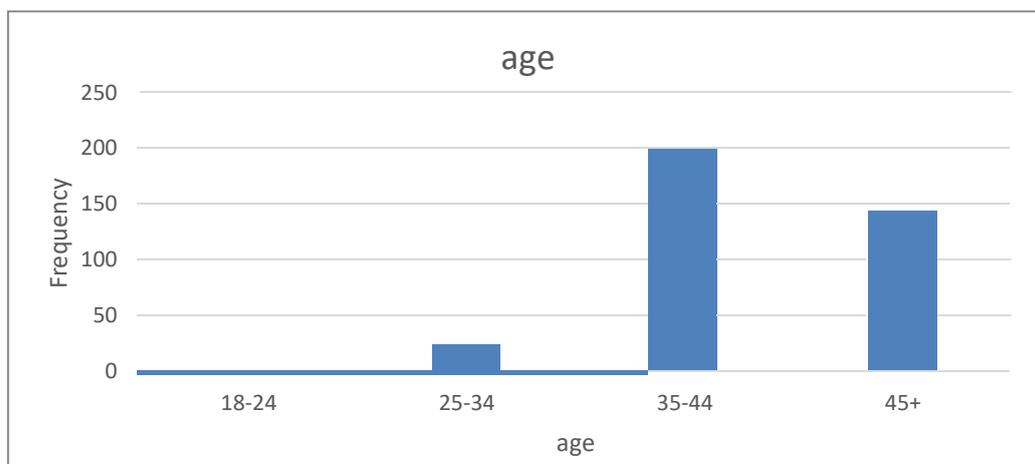
### 4.3.1 Gender of the respondents



**Figure: 4.1: Response by gender**

Respondents were also expected to signify their gender. The research findings revealed that the majority of the respondents were male with a score of 75.7% while females were in the minority with 23.4%. This result illustrates the practice that the male population assumes breadwinner responsibilities and women do not engage in entrepreneurial activities given their household responsibilities. The dominant role exercise by male participants in SMMEs activities was also echoed by Kamweru (2011) highlighting cultural beliefs that men are owners of property to be one of the reasons men are more active in entrepreneurial activities than women.

### 4.3.2 Age of the respondents



**Figure 4.2: Response by age**

Figure 2 presents the results suggesting that most of the entrepreneurs in Urban Maseru are aged 35 to 44 years. The study established that the majority of the respondents, 52% was aged between 35 and 44 years. Additionally, the study revealed that only 6% of the respondents were within the age group of 25-34.

It shows different categories of age groups that were surveyed on the study. This demonstrates that respondents between the age group of 35-44 years are the most active people in this industry, representing 52% of the SMMEs in Urban Maseru. The population within the age group of 35-44 year is at the maximum productive capacity and have the responsibilities to support their families. This result was also found in the similar study conducted by Simba (2013). This category is followed by respondents within the age group of 45 years and above who account for 38% of the surveyed population, while age group of 25-34 years represents 6% and age group of 18-24 has the least representatives with 1% of the share. This implies that the youth is not mostly engaged in entrepreneurship rather they are engaged in other sectors of the economy.

#### 4.3.3 Legal structure of Respondents

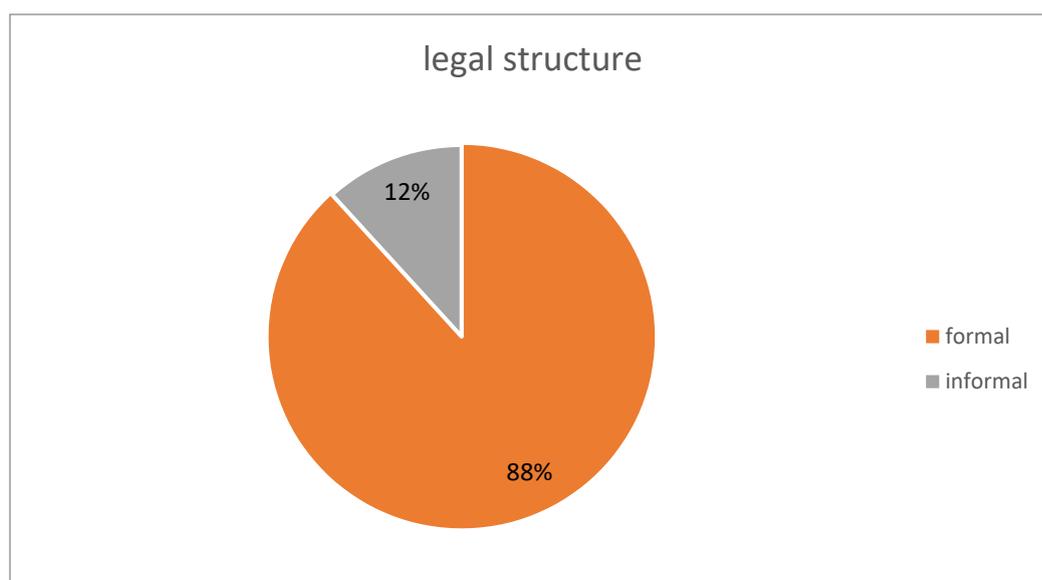
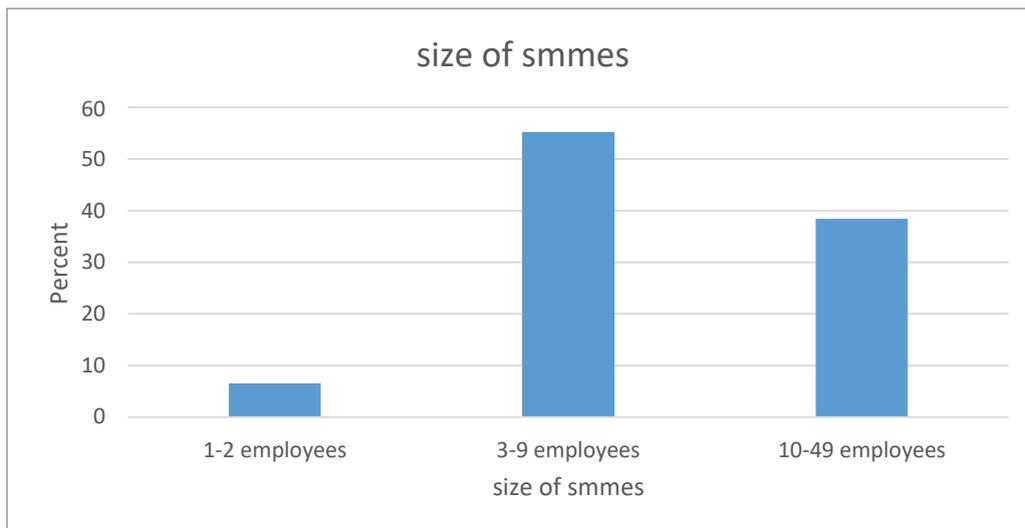


Figure: 4.3: Responses by legal structure

The legal structure of the SMMEs was sought to establish whether the registration or licensing of SMMEs has an influence in the participation of SMMEs in microfinance activities. This was also done in a similar study done by (Aladejebi,2019). The majority of respondents indicated that their companies were registered and licensed thus being classified as formal business establishments. Figure 3 illustrates that the majority of SMMEs are registered or licensed. The companies with formal legal structure constituted 88% of the respondents while the informal ones accounted for 12%. This demonstrates that the majority of SMMEs can be eligible for microfinance services in respect of their legal structure. The findings show high possibility for expansion of businesses leading to enhanced job creation in the private sector in Lesotho and more revenue collections hence increased contribution to the country's Gross Domestic Product.

#### 4.3.4 Respondents by Size of SMMES

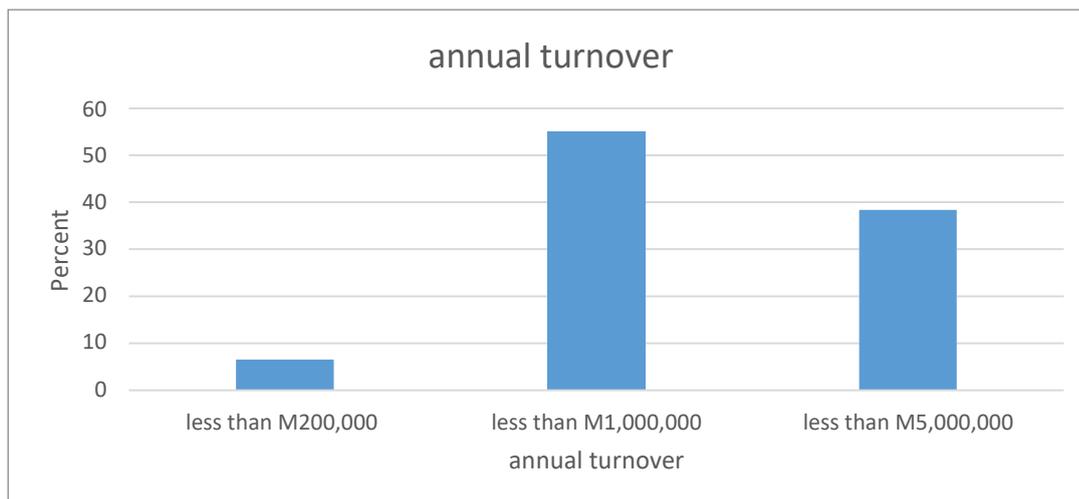


**Figure: 4.4: Responses by size of SMMEs**

The response in figure 4 lays out the number of employees that is mainly active in Urban Maseru from the study. This category was guided by the study done by Aladejebi (2019). The results show that 209 SMMEs have employed 3 to 9 employees per business and this reflects 54% of the SMMEs of the sample size of the study (AfriScope and FinMark, 2015). However, less SMME seem to have employees between 10 and 49 which is 38% of the SMMEs. In the minority is 24% SMMEs that have employed 1 to 2 employees in Urban Maseru and these shows that there are

more small businesses than the medium and micro establishments (AfriScope and FinMark Trust, 2015). However, this revealed that a large scale of employment exists and businesses are growing in terms of labour considering that the more the number of businesses are establish, the more job opportunities available..

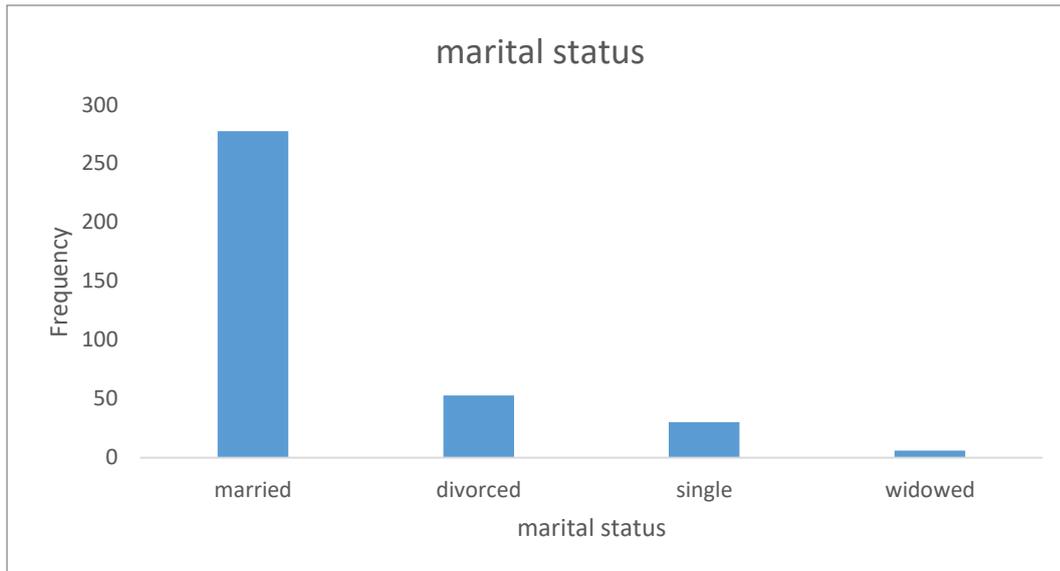
#### 4.2.4 Annual Turnover of Respondents



**Figure: 4.5 responses based on annual turnover**

The respondents were requested to indicate their annual turnover as it has been identified as a measure of output and business growth in the context of this study taking queue from the study by Pei-Wen, et. al. (2016). The outcome of the study shows that 24 of the SMMEs accumulate less than 200,000 per annum, while the majority of SMMEs, 202, are able to generate a turnover of less than 1,000,000 but more than 200,000 annually. Finally, 141 SMMEs generate less than M5, 000,000 but more than M1, 000, 000 in a year. The turnover classification is based on the research by AfriScope and FinMark (2015). This result shows that the small entrepreneurs represent a higher number of SMMEs although the medium entrepreneurs generate more turnover. This could be a result of interest shown by entrepreneurs to the small-size entrepreneurship due to the affordability of the start-up capital and other related costs required in relation to returns.

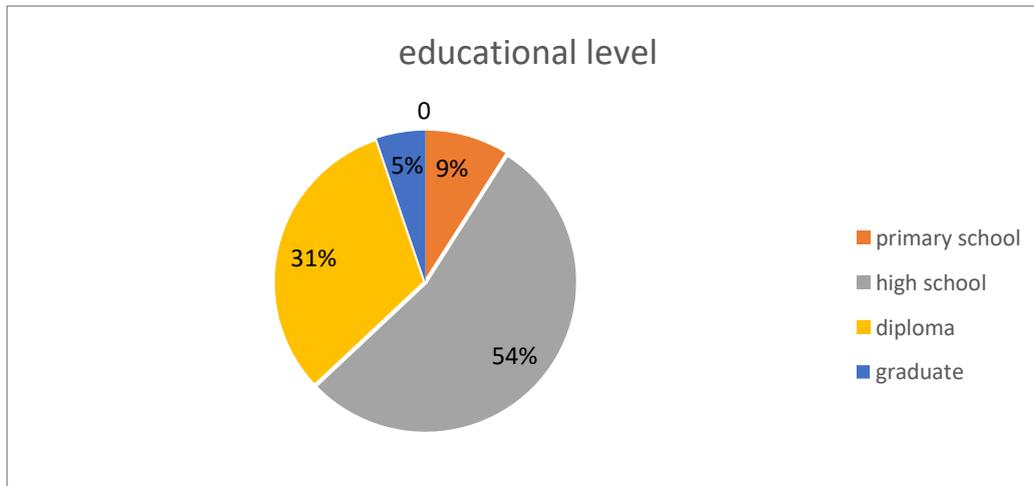
#### 4.2.5 Marital Status of Respondents



**Figure 4.6: Marital Status**

The figure 6 above shows that married people participate more into entrepreneurship with a number of 278 SMMEs that represents 75% of the survey in Maseru urban. Divorced people are represented by a number of 53 entrepreneurs who contribute to 53% of the SMMEs. Lastly, single and widowed represent less percentage being respectively, 8% single and 2%. This demonstrates that married people have more inclination to engage in entrepreneurial activities in order to provide for their families. Simba (2013) in a similar study concludes that 56% of respondents were married while only 14% were single, which showed that women with domestic responsibilities were considered prospective people to secure loans.

#### 4.2.5 Educational Level of Respondents



**Figure: 4.7 Educational level**

The study established that majority of 54% completed the high school educational level, while 31% attained diploma level of education. The primary school level as well as the graduate level respectively garnered 9% and 5%. The findings are as presented in Figure 7.

This result indicates that due to low absorption capacity in the government structures leading to high unemployment rate. As such, most of the population that has completed high school and diploma education tend to engage in entrepreneurial activities

#### 4.3 Analysis by research questions

The quantitative analysis techniques were employed to analyse the three research questions. The Cronbach Alpha analysis was conducted to determine the reliability of the developed 5 Likert scale. The results are discussed in the context of the identified demographic variables, gender, annual turnover; size of SMMEs, marital status, and educational level on the perception of SMMEs on the effect of microfinance on entrepreneurial development. The results are presented below:

### 4.3.1 Reliability Analysis

In this study, to ensure the reliability of the instrument, Cronbach's Alpha was used

**Table 4.2 cronbach alpha reliability statistics**

	Reliability Statistics	
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.874	.876	7

**Table 4.3 cronbach's alpha item-total statistics**

Item-Total Statistics					
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item- Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
Q1A	21.99	32.576	.817	.699	.836
Q1B	23.01	35.904	.515	.276	.873
Q1C	22.46	33.981	.615	.383	.861
Q1D	22.07	32.175	.719	.585	.847
Q1E	22.57	33.710	.599	.384	.864
Q1F	22.02	32.655	.753	.626	.843
Q1G	22.46	34.156	.583	.359	.866

A Cronbach's alpha was conducted to test the reliability which is the Cronbach's alpha coefficient that was derived from analysis of data collected. Table 2 indicates the level of reliability as 0.874 calculated from the selected variables in the questionnaire. According to Gliem and Gliem (2003), the minimum level of Cronbach to be accepted

has to be 0.70 to measure the level of reliability; therefore, the Cronbach alpha of this study is above that figure which means there is a good internal consistency of factors.

### 4.3.2 Analysis by research questions

The quantitative analysis techniques were used to analyse the three research questions. The results are discussed in the context of the identified demographic variables and other variables namely Barriers that impede on Entrepreneurial development (BED), Constrains faced by micro Entrepreneurs (CFE), Challenges that SMMEs face in accessing capital/Finance (CSF), Contributions of Microfinance Institutions in supporting SMMEs (CMS) and Effects of Micro finance on SMMEs growth (SFB), and the effects of microfinance on SMMEs growth (EMG). The results thereto are presented below:

#### 4.3.2.1 What are the challenges faced by SMMEs in accessing microfinance services?

**Table 4.4: Challenges that SMMEs face in accessing finance**

	Lack of government support to microfinance institutions	Poor management in microfinance institutions	Lack of right technical skills in microfinance institutions	High loan interest rates
Male	216 59%	173 47%	132 36%	249 68%
female	67 18%	54 14%	40 11%	75 20%
Total	283 77%	227 75%	172 46%	324 88%

Table 3 shows that with regard to challenges that SMMEs face in accessing finance; the majority of respondents (88%) highlighted high loan interest rates as the key challenge for SMMEs to access finance. Additionally, a significant number of respondents (77%) identified lack of government support to microfinance institutions. This outcome is similar to the study undertaken by (Nendakulola, 2015) which found

that high interest rate appeared to be one of the challenges faced by SMMEs in accessing credit. However poor management in microfinance institutions is also perceived as a challenge facing SMMEs in accessing finance with the least as lack of technical skills in the microfinance institution with 46% of the respondents

The assessment of the challenges faced by SMMEs in accessing credit highlights that the most concerning challenge that prevents SMMEs to access finance is the high loan interest rates followed by lack of government support to microfinance institutions then poor management in microfinance institutions and finally lack of the right technical skills in the microfinance institutions.

This research question was analysed based on the descriptive statistics and Independent T-Test to present data on the mean and standard deviation for different groups as well as to identify the variables that are statistically different. Consequently, the researcher identified whether there is a statistically significant difference between the mean of the groups. The results are shown in Tables 4, 5, 6 and 7:

#### 4.3.2.1.1 Independent sample test on gender

**Table 4.5: Group Statistics for gender**

	gender	N	Mean	Std. Deviation	Std. Error Mean
BED	Male	278	4.0493	.37501	.02249
	female	86	3.9635	.36876	.03976
CFE	Male	278	3.8957	.35997	.02159
	female	86	3.8887	.35020	.03776
CSF	Male	278	3.8603	.52099	.03125
	female	86	3.7791	.53333	.05751

Table 4 illustrates group statistics derived from the execution of the questionnaire for the study. The mean and standard deviation values calculated for the 3 variables, namely, BED, CFE and CSF are in general almost identical. The mean scores show that the BED is more important than other variables since the mean value obtained for BED is 4.0493 being the highest value obtained from the 3 variables. CFE has been

identified as the second most important variable; while CSF garnered the lowest mean score hence the least important variable. This result indicates that male respondents account for the higher score on providing their perspective and experience on the challenges faced by entrepreneurs based on the 3 variables. This reveals that most male are more engaged into entrepreneurship as bread winners in their families while female might be having tight schedules to effectively participate in the entrepreneurial activities as they have the responsibility of looking after their families. This outcome was in line with the one by the study undertaken by (Nendakulola 2015)

**Table 4.6: Independent Samples Test gender**

		Levene's Test for Equality of		t-test for Equality of Means						
		F	Sig.	T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
BED	Equal variances assumed	.107	.744	1.863	362	.063	.08588	.04609	-.00477	.17652
	Equal variances not assumed			1.880	143.580	.062	.08588	.04568	-.00442	.17618
CFE	Equal variances assumed	.071	.791	.158	362	.874	.00698	.04414	-.07982	.09378
	Equal variances not assumed			.160	144.895	.873	.00698	.04350	-.07900	.09295
CSF	Equal variances assumed	.000	.996	1.257	362	.210	.08124	.06465	-.04589	.20837
	Equal variances not assumed			1.241	138.879	.217	.08124	.06545	-.04817	.21065

The researcher used the independent T-test to assess whether gender has an effect on challenges faced by SMMEs in accessing microfinance services. The assessment compared the significant difference between the mean scores of male and female. According to Table 4 above, there is a statistically significant difference between the mean scores of the male and female. Where variable BED  $t(362) = 1.863$ , CFE  $t(362) = 1.58$ , CSF  $t(362) = 1.241$   $p > 0.05$  (two-tailed). This shows that there is no statistical

significance between the assessment of males and females on the challenges faced by the SMMES in accessing microfinance services. This result shows that all the challenges faced by both males and females seem to be equal when accessing microfinance services. Ngugi and Kerongo (2014) have also contended that using gender empowerment as an impact indicator for microcredit has a negative impact.

#### 4.3.2.1.2 Independent sample test on legal structure

**Table 4.7: Group Statistics for legal structure**

	legal structure	N	Mean	Std. Deviation	Std. Error Mean
BED	Formal	324	4.0265	.36984	.02055
	Informal	43	4.0365	.42412	.06468
CFE	Formal	324	3.8889	.36007	.02000
	Informal	43	3.8937	.36099	.05505
CSF	Formal	324	3.8346	.51656	.02870
	Informal	43	3.8895	.57296	.08738

Table 6 illustrates group statistics derived from the execution of the questionnaire for the study. The mean and standard deviation values calculated for the 3 variables, namely, BED, CFE and CSF are almost the same. The mean scores indicate that the BED is the variable that is considered as more important than other variables since the mean value obtained for BED, 4.0265, is higher than those of the other variables. This implies that entrepreneurs perceive barriers such as lack of capital, lack of collateral, lack of knowledge as well as cumbersome loan procedures, as the fundamental factors that impede access to microfinance and subsequently entrepreneurial development. According to legal structure, the formal entrepreneurs constitute the majority of entrepreneurs that view these barriers as the main impediment to accessing microfinance. CFE has been identified as the second most important variable; while CSF obtained the lowest mean score thus being considered as the least important variable. This result indicates that the informal businesses were the most to assess the challenges faced by entrepreneurs based on the 3 variables. The majority of entrepreneurs have identified constraints such as high interest rates, lack of education, lack of institutional support and cash flow as the key challenges that SMMES face in

accessing microfinance. The similar conclusion was made by the study undertaken by Woldie et. al. (2012).

**Table 4.8: Independent Samples Test legal structure**

		Levene's Test for		t-test for Equality of Means						
		F	Sig.	T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
BED	Equal variances assumed	1.117	.291	-.165	365	.869	-.01009	.06111	-.13025	.11007
	Equal variances not assumed			-.149	50.838	.882	-.01009	.06786	-.14634	.12616
CFE	Equal variances assumed	.144	.704	-.082	365	.935	-.00480	.05846	-.11976	.11016
	Equal variances not assumed			-.082	53.702	.935	-.00480	.05857	-.12224	.11265
CSF	Equal variances assumed	.645	.423	-.647	365	.518	-.05492	.08494	-.22195	.11212
	Equal variances not assumed			-.597	51.472	.553	-.05492	.09197	-.23951	.12968

The researcher used the independent T-test to assess whether gender has an effect on challenges faced by SMMEs in accessing microfinance services. The assessment compared the significant difference between the mean scores of the male and female. According to Table 3 above, there is a statistically significant difference between the

mean scores of the male and that of female. Where variable BED  $t(365)=0.165$ , CFE  $t(365)=0.82$ , CSF  $t(365)=0.647$   $p>0.05$  (two-tailed). This shows that there is no statistical significance on the perception of males and females on the challenges faced by the SMMEs in accessing microfinance services, which implies that challenges faced by both male and female do not differ in relation to access to microfinance services. Taiwu et. al. (2016) also concluded that there is no favouritism of a particular gender as the male and female gender had almost equal shares in the study.

#### 4.3.2.2 What are the impacts of micro-financing on the output of SMMEs in Urban Maseru?

**Table 4.9: Response on the impact of microfinance on SMMEs output**

	provision of financial support	support in financial literacy of SMMEs	development of management skills for SMMEs	facilitate increase in output	facilitate increase in turnover	facilitate general growth of SMMEs
Male	249 68%	248 68%	106 29%	254 69%	224 61%	231 63%
female	82 22%	81 22%	40 11%	75 20%	76 21%	77 21%
Total	331 90%	329 89%	146 40%	329 89%	300 82%	308 84%

Table 8 was used to determine the degree to which microfinance influences the output of SMMEs. The outcome of the study highlight that the respondents scoring 90% observe the provision of financial support is the most important contributor to the output of the SMMEs. The second scored attribute that has an effect on output of SMMEs is support in financial literacy of SMMEs that scored 89% while development of management skills for SMMEs garnered the least score 40%. Ngugi and Kerongo (2014) confirmed that loans enhance the level of income, assist in the expansion of business, improves the competitiveness, escalates the volume of sales volume and in so doing increases profits.

The research question was analysed based on the one-way ANOVA to explore if there is any effect of microfinance on the output of SMMEs based on the size of SMMEs in relation to the number of employees as well as the annual turnover. Table 7 presents the results of the ANOVA analysis to establish if there was a statistically significant difference between the mean scores of the two variables, namely the CMS and SFB based on the size of SMMEs. The tabulated significance value was 0.05 ( $p=0.05$ ).

#### 4.3.2.2.1 One way ANOVA on Size of SMMEs

**Table 4.10: ANOVA on size of SMMEs**

		Sum of Squares	Df	Mean Square	F	Sig.
CMS	Between Groups	.104	2	.052	.321	.726
	Within Groups	59.059	364	.162		
	Total	59.163	366			
SFB	Between Groups	.318	2	.159	.633	.532
	Within Groups	91.602	364	.252		
	Total	91.920	366			

It was observed that the significance value for CMS [ $F(2,364)=0.321$ ,  $p<0.726$ ] while SFB has a significance value of [ $F(2,364)=0.633$ ,  $p<0.532$ ] are greater than 0.05, which indicates that there is no statistically significant difference in the mean scores relating to the variables CMS and SFB in respect of the size of SMMEs. Based on these results, there is no statistically significant difference on the impacts of micro-financing on the output of SMMEs in Urban Maseru.

The results prove that the microfinance does not have any effect on output based on the size of SMMEs. This therefore indicates that even if SMMEs have accessed microfinance services, the growth of the size of SMMEs is not solely influenced by services rendered by microfinance institutions, such as provision of financial support, support in financial literacy for SMMEs and development of managerial skills for SMMEs. Ahiabor (2013) asserts that while entrepreneurs acknowledge the

contribution of microfinance in promoting their growth, factors such as professional advice and training are key in enhancing growth of SMMEs.

**Table 4.11: ANOVA Multiple Comparisons on size of SMMEs**

Scheffe	(I) size of smmes	(J) size of	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
						Dependent Variable	
CMS	1-2 employees	3-9 employee	.06119	.08697	.781	-.1526	.2750
		10-49 employee	.03812	.08894	.912	-.1805	.2567
	3-9 employees	1-2 employee	-.06119	.08697	.781	-.2750	.1526
		10-49 employee	-.02307	.04420	.873	-.1317	.0856
	10-49 employees	1-2 employees	-.03812	.08894	.912	-.2567	.1805
		3-9 employee	.02307	.04420	.873	-.0856	.1317
SFB	1-2 employees	3-9 employee	.05700	.10831	.871	-.2092	.3232
		10-49 employee	.10446	.11077	.641	-.1678	.3767
	3-9 employees	1-2 employee	-.05700	.10831	.871	-.3232	.2092
		10-49 employee	.04746	.05505	.690	-.0878	.1828
	10-49 employees	1-2 employees	-.10446	.11077	.641	-.3767	.1678
		3-9 employee	-.04746	.05505	.690	-.1828	.0878

The multiple comparisons were undertaken to identify which groups differ from one another based on size of SMMEs. The results revealed that there is no statistically significant difference between the sizes of SMMES in Urban Maseru in relation to the

impacts of microfinance on the output of SMMEs. This reveals that irrespective of the category of the SMMEs by size, the services extended by microfinance institutions to SMMEs are the same. Ngehevu and Nembo (2010) findings in their study show that size adversely affect SMMEs chance of securing credit. The reason for this disparity in the research results could be that in the case of microfinance institutions in Urban Maseru provide standard procedures and similar opportunities for extension of microfinance services for the SMMEs regardless of the size. Nonetheless, the microfinance services are provided to all qualifying SMMEs irrespective of the size.

#### 4.3.2.2.2 One-way ANOVA on Annual Turnover

**Table 4.12: ANOVA on annual turnover**

		Sum of Squares	Df	Mean Square	F	Sig.
CMS	Between Groups	.104	2	.052	.321	.726
	Within Groups	59.059	364	.162		
	Total	59.163	366			
SFB	Between Groups	.318	2	.159	.633	.532
	Within Groups	91.602	364	.252		
	Total	91.920	366			

Furthermore, a One Way ANOVA was conducted to assess the impact of micro-financing on SMME development based on the annual turnover. The results discovered that insofar as annual turnover is concerned, no significant differences on the variables CMS and SFB were observed. The results illustrate that CMS [ $F(2,364) = 0.321, p < 0.321$ ] and for SFB [ $F(2,364) = 0.633, p < 0.532$ ] which are greater than 0.05. These results reveal that there is no statistical significance difference on the impacts of micro-financing on the output of SMMEs in Urban Maseru based on annual turnover. The results show that microfinance has no effect on output when the level of annual turnover of SMMEs is considered. This therefore means that microfinance services do not represent the sole factor that can contribute to the output of SMMEs. This indicates that even if microfinance institutions do not inject or provide credit to SMMEs, output can still improve.

**Table 4.13: Multiple Comparisons on annual turnover**

Scheffe

Dependent Variable	(I) annual turnover	(J) annual turnover	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
CMS	less than M200.000	less than M1.000.000	.06119	.08697	.781	-.1526	.2750
		less than M5.000.000	.03812	.08894	.912	-.1805	.2567
	less than M1.000.000	less than M200.000	-.06119	.08697	.781	-.2750	.1526
		less than M5.000.000	-.02307	.04420	.873	-.1317	.0856
	less than M5.000.000	less than M200.000	-.03812	.08894	.912	-.2567	.1805
		less than M1.000.000	.02307	.04420	.873	-.0856	.1317
SFB	less than M200.000	less than M1.000.000	.05700	.10831	.871	-.2092	.3232
		less than M5.000.000	.10446	.11077	.641	-.1678	.3767
	less than M1.000.000	less than M200.000	-.05700	.10831	.871	-.3232	.2092
		less than M5.000.000	.04746	.05505	.690	-.0878	.1828
	less than M5.000.000	less than M200.000	-.10446	.11077	.641	-.3767	.1678
		less than M1.000.000	-.04746	.05505	.690	-.1828	.0878

The multiple comparisons were therefore undertaken to identify which groups differ from one another. The results revealed that there is no statistically significant difference between the different levels of annual turnover in relation to the impacts of microfinance on the output of SMMEs in Urban Maseru. This reveals that irrespective of the level of the annual turnover of the SMMEs, the services extended by microfinance institutions to SMMEs are the same. Therefore, there are no effects of microfinance on SMMEs output based on the level of annual turnover with regards to growth of the business

Based on the results, for most of the SMMEs respondents the provision of financial support was found to be not significant to the level of output in their businesses. The process of accessing credit was defined as cumbersome. Additional challenges facing SMMEs include: Inability to provide the collateral securities in cases where they are demanded and high interest rate, which escalates the inability of SMMEs to pay back their loans.

#### 4.3.2.3 What is the contribution of microfinance on business growth of selected SMMEs in Urban Maseru?

**Table 4.14: Responses on the contribution of microfinance on business growth**

	Job creation in SMMEs	stability of operations	Better access to credit	Provide new opportunities for SMMEs	Competitive advantage in the industry
Male	207 56%	236 64%	186 51%	218 59%	199 54%
female	68 19%	73 20%	59 16%	69 19%	66 18%
Total	275 75%	336 92%	245 67%	287 78%	265 72%

#### **The contribution of MFIs in the growth of SMEs**

To determine the contribution of microfinance in entrepreneurship growth and development, we used metrics defined by Muthama, et. al. (2013); recruitment of new employees and better access to credit were tested. Also, the study used stability of operations and competitive advantage in the industry as factors that can affect the contribution of microfinance on business growth. The majority of the respondents have experienced stability in their operations, represented by 92%. Those that realised new opportunities were shown by 78% while 75% is experiencing increasing rate of employment creation. The competitive advantage of SMMEs in the industry with 72% of respondents as well as the better access to credit constituting 67% were the least factors that the respondents perceived as tools that microfinance used to contribute towards entrepreneurship growth. The result that shows that SMMEs realised stability in operations implies that microfinance has contributed in upgrading the operational

functions such as management and training of SMMEs which shows a positive impact on entrepreneurial growth.

#### **4.3.3 Pearson Correlation analysis**

Pearson correlations ( $r$ ) were utilised to determine the relationships between the variables and the results are as indicated in table 21. Table 21 illustrates that the correlation between microfinance and entrepreneurial development based on the six variables is relatively strong. Microfinance is represented by variables CSF and CMS while entrepreneurial development is represented by BED, CFE and SFB. All the five variables were reported to be statistically significant; BED ( $p < 0.05$ ;  $r = .166$ ), CFE ( $p < 0.05$ ;  $r = .243$ ), CSF ( $p < 0.05$ ;  $r = .237$ ), CMS ( $p < 0.05$ ;  $r = .189$ ) as well as SFB ( $p < 0.05$ ;  $r = .177$ ). However, the significance of the relationship between the variables varies between none and weak.

**Table 4.15 Correlations**

		BED	CFE	CSF	CMS	SFB	EMG
BED	Pearson Correlation	1	.184**	.225**	.231**	.213**	.166**
	Sig. (2-tailed)		.000	.000	.000	.000	.001
	N	367	367	367	367	367	367
CFE	Pearson Correlation	.184**	1	.243**	.292**	.150**	.243**
	Sig. (2-tailed)	.000		.000	.000	.004	.000
	N	367	367	367	367	367	367
CSF	Pearson Correlation	.225**	.243**	1	.177**	.212**	.237**
	Sig. (2-tailed)	.000	.000		.001	.000	.000
	N	367	367	367	367	367	367
CMS	Pearson Correlation	.231**	.292**	.177**	1	.321**	.189**
	Sig. (2-tailed)	.000	.000	.001		.000	.000
	N	367	367	367	367	367	367
SFB	Pearson Correlation	.213**	.150**	.212**	.321**	1	.177**
	Sig. (2-tailed)	.000	.004	.000	.000		.001
	N	367	367	367	367	367	367
EMG	Pearson Correlation	.166**	.243**	.237**	.189**	.177**	1
	Sig. (2-tailed)	.001	.000	.000	.000	.001	
	N	367	367	367	367	367	367

\*\* . Correlation is significant at the 0.01 level (2-tailed).

#### **4.3.3.1 The relationship between barriers to entrepreneurial development (BED) and SMMEs growth.**

The results in the table above revealed a significant and positive relationship between the SMMEs growth and the barriers that impede on entrepreneurial development ( $r=0.166$ . \*\*,  $p<.01$ ). The results illustrate that the more barriers on entrepreneurial development are experienced, the more the risks for improvement on SMMEs growth. This implies that if entrepreneurs encounter more barriers such as lack of capital, cumbersome loan procedures as well as lack of collateral, there will be negative impact on their growth. Nendakulola (2015) confirm that some of the SMME respondents find the process of accessing credit as cumbersome and unable to provide the collateral securities in cases where they are demanded.

#### **4.3.3.2 The relationship between constraints faced by SMMEs (CFE) and SMMEs growth**

According to the results in Table 18, the constraints faced by SMMEs were also perceived to be significantly and positively related to SMMEs growth ( $p < 0.05$ ;  $r=.243$ ). The outcome is suggestive of the fact that the more the constraints that the SMMEs face in accessing microfinance services, the higher the risk for SMMEs to attaining the desired growth. The implication of the result is that entrepreneurial growth would be realised if the constraints that SMMEs face such as lack of education, high interest rates and cash flow could be eliminated. In support, Pei-Wen et. al. (2016) believe that SMEs who attend a business course may use the knowledge to increase their business income.

#### **4.3.3.3 The relationship between challenges facing SMMEs (CSF) in accessing capital and SMMEs growth**

Table 18 above illustrates that there is significant and positive relationship between the challenges faced by SMMEs in accessing capital and the SMMEs growth ( $p < 0.05$ ;  $r=.243$ ). The results explain that more the challenges that SMMEs face in accessing capital, the more the possibilities to start or expand business are restricted. As a result, when SMMEs continue to face challenges such as high loan interest rates, lack of government support to microfinance institutions as well as poor management in

microfinance institutions it will be difficult for such SMMEs to attain the desired growth. Christanto and Prasetyo (2019) express that while there could be support provided by the government, it usually is insignificant to enable entrepreneurs to significantly grow. Nendakulola (2015) also indicate that high interest rate represented one of the challenges that confronted SMMEs in accessing credit which is perceived to lead to failure of SMMEs to repay their loans.

#### **4.3.3.4 The relationship between the contribution of microfinance institutions (CMS) in supporting SMMEs and SMMEs growth**

In line with the results shown in Table 18 above, the contribution of microfinance institutions in supporting SMMEs and SMMEs growth have a significant and positive relationship ( $p < 0.05$ ;  $r = 0.189$ ). This implies that the more support that can be extended to SMMEs by the microfinance institutions, the higher the potential for the SMMEs to grow. It indicates that the provision of financial support, support in financial literacy and development of managerial skills of the SMMEs could contribute towards the growth of SMMEs. Nendakulola (2015) in support highlights that MFIs have contributed immensely towards the development of the SMME sector where a significant number of SMMEs indicated that they have been beneficiaries of business, financial and managerial training activities of MFIs.

#### **4.3.3.5 The relationship between the sources of funding (SFB) and SMMEs growth**

The results in Table 18 illustrate the significant and positive relationship between the sources of funding and SMMEs growth ( $p < 0.05$ ;  $r = 0.177$ ), which implies that the broader the base for source of funding, the higher the possibilities for SMMEs growth. The result demonstrate that SMMEs have a higher potential to grow when there are a wide range of financial sources which is critical in improving the business. These sources could include salaries, friends or family and savings group. Collins (2009) attests that microfinance is mostly used in developing economies where SMMEs do not have access to other sources of financial assistance. Aladejebi (2019) further highlights that owners of small businesses source their capital from personal savings, funds from friends and families, cooperative societies, business associates and partners.

#### 4.3.4. REGRESSION ANALYSIS

In examining the contribution of microfinance on business growth, The research question was analysed based on the Regression Analysis to determine the extent to which the predictors, namely, the barriers to entrepreneurial development, challenges that face microenterprises in accessing microfinance services, sources of funding for business, constrains faced by micro entrepreneurs, and contributions of microfinance institutions in supporting SMMEs can explain the dependant variable, effects of microfinance on SMMEs growth. The model was created to assess the proportion of the variation in the dependent variable that can be attributed to the independent variables which was also adopted by (Nendakulola, 2015).

**Table 4.16: Model Summary<sup>b</sup>**

Model	R	Adjusted R	Std. Error of
	Square	Square	the Estimate
1	.338 <sup>a</sup>	.114	.47870

a. Predictors: (Constant), mean\_SFB, mean\_CFE, mean\_BED, mean\_CSF, mean\_CMS

b. Dependent Variable: mean\_EMG

**Table 4.17: ANOVA<sup>a</sup>**

Model	Sum of Squares	Df	Mean Square	F	Sig.	
1	Regression	10.654	5	2.131	9.298	.000 <sup>b</sup>
	Residual	82.726	361	.229		
	Total	93.380	366			

a. Dependent Variable: mean\_EMG

b. Predictors: (Constant), mean\_SFB, mean\_CME, mean\_BED, mean\_CSF, mean\_CMS

The results displayed that the predictors have a potential to explain up to 10.2% of the EMG or SMEs growth variable since the Adjusted R Square = .102. In addition, the regression model was significant considering that sig. F Change = .000. The regression model below was used to determine the extent to which the predictors i.e.

Loan accessibility, Inadequate capital and Business location can explain the dependant variable i.e. SMEs growth as (Malasiya, 2016 and Nendakulola, 2015).

**Table 4.18: Coefficients<sup>a</sup>**

	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.646	.388		4.245	.000
	BED	.086	.070	.064	1.223	.222
	CFE	.225	.075	.160	3.013	.003
	CSF	.148	.051	.153	2.909	.004
	CMS	.092	.069	.073	1.338	.182
	SFB	.083	.054	.083	1.548	.123

a. Dependent Variable: mean\_EMG

A multiple regression analysis was conducted to test if there is a relationship between Barriers that impede entrepreneurs' development (BED), Constrains faced by micro entrepreneurs (CME), challenges that SMMEs face in accessing finance (CSF), Contributions of microfinance institutions in supporting SMMEs(CMS), sources of funding for business(SFB) and Effect of microfinance on SMMEs growth (EMG). The five independent variables explain 10.2% of the variation in the dependent variable.

The results in Table 16 illustrates that there is a positive and statistically significant relationship between Constrains faced by micro entrepreneurs (CFE) and Effects of Microfinance on SMMEs Growth and Challenges faced by SMMEs in access in Finance and Effects of Microfinance on SMMEs Growth. This suggests that an increase in CSF and CFE results in improved SMMEs growth as shown by positive and significant coefficients. Nendakulola (2015) also ran the same model and found that the variables had a positive statistical significance. However, the coefficient of BED was positive and not statistically significant (B=-0.86,  $p>0.05$ ) meaning that EMG not influenced by BED. Moreover, CMS and SFB were also found to be statistically insignificant (B=0.92,  $p>0.05$ ) implying that the change in EMG is not explained by CMS and SFB. Ojo (2009) ran the similar model and established that

there was no significant effect of microfinance institutions activities in predicting entrepreneurial development.

These results showed that SMMEs growth proxied by Effects of Microfinance on SMMEs Growth (EMG) is not influenced by the Constrains faced by micro entrepreneurs (CFE), Challenges that SMMEs face in accessing finance (CSF) and Contributions of microfinance institutions in supporting SMMEs (CMS).

### 4.3.5 CHI-SQUARE FOR INDEPENDENCE

The Chi-square for independence was applied to assess the association between age, marital status and educational level.

#### 4.3.5.1 AGE \* MARITAL STATUS

**Table 4.19: Chi-Square Tests**

	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	30.274 <sup>a</sup>	12	.003
Likelihood Ratio	28.085	12	.005
Linear-by-Linear Association	6.777	1	.009
N of Valid Cases	366		

a. 13 cells (65.0%) have expected count less than 5.  
The minimum expected count is .02.

A chi-square test of association was conducted to establish if an association exists between age and marital status on this study. However, there is a statistically significant association between age and marital status with regards to the role of microfinance on entrepreneurial development  $2(12) = 28.085, p < 0.05$ . Therefore, marital status is dependent on age in terms of the role of microfinance on entrepreneurial development. The age influences the marital status in relation to the classification of the prerequisites of the microfinance institutions in accessing the microfinance services. Fatoki and Asah (2011) also indicate that age and marital status influence the ability of the SMMEs to access credit.

**Table 4.20: Symmetric Measures**

		Value	Approximate Significance
Nominal by Nominal	Phi	.288	.003
	Cramer's V	.166	.003
N of Valid Cases		366	

The Phi statistic shows that the strength of the association is small (0.288) between age and marital status in this regard. This association means that age and marital status are considered when participants request for microfinance services. However, considering that the strength of the association is not strong, it does not pose a significant effect on the SMMEs when accessing services from microfinance institutions.

#### 4.3.5.2 AGE\*EDUCATIONAL LEVEL

**Table 4.21: Chi-Square Tests**

	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	16.662 <sup>a</sup>	12	.163
Likelihood Ratio	19.057	12	.087
Linear-by-Linear Association	.077	1	.781
N of Valid Cases	367		

a. 10 cells (50.0%) have expected count less than 5. The minimum expected count is .05.

Moreover, a chi-square test of association was also conducted to determine if an association exists between age and level of education. The results illustrate that, there is no significant association between age and marital status with regards to the role of microfinance on entrepreneurial development  $\chi^2(12) = 19.057$   $p > 0.05$ . This shows that level of education has no association with age in terms the role of microfinance on entrepreneurial development. This implies that age and educational level do not have any relationship in terms of accessing services from microfinance institutions. It also shows that the two variables cannot influence the effect of microfinance services

simultaneously. Furthermore, this indicates that level of education is independent on this study, implying that the educational level of the SMME owner does not assist in their ability to obtain credit as also indicated by Mutoko and Kapunda (2017).

**Table 4.22: Symmetric Measures**

		Value	Approximate Significance
Nominal by Nominal	Phi	.213	.163
	Cramer's V	.123	.163
N of Valid Cases		367	

The Kramer's V statistic shows that the strength of the association is small (0.123).

#### 4.4 Summary

The research findings attained from 367 participants, out of 400 questionnaires that were disseminated to SMMEs in Urban Maseru were reported. The format of the questionnaire was followed to report these results. Data analysis was conducted based on the sequence of the questions. The descriptive statistics are similarly reported and a comprehensive discussion from the primary data is given. This revealed a positive relationship between the effects of microfinance and entrepreneurial development. The conclusions drawn based on the findings, and the suggested recommendations are presented in the next chapter.

## **CHAPTER FIVE**

### **DISCUSSION, SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This study investigated the effect of microfinance on entrepreneurial development. It further assessed the challenges faced by SMMEs in accessing finance as well as the impact of microfinance on output of the SMMEs. The critical assessment of the results indicates that in addition to better access to credit, variables such as institutional support and training provided to entrepreneurs, good management and requisite skills in the microfinance institutions, loan interest rates, broad microfinance sources base as well as business registration remain a challenge for SMMEs to be able to access finance that is most need for start-up or expansion of their businesses. The discussion by research questions is presented in the section on summary of findings.

#### **5.2. Summary of the findings**

##### **5.2.1. Profile of SMEs in Urban Maseru**

The study highlights that about 54% of the selected population of SMEs in Urban Maseru is at their micro level since they employ between three to nine people in their businesses and have a turnover of less than M1, 000,000 per annum. This could be a demonstration that although there is growth potential in the sector, the challenges and constraints faced by SMMEs still play a great role in preventing their capability to grow. In relation to start-up capital, the research reveals that Financial Institutions are significant contributors towards development of SMMEs considering that most respondents report to have experienced a significant impact in terms of provision of financial support extended by financial institutions to increase their business start-up and expansion capital.

##### **5.2.2 The challenges faced by SMMEs in accessing microfinance services**

The study considered the challenges that are faced by SMMEs in accessing microfinance services. The reviewed literature emphasises the challenges that microfinance institutions are faced with (Cooper, 2013) such as legal and regulatory

environment that is not supportive to microfinance institutions, minimal support from the government and lack of appropriate technical skills for the managers and staff of microfinance institutions as well as high interest rates. The respondents perceive that there are challenges that SMMEs face in accessing microfinance services, of which high interest rates that are imposed by the microfinance institutions have become the key challenge. While the government has developed some programmes to enhance the competence of SMMEs in business management through different institutions such as BEDCO, entrepreneurs still face deficiencies in business skills to propel their businesses from the start-up to the growth phase (SMME Support Network-Lesotho, 2007).

The majority of respondents (88%) identified high loan interest rates as the key challenge for SMMEs to access finance. Furthermore, 77% of respondents identified lack of government support to microfinance institutions as one of the challenges that prohibit SMMEs to access finance. Respondents further identified poor management in microfinance institutions as a challenge facing SMMEs in accessing finance with the least as lack of technical skills in the microfinance institution with 46% of the respondents.

The literature that the study has reviewed further express that the high interest rates being charged by microfinance institutions continue to become a concern for micro entrepreneurs (Dhumale and Sapcanin, 2008). This presents high level of pressure on the borrowers that could even impact negatively on the success of their businesses. Lack of government support has also garnered a high score as a challenge that prevents SMMEs from attaining growth. Furthermore, there is a challenge relating to the availability of appropriate skills set at the microfinance institutions, however respondents do not feel it is significant to restrict growth of their businesses.

#### **5.2.4 The impact of microfinance on output of SMMEs**

The study aimed at establishing the association between microfinance and output of SMMEs in order to appreciate the effect of microfinance on entrepreneurial development. The literature that was reviewed in this study highlight that there is a

linear relationship between credit extension and demand, thus the need for capital increases with the increasing demand for output.

The outcome of the study highlight that the respondents scoring 90% perceive provision of financial support as the most important contributor to the output of the SMMEs. The other factor that respondents feel is important to the performance of SMMEs output is support in financial literacy of SMMEs which scored 89% while development of management skills for SMMEs garnered the lowest score 40%.

The result findings revealed that the output of SMMEs is positively related to access to the credit as output increased with access to credit. The results further emphasised that the business owners that received financial training and advice saw their output increase over those that did not benefit from training. The study further expressed that the output level of enterprises improved as a result of availability and contribution of credit thus emphasising the positive relationship between microfinance and output.

### **5.2.5 The effects of microfinance on SMMEs growth**

The effects of microfinance on SMMEs through the primary activity of provision of capital can be seen to have possible impact on better access to credit by the SMMEs. It further enhances expansion of SMMEs through increased job creation in the company and within the SMMEs sector, thus improving the stability of operations within the company. This in turn will enhance the competitive advantage of the SMMEs and provide new business opportunities.

The majority of the respondents, 92%, indicated that their businesses operations have been on stable trajectory while those that felt microfinance enshrined new opportunities for their businesses accounted for 78%. The other 75% expressed the effect of microfinance to have influenced an increase in employment creation. Furthermore, 72% of the respondents noted that their comparative advantage with the industry has improved from contribution by microfinance services. The respondents constituting 67% identified better access to credit as one of the key problem for SMMEs to fully realise growth. The literature reviewed in the study confirms that the

inability to access finance remains a key factor that constrain growth of business (AfriScope and FinMark Trust, 2015).

The study therefore has revealed that there is positive relationship between microfinance and SMMEs growth that can be augmented by focusing on easing the barriers and constraints in order to enhance the ability for SMMEs to have access to credit. The findings also revealed that most respondents indicated that the intervention of MFIs had a positive effect on their businesses, with particular reference to the provision of financial support thus impacting positively on their general growth.

Nonetheless, the study shows that notwithstanding the input of MFIs in supporting the activities of SMMEs, SMMEs still face some challenges in the process of accessing credit. A number of SMME respondents indicated that the procedure for accessing loans is ungainly. The challenges include: Inability to provide the collateral securities in cases where they are demanded. High interest rate was mentioned as one of the challenges faced in accessing credit. The high interest rates predominantly lead to increased defaults in payments by the clients.

### **5.3 Conclusion**

Microfinance is deemed an important instrument for development of entrepreneurship, however the study has noted that SMMEs development is not only dependent on access to credit but also the creation of conducive business environment. Furthermore, there is a critical need that in order to achieve entrepreneurial growth, measures such as appropriate legal framework that would assist the improvement of the services within the MFIs are also provided. The study also established that in the majority of cases, the MFIs appraise their achievement rate by considering aspects like high repayment, outreach and financial sustainability, which in the context of SMMEs may not reflect success if their activities do not contribute towards the growth

of SMMEs. Furthermore, the MFIs reach would not be possible in the SMMEs sector as the SMMEs face challenges such as high interest rates, leading to failure to repay loans and requirement for collateral which then prevents SMMEs to access loans. The provision of business training was also perceived to have a positive impact of the growth of SMMEs. Therefore, MFIs have immense responsibility of ensuring the proper facilitation of the provision of loans which is an imperative resource in business improvement.

#### **5.4 Recommendations**

In view of the findings made and conclusions drawn from the study, the following recommendations are provided to help improve and sustain growth in the SMME sector.

- In order to address the rate of default, diversification is key and government should be prepared to assist SMMEs through various training methods to follow different product lines. In the same vein, MFIs need to ensure that their financing methods and resources are focused on the most essential determinants of growth in focal sub-sectors, with the objective of enhancing access to the most needed resources and overcome the disadvantages that SMMEs face. Furthermore, SMMEs should be encouraged to practice group financing and MFIs adopt the microfinance group model so that they can avert loan defaulting.
- The institutional and policy framework should be developed by the government to extend support for SMMEs in those aspects that would be beneficial to attain SMME growth. On the similar note, MFIs should review their credit lines and provide soft loans that would be affordable to SMMEs.
- To accomplish this, credit should focus on the needs of the consumer rather than on the qualities of the product. Appropriate monitoring facilities should be established for SMMEs who are granted loans. It is also important that training on financial literacy is provided for the SMMEs in order to gain knowledge on how to account for the resources provided to them.

- It is important that Microfinance institutions also review their policies on the maximum amount of loans provided to SMMEs that is sufficient and further set affordable interest rates in order to allow and encourage SMMEs to participate in entrepreneurial activities and enable those already in business to expand their business activities thus generating employment.
- The provision of microcredit cannot on its own be sufficient to reduce the challenges that micro entrepreneurs face and improve their productivity and income. It therefore becomes imperative that additional interventions that support microfinancing are implemented, which could include making available the working space for SMMEs such as market cubicles as well as facilitating market development and availability for the products the trade with.
- The Government should introduce measures that will encourage Microfinance institutions to extend loans to SMMEs in a form of reduction of risks and transaction costs of lending. This could assist in enhancing competition within the financial sector and strengthen the capabilities to better service the SMMEs. The Government could provide guarantees for SMMEs that the financial institutions are reluctant to provide loans to because of the potential risks they observe.

### **5.5 Areas for Further Study**

The future studies should involve the entire country instead of concentrating in one region. Future studies can further investigate how to address the challenge of insufficient capital among SMMEs as well as attainment of entrepreneurial and management skills within the SMMEs in order to enable SMMEs to understand and participate in, and take full advantage of microfinancing activities. Furthermore, there is need to undertake focused studies on the operations of the MFIs towards SMMEs that would have potential growth impact on SMMEs.

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**FACULTY OF ECONOMIC AND MANAGEMENT SCIENCES (DEPARTMENT OF CENTRE FOR DEVELOPMENT SUPPORT)**

APPENDIX G

Dear participants

The researcher is a student at University of Free State and currently studying Master of Development Studies in the Faculty of Economic and Management Sciences. Please note that you have been selected from entrepreneurs in Urban Maseru to determine **The role of micro finance on entrepreneurial development: The case of Urban Maseru**. The data collection from the questionnaire will be treated as confidential and will be used for academic purpose only. Lastly there is no requirement to provide names in the questionnaire

**INSTRUCTIONS (Please tick the appropriate answer)**

**Part A** Demographics and Other characteristics

<b>Gender</b>	Male	1	Female	2				
<b>Legal Structure</b>	Formal	1	Informal	2				
<b>Size of SMME</b>	1 - 2 employees	1	3 – 9 employees	2	10–49 employees	3		
<b>Annual Turnover</b>	Less than M 200,000	1	Less than M1,000,000	2	Less than M5,000,000	3		
<b>Age</b>	18 – 24	1	25-34	2	35 – 44	3	45+	4
<b>Marital Status</b>	Married	1	Divorced	2	Single	3	Widowed	4
<b>Educational level completed</b>	Primary school	1	High school	2	diploma	3	graduate	4

**Part B**

1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

<b>(1) What are the barriers that impede entrepreneurial development</b>						
A	Non Registration	1	2	3	4	5
B	Lack of Collateral	1	2	3	4	5
C	Lack of Business Experience	1	2	3	4	5
D	Lack of Knowledge	1	2	3	4	5
E	Bureaucracy	1	2	3	4	5
F	Cumbersome loan Procedures	1	2	3	4	5
G	Lack of capital	1	2	3	4	5

<b>(2) What are the constrains faced by Micro Entrepreneurs</b>						
A	Lack of education	1	2	3	4	5
B	Business risk	1	2	3	4	5
C	High interest rate	1	2	3	4	5
D	Family problems	1	2	3	4	5
E	Lack of institutions support	1	2	3	4	5
F	Sourcing capital	1	2	3	4	5
G	Cash Flow	1	2	3	4	5

<b>(3) What challenges do SMMEs face in accessing finances/capital</b>						
A	Lack of government support to microfinance institutions	1	2	3	4	5
B	Poor management in microfinance institutions	1	2	3	4	5
C	Lack of right technical skills in microfinance institutions	1	2	3	4	5
D	High loan Interest Rates	1	2	3	4	5

<b>(4) What are the contributions of Microfinance Institutions in supporting SMMEs</b>						
A	Provision of financial support	1	2	3	4	5
B	Support in financial literacy of SMMEs	1	2	3	4	5
C	Development of management skills for SMMEs	1	2	3	4	5
D	Facilitate increase in output	1	2	3	4	5
E	Facilitate increase in turnover	1	2	3	4	5
F	Facilitate general growth of SMMEs	1	2	3	4	5

<b>(5) What are the sources of funding for business</b>						
A	Salary	1	2	3	4	5
B	Friends/Family	1	2	3	4	5
C	Government grant	1	2	3	4	5
D	Personal Loan	1	2	3	4	5
E	Pension/Retirement policy	1	2	3	4	5
F	Savings group	1	2	3	4	5

<b>(6) What are the effects of microfinance on SMMEs growth</b>						
A	Job creation in the SMMEs	1	2	3	4	5
B	Stability of operations	1	2	3	4	5

C	Better access to credit	1	2	3	4	5
D	Provide new opportunities for SMMEs	1	2	3	4	5
E	Competitive advantage in the industry	1	2	3	4	5

University of the Free State  
Telephone: +266 62001932  
Email: [motsoelit@gmail.com](mailto:motsoelit@gmail.com)

1 august 2020

Dear Participant,

**RE: INFORMED CONSENT**

I am a master's student at the department of Centre of Development Support at the University of the Free State. I would like to invite you to take part in my research entitled: The role of micro finance on entrepreneurial development: The case of Urban Maseru

The study is aimed at objective of the study is to assess the role of micro finance on entrepreneurial development in Urban Maseru.

**Study procedures:** The study involves compiling the dimensions into a questionnaire and administering it to SMMEs in Lesotho.

**Benefits:** There are no direct benefits for participating in this study, however the information that you provide might contribute towards an understanding of the role of microfinance on Entrepreneurial Development in Lesotho

**Confidentiality:** The information that I will obtain from you will be stored safely, although it will be shared with my supervisor and the department who are involved in this study. Excerpts from the interview may be included in the final dissertation and may also be published in journals. The questionnaire will be filled at your convenient time and your name will not be written down or recorded anywhere. Furthermore, the study does not require you to disclose or name any specific individuals and you do not have to discuss any personal information that you do not feel comfortable talking about.

**Risks:** There is no major anticipated risk that will be encountered by your participating in this study.

**Voluntary participation:** Participation in this study is voluntary and you are under no obligation to conduct the interview. If you have any concerns with the way the research is being conducted, please feel free to contact and discuss it with my supervisor, whose contact details are given below.

Please feel free to ask any questions on any aspect of this study that is unclear to you.

Yours sincerely,

Motsoeli Tau  
Supervisor: Dr Edson Vengesaie  
Email: [motsoelit@gmail.com](mailto:motsoelit@gmail.com)  
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1<sup>st</sup> September, 2020

The Principal Secretary  
Ministry of Trade and Industry  
P. O. Box 747  
Maseru

**RE: REQUEST OF DATA AND INFORMATION**

Dear Sir,

My name is Motsoeli Tau, I am pursuing a Master in Business Management Degree at the University of the Free State at Republic of South Africa, from the faculty of Economic and Management Sciences in the department of Centre for Development Support. In partial fulfilment of my Degree, I am currently undertaking a research entitled "The Role of Microfinance on Entrepreneurial Development". In this regard, I wish to request your institution to assist with the provision of relevant data and materials that could provide more information on the SMMEs to facilitate successful completion of my research. May I assure you that the information will be kept confidential and used solely for academic purposes, although it will be shared with my supervisor and the department who are involved in this study.

There are no direct benefits for the Ministry in this study, however the information that you provide might contribute towards an understanding of the role of microfinance on Entrepreneurial Development in Lesotho

It is my ambition to produce a comprehensive study that would be beneficial to SMMEs and financial institutions as well as your Ministry in the quest to better address the related trade development challenges and reinforce policies for better service to SMMEs in areas such as business mentoring and financial management.

A copy of my finished work will be shared with your institution at the soonest possible time it is available.

Your approval of my request is highly anticipated. Should you need further clarification, please do not hesitate to contact me at +266 6200 1932/ [motsoelit@gmail.com](mailto:motsoelit@gmail.com) or my supervisor Dr Edson Vengesaie at [vengesaie@ufs.ac.za](mailto:vengesaie@ufs.ac.za)

Yours Sincerely,

Motsoeli TAU (Mr)