ACCESS TO FINANCE OF SMMEs
FROM FORMAL LENDING INSTITUTIONS
IN THE FREE STATE GOLDFIELDS

By Henine Jordaan

Submitted in fulfilment of the requirements for the degree
Philosophiae Doctor (PhD) Economics

in the

Department of Economics and Finance
Faculty of Economics and Management Sciences
University of the Free State Bloemfontein

30 November 2020

Promotor: Dr Johan Coetzee (University of the Free State)
STUDENT NUMBER: 2006130260

DECLARATION

I, Henine Jordaan declare the following:

1. The thesis that I will herewith submit for the degree Philosophiae Doctor (Economics) at the University of the Free State, is my independent work and that I have not previously submitted it for qualification at another institution of higher education.

2. I am aware that the copyright is vested in the University of the Free State.

3. All royalties as regards to intellectual property that was developed during the course of and/or in connection with the study at the University of the Free State, will accrue to the University.

Signed: H Jordaan

Henine Jordaan **30 November 2020**

ABSTRACT

ACCESS TO FINANCE OF SMMEs FROM FORMAL LENDING INSTITUTIONS IN THE FREE STATE GOLDFIELDS

The Matjhabeng municipality in the Free State Goldfields in South Africa struggles with poor economic growth and high levels of unemployment mainly due to the decline in the mining sector in the region. SMMEs are seen to be a major contributor to address these concerns, but face obstacles hindering them from accessing finance due to reasons such as lenders being risk-averse and poor credit records of the owners of SMMEs. Moreover, the government has several lenders that attempt to assist these SMMEs but have not resulted in tangible benefits that address growing the local industry. This has exacerbated the ability of SMMEs in this region to successfully access finance. This study investigates the factors affecting the access to finance of SMMEs in the Matjhabeng municipal area. By using a mixed-method research design, a quantitative focus on the nature and characteristics of SMMEs is supplemented with a qualitative perspective of commercial banks providing the finance in the region. For the quantitative analysis a sample of 364 was drawn from SMMEs employing 50 or less. For the qualitative analysis 10 bank officials were interviewed employed by the commercial banks dominating the banking sector in South Africa, providing financial services and credit to SMMEs in the Matjhabeng area. The data obtained from SMMEs were regressed to determine significant association between access to finance variables and the characteristics related to the nature of the SMME. Recuring themes and subthemes emerging from the interview data were supplemented with the relationships obtained from the SMME data.

The results suggest that the age and size of the business, legal entity, area of operation and business plan all influence the ability of SMMEs to obtain credit and loans. Commercial banks in turn were shown to implement stringent criteria in the granting of loans that by themselves result in loans being rejected on grounds of factors such as poor credit ratings, incomplete information provided, the lack of financial literacy and business management skills, the lack of collateral, and poor constructed business plans. The study provides evidence that the information asymmetry between lender and SMMEs is a particularly pertinent problem in the lending process. More specifically, due to commercial banks being constrained by regulatory and legislative requirements, SMMEs in poorer municipal areas are constrained by both resources (be it capital- or collateral-related) and financial literacy challenges. These challenges re-enforce the importance of building a mutually beneficial relationship between the SMME and commercial bank where the latter can reduce the information asymmetry. The findings propose that soft information needs to be factored into the lending criteria more explicitly when risk assessments are done. Although easier said than done, commercial banks should ideally not be lulled into a mindset that providing access to SMMES be solely based on traditional measures of creditworthiness. This suggests a more innovative approach to the assessment of risk that may include non-traditional techniques related to, for example, the 'softer' behavioural characteristics of borrowers. Commercial banks therefore need to reassess the nature and extent of their risk-aversion mindset evidenced in the lending process. In doing this, commercial banks can potentially innovate in ways that *contribute to the economic prosperity of not only the Matjhabeng municipal area, but SMMEs in communities outside metropolitan areas across South Africa.*

Keywords: Access to finance, SMMEs, commercial banks, credit, Matjhabeng municipality, South Africa

OPSOMMING

VERKRYGING VAN FINANSIERING VIR KMMO'S VANAF FORMELE FINANSIERINGSINSTELLINGS IN DIE VRYSTAATSE GOUDVELDE

Die Matjhabeng Munisipaliteit het te kampe met swak ekonomiese groei en gepaardgaande hoë vlakke van werkloosheid hoofsaaklik vanweë die kwynende mynbedryf in die streek. KMMO's kan 'n daadwerklike bydrae lewer tot die genoemde uitdagings, maar ten einde finansiering te bekom, moet hulle sekere hindernisse oorkom, soos dat hulle dikwels risiko-sku is en die eienaars swak kredietrekords het. Die regering onderskryf verskeie uitleners wat ten doel het om die KMME's finansieël te ondersteun, maar dit het nog geen tasbare voordele gelewer wat groei van die plaaslike industrie kon aanhelp nie en gevolglik is die kanse van die KMMO's om suksesvol finansiering te bekom, verder belemmer. Hierdie studie ondersoek die faktore wat die KMMO's se toegang tot finansiering in die Matjhabeng Munisipale gebied beïnvloed. 'n Gemengde-metode navorsingsontwerp is gevolg waar die kwantitatiewe fokus op die aard en kenmerke van KMMO's aangevul word deur 'n kwalitatiewe perspektief op die plaaslike handelsbanke wat finansiering verskaf. Kwantitatiewe data is ingesamel van 364 KMMOs werksaam in the Vrystaatse Goudvelde wat 50 of minder persone indiens het. Kwalitatiewe data is verder van tien bankamptenare indiens van die "Groot Vier" kommersiëlebanke wat die banksektor domineer bekom deur middel van onderhoude. Drie tipes regressies is gebruik om beduidende assosiasies tussen die toegang tot finansieringsaanwysers en die karaktereienskappe van die KMMO te bepaal. Temas en sub-temas is geidentifiseer uit die onderhoud data en hierdie resultate is gebruik om die resultate van KMMOs verkry, aan te vul.

Dit blyk uit die bevindinge dat die ouderdom en grootte van die besigheid, regspersoon, die besigheidsplan sowel as die handelsgebied die vermoë van die KMMO's beïnvloed om finansiering te bekom. Boonop volg die handelsbanke streng kriteria vir die toestaan van lenings en aansoeke word gekelder deur faktore soos swak kredietgraderings, onvolledige inligting in aansoeke, onvoldoende finansiële geletterdheid en sakebestuursvaardighede, sowel as swak besigheidsplanne. Die studie het ook bewyse gevind vir informasie-asimmetrie tussen die uitleners en die KMMO's wat 'n pertinente probleem is in die leningsproses. Die probleem het spesifiek te make met handelsbanke wat moet voldoen aan regulatoriese en wetlike vereistes wat daartoe lei dat KMMO's in armer munisipale gebiede gekniehalter word deur onvoldoende hulpbronne (kapitaal sowel sekuriteite) en onvoldoende finansiële geletterdheid. Hierdie uitdagings onderstreep die belang van wedersydse voordelige verhoudings tussen die handelsbanke en KMMO's waar laasgenoemde die informasie-asimmitrie kan verklein.

Die bevindinge suggereer dat "sagte" inligting ook bygevoeg moet word by die leningskriteria en eksplisiet in aanmerking geneem behoort te word wanneer risikobepalings gedoen word. Uiteraard is dit makliker gesê as gedaan, maar dan moet handelsbanke gelykertyd daarteen waak om sonder meer lenings toe te staan op grond van tradisionele beoordelings van kredietwaardigheid. Daar moet eerder innoverend gedink word oor risikobepalings wat nie-tradisionele tegnieke mag insluit, soos byvoorbeeld die "sagter" gedragspatrone van aansoekers. Kommersiële banke behoort die aard en omvang van hulle risiko-sku benadering tot die verskaffing van *lenings in heroënskou te neem.Sodoende kan kommersiële banke innoverend optree en nie alleenlik bydra tot die ekonomiese vooruitgang van die Matjhabeng munisipale streek nie, maar ook tot KMMO's in gemeenskappe buite die metroplitaanse gebiede regoor Suid-Afrika.*

Sleutelterme: Toegang tot finansiering, KMMOs, kommersiële banke, Matjhabeng Munisipaliteit, Suid-Afrika.

ACKNOWLEDGEMENTS

I wish to express my sincere gratitude to all the people who have made this research possible. Firstly, my heartfelt appreciation goes to my supervisor and promotor, Dr Johan Coetzee for his guidance and support throughout the study period. Thank you for your patience, creative input and understanding.

I am also so grateful to the following people: Prof Frieda van der Walt from the Central University of Technology, for her, always willing ear and patience with the repeated tapping of her knowledge. Prof Robert Schall from the University of the Free State for his expert guidance, diligence and his prompt feedback pertaining to the statistical analysis of the research. Dr Paul Issocks and his team for their input, patience and guidance in analysing the interview data of my research. My gratitude is expressed for the moral support and all the valuable discussions held with peers of the Faculty of Management of the Central University of Technology, Welkom Campus.

My sincere appreciation goes to Bankseta and the Central University of Technology for providing me with the necessary financial support to make my research possible. My acknowledgements go to all the SMME owners and bank officials who contributed to the substance of this study – obviously taking the time of their busy schedules to participate in this research. My gratitude furthermore goes to Anthony Sparg and Dr Laurika van Straaten for their editorial contribution. Special acknowledgement goes to all my family, colleagues and friends, for their support and encouragement.

Finally, my eternal appreciation goes to my immediate family: My husband for his proofreading and sharing of ideas, for my eldest son Viljoen for providing me with fresh perspectives as only young brains can do, for my other son Lincoln, for providing me with an example of work ethics and for praying for my success and my daughter, Mar-Elize, my best friend for often adding humour to stressful situations. Thank you for being part of such a profusely challenging venture, which has culminated in the reaching of a major objective.

LIST OF ABBREVIATIONS AND ACRONYMS

ABD-OECD	Asian Development Bank - Organisation of Economic Cooperation and Development
ABSA	Amalgamated Banks of South Africa
ASGISA	Accelerated Shared Growth Initiative – South Africa
BASA	The Bank Association of South Africa
BBBEE	Broad-Based Black Economic Empowerment
BEE	Black Economic Empowerment
BER	Bureau of Economic Research of the University of Stellenbosch
BCBS	Basel Committee on Bank Supervision
BRCP	Business revolving credit plan
BRICS	Brazil, Russia, India, China and South Africa
CGFS	Committee on the Global Financial System
CI	Confidence Intervals
CIPC	Companies and Intellectual Property Commission
CPPP	Community Public-Private Partnership
CSIR	Council for Scientific and Industrial Research
DAFF	Department of Agriculture, Forestry and Fisheries
DCR	Debt covering ratio
DSCR	Debt service coverage ratio
DTI	Department of Trade and Industry
DFIs	Development Financial Institutions
DST	Department of Science and Technology
EBITDA	Earnings before interest, taxes, depreciation and amortization
EC	European Commission
EFTs	Electronic Funds Transfers
EU	European Union
FAIS	Financial Advisory and Intermediary Services Act
FI	Financial Intermediation

FIC	Financial Intelligence Centre
FICA	Financial Intelligence Centre Act
FNB	First National Bank
FSB	Financial Services Board
FSC	Financial Sector Charter
FSCA	Financial Sector Conduct Authority
FSP	Financial Services Provider
GDP	Gross Domestic Product
GEAR	Growth Employment and Redistribution Plan
GEM	Global Entrepreneurship Monitor
GFC	Global financial crisis
GLM	General linear model
HDA	Human Development Agency
HDI	Historically Disadvantaged individuals
IDC	Industrial Development Community
IFC	International Finance Corporation
ILO	International Labour Organisation
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro, Small and Medium Enterprises
MAFISA	Micro Agricultural Financial Institute of South Africa
NAMAC	National Manufacturing Advice Centre
NCA	National Credit Act (34 of 2005)
NCR	National Credit Regulator
NCT	National Consumer Tribunal
NDP	National Development Plan
NEF	National Empowerment Fund
NSBA	National Small Businesses Act
NSBAA	National Small Business Amendment Act
NYDA	National Youth Development Agency
OECD	Organisation of Economic Cooperation and Development

P2P	Peer-to-peer
QFS	Quarterly Financial Statistics
QLFS	Quarterly Labour Force Survey
RCAP	Regulatory Consistency Assessment Programme
RDP	Reconstruction and Development Plan
SADC	South African Development Community
SAMAF	South African Micro-Finance Apex Fund
SARS	South African Revenue Services
SAVCA	South African Venture Capital and Private Equity Association
SBP	Business Environment Specialists
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
SMMEs	Small Medium and Micro Enterprises
SMBs	Small and Medium Businesses
Stats SA	Statistics South Africa
TIA	Technology and Innovation Agency
TEA	Early-stage Entrepreneurial Activity
UK	United Kingdom
UN	United Nations
UNIDO	United Nations Industrial Development Organisation
US	United States of America
USAID	US Agency for International Development
VAT	Value Added Tax
WACC	Weighted average cost of capital
WB	World Bank
WEF	World Economic Forum
WTO	World Trade Organisation

TABLE OF CONTENTS PAGE

DECLARATION ii

ABSTRACT iii

OPSOMMING v

ACKNOWLEDGEMENTS vii

LIST OF ABBREVIATIONS AND ACRONYMS viii

CHAPTER 1

INTRODUCTION AND BACKGROUND TO THE STUDY

1.1	INTRODUCTION	1
1.2	BACKGROUND OF THE STUDY	4
1.2.1	Obstacles impeding the growth of SMMEs and access to finance	4
1.2.2	The nature and characteristics of SMMEs influencing access to finance	5
1.2.3	Access to finance provided by commercial banks	7
1.3	RESEARCH PROBLEM	8
1.4.	RESEARCH OBJECTIVES	9
1.5	RESEARCH METHODOLOGY	10
1.6	SIGNIFICANCE OF THE STUDY	11
1.7	CHAPTER OUTLINE	11
1.8	CONCLUSION	12

CHAPTER 2

THE ECONOMIC RATIONALE FOR SMMEs

2.1	INTRODUCTION	13
2.2	DEFINING AND CLASSIFYING SMMEs	13
2.2.1	Defining SMMEs: An international perspective	14
2.2.2	Defining SMMEs: A South African perspective	15
2.2.2.1	Legal definition	17
2.2.2.2	The number of SMMEs in South Africa	20
2.3	THE ECONOMIC RATIONALE FOR SMMEs	22
2.3.1	The contribution of SMMEs to economic growth	23
2.3.1.1	Global perspective	23

2.3.1.2 South African perspective 24
2.3.2 The contribution of SMMEs to employment 25
2.3.2.1 Global perspective 25
2.3.2.2 South African perspective 26
2.4 CHALLENGES HINDERING THE OPERATIONS AND GROWTH POTENTIAL OF SMMEs 28
2.5 CONCLUSION 32

CHAPTER 3

ACCESS TO FINANCE: AN SMME PERSPECTIVE

3.1 INTRODUCTION 33
3.2 WHAT IS ACCESS TO FINANCE? 33
3.2.1 Defining access to finance 33
3.2.2 Distinguishing between access and the use of finance 34
3.2.3 The banked versus unbanked 38
3.2.4 Financial indicators used to determine access 39
3.3 OBSTACLES TO ACCESS FINANCE 41
3.4 CAPITAL STRUCTURE THEORIES 44
3.4.1 Modigliani – Miller theorem 45
3.4.2 The trade-off theory 45
3.4.3 Agency theory 47
3.4.4 Pecking-order theory 48
3.5 EXTERNAL SOURCES OF EQUITY FINANCE 50
3.5.1 Equity financing 50
3.5.1.1 Venture capital 50
3.5.1.2 Business Angels 52
3.5.1.3 Crowdfunding 53
3.6 THE NATURE AND CHARACTERISTICS OF SMMEs 54
3.6.1 The lifecycle 56
3.6.2 The size and age of the SMME 57
3.6.3 The industry or sector of operation 58
3.6.4 The geographical location of the SMME 59
3.6.5 Business formality and/or legal entity 60
3.6.6 Financial record-keeping, having an accountant and/or auditor and a business plan 61
3.6.7 Creditworthiness 62
3.6.8 Access to property and assets 62
3.6.9 Education level, experience and managerial competencies of the owner 62
3.6.10 Networking 63

3.6.11 A relationship with the commercial bank 63
3.6.12 Demographic profile of the owner 64
3.7 CONCLUSION 66

CHAPTER 4

ACCESS TO FINANCE: THE LENDER'S PERSPECTIVE

4.1 INTRODUCTION 68
4.2 LENDERS AND INFORMATION ASYMMETRY 68
4.2.1 The role and functions of banks 68
4.2.2 Market imperfections and the role of banks 71
4.3 THE MANAGEMENT OF CREDIT RISK 75
4.3.1 What is credit risk? 75
4.3.2 The management of credit risk by lenders 77
4.3.2.1 Stages of the lending process 77
4.3.2.2 The Cs of credit 78
4.3.2.3 The importance of the business plan 88
4.3.2.4 Lending technologies 90
4.3.2.5 Relationship lending 94
4.4 CONCEPTUALISATION OF THE STUDY 96
4.4.1 The South African banking industry 96
4.4.2 Bank supervision, regulation and legislative considerations 101
4.4.2.1 The Financial Advisory and Intermediary Services Act (37 of 2002) 102
4.4.2.2 The National Credit Act (35 of 2005) 102
4.4.2.3 The Financial Intelligence Centre Act (38 of 2001) 104
4.4.3 Government-funded programmes for SMMEs in South Africa 105
4.4.4 Conceptual model for the study 108
4.4.4.1 Quantitative part of the study 110
4.4.4.2 Qualitative part of the study 118
4.5 CONCLUSION 122

CHAPTER 5

RESEARCH METHODOLOGY

5.1 INTRODUCTION 124
5.2 THE RESEARCH PROCESS 124
5.2.1 Research paradigm 125
5.2.1.1 Pragmatic research paradigm 125

5.2.2	Research approach	127
5.2.3	Research design	128
5.2.3.1	Sequential explanatory design	129
5.2.3.2	Sequential exploratory design	129
5.2.3.3	Sequential transformative design	130
5.2.3.4	Concurrent triangular design	130
5.2.3.5	Concurrent transformative design	130
5.2.3.6	Concurrent nested design	131
5.2.4	Design Strategy	132
5.2.5	Sampling design	133
5.2.5.1	Sampling methods	134
5.2.5.2	Sampling of SMMEs	136
5.2.5.3	Sampling of banking officials	137
5.3	RESEARCH INSTRUMENTS	138
5.3.1	Questionnaire for SMMEs	138
5.3.1.1	Types of questions included into the structured questionnaire for SMMEs	140
5.3.1.2	Pre-testing	142
5.3.2	Semi-structured interview guides: Bank officials	143
5.4	DATA COLLECTION	146
5.4.1	Data collection of SMMEs	146
5.4.2	Data collection for bank officials	147
5.4.2.1	Data collection of business banking officials at branches	147
5.4.2.2	Data collection of senior bank managers	147
5.5	DATA ANALYSIS	148
5.5.1	Data analysis of SMMEs	148
5.5.1.1	Regression analysis	149
5.5.2	Data analysis for bank officials	150
5.5.2.1	Cleaning and coding process of the data	151
5.6	VALIDITY, RELIABILITY AND TRUSTWORTHINESS OF THE RESEARCH	152
5.6.1	Validity and reliability of the quantitative part of the study	152
5.6.1.1	Validity of the measuring tool	152
5.6.1.2	Reliability	153
5.6.2	Trustworthiness of the qualitative part of the study	153
5.6.2.1	Credibility	153
5.6.2.2	Dependability	154
5.6.2.3	Transferability	154
5.6.2.4	Conformability	154
5.7	CONCEPTUALISATION OF THE RESEARCH PROCESS OF THIS STUDY	155
5.8	ETHICAL CONSIDERATIONS	156
5.9	CONCLUSION	157

CHAPTER 6

DESCRIPTIVE RESULTS OF SMMEs

6.1	INTRODUCTION	158
6.2	RESULTS	158
6.2.1	Personal information of the SMME owners	158
6.2.2	The nature, operations and formality of the SMMEs	160
6.2.2.1	Area of operation	160
6.2.2.2	Legal entities of the SMMEs	161
6.2.2.3	Registration and business licenses	161
6.2.2.4	The economic sector SMMEs operate in	162
6.2.2.5	Years of experience in the sector and as a business owner	162
6.2.2.6	The age of the business	163
6.2.2.7	The life cycle of the SMME	163
6.2.2.8	The size of the business based on employee numbers	164
6.2.2.9	Access to movable and immovable property	165
6.2.2.10	Financial record-keeping	166
6.2.2.11	The business plan	167
6.2.3	Business and operational obstacles	168
6.2.4	Financial inclusion	171
6.2.4.1.	Access to and type of bank account	171
6.2.4.2	Name of the bank account	172
6.2.4.3	Commercial bank used by SMMEs	172
6.2.4.4	E-banking services used by SMMEs	173
6.2.5	Financial access	174
6.2.5.1	Loans and lines of credit	174
6.2.5.2	Reasons for not applying for a loan	175
6.2.5.3	Reasons provided for the rejection of loans	177
6.2.5.4	Types of credit products and loans	177
6.2.5.5	Reasons for choosing a specific bank	178
6.2.5.6	Types of collateral	179
6.2.5.7	Sources used to fund working capital and fixed assets	180
6.2.5.8	Business support services provided by commercial banks	181
6.2.5.9	Turnover	182
6.3	DISCUSSION OF THE FINDINGS	182
6.3.1	Personal information, nature, operations and formality of the SMMEs	182
6.3.2	Business and operational obstacles	185

6.3.3 Financial inclusion 186
6.3.4 Financial access 187
6.4 CONCLUSION 188

CHAPTER 7

EMPIRICAL RESULTS: SMMEs

7.1 INTRODUCTION 189
7.2 SPECIFICATION OF THE MODELS FOR ANALYSIS 189
7.3 STEPS EMPLOYED FOR STATISTICAL ANALYSES 194
7.4 RESULTS 196
7.4.1 Simple logistic regressions 196
7.4.2 Multiple logistic regressions 210
7.4.2.1 Access to finance is an obstacle 214
7.4.2.2 Applied for a loan since start-up 215
7.4.2.3 Do have credit or loans 216
7.4.2.4 Need a loan? 217
7.4.3 Multiple regression stepwise model selection 218
7.5 DISCUSSION OF THE RESULTS 222
7.5.1 Dependent variable: access to finance is an obstacle 225
7.5.2 Dependent variable: applied for a loan since business start-up 226
7.5.3 Dependent variable: do have credit or loans 228
7.5.4 Dependent variable: need a loan? 230
7.6 CONCLUSION 231

CHAPTER 8

QUALITATIVE RESULTS FROM THE COMMERCIAL BANKS

8.1 INTRODUCTION 233
8.2 PROFILE OF THE PARTICIPANTS 233
8.2.1 Contribution of each participant in the study 235
8.3 SUMMARY OF THE THEMES GENERATED FROM THE INTERVIEW DATA 236
8.4 RESULTS 237
8.4.1 Theme 1: Prior and existing relationship between the bank and the SMMEs 238
8.4.1.1 Discussion of theme 1: Importance of a relationship between the commercial bank and the SMME owner 242
8.4.2 Theme 2: Involvement 243

8.4.2.1	Loan products	244
8.4.2.1.1	Products for existing SMMEs	244
8.4.2.1.2	Products for SMME start-ups and micro enterprises	246
8.4.2.2	Services	248
8.4.2.3	Discussion of theme 2: Involvement of commercial banks with SMMEs	252
8.4.3	Theme 3: Documentation required to access finance	255
8.4.3.1	Discussion of theme 3: Documentation required to access finance	258
8.4.4	Theme 4: Processes	258
8.4.4.1	Discussion of theme 4: Processes	260
8.4.5	Theme 5: Screening and evaluation process	262
8.4.5.1	Discussion of theme 5: Screening and evaluation	265
8.4.6	Theme 6: Creditworthiness	266
8.4.6.1	Discussion of theme 6: Character – creditworthiness	268
8.4.7	Theme 7: Capacity	269
8.4.7.1	Discussion of theme 7: Capacity	272
8.4.8	Theme 8: Capital	274
8.4.8.1	Discussion of theme 8: Capital	274
8.4.9	Theme 9: Conditions	275
8.4.9.1	Discussion of theme 9: Conditions	277
8.4.10	Theme 10: Success rates of SMME loans	278
8.4.10.1	Discussion of theme 10: Success rate of SMME loans	280
8.4.11	Theme 11: Reasons for loan rejections	280
8.4.11.1	Discussion of theme 11: Reasons for loan rejections	285
8.4.12	Theme 12: Collateral	286
8.4.12.1	Discussion of theme 12: Collateral	290
8.4.13	Theme 13: The Business plan	291
8.4.13.1	Discussion of theme 13: The Business plan	294
8.4.14	Theme 14: Communicating the outcome of the loan	296
8.4.14.1	Discussion of theme 14: Communicating the outcome of the loan	298
8.4.15	Theme 15: Control	298
8.4.15.1	Discussion of theme 15: Control	302
8.4.16	Theme 16: Government expectations	304
8.4.16.1	Discussion of theme 16: Expectations of government	305
8.5	CONCLUSION	306

CHAPTER 9

DISCUSSION AND INTERPRETATION OF THE RESULTS

9.1	INTRODUCTION	308
9.2	INTERPRETATION AND INTEGRATION OF THE OBJECTIVES	308
9.2.1.	Literature-based secondary objectives	309
9.2.2	Quantitative-based secondary objectives	315
9.2.3.	Qualitative-based secondary objectives	322
9.2.4	Qualitative- and quantitative-based secondary objectives	330
9.3	CONCLUSION	340

CHAPTER 10

RECOMMENDATIONS, FUTURE RESEARCH AND CONCLUSION

10.1	INTRODUCTION	341
10.2	RECOMMENDATIONS	341
10.2.1	Recommendations for SMMEs	341
10.2.2	Recommendations for commercial banks	347
10.2.3	Recommendations for government	350
10.3	LIMITATIONS OF THE STUDY	356
10.4	AREAS SUGGESTED FOR FUTURE RESEARCH	356
10.5	CONCLUSION	357

REFERENCES 359

ANNEXURES

ANNEXURE A:	Faculty of Economics and Management Sciences – Ethical Clearance	406
ANNEXURE B:	Fieldworkers – Information leaflet and confidentiality agreement form – Pilot and Major study	407
ANNEXURE C:	Research study information leaflet and consent form – Major study – Matjhabeng district	418
ANNEXURE D:	Research study information leaflet and consent form – Major study – Matjhabeng district – translated in Afrikaans (Inligting oor die studie en toestemmingsvorm – Matjhabeng Distrik)	424
ANNEXURE E:	Questionnaire Matjhabeng District	430

ANNEXURE F: Questionnare Matjhabeng District translated in Afrikaans (Vraelys – Matjhabeng Distrik) 449
ANNEXURE G: Request permission to conduct research with your bank 468
ANNEXURE H: Research study information leaflet and consent of bank officials responsible for retail business banking and services at branch level 472
ANNEXURE I: Research study information leaflet and consent form – Regional Credit Managers/Regional Retail Business Managers 477
ANNEXURE J: Semi-structured interview schedule for bank official responsible for retail business banking and services at branch level 482
ANNEXURE K: Semi-structured interview schedule for credit managers /regional managers responsible for retail business banking (SMME loans) 486
ANNEXURE L: Information leaflet and confidentiality agreement intended for the persons capturing and the statisticians analysing data 491
ANNEXURE M: Confidentiality agreement – OSMOZ Consulting 497
ANNEXURE N: Editor (1) – Confirmation 498
ANNEXURE O: Editor (2) – Confirmation 499

LIST OF TABLES

Table 2.1 A summary of the classification of SMMEs according to the National Small Business Act (102 of 1996) 18
Table 2.2 Turnover lower limits for SMMEs, adjusted for inflation 19
Table 2.3 The number of SMMEs in South Africa 21
Table 2.4 The number of SMMEs by province in South Africa in 2008 and 2019 21
Table 2.5 A summary of obstacles hindering the operations and growth of businesses reported in selected studies 31
Table 3.1 Core indicators used by the OECD to determine access to finance of SMMEs 40
Table 3.2 Financial indicators used by the World Bank to determine access to finance to firms (small, medium and large) 40
Table 3.3 Access to finance indicators of various regions and economic clusters from 2007 to 2020 41
Table 3.4 Nature and characteristics of the SMME and SMME owner influencing access to finance 65
Table 4.1 Summary of the loan criteria used by the commercial banks in South Africa 94
Table 4.2 Composition of gross loans and advances of the South African banking industry 98

Table 5.1	SMME questionnaire outlay with references	139
Table 5.2	A combination of two semi-structured interview schedules developed	144
Table 5.3	The phases of thematic analysis adopted for this study	151
Table 6.1	Personal information of the SMME respondents	158
Table 6.2	Towns or townships in which SMMEs operate	160
Table 6.3	Legal entities of SMMEs	161
Table 6.4	Registered with CIPC and/or has a business license	161
Table 6.5	Economic sector SMMEs operate in	162
Table 6.6	Years of experience in the sector and as a business owner	163
Table 6.7	Age of the business	163
Table 6.8	Number of employees	165
Table 6.9	Size of SMMEs based on employment numbers	165
Table 6.10	Access to movable and immovable property	165
Table 6.11	Financial record-keeping	166
Table 6.12	Financial record keeping of SMMEs	166
Table 6.13	The existence of a business plan	167
Table 6.14	Persons responsible for the compilation of the business plan	167
Table 6.15	Obstacles influencing the operations of the SMME	168
Table 6.16	Biggest obstacle to business operations	170
Table 6.17	Access to and type of bank account	171
Table 6.18	Name of the bank account	172
Table 6.19	Commercial banks used by SMMEs	173
Table 6.20	Years banking at a commercial bank	173
Table 6.21	E-banking service used by SMMEs	174
Table 6.22	Loans and lines of credit	174
Table 6.23	Reasons for not applying for a loan	176
Table 6.24	Types of credit products and loans used	178
Table 6.25	Reasons for choosing a specific commercial bank for credit	178
Table 6.26	Types of collateral pledged	180
Table 6.27	Sources used to fund working capital and fixed assets	180
Table 6.28	Support provided by the commercial banks	181
Table 6.29	Turnover	182
Table 7.1	Dependent and independent variables used in the regression analyses	190
Table 7.2	Results for the simple logistic regression analysis	197
Table 7.3	Results of the multiple logistic regression analysis	211
Table 7.4	Stepwise model selection	219
Table 7.5	Summary of statistically significant associations	223
Table 8.1	Demographic profile of the participants	233
Table 8.2	Contribution of each participant to the study	235

Table 8.3	Themes generated from the interview data	236
Table 9.1	Summary of the nature and characteristics of SMMEs and obstacles hindering their operations	315
Table 9.2	Summary of the financial inclusion of SMME	316
Table 9.3	Summary of themes emerging from the interview data obtained from commercial banks	322

LIST OF FIGURES

Figure 2.1	Categories and measures used to define SMMEs	15
Figure 3.1	Distinguishing between access to and the use of finance	35
Figure 3.2	Defining financial inclusion and financial exclusion	36
Figure 3.3	Financial inclusion: formally served and informally served	37
Figure 3.4	Financial inclusion: the formally served segment	37
Figure 4.1	Results of credit market failures for SMME lending	74
Figure 4.2	Business Growth stages and cash flow	82
Figure 4.3	Time gap between receivables and payables	82
Figure 4.4	Government initiatives and structures providing support to SMMEs	106
Figure 4.5	Government programmes supporting access to finance	107
Figure 4.6	Conceptual model of the study	109
Figure 5.1	The research process of this study	125
Figure 5.2	Conceptualisation of the research process of this study	155
Figure 6.1	The life cycle of the SMMEs	164
Figure 8.1	Sub-themes for theme 1	239
Figure 8.2	Sub-themes for theme 2	243
Figure 8.3	Sources and quotations for theme 2	244
Figure 8.4	Sources and quotations for theme 4	259
Figure 8.5	Sub-themes emerging from theme 5	262
Figure 8.6	Sources and quotations for theme 5	263
Figure 8.7	Sources and quotations for theme 6	267
Figure 8.8	Sources and quotations for theme 7	270
Figure 8.9	Sources and quotations for theme 9	276
Figure 8.10	Sources and quotations for theme 10	279
Figure 8.11	The number of sources for theme 11	281
Figure 8.12	Reasons for SMME loan rejections	281
Figure 8.13	Subthemes emerging from theme 12	287
Figure 8.14	Sources and quotations for theme 12	287
Figure 8.15	Subthemes emerging from theme 13	291
Figure 8.16	Sources and quotations for theme 13	292
Figure 8.17	Sources and quotations for theme 14	296
Figure 8.18	Sub-themes emerging from theme 15	299
Figure 8.19	Sources and quotations for theme 15	299
Figure 8.20	Sources and quotations for theme 16	304

CHAPTER 1

INTRODUCTION AND BACKGROUND TO THE STUDY

1.1 INTRODUCTION

Small, medium and micro enterprises (SMMEs) are key role players in the economies of the world. Their contribution extends across businesses, sectors and countries. SMMEs are important, as these entities are able to create employment and generate income, they are innovative, and they contribute to economic growth, in both developed and developing countries (Organisation for Economic Co-operation and Development (OECD), 2017).

.

In OECD countries SMMEs represent 99% of the various forms of enterprise. These entities provide 70% of the employment in the 42 countries that form part of the OECD. In emerging economies, SMMEs contribute 33% of the gross domestic product (GDP) and 45% of employment. The majority of SMMEs operating in OECD countries are micro enterprises, which employ between 1 and 9 people. Micro enterprises represent 75% to 95% of the businesses (OECD, 2017).

The economic importance of SMMEs is cited in the literature, including government policies, reports and guideline documents, of both developed and developing countries (Bosma & Kelley, 2019; Herrington, Kew & Kew, 2014; National Credit Regulator (NCR), 2011; OECD, 2014, 2017; Olawale & Garwe, 2010).

South Africa faces challenges such as low real GDP growth, depressed demand, job losses and sustained unemployment (Amanor, 2013; Herrington & Kew, 2018; Schoeman, 2015). The real GDP growth rate in South Africa averaged 2.47% from 1994 until the third quarter of 2019 (Statistics South Africa (Stats SA), 2019a). South Africa's growth has been sluggish and has been below the average for the African continent recorded as 3.1% from 2014 to 2017 and 3,4% in 2018 (International Labour Organization (ILO), 2019). The average unemployment rate in South Africa between 2000 and 2013, according to the strict definition of unemployment, was 24% (Stats SA, 2009, 2013). In 2019 the unemployment rate in South Africa was 29%. Furthermore, 42% of the economically active population do not have formal employment, according to the expanded definition of unemployment (Stats SA, 2019d). The global financial crisis (GFC) has also had an adverse effect on SMMEs, not only in South Africa but worldwide (Bushe, 2019; OECD, 2017; Robu, 2013). As such, this has motivated countries to re-emphasise SMMEs and their ability to access finance, since they continue to experience access to finance as a critical challenge (Asian Development Bank, 2014; Herrington & Kew, 2018; OECD, 2017). According to Robu (2013), SMMEs are smaller businesses that adjust quicker in response to fluctuations created in the external environment. This flexibility is perceived as an advantage in the context of the current globalisation and information society.

Although the South African government has done much to assist SMMEs including providing information, training, counselling and business support (Business Partners, 2019), several factors militate against their success. Access to finance is one of the obstacles indicated that limit the growth potential of the SMME sector. The phenomenon of insufficient access to finance is not unique to South Africa (Bushe, 2019), and the problem is especially severe in emerging economies (Finfind, 2018). SMMEs have financial needs that traditional lending sources are unable to meet (Finfind, 2018; Maye, 2014; Mengistae, Daniels, Habiyarimana, Kaplan, Love, Ramachandran, Shah & Xu, 2010; Mutezo, 2015; Van Zyl & Ntiso, 2010).

The lack of access to external finance means that owners of small businesses have to rely on personal wealth and internal resources to take advantage of growth opportunities (Finfind, 2018). Due to the chance of failure, insufficient credit histories and the risky nature of small businesses, more collateral is required from this sector to secure loans from formal lending institutions (Finfind, 2018; Mutezo, 2013, 2015). SMME owners in South Africa possess few tangible assets that can be used as collateral. Consequently, SMME owners often fail to utilise business opportunities, due to the lack of access to suitable financial resources (Finfind, 2018; Herrington & Kew, 2018; Mutezo, 2015). Access to finance is especially important in the early stages of development, when the unique and diverse requirements of SMMEs are often not met by formal lending institutions, such as commercial banks (Finfind, 2018; Maye, 2014; Mengistae et al., 2010; Mutezo, 2015). The problem of access to finance is experienced more by micro enterprises than by small businesses, and more by small businesses than by medium and large enterprises (Finfind, 2018; Mengistae et al., 2010).

Matjhabeng, also known as the Free State Goldfields, is a municipality situated in the Free State province of South Africa, which consists of both urban and rural areas. As is the case in the rest of the country, accessing finance is critical for SMMEs in the Free State, as these businesses have few tangible assets that can be used as collateral to secure loans from formal lending institutions, such as commercial banks (Van Zyl & Ntiso, 2010). Matjhabeng (Free State Goldfields) is a category B municipality, since it falls outside a metropolitan area. In 2000 local governments in South Africa were divided into three categories, namely category A, category B and category C municipalities. Category A municipalities represent metropolitan areas and have exclusive municipal executive and legislative authority in their area. Category B municipalities, or local municipalities, are areas situated outside metropolitan areas. The third category is district municipalities, and they have the same powers and functions as local municipalities. District municipalities are known as category C municipalities (Local Government, 2019). Matjhabeng (Free State Goldfields) includes the following towns and townships: Welkom (Riebeeckstad, Thabong and Bronville), Odendaalsrus (Kutloanong), Ventersburg (Mmamahabane and Tswelangpele), Allanridge (Nyakallong), Virginia (Meloding) and Hennenman (Phomolong) (Matjhabeng Local Municipality, 2011). Welkom is the municipality's primary economic centre, according to Matjhabeng Local Municipality's *Annual Report 1 July 2010 – 30 June 2011* (Matjhabeng Local Municipality, 2011). The remaining towns are secondary economic junction centres. This area is the mining hub of the Free State Goldfields. The main economic contributors in the area are mining and agriculture. Matjhabeng has the second-largest population in the Free State province, with 406 461 people residing in the area (Housing and Development Agency (HDA), 2015). In 2010 a negative growth rate of −0.86% was recorded (Matjhabeng Local Municipality, 2013). In 2011 Matjhabeng had an unemployment rate of 37% (HDA, 2015).

According to *The local government handbook South Africa 2015* (Main, 2014) the trend of migration from rural areas to urban areas is evident in Matjhabeng, as is the case in the rest of the Free State province. According to Atkinson (2014), small and large towns in South Africa differ in terms of the state of the economy. The following features of small towns in South Africa, mentioned by Atkinson (2014), are also prevalent in the towns surrounding Welkom: survivalist and informal businesses are mainly owned by black people, spaza shops owned by white people have become increasingly common, and the retail market in the smaller towns is limited and there is an outflow of purchasing power, because shoppers use both public and private transport to travel to shop in larger towns, which is destructive for smaller towns. In addition, an emerging market of Asian immigrants with businesses is evident. Besides the high unemployment rate, Matjhabeng is also faced with challenges such as low economic development and ineffective provision of basic services, such as water, sanitation, electricity, housing, health services, safety and social development (Lejweleputswa District Municipality, 2018).

In most areas where the economically active population is too small to justify the establishment of large enterprises, as is the case in the towns surrounding Welkom, a source of economic activity is that provided by SMMEs (Agbenyegah, 2013; Atkinson, 2014). For areas located outside metropolitan areas, SMMEs are well placed to provide an opportunity to employ local people, which could alleviate poverty and encourage economic growth.

With the decline in the contribution of the mining sector in the Matjhabeng area (Lejweleputswa District Municipality, 2018), it is imperative to find other avenues of job creation. Expansion of existing SMMEs and development of new SMMEs could provide a solution to the problem of unemployment. Easier access to finance could enhance the growth possibilities of SMMEs, which will, in turn, create economic opportunities, which are desperately needed especially in regions situated outside metropolitan areas in South Africa. As such, access to finance is the focus of this study.

1.2 BACKGROUND TO THE STUDY

There is a strong relationship between entrepreneurship and innovation and economic growth, irrespective of the development stage of the economy (Herrington, Kew & Kew, 2010; NCR, 2011; Olawale & Garwe, 2010; Robu, 2013). The presence of SMMEs enhances competitiveness, which, in turn, lowers prices and increases output. The level of development of a country's economy depends a great deal on the capacity to create a conducive environment for SMMEs to flourish (Bushe, 2019; Robu, 2013). SMMEs thus have a major socio-economic role to play in both developed and developing countries.

South Africa has very high unemployment levels and inequality compared to other countries in the region (World Bank, 2018b). SMMEs are important because of the size of the workforce they employ in South Africa, and consequently their contribution towards lowering unemployment levels. Finfind (2018) reported that there are between 2.9 million and 3 million SMMEs operating in South Africa. These SMMEs employ between 2 million and 3 million full-time employees. Black ownership of SMMEs has declined since 2008. Black ownership is heavily concentrated in micro enterprises (BASA, 2018). Abor and Quartey (2010) estimated that 91% of formal business entities in South Africa are SMMEs, and that these businesses provide employment to 61% of the population, contributing to 52% to 57% of the GDP. According to the Quarterly Labour Force Survey (QLFS) (Stats SA, 2019d), informal SMMEs constitute 68.8% of the total SMMEs operating in South Africa. As such, the informal sector plays an important role in the economy.

SMMEs are perceived to be more labour-intensive than large enterprises, according to Brey and Mhlaba (2014). For the past 35 years, however, there has been ongoing debate as to the real extent of SMMEs' contribution to employment. Amra, Hlatshwayo and McMillan (2013) found that firms with fewer than 10 employees are more labour-intensive than other firms, and that they should be targeted by the South African government for creating employment opportunities for less-skilled persons.

1.2.1 Obstacles impeding the growth of SMMEs and access to finance

Factors perceived to be obstacles to SMMEs are often ranked in order of priority in international and local research. These obstacles are recognised to be a threat to the growth and sustainability of small businesses, and they could ultimately lead to the termination of the business entity. SMMEs face various obstacles in developing countries and sub-Saharan Africa, including South Africa.

These include an inflexible government regulatory environment (Bosma & Kelley, 2019; Herrington & Kew, 2018), tedious and rigid labour laws, which prevent employers from firing unproductive workers (Agbenyegah, 2013; Herrington & Kew, 2018; Wang, 2016), a lack of education and training and managerial skills and experience (Agbenyegah, 2013; Singer, Amorós & Moska, 2014; Herrington & Kew, 2018), inadequate infrastructure and technology (Agbenyegah, 2013; FinScope, 2010), inadequate market penetration (Agbenyegah, 2013) and crime, theft and corruption (Agbenyegah, 2013; FinScope, 2010; Singer et al., 2014; Herrington et al., 2010; Herrington & Kew, 2018). Access to finance is a recurrent obstacle reported in the literature that impedes the growth of SMMEs (Finfind, 2018; FinScope, 2010; Singer et al., 2014, 2016; Herrington & Kew, 2018; Olawale & Garwe, 2010; (Business Environment Specialists (SBP), 2014, 2015; Wang, 2016).

In terms of access to finance, in South Africa Olawale and Garwe (2010) found that the lack of collateral, insufficient owner's equity contribution and high interest rates impeded the operations of newly established SMMEs. FinScope (2010) reported that besides access to finance, the cost of finance was also found to be an obstacle. In a study by SEDA of the challenges faced by SMMEs in South Africa, cash flow problems were indicated as an obstacle by most of the respondents (SEDA, 2013). This is supported by the findings of Herrington and Kew (2018). Mahloana (2019) and Mutezo (2015) noted that having inadequate credit records significantly reduces the SMME owner's ability to access finance. Access to finance was also ranked as an obstacle to growth by the SBP's SME Growth Index (SBP, 2014, 2015).

SMMEs increase their productivity mostly through access to lines of credit (Robu, 2013). SMMEs access loans for start-up capital, working capital, expansions and investments (Finfind, 2018; Olawale & Garwe, 2010). Micro enterprises are more likely than small and medium enterprises to report access to finance as one of the top three obstacles to growth. Access to credit seems to be a greater obstacle for black-owned and Asian-owned micro and small businesses than for white-owned businesses. The former micro enterprises are less likely to have a bank account, and they are also less likely to have access to any of the credit products, such as loans, overdrafts or other lines of credit (Finfind, 2018; Mengistae et al., 2010). Beck (2007) reported that the impact of financial constraints on the growth of an enterprise is twice as great for a small business as for a larger firm.

1.2.2 The nature and characteristics of SMMEs influencing access to finance

The ability of SMMEs to access finance is determined by both macro- and micro-level factors (FinMark Trust, 2013). Micro-level factors, characteristics, or features, of the SMME are important, as they can potentially enhance or limit the SMME's ability to access finance. Features related to the nature and characteristics of SMMEs that influence their ability to access finance have been researched in both developed and developing countries. These studies were undertaken to establish the significant relationships between access to finance, and the inherent features of the SMME and the SMME owner.

Variables studied to determine access to finance include whether or not access to finance is perceived as an obstacle (Fowowe, 2017; Mengistae et al., 2010), having access to credit or loans, thus having successfully applied for a loan (Balogun, Agumba & Ansary, 2018; Fatoki & Asah, 2011; Fatoki & Odeyemi, 2010; Mahloana, 2019; Mengistae et al., 2010; Mutezo, 2015), having been rejected for a loan application, the need for a loan, having bank finance to fund working capital, having bank finance to fund fixed investments, and the annual interest rate (Mengistae et al., 2010; World Bank, 2007–2020).

The characteristics and nature of the SMME and the SMME owner that influence their ability to access finance that have previously been researched include the size (Kira & He, 2012; Mengistae et al., 2010), the age (Mahloana, 2019) and the growth of the SMME and its ownership, legal structure or incorporation (Kira & He, 2012; Wang, 2016), and the location and the industry in which the SMME operates (Mengistae et al., 2010). The race, the gender (Coleman, 2004; Mengistae et al., 2010), the education level (Fatoki & Odeyemi, 2010; Mahloana, 2019; Wang, 2016) and the managerial competencies (Brijlal & Yan, 2015; Fatoki & Asah, 2011; Wang, 2016) of the SMME owner have also been researched as predictors. Keeping a record of business information (Kira & He, 2012; Mahloana, 2019), having a tax number (Balogun et. al., 2018), having insurance (Fatoki & Asah, 2011), having an auditor (Mengistae et al., 2010; Pandula, 2011), having access to collateral (Kira & He, 2012; Mahloana, 2019; Mutezo, 2015), having a business plan (Fatoki & Odeyemi, 2010) and membership with a business association (Pandula, 2011) are other characteristics that have been researched in relation to access to finance.

Commercial banks, however, have set criteria according to which loans are processed, assessed and approved (Abor, Gyeke-Dako, Fiador, Agbloyor, Amidu & Mensah, 2019; Pretorius & Shaw, 2004). The procedure that commercial banks have to follow in approving loans results in credit rationing, particularly for smaller businesses (Dlova, 2017; Mutezo, 2015). Credit rationing occurs when the demand for commercial loans exceeds the supply of loans (Jaffee & Stiglitz, 1990), and credit rationing occurs even if the borrower is willing to pay a higher interest rate. Besides these set criteria, the nature and the characteristics of the SMME and the SMME owner also contribute to credit rationing, according to Pandula (2011). In light of their fiduciary responsibility towards their shareholders, and the parameters set by regulations and legislation, commercial banks have no influence over these features other than to inform SMMEs of their loan criteria and requirements. As such, SMMEs, with the assistance of government, need to align their operations as much as possible, to gradually change their features, or characteristics, to enable them to successfully access finance from commercial banks.

1.2.3 Access to finance provided by commercial banks

The commercial banking sector is responsible for 68.9% of the total credit extended to formal SMMEs (BASA, 2018). The remainder of the credit is from retailers, non-bank financiers and other credit providers. Commercial banks are, however, hesitant to lend to SMMEs (NCR, 2011), particularly in their early growth stages (Falkena, Abedian, Von Blottnitz, Coovadia, Davel, Madungandaba, Masilela & Rees, 2001; Finfind, 2018). Finfind (2018) estimates that the SMME credit gap in South Africa is between R86 billion and R346 billion. Finfind (2018) notes that start-ups and micro enterprises, even though they represent a significant potential market, are the most unserved market in South Africa, and they represent the largest funding gap.

The financial sector in South Africa is dominated by four banks, as 87,9% of the total banking assets in South Africa (Norrestad, 2020) belongs to Absa, First National Bank (FNB), Standard Bank and Nedbank. Commercial banks are, however, not set up to cope with small loans (Finfind, 2018; Mutezo, 2013, 2015), and micro-financing provides loans at interest rates that are too high for SMMEs to afford (NCR, 2011). The SMME market is perceived to be high-risk, as its needs are diverse and complex. The SMME market varies in terms of location, size and the sector of operation. The market is highly segmented, and growth trends significantly impact on the perceived risk of providing funding to this sector (Finfind, 2018). Commercial banks have, however, intensified their coverage over the past few years to service the SMME market (Finfind, 2018; Mutezo, 2015). These services are highlighted in their annual integrated reports. Commercial banks have also pledged their commitment to this market through the Financial Sector Charter (BASA, 2019). Data tracking the size of credit and loans and reasons for rejecting SMME finance is non-existent in the public domain in South Africa.

The main challenge for commercial banks is to access information related to the small business. Formal lending institutions require financial statements and audited reports of the business to establish the borrower's prospects and consequent ability to service the loan (Hwarire, 2012). Commercial banks follow an extensive screening process for this purpose (Mutezo, 2015). Incomplete financial information and mixing of personal finances with those of the business makes affordability assessments difficult and complicated (Tsaih, Liu, Liu & Lien, 2004). The creditworthiness of the business and the applicants in their personal capacity also needs to be determined (Mutezo, 2015). Formal lending institutions also require collateral to be pledged, to compensate for adverse events that may prevent the SMME owner from meeting their obligations, as well as owner's equity contribution (Mutezo, 2015). Commercial banks also operate in a regulated environment and act as delegated monitors for investors (Coetzee, 2016), and they have a fiduciary obligation to their depositors and shareholders. Their fiduciary obligation constrains the bank activities that they are involved in (Tuch, 2018).

The main reason for imposing credit rationing on SMMEs is the serious information asymmetry that exists between commercial banks and SMMEs requiring credit. Asymmetric information implies that the SMME – and its credit status – is not known to the financial institution. Borrowers have a relative information advantage compared to lenders, who have an information disadvantage (Abdesamed & Wahab, 2014; Huang, When & Liu, 2014). Hence, commercial banks will intentionally cut back on the amount loaned, because they do not know if the borrower will be willing to pay back the loan, the performance of the business, and what the loan money will be spent on. The problem of asymmetric information adversely affects micro and small businesses, according to Abdesamed and Wahab (2014), as some of these businesses have inadequate credit records and financial statement information (Mutezo, 2015), which results in adverse selection and inadequate resource allocation (Huang et al., 2014). Because of asymmetric information, SMMEs are excluded from the market in which they can access loans. The high risk associated with granting loans to SMMEs results in a financing gap, where significant numbers of SMMEs could be productive but cannot obtain finance from formal financial institutions (Finfind, 2018).

Government does, however, have financial institutions to support SMME funding, but the lending criteria to access these loans are dictated by the commercial banks in instances where there is a partnership between a development finance institution and the commercial bank (Van Zyl & Ntiso, 2010). Therefore, whether SMMEs try to access credit through commercial banks or through development finance institutions, the challenge of accessing finance remains the same.

1.3 RESEARCH PROBLEM

As established in the section on the background to the study, SMMEs in South Africa have serious problems accessing finance and ensuring that they can continue operations. This raises concerns, not only for their personal survival but also for the sustainability of the SMME industry in municipalities situated outside metropolitan areas, which are heavily dependent on the ability to promote local economic activity and create jobs. Furthermore, the fact that the majority of SMME owners tend to invest all of their life savings in the business threatens the economic livelihood of their immediate family. Without access to finance from lenders who understand the risks associated with SMMEs in municipalities situated outside metropolitan areas, the financial and economic implications are potentially devastating for the local economy.

Having said this, lenders are notoriously risk-averse to providing finance to SMMEs operating in municipalities outside metropolitan areas in South Africa. And even though the government has several lenders that supposedly aim to assist these SMMEs, this has not resulted in tangible benefits that address growing the sustainability of the industry. Although this is partly related to the risk reflected in the inability of SMME owners to pledge collateral, it is also related to the inability of lenders both to understand the risk involved in the operations of the business and to provide access to finance that is commensurate with this risk. Lenders are therefore hesitant to provide access if they are not able to identify and mitigate the risks of these SMMEs, and this raises the question of how economic policies will be supported, at not only municipal level, but national level too. Lenders are therefore motivated to ensure that the provision of loans can be mitigated in some way, to ensure that both parties to the relationship benefit.

A study that focuses on identifying the typical operational setup of SMMEs operating in municipalities categorised as B (in this case Matjhabeng) to enable lenders to better understand the risks inherent in SMMEs operating in this environment. In addition, exploring the perceptions of specific lenders, such as banks themselves, regarding their policy and philosophy to provide finance to SMMEs will identify and address further gaps in the relationship between the SMME and the lender. This may result in increasing access to finance, but in a risk-adjusted manner that does not discourage lenders from willingly engaging in such historically unattractive relationships.

1.4 RESEARCH OBJECTIVES

The primary objective of this study is to explore access to finance of SMMEs from formal lending institutions situated in the Free State Goldfields.

In order to achieve the primary objective, the study has several secondary objectives, represented here as literature objectives and empirical objectives, respectively. As such, the literature secondary objectives are as follows:

- To define SMMEs and to determine their economic importance and the challenges hindering their potential for growth;
- To define and identify the obstacles in SMMEs accessing finance; and
- To analyse the role and the drivers of commercial banks in providing access to finance in general, and to SMMEs in particular.

The empirical secondary objectives are as follows:

- To analyse the association between access to finance perceived as an obstacle from commercial banks and the general characteristics of SMMEs;
- To analyse the association between applying for a loan at a commercial bank and the general characteristics of SMMEs;
- To analyse the association between having loans from commercial banks and the general characteristics of SMMEs;
- To analyse the association between the need for a loan and the general characteristics of SMMEs;
- To explore how commercial banks enable the in-house process of providing access to finance to SMMEs;

- To explore the reasons preventing financial access to SMMEs from the perspective of commercial banks;
- To supplement the results obtained from SMMEs with the views and perceptions of commercial banks regarding access to finance; and
- To provide recommendations to SMMEs, commercial banks and the government to enhance the state of access to finance in South Africa.

1.5 RESEARCH METHODOLOGY

This study uses a mixed methods approach, which enables investigation of the problem from a number of perspectives, positions and viewpoints, thus increasing the breadth and depth of the data collected, and at the same time limiting gaps in the information and premature assumptions (Johnson, Onwuegbuzie & Turner, 2007). A pragmatic approach was employed as data were collected both quantitatively and qualitatively, and therefore from both a positivist and an interpretivist view post. A pragmatic researcher utilises multiple research designs (Creswell *et al*., 2003), thus called a mixed methods approach.

Empirical data was collected concurrently from three target populations, with a quantitative priority known as a concurrent nested research design (Creswell, Plano Clark, Gutmann & Hanson, 2003). When the secondary objectives are explored by collecting data from different groups, data reside side by side, which provides two different pictures supporting the primary objective of the study (Creswell, 2009).

For the SMMEs the target population included SMMEs with 50 or fewer employees, which fall in the categories micro, very small and small businesses, according to the National Small Business Act (NSBA) (102 of 1996) (South Africa, 1996b). This categorisation was also used in the research by Finfind (2018) and FinMark Trust (2015). However, the World Bank Enterprise Surveys conducted from 2007 to 2020 classify firms that employ between 5 and 19 employees as small, firms that employ between 20 and 99 employees as medium, and firms that employ 100 or more employees as large. Nevertheless, SMMEs that employ 50 or fewer employees were selected as a target population for this study, as accessing finance is significantly more problematic for them than for medium enterprises, as indicated in several South African studies (Finfind, 2018; Mengistae et al., 2010). This study thus uses the size categorisation used by the NSBA, that is, SMMEs with 50 or fewer employees. A self-administered questionnaire was used to collect data from SMMEs (See Annexure E).

By means of interviews the perceptions of commercial bank personnel on two levels of decision making were supplemented with the data collected from SMMEs regarding the challenges in obtaining finance. Two semi-structured interview guides were used for this purpose (See Annexures J and K). The intention was to research various associations between access to finance indicators and the nature and characteristics of SMMEs and SMME owners quantitatively, and ultimately to supplement them with the concurrent themes obtained from the qualitative interviews, in order to achieve the primary objective of the study.

1.6 SIGNIFICANCE OF THE STUDY

The role of commercial bank lending to SMMEs is a subject of debate in the literature (Dlova, 2017; Finfind, 2018; Mutezo, 2013, 2015; Pretorius & Shaw, 2004). The empirical analysis provides further scholarly insights into the debate, especially from the demand (SMMEs that need finance) and the supply (formal lending institutions that provide finance) sides of the lending process. In addition, the study provides further insights into the characteristics and nature of SMMEs that influence their ability to access finance from specifically banks that have historically been risk-averse in their lending policies towards this market segment. Besides the criteria used by commercial banks in processing loan applications, the characteristics inherent in SMMEs also contribute to credit rationing. The views and perceptions of commercial banks regarding their efforts to provide finance to SMMEs, and the reasons preventing these entities from doing so, also contribute to the body of knowledge pertaining to access to finance.

SMMEs create employment, they contribute to economic growth, and they create wealth, and consequently they reduce poverty. The study is useful to the SMME sector, individual entrepreneurs, policymakers and the commercial banking sector, and, to a lesser extent, government, in addressing the challenges faced by SMMEs in accessing finance, where sustained growth is the ultimate objective. The findings of this study will identify the factors in terms of accessing finance that hinder the development of SMMEs in a local municipality consisting of urban and rural areas situated outside a metropolitan area. The results of the study will guide lenders (commercial banks in particular) to help SMMEs in areas situated outside metropolitan areas to be informed about funding products and requirements, to enable them to be compliant and to ultimately successfully obtain financial assistance. The study will also identify potential problem areas in existing lending policies that should be considered in order to find more innovative ways to provide credit to high-risk SMMEs in rural areas. The findings will furthermore be compared and contrasted against similar studies undertaken in other regions in South Africa to increase the general understanding of access to finance. Moreover, will the results be compared to the theoretical body of knowledge pertaining to SMMEs accessing finance. Studies related to the obstacle of obtaining finance for the operations of SMMEs have never been conducted in the Matjhabeng region (Volschenk, 2015). As such, the study contributes to this specific challenge of SMMEs in the area researched.

1.7 CHAPTER OUTLINE

In addition to this chapter, the study consists of a further nine chapters.

Chapter 2 comprises a literature review contextualising SMMEs, their economic significance, and the obstacles and challenges facing SMMEs.

In chapter 3 literature pertaining to access to finance is considered, including the obstacles and challenges in accessing finance faced by SMMEs.

Chapter 4 consists of a literature review focusing on commercial banks and the extension of credit to SMMEs. The chapter concludes with an explanation of the conceptual model for the study.

Chapter 5 outlines the research methods used in the study. The research design, the sampling technique, the data collection method, the design of the research instruments, and the techniques used to analyse the results are explained.

In chapter 6 the descriptive results obtained from the data collected from the SMMEs are presented and discussed.

Chapter 7 provides the quantitative results of the regression analyses between access to finance indicators and the characteristics and nature of SMMEs.

Chapter 8 presents the qualitative findings obtained from the interview data collected pertaining to the views and perceptions of banking officials employed by the so-called Big Four commercial banks.

Given that the study adopts a mixed methods research approach, chapter 9 provides an interpretation and a supplementation of the quantitative and the qualitative results based on the secondary objectives of the study.

Chapter 10 concludes the study, by providing recommendations to SMMEs, commercial banks and government in relation to the challenges faced by SMMEs in accessing finance.

1.8 CONCLUSION

In chapter 1 the introduction and the background to the study was provided. An overview was given of the economic importance of SMMEs. The challenges faced by SMMEs in accessing finance were explained, as it influences their business operations and growth opportunities. The role of commercial banks in extending finance to SMMEs, and the perceived risk of servicing this sector, was outlined. The primary and secondary research objectives were stated. The research methodology used in the study was briefly explained. The significance of the study was also clarified. In the following chapter, a literature review will be provided contextualising the economic importance of SMMEs and the challenges that they face, which hinder their progress.

CHAPTER 2

THE ECONOMIC RATIONALE FOR SMMEs

2.1 INTRODUCTION

SMMEs are essential for economic growth and are a vital part of the solution to South Africa's socio-economic challenges, considering that with SMMEs ideas are converted into commercial opportunities, resulting in positive financial gains. For SMMEs to grow, sound macro- and micro-institutional frameworks need to be in place. Although much has been done to assist the development of SMMEs, several factors militate against their success. In this chapter the way SMMEs are defined and classified, from both an international and a South African perspective, will be explored. The chapter will also explain the economic rationale for SMMEs. Challenges hindering the operations of SMMEs and their growth potential will also be investigated.

2.2 DEFINING AND CLASSIFYING SMMEs

In this section SMMEs will be defined from both an international and a local perspective, concluding with a diagram summarising the various definitions used by organisations internationally, as well as surveys conducted in South Africa tracking the performance of SMMEs.

Various abbreviations for the term "SMME" are used globally and in South Africa. The World Bank (WB), the European Union (EU), the United Nations (UN) and the World Trade Organization (WTO) use the abbreviation "SME" most frequently in their reports when referring to small and medium-sized enterprises. In the United States of America (US), the term "small and medium businesses (SMBs)" is most commonly used in the literature. In Africa, excluding South Africa, the abbreviation "MSME" is generally used for micro, small and medium enterprises (NCR, 2011).

The abbreviations "SMMEs" and "SMEs" are used interchangeably for small, medium and micro enterprises in South Africa (Mutezo, 2005; NCR, 2011). The terms "small businesses" and "SMMEs" are used as synonyms by the Department of Trade and Industry (DTI). The term "enterprises" refers specifically to entities such as close corporations, cooperatives and companies registered with the Companies and Intellectual Property Commission (CIPC), formerly known as the Companies and Intellectual Property Registration Office (CIPRO) (DTI, 2008).

For the purposes of this study, the abbreviation "SMME" will be used to refer to small, medium and micro enterprises.

2.2.1 Defining SMMEs: An international perspective

There is no uniform or standard definition of SMMEs. Several definitions are used internationally, and this complicates the conduct of comparative studies between countries, because various types of SMMEs exist, which differ in size, sector and business characteristics (Asian Development Bank, 2014; Finfind, 2018; NCR, 2011). In order to determine whether or not a business is an SMME, three criteria are most often used by organisations such as the EU, the OECD, the Multilateral Investment Guarantee Agency (MIGA) and the International Finance Corporation (IFC), namely the number of employees, the annual turnover, or sales, and the value of assets (Asian Development Bank, 2014; NCR, 2011; OECD, 2005). The criteria used by the EU, the MIGA and the IFC, however, do not consider the staff headcount, which is obligatory for a business to qualify as an SMME in the US (US Agency for International Development (USAID), 2007). Other criteria used internationally are the sector, the type of industry, whether the business has invested or registered capital, whether it is legally defined, and whether it is classified for the purpose of implementing government and/or ministerial policies and strategies (NCR, 2011).

The statutory number of employees differs between countries. The most common upper limit prescribed is 250 employees, as is used by the EU and the United Nations Industrial Development Organization (UNIDO) (OECD, 2005; USAID, 2007). Gibson and Van der Vaart (2008) argue that the volume of turnover of businesses is generally a more appropriate and consistent measure for defining and classifying SMMEs, and the authors highlight the inconsistency between the definitions, in particular in developing countries. They argue that a more appropriate definition for SMMEs can be derived by answering the following questions: “Where do large firms come from?”, “How does the country best diversify its economy?”, “Which group of businesses has the greatest incentive to insist on policy reforms, accountability and transparency from its government?” and “What in essence is an SMME?” By implication, they argue that SMMEs should be implicitly defined according to their functional and behavioural attributes. UNIDO recommends that countries consider both qualitative and quantitative indicators to categorise a business as an SMME (USAID, 2007) and to distinguish these businesses from large companies.

The Bolton Committee first formulated an economic and statistical measure to define small businesses in 1971 (Abor & Quartey, 2010). The economic measure of the definition includes three criteria for a business to be regarded as small. These are whether the firm has a relatively small market share, whether it is managed personally by the owners or part owners, and whether it functions independently and therefore is not part of a larger enterprise. Three main criteria are also used for the statistical measure. These are quantifying the size of the business based on the number of employment opportunities created, exports, and the contribution of the business to the GDP. Changes in the economic contribution of SMMEs over time, and cross-country comparisons, are also considered in this regard (Abor & Quartey, 2010).

The GEM reports measure entrepreneurial motives to determine small business activity, and they are the most frequently and widely quoted survey used to compare entrepreneurial motives, activities and aspirations of entrepreneurs across countries. The GEM divides countries into factor-driven economies, efficiency-driven economies and innovation-driven economies in establishing the level of entrepreneurship (Singer et al., 2014).

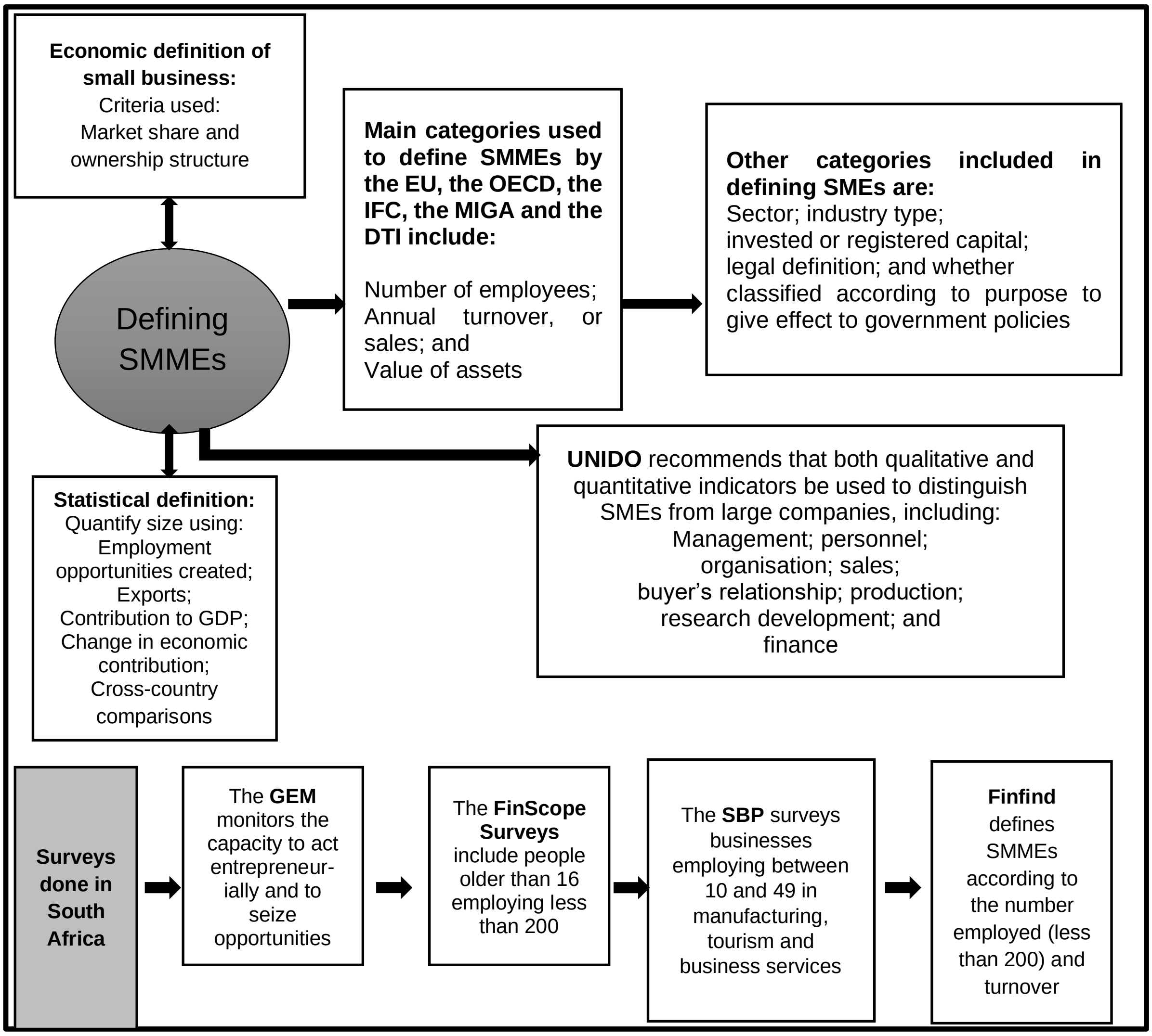
2.2.2 Defining SMMEs: A South African perspective

There are various definitions used to describe the small business sector in South Africa (Finfind, 2018). The South African Department of Trade and Industry (DTI) (South Africa, 2003) uses the same categorisation to define SMMEs as that of the EU, the OECD, the MIGA and the IFC. These categories are also based on the number of paid employees, the total annual turnover, and the total gross asset value, excluding fixed property, of the business entity (South Africa, 1996b, 2003). However, the limits set for the various categories are lower in South Africa than is the case in the EU, the OECD, the MIGA and the IFC. Many businesses that the US and the EU regard as SMMEs would be considered large enterprises in South Africa (NCR, 2011).

The National Small Business Act (NSBA) (102 of 1996) (South Africa, 1996b) distinguishes between different economic sectors. By using different thresholds, “small” in different sectors depends on the nature of the economic activity undertaken (South Africa, 2003). The DTI, however, specifies an upper limit of 200 employees (South Africa, 2003), instead of 250, as used by the EU and UNIDO.

Categories provided in the NSBA (102 of 1996) and the National Small Business Amendment Act (NSBAA) (26 of 2003) are not used consistently by state agencies, private-sector databases and research studies in South Africa. This makes the findings of reports and research unreliable (NCR, 2011), as comparison is made complicated. The Annual Review of Small Businesses and Cooperatives South Africa provides an inclusive definition of small businesses, given that the economic activity remains below the threshold of large enterprises. The threshold for large enterprises is a number of employees of more than 200, an annual turnover of more than R50 million (DTI, 2017), and a total gross asset value of more than R23 million, excluding fixed property, depending on the sector or subsector.

Most South African government agencies use the definition of the DTI provided in the NSBA (102 of 1996), which differs from the definitions used by the GEM (Kelley, Bosma & Amorós, 2010) and FinScope (2010). According to several GEM reports (specifically those of 2001, 2007, 2009, 2010 and 2014), South Africa is categorised as an efficiency-driven economy. This classification is based on an evaluation of South Africa’s national policies promoting entrepreneurship, the amount of entrepreneurship finance, and the extent to which entrepreneurship is emphasised in education and training. The FinScope (2010) South Africa Small Business Survey, which was first piloted in South Africa in 2002, defines small businesses as owners 16 years or older owning a business to generate income and employing 200 or less people. The business environment specialists (SBP) (SBP, 2014) are another organisation that tracks the endeavours of small businesses in South Africa. This organisation uses data from firms employing between 10 and 49 people in manufacturing, business services and tourism. The SBP therefore focuses specifically on small businesses and excludes micro, very small and medium-sized enterprises in its research. Finfind (2018) is another organisation in South Africa that collects data from SMMEs pertaining to their financing needs. The authors of Finfind (2018) use both the number of employees and the turnover in defining SMMEs, which is in line with the World Bank's definition. Figure 2.1 provides a summary of how SMMEs are defined both internationally and locally by various organisations and surveys.



Source: Researcher's own compilation

Figure 2.1 Categories and measures used to define SMMEs

Four sizes of SMMEs are described in the NSBA (102 of 1996), namely micro, very small, small and medium enterprises. A breakdown of the definition of SMMEs provided by the NSBA and the NSBAA in South Africa includes setting upper and lower limits for each category of business according to industry type and sector. In the following section the limits set for SMMEs operating in various sectors in South Africa will be reviewed.

2.2.2.1 Legal definition

The NSBA (102 of 1996) (South Africa, 1996b:2), as amended in 2003 and 2004, defines a small business as

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

The NSBA (102 of 1996) specifies 11 different SMME sectors and subsectors (South Africa, 1996b). These sectors are the following: agriculture; mining and quarrying; manufacturing; electricity, gas and water; construction; retail and motor trade and repair services; wholesale trade, commercial agents and allied services; catering, accommodation and other trade; transport, storage and communications; finance and business services; and community, social and personal services. It should, however, be noted that when the classification of limits set on the number of employees, the turnover and the gross assets excluding fixed property is applied to one sector, it might lead to all businesses being categorised as small. Applying the classification to a different sector might produce a different result.

This differentiation of categories is used by the DTI to ensure consistency with initiatives in promoting small, medium and micro business development in South Africa as far as is possible. Small businesses are operational in both the formal and the informal economy. As the categorisation of SMMEs is further deconstructed, it could be argued that by applying the criterion of number of employees, the informal sector is also included in the definition of SMMEs.

Table 2.1 provides a summary of SMMEs categorised according to micro, very small, small and medium enterprises based on the number of employees, the annual turnover and the value of gross assets, excluding fixed property, as specified in the NSBA (102 of 1996) and the NSBAA (26 of 2003).

Table 2.1 A summary of the classification of SMMEs according to the National Small Business Act (102 of 1996)

Enterprise size	Number of employees	Annual turnover	Gross assets, excluding fixed property
Micro	Between 1 and 5	R200,000 or less	R100,000 or less
Very small	Between 6 and 10, depending on the industry; it could be as many as 20	Between R200,000 and R6 million, depending on the industry	Between R500,000 and R2 million, depending on the industry
Small	Between 11 and 50	Between R3 million and R32 million, depending on the industry	Between R1 million and R6 million, depending on the industry
Medium	Between 100 and 200, depending on the industry	Between R5 million and R64 million, depending on the industry	Between R5 million and R23 million, depending on the industry

Source: NSBA (South Africa, 1996b)

Statistics South Africa (Stats SA) adjusts the turnover range to allow for inflation for the various sectors in which SMMEs operate. The agricultural and the financial sectors are, however, excluded. This data is published in the Quarterly Financial Statistics (QFS). As such, Table 2.2 provides a classification of SMMEs and large enterprises based on turnover. A breakdown of the definition of SMMEs will be provided in this section, by referring to both the classification displayed in Table 2.1 and the adjustment made by Stats SA for inflation displayed in Table 2.2.

Table 2.1 indicates that micro enterprises represent the smallest type of business and earn less than R200,000 a year, they employ between 1 and 5 workers, and they are not required to register for value added tax (VAT). They include businesses such as spaza shops, minibus taxis and household industries. Micro enterprises employ up to 5 people (South Africa, 2003). Businesses in this sector have the potential to be converted into viable small businesses and can also be operational in the informal sector (Gibson & Van der Vaart, 2008).

Table 2.1 shows that a very small enterprise employs between 6 and 10 people. If one considers the sector classification of the NSBAA (South Africa, 2003), a very small business could employ 20 or fewer people. A very small business operates in the formal market and has access to technology. This category of business has an annual turnover of between R200,000 and R6 million (South Africa, 2003). According to Stats SA (2019c), very small enterprises have an annual turnover of R2 million, as shown in Table 2.2.

Small enterprises constitute the third category of SMMEs, and they employ a maximum of 50 employees, as indicated in Table 2.1. A small enterprise has more complex business practices. Businesses in this category are more established than very small businesses. Small enterprises are formal, they are registered, and they have fixed premises. The annual turnover of these businesses is between

R3 million and R32 million, depending on the industry (South Africa, 2003). Table 2.2 shows that the turnover lower limit for small businesses is R13.5 million for the community, social and personal services sector, and R81 million for the wholesale trade sector.

Medium enterprises are another category specified in the NSBA (102 of 1996), they employ between 100 and 200 employees, and they fall mainly in industries such as mining, electricity, manufacturing and construction. Medium enterprises have an extra management layer, and decision-making is thus decentralised. The annual turnover earned by this category is between R5 million and R64 million (South Africa, 1996b, 2003). The turnover lower limit for medium enterprises ranges between R81 million and R432 million, as indicated in Table 2.2 (Stats SA, 2019c).

Table 2.2 indicates the turnover lower limits for SMMEs for each sector.

Table 2.2 Turnover lower limits for SMMEs, adjusted for inflation

Sector type	Large (R million)	Medium (R million)	Small (R million)	Very small (R million)
Mining and quarrying	526.5	135.0	54.0	2.0
Manufacturing	688.5	175.5	67.5	2.0
Electricity, gas and water	688.5	175.5	68.85	2.0
Construction	351.0	81.0	40.5	2.0
Wholesale trade	864.0	432.0	81.0	2.0
Retail trade	526.5	256.5	54.0	2.0
Motor trade	526.5	256.5	54.0	2.0
Accommodation and catering	175.5	81.0	68.85	2.0
Transport	351.0	175.5	40.5	2.0
Real estate and business services	351.0	175.5	40.5	2.0
Community, social and personal services	175.5	81.0	13.5	2.0

Source: Quarterly Financial Statistics (QFS) (Stats SA, 2019c)

The National Credit Act (NCA) (34 of 2005) uses the definition of a small business provided in the NSBA (102 of 1996) and distinguishes between a natural person and a juristic person (South Africa, 2006b). Natural persons include personal customers, sole proprietors and trusts with two or less natural person trustees. Juristic persons include partnerships, close corporations, companies and trusts with three or more trustees.

Given that the main aim of the study is to determine whether access to finance from formal lending institutions is a challenge for SMMEs, it is important to include the way commercial banks define SMMEs. The Banking Association South Africa (BASA) uses the definitions provided by the NSBA (102 of 1996) and the NSBAA (26 of 2003) (BASA, 2018). Hwarire (2012), however, explains that commercial banks use annual turnover to establish whether a business falls within the category of an SMME. The empirical results of this study also found that commercial banks use turnover to segment their provision of financial services to businesses.

Although the number of employees, annual turnover and the value of assets excluding fixed property are in most cases used by both local and international organisations to define and categorise SMMEs, the fact that different thresholds are used complicates the conduct of comparative studies, as was stated above. The categorisation of SMMEs used by the DTI, as indicated by the NSBA and the NSBAA, which includes different thresholds for the different economic sectors depending on the economic activity undertaken, further complicates determination of what is a very small business, a small business and a medium business. When one considers that there are certain incentives for SMMEs in South Africa, the need for a standard, less complicated definition of SMMEs becomes imperative. To ensure reliability of research, both government and private researchers should use the same agreed-upon definition of SMMEs. Policymakers should consider the categorisation employed by commercial banks in South Africa, where a prescribed limit for turnover is the only criterion used to define and categorise SMMEs. This was suggested by Gibson and Van Der Vaart (2008), taking into consideration that the volume of turnover is a more consistent measure for defining and classifying SMMEs. Although this suggestion could perhaps hamper the conduct of international comparative studies, it will facilitate comparative academic research in South Africa related to SMMEs.

Ascertaining the number of SMMEs operating in both the formal and the informal economy is vital for government to effectively target these important businesses. This will be considered in the following section.

2.2.2.2 The number of SMMEs in South Africa

Determining the number of SMMEs operating in South Africa is problematic, as the definition of an SMME used by various organisations, entities and surveys differs, as indicated above. Thus, it is reported that there is no accurate data related to the number of SMMEs operating in South Africa, the number of employees in these businesses, and their actual contribution to the GDP, at both national and provincial level (Gasealahwe, 2013; Herrington et al., 2010; NCR, 2011; Timm, 2011). Nevertheless, various researchers and government organisations have attempted to estimate the number of SMMEs operating in South Africa, using different methods and models.

As such, Finfind (2018) estimates that there are between 2.9 million and 3.4 million SMMEs in the formal and the informal sector. The SEDA (2019) estimates that there are 2.5 million SMMEs operating in South Africa. FinScope (2010) recorded a total of 6 million SMMEs, of which 1 million were formally registered. The number of SMMEs established by the FinScope (2010) survey is much higher than the number established by the SEDA (2019) and Finfind (2018).

The SEDA (2019) published several quarterly reports on the number of SMMEs. The SEDA in collaboration with the BER (Bureau of Economic Research) derived trends by using data from, among other things, the Quarterly Labour Force Surveys (QLFs) and the Quarterly Financial Statistics (QFSs) prepared by Stats SA, and it employed a methodology similar to what was used by the DTI (2008) to determine the number of SMMEs. Table 2.3 provides a summary of the number of SMMEs operating in South Africa and their respective contribution to various sectors.

Table 2.3 The number of SMMEs in South Africa

Key indicator	Number/percentage
Number of SMMEs	2,550,540
Number of formal SMMEs	736,198
Number of informal SMMEs	1,754,443
Number of jobs provided	10,839,819
Percentage operating in trade and accommodation	41.3%
Percentage operating in community services	12.7%
Percentage operating in construction	13.9%
Percentage operating in financial and business services	13.3%
Percentage black-owned formal SMMEs	74.5%
Percentage contribution of SMMEs to turnover of all enterprises (including large enterprises)	38.2%

Source: SEDA (2019)

Table 2.3 shows that the majority (1,754,443) of SMMEs in South Africa operate in the informal sector, representing 68.8% of all SMMEs, excluding agriculture and private households. Thus, more than two in three SMMEs are informal. The SEDA reported that the ratio of SMMEs operating in the informal and the formal sector has remained the same since 2010. The majority of SMME owners are black and operate in the trade and accommodation sector (SEDA, 2019).

The distribution of SMMEs that participated in the formal and the informal sector in the various provinces of South Africa in 2008 and in 2019 is presented in Table 2.4.

Table 2.4 The number of SMMEs by province in South Africa in 2008 and in 2019

	2008		**2019**	
Province	**Total**	**Distribution**	**Total**	**Distribution**
Total	**2,182,828**	**100.00%**	**2,550,540**	**100.00%**
Gauteng	687,556	31.5%	903,220	35.4%
KwaZulu-Natal	418,406	19.17%	390,115	15.3%
Western Cape	233,933	10.7%	288,194	11.3%
Eastern Cape	218,865	10.0%	179,908	7.1%
Limpopo	186,101	8.5%	295,978	11.6%
Mpumalanga	193,259	8.9%	219,083	8.6%
North West	109,860	5.0%	126,725	5.0%
Free State	114,949	5.2%	121,740	4.8%
Northern Cape	29,894	1.36%	25,577	1.0%

Source: SEDA (2016, 2019)

The data in Table 2.4 shows that since 2008 the number of SMMEs has increased in the Western Cape, the Free State, Gauteng, North West, Mpumalanga and Limpopo. The rest of the provinces show a slight decrease, with the greatest percentage decrease evident in the Eastern Cape (17.8%). Gauteng has the most SMMEs, followed by KwaZulu-Natal and the Western Cape.

The lack of accurate data to determine the number of SMMEs is an even greater problem when one considers rural areas (Agbenyegah, 2013). According to the DTI (2008), the dearth of data related to small businesses is particularly acute for unregistered businesses, which either have no employees or employ staff on a casual 'on-and-off' basis. The need for such data is imperative considering that these informal micro enterprises play a vital role in the livelihoods of the marginalised in South Africa.

Policymakers in South Africa need to improve the collection and collation of statistics pertaining to SMMEs. The absence of accurate statistics is an obstacle for the South African government in developing more effective policies and support schemes for SMMEs (Timm, 2011). The SBP (2014) argued that there cannot be evidence-based policy for small businesses in the absence of evidence. In the absence of correct data, planning to assist SMMEs becomes a challenge, and tracking the contribution of the sector to the overall economy, and measuring the impact of the success or failure of government programmes intended to support the sector, proves to be impossible. It should, however, be noted that the SEDA quarterly updates, which attempt to estimate the number and the demographics of SMMEs operating in South Africa, by extracting relevant data provided by Stats SA, provide a reference point for policymakers, planners and researchers to use. In the following section the economic importance of SMMEs as pertains to their contribution to economic growth and employment will be explored.

2.3 THE ECONOMIC RATIONALE FOR SMMEs

SMMEs are important as economic role players, as they contribute to economic growth, employment creation, redistribution of income, and economic development (Bushe, 2019). According to Nieman (2006), they are important as their labour-absorption capacity is greater than that of larger enterprises, and the average capital cost required to create a job is less than that of larger enterprises. In addition, SMMEs allow for more competitive markets, and these businesses are more flexible than larger firms in absorbing the changes in market demand. They also utilise local resources to support their business operations, and they provide opportunities for other aspirant entrepreneurs who intend to start a business. Consequently, less-skilled workers are trained on the job, and this plays a fundamental role in technical and other innovations. They also contribute to economic diversification (OECD, 2017).

2.3.1 The contribution of SMMEs to economic growth

2.3.1.1 Global perspective

SMMEs are important for inclusive growth and globalisation, as they make diverse contributions to economic and social well-being, they are innovative, and their contribution extends across countries, sectors and markets (OECD, 2017). They are regarded as the backbone of economies and are the greatest contributor to economic growth globally. According to the OECD (2019), SMMEs represent 99% of all active firms in the world. SMMEs operating in OECD countries contribute 33% of the GDP (OECD, 2017) as stated in chapter 1.

In terms of developed countries, in Japan SMMEs contribute 60% of the GDP. In the US 65% and in the EU 52% of the GDP originates from SMMEs (Robu, 2013). In the US, entrepreneurship is highly considered. Small businesses in the US receive high levels of environmental support. This is reflected in entrepreneurs' ability to access finance. A large number of SMMEs in Germany are medium-sized, and there is a strong family tradition. These SMMEs compete and perform successfully in both local and international markets (Bosma & Kelley, 2019). In the US, Germany and the United Kingdom (UK), small businesses are supported by advanced legal, commercial and physical infrastructure, effective government programmes supporting SMMEs, and commercial and regulatory environments conducive to doing business (Bosma & Kelley, 2019).

In emerging economies SMMEs contribute up to 40% of the national income (World Bank, 2020). The contribution of SMMEs to the GDP in China is 60%. Although the commercial and legal infrastructure in China is highly constraining, the physical infrastructure, open markets and entrepreneurial support from government provide an enabling environment for business. China struggles with income inequality, and, as such, expansion of the SMME sector could provide a solution to this challenge (Bosma & Kelley, 2019). In Brazil, SMMEs contribute 50% of the GDP nationally (OECD, 2020). Entrepreneurship in general lacks support from government. This is reflected in their tax structures and bureaucracy. Although Brazil has a high rate of established business ownership, growth and innovation are constrained, due to the lack of support and an inflexible regulatory environment (Bosma & Kelley, 2019; OECD, 2020). SMMEs contributed 20% of the GDP in Russia in 2018 (Kardashov, 2020). In Russia large businesses, banks and state-owned enterprises provide tailor-made programmes to support and educate entrepreneurs and small businesses. Entrepreneurship development is emphasised in this way (Bosma & Kelley, 2019).

SMMEs in Africa are even more important, given their role in reducing poverty and contributing to GDP (Benzing & Chu, 2012), because of their simple approach in providing goods and services at affordable prices to local communities (Nieman & Nieuwenhuizen, 2019). Singer et al. (2014) reported that more developed countries are less dependent on small businesses for economic growth than less developed countries. This provides a rationale for promoting SMMEs, in particular when it comes to Africa.

The presence of SMMEs enhances competitiveness, which, in turn, lowers prices and increases output. Local demand for goods and services is satisfied, which allows for increased specialisation, while large firms are supported with provision of inputs and services (Fjose, Grünfeld & Green, 2010). De Ferranti and Ody (2007) found a positive correlation between the size of a country's SMME sector and economic growth. This does not imply causation, but that policies that are generally good for SMMEs also improve economic growth. Beck, Demirgüç-Kunt and Levine (2003) found a strong positive association between the size of a country's SMME sector and GDP per capita growth, and Woźniak, Duda, Gąsior and Bernat (2019) found a positive correlation between the size of the SMME sector and economic growth in Poland. Cravo, Gourlay and Becker (2012) investigated the same association in Brazil. These authors reported the contrary, namely a negative correlation between the size of the SMME market and economic growth. The authors stated that their findings are supported by studies undertaken in developing countries. They argued that the negative correlation could be attributed to the fact that the right type of SMME is necessary to have an impact on economic growth, and, as such, they advocated for institutional improvement and education policies directed at human capital formation, to enable greater productivity. Beck and Demirgüç-Kunt (2006) asserted that institutional development is seen as a key driver to alleviate constraints experienced by SMMEs. As such, market deficiencies and institutional weaknesses impede the growth potential of SMMEs. The authors recommended promotion of an enabling business environment, to support SMMEs.

In the US, the UK and Germany SMMEs and entrepreneurs are supported by an enabling environment, where institutional development is conducive for SMMEs to do business, as stated above. With institutional support, SMMEs can grow and can contribute to economic growth. Institutional support is less effective in African countries. If one considers that SMMEs have a greater role to play in less developed and developing countries, as opposed to developed countries, in terms of improving economic growth, governments in these areas need to ensure institutional development. These institutions should enhance the flexibility of the market. Education should be directed at enabling entrepreneurship. New markets should be opened for trade, and the population needs to be equipped to have the courage to start a business, be productive and believe in their ability to succeed, as is the case with developed countries.

2.3.1.2 South African perspective

Given the positive correlation between SMMEs and economic growth suggested by De Ferranti and Ody (2007), it is important to review the trend in the contribution of

SMMEs to the real GDP in South Africa. Globally and in South Africa emphasis is placed on SMMEs to generate growth (Mohr, 2015; OECD, 2014, 2017). There is a positive relationship between entrepreneurship and small business creation and economic growth, irrespective of the development stage of the economy concerned (Herrington et al., 2010; NCR, 2011; Olawale & Garwe, 2010; Robu, 2013).

The South African economy finds itself in a dilemma, as the economy has been in a downturn since 2013 (SEDA, 2019), resulting in an inability to absorb new entrants into the labour market. The SMME sector remains a key priority area in economic policy, as this sector has the potential to bridge the gap between the first economy and the second economy, which is evident in South Africa (SEDA, 2019).

The contribution of SMMEs towards the GDP in South Africa was 33% in 2010, and it increased to 42% in 2015 (SEDA, 2019). From 2008 to 2015 the SMME sector in South Africa grew by 3%, which is a significantly lower rate than the 14% growth in the GDP over the same period (SEDA, 2016). The contribution of SMMEs to the turnover of all businesses year on year from quarter 1 in 2018 to quarter 1 in 2019 declined marginally, from 39% to 38%. According to Abor and Quartey (2010), SMMEs contribute to the national economy by providing goods and services to both consumers and suppliers or other enterprises. When SMMEs position themselves in the market as consumers with purchasing power, their demand for industrial or consumer goods and services stimulates the economic activity of their suppliers, in a similar way to how the demand for their products and services is stimulated by the needs of their clients.

Herrington and Kew (2018) indicated that South Africa has concrete policies supporting SMMEs. The country's internal market dynamics and its commercial and financial infrastructure scored above the mean score for all the efficiency-driven economies measured by the GEM, and they scored above the mean score for the African continent. South Africa is the financial hub of the region. Yet SMMEs in start-up are held back, particularly by the administrative burden of starting a business (World Economic Forum (WEF), 2019).

2.3.2 The contribution of SMMEs to employment

2.3.2.1 Global perspective

SMMEs provide employment to 70% of the labour force globally (OECD, 2017). In developed countries, such as the US and the UK, SMMEs contribute a third of industrial employment (Robu, 2013). Start-ups and micro and small enterprises are the primary source of job creation in many OECD countries (2017). The majority of start-ups fail in their first year of operation or remain small (Calvino, Criscuolo & Menon, 2016). Many small enterprises service local areas only, and, as such, they remain small throughout the life cycle of the business. In all countries, micro enterprises, which employ between 1 and 9 people, represent between 70% and 95%

of SMMEs. In OECD countries, 2 in 3 people are employed by SMMEs, and 1 in 3 people are employed by micro enterprises (OECD, 2019).

In emerging economies SMMEs contribute 45% of the total employment created (Ramukumba, 2014). Robu (2013) asserts that SMMEs have a greater impact in terms of employment creation in countries with a lower income per capita than in countries with a higher income per capita. SMMEs represent over 90% of the businesses in Africa, and they contribute 50% of the employment on the continent (Ramukumba, 2014).

In Africa, youth unemployment is a challenge (Singer et al., 2014). Young people are deemed to be among those more likely to be poor and are often unemployed and underemployed. In general, the youth in Africa occupy their working lives in family businesses in the informal sector. It is uncommon for them to make the transition to find paid employment in the formal sector. The youth also do not actively participate in the future of economic activity in sub-Saharan Africa, as is the case in South Africa (Herrington & Kew, 2018). In most of the surveys conducted by Singer et al. (2014) it is reported that people are more interested in starting a new business venture in less developed and developing countries, because job opportunities are not readily available. They consequently do not employ others. As such, in sub-Saharan Africa, 79% of entrepreneurs are self-employed, and the entrepreneurial activity does not necessarily lead to increased employment opportunities for other citizens in the region (Singer et al., 2014).

2.3.2.2 South African perspective

The average unemployment rate in South Africa between 2000 and 2013, according to the strict definition of unemployment, was 24% (Stats SA, 2009, 2013). In 2019 the unemployment rate in South Africa was 29%. Furthermore, 42% of the economically active population do not have formal employment, according to the expanded definition of unemployment (Stats SA, 2019d). The majority of employed people in South Africa are low-skilled (Stats SA, 2019d), and lack of skills is most severe among black women and those with an educational level lower than matric (Ramukumba, 2014). The high unemployment levels are the most problematic economic issue faced by policymakers in South Africa (Pikoko & Phiri, 2019). Promotion of the SMME sector could alleviate this problem, as SMMEs are more likely to employ those who are unemployed, lower-skilled or marginalised (Ramukumba, 2014).

From 1985 to 2005, 90% of all new jobs in South Africa were created by SMMEs (Timm, 2011). FinScope (2010) reported that SMMEs created 11.6 million job opportunities in South Africa in 2010. Table 2.3 shows that SMMEs, both formal and informal, provide employment to nearly 11 million people (SEDA, 2019). This figure is similar to the figure that was reported by FinScope (2010).

There is debate in the literature as to the real extent of the contribution of SMMEs to employment. The importance of SMMEs as employment creators is based on the perception that these businesses are more labour-intensive than large enterprises, according to Abor and Quartey (2010), Brey and Mhlaba (2014) and Ramukumba (2014). Kerr, Wittenberg and Arrow (2013) found that in the South African context large firms contribute more to net employment growth than small firms employing 20 persons or less. This is confirmed by Herrington and Kew (2018) and by the SBP (2014), who, contrary to international trends, reported that businesses employing less than 50 have become less important as job creators in South Africa since 2000. Finfind (2018) found that 28% of employment opportunities created from 2014 to 2017 in South Africa were generated from high-growth and new SMMEs. High-growth SMMEs in particular created 86% of the new jobs.

Amra et al. (2013) contested the study by Kerr et al. (2013), in which it was found that larger firms employ more than smaller businesses. These authors noted that Kerr et al.'s (2013) study has limitations, as it excluded the informal sector. This is taken against the backdrop that in South Africa, as in many other developing countries, there is a significant informal sector consisting of small and micro enterprises.

Abor and Quartey (2010) reported that SMMEs are more likely to succeed in smaller urban and rural areas, where they can contribute more to even distribution of economic activity and can reduce the flow of migration from rural to urban areas. The regional dispersion of SMMEs and their labour-intensive nature, coupled with their small scale of production, fosters more equitable outcomes than is the case with larger firms in rural areas. Amra et al.'s (2013) study indicates that approximately 75% of firms employing less than 10 people are in the informal sector and are more labour-intensive, employing mostly lower-skilled people. This emphasises the importance of the informal sector in the economy. It is suggested by these researchers that SMME policymakers should specifically consider the difference between formal and informal enterprises when employment opportunities are targeted.

The economic contributions of SMMEs are vast. The economic importance of SMMEs is well established in the literature. Their economic importance extends beyond their contribution to the GDP, economic growth and employment creation. However, in the South African context of low growth and high employment, the contribution that SMMEs make towards growth and employment provides a convincing argument for promoting this sector.

SMMEs help governments to achieve goals related to unemployment, income inequality and poverty mitigation. As such, they are appreciated by modern governments, according to Rungani and Potgieter (2018). The South African government should ensure that all forms of SMME support are effective and efficient, and progress needs to be monitored and evaluated. Government needs to target the right type of SMME to make an impact on economic growth, and policies need to distinguish between micro enterprises, the informal sector, youth owners and rural areas when support is provided to these entities. In the following section the challenges impeding the operations and growth potential of these important entities will be explored.

2.4 CHALLENGES HINDERING THE OPERATIONS AND GROWTH POTENTIAL OF SMMEs

SMMEs are faced with both internal and external environmental challenges (Olawale & Garwe, 2010), which impact negatively on their survival and growth, especially in the start-up phase. Finance, training and regulation have been common themes in SMME policy since the 2000s (Herrington & Kew, 2018; Rogerson, 2008). The review of the challenges impeding the operations and growth of SMMEs will first mention the international trends, followed by the trends in developing countries, sub-Saharan Africa and South Africa.

Access to finance remains a challenge in all the countries of the world (Herrington & Kew, 2018). Enterprise Surveys determining the obstacles to growth of small and medium enterprises sampled by the World Bank have been conducted from 2007 to 2020 (World Bank, 2020).

The latest surveys by the World Bank in Europe were carried out in the following developed countries: Greece, Italy, Poland, Portugal and Romania. In Greece the greatest obstacles reported that impede the growth of small and medium enterprises in manufacturing were tax rates, political instability, access to finance and an inadequately educated workforce (World Bank, 2018a). In Italy tax rates, tax administration and labour regulations were reported as the greatest obstacles, followed by an inadequately educated workforce, insufficient transport, political instability and access to finance (World Bank, 2019a). In Poland, similarly, tax rates were reported as the greatest obstacle, followed by a poorly educated workforce, tax administration, labour regulations, political instability and informal-sector practices (World Bank, 2019b). Tax rates were also reported as the greatest obstacle by small and medium enterprises in Portugal (World Bank, 2019c), and an inadequately educated workforce was reported as the greatest obstacle in Romania (World Bank, 2019d). In the surveys done in Europe and Central Asia the most common greatest obstacles reported by SMMEs in developed countries are tax rates and a poorly educated workforce (World Bank, 2020).

In terms of developing countries, and specifically BRICS countries, in Brazil tax rates, an inadequately educated workforce, informal-sector practices, labour regulations and access to finance were the greatest obstacles experienced by small and medium enterprises (World Bank, 2009). The World Bank Enterprise Survey of the Russian Federation (World Bank, 2019e), another BRICS country, cited tax rates as the greatest obstacle, followed by access to finance and transportation. SMMEs in India indicated difficulties dealing with corruption, access to finance and insufficient provision of electricity as the greatest challenges (World Bank, 2014). In China access to finance was reported to be a major challenge for businesses, followed by informal competitors, tax rates and a poorly educated workforce (World Bank, 2012). In the mentioned surveys, in most of the countries tax rates, labour regulations, an inadequately educated workforce and access to finance were the major challenges perceived by SMMEs.

Wang (2016) studied trends and compared the obstacles of businesses indicated by 135 countries from 2006 to 2014 reported by the World Bank Enterprise Surveys. Most of the countries investigated in these surveys are developing countries in sub-Saharan Africa, Eastern Europe, East, Central and South Asia, Latin America, the Caribbean, the Pacific, the Middle East and North America. The five most common obstacles mentioned by 130,000 firms, in descending order of magnitude, were access to finance, tax rates, competition, electricity and political factors.

The greatest obstacles reported by SMMEs in sub-Saharan Africa, according to Fjose et al. (2010), were access to credit and access to essential infrastructure, such as water and electricity. These challenges were key obstacles identified that prevent SMME entry, investment and growth, and they affected enterprises of all sizes in sub-Saharan Africa. Singer et al. (2014) reported lack of government support and difficulty in accessing funding as obstacles to growth in their report on sub-Saharan Africa.

In terms of obstacles encountered by SMMEs in South Africa, burdensome regulations, a lack of skills, economic conditions, the cost of labour and a lack of finance were reported by the SBP (2015). In the 2014 report, the same obstacles were mentioned, but their ranking was different. When the obstacles cited in the 2015 report are compared with the data collected by the SBP in 2014, the obstacles are the same, but the local economic environment was the greatest obstacle in 2014. Besides the lack of skilled staff, the cost of labour was also mentioned as among the main obstacles to growth in the 2013 report (SBP, 2014). Herrington and Kew (2018) noted that since 2001, when the GEM organisation started surveying South Africa, government policies related to the regulatory environment, access to finance and insufficient education and training have remained inhibiting factors for entrepreneurship.

Olawale and Garwe (2010) researched 30 factors impeding the growth potential of new SMMEs in the Eastern Cape province. These obstacles were clustered into broad categories, namely financial, which was perceived as an internal challenge, together with management, location and networking and investment in information technology and the cost of production and the external environment including economics variables and markets, labour infrastructure and regulation and crime and corruption. In the study obstacles impeding the growth of SMMEs were ranked in descending order of magnitude. Lack of access to finance, lack of collateral, insufficient owner's equity contribution, crime and insufficient government support were the top five obstacles to growth. Abor and Quartey (2010) similarly researched constraints to the development of SMMEs. In their study, besides access to finance and regulatory issues, the lack of managerial skills, equipment and technology and inadequate access to international markets were other issues reported to be of concern. In the research of the Herrington, Kew and Mwanga (2017), Fjose et al. (2010), Olawale and Garwe (2010) and Abor and Quartey (2010), access to finance was reported as either the greatest, the second-greatest or the third-greatest obstacle faced by SMMEs. This is supported by Sitharam and Hoque's (2016) research in KwaZulu-Natal. Rungani and Potgieter (2018), similarly, in their study conducted in the Eastern Cape, suggested that access to finance should be improved.

FinScope (2010) reported that when business owners in South Africa were requested to identify the single most significant obstacle to their growth, the majority of the owners responded that there were no obstacles to growing their business. The authors of FinScope explained that this response could be attributed to the diversity of small businesses and the wide range of obstacles to growth. Obstacles that were, however, mentioned by the respondents, in descending order of magnitude, included limited space to operate, competition, access to finance, crime and theft, the cost of finance, transportation and electricity (FinScope, 2010). Retailers were more likely to report competition as an obstacle to growth, while service providers perceived space to operate as a problem, especially in Gauteng. Access to finance as an obstacle to growth was more likely to be identified by businesses in Mpumalanga and the Northern Cape than by businesses in other provinces (FinScope, 2010). According to Agbenyegah (2013), in a study where the aim was to determine the operational and specific challenges faced by SMMEs in the Northern Cape, lack of sufficient training, inadequate assistance and support from government and a lack of adequate financial resources, specifically for start-up, were some of the obstacles identified. Kalane (2015) reported lack of business and financial management, no control over cash flow, a decrease in market demand, failure to be paid on time, competition and inadequate financial resources as reasons for failure of SMMEs in the Free State.

In Fjose et al.'s (2010) study the challenges of micro businesses differed somewhat from the challenges of medium-sized businesses. Micro enterprises often struggle more with fluctuating revenues, red-tape complexity and a lack of knowledge and relevant competencies, while medium-sized enterprises face challenges related to access to sufficient amounts of risk capital, access to technology and access to a stable electricity supply. Table 2.5 provides a summary of the obstacles faced by SMMEs reported by various authors in developing countries, sub-Saharan Africa and South Africa.

Table 2.5 A summary of obstacles hindering the operations and growth of businesses reported in selected studies

Author(s)	Area	Obstacles reported in selected studies
(Wang, 2016)	135 developing countries, using data from the Enterprise Surveys of the World Bank (2006–2014)	Access to finance, electricity, practices of competitors, tax rates, political instability, corruption, inadequately uneducated workforce, crime theft and disorder, tax administration, macro instability, access to land, labour regulations, transportation, business licensing and permits, customs and trade regulations
(Singer et al., 2014)/ GEM, 2014	Sub-Saharan Africa	Lack of government support, difficulty in accessing funding, corruption, bureaucracy and lack of access to development and research
(Herrington & Kew, 2018)	South Africa	Government policies related to the regulatory environment, access to finance, and education and training
(Herrington, Kew & Mwanga, 2017)	South Africa	Government bureaucracy, insufficient access to finance, inadequate human capital development, limited markets and an inadequate entrepreneurial culture
(Herrington et al., 2014)	South Africa	Education and training, an inhibiting regulatory environment, burdensome labour laws, limited information technology (IT) coverage and the high cost of the internet
(SBP, 2015)	South Africa	Burdensome regulations, lack of skills, local economic conditions, cost of labour, lack of finance, municipal costs and services, and increased competition
(SBP, 2014)	South Africa	Lack of skilled staff, burdensome regulations, local economic conditions, lack of finance and cost of labour
(FinScope, 2010)	South Africa	Space to operate, competition, access to finance, crime and theft, cost of finance, transportation and electricity
(Olawale & Garwe, 2010)	Eastern Cape	Lack of access to finance, lack of collateral, insufficient owner's equity contribution, crime, insufficient government support, high interest rates, inadequate demand, inadequate market research, location of the business, competition and a bad credit record
(Agbenyegah, 2013)	Northern Cape	Lack of sufficient training, inadequate assistance and support from government, lack of adequate financial resources, specifically for start-up, poor education, difficulty in employing skilled workers, cash flow, the cost of doing business, and lack of managerial education, skills and training
(Kalane, 2015)	Free State	Lack of business and financial management, no control over cash flow, a decrease in market demand, failure to be paid on time, competition and inadequate financial resources
(Sitharam & Hoque, 2016)	KwaZulu-Natal	Internal environment (technological capabilities, managerial competence and skills, access to finance), external environment (competition, globalisation, and crime and corruption)

Source: Researcher's own compilation.

The above literature review of the obstacles impeding the growth of SMMEs indicates that access to finance is a common reported obstacle to the growth of SMMEs. Even though it was reported that access to finance, training and regulation are the main areas of concern in policy since 2000 in South Africa, it seems that SMMEs around the world, and in this country, still struggle with access to finance as a challenge. This raises the question of whether the policies directed towards alleviating these constraints are effective in bringing about change.

2.5 CONCLUSION

The literature review of chapter 2 provided an overview of the definition and the economic importance of SMMEs. The literature review also mentioned the obstacles impeding the growth potential of SMMEs. The underlying principles related to the definition and the nature of SMMEs operating in both the formal and the informal economy were contextualised. SMMEs are important vehicles through which growth and employment are enhanced for both rural and urban areas. Development of the national economy depends greatly on the growth and prosperity of SMMEs. However, no accurate data on the number of SMMEs functioning in South Africa is available, which complicates determination of the efficacy of policies supporting these industries.

SMMEs are furthermore faced with obstacles impeding their prosperity. Access to finance is a major obstacle for SMMEs, as reported in the literature review. Other obstacles impeding the growth of SMMEs are an inflexible regulatory environment, tedious and rigid labour laws, poor education, training and managerial skills and experience, inadequate infrastructure and technology, inadequate market penetration, insufficient demand, competition, and crime, theft and corruption.

Access to external finance is essential for small businesses to grow. As access to finance is perceived to be a major obstacle to the growth of SMMEs, which is indicated as either the first, the second or the third most identified challenge in various surveys and by authors, it is the intention of this study to reveal the extent of this obstacle in chapter 3.

CHAPTER 3

ACCESS TO FINANCE: AN SMME PERSPECTIVE

3.1 INTRODUCTION

In the previous chapter, the literature indicated that access to finance is universally perceived to be a challenge for SMMEs. In this chapter various aspects related to access to finance will be explored. First, a definition of the term “access to finance” will be provided. SMMEs move from being financially excluded to being fully included. As such, the terms “unbanked”, “marginally banked” and “fully banked” will be explored as it relates to the term “access to finance”. Access to finance as an obstacle will also be established. In order to establish trends in access to credit and loans, the need for loans and loan applications, rejection rates in various regions of the world and in South Africa will be reviewed. SMMEs have to choose between using either internal or external sources of finance to fund their operations and expansions. Thus, capital structure theories explaining how these choices are made will be investigated. Characteristics inherent to the nature of SMMEs that influence the ability of these entities to access finance will also be researched, by looking at statistical trends in South Africa and by citing statistically significant associations reported in earlier research.

3.2 WHAT IS ACCESS TO FINANCE?

In the following section access to finance will be defined. A distinction will be made between “use” and “access”, as they influence the definition of access to finance. The progression from being unbanked to ultimately being totally banked will be explored. Financial indicators used in surveys to determine access to finance will also be described.

3.2.1 Defining access to finance

According to the World Bank (2008) in a report titled “Finance for All?”, one of the aims of economies, regardless of their level of development, is to improve access to finance. Building inclusive financial systems remain a priority throughout the world. Better access implies dispersing financial services so that they are available to all. Equal opportunity to access finance and financial products needs to be provided so that economies can reach their full potential. Properly functioning financial systems reduce poverty (World Bank, 2008), they improve the country’s resilience, and they consequently lead to economic growth (Sahay, Čihák, N’Diaye, Barajas, Bi, Ayala, Gao, Kyobe, Nguyen, Saborowski, Svirydzenka & Yousefi, 2015). The term “financial access” forms part of the overarching term “financial development”. As such, access to finance will be defined in the following section in relation to the term “financial development”.

Financial development mobilises savings, improves resource allocation and information sharing, facilitates the diversification of risk and promotes financial stability (Sahay et al., 2015). Financial development is defined as

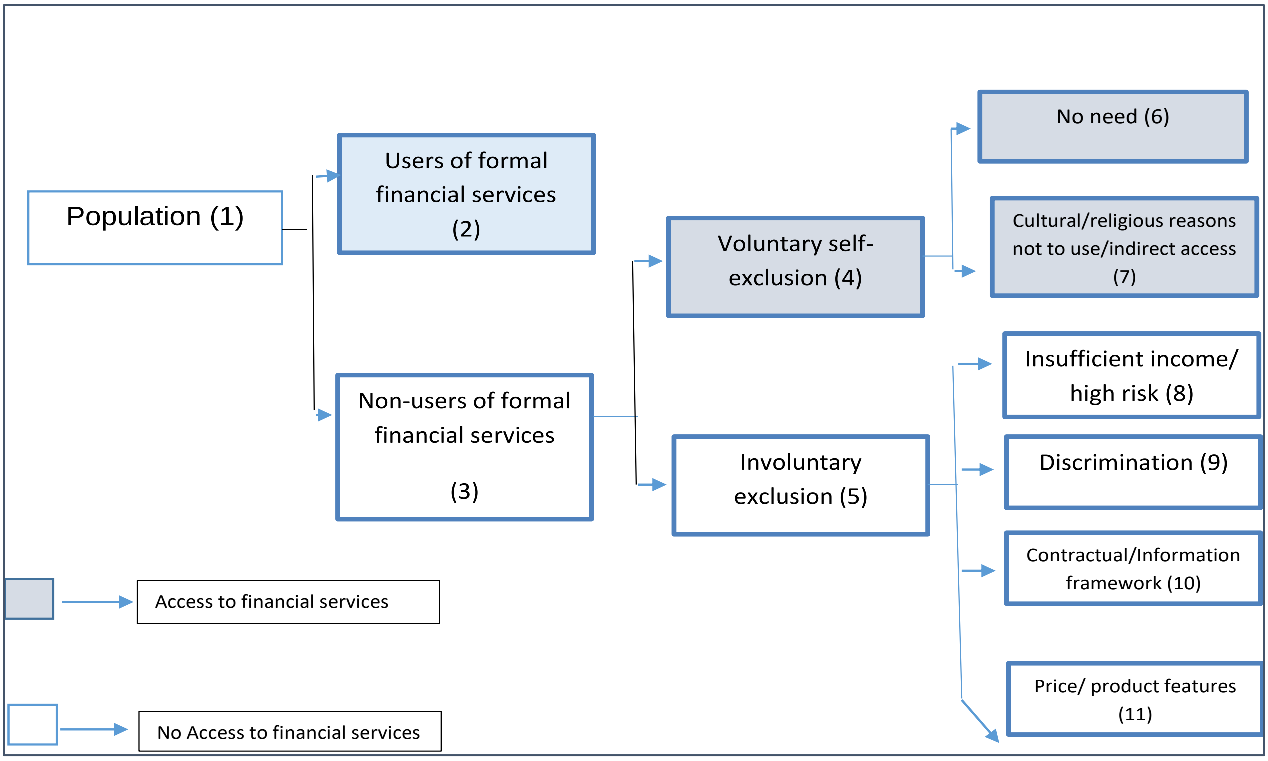
> “the combination of financial depth (size and liquidity of markets), financial access (ability of individuals to access financial services) and financial efficiency (ability of financial institutions to provide financial services at low cost and with sustainable revenues, and the level of activity of capital markets) (Sahay et al., 2015:5)”.

Financial access as one component of financial development is also known as financial inclusion, or broad access to financial services (Ganbold, 2008; Hawkins, 2011). Financial inclusion is defined by Chauvet and Jacolin (2017) as the volume and the distribution of access to credit to firms. Hawkins (2011) argues that financial inclusion goes beyond access to credit and also includes access to financial services, such as payment services and insurance, safekeeping of money and access to appropriate savings products. Princess Máxima (2013:1) asserts that financial inclusion implies “*universal access, at a reasonable cost, to a wide range of financial services to everyone needing them, provided by a diversity of sound and sustainable institutions*”. The World Bank (2008:21) states that improving access implies availability of financial services to all at a fair price, thereby “*spreading equality of opportunity”* to creditworthy customers.

According to the World Bank (2008), broad access to financial services implies the absence of price and non-price barriers, and it is difficult to define, since access has many dimensions. The World Bank (2005) defines access to finance as having a bank account and access to financial services held primarily by financial institutions. It includes using financial services provided by non-bank financial institutions. In terms of demand, access to finance includes access to credit, both formal and informal, and deposits held by a commercial or a rural bank or a cooperative. Access to finance also includes access to insurance. In terms of supply, access to finance includes the bank’s coverage, measured in square kilometres, and credit or deposit or bank branch distribution (Kendall, Mylenko & Alejandro, 2010). In essence, Ganbold (2008) asserts that access implies the supply of financial services, while usage of these services is determined by both demand and supply factors.

3.2.2 Distinguishing between access to and use of finance

In terms of access to finance, a distinction is made between use and access. It is easier to measure use of financial services, since it can be observed. The World Bank (2008) distinguishes between voluntary and involuntary exclusion. The distinction between the terms "access to finance" and "use of finance" and the terms "voluntary exclusion" and "involuntary exclusion" is portrayed diagrammatically in Figure 3.1.



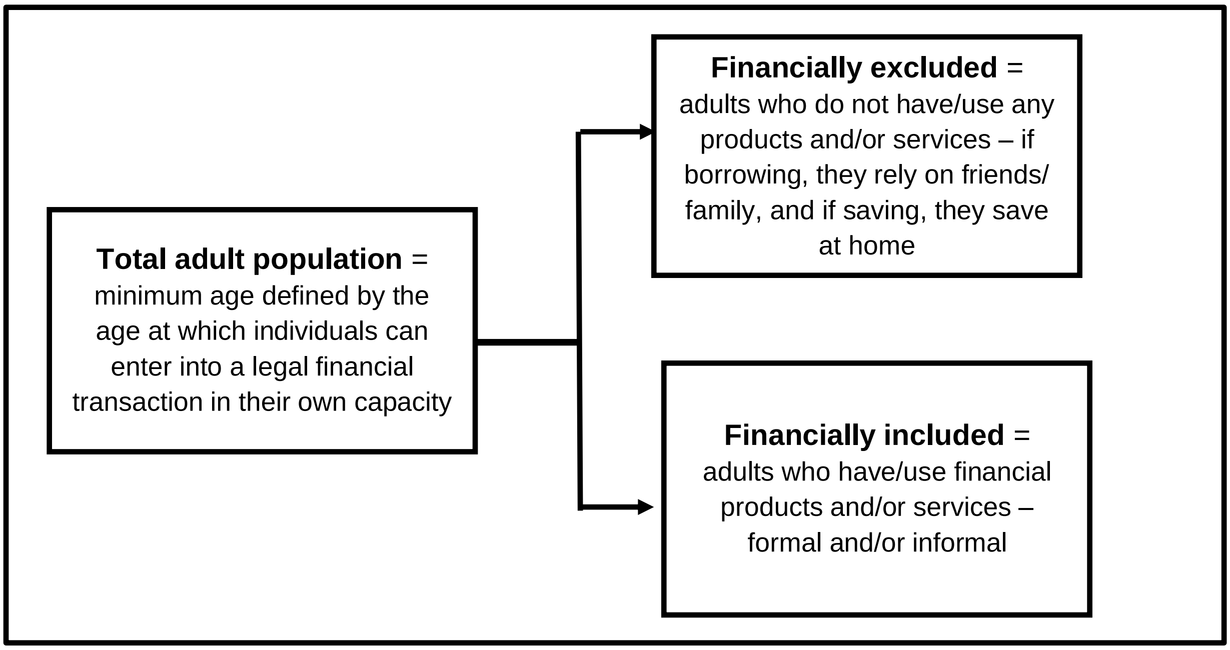
Source: World Bank (2008:29)

Figure 3.1 Distinguishing between access to and use of finance

According to the World Bank (2008), non-users who have access and choose not to make use of financial services do not present a problem to policymakers, since they do not demand services, as portrayed by boxes 3, 4, 6 and 7 in Figure 3.1. They are voluntarily excluded. They might choose not to use a financial service although they do have access, based on choice or for ethical or religious reasons. Voluntary exclusion also occurs when products are not properly marketed towards certain groups, because of financial illiteracy and due to the use of accounts that belong to others. Involuntary exclusion, on the other hand, includes people who do demand access to finance but are excluded due to the fact that their lending risk is perceived to be too high or they are discriminated against based on their religion, their ethnic group or their social standing. The contractual and informational framework might also prevent financial institutions from perceiving this group as commercially viable, and administrative costs might be too high to reach this group. Product features provided by the financial institutions might also not be appropriate to meet the specific financial needs of the involuntarily excluded group. Involuntary exclusion is portrayed by boxes 5, 8, 9, 10 and 11 in Figure 3.1. The focus of this study falls within the different categories identified in all the boxes in Figure 3.1.

Financial access in South Africa has two dimensions, namely formal and informal credit (FinMark Trust, 2015). FinScope (2010) asserts that the financial access landscape is represented by four types of financial products and services: first, transactional products and services, such as cheque accounts and debit cards; second, savings products and services; third, credit products and services; and fourth, insurance products and services. This implies access to a wide range of financial services provided both formally and informally.

FinScope (2010) and in a follow-up report (FinMark, 2015) segmented SMMEs into two groups in order to determine whether they are financially included or excluded, as depicted in Figure 3.2.



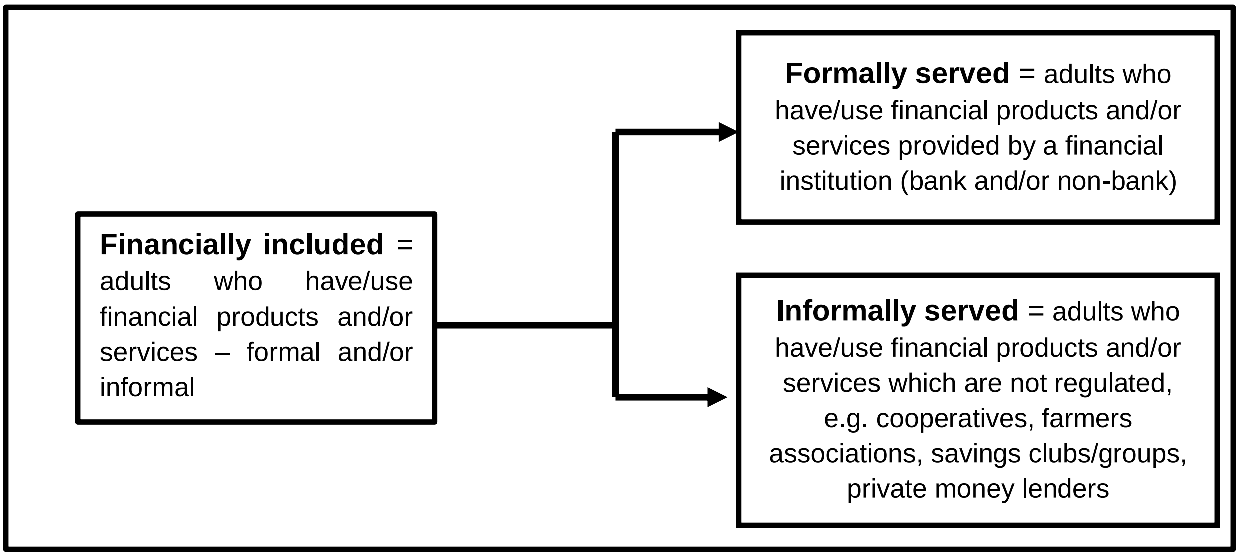
Source: FinScope (2010:44)

Figure 3.2 Defining financial inclusion and financial exclusion

As indicated in Figure 3.2, the financially excluded segment includes individuals who have managed their business without the use of any financial products or mechanisms external to their personal relationships.

FinScope (2010) divides the financially included segment of SMMEs into three categories of financial inclusion. The first category is respondents who have or use loan products or services from financial institutions that are regulated by an Act or a law, referred to as the formally served segment of the population. The second category is individuals who have or use loan products or services from financial institutions that are not regulated and/or community-based organisations to save or borrow money, referred to as the informally served segment. The third category is small business owners who have or use both of the above-mentioned categories to access finance.

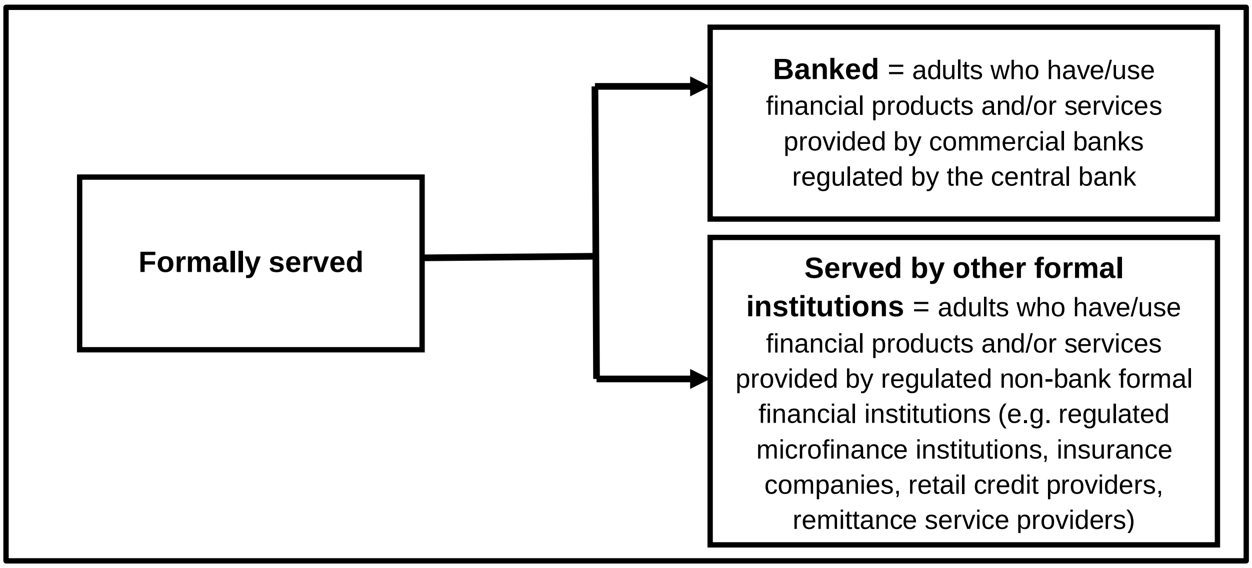
Figure 3.3 portrays the segmentation used for SMME owners who are perceived to be financially included, namely use of financial services from either formal or informal institutions.



Source: FinScope (2010:44)

Figure 3.3 Financial inclusion: formally served and informally served

FinScope (2010) went on to further categorise SMMEs that have or use products from financial institutions that are regulated through an Act or a law, that is, the formally served segment of the population. Three categories were conceived: those that have or use products or services from licensed commercial banks; those that have or use products from financial institutions that are not commercial banks; and those that have or use credit products and services from both of the above-mentioned categories. The categorisation of the formally served segment is depicted in Figure 3.4.



Source: FinScope (2010:45)

Figure 3.4 Financial inclusion: the formally served segment

For the purpose of this study, empirical data was collected from both a demand-side perspective, from SMMEs and a supply-side perspective, from commercial banks. Thus, access to finance was determined by whether or not SMMEs are financially included, through the use of various financial products and services offered by commercial banks that are formally regulated.

In the following section the terms “banked”, “marginally banked”, or “underbanked”, and “fully banked” will be defined. In order to access finance an SMME needs to have a bank account. Having an account makes it safe to store money, to pay bills, to save for investments, to make purchases, to send and receive remittances and to access credit. Being banked is a marker used by many researchers and the World Bank to determine financial inclusion. The marginalised sector of the population in developing countries is mostly unbanked (Demirgüç-Kunt, Klapper, Singer, Ansar & Hess, 2018). Being banked is perceived as important, taken against the backdrop of the large proportion of SMMEs operating in the informal economy in South Africa.

3.2.3 The banked versus the unbanked

According to the European Commission (EC) (2008), there are degrees of moving from financial exclusion to financial inclusion, and it can be conceived as a progression from being unbanked to being marginally banked to ultimately being fully banked. The marginally banked, or underbanked, include individuals with a deposit account but no electronic payment facilities and no payment card or cheque facility. The marginally banked also include individuals who have access to a bank account but use it in a limited capacity. The fully banked are individuals with access to a bank account and access to a wide range of financial transactions suitable to meet their needs and consequent socio-economic status (Beard, 2010).

The EC (2008) makes a further distinction and categorises financial exclusion into savings exclusion, credit exclusion and insurance exclusion. Demirgüç-Kunt et al. (2018:29), in determining the bankable populations in the world, define the term “account ownership” as having an individual or a jointly owned bank account provided by either a financial institution or a mobile money provider. The former category is accounts at a bank, or another type of regulated financial institution, such as a credit union, a cooperative or a microfinance provider. The latter category is mobile phone services not linked to a financial institution enabling an individual to store money, to pay bills and to send and receive money.

Several reasons are provided to explain why people remain unbanked. The first set of reasons relates to the size and the irregularity of deposits and withdrawals, the costs related to having a bank account, and the distance to and from the bank branch. This distance prevents individuals and businesses from having a bank account. Shared bank accounts used by less educated individuals are another reason provided for not having a bank account (Demirgüç-Kunt et al., 2018; Djankov, Miranda, Seira & Sharma, 2008).

Customers are also sometimes hesitant to make use of banks because of a prior bad experience, distrust, or because of the fact that these prospective customers seemingly are not financially educated (Beard, 2010; Demirgüç-Kunt et al., 2018; Djankov et al., 2008). Poor credit histories, an outstanding issue with a former bank, language barriers and inappropriate identification to open a bank account are other reasons mentioned in the literature (Beard, 2010). According to Demirgüç-Kunt et al. (2018), documentation requirements are particularly problematic for people living in rural areas or operating in the informal sector, who are less likely to have proof of domicile.

In Djankov et al.'s (2008) study and in Demirgüç-Kunt et al.'s (2018) research it is noted that education and wealth are important indicators in explaining individuals' participation in the formal financial sector.

Finally, it can be concluded that the concept of access to finance provided to SMMEs includes the following:

(a) having access to a bank account designated for business purposes;
(b) having access to a wide variety of financial products and services supporting the operations of the business;
(c) using these financial products and services regularly;
(d) having access to lines of credit; and
(e) having access to loans provided at a reasonable cost.

In the following section financial indicators to determine access to finance of SMMEs used by various organisations internationally will be explored. Some of these financial indicators, specifically those used by the World Bank, will be used in the quantitative analysis of this study.

3.2.4 Financial indicators used to determine access

The OECD uses the core indicators to assess SMMEs' access to finance that is presented in Table 3.1. The data used by the OECD to determine, assess and evaluate access to finance of SMMEs is not available in the public domain in South Africa (Finfind, 2018). These indicators will make it easier to track successes, to determine challenges, and to implement corrective measures to help SMMEs to access finance.

Table 3.1 Core indicators used by the OECD to determine access to finance of SMMEs

	Core indicator	What it indicates
1	The ratio of SMME loans to business loans	SMMEs' access to finance compared to larger firms' access to finance
2	The ratio of SMME short-term loans to the total SMME loans	The debt structure of SMMEs: the percentage used for operations, and the percentage used for expansion
3	SMME loan guarantees	The extent of public support for SMME finance
4	SMME guaranteed loans	The extent to which such public support is used
5	SMME direct government loans	The extent of public support for SMME finance
6.1	The ratio of SMME loans authorised to SMME loans requested	The tightness of credit conditions, and the willingness of banks to lend
6.2	The ratio of SMME loans used to SMME loans authorised	A decrease in the ratio indicates that credit is loosening
7	The ratio of SMME non-performing loans to the total SMME loans	The ratio of non-performing loans (NPLs) to all business loans indicates if SMMEs are less creditworthy than larger firms.
8	SMME interest rates	The tightness of credit conditions, and the risk premium charged to SMMEs
9	The interest rate spread between loans to large firms and loans to small enterprises	The tightness of credit conditions. It indicates how closely interest rates are correlated with firm size.
10	The proportion of SMMEs that were required to provide collateral on their last bank loan	The tightness of credit conditions
11	Venture capital and growth capital	The ability to access external equity for start-up, early development and expansion stages
12	Payment delays	It is an indicator of cash flow problems and difficulty in paying and being paid.
13	Bankruptcies	It is a rough indicator of the impact of a crisis and cash flow problems.

Source: Asian Development Bank (2014:45)

The Enterprise Surveys of the World Bank (World Bank, 2007–2020) use 13 financial indicators to determine and compare the accessibility of finance in various countries. These indicators are presented in Table 3.2. Although the Enterprise Surveys include access to finance of large firms as well, using the same indicators in South Africa to collect data from SMMEs specifically could also provide valuable information to policymakers in government.

Table 3.2: Financial indicators used by the World Bank to determine access to finance of firms (small, medium and large)

	Indicator
1	Percentage of firms with a chequing account or a savings account
2	Percentage of firms with a bank loan or a line of credit
3	Proportion of loans requiring collateral
4	Value of collateral needed for a loan
5	Percentage of firms not needing a loan
7	Percentage of firms whose recent loan application was rejected
8	Percentage of firms using banks to finance fixed investments

9	Proportion of investments financed internally
10	Proportion of investments financed by banks
11	Percentage of firms using supplier/customer credit to finance working capital
12	Proportion of working capital financed by banks
13	Percentage of firms identifying access to finance as a major constraint

Source: World Bank Enterprise Surveys (World Bank, 2007–2020)

Data related to the number of SMMEs applying for loans, the reasons for their applications, the financing terms, the reasons for rejections, the interest rate spread and the volume of non-performing loans needs to be collected in South Africa. This data is needed, on the one hand, to inform policy, and on the other hand, to empower organisations assisting SMMEs with access to finance, as progress in this regard can be tracked (Finfind, 2018). In the following section obstacles in accessing finance will be explored from an international and a local perspective.

3.3 OBSTACLES TO ACCESSING FINANCE

SMMEs are the livelihood of most economies around the world. For these entities to be successful, they require access to finance for start-up, to expand, to diversify and to fund working capital and fixed investments (Mengistae et al., 2010).

The provision of and the need for finance of various regions is documented by the World Bank Enterprise Surveys. The findings of the surveys conducted from 2007 to 2020 in various regions of the world are presented in Table 3.3.

Table 3.3 Access to finance indicators of various regions and economic clusters from 2007 to 2020

Region	Percentage of SMMEs with a bank loan/line of credit	Percentage of SMMEs not needing a loan	Percentage of businesses whose loan applications were rejected
All countries	33.3	47.7	10.7
All countries (small, employing 5–19)	27.8	48.3	14.1
All countries (medium, employing 20–99)	41.6	46.7	8.3
East Asia & Pacific	33.7	48.5	7.6
East Asia & Pacific (small, employing 5–19)	26.8	52.6	12.6
East Asia & Pacific (medium, employing 20–99)	44.4	43.9	1.4
Europe & Central Asia	33.3	56.2	10
Europe & Central Asia (small, employing 5–19)	32.1	60.2	12.5
Europe & Central Asia (medium, employing 20–99)	46.7	56.1	5.3
Latin America & Caribbean	47.7	45.4	3.3
Latin America & Caribbean (small, employing 5–19)	41.5	46.3	Data not available
Latin America & Caribbean (medium, employing 20–99)	56.9	44	Data not available
Middle East & North Africa	31.1	54.8	12.6
Middle East & North Africa (small, employing 5–19)	22.5	54.4	17.7

Middle East & North Africa (medium, employing 20–99)	33.7	50.5	9
South Asia	27	44.7	14.4
South Asia (small, employing 5–19)	22.1	43.2	14.5
South Asia (medium, employing 20–99)	33.9	46.4	10.9
Sub-Saharan Africa	21.5	38.7	15.2
Sub-Saharan Africa (small, employing 5–19)	16.5	36.2	Data not available
Sub-Saharan Africa (medium, employing 20–99)	27.6	41.2	Data not available

Source: World Bank Enterprise Surveys (World Bank, 2007–2020)

Table 3.3 shows that one-third of businesses sampled by the World Bank have access to bank loans and/or lines of credit. Latin America and the Caribbean recorded the largest percentage of SMMEs with access and the lowest rate of loan application rejections. Europe and Central Asia recorded the highest percentage of SMMEs not needing loans (World Bank, 2007–2020). Yet, among the SMMEs operating in Central Asia one-quarter indicated that access to finance is a major constraint to their operations. This problem varies from region to region depending on where the SMME is situated in Central Asia. SMMEs in Central Asia generally face higher interest rates and less conducive borrowing terms than larger businesses. Due to the riskier nature of these businesses, the collateral requirements in Central Asia are particularly constraining for SMMEs. SMMEs are also more vulnerable to complex lending processes used by commercial banks, which further militates against their ability to access loans in this region (OECD, 2017).

Sub-Saharan Africa recorded the lowest percentage of businesses with access to lines of credit and/or loans and the highest loan rejection rates of all the regions sampled by the World Bank. These trends are confirmed by Beck and Cull (2014) and Wang (2016). Beck and Cull (2014) explain that the financial systems in Africa generally are small, shallow and costly and have limited reach. There are, however, huge differences in the region, ranging from well-developed financial systems, such as in South Africa and Mauritius, to underdeveloped financial systems, such as in South Sudan and the Central African Republic. Beck and Cull (2014) indicate that it is far more complicated for small businesses to access finance than for medium and large enterprises to do so. This is comparable to the situation in Central Asia described by the OECD (2018).

The percentage of small enterprises with access to a loan or a line of credit is smaller than that of medium enterprises in all the regions sampled by the World Bank. Yet, the percentage needing a loan is greater for medium-sized enterprises than for small enterprises. The loan application rejection rate, however, is higher for small enterprises than for medium enterprises.

In South Africa finance is requested for starting a business, for buying equipment, for expanding a business, for working capital, for cash flow assistance, for franchise funding, for developing a new product or new processes, for funding a contract, for buying a business, for buying a building, for property development, and for growing a start-up (Finfind, 2018). Fatoki (2014) and Mazanai and Fatoki (2012) reported that the failure rate of new business start-ups is very high. In South Africa in 2016, two-thirds of SMMEs discontinued operations due to financial reasons, because of either insufficient profits or an inability to access finance to sustain their business (Herrington et al., 2017). The SEDA (2019), however, indicated that the number of SMMEs surviving the start-up phase increased from 2008 to 2019.

In South Africa SMME financing is particularly low when compared to similar economies in the world (Herrington et al., 2017), and SMME owners tend to rely on their personal wealth or funds from family and friends to finance business operations (Bushe, 2019; Dlova, 2017; Mutezo, 2015). From the demand side, the reasons indicated by SMMEs for not applying for loans explored in the literature include the following: the application procedure is too complicated; interest rates are not favourable; collateral requirements are unattainable; and fear of being rejected (Chimucheka & Rungani, 2013; Mengistae et al., 2010). From the supply side, specifically commercial banks, the reasons provided for loan application rejections include insufficient profitability, insufficient collateral, insufficient owner's equity contribution, inability to repay the loan, problems with the credit record, and insufficient information on the loan application (Mutezo, 2015).

In emerging and developing countries, such as South Africa, the SMME credit market suffers from market failures. This is due to the high search costs, the perception of risk, information asymmetries, inadequate recognition of some forms of collateral, and the high administration and transaction costs associated with small-scale lending (Finfind, 2018). The SMME market is diverse, and this is more so with micro and small enterprises. Commercial banks treat SMMEs as a single market, by using traditional lending methods and technologies, resulting in a one-size-fits-all lending approach according to Mutezo (2015). Costs are high for those who require credit, and also for those who supply credit, and, as such, a funding gap exists. SMMEs incur costs in the process of searching for the right type of funding. These businesses are not always aware of the financing products and qualifying criteria needed to secure loans successfully (Chimucheka & Rungani, 2013; Finfind, 2018). SMMEs in some instances also lack the financial attunement to convince commercial banks of the viability of their business (Herrington & Kew, 2018; Mahloana, 2019).

In South Africa the reality is that the majority of SMMEs are unable to access finance from financial institutions (Mahloana, 2019). The financing gap that exists between the demanders of credit, and the suppliers thereof is as a result of credit rationing. The financing gap is estimated to be between R86 billion and R346 billion (Finfind, 2018).

In general, SMMEs must choose between using equity or debt to finance working capital or expansion (Fatoki, 2014). As the SMME evolves, its financial needs change (Canto-Cuevas, Palacín-Sánchez & Di Pietro, 2019). It is thus important to understand how SMMEs finance their operations by means of equity and/or taking up debt. As such, theories influencing these important decisions and the consequent effect on business operations will be elaborated on in the following section.

3.4 CAPITAL STRUCTURE THEORIES

The capital structure of the SMME changes in relation to the life cycle of the organisation (Canto-Cuevas et al., 2019). Various theories have been developed to explain the capital structures of firms. These include the Modigliani–Miller theorem (also known as the capital structure irrelevance principle), the trade-off theory, agency theory and the pecking order theory. Theories developed were aimed at finding an optimal capital structure as far as the choice of debt and equity of a firm is concerned, as it impacts on the wealth and the market value of the firm (Gitman & Zutter, 2012). Numerous studies have been conducted providing insight into the capital structure of firms (Dlova, 2017). The capital structure theories in general relate to larger firms with limited liability. These theories are, however, useful in providing insight into the way SMMEs make choices related to the capital structure of their organisation (Dlova, 2017).

Debt and equity are the two main financial resources used to enable the establishment of new SMMEs, and the subsequent expansion of these businesses (Abor, 2007). Equity and debt form the basis of the capital structure of the business (Gitman & Zutter, 2012). Ou and Haynes (2006) explain that equity includes internal and external equity. Internal equity is the owner's equity contribution and retained earnings. External equity is funding sources obtained from outside the SMME in exchange for a stake in the ownership of the business (Ou & Haynes, 2006).

According to Elomo (2014), the capital structure of a firm is defined as the proportion of debt to equity used to finance operations. The firm's debt-to-equity ratio measures its financial leverage. This is calculated by dividing the firm's total liabilities by its equity. It reveals what proportion of debt and equity the business utilises to finance assets and expansion. A high debt-to-equity ratio implies that the business aggressively finances its growth with debt. Financial leverage is used to ascertain the risk of the SMME (Fatoki & Smit, 2011). Decisions influencing the capital structures of businesses are complex (Hutchinson & Xavier, 2006). The cost of capital can be reduced by effective decision-making. This could influence the capital structure of the business, and could consequently lead to an increase in the value of the business and an increase in shareholders' wealth (Gitman & Zutter, 2012). The optimal capital structure is thus a mixture of debt and equity, in which the weighted average cost of capital is minimised, and shareholders' wealth is consequently maximised.

Although studies have been undertaken to establish the underlying principles of capital structures in developed countries, the findings are relevant to developing countries as well (Chen, Jiang & Lin, 2014; Elomo, 2014). Literature related to the capital structures of new businesses is limited, with a divergence of opinions on whether to depend more on debt or more on equity, according to Elomo (2014).

The earliest research related to the capital structure of a firm was done by Durand in 1952, where it was found that the capital structure of the firm does have an impact on the market value of the business (Chen et al., 2014). The genesis of modern capital structure theory, however, lies with the seminal work of Modigliani and Miller (1958). In the following sections an overview will be provided of the theories of capital structure applicable to financing decisions.

3.4.1 The Modigliani–Miller theorem

Modigliani and Miller (1958) argued that a firm's leverage, and therefore its capital structure, does not have an effect on the market value of the firm. Modigliani and Miller (1958) formulated their theory presupposing perfect market conditions, and they assumed that no matter how much credit a business accesses, in an environment of freely available information, the benefits of using cheaper debt are outweighed by the increase in the cost of equity due to an increase in risk. As such, the authors assumed no consequent tax benefits from interest payments on debt, and no benefits to the weighted average cost of capital (WACC). They concluded that the capital structure of the business has no impact on the market value of the business (Modigliani & Miller, 1958). The authors did, however, argue that the way debt and equity are structured, and the consequent effect of this structure on net profits, does impact on the growth prospects, and ultimately the profits, of the business. Although Modigliani and Miller (1958) investigated the capital structures of companies, their research sparked academic debate on the capital structures of all types of firms, large and small. In their article titled "Corporate income taxes and the cost of capital: A correction" (Modigliani & Miller, 1963), they acknowledged the influence of taxes and bankruptcy costs on the capital structure, and consequently the market value, of the firm. In response to the above-mentioned debate, the trade-off theory was developed in later years.

3.4.2 The trade-off theory

According to Frank and Goyal (2008), the term "trade-off theory" is used to refer to a family of related theories described by different authors. This family of theories was formulated by Kraus and Litzenberger (1973), Scott (1976) and Kim (1978).

According to Scott (1976), the trade-off theory argues that a firm's optimal debt ratio is determined by a trade-off between the tax advantage of borrowing and the cost of bankruptcy (Serrasqueiro, Armada & Nunes, 2011). The bankruptcy cost of debt is the augmented cost of financing, by utilising debt rather than equity to fund operations. The trade-off theory suggests that a firm seeks an optimal debt ratio where the marginal benefits are equal to the marginal cost of debt (Serrasqueiro et al., 2011). This practice increases the probability of becoming bankrupt, which is generally a costly process. Bankruptcy costs negatively affect the value of the firm, since the ownership is transferred from equityholders to debtholders (Reindl, Stoughton & Zechner, 2017). Higher profit ratios, however, decrease the chances of becoming bankrupt, and they help firms to increase their tax benefits, by raising leverage. Firms will thus favour debt over equity until the prospect of financial distress emerges (Bas, Muradoglu & Phylaktis, 2009; Chen et al., 2014).

The type of financial distress experienced will be influenced by the type of assets owned. Firms will face a smaller cost of financial distress if the larger part of their assets includes investments, such as land, equipment and other tangible assets. This is in comparison to firms with intangible assets, such as goodwill, patents and copyrights. To obtain debt financing, both smaller and larger firms need to provide some sort of security, in the form of collateral. Smaller firms are perceived to be riskier prospects for investment by financial providers and are more prone to insolvency than larger firms and listed enterprises (Cathcart, Dufour, Rossi & Varotto, 2020). The trade-off theory therefore assumes that there are benefits to leverage up until the optimal capital structure of the firm has been reached.

The trade-off theory suggests that firms that are more profitable, in the process of expanding and having a lower cost of financial distress, should use more debt than riskier businesses. Businesses facing more risk should rather utilise internal earnings as a financing source (Chen et al., 2014). Since smaller firms, such as SMMEs, have less access to collateral and are less likely to generate higher profits, they should not opt for debt financing to reap the benefits of tax shields at first (Bas et al., 2009). Loan amortisation, practically speaking, has a great impact on SMMEs as far as liquidity, and consequently disposable income, is concerned. The reason for this is that amortisation is a process where each loan payment gets divided into two parts. First, a portion of the payment goes towards interest. Second, the remaining part of the payment goes towards paying off the principal debt. A calculation is done to establish exactly how each payment gets divided, resulting in a loan repayment schedule with a specific number of payments of a specific amount (Murray, 2020).

The tax implications come from the fact that in the case of loan amortisation, the amounts for each payment that go towards the principal debt and towards the interest, respectively, change over time. As the loan balance decreases, the interest portion of each payment decreases. The amount of the payment remains the same, which means that the principal portion of each payment increases. Towards the end of the loan period, very little interest is paid. The instalment paid is almost completely allocated towards settling the principal debt (Murray, 2020).

Because interest is tax-deductible but the settling of capital debt is not, the tax benefit derived from paying the interest incrementally decreases as the settlement date of the loan approaches.

The borrower pays the same amount each month, but towards the end of the loan period, for example 60 months, the borrower's tax obligation would have increased substantially, as the disposable income would have decreased substantially (Murray, 2020). It might be that many SMME owners are not initially aware of this very significant factor when they obtain term finance, and it may come as a very unpleasant surprise to them as the tax years pass, and consequently their tax obligation increases.

Empirical evidence exists that provides an explanation for the behaviour of firms in terms of the trade-off theory (Newman, 2010). The findings of research by Lisboa (2017) in Portugal, Harc (2015) in Croatia, and Saad (2019) in Kenya provide evidence of capital structures of SMMEs that support the trade-off theory. Mat Nawi's (2015) research in Malaysia, to the contrary, found no evidence to support the theory regarding an optimal debt ratio for SMMEs, thus disconfirming the trade-off theory. This could be attributed to the fact that SMMEs have more difficulty in accessing adequate sources of debt finance than larger companies (Cathcart et al., 2020). As such, SMMEs cannot reap the advantage from the trade-off between the benefits and the costs of debt. Similarly, in France, Adair and Adaskou (2015) researched the capital structures of SMMEs from 2002 to 2010, and they found no evidence to support the trade-off theory. In South Africa, Mogashoa (2017) in his research also rejected the trade-off theory and noted that the objectives of the SMME ultimately determine the capital structure.

The main difference between the capital structure theory of Modigliani and Miller (1958) and the trade-off theory is the potential benefit generated from accessing debt. This benefit is due to the fact that interest payments on debt are tax-deductible. Since the initial theory of Modigliani and Miller (1958) does not take tax into consideration, this benefit is not acknowledged, while the tax benefit of interest payments is recognised by the trade-off theory.

3.4.3 Agency theory

Agency theory was developed by Jensen and Meckling (1976) in response to the capital structure theory developed by Modigliani and Miller (1958) (Frank & Goyal, 2008). Agency theory suggests that under the conditions of information asymmetry, uncertainty and self-interest, principals (shareholders and lenders) do not trust their agents, and, as such, will bring the interests of the agent (entrepreneur or manager) in line with their own interests as principals (Newman, 2010). Agency theory also has a pecking order, or a financing hierarchy (Frank & Goyal, 2008; Shyam-Sunder & Myers, 1999). Agency theory emphasises the costs created by the conflicts of interest between shareholders and managers and debtholders (Bas et al., 2009). The first conflict between the parties arises from the difference in interests between shareholders and managers; the second conflict occurs between equityholders and debtholders (Mutezo, 2015).

According to Frank and Goyal (2008), managers (entrepreneurs or business owners) favour internal finance over external finance. This assumption was made by Butters in 1949 already. The reason for this is that to access external finance, managers (entrepreneurs or business owners) are required to explain the intended undertaking of the business in detail to outside investors. Outside investors subsequently monitor the project that they have invested in, and they need to agree that actions taken are in the best interest of the business. Principals (shareholders) thus need to ensure that agents (managers/entrepreneurs/business owners) adhere to the terms and conditions of the principal–agent contract (Eisenhardt, 1989). The monitoring process is inconvenient for the managers, as their intentions and desires could be in conflict with those of the shareholders. Parties might furthermore also have different attitudes towards risk (Cuevas-Rodríguez, Gomez-Mejia & Wiseman, 2012). The conflict between parties because of asymmetric information could result in adverse selection and moral hazard (Fatoki & Smit, 2011). Managers therefore prefer to utilise retained earnings rather than external financing, according to agency theory (Frank & Goyal, 2008).

Conflict also arises from the difference in the intentions of decisions regarding equity and debt (Mutezo, 2015). When a firm is thus close to bankruptcy and still has profitable projects available, no incentive exists for shareholders to invest more equity capital. This happens because the potential value resulting from profitable projects mainly goes to debtholders. As such, high debt levels will result in the rejection of projects that could add value. When a firm is in the position to provide audited financial statements and supporting documentation, debt can be accessed. Yet, SMMEs' assessments when acquiring debt are more substantial, which increases the transaction costs. Debtholders need to monitor the behaviour of the business that they lend to, to protect their interests. As such, these costs are incorporated into loan agreements, resulting in higher costs of capital for SMMEs. This could then result in credit rationing (Fatoki & Smit, 2011).

Critical insights into the challenges of ownership, management interrelationships and credit rationing are provided by agency theory (Dharwadkar, George & Brandes, 2000). Contractual arrangements between firms and external sources of finance bring to the fore issues such as information asymmetry, moral hazard and adverse selection.

3.4.4 Pecking order theory

The pecking order theory originated from the research of Myers and Majluf (1984), who found that a firm's capital structure is driven by its desire to finance additional and alternative investments (Bas et al., 2009), and not by the desire to obtain an optimal debt ratio, as assumed by the trade-off theory (Serrasqueiro et al., 2011). In the process of organising the capital structure of the business, finances generated internally will be accessed first for expansion. In the case where finance cannot be accessed internally, low-risk debt will be accessed. If all else fails, equity will be accessed to finance expansion (Bas et al., 2009).

According to Bas et al. (2009), the pecking order theory relates to both small and large firms. In the case of small businesses, the diversity in the quality of financial statements of small firms causes higher levels of information asymmetry. Small firms might choose to avoid the costs of obtaining audited financial statements, which are in most instances a requirement of investors. In the case of small firms, to acquire new capital from external sources is costly, while the costs related to utilising internal funds are none (Bas et al., 2009; Serrasqueiro et al., 2011). The pecking order theory places debt in the intermediate position between equity and internal funds. Consequently, firms favour utilisation of internal funds or retained earnings first, and then debt, and they will opt for equity finance as a last resort (Fatoki & Smit, 2011). Bas et al. (2009) in their research assumed a negative relationship between the profitability of the firm and leverage, for both small and large firms.

Bas et al.'s (2009) research found that regardless of the ownership structure of a firm and whether the firm is classified as large or small, a pecking order is followed in the debt financing decisions. In the case of large listed firms, equity financing is preferred over long-term debt financing. SMMEs will opt to fund their establishment and initial expansion through internal sources, and then after a proven track record will opt for debt financing (Fatoki & Smit, 2011).

Support for the pecking order theory is found in the study by Yuan, Ferdous Azam and Tham (2019). The authors investigated the capital structures of SMMEs in Malaysia. It was reported that the majority of SMMEs favour internal sources of finance. However, for expansion and business growth, external sources, such as debt and equity, are accessed. This is supported by Adair and Adaskou's (2015) study in France. The findings are also similar to those of Mogashoa's (2017) study in South Africa, where empirical evidence supports the pecking order theory.

Both the trade-off theory and the pecking order theory acknowledge that the capital structure of a firm is influenced by, among other things, profitability, size, age, growth opportunities, risk, asset structure and non-debt tax shields. However, these theories do not explain the influence of the aforementioned characteristics on the capital structure decisions of the firm (Serrasqueiro et al., 2011).

The capital structure theories explored in this section suggest that small businesses will initially utilise internal funds, such as savings and retained earnings, to support business operations. Retained earnings will be used in the start-up, where the risk is perceived to be higher and a track record has not been fully established. As the business grows and a steady flow of profits is generated, reducing the riskiness of the business, external sources of debt are obtained. Growth of the business also enables the acquisition of tangible assets, which can be used as collateral and can enhance the ability of the business to obtain external sources of funding, for example from commercial banks. The objectives of the SMME also determine the capital structure of the business, and business owners do not pre-empt a certain optimal debt-to-equity ratio or pecking order when decisions to expand are made.

3.5 EXTERNAL SOURCES OF EQUITY FINANCE

External sources of finance are financial sources that come from outside the SMME. As stated above, equity and debt are two primary sources utilised by SMMEs to fund operations. As such, external sources of funding other than what is provided by commercial banks will be explored in this section. Debt financing made available by commercial banks will be dealt with in the following chapter.

3.5.1 Equity financing

External equity is capital acquired from outside channels other than partners, friends and relatives (Ou & Haynes, 2006), and it is usually provided in return for shares of ownership in the SMME (OECD, 2015). External equity includes contributions from sources such as business angels, venture capitalists and the stock exchange. External equity finance has certain advantages. First, it offers long-term financing; second, external equity finance lends credibility to SMMEs from financial professionals outside of the business (Ou & Haynes, 2006). Third, external equity finance allows for risk sharing with less risk-averse investors (Abdulsaleh & Worthington, 2013). Notwithstanding the benefits of external equity finance, it has some disadvantages, as control of the business is lost, and managerial flexibility is constrained within the parameters set by the agreement between the SMME and its investors (Cuevas-Rodríguez et al., 2012). External equity sources available to SMMEs are venture capital, business angels, and crowdfunding and peer-to-peer (P2P) lending. These sources are discussed below.

3.5.1.1 Venture capital

Venture capital includes funds from investors (third parties), which are redeployed, by investing in high-risk, informationally opaque small businesses with the promise of growth (Long & Chan, 2020). These businesses are in most instances young businesses owning few tangible assets (Gompers & Lerner, 2001). Venture capital fills the gap in financing between the entrepreneur, family, friends and business angels, and it is made available for seed capital (financing preliminary operations), start-up capital (finance for setting up a business venture), development capital (finance to further launch a business and increase the market share) and growth capital (finance for entering new markets and for developing new products). As such, funds are raised from the public from pension funds, banks, corporations, insurance companies and individual investors (Long & Chan, 2020). Venture capital provides a solution for the principal–agent problem and connects entrepreneurs with good ideas and no money with investors with money (Gompers & Lerner, 2001). Venture capitalists assist third parties to make earnings, and thus need to respond to their interests (Stuart, 2013). They determine the timing of the investment and the type of investment. The monitoring, the screening and the contracting of the investment are also determined by them (Gompers, Gornall, Kaplan & Strebulaev, 2020). Post-investment advice and monitoring of the progress of the business are other functions provided by venture capitalists (Gompers & Lerner, 2001).

Because of the high risk and the uncertainty associated with this type of investment, venture capitalists experience significant risk, causing adverse selection and moral hazard (Smolarski & Kut, 2011). They also have to deal with the agency problem (Cuevas-Rodríguez et al., 2012), which arises because of the relationship with the entrepreneur. The agency problem stems from there being insufficient information related to the skills of the entrepreneur and the investment project (Hall & Lerner, 2010). Control measures are therefore put in place to reduce the problems associated with uncertainties regarding the investment (Cuevas-Rodríguez et al., 2012).

Accessing venture capital has advantages for SMMEs. First, capital is acquired with no repayment terms or the provisions of personal guarantees, such as collateral. This reduces the pressure on the cash flow of the SMME. Second, the capital base of the SMME is supplemented, and, as such, this increases the net asset value of the entity, making it more attractive for debt financing and future investors. Third, the SMME’s reputation is enhanced when securing venture capital, as investors are selective. Securing funds from venture capitalists enhances the reputation of the SMME to outside role players, such as customers and suppliers. Fourth, venture capitalists also provide expert advice from their own experience and business networks. Fifth, they help to share risk between the investor and the SMME. Sixth, venture capital helps the SMME to grow, and consequently to contribute to the economic growth of a region or country (Abor, 2017).

Venture capital is, however, expensive when compared to acquiring debt capital, as the SMME has to give up equity interest. As venture capitalists are more knowledgeable about business valuations, they might be able to bargain more aggressively for the price at which they purchase equity from the business. Control of the business is also relinquished.

Access to venture capital is challenging, and SMMEs are required to submit business plans, business forecasts and management and financial information. These are scrutinised by investors, and only highly promising businesses get to access venture capital. There is a risk that ideas generated by the entrepreneur could fall into the wrong hands and be lost to other enterprises. The entrepreneur will also have to perform well to satisfy the interest of the venture capitalist (Abor, 2017).

Globally, venture capital represents a small fraction of GDP, often less than 0.05%. In the US, Canada and Israel the industry is more developed. The US venture capital market is the largest in the world (OECD, 2015). Other than Tokyo, Singapore is the financial hub of Asia and has a large number of venture capital funds (Long & Chan, 2020). In South Africa, the size of the venture capital market compares favourably with that of many economies (Finfind, 2018). In 2018, the venture capital market had investments totalling R5.37 billion, representing 665 active agreements. Forty-one per cent of the venture capital transactions recorded was used for start-up capital. Venture capital investments showed a substantial increase (31%) from 2017 to 2018, despite the sensitive economic climate (Southern African Venture Capital and Private Equity Association (SAVCA), 2019).

Venture capital provides an alternative platform for SMMEs to obtain funding. It can help to narrow the financing gap experienced by SMMEs. SMMEs, however, have to have sophisticated processes in place for managing the business and for financial record-keeping, as well as an ability to convince investors of the viability of the investment project.

3.5.1.2 Business angels

Business angels are high net worth individuals who invest their money, either individually or in collaboration with others, directly in unlisted businesses with which they have no family connection (Mason, Botelho & Harrison, 2016). The intention of business angels is to make a significant return on investment when eventually selling the business (Mason et al., 2016). Investors will generally actively take part in the management of the business (Mason et al., 2016). Angel funding is characterised by different motivations, targets, scale and operating models and is highly complementary in financing SMME start-up. As such, business angels require well developed venture capital markets to function efficiently (OECD, 2015), and they are seen as vital for kick-starting SMMEs, both in terms of investment and by providing business skills (Wiltbank, 2009).

In the US, on average, business angels invest in 70,000 companies annually (Hudson, 2018). Compared to the US, the European business angel market is underdeveloped. In early 2019 Europe had 160 business angels participating in the market, most being solo investors. The number of investee companies totalled 633 at the end of 2019, where the majority that received funding were from Germany, followed by Spain and Austria (Gvetadze, Pal & Torfs, 2020). In South Africa, Seed Academy (2016) reports that although strides have been made in developing networks for angel funding, this is still in an embryonic stage. Obtaining angel funding, particularly for the start-up phase, remains an obstacle to the development of SMMEs in South Africa (Seed Academy, 2016). Seed Academy (2016) reported that 87% of start-ups were self-funded, 8% were funded by family members, 2% were funded by angel funding, 2% accessed bank loans, and 1% used funds from development financial institutions. In

2018 business angel investments represented 4.2% of the total venture capital deals made in South Africa (SAVCA, 2019).

The business angel investment market should be developed and grown to help close the financing gap for SMMEs. Business angel funding provides an alternative avenue for SMMEs to obtain financing for start-up, expansion and knowledge sharing.

3.5.1.3 Crowdfunding

Crowdfunding is an investment platform used to raise funds from a large audience, including banks, business angels and venture capitalists. The term "crowdfunding" means the outsourcing of specific tasks to the crowd. This includes the development, evaluation or sale of products. This is done by means of an open call through the internet (Howe, 2008). Tasks traditionally executed by employees and contractors are thus performed on online platforms. As such, people living in different geographical areas often provide small amounts of money to invest or to lend to projects of interest (Pichler & Tezza, 2016). Crowdfunding is used specifically to fund projects, rather than businesses (Howe, 2008).

The growth in crowdfunding currently was mainly triggered by the GFC and by the technological innovation of Web 2.0. Since the GFC SMMEs have found it more challenging to obtain finance for their operations, and crowdfunding has provided an alternative platform to fill this gap (Hagedorn & Pinkwart, 2016). After the markets recovered, crowdfunding became a supplementary source of funding to bank credit for SMMEs (Pichler & Tezza, 2016).

Various crowdfunding models and types exist. Crowdfunding models can be divided into two groups, namely donation crowdfunding and return crowdfunding (Eposoti, 2014). Return crowdfunding as it relates to the funding of SMMEs entails a return, or a financial reward, on funds invested. Return crowdfunding can be divided into peer-to-peer (P2P) lending and equity crowdfunding. With return crowdfunding, backers become investors and seek a yield, or a return on investment (Pichler & Tezza, 2016).

Both the problems of asymmetric information (hidden information) and moral hazard (hidden action) come to the fore with financial return crowdfunding. The challenge of asymmetric information arises when crowdfunding platforms do not provide sufficient information to allow investors to make informed decisions. As such, crowdfunding platforms will screen the investment project thoroughly before allowing for fundraising (Belleflamme, Omrani & Peitz, 2015). Furthermore, only knowledgeable investors are permitted to invest, such as venture capitalists, private equity funders and institutional investors (Belleflamme & Lambert, 2014). The problem of moral hazard could arise when crowdfunding platforms utilise the money pledged for purposes other than the original intention of the investment. Ex-post monitoring is thus done to reduce this hazard. Furthermore, insurance is provided against the credit risk that could transpire from non-payment of loans by businesses, in particular as far as it pertains to P2P lending platforms (Pichler & Tezza, 2016).

Crowdfunding provides an opportunity for SMMEs to obtain funding from outside the traditional channels of credit, such as bank credit, specifically in the start-up phase. It also allows for rapid acquisition of funding (Gerber & Hui, 2013). Crowdfunding in particular also allows access to capital at lower costs (Kirby & Worner, 2014).

Crowdfunding has grown since the mid-2000s, although it represents a minor share of business financing (OECD, 2015). Crowdfunding originated in the US, where it differs from the European approach, because of its advanced regulation (Bottiglia & Pichler, 2016). The alternative finance market, which includes crowdfunding, has grown dramatically between 2013 and 2017 in the Asia-Pacific region, excluding China (Long & Chan, 2020). In the research of De Vries (2019) the availability of crowdfunding in South Africa, Kenya and Uganda were compared. In South Africa crowdfunding is slowly beginning to mature as a sizeable source of start-up funding. In Kenya crowdfunding is in its infancy phase in providing funding for start-up. As the ecosystem in Uganda is still underdeveloped, crowdfunding in this country is the least mature of the crowdfunding in the countries of Uganda, Kenya and South Africa (De Vries, 2019).

Equity financing, including venture capital, business angels and crowdfunding, allows for alternative ways to bank credit for SMMEs to obtain funding for start-up and expansion. This form of financing also increases competition in the market in provision of funds. SMMEs thus need to ensure that they can deal with the due diligence requirements of investors. In South Africa, it remains a huge challenge for SMMEs to access external equity (Fatoki, 2014), and therefore debt financing provided by commercial banks is relied on.

Besides raising equity finance, SMMEs obtain most of their external funding from commercial banks. SMMEs do, however, have certain characteristics inherent in the business that influence their ability to access finance. As such, literature pertaining to these factors and their influence on SMMEs’ ability to access finance from commercial banks will be reviewed in the following section.

3.6 THE NATURE AND CHARACTERISTICS OF SMMEs

The ability of SMMEs to access finance is determined by both macro- and micro-level factors. At macro level, a developed financial sector, together with a sound legal and institutional framework, is vital in aiming to reduce financing obstacles (Beck, Demirgüç-Kunt, Laeven & Maksimovic, 2006). Most studies explore the ability of SMMEs to access finance on a macro level (FinMark Trust, 2013; Mahloana, 2019). Studies investigating financial access from an SMME perspective are limited (Finfind, 2018; Mahloana, 2019). Besides the criteria used by commercial banks to assess and approve loan applications (which will be covered in the following chapter), the characteristics and nature of SMMEs and SMME owners also contribute to credit rationing, according to Pandula (2011). This implies that the demand for credit outweighs the supply thereof. The limited supply of credit is influenced by the risk associated with SMME lending based on the characteristics and nature of the SMME and SMME owner.

The literature has attempted to determine the relationship between access to finance indicators and the general characteristics of SMMEs and SMME owners. As stated in chapter 1, these indicators include whether access to finance is perceived as being an obstacle (Fowowe, 2017; Mengistae et al., 2010; Wang, 2016), having access to credit or loans (Balogun et al., 2018; Fatoki & Asah, 2011; Fatoki & Odeyemi, 2010; Kira & He, 2012; Mahloana, 2019; Mengistae et al., 2010; Mutezo, 2015; Pandula, 2011), having applied for a loan (Brijlal & Yan, 2015; Mengistae et al., 2010), being rejected for a loan application, the need for a loan, having bank finance to fund working capital, having bank finance to fund fixed investments, and the annual interest rate (Mengistae et al., 2010). These indicators were also used by the World Bank Enterprise Surveys (World Bank, 2007–2020) to establish financing trends, as indicated in tables 3.2 and 3.3.

Characteristics researched that influence SMMEs' ability to access finance include the life cycle of the SMME, determined by its growth and turnover (Fowowe, 2017; Pandula, 2011; Wang, 2016), the size of the SMME (Fatoki & Asah, 2011; Fatoki & Odeyemi, 2010; Kira & He, 2012; Mengistae et al., 2010; Pandula, 2011; Wang, 2016) and the age of the SMME (Fatoki & Asah; 2011, Fatoki & Odeyemi, 2010; Kira, 2015; Kira & He, 2012; Mahloana, 2019; Mengistae et al., 2010; Pandula, 2011; Wang, 2016). Other relationships with access to finance researched include the type of industry or sector (Kira, 2015; Kira & He, 2012; Mengistae et al., 2010; Pandula, 2011), the geographical location of the SMME (Balogun et al., 2018; Fatoki & Odeyemi, 2010; Kira, 2015; Kira & He, 2012; Mengistae et al., 2010; Pandula, 2011), the type of business entity, thus its legal status (Balogun et al., 2018; Fatoki & Odeyemi, 2010; Kira, 2015; Kira & He, 2012; Mahloana, 2019; Mengistae et al., 2010; Wang, 2016), keeping financial records (Fatoki & Asah, 2011; Kira & He, 2012; Mahloana, 2019; Mutezo, 2015; Pandula, 2011), the creditworthiness of the SMME (Mahloana, 2019; Mutezo, 2015), having an auditor or an accountant (Mengistae et al., 2010; Pandula, 2011), having a business plan (Fatoki & Asah, 2011; Fatoki & Odeyemi, 2010; Mahloana, 2019), whether the SMME owns property or fixed assets which can be provided as collateral (Fatoki & Odeyemi, 2010; Mengistae et al., 2010; Pandula, 2011) and having collateral (Kira, 2015; Kira & He, 2012; Mahloana, 2019; Mutezo, 2015).

Characteristics of the SMME owner that influence their ability to access finance include their education, their experience and their managerial skills. Relationships pertaining to the capabilities of the SMME owner and access to finance were considered in the research of Brijlal and Yan (2015), Fatoki and Asah (2011), Fatoki and Odeyemi

(2010), Kira (2015), Mahloana (2019), Pandula (2011) and Wang (2016). Relationships with the commercial bank were also considered (Fatoki & Odeyemi, 2010; Mahloana, 2019; Mutezo, 2015), as well as networking, including belonging to trade and government organisations, business chambers and professional associations (Fatoki & Asah, 2011; Fatoki & Odeyemi, 2010; Pandula, 2011). Mutezo (2015) researched the relationship between having access to credit and using technology such as online banking services. The demographic profile of the SMME owner was also researched as it relates to their ability to access finance. These include the age of the owner, their gender, their race and whether they are a foreigner (Balogun et al., 2018; Brijlal & Yan, 2015; Coleman, 2004; Fatoki & Asah, 2011; Fatoki & Odeyemi, 2010; Mengistae et al., 2010).

In the following section the various characteristics related to the nature of the SMME and the SMME owner mentioned in the literature above will be explored.

3.6.1 The life cycle

The life cycle indicates the growth phase of the business, which changes during the life of the SMME. Generally, the literature shows that SMMEs are expected to grow when they pass the start-up phase, which consequently also influences the size of the operation, according to Canto-Cuevas et al. (2019). As such, sources of finance change in accordance with the life cycle of the business. The life cycle of an SMME progresses from the pre-start-up phase to the start-up phase and then to the growth and steady phases, and then the SMME ultimately exits from the market or becomes rejuvenated (Nieman & Nieuwenhuizen, 2019). An SMME's ability to obtain finance is enhanced when financial growth is exhibited (FinScope, 2010; Mengistae et al., 2010) in terms of increased turnover, total assets, profits, return on investment and other performance measures (Nieman & Nieuwenhuizen, 2019). According to Falkena et al. (2001), the start-up phase of an SMME lasts for up to two-and-a-half years. The growth phase lasts for between two-and-a-half years and five years, and the steady and exit phase usually occurs after five years of operation.

The GEM researches the activities of entrepreneurs along the organisational life cycle of the business (Herrington et al., 2017). The GEM divides entrepreneurial activities into the nascent entrepreneurial rate (people actively involved in the initial phase of a business start-up), the new business ownership rate, the total early entrepreneurial activity (TEA) rate, the established business ownership rate and the business discontinuation rate. According to the GEM, the start-up phase of a business lasts for 42 months.

Falkena et al. (2001) argue that at the earliest development stages of the business, access to finance is critically dependent on the individuals close to the business owner. An external financier would have trouble assessing the risk of a business in the start-up phase, because of an insufficient credit history and limited or no collateral (Falkena et al., 2001; Mengistae et al., 2010). Fatoki (2014) and Mazanai and Fatoki (2012) reported that the failure rate of new business start-ups in South Africa is very high, and that this can be attributed to lack of access to debt finance from the commercial banks. Finfind's (2018) data shows that in 2018, 75% of SMMEs in South Africa looking for funding were in the early stages of operation, having functioned for less than four years, and the remaining 25% of SMMEs were established SMMEs. As such, this shows that there is a need to obtain finance, particularly for SMMEs in the start-up phase.

As the potential of a business becomes more evident and when trading has been established, which usually occurs in the growth phase, access to credit becomes easier (Mengistae et al., 2010). After the SMME moves to the steady, or stable, phase, it will possibly be able to repay some or all of its debt (Falkena et al., 2001). Nieman and Nieuwenhuizen (2019) explain that the timing of the progression of the SMME through its life cycle is influenced by the type of business and the sector in which the SMME operates. As such, the stages of start-up trough to progression to growth and maturity differ from SMME to SMME and from sector to sector.

In Wang's (2016) study access to finance perceived as an obstacle was statistically significantly associated with the growth of the SMME. Fowowe (2017) found that firms with access to lines of credit and loans grow significantly faster than firms without credit. Pandula (2011) reported no significant relationship between the performance of the SMME and access to finance.

3.6.2 The size and age of the SMME

The size and the age of the SMME influence where in the life cycle the business is operating. As such, empirical evidence shows that the longer the SMME has operated, the easier it is to obtain credit (Dlova, 2017). The OECD (2017) reports that the majority of SMMEs operating in the countries that form part of the organisation are micro enterprises. In South Africa Finfind (2018) reported that 82% of SMMEs were micro enterprises, 11% were very small enterprises, and 5% were small enterprises. Finfind (2018) further reported that as the SMME becomes older, it is more likely to grow. Thus, SMMEs in operation for more than four years are likely to be medium-sized. If the SMME has operated for longer, this shows that it can adopt opportunistic behaviour and weather harsh economic conditions (Chandler, 2009). The SEDA (2019) reports that older SMMEs have better skills, networking and productivity. The SEDA (2019) indicated that most of the SMMEs in South Africa have been operating for between 6 and 20 years.

Beck (2007) reported that SMMEs are more constrained in their operations and growth than is the case with large enterprises, and access to finance features prominently as a constraining factor. Beck (2007) found that the probability of a small firm, compared to a medium or a large firm, listing finance as a major obstacle is both statistically and economically significant. The author also reported that small firms will finance less than 10% of their investment needs with bank credit, while 20% of the investment of larger firms will be bank-financed. This represents a 100% difference when small and large firms are compared. The author concluded that financing constraints and ease of accessing finance are inversely correlated with the size of the firm (Beck, 2007). Beck's (2007) findings are supported by the findings of Fatoki and Odeyemi (2010), Kira and He (2012) and Wang (2016) in their research.

Mengistae et al. (2010) similarly found that the obstacle of accessing finance decreases as the SMME grows. As such, obtaining finance is more difficult for micro enterprises than for small enterprises, and it is more difficult for small enterprises than for medium-sized enterprises. Mahloana (2019) likewise reported a statistically significant association between the age of the SMME and its size and access to finance. The same relationship was reported by the FinMark Trust (2015), where it was found that access to finance was more of a constraint for small firms. The challenges of obtaining finance for small businesses are also acknowledged by FinScope (2010). Pandula (2011), however, found no relationship between the size of the SMME and access to finance.

3.6.3 The industry or sector of operation

It is widely claimed that the type of sector in which the SMME operates influences its ability to access finance (Dlova, 2017). Commercial banks and funding institutions tend to grant credit to SMMEs operating in sectors that are competitive, innovative and expanding (Pandula, 2011).

The GEM (Herrington et al., 2017) reports that South Africa has a balanced profile in terms of small business participation in various sectors of the economy. According to the SEDA (2016, 2019), most of the SMMEs are operational in domestic trade, either retail or wholesale, or in accommodation. This trend is also evident in the African region (Herrington et al., 2017) and is consistent with the FinScope (2010) survey, which found that most SMMEs in South Africa offer retail services, with the greatest proportions being recorded in the North West, Limpopo and the Eastern Cape.

One in two small businesses, according to Singer et al. (2014), bought products with the intention of selling the products without transforming them. In sub-Saharan Africa the level of innovation tends to be low, and customers do not consider the products that they buy to be unique, since many competitors sell the same products. This trend was also found by FinScope (2010), where almost half of the small businesses, or 49% of them, in the retail sector indicated that they sell products in the same form in which they were bought. Only 11% added value to a product that they had bought before reselling it. It should, however, be noted that in South Africa early-stage entrepreneurial activity was found to be more innovative than early-stage entrepreneurial activity in the rest of Africa, according to Herrington et al. (2017).

Finfind (2018) indicated that most of the SMMEs requesting funding were in the food and beverage, construction and business services sectors. Mengistae et al. (2010) explored the relationship between the sector of operation and various access to finance indicators. These authors found a statistically significant association between access to finance listed as one of three obstacles and the need for a loan for SMMEs operating in the manufacturing industry. A statistically significant relationship was also reported between applying for loans and being rejected for SMMEs operating in the services sectors. Kira and He (2012) similarly reported a statistically significant association between the industry of operation and access to loans or debt financing. The odds ratios in their study indicate that SMMEs operating in the secondary sector were significantly more likely to obtain finance than SMMEs in the primary and the tertiary sectors. As such, it can be deduced that the sector of operation potentially influences the SMME's ability to access finance.

3.6.4 The geographical location of the SMME

The location of the business includes four main aspects when one considers SMMEs' ability to access finance, as indicated in the literature from South Africa. First, the physical distance between the SMME and the nearest branch of a major bank is indicative of the SMME's prospects of obtaining finance (Hwarire, 2012). When an SMME is situated nearer to a branch of a major bank, it is easier to foster a relationship with the bank. Hwarire (2012) reported that the location of the business was positively correlated with the performance on loan repayment for businesses that were located nearer to a commercial district. The distance between the borrower and the lender is important. A large distance between these parties negatively impacts on loan repayment, which could influence the SMME's ability to obtain credit.

Second, SMMEs running a business need to have a verifiable address when the SMME wants to obtain finance. A verifiable address is often not possible if the SMME is located in an informal settlement. Third, having access to insurance enhances access to finance, and access to insurance is frequently non-existent with SMMEs operating in the townships, where crime is prevalent (Fatoki & Asah, 2011).

Fourth, the geographical area in which the SMME operates can influence the entity's ability to obtain finance, as economic activity differs from place to place. As such, the need for finance and the ability to acquire finance differ. With SMMEs in South Africa that are located in provinces with a higher recorded gross domestic product (or gross geographic product, at provincial level), such as Gauteng, KwaZulu-Natal and the Western Cape, a greater proportion of these SMMEs have access to formal credit. In poorer provinces, such as Limpopo, the Eastern Cape, the Free State and North West, SMMEs rely more on informal credit (FinScope, 2010).

Furthermore, SMMEs operating in metropolitan areas, such as in Gauteng, the Western Cape and KwaZulu-Natal, require more access to formal credit, as the market demand is greater than that in other provinces. In 2018, 44% of the SMMEs in Gauteng sought finance, 14% of the SMMEs in the Western Cape, and 13% of the SMMEs in KwaZulu-Natal sought finance (Finfind, 2018). In the Free State, as in the Eastern Cape, Limpopo, North West and Mpumalanga, between 5% and 6% of SMMEs sought finance for business operations (Finfind, 2018). As such, it is reported that the greatest need to access finance in most cases is in the economic hubs of South Africa, although the uptake of credit and loans is greater.

It is further reported that a sizeable number of SMMEs make use of technologies provided by commercial banks to support their business operations via the internet. Mutezo (2015) indicated that more than half (57%) of the SMMEs operating in Gauteng make use of internet banking. Internet banking does to a large extent mitigate the challenge of the location dimension when access to finance is considered.

Balogun et al. (2018) reported that the location of the SMME is a significant predictor of obtaining full access to credit. This finding is supported by the studies of Fatoki and Asah (2011), Fatoki and Odeyemi (2010) and Kira and He (2012). Therefore, the location of an SMME will affect its risk profile, which will, in turn, influence its ability to access external finance. However, utilisation of internet banking could potentially reduce the impact of the location dimension.

3.6.5 Business formality and/or legal entity

The formality of the business entity, that is, whether it is a sole proprietorship, a partnership, a closed corporation or a limited company, has an impact on access to finance (Mahloana, 2019). The legal entity influences the way and the formality in which financial information is kept, maintained and corroborated externally by an accountant or auditor. Dlova (2017) reports that there is no literature on the impact of the legal entity on the willingness of commercial banks to provide credit.

Besides the type of business entity, Mengistae et al. (2010) included in their study more layers to determine the formality of the SMME. The authors thus established whether the SMME is registered with a government authority, whether the SMME has a trading licence and whether the SMME has a tax number. The ownership structure and having a tax number were also considered in the study of Balogun et al. (2018) in South Africa. The authors found the ownership structure and having a tax number to be statistically significant predictors of credit accessibility. In Tanzania, a low-income country, Kira and He (2012) similarly reported a significant positive association between access to finance and an incorporated SMME. Mahloana (2019) similarly reported that the legal status of the SMME is a significant predictor of obtaining access to credit.

3.6.6 Financial record-keeping and having an accountant and/or auditor and a business plan

One of the main challenges for commercial banks remains their ability to obtain reliable financial information related to SMMEs applying for loans. Incorrect accounting procedures make affordability assessments difficult and complicated (Tsaih et al., 2004) as stated in chapter 1. SMMEs do not always have proper accounting systems in place to allow for reliable financial and production reports (FinMark Trust, 2015).

According to FinMark Trust (2015), the majority of medium-sized enterprises in South Africa do record their business transactions. FinScope (2010) reports that the proportion of businesses that records business transactions is lower with smaller SMMEs. The report shows that the majority of SMMEs that are not formally registered do not record their business transactions, while registered firms, whether sole proprietors, partnerships or shelf closed corporations, keep books. Record-keeping to enable the compilation of a business plan and accurate financial records enhance access to finance. Furthermore, mixing of the SMME owner's personal bank account with the business account compromises the accuracy of the financial records and leads to cash flow problems (Agwa-Ejon & Mbohwa, 2015; Hwarire, 2012; SEDA, 2013). Kira and He (2012) reported that SMMEs that keep business information are significantly more likely to obtain debt finance than SMMEs that do not keep records of their business information. This is supported by the findings of Mahloana (2019). When SMMEs utilise an accountant and/or an auditor to corroborate the authenticity of their finances, access to finance is also obtained more easily. In Mengistae et al.'s (2010) study a statistically negative association between having an auditor and indicating access to finance as one of the top three obstacles and rejection of a loan application was indicated. Furthermore, a statistically significant positive association was found between having an auditor and having credit products and the variable "no need for a loan".

Agbenyegah (2013) asserts that inability of SMMEs to prepare adequate business plans capturing the current and the projected financial outlook of the business is an impediment to accessing credit. Fatoki and Odeyemi (2010) found in their research that new SMMEs with accurate and sustainable business plans were six times more likely to obtain credit. Mahloana (2019), to the contrary, found no significant relationship between having a business plan and access to finance. Pretorius and Shaw (2004) and Mutoko and Kapunda (2017), however, reported that commercial banks require a business plan and perceive it as an essential document to obtain credit. Thus, for a SMME to obtain credit, financial records must be kept, preferably corroborated by an accountant or auditor and a business plan needs to be in place.

3.6.7 Creditworthiness

The SMME, the SMME owner and the director need to be creditworthy. The importance of a credit record when applying for a loan is emphasised in the literature (Baiden, 2011; Fatoki, 2014; Matanda, 2010; Sathye & Bartle, 2017). A good credit score significantly enhances the borrower's ability to secure a loan. Mahloana (2019) and Mutezo (2015) both found a statistically significant positive relationship between the creditworthiness of the SMME and access to finance. The creditworthiness of the SMME and SMME owner from a commercial bank's perspective will further be disseminated in chapter 4.

3.6.8 Access to property and assets

With access to property and assets, businesses can pledge collateral in order to secure lines of credit and loans. Collateral provides insurance or security, or a guarantee, to the commercial bank in circumstances of default (Brown & Moles, 2016; Evans, 2005; Matanda, 2010). Collateral secures the loan against both exogenous and endogenous shocks. In the absence of well-defined markets, collateral can be used for loan losses caused by external shocks. Collateral also increases the stake of the borrower in the loan transaction.

Mutezo (2015) ranked in order of importance the types of collateral preferred by commercial banks in South Africa. These include insurance policies, property and investments, and plants and equipment (machinery). Thus, collateral accepted by commercial banks includes both immovable and movable property and assets.

Fatoki and Odeyemi (2010) concluded that new SMMEs with access to collateral are seven times more likely to be successful in securing debt from commercial banks than new SMMEs with no collateral. The significance of collateral enabling access to bank credit is reported in the studies of Balogun et al. (2018), Mahloana (2019) and Mutezo (2015). Mutezo (2015) noted, as has other literature (Fatoki & Asah, 2011; Fatoki & Odeyemi, 2010; Mahloana, 2019), that the majority of SMMEs in South Africa do not have sufficient collateral to allow these entities to obtain credit from commercial banks. Mengistae et al.'s (2010) study reported no significant relationship between owning land and various access to finance indicators. Their study, however, assumed that having ownership of immovable and movable property that can be pledged as collateral can influence access to finance.

3.6.9 Education level, experience and managerial competencies of the owner

Various authors investigated the relationship between the education level, experience and managerial competencies of the SMME owner and the entity's ability to obtain credit (Balogun et al., 2018; Brijlal & Yan, 2015; Fatoki & Asah, 2011; Fatoki & Odeyemi, 2010; Mahloana, 2019; Pandula, 2011). Wang (2016) investigated the greatest obstacles to the growth of SMMEs in developing countries and found a significant negative correlation between the level of experience of the owner or manager or management of the SMME and access to finance as a perceived obstacle. In other words, as the working experience of the owner or the management increases, the probability that the SMME will perceive access to finance as an obstacle decreases. Significance was also reported by Mahloana (2019) between the experience of the managers and owners of SMMEs and access to bank credit. Kira (2015) furthermore found significance between the education level of the SMME owner and access to debt finance. A lack of education, managerial skills and experience on the part of the owner limits the ability of the business to access loans, as was found by Herrington et al. (2010).

3.6.10 Networking

Networks are beneficial relationships between individuals, groups and organisations, according to Nieman and Nieuwenhuizen (2019). The benefits of networks are that SMMEs can market, buy, tender, share information, share export facilities, use networks of suppliers and obtain support from various groups. Fatoki and Odeyemi (2010) assert that networks increase the SMME's legitimacy, as parties are connected and information is transferred through social relationships. Information sharing by means of networks reduces asymmetric information.

Pandula (2011) reported a statistically significant relationship between having access to credit and networking. Networking in the said study was assumed to be membership with commerce chambers, clubs and societies. Fatoki and Odeyemi (2010) considered networking to be belonging to professional associations. The authors found no significant relationship between the approval of loans or credit and the membership of a professional body.

3.6.11 A relationship with the commercial bank

Fatoki and Asah (2011) researched the influence of having a relationship with a commercial bank on having access to credit. These authors found no statistically significant relationship between the variables. The findings are similar to the research of Mutezo (2015). Mahloana (2019), to the contrary, found a statistically significant association between having a relationship with a commercial bank and having access to finance. A relationship with the commercial bank reduces the distrust between the party that demands credit and the party that supplies credit. Commercial banks, as such, emphasise a relationship with the SMME owner when lending to the entity (Dlova, 2017).

3.6.12 Demographic profile of the owner

The demographic profile of the owner impacts on the SMME's ability to access finance. In the literature, the impact of being male versus being female and the race of the SMME owner on having access to finance have been investigated by Balogun et al. (2018), Brijlal and Yan (2015), Coleman (2004), Fatoki and Asah (2011), Fatoki and Odeyemi (2010) and Mengistae et al. (2010). There are, however, differences in the findings reported in these studies.

Klapper and Parker (2010) in a literature review argue that women lag behind men in most developing countries in performance of the business, including turnover, profitability and growth. The authors ascribe this trend to the fact that the business regulatory environment disproportionately affects the decisions made by women to run a formal business. As such, women are more likely than men to run a more labour-intensive business. Labour-intensive businesses require less funding than capital-intensive businesses. The authors note that the inability of women to access finance may also have contributed to them running non-capital-intensive industries, which require less funding, but running such industries could hinder growth potential. This finding is supported by Herrington and Kew (2018). Of particular importance is the barrier that women face in terms of having less physical collateral compared to men. Women also often lack legal title to land or buildings to serve as collateral, which reduces their ability to access finance (Klapper & Parker, 2010).

In South Africa, Brijlal and Yan's (2015) study found that men applied significantly more for loans compared to women. What is interesting from their data is that women were slightly more successful than men in obtaining loans from commercial banks.

Hwarire (2012) found a significant negative relationship between businesses owned by both sexes and defaulting on loan repayments. The author ascribed this to the lower risk appetite of women compared to men. Hwarire's (2012) study proposed partnerships between the sexes. Fatoki and Asah's (2011) study found no correlation between access to credit and the gender of the SMME owner. This finding is supported by Balogun et al.'s (2018) study, where gender was reported as a weak predictor of credit accessibility.

Mengistae et al. (2010) note that access to credit is more challenging for black-owned and Asian-owned SMMEs in South Africa. These business owners are also less likely to have a bank account and are less likely to have access to lines of credit and loans. Brijlal and Yan's (2015) study indicates that white male owners compared to black male owners apply slightly more for bank loans. Furthermore, the data shows that white SMME owners are significantly more likely to be successful with a loan application than black SMME owners. Mengistae et al.'s (2010) findings are thus supported.

In the South African situation, commercial banks do not consider gender when approving a loan, as supported by the findings of Balogun et al. (2018), Brijlal and Yan (2015) and Fatoki and Asah (2011). It seems, however, that race does play a role in the success of a loan application, as indicated by Brijlal and Yan (2015) and Mengistae et al. (2010). Nevertheless, gender and race are considered important when its relationship is established with access to finance.

Based on the discussion above, Table 3.4 provides a summary of the literature investigating the relationships between various access to finance indicators and the nature and characteristics of the SMME and the SMME owner. These factors could either enhance the SMME's ability to obtain finance or contribute to these entities being credit rationed.

Table 3.4 Nature and characteristics of the SMME and the SMME owner influencing access to finance

	Characteristic	
1	Life cycle, growth and performance	Pandula (2011) Wang (2016)
2	Size of the SMME	Fatoki and Asah (2011) Fatoki and Odeyemi (2010) Kira (2015) Kira and He (2012) Mengistae et al. (2010) Pandula (2011) Wang (2016)
3	Age of the SMME	Fatoki and Asah (2011) Kira (2015) Kira and He (2012) Mahloana (2019) Mengistae et al. (2010) Pandula (2011) Wang (2016)
4	Type of industry or sector	Kira (2015) Kira and He (2012) Mengistae et al. (2010) Pandula (2011)
5	The geographical location	Balogun et al. (2018) Fatoki and Asah (2011) Fatoki and Odeyemi (2010) Kira (2015) Kira and He (2012) Mengistae et al. (2010) Pandula (2011)
6	Type of business entity and/or legal entity	Balogun et al. (2018) Fatoki and Odeyemi (2010) Kira (2015) Kira and He (2012) Mahloana (2019) Mengistae et al. (2010) Pandula (2011) Wang (2016)

7	Keeping financial records	Fatoki and Asah (2011) Kira and He (2012) Mahloana (2019) Pandula (2011)
8	Creditworthiness	Mahloana (2019) Mutezo (2015)
9	Having an auditor or an accountant	Mengistae et al. (2010) Pandula (2011)
10	Having a business plan	Fatoki and Asah (2011) Fatoki and Odeyemi (2010) Mahloana (2019)
11	Ownership of property and assets and collateral	Fatoki and Asah (2011) Fatoki and Odeyemi (2010) Kira (2015) Kira and He (2012) Mahloana (2019) Mengistae et al. (2010) Mutezo (2015) Pandula (2011)
12	The education level, managerial competencies and experience of the SMME owner/manager	Brijlal and Yan (2015) Fatoki and Asah (2011) Fatoki and Odeyemi (2010) Kira (2015) Mahloana (2019) Pandula (2011) Wang (2016)
13	Networking (trade/government organisations)	Fatoki and Asah (2011) Fatoki and Odeyemi (2010) Pandula (2011)
14	Relationship with a commercial bank	Fatoki and Odeyemi (2010) Mahloana (2019) Mutezo (2015)
15	The demographic profile of the owner, including age, gender, race and whether they are a foreigner	Balogun et al. (2018) Brijlal and Yan (2015) Coleman (2004) Fatoki and Asah (2011) Fatoki and Odeyemi (2010) Mengistae et al. (2010)

Source: Author

3.7 CONCLUSION

In this chapter access to finance was defined. Access to finance for SMMEs includes having access to a bank account for business purposes, having access to a wide variety of financial products and services supporting business operations, using these financial products and services regularly, having access to lines of credit, and having access to loans provided at a reasonable cost by diverse and sound financial institutions to all in need.

Access to finance as an obstacle to the growth possibilities of SMMEs was discussed by drawing on the views of a variety of authors. Capital structure theories used to make the choice between accessing external finance, whether equity or debt, and internal earnings to fund operations or expansion were explained. Sources of external equity available to SMMEs were explored as an alternative form of funding to bank credit. The nature and characteristics of SMMEs that influence their ability to access finance were discussed, including the life cycle of the business, the age, size, sector and location of the business, the formality and record-keeping ability of the business, the education and managerial skills of the owner, and, finally, the demographic data related to the business owner. Although these characteristics are part and parcel of SMMEs, they contribute to these entities either obtaining credit or loans or being credit-rationed. Credit rationing results in the demand for credit outweighing the supply thereof. SMMEs operating for a few years, in the early stages of the life-cycle, smaller in size, operating in certain sectors, located in more informal areas, not keeping proper records of their finances are less likely to obtain credit as shown by the significant associations of prior studies reported in this chapter. The education level and managerial competencies of the business owner as well as the demographic profile of the SMME owner in terms of race and gender could furthermore exacerbate the challenge of obtaining finance.

In the following chapter, it will be established how commercial banks enable access to finance for SMMEs. The obstacles preventing access to finance for SMMEs will be explored from a supply-side perspective, by way of a literature review of the operations of commercial banks.

CHAPTER 4

ACCESS TO FINANCE: THE LENDER'S PERSPECTIVE

4.1 INTRODUCTION

In this chapter, the focus will be on access to finance provided by lenders. The role and functions of commercial banks will be explored. Furthermore, imperfections in the financial market leading to market failures as a result of asymmetric information causing adverse selection, moral hazard and credit rationing will be investigated. This will be followed by establishing what credit risk is, and how it is managed by banks in order to reduce the impact of asymmetric information. Methods lenders use to assess credit risk will be explored. The strategic considerations confronting commercial banks servicing the SMME market in South Africa will be investigated. Financial institutions' regulations determine the ruling in terms of how access to finance should be extended and will therefore be considered. Government programmes and initiatives to assist SMMEs to access finance will also be explored. The chapter will conclude with the conceptual framework used for this study.

4.2 LENDERS AND INFORMATION ASYMMETRY

Banks perform a wide range of functions to individuals, businesses and organisations which facilitate economic activity (Lumpkin & Schich, 2020). Financial intermediation is one of the core functions of the bank (Coetzee, 2016; Lumpkin & Schich, 2020), and it enables economic activity and the maintenance of liquidity in the market. Banks thus assist the economy to exploit its growth potential ensuring that viable investment opportunities receive funding at appropriate costs. As such, the functions and role of banks will be explored in this section, as commercial banks provide credit and loans to SMMEs through their intermediation function. Bank intermediation brings to the fore the challenge of information asymmetry as a result of imperfect information. Asymmetry of information could lead to poor quality decisions when credit and loans are provided to SMMEs. The problem of asymmetric information causes adverse selection and can result in a moral hazard (Coetzee, 2016). Calomiris (1997) rightfully explains that without the challenge of asymmetric information there would be no need for banks. Thus, literature pertaining to the challenges of asymmetric information, adverse selection, moral hazard and credit rationing will be uncovered in relation to the provision of finance to SMMEs.

4.2.1 The role and functions of banks

Banks play a significant role in modern society, as they enable financial transactions and are the principal source of credit which is vital to the well-being of individuals, the community and nations. Besides the services that they offer, banks also provide financial information and advice (Rose & Hudgins, 2013). The various functions of banks reported in literature influence the operations of SMMEs directly or indirectly. A bank is thus defined according to its economic functions, the services it offers to customers, and on the basis of its existence as legally determined (Rose & Hudgins, 2013).

The role and functions of the bank and the subsequent services that they provide have changed considerably over the years (Lumpkin & Schich, 2020; Rose & Hudgins, 2013). The pace of change is dictated by changes in competition versus innovation, deregulation versus re-regulation, and rising protectionism versus initiatives to open the marketplace to outside competitors in response to customers' needs and risk preferences (Lumpkin & Schich, 2020). The role of banks has expanded and is not limited to merely taking deposits and providing credit. There are a wide variety of banks which include, amongst others, commercial, investment, savings, merchant and universal banks (Rose & Hudgins, 2013). Banks perform their functions through many channels. Some will perform one function as dictated by their market segment, whilst others will be more universal in offering a whole spectrum of financial services (Coetzee, 2016). Commercial banks accept deposits from businesses and individuals in order to enable the provision of loans to the same, whilst universal banks offer virtually all financial services available in the market-place (Rose & Hudgins, 2013). The rationale provided in literature for the various roles of banks will thus be explored.

Although the intermediation function is central to what the bank does, financial intermediation (FI) theory developed around the quest to explain the role of banks and the reason for their existence. At first, scholars tried to explain what makes banks special. The FI literature initially explained the role of banks by means of transaction costs and asymmetric information. With the emergence of non-traditional competitors in the banking sector in the nineties and early 2000s, the survival of the bank was threatened as clients were exposed to alternative ways of doing business. As such, scholars tried to establish whether banks were still relevant or not within the context of changing financial markets and globalisation. FI theory emphasised risk management within a global context in which the functioning of markets became more complex (Coetzee, 2016). Non-traditional intermediaries arose to provide alternative vehicles to financial services. Moreover, financial innovation made a significant contribution to the breadth and depth of financial markets (Coetzee, 2016). After the GFC, literature pertaining to the role of banks focused in essence on banking risk, questioning the efficacy of regulation and legislation (Committee on the Global Financial System (CGFS), 2018). This is taken against the backdrop that the GFC could have been prevented with effective regulation. Scholars, therefore, tried to provide an answer to the question of whether banks are still banks (Coetzee, 2016).

With the emergence of digital banking, many of the roles and activities provided by banks evolved. Digital banking initiatives, also known as Fintech innovations, in some instances, overlap with the functions and activities of banks, specifically pertaining to providing a service to the retail market segment. Retail banking services and products provided to the public, which include SMMEs, are bundled and re-bundled to make the usage more convenient to clients (Lumpkin & Schich, 2020). The convenience of accessing funds and account information is further enhanced by means of technological advancements, and service proliferation allowed commercial banks to increase their income (Abor *et al*., 2019). Although Fintech innovations increased competition in the market, the developments brought to the fore concerns pertaining to its impact on financial stability as a result of systemic risk. Financial services and products are thus provided by incumbent banks who are regulated complementary to and side-by-side to lightly or unregulated digital initiatives (Lumpkin & Schich, 2020). Taking these developments into account, the question in literature once again arises to what extent digital banking or Fintech innovation has changed the role and functions of banks in the financial system, and what the subsequent impact of these developments on the financial safety net (FSN) is - thus attempting to establish what makes banks special (Lumpkin & Schich, 2020).

Scholarly articles provide a rationale for why banks are special, taking their roles and functions into consideration. Lumpkin and Schich (2020) argue that banks remain special within the context of Fintech developments. They take deposits that are withdrawable on demand and provide liquidity to other entities and as such engage in maturity transformation. Furthermore, banks act as conduits for the national payment system, and they enable monetary policy transmission. Lumpkin and Schich (2020) explain that banks remain special as they are the only institutions providing all of the said functions.

Boot and Thakor (2018) argue that banks fulfil a unique function in their capacity as information processors and delegated monitors. As delegated monitors the bank has a superior ability to collect information and monitor it on behalf of depositing clients. Gande and Sanders (2012) also emphasised that banks remain special as a result of their ability to produce and monitor information. These authors confirmed the seminal work of Diamond (1984) pertaining to delegated monitoring theory used to substantiate why banks are special. Calomiris (1997) similarly argued that the social value of banks is based on their ability to specialise in information creation and contract enforcement.

Boot and Thakor (2018) highlighted the provision of liquidity as another feature making banks special. The ability of banks to invest in illiquid assets and finance themselves with liquid deposits by means of intermediation is further supported by the research of Gande and Sanders (2012). Olson (2006), on the contrary, argued that banks are not dominant providers of liquidity in the market, except for their access to the discount window. Olson explained that banks do however remain key in the wholesale payment network and provide loans and savings facilities. Olson also noted that even when other competitors provide the same financial services, banks remain formidable competitors and innovators which reinforces their importance in the financial market.

Huertas (2018) argues that individuals utilise banks to access the payment system, echoing the sentiments of Olson (2006). Huertas (2018) also emphasised the provision of liquidity as a role of banks, making them different from other role players. Werner (2014) explains that the ability of banks to make money out of nothing make them different (special) from non-banking financial institutions. Corrigan (1982) stated that banks are unique in that they offer transaction accounts redeemable in cash on demand, provide liquidity and are conduits for the monetary transmission mechanism in the broader economy. Roles explained by Corrigan that make banks unique in the services they offer are similar to their roles mentioned by Lumpkin and Schich (2020).

In order to answer whether or not banks still offer distinct services, scholars highlighted the intermediation role of banks; the fact that banks are responsible for the national payment system; they are the creators of money, information agents and contract enforcers; they provide liquidity to the market and are responsible for affecting monetary transmission. These roles and functions have placed banks in a privileged position in the financial sector.

Banks provide a variety of products and services to SMMEs which relates to their role and function in the financial sector. Banks form the core of the intermediation process as stated above. SMMEs can thus access finance for their operations. A variety of lending products are provided to SMMEs, including loans and other financial services. Banks assist to reduce risk by monitoring and managing investments more efficiently than savers could do. Funds are allocated to the most efficient users because of their superior information sets, and as such risk is mitigated. SMMEs' savings are allocated towards safe investment options. Banks assist SMMEs to monitor their income and expenses by providing information pertaining to their transaction accounts. Digital banking has also created new avenues for banks to collaborate with other service providers in providing finance to SMMEs.

The financial markets are however imperfect in nature (Coetzee, 2016), bringing to the fore contests between decision-makers. In allocating financial resources between borrowers and lenders the problem of asymmetric information arises, resulting in adverse selection and moral hazard. In the following section, these challenges are addressed.

4.2.2 Market imperfections and the role of banks

The genesis of FI theory attempting to explain the role and existence of banks started with the seminal work of Gurley and Shaw (1960) and Benston and Smith (1976). Various theories were developed, as the general equilibrium framework failed to explain the role of banks in the economy (Coetzee, 2016). Imperfections caused by information asymmetry became a focus of FI theory.

The general equilibrium framework, also referred to as the Arrow-Dubreu framework, assumes that economic agents have complete or perfect information. Resource allocation is *Pareto optimal.* As such, trading of commodities lead to *Pareto optimal* risk allocation. Agents act optimally because of access to perfect information. No transaction costs are assumed, and therefore banks make zero profit at equilibrium, as all interest rates are equal. In reality perfect information does not exist, and this led to the development of the "incomplete information paradigm" in an attempt to explain the imperfect nature of financial markets (Freixas & Rochet, 1997).

The imperfect nature of financial markets is caused by the challenge of asymmetric information, or the absence of quality information in sufficient amounts between parties in a transaction. Neither party is therefore in the position to make a decision related to a transaction with the same information. Incomplete information increases the risk of transacting and could result in poor quality decisions when banks intermediate (Coetzee, 2016). According to Huang *et al.* (2014:28), information asymmetry implies *"*that one party has access to relevant (defined by a certain amount or quality or both, Coetzee, (2016)) information, whilst the other is lacking the relevant information, which could lead to ineffective resources allocation*"*. Thus, the party in the relationship with access to more or superior information will be in a beneficial position in comparison to the party with less superior information. Challenges in decision-making forthcoming from asymmetric information could occur *ex ante* (before), during or *ex post* (after) a decision has been made and a contract has been entered into. This could lead to adverse selection and moral hazard. Adverse selection occurs when one party makes a poor decision as a result of inefficient or poor-quality information. The decision-making party is thus exposed to higher risk which they might not always be aware of. Moral hazard occurs when a party in a transactional relationship acts in a risky manner at the expense of another party to gain or benefit knowingly from the information advantage. Thus, adverse selection and moral hazard lead to the sub-optimal functioning of markets, and as such causes the market to fail (Coetzee, 2016).

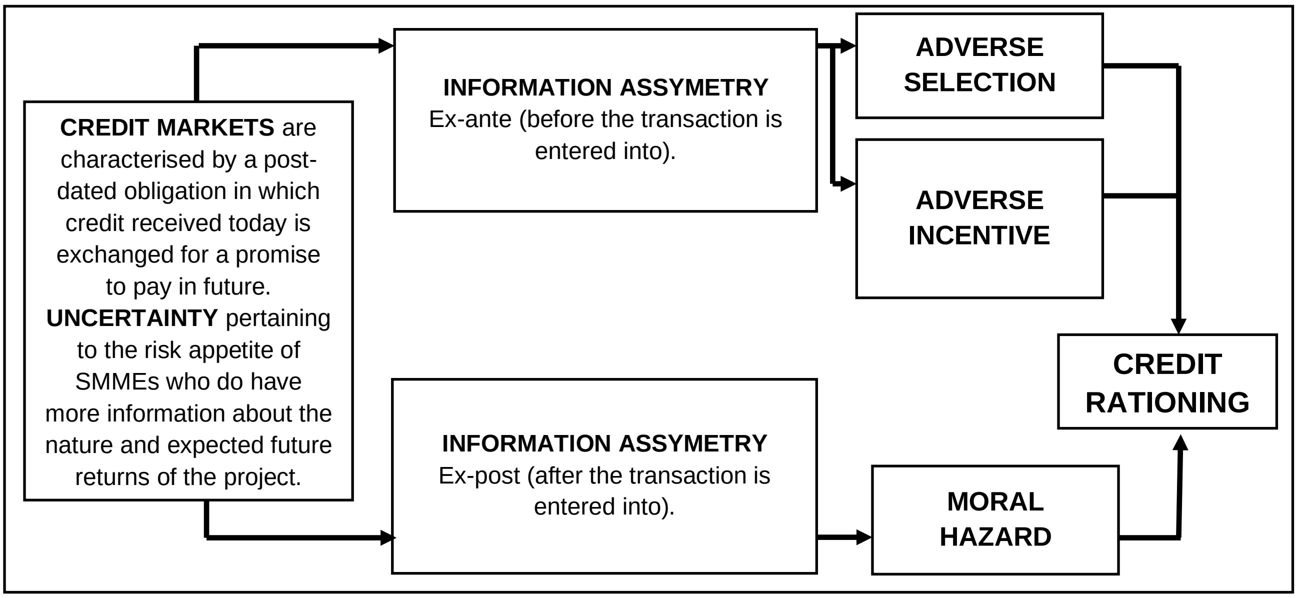
Stiglitz and Weiss (1981) used the theory of asymmetric information to analyse the credit market. In their seminal paper they demonstrated that asymmetric information leads to supply-side credit rationing. They explained that credit markets function different from goods markets, since equilibrium is not established by purely demand and supply. In their research they attempted to explain the access problem of credit markets. Jaffee and Stiglitz (1990) argued that credit markets differ from standard markets, in that the latter deliver a product where delivery and payment for goods take place simultaneously, whereas credit markets are characterised by a post-dated obligation in which credit received today is exchanged for a promise to pay in future. The commitment to repay loans timeously might differ from person to person. Therefore, to establish whether or not a borrower will keep a promise or adhere to an agreement to repay credit or loans is not easy to determine. This causes uncertainty in the credit market. Access to information about the investment that will be funded, and the expected returns generated from the project is thus important to ascertain in this regard. Furthermore, borrowers are more familiar with their own risk appetite and have more information about the nature and expected future returns of the project that they have required funding for as opposed to lenders. Jaffee and Stiglitz (1990) explain that if credit markets were the same as standard markets, interest rates would represent the price of demand and supply for credit. Credit markets as such deviate from standard markets in that the interest rate only shows what the client promises to pay, and not what the individual will actually pay. Thus, credit markets have more dimensions than only interest payment. Asymmetric information in this regard will give rise to adverse selection and moral hazard before and after the transaction is entered into. Stiglitz and Weiss (1981) argued that banks supplying loans are not only concerned about the interest rate, but they also consider the riskiness of the loan in the absence of complete information (information asymmetry), resulting in sub-optimal investment levels or credit rationing.

Stiglitz and Weiss (1981) argued that banks will not raise the interest rate beyond the interest rate at which the expected return of the bank is maximised, even when demand exceeds the funds available for lending, because of the fear of risk. The disequilibrium that is the mismatch of the demand for funds and the supply thereof is perceived to be a market failure (Huang *et al.*, 2014). Stiglitz and Weiss (1981) therefore stated that beyond a certain interest rate the supply of loans is backward bending. Adverse selection occurs because those clients who are willing to pay a higher interest rate might also be riskier borrowers, increasing the probability of non-payment of the loan (Beck, 2007). A moral hazard effect could occur in which high interest charges required by the bank adversely affect the actions and incentives of borrowers (Abdesamed & Wahab, 2014; Huang *et al.*, 2014), which could result in the inability of the lender to effectively enforce the agreed credit contract (Beck, 2007).

The root cause of providing credit to SMMEs is the extensive information asymmetry that exists between commercial banks and businesses requiring credit (Abdesamed & Wahab, 2014; Huang *et al.*, 2014). Hence, commercial banks ration loans intentionally, because they do not know whether the borrower will be willing to pay back the loan. Thus, the demand by SMMEs for loanable funds is more than what is provided by commercial banks. The problem of asymmetric information adversely affects micro and small businesses more severely compared to medium businesses (Abdesamed & Wahab, 2014).

Beck (2007) further argues that transaction costs increase the lending rates required by financial institutions, and that drives a wedge between the lenders and the SMME borrowers. According to Huang *et al.* (2014), transaction costs related to SMME loans charged by the banks are divided into two categories due to information asymmetry. First, a cost is incurred before the lender and the borrower sign the contract, which is referred to as searching costs. The bank has to take time and effort to search information related to the business to reflect the real situation in which the borrower finds him-/herself. This includes verifying financial statements, credit rating, cash-flow and future endeavours of the firm. To obtain information related to firms in the credit market is not easy, because information is in most instances internal to the business (Abdesamed & Wahab, 2014). Searching and verifying are actions executed by the bank to ensure the safety and efficiency of loans, and to prevent fraud. The less transparent the information, the higher the transaction costs will be. In the second instance, the loan-after supervision cost is the cost for supervising the loan and for ensuring that the management and financial accounting systems of the business are in order and up to standard. The bank thus needs to control and monitor that repayment is in accordance with the stipulations of the loan agreement. SMMEs require loans in smaller scale compared to larger companies (Finfind, 2018) and taking the return on these small investments made by the bank increases the supervision and control cost per unit.

Beck (2007) indicated that transaction costs and asymmetric information are the driving forces in explaining the limited access to external finance experienced by SMMEs in developing and developed countries, and whilst transaction costs are restraining for all borrowers, it is even more constraining for small and medium enterprises (Beck, 2007). Figure 4.1 displays the result of market failures that occur limiting SMMEs' ability to access finance.



Source: Adapted from Mutezo (2015:67)

Figure 4.1 Results of credit market failures for SMME lending

For commercial banks to reduce the problem of asymmetric information, they partake in activities to collect information such as screening and monitoring (Lumpkin & Schich, 2020). The risk of providing credit to SMMEs will be explored in the next section, as banks cannot provide access to lines of credit and loans without prudently managing their own risk.

4.3 THE MANAGEMENT OF CREDIT RISK

Banks are entrusted with the public's money and have a legal and fiduciary obligation to ensure the repayment of funds. Since the onset of the GFC, increased emphasise has been placed on stable financial markets to reduce the cost to the welfare of society (BASA, 2018).

Banks face a multitude of events which potentially generate risk. For example, risk arises when customers do not repay loans on time, or do not repay the loan or interest at all. It also arises when depositors are obliged to make earlier deposits withdrawals, when the market environment changes or as a result of human error or fraud. Regulatory changes could furthermore add to risk. Risk moreover arises when financial systems break down or poor organisation arises amongst many others (Apătăchioae, 2015).

Risk is defined as a mixture of uncertainty and prospective losses resulting from adverse developments (Bessis, 2011). Apătăchioae (2015:37) defines risk as an uncertain event that could result in losses, and as "negative deviations from expected or desired outcomes". Risk therefore emerges as a result of uncertainty (Heymans, 2016). Luhmann (1996), to the contrary, defines risk as the probability that an event will adversely or beneficially affect the objectives of an organisation. Denenberg (1964) states that risk occurs as a result of uncertainty in specific, as it pertains to financial loss. Heymans (2016) explains that risk includes some uncertainty as a result of the probability that an adverse event could have a negative outcome. Banks separate on-balance-sheet and off-balance-sheet risks. On-balance-sheet risks occur when generating profit, and on-balance-sheet activities are associated with the core operations of the business. Off-balance-sheet activities entail trading in derivative instruments and other over-the-counter contracts (Heymans, 2016).

Dimitriu and Oprea (2009) identified six categories of risk facing banks: credit risk, market risk, liquidity risk, legal risk, operational risk, and strategic risk. Bessis (2011) added three more risk categories: country risk, performance risk and settlement risk. When providing credit or loans, the most fundamental risk faced by commercial banks is credit risk (or default risk), which is the focus of this study.

4.3.1 What is credit risk?

Credit risk is as old as lending itself (Caouette, Altman & Narayanan, 1998). It transpires when credit advanced to borrowers is not repaid in accordance with the terms agreed and set out in the loan contract (Abor *et al.*, 2019). Borrowers default on the loans that they are supposed to repay as their credit standing deteriorates (Bessis, 2011). Credit risk is perceived as an on-balance-sheet risk, as it relates to the core functions of the bank (Abor *et al*., 2019; Heymans, 2016). Borrowers being negligent or who are unable to service or repay their credit causes cash flow problems for the lending institution. This results in a negative or a deviated outcome from the planned interest and capital receipts of the bank (Kelly, 2007). The risks of the borrower become the risks to the lender as well. The borrower can suffer losses because of "Acts of God" such as fires, storms and floods, as well as unforeseen circumstances such as changes in consumer demand or in industrial technology, competitive price cutting, prolonged strike action, loss of key management employees (Kelly, 2007) or low growth trends (Abor *et al*., 2019). This potentially alters a once successful and profitable business into an unprofitable operation facing serious losses (Kelly, 2007). Changes in interest rates can also influence the ability to service loans (Abor *et al*., 2019; Heymans, 2016).

Banks in general regard a default on payments of clients that are 90 days in arrears. The credit risk exposure of the banks is determined by non-performing loans as a percentage of income-generating loans that are in arrears for more than 90 days. Various ratios are furthermore determined including non-performing loans to equity capital, non-performing loans to the total loans and leases, allowances for loans losses to equity capital, the annual provision for loan losses to equity capital (Abor *et al*., 2019), and net charge-offs of loans to total loans and leases (Heymans, 2016). Net charge-offs are the difference between the value of loans that have been written off and the periodic income collected from these assets. In terms of credit risk, there is always some default risk, as the bank cannot be 100% sure of the intentions of borrowers.

Credit risk management relates to the policies, practices and procedures concerned with the granting of loans and making of investments and the continuous managing of investment and loan portfolios. The maintenance of discreet and prudent lending policies, loan approval and administrative processes are critical in this regard. Lending activities should be based on prudent lending standards that are approved by the board of directors of the banks and distinctly communicated to the supervisors, lending officers and the staff of the bank (Abor *et al*., 2019; Basel Committee of Bank Supervision (BCBS), 2015). Credit decisions should be taken freely and honestly without inappropriate pressure from either the commercial bank or clients (BCBS, 2015).

Via the process of credit analysis, the banker needs to ascertain the risk of non-payment of the borrower. Credit analysis is central to the credit risk management of the bank. Suitable lending documentation is critical to the banks' lending function. Credit analysis is the first step taken to determine the customers' needs and capacities (Meyer, 2005). As such this concept will be explored in the next section.

4.3.2 The management of credit risk by lenders

According to Baiden (2011), the term “credit” originated from the Latin word ‘credito’. ‘Credito’ implies faith. It involves an agreement by which a business or an individual acquires goods and services of economic value in return for payment at an expected date in the future. According to Hwarire (2012), this sacred relationship grounded on trust is sometimes compromised if the financial obligation is not met. Banks use various credit evaluation methods and criteria to manage credit risk. These methods are not mutually exclusive and tend to complement or reinforce one another. In the following section, the stages of the lending process will be explored, after which the various methods used by banks to analyse credit in order to mitigate risk will be established.

4.3.2.1 Stages of the lending process

According to Abor *et al*. (2019) and Longenecker, Moore, Petty and Palich (2006), commercial banks need to determine various aspects before a loan will be granted to SMMEs. Firstly, a bank needs to establish the purpose of the loan, the amount borrowed, and whether the agreement is sensible for both the bank and the borrower. This is done by means of a preliminary interview with the client. Secondly, the bank needs to determine whether the borrower has a strong character and has a reasonable ability to service the loan. Thirdly, the bank might decide to visit the business premises to make certain observations about the business operations and to assess the likelihood of success. This includes verifying the location of the business and the condition of the property (Sathye & Bartle, 2017). In the fourth instance, other providers of credit may be contacted to verify the business’ creditworthiness, thus enabling the bank to determine the sincerity of the applicant towards the payment of loans or credit obligations. When the prospect of the loan application looks promising, the business will be required to submit the necessary documentation, including the financial statements. The relevant documentation will be analysed, after which recommendations for the approval or non-approval of the loan will be made.

When the loan application is approved, the bank verifies whether the collateral pledged is sufficient to cover the loan in the case of default. The bank will furthermore ascertain whether they will have immediate access and title to the collateral in the case of default. All parties will then sign the documents that constitute the loan agreement. The lending process does not stop after the loan agreement is signed. The loan agreement henceforth is monitored to ensure compliance in terms of payment of principal and interest (Abor *et al*., 2019). Although banks have developed a lending process to fit the unique requirements and needs of their own clients, the businesses in specific, in essence, appraising, assessing and evaluating processes followed are universal for commercial lenders (Baiden, 2011).

Credit assessments done by the commercial bank are based on four types of decisions including information related to the commercial bank-client relationship, quantitative information related to the financial nature of the business, information pertaining to the management capacity of the business and information mitigating risk (Abor *et al*., 2019; Soares, Pina, Ribeiro & Lopes, 2011). In the following section methods used to assess the credit risk associated with the granting of loans will be explored. At first, the five Cs of credit will be investigated. Business plans are furthermore used to extract information during the evaluation process (Dlova, 2017; Nieman & Nieuwenhuizen, 2019) and the importance of the business plan will be delved into. Transactional lending technologies such as financial statement lending, small business credit scoring, asset-based lending and relationship lending will also be reviewed.

4.3.2.2 The Cs of credit

Five specific criteria are typically utilised by commercial banks to establish the creditworthiness of a business. Commonly referred to as the five Cs of credit, these include the character, capacity, capital, conditions and collateral of the intended borrower of the business (Longenecker *et al*., 2006; Sathye & Bartle, 2017). The five Cs of credit directs the credit analyst or assessor towards key aspects of the loan agreement (Sathye & Bartle, 2017). Meyer (2005) reports that the 5 Cs of credit are the tenets of successful lending. At first only character, capacity and capital were deemed important (Meyer, 2005). Over the years collateral and conditions were also considered. Rose and Hudgins (2013) exclude capital as criteria and include cash and an additional criterion, namely control. Abor *et al.* (2019) similarly explain 6 Cs of credit including compliance, which is synonymous for control. Mutwiri (2003) included common sense as a sixth criterion. As such, slight variants of the number of Cs and what they imply are used when analysing credit according to Sathye and Bartle (2017); yet, taken collectively, commercial banks use the same focus areas in this regard.

In the following section, the five “Cs” most commonly used to determine the creditworthiness of a potential loan applicant will be examined.

- **Character**

The character of the potential client is determined by the business and owner’s/owners’ past payment history, payment record with other lenders and suppliers (Abor *et al.*, 2019) and credit rating (Rose & Hudgins, 2013).

Since commercial banks do not have time to their disposal to judge character, a credit score becomes an instant substitute for judging the trustworthiness of the loan applicant (Evans, 2005). Matanda (2010) reports that a good deal of this information is collected from credit bureaus.

Fatoki (2014), Sathye and Bartle (2017) state that the credit bureau report enables the commercial bank to identify reliable borrowers. A good credit score significantly enhances the borrowers' ability to secure a loan from a commercial bank. It also allows the bank to identify good borrowers. In South Africa, the four main credit bureaus are Experian, ITC (formerly known as TransUnion), Compuscan and XDS (Salih, 2017). Business owners who are faced with financial hardship with good character will exercise every possible measure in an effort to repay a loan (Fatoki, 2014). It is nearly impossible to judge the character of a potential lender until the character has been tested for adversity. When the character of a potential borrower is perceived to be undesirable according to a bank's credit policy, the bank will deny the applicant access to credit (Rose & Hudgins, 2013). The ability of the bank to judge the character of the client is enhanced when a relationship exists between the bank and the client (Fatoki, 2014).

Rose and Hudgins (2013) and Matanda (2010) note that prompt payment of debt with interest in the past will increase the likelihood of future loan repayment. Reasons for late servicing of past debt should also be established in this instance. It is therefore the responsibility of the bank to protect its interest against dishonest and incompetent borrowers.

- **Capacity**

Capacity refers to the business' ability to generate and manage cash (Evans, 2005), which will enable the eventual repayment of the loan (Baiden, 2011; Longenecker *et al*., 2006; Matanda, 2010; Sathye & Bartle, 2017). Sathye and Bartle (2017) further explain that the bank also needs to establish the ability of the business to borrow in this regard.

Baiden (2011) states that, as debt will be repaid after the deduction of current expenses, the conversion of current assets to repay borrowings is of importance in this context, and is of particular importance to establish long-term loan repayment ability. Rose and Hudgins (2013) list the following important issues to be considered in terms of cash such as the take-home pay of the individual or business owner/owners; past earnings, dividends and the sales records of the business; the adequacy of past and projected cash flows; the availability of liquid reserves; turnover of payables; accounts receivable and inventory; the capital structure, leverage and expense controls of the business; as well as coverage ratios and management quality.

According to Baiden (2011), four sets of criteria are analysed when it comes to establishing capacity. First, there must be both primary and alternative sources of repayment, also recognised by Sathye and Bartle (2017). The alternative source of repayment should not always entail the liquidation of collateral, as adverse events could lead to the impairment of collateral. Secondly, the quality, reliability and sustainability of the business' cash flow need to be established. This is also acknowledged by Bbenkele (2007), noting the importance of a positive and properly managed cash flow. The bank must determine if the cash flow of a business is recurring or a one-time event. Rapid sales due to growth could for example dampen as the market becomes saturated. In the third instance, the bank is required to establish the needs to replace property and equipment, especially for capital-intensive businesses. Lastly, the commercial bank needs to analyse the cash flow against the backdrop of financial information of prior periods and projections for future needs (Baiden, 2011). The banker will require, if possible, balance sheets, income statements and cash flow statements of the business for the past three years (Longenecker *et al*., 2006). It is important that these projections are as close to reality as possible (Baiden, 2011). Assumptions of growth and profit margins could also be compared to historical financial statements.

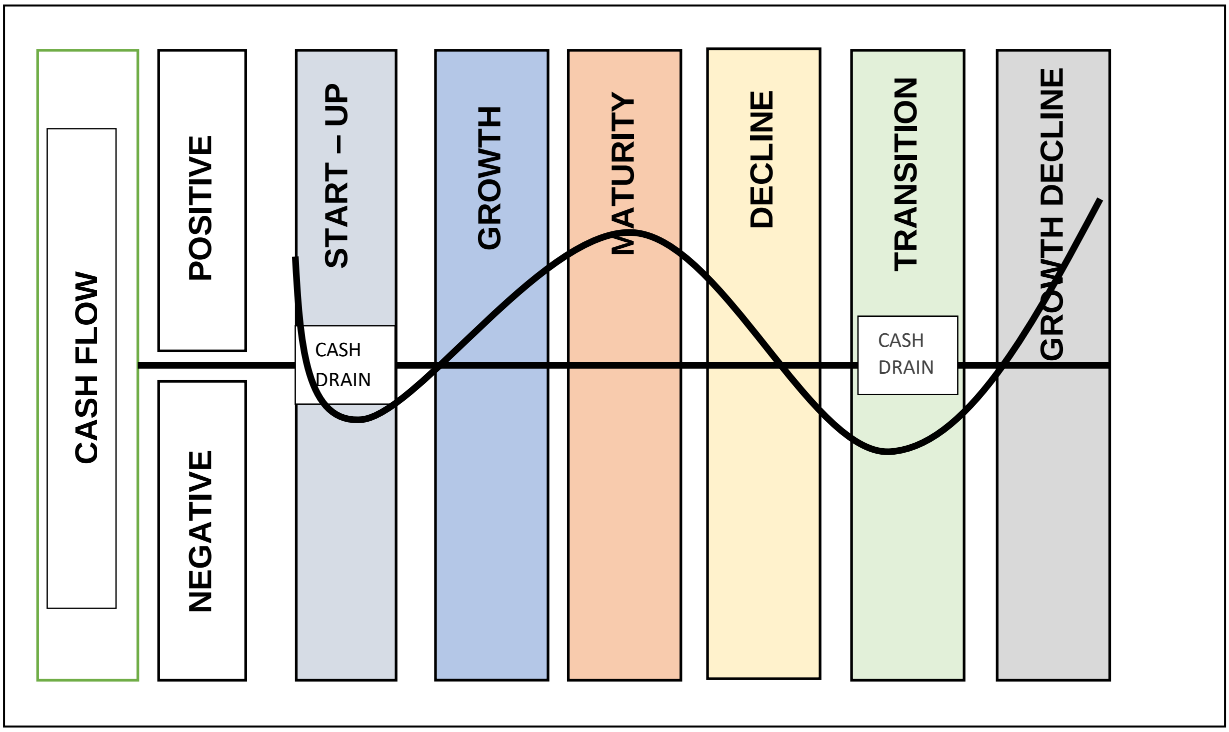
Analysis used to determine capacity is to establish key ratios for sound lending (Baiden, 2011). This is done by means of ascertaining the cash flow or earnings before interest, taxes, depreciation and amortisation - also known as EBITDA. It is a rough measure used to ascertain whether a business is managing revenue and expenses in a proper manner or efficiently (Hamilton, 2003). EBITDA enables the lender to establish historical trends of earnings, how expenses have influenced these earnings, trends in sales and profit margins, as well as the trend of operating expenses (Baiden, 2011). As soon as the lender is satisfied with the EBITDA calculation it will be compared to the debt obligations of the business (Baiden, 2011). A debt service coverage ratio (DSCR) or a debt coverage ratio (DCR) will also be determined by means of dividing the EBITDA calculation with the fixed obligations of the business. The DCR determines the cash a business has available to service debt. The lenders need to establish whether the business generates enough cash beyond the minimum required to service a loan. Gualandri, Venturelli and Sclip (2019) suggest a DSCR larger than one as a good risk for the bank. Lesonsky (2015) argues a ratio of 1.25 in a situation in which the economy does well. In situations in which the economy is tight a ratio of between 1:35 to 1:50 may be required. Nevertheless, the higher the DSCR, the better the chance of securing a loan in any economic environment.

Baiden (2011) further points outs that lenders may also use a debt service calculation based on the amortisation of fully funded lines of credit, also known as downside analysis. In this case, a fully-funded repayment of lines of credit is assumed for a five-year period.

FinScope (2010) indicated that insufficient cash flow was one of the reasons indicated by SMMEs for not borrowing from financial institutions. According to Abe, Troilo and Batsaikhan (2015) and Nieman and Nieuwenhuizen (2019), cash flow periods or cash drains occur from start-up through to the first part of the growth phase of the business, and reappears again in the transition stage, as displayed in Figure 4.2.

Abe et al. (2015), Longenecker et al. (2006) and Nieman and Nieuwenhuizen (2019) explain that it is common for a profitable small business to fail in the start-up phase, as the financial statements of the business probably will reflect profits, yet outstanding payments of customers who have received trade-credit need to be collected. For this reason, the business is unable to pay their operating expenses, as shown in Figure 4.3. Longenecker et al. (2006) argue that there is a difference between profits and cash flows recorded for business purposes. In accrual-basis accounting, income is recorded when it is earned, even if income has not yet been received in the form of cash. The same applies to expenses. Expenses are recorded when they are incurred, even if payments have not been settled yet. In cash-basis accounting income and expenses are recorded when it is either received or paid out. Profits and cash recorded by means of the two systems consequently differ. Firstly, with an accrual accounting system, sales recorded in the income statement include both cash and credit sales. Thus, total sales will not equal the actual cash collected. Secondly, inventory purchases are in some cases financed by credit. Thus, inventory purchases will not correspond with actual cash disbursed for inventories. Thirdly, the depreciation reflected in the income statement is a non-cash item. Depreciation reflects the costs associated with using assets. Lastly, not all the income tax is disbursed in the period it is reported on the income statement. Tax is usually accrued and paid in later stages when an accrual accounting system is used.

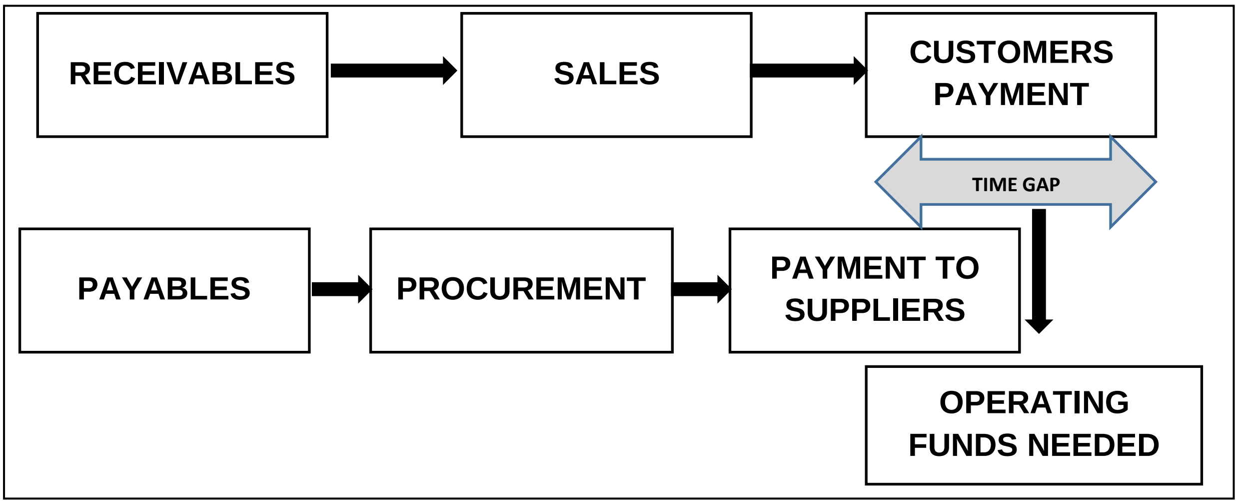
In the growth phase, it is necessary for SMMEs to increase turnover to reduce operating expenses, or to support further growth. During cash drains, as displayed in Figure 4.2, long-term financing, positive working capital, short-term and abrupt access to finance are critical for sustainable business. Figure 4.2 shows that a cash drain occurs in the start-up phase. Once the business progresses into the growth and maturity phase cash flow increases. When the business passes the maturity phase and progresses into the decline and transition phase, cash drains resurface.



Source: Abe et al. (2015:6).

Figure 4.2 Business growth stages and cash flow

Abe et al. (2015) and Nieman and Nieuwenhuizen (2019) describe that a time gap occurs between account receivables and account payables. The process is displayed in Figure 4.3. This time gap is difficult for SMMEs to avoid without securing extra funds to support operations. Figure 4.3 shows that SMMEs need to pay suppliers before their debtors pay them, and this causes cash flow stringencies. Matanda (2010) explains that it is therefore important for the bank analyst to determine the timing and adequacy of cash flows, and to evaluate the risk of cash flow impediments.



Source: Abe et al. (2015:7).

Figure 4.3 Time gap between receivables and payables

Working capital and seasonal lines of credit are also considered as part of establishing the business' capacity (Baiden, 2011). According to Matanda (2010:37) for seasonal working capital loans, cash flows are generated by means of "*orderly liquidation of built-up of inventories and receivables".* In this instance, the bank will examine both the EBITDA and the DSCR but will also include an analysis of the business' ability to converge working assets into cash. The short-term liquidity of the business will be inspected (Baiden, 2011). At first, the liquidity of the business will be examined in parts. The most common measure used to determine the liquidity of working capital is by means of either the net operating working capital (current assets minus current liabilities) (Baiden, 2011), or by establishing a ratio between current assets and current liabilities, also known as the current ratio (Abor et al., 2019; Alsemgeest, Du Toit, Ngwenya & Thomas, 2015; Longenecker et al., 2006). This analysis is usually made over a time period to allow for comparisons. These comparisons are compared to industry averages, as average current ratios do differ. In general, the lender will approve a ratio of 2:1, implying that a business has current assets equal to twice its current liabilities (Alsemgeest et al., 2015; Longenecker et al., 2006). Longenecker *et al*. (2006) note that a common weakness of small business is that most of their money is tied up in assets, leaving a disproportional small investment in liquid assets.

Besides the net operating working capital and the current ratio, it is also necessary for banks to evaluate the degree of liquidity of the various components of working capital. For this purpose, the bank will assess the business' net trade cycle. The net trade cycle is also referred to as the cash-conversion cycle (Alsemgeest et al., 2015). It is calculated by determining the number of days and time that money is held in each of accounts receivable, inventory and accounts payable. As soon as the days are determined of the aforesaid listed items, the days in accounts receivable are added to the days in inventory, and together these two items represent the trade cycle of the business. Once the trade cycle of the business is established, the days in accounts payable are subtracted to calculate the net trade cycle (Alsemgeest et al., 2015; Baiden, 2011). The turnover ratio will be compared to the industry average (Baiden, 2011). If the trade receivables' turnover time (average time period it will take for customers to repay their accounts) and trade inventory turnover time (average time an item is in inventory before it is sold) increase, it will negatively impact on the business' liquidity. If the turnover time of trade receivables and trade inventory decrease, the liquidity of the business improves. The opposite is true for trade payables over time (average time it takes before trade payables are settled). When this turnover time decreases, it implies that trade payables are paid earlier, and it reduces the liquidity of the business. An increase in the trade payables time will increase the business' liquidity. By purchasing on credit, a small business can use the funds of creditors to supplement short-term cash needs (Longenecker et al., 2006). In this instance it is advisable to try and borrow funds from creditors as long as possible. Payment should therefore be delayed as long as it falls within the agreement of both parties. Consequently, a high cash-conversion ratio or net trade cycle ratio will show a decline in the business’ liquidity compared to a low cash-conversion ratio (Alsemgeest et al., 2015).

The lender will also assess the business’ liquidity by means of scrutinising its cash flow in the cash flow statement. This statement records the changes in assets over time, and also includes where funds came from, or went to (Baiden, 2011). Matanda (2010) believes that it is important for the lender to evaluate the sufficiency of cash flows, risk and cash flow impairments. Consequently, any source of repayment other than cash from the operations should be viewed with caution. The reason for this is firstly, when the business fails to produce attractive profits, it may plan a future injection of investor capital to repay a loan. Secondly, the borrower might approach another bank to access funds with the aim of repaying the loan. Thirdly, when a future sale of a fixed asset is used to service a loan, it should not be seen as a reliable source of repayment. A future forced sale of an asset to service a loan is also perceived to be highly speculative (Koch and MacDonald, 2006).

In the study of Pretorius and Shaw (2004), capacity as displayed in the business plan of the loan applicant was determined by using both subjective (qualitative) and objective (quantitative) measures. Junior and senior credit managers employed by the commercial banks in South Africa reported the importance of documenting existing cash flow and projections, including amongst others: turnover, cost of sales, gross profit, royalty payments, bank repayments, cash sales, collection from debtors, discounts, fixed and variable expenses, payments to suppliers, purchases of fixed assets, tax payments, net profit, surplus or shortfall on the overdraft and establishing a break-even point. The reliability and feasibility of the cash flow projections were highlighted as important in this regard.

Finally, when the lender evaluates the borrower’s capacity, managerial experience and training for the enterprise are also considered (Baiden, 2011). In terms of capacity, the competence of the management structure, skills, training, previous management positions held by the owner/s, experience of the management team and the verification of certificates, diplomas and degrees held are also deemed as important. Rose and Hudgins (2013) also consider the management quality of importance under the criteria point cash.

It can be concluded that in terms of determining capacity for loan repayment in which the cash flow and the working capital are assessed, timing in terms of payment and received payment is a critical factor. For SMMEs to correctly record and project cash flows, inventory and working capital, owners and managers need to be financially literate. Low levels of financial literacy, together with lack of industry-specific experience and relevant education could seriously impede the business owner or owners’ ability to manage cash and to access finance. In the next section, the capital position of the business as it pertains to loan approval will be discussed.

- **Capital**

Abor et al. (2019) and Longenecker et al. (2006) point out that capital includes the cash and other liquid assets owned by the business owner. Capital, equity or net worth represents funds retained by the business to be tapped into in cases of unexpected losses (Baiden, 2011). Matanda (2010) also discusses capital as criteria of the credit appraisal model used by commercial banks and indicates that contribution is synonymous with capital. For SMMEs to improve the availability of debt, new and existing SMMEs need to plan and save to make a suitable equity contribution (Fatoki, 2014).

Baiden (2011) and Matanda (2010) explain the more money a business use as down payment or capital, the more committed the business owner/s will be to maintain payment obligation. A strong equity position will enable businesses to weather periods of operational adversity and to mitigate moral hazard (Baiden, 2011).

In cases in which the owner's equity contribution is less than the funding provided by creditors, it is usually seen as a negative sign, and commercial banks are generally reluctant to extend credit in these situations (Baiden, 2011). Commercial banks also consider the lender's capital reserves available to inject into a new business when it is required. Commercial banks will carefully scrutinise the debt-to-equity ratio, also known as the debt-to-worth ratio. Businesses' debt in relation to how much the owners have invested (worth or equity) will be analysed by the commercial bank (Baiden, 2011; Alsemgeest et al., 2015). Creditors are usually more comfortable with a low debt-to-equity ratio. A ratio less than one implies that lenders have greater protection for their money (Accounting for Management, 2015). Debt-to-equity ratios differ from industry to industry, as pointed out by Accounting for Management (2015). A ratio for one industry might not be efficient for another industry. A ratio of 1:1 are generally assumed to be satisfactory for companies (Accounting for Management, 2015), yet Baiden (2011) argues that the rule of thumb for commercial bank lending is 75 per cent debt compared to 25 per cent owners' equity, therefore a ratio of 3:1 is suggested. In contrast to Baiden's (2011) view, Matanda (2010) reports that bankers will rarely lend more than the proprietor's equity contribution. Brokers dealing with products of worthy demand may borrow numerous times more than capital contributed, against collateral or security provided. Lack of capital from the bank's perception could be bridged by the provision of adequate security provided by the proprietors (Matanda, 2010).

In the study of Pretorius and Shaw (2004), verifying the capital contribution of the loan applicant was treated as an objective measure, thus not influenced by the relationship the bank officer has with the client. The senior and junior credit managers of commercial banks in South Africa reported that the owner's uninhibited cash contribution is of extreme importance (See Table 4.1.).

- **Conditions**

Evans (2005) indicated that conditions are the most complicated principle of the Cs to establish and to quantify. Abor et al. (2019) and Meyer (2005) indicate that conditions as criteria used in the credit appraisal model by banks relate to the external market environment affecting the business. This includes variables such as interest rates, employment indicators, growth expectations, changes brought about in the market because of technology enhancements, the stance of the local economy and the trends of borrowers in various industries (Abor et al., 2019).

Market conditions are summarised by Longenecker et al. (2006) as factors related to the business cycle resulting in price changes, promising and less promising situations that could potentially influence the repayment of debt. This is also indicated by Rose and Hudgins (2013). During a recession, a burden is placed on the borrower's ability to service debt. Natural disasters, fierce competitions and labour issues are other factors that could potentially hamper the borrowers' ability to repay a loan (Longenecker et al., 2006). Rose and Hudgins (2013) include aspects such as the current position of the business in the industry and market share, as well as regulation and the political environment that could potentially influence the business. Abor et al. (2019) note that knowledge about the external environment is accessed by the bank by means of the internet, newspapers and other sources.

In an attempt to assess the criteria point – conditions - both the borrowers' and lenders' situations are evaluated. Once borrowing money, the conditions under which the borrowing takes place could have a key impact on the credit quality. In this instance the commercial bank will assess the borrowers' vulnerability to changing market conditions (Baiden, 2011). Matanda (2010) explains that the commercial bank needs to distinguish between the optimism of the borrowers' needs and discount it against the real prospects of the venture to succeed, against the backdrop of known conditions. The likelihood of success should therefore be established (Matanda, 2010). Koch and MacDonald (2006) emphasise that, to answer whether the business will succeed and will eventually be able to repay the loan, taking the market conditions into account require no prescriptive steps and simply entails a vote for, or against the approval of credit from the lender to the borrower. In the context of analysing the environment confronting the borrower, it should be considered that economic conditions vary from industry to industry and from borrower to borrower. Baiden (2011) recommends that changes in the life cycle of the firm and the subsequent effect on the firm and products and the firm's competitive advantage also need to be reflected on by the commercial bank. Baiden (2011) states that, when considering the conditions of the lender, the market is assessed in terms of interest rate risk, credit risk and liquidity risk. On the one hand, the lender is subjected to rules set out by regulators, and on the other hand operational risk is continuously present. In periods of prosperity making money is effortless, yet in downturns making money becomes more challenging for commercial banks.

In the study of Pretorius and Shaw (2004) conditions were determined both objectively and subjectively. Senior and junior credit managers of commercial banks in South Africa reported that the bank might deem projects unfeasible, contrary to the opinion of the loan applicant, due to demographics and competition. The banks reported that demographics, location, access, transport and security in the area in which the business is located or intends to establish need to be verified. The bank's management team will personally visit the area in which the business anticipates to operate, or is currently operating. Only by means of personal visits can an accurate assessment of the environment be made. In the following section, the importance of collateral used for a credit appraisal will be examined.

- **Collateral**

Abor et al. (2019), Evans (2005), Meyer (2005) and Sathye and Bartle (2017) agree that collateral provides insurance, security or a guarantee to the commercial bank in a case of default. Collateral also increases the stake or commitment of the borrower in the loan transaction (Sathye & Bartle, 2017). The type of collateral pledge will depend on the nature of the loan (Evans, 2005; Meyer, 2005).

Baiden (2011) reports that most loans are secured by either account receivables, inventory, equipment or real estate, likewise indicated by Meyer (2005). In instances in which weaknesses are found with the other Cs, namely either character, capacity, capital or conditions - collateral could be used to supplement these shortcomings. Matanda (2010) however cautions that strong collateral should not be used to replace, substitute or mitigate deficiencies related to the character and capacity of the business owner/s. This is also indicated by Meyer (2005). Collateral is of particular importance when it comes to new SMMEs that aim to enter the market for the first time. The commercial bank will only lend to a new business if collateral is pledged. Baiden (2011) and Matanda (2010) maintain that cash flow from the business is the main source of loan repayment. Collateral, however, provides a secondary, or in some instances, a tertiary source of repayment in situations of default (Sathye & Bartle, 2017; Baiden, 2011) when cash flows fail to materialise (Matanda, 2010) and collection efforts have become futile (Matanda, 2010). Collateral will subsequently be liquidated to repay the loan (Baiden, 2011; Evans, 2005), whilst the bank considers the legal impediments. Matanda (2010) elucidates that banks often circumvent foreclosure of collateral because it is expensive and time-consuming. Collateral implies pledging an asset, whereas a guarantee entails a promise by someone else to repay debt if the borrower defaults. Collections from guarantors frequently require expensive litigation and could result in compromised relations between the bank, the borrower and the guarantor (Matanda, 2010).

Baiden (2011) explains that adequate collateral should not give the bankers a false sense of security. Too often unforeseen circumstances adversely affect the borrower's capability to repay the loan. Therefore, both external and endogenous factors must be considered when collateral is considered. Baiden (2010) notes that unforeseen circumstances hampering the borrower's ability to repay the loan could also impair the liquidation value of the loan.

Two conditions to the loan structure are influenced by the collateral used to reinforce the loan request, namely the term of the loan and the loan amount (Abor et al., 2019). In terms of collateral, the lender would require the asset pledged to correspond with the lifespan of the loan. The size of the loan is generally limited by the supposed liquidation value of the collateral. Current assets pledged for collateral are reviewed annually.

According to Pretorius and Shaw (2004), collateral is treated as an objective measure by the commercial banks and is used to determine the payback potential of the loan applicant, as tabulated in Table 4.1. The commercial bank thus needs to ascertain the validity of collateral. Asset values, properties registered in the owner's name, stock, vehicles, shares and unlisted shares received a high priority in establishing collateral by commercial banks in South Africa. Securities and guarantees are checked to ensure that guarantees are uninhibited. The main problem with SMMEs in South Africa is that they do not always have sufficient assets to pledge as collateral as stated in chapter 3. As the business plan is used by commercial banks to assess the current and future intentions of the SMME, the importance of the business plan as it relates to the credit analysis of the bank will be explored in the next section.

4.3.2.3 The importance of the business plan

For a commercial bank to properly assess the capacity, collateral, capital and conditions of the loan applicant, the business plan of the loan applicant becomes critical. Nieman and Nieuwenhuizen (2019); Bezuidenhout (2014) and Pretorius and Shaw (2004) point out that the business plan is perceived by both the academic and the business world as the most crucial document prepared by the small business. To stand a chance to obtain finance from banks, other financial institutions and venture capitalists, entrepreneurs are encouraged to prepare a business plan. Whilst a business plan was seen as a 'nice-to-have' in the early 1970s, it is of vital importance today in a competitive world (Bezuidenhout, 2014).

The business plan is a written document explaining where the business intends to be in future, and how the business plans to reach the destination (Nieman and Nieuwenhuizen, 2019). As such the business plan is a written presentation explaining the business concept, the management team, its products and services, possible markets for products and services, operational and financial plans and its goals (Bezuidenhout, 2014; Nieman and Nieuwenhuizen, 2019). Bezuidenhout (2014) argues that the definition of a business plan includes the process of planning to reach goals and action plans in achieving these goals. In a similar vein, Kuratko (2016) explains that a business plan encompasses the purpose, position and ambition of the business. The business story thus unfolds with the compilation of the business plan (Venter, Urban & Rwigema, 2010).

The primary function of the business plan is to guide management and to raise funds from investors and lenders and for starting and growing a business (Venter, Urban & Rwigema, 2010). Nieman and Nieuwenhuizen (2019) elaborate and argue that the business plan aims to serve an internal purpose in providing focus; objectives; a tool for measuring performance; a marketing tool for obtaining finance or to sell the business; a road map to direct the business; a systematic evaluation mechanism to establish success in the market; and a method in accordance to which risks facing the business could be determined, managed and reduced. Aspects dealt with in the business plan include an executive summary, business product or service description, marketing plan, operational plan, management plan, sustainability plan and financial plan, including critical risks.

The relevance of the business plan has however been questioned in literature (Bewayo, 2015; Dane & Pratt, 2007), specifically in terms of being a means to access finance (Bewayo, 2015). Bewayo (2015) argues that commercial banks will assess the loan application based on the 5 Cs, and will require a business plan as a last resort in summary format. A summary of the business plan is in some instances specified in the loan proposal. Information that the bank seeks as relevant in the evaluation of the loan application is thus gathered from the loan proposal (Kaplan & Warren, 2013).

Nevertheless, Fatoki (2014) explains that the websites of the commercial banks in South Africa confirm that no credit will be granted to new SMMEs without a business plan. The importance of the business plan to commercial banks in South Africa has also been highlighted by Nieman and Nieuwenhuizen (2019) and Pretorius and Shaw (2004). The major banks do however emphasise different sections of the business plan as being important (Pretorius & Shaw, 2004). Thus, when applying for a loan, an SMME must decide which commercial bank it intends to approach and needs to be familiar with all the criteria used by a specific financial institution to assess a loan application. The business plan thus needs to reflect the aspects considered to be important by the commercial bank when assessing the loan application. As such the business plan needs to be credible among potential creditors or lenders (Nieman & Nieuwenhuizen, 2019).

The evidence of the research done by Bewayo (2015) and Pretorius and Shaw (2004) show that the potential of the business as described by the business plan plays a secondary role in the approval of a loan. After the creditworthiness has been established, a good venture is not considered by the major commercial banks if the capital that the applicant can contribute is limited.

Lending technologies used by the banks for credit analysis include financial statement lending, small business credit scoring, asset-based lending, factoring, fixed-asset lending, leasing and relationship lending (Berger & Udell, 2004). These lending technologies will be explored in the following sub-sections.

4.3.2.4 Lending technologies

Lending technologies utilise some combination of hard and soft information assessments and eventually extend credit to SMMEs (Berger & Black, 2011). According to Berger and Black (2011) and Berger and Udell (2004), the distinction between either soft or hard information is determined by information employed in the screening, underwriting and monitoring of the credit. In order to underwrite or approve a loan, banks require some form of quantitative data from the business, the owner and/or collateral. This is perceived to be hard information. Judgement by the loan officer based on the relationship with the lender and the experience and training of the loan officer is considered to be soft information. Lending technologies used by commercial banks diminish asymmetric information and enable financial intermediation (Berger & Udell, 2004). They further reduce adverse selection and enhance the relationship of trust between the lender and the borrower (Godlewski & Weil, 2011).

Certain lending technologies are built on the multiple discriminant credit scoring analysis pioneered by Altman (1968). Financial variables are used to discriminate between businesses who will default and those who will not default on loan repayments. Statistical models such as linear regression and profit analysis are other methods used to determine the probability of non-payment (Altman, 1994; Vojtek & Koèenda, 2006). These statistical methods are relatively easy to use and produce straightforward results (Cancino & Cancino-Escalante, 2020). Other techniques developed to determine creditworthiness are decision trees (Lee, Chui, Lu & Chen, 2002), artificial neural networks (Akkoc, 2012; Bekhet & Eltter, 2012; Hwarire, 2012, Malhotra & Malhotra, 2003), and genetic programming (Ong, Huang, & Tzeng, 2005).

Traditional credit scores based on the client's credit history are fairly solid in predicting future loan repayment (Arráiz, Bruhn, Ortega & Stucchi, 2018). There has however been interest in the banking sector to identify good borrowers without a credit history or current wealth (collateral), particular in countries where large parts of the informal SMMEs remain unbanked (Klinger, Castro, Szenkman & Khwaja, 2013) or excluded from obtaining credit. Increased computing power and the availability of more data have paved the way for alternative methods to predict repayment behaviour. Banks can thus expand their SMME lending portfolio as the screening of SMMEs is improved. As such, psychometric testing has been used by banks to screen SMME loan applicants as an alternative lending technology. This credit information tool uses psychometric application to predict SMME owners' repayment behaviour (Arráiz et al., 2018). Test scores are used to separate good clients from bad ones. This testing method has the power to reduce loan defaults by between 25 to 40%, according to Chironga, Dahl, Goland, Pinshaw and Sonnekus (2012). The psychometric test measures the SMME owner’s attributes such as the entrepreneur’s psychological profile including ethics, integrity, business skills and intelligence. Psychometric testing has been successfully used in Chile, Argentina, Kenya, Nigeria and Peru (Klinger et al., 2013). Standard Bank started using psychometric credit assessments for SMMEs’ loans in South Africa in 2012 after it was proven to be successful at their branches in Africa. The intent of the psychometric assessments is to determine the client’s willingness to pay and to speed up access to finance to SMMEs. In the research of Arráiz et al. (2018) done in Peru, it was reported that psychometric credit assessment increased SMME loan provision with 54% without a credit history. This form of credit assessment provides a promising alternative for banks to use specifically to increase their market share within the informal and unbanked SMME sector.

In the following section, the types of lending technologies used by commercial banks to screen loan applications are explored.

- Financial statement lending

Financial statement lending is based on the strength of the borrowers’ financial statements (Berger & Udell, 2004). Audited financial statements are thus required, and should be prepared by reputable and credible accounting officers according to accepted standards (Allen & Powell, 2011). The business applying for a loan must showcase the strength of their finances. This reduces the threat of asymmetric information (Brown, Jappeli & Pagano, 2009). Various financial ratios are calculated from the information obtained from statements (Cancino & Cancino-Escalante, 2020), and are used to construct a profile of the business as stated previously. The business profile is hence forward compared to other businesses and company profiles operational in the same line of trade in order to establish trends. Tugas (2012) argues that it is essential for the bank to assess ratios on the same basis, thus ensuring consistency to allow for comparisons at one point in time, and over time. Consistency in accounting procedure is also required when businesses are compared to other businesses servicing the same sector or embarking in the same type of trade. Although the borrower is required to provide future projections, pertaining to cash flow, profits and growth prospects, financial statement lending is a technique mainly based on historical financial data, and therefore does not have the ability to determine the probability of default beforehand (Tugas, 2012). Cancino & Cancino-Escalante (2020) argue that financial statement lending is limited to being a static comparative analysis and could therefore not be described as a dynamic lending technology. In their study they found no difference in the perspectives of the importance of audited financial statements from the commercial banks’ point of view between large and small businesses. In the study of Motta and Sharma (2020) conducted in Brazil, inconclusive results were reported between financial statement lending and SMMEs obtaining finance. Nevertheless, Hwarire (2012) argues that, although accounting-ratio models in predicting defaults do have shortcomings, financial ratios stemming from the balance-sheet and the profit-and-loss accounts of businesses prove to be good predictors of probable loan default in South Africa.

Financial statement lending provides an advantage to well-established businesses with comprehensive information sets. SMMEs in this instance are not always in the position to provide credible financial statements. This places them in a disadvantaged position when compared to larger and well-established firms when applying for loans. SMMEs are thus credit rationed as a result of inefficient financial information and the fact that they sometimes lack independent confirmation.

- Small-business credit scoring

Small-business credit scoring is done by means of obtaining "hard" information from the SMME owner/s and the business. According to Berger and Frame (2007), small business credit-scoring models evaluate applicants for "micro-credit". Personal information from the SMME owner/s is accessed from consumer credit bureaus, personal income, debt, assets and home ownership of the SMME owner/s in their personal capacity. This data is supplemented with information obtained about the SMME from the bank. Cash-flow and financial statements are furthermore required. The data obtained are fed into a loan performance prediction model (Dlova, 2017). Hwarire (2012) reports that a score or a quantitative measure is determined by means of logistic regression analysis, neural networks and a support vector machine (SVM). The score categorises the yield of the loan as either "good" or "bad". A "good" loan meets the bank's profit standards, whilst a "bad" loan does not. Developers of scoring systems identified characteristics best predicting the borrowers' potential to repay a loan. The lender could also choose whether to approve loan applications above a certain cut-off score, or to reject loans below a certain approved cut-off score (Berger & Udell, 2004; Feldman, 1997). When a score is produced above the cut-off score, the application is considered for further assessment by small business specialised units and credit managers (Haltuf, 2014; Hwarire, 2012).

Small business credit scoring uses a more comprehensive set of information when compared to financial statement lending in determining the probability of loan default (Berger & Frame, 2005). This is because the personal information of the SMME owner/s is also included to determine a loan score (OECD, 2015). As a large number of SMME owners have bad credit records and do not have access to collateral, the appropriateness of this lending technique is reduced when it comes to financing SMMEs.

- Asset-based finance

By means of asset-based lending the commercial bank focuses on the SMME's assets as a primary source of repayment. This lending technology also aims to assist SMMEs with opaque information to obtain loans (Dlova, 2017; Mutezo, 2013).

Asset-based lending requires the loan applicant to pledge their assets as collateral to obtain finance (OECD, 2015). With other lending technologies such as small business credit scoring and relationship lending, collateral is used to determine a secondary source to ascertain repayment ability. With asset-based lending the amount provided in the form of a loan is linked to the liquidation value of an asset used as collateral. This lending technology is thus based on "hard" information pertaining to the underlying value of the asset (Berger & Udell, 2004).

- Factoring

Factoring entails that the commercial bank, known as the factor, purchases the accounts receivable of the SMME. The OECD (2015:23) defines factoring as whereby "a firm (the seller) receives cash from a specialised institution (the factor) in exchange for its accounts receivable which results from the sale of goods or provision of services to customers (buyers)". Book debts of the SMME are thus sold to the bank (Nieman & Nieuwenhuizen, 2019). The bank buys the invoices of the business at face value less discount (OECD, 2015). Factoring centres around the underlying value of the accounts receivable rather than the creditworthiness of the SMME (Berger & Udell, 2004; OECD, 2015). Factoring differs from asset-based lending as the underlying asset is sold to the commercial bank, and not pledged as collateral. Ownership is thus transferred from the borrower to the lender. Factoring includes three components namely a financing component, a credit component and a collection component (Berger & Udell, 2004). Factoring is advantageous for SMMEs, as this method of financing increases the working capital of the business. It furthermore assists the SMME to reduce staff, as the bank fulfils the role of maintaining accounts and monitoring debtors. By means of factoring the SMME receives the cash generated by the sale of the accounts receivable immediately (Nieman & Nieuwenhuizen, 2019). Berger and Udell (2004) and Klapper (2006) explain that the discount charged by the commercial bank as the invoice buyer reduces the return on sales. Factoring is a lending technology that is available to SMMEs with more sophisticated layers or divisions in the business, as they provide credit to their clients and require debt management. This lending technology is thus not suitable for SMMEs who do not provide credit and is perceived as an expensive form of financing.

- Leasing

Leasing is an asset-based financing instrument used for specific assets such as machinery, vehicles and industrial equipment (Abor *et al*., 2019). The risk of the lender is priced into the leasing fee. This fee is usually higher for SMMEs as opposed to larger firms as a result of information asymmetry and higher transactions costs associated with SMME financing (Eisfeldt & Rampini, 2009).

4.3.2.5 Relationship lending

By means of relationship lending the commercial bank collects soft information pertaining to the day-to-day dealings with the SMME (Bartoli, Ferri, Murro & Rotondi, 2013; Berger & Udell, 2004). This information is collected over time by the loan officer familiar with the SMME by means of direct contact. Information is furthermore gathered from the SMME and all its dimensions within its relationship with the bank, and goes beyond what is obtained from financial statements (Dlova, 2017, Stein 2002). Literature indicated that transactional lending is more appropriate to screen and monitor SMMEs that have authentic and transparent financial information, whereas relationship lending is more appropriate for opaque SMMEs who are tormented by more intense information asymmetry (Berger & Udell, 2004).

The study of Bartoli et al. (2013) found that when the bank uses soft information obtained from a relationship with the SMME, the probability of credit rationing becomes less severe. The authors acknowledged that lending technologies utilising hard and soft information should be used complementarily. Cenni, Monferra, Saloti, Sangiori and Torluccio (2015) found a longer banking relationship increases the probability for businesses to obtain credit. Credit rationing is thus reduced. Ferri, Murro, Peruzzi and Rotondi (2019) similarly reported that relationship lending reduces credit exclusion. Langa and Govender (2019) found in a study in South Africa that commercial banks mainly utilise “hard information” portrayed in financial statements of SMMEs to approve loans. These authors proposed relationship lending as more appropriate for SMMEs with opaque financial information in a developing country with poverty, such as South Africa. Pretorius and Shaw (2004) interviewed bank officials of the commercial banks dominating the financial sector in South Africa to determine what type of information obtained from SMMEs is important in the final approval of a loan. Commercial banks used hard information obtained from financial statements assessed objectively, and soft information influenced by the subjective views from bank officials based on the relationship that they have with the SMME. Table 4.1 provides a summary of their findings. These findings were linked to the Cs of credit, as they relate to the factors considered by commercial banks when approving a loan.

Table 4.1 Summary of the loan criteria used by the commercial banks in South Africa

	Criteria scrutinised	**Objective/ subjective measure**	**Primary focus**	**5 Cs of credit**
1	All documents applying for finance to be completed in great detail.	Subjective		Character
2	Creditworthiness of the owner, obtained by completion of a detailed credit application form, listing assets and liabilities.	Objective	Creditworthiness and payback potential	Character, Capacity

	Criteria scrutinised	Objective/ subjective measure	Primary focus	5 Cs of credit
3	Asset values, properties registered in the owner's name, stock, vehicles, shares and unlisted shares receive high priority.	Objective	Creditworthiness and payback potential	Capacity
4	Owners' uninhibited cash contribution (funds not allocated for other purposes).	Objective	Creditworthiness and payback potential	Capital
5	Collateral offered in the owners' name: must be in the name of the owner and must be uninhibited.	Objective	Creditworthiness and payback potential	Collateral
6	Securities and guarantees are checked to ensure guarantees are uninhibited.	Objective	Focused on strictly by the bank	Collateral
7	Cash flow projection and financial plan, including turnover, cost of sales, gross profit (turnover minus cost of sales), royalty payments, bank repayments, and net profit after loan repayment.	Objective	Focused on strictly by the bank	Capacity
8	Business plan must be well constructed and workable.	Subjective	Creditworthiness and payback potential	Capacity
9	Marketing plan, place, promotion, price and competition. Marketing plan must be realistic, prepared for between 1 and 5 years.	Subjective and objective	Business potential described by the business plan	Conditions
10	Competent management structure, skills, training, previous management positions, where and position held.	Subjective	Business potential described by the business plan	Capacity
11	Check the failure rate of businesses in the area. The bank has in the past experienced problems pertaining to certain types of businesses in different areas.	Subjective and objective	Business potential described by the business plan	Conditions
12	Check demographics, location, access, transport and security.	Subjective	Business potential described by the business plan	Conditions
13	Personal visit to area by bank management team, the area is a place on a map. Only by personal visits by bank staff can they make an accurate assessment of the prevailing situation.	Subjective	Business potential described by the business plan	Conditions
14	When all criteria are finally analysed, the approval is dependent on the owner's creditworthiness, asset value (collateral) and the availability of uninhibited funds to use as a deposit.	Objective	Creditworthiness and payback potential	Character, Capacity, Collateral, Capital

Source: Adapted from Pretorius and Shaw (2004); supplemented with the literature of Abor et al. (2019); Baiden (2011); Evans (2005); Longenecker et al. (2006); Matanda (2010) and Sathye and Bartle (2017).

Soft data collected from SMMEs should thus be used complementary to the financial statement data obtained from these businesses. This can avoid an information gap between the bank and the business. It could furthermore reduce the problem of asymmetric information and reduce credit rationing.

In the following section the study will be conceptualised by focusing on the landscape of the South African banks dominating the financial sector. These banks provide lines of credit and loans to SMMEs. Regulation and legislation will furthermore be considered for commercial banks. Government funded programmes for SMMEs in South Africa will also be explored. The chapter will conclude with the conceptual model of this study. This will lay a foundation for the empirical analysis of this study.

4.4 CONCEPTUALISATION OF THE STUDY

In order to conceptualise the study, the nature of the banking industry in South Africa in terms of its size, sophistication and services that it provides to SMMEs will be explored in a set regulatory environment.

4.4.1 The South African banking industry

Although South Africa is categorised as a developing nation, the banking industry is sound, sophisticated, offering international competitive services and products, and are well capitalised and regulated (BASA, 2017). As of 2018, there were 34 banks in South Africa, including 19 registered banks and 15 local branches of foreign banks. The five largest banks accounted for 90,2% of the total banking assets in South Africa (SARB, 2019a). The four largest commercial banks in South Africa based on total assets is Standard Bank, First National Bank (FNB), Nedbank and Absa (PwC, 2019). Investec is the fifth largest bank (Fawthrop, 2019). The largest commercial banks are referred to as the “Big Four” (FinMark, 2013).

Capitec started as a micro-lender in South Africa and subsequently secured a banking license in 2001 (FinMark, 2013) before positioning itself to provide banking services to the low-income consumers, given that this market is associated with high customer volumes (FinMark, 2013). This bank recorded a customer base of 11,4 million (Capitec, 2019), which is more than the South African banking customers serviced by Standard Bank, Absa, FNB and Nedbank (Business Tech, 2019) and has 840 branches in South Africa (Capitec, 2019). Being cognisant of the riskiness of the customers, Capitec provides transaction accounts to low-income earners, enabling the bank to track the financial activities of its customers and using the information to determine creditworthiness and its own ability to eventually recoup loans. They furthermore offer a Global One account which combines a transactional product, savings products and credit options, streamlining overall offerings (FinMark, 2013). Loan products that are offered by Capitec include term loans, credit cards, credit facilities and home loans. These loan products are only available to retail customers who are employed and excludes customers who are self-employed (Capitec, 2019). Since Capitec does not offer loans to businesses, this financial service provider falls outside the scope of this study. The banking industry has further diversified with the registration of three new digitalised banks. These include ThymeBank, Discovery Bank and Bank Zero (BASA, 2018).

The “Big Four” commercial banks are universal banks and offer a broad range of financial products and services. These banks offer commercial and business banking as a designated segment of their operations. Commercial and business banking includes financial services provided to SMMEs, including agricultural clients (Coetzee, 2016). Taking into consideration that 87.9% of the total banking assets are forthcoming from the “Big Four” commercial banks (Norrestad, 2020) and that these entities do have a large customer base, trends could be observed pertaining to the granting of loans in the market. With respect to assets and market capitalisation, Standard Bank is the largest bank with a total asset value of R1 704 billion recorded in 2018 in South Africa (PwC, 2019). FNB is a division of FirstRand Bank and embodies the retail and commercial banking services in South Africa (FirstRand Bank, 2015). Besides the South African market, FNB also provides full banking services in seven other countries in Africa (FirstRand Bank, 2018). The total asset value of FNB for 2018 in South Africa was R 1 589 billion (PwC, 2019), making it the second-largest bank. Absa bank recorded a total asset value in South Africa of R1 285 billion at the end of 2018 (PwC, 2019). Nedbank follows a partnership approach to provide financial services to 39 countries in the South African Development Community (SADC), East, Central and West Africa (Nedbank, 2015b). Nedbank recorded a total assets value of R1 043 billion in South Africa (PwC, 2019).

In order to determine the financial outreach of commercial banks, various indicators are considered in this regard, which include geographical branch penetration and ATM penetration, amongst others (Beck, Demirgüc-Kunt & Martinez, 2007). In terms of financial outreach, Standard Bank has 8.1 million retail customers, 1 200 branches and 9 321 automatic teller machines (ATM). Absa bank has 640 branches, 8 802 ATMs and 9,3 million customers. FNB has 619 branches, 5 780 ATMs and a customer base of 8.2 million, whilst Nedbank has 702 retail outlets, 4 242 ATMs and a customer base of 7,9 million (Business Tech, 2019).

Besides the personal services provided to the business owner in his/her personal capacity, credit products and financial services provided to SMMEs by the “Big Four” also include business overdrafts, business revolving loans, working capital, term loans, SMME start-up services and training, development credit, women empowerment credit, credit provided to previously disadvantaged individuals, franchising credit, commercial property finance, business mortgage, debtors finance, vehicle and asset finance provided by means of financial rentals, leases and instalment sales and bankers’ acceptances (Absa, 2020; Business Partners, 2019; FNB, 2020; Hwarire, 2012; Nedbank, 2020; Standard Bank, 2020).

The annual integrated reports of the “Big Four” commercial banks do all include a section on how SMMEs are promoted, developed and supported. Provision of credit by the banks to enable the start-up and eventual growth of SMMEs is not categorised separately in the financial reports of the “Big Four” commercial banks. In terms of services provided to SMMEs, Standard Bank acknowledges that a strong SMME sector is a necessity for long-term development and transformation, and thus introduced a specialised customer enterprise development proposition in 2014. Its main focus is providing financial solutions to Black-owned companies that have gained access to preferential procurement opportunities. In 2015, an SME export incubator was launched in partnership with the Johannesburg Chamber of Commerce and Industry, providing a three-year training and mentoring programme for small businesses in the export sector. Regardless of the size and the life cycle of SMMEs in Africa, each business customer of Standard Bank has access to a relationship manager (Standard Bank, 2015). In 2018 Standard Bank invested R30 million in small businesses and worked with more than 12 000 small businesses across Africa. These small businesses received financial education and business training. The bank focused on empowering women in particular (Standard Bank, 2018). Absa supports SMMEs by making procurement opportunities available. Furthermore, Absa provides training workshops and seminars and access to finance. Absa Bank also provides access to information, networks and markets to ensure sustainable and competitive entrepreneurship. They also have incubators and one-on-one mentorship and coaching programmes. Absa Bank utilises blended funding in which guarantees from third parties and funds are provided at affordable rates to emerging SMMEs (Absa, 2018). According to the annual report of FirstRand Bank (2018), the SMME sector has shown strong growth. SMMEs represent 5% of the overall funding provided by FNB. Nedbank (2020) also provides training and funding to SMMEs.

SMME funding forms part of the gross loans and advances and is indicated as assets on the balance sheet of commercial banks. The percentage contribution and size of the various loan items provided by commercial banks, in general, are displayed in Table 4.2.

Table 4.2 Composition of gross loans and advances of the South African banking industry

		April 2018 Rbn	**Percentage contribution excluding others**	**April 2019 Rbn**	**Percentage contribution excluding others**	**% Growth**
Gross loans excluding home loans		2 933		3 249		11%
Commercial mortgages		298	15.6%	315	13.5%	5.7%
Credit cards		115	6%	126	5.4%	9.6%
Lease and instalment debtors		391	20.6%	426	18%	8.9%

		April 2018 Rbn	Percentage contribution excluding others	April 2019 Rbn	Percentage contribution excluding others	% Growth
Overdrafts		218	11.5%	235	10%	7.8%
Term loans		842	44.5%	983	42%	16.7%
Factoring accounts, trade and other bills and Bas		28	1.5%	25	1.1%	-10.7%
Other		1 042		910		

Source: Adapted from SARB South African banking sector trends (SARB, 2019b)

Table 4.2 indicates that the largest contribution of loans and advances excluding home loans are term loans. From 2018 to 2019, this category of loans has shown an increase of 17%. The second-largest category of loans and advances are represented by leasing and instalment debtors, followed by commercial mortgages. Credit cards grew with 9.6% from 2018 to 2019. Commercial mortgages, credit cards, lease and instalment debtors, overdrafts, term loans, factoring, trade and other bills and bank acceptances are financial services also used by SMMEs.

A challenge of the banks remain to facilitate the transformation of the economy (Meyer, 2005), and by doing so fulfilling their social role (Rose & Hudgins, 2008) - taking the history of the majority of South Africans' creditworthiness and their ability to acquire assets or security into consideration (FinMark Trust, 2013). Commercial banks have attempted to facilitate this process by providing access to finance, in particular to lower-income segments of the market, and for this reason, banking strategies introduced to reach this segment in, particular, will gain attention.

Banking strategies introduced to service the lower-income segments of the market have developed during the past two decades. In South Africa, traditional banks have changed their banking strategies to extend their financial services the lower-income segments of the market, previously financially excluded according to the FinMark Trust (2013). Before South Africa became a democracy, the "Big Four" directed their banking services to middle and upper-income groups. The low-income market was not perceived to be a profitable segment to serve and remained financially excluded. Rural areas in specific were difficult to serve, and the banks did not envisage the realisation of sufficient revenues, and therefore did not extend their services to these areas. A large majority of individuals subsequently remained unbanked (FinMark Trust, 2013).

In an attempt to redistribute the concentration of income and wealth of the previously excluded cohorts of the population in South Africa, the first democratic government of South Africa negotiated industry charters (FinMark Trust, 2013). The same development occurred in the financial sector, and in August 2002 the financial sector committed itself to actively participate in the transformation of the financial sector, and the Financial Sector Charter (FSC) came into effect in January 2004 (BASA, 2016). The FSC is a transformation policy document expanding the purpose of the Broad

Based Black Economic Empowerment (BBBEE) Act (53 of 2003) (South Africa, 2004a). The FSC was the first voluntary charter committing an entire sector to transform the financial services industry. Following the commitments made in the FSC, financial sector codes were gazetted in November 2012 to monitor transformation in the financial sector. The financial sector codes provide quantitative measures to enable the monitoring of progress made in terms of the financial sector's obligation to transform (BASA, 2016). As such the annual reporting of the "Big Four" commercial banks include a section in terms of their contribution to the expansion of the SMME sector, and particularly focuses on initiatives taken to assist the previously disadvantaged cohorts of the population (Absa 2018; FirstRand Bank, 2018; Nedbank, 2018; Standard Bank, 2018), as stated above.

According to the FinMark Trust (2013), four strategies were implemented to serve the entry-level market and to enhance service delivery to low-income earners by the "Big Four". These strategies also enhanced the banking experience for existing customers and allowed commercial banks to increase their customer base overall. Firstly, cashless branches were introduced, reducing the cost of infrastructure and the cost related to the handling of cash. Alternatives to branch banking were established. Innovations such as smart ATMs (self-service devices in which cash is accepted), self-servicing kiosks, bank shops in small spaza stores, in-retail presence in stores and cellular phone banking services were established to expand banking services at the lowest possible costs. This drive to use technology to replace over-the-counter services had however to be balanced with human contact to affect the acceptance of new technologies.

The FinMark Trust (2013) pointed out that several banks have adopted a strategy in which access-enabling technology is supplemented with educational support for entry-level customers. According to PwC's 'Major banks analysis' (PwC, 2019), sizeable investments were made between 2014 and 2015 by the "Big Four" banks to enhance information technology to transform retail banking and physical branch networks into the 'banks of the future'. For example, FNB's digital banking platforms have shown significant growth from December 2016 to December 2019 (FirstRand, 2019). Nedbank (2018) reported that the digital world allowed new players in the financial services market, and as such they are increasingly exploring new opportunities to provide innovative digital solutions to financial services to remain competitive.

A second strategy that the banks implemented was to start recruiting staff with higher qualifications. Banks enhanced productivity by offering higher commissions coupled to lower basic salaries. By employing capable staff and reducing the number of staff with lower qualifications, staffing costs were reduced, coupled with an increase in the retail banking customer base (FinMark Trust, 2013). Standard Bank (2015) furthermore reported that digital transformation in banking requires greater investment in people, which includes hiring new skills and training interventions for current employees.

A third strategy included the extension of operating hours in certain areas. Fourthly, the banks also changed their marketing strategies by differentiating between entry-level banking products and traditional offerings (FinMark Trust, 2013). The aforesaid strategies employed by the "Big Four" enabled them to increase their entry-level customer and retail banking customer base.

By enabling an entry-level customer base of lower income earners, a relationship emerges between the bank and the client. In the initial stages of the relationship, personal banking services in the form of bank accounts, savings products and small personal loans are provided. This relationship ultimately provides the banks with legitimate information pertaining to the character of its customers. As the creditor and debtor relationship develops and a client tries to cease an opportunity to start a business, information asymmetry to some extent is reduced as a track record is established. Alternatives to branch banking such as self-service devices in which cash is accepted, self-servicing kiosks and bank shops in small spaza stores also provide opportunities for micro and small businesses to assist banks to service their customers, and to increase their own customer base and sales volumes.

Banks as lending institutions are amongst the most regulated of all financial institutions. The consequent mix, quality and yield of the loan portfolio largely depends on the depth and character of regulation (Rose & Hudgins, 2013). As such, non-performing loans as a percentage of gross loans and advances reported by Absa Group Limited, Standard Bank, Nedbank and FirstRand Limited range between 2,4% to 3,7% (PwC, 2018).

Bank supervision and regulation is of extreme importance, as it plays directly into the processes that govern the granting of loans. Selected regulatory and legislative considerations in this regard are addressed next.

4.4.2 Bank supervision, regulation and legislative considerations

The South African Banking Sector Overview (BASA, 2019) indicated that the banking sector is soundly regulated. Commercial banks in South Africa are mainly supervised and regulated by the SARB. The SARB regulates commercial banks mainly in terms of the Banks Act (94 of 1990) and the Banks Amendment Act (22 of 2013), and regulations related to banks. The Prudential Authority of the SARB regulates financial institutions in terms of prudential requirements and continuously examines the impact of market conditions and the subsequent impact on the risk exposures of banks, including credit risk profiles and portfolios, liquidity risk and market risk (SARB, 2019a). Other authorities and legislation directly or indirectly influencing the operations of commercial banks include the Financial Sector Conduct Authority (FSCA), and the National Credit Regulator (NCR), which are each governed by a dedicated Act and several ombudsmen tasked with quick and efficient dispute resolution between the banks and their customers (BASA, 2019). Other forms of legislation influencing the provision of credit include the Financial Intelligence Centre Act (FICA) (38 of 2001), the National Credit Act (NCA) (35 of 2005), and the Financial Advisory and Intermediary Services Act (FAIS) (37 of 2002) (BASA, 2019).

Banks are further required to comply with the King Code on Corporate Governance and Basel III standards. In the aftermath of the GFC of 2008, strategies were announced to attend to inherent weaknesses in the financial services market by standardised-setting bodies (BASA, 2019). Internationally agreed regulatory and supervisory frameworks were adjusted to promote and secure the soundness of global banking. South Africa being part of the G20 is required to comply with the amendments to international banking regulation. The Basel Committee established the Regulatory Consistency Assessment Programme (RCAP) in South Africa to assess members implementing the standards (SARB, 2015). In January 2013, Basel III was implemented in South Africa. It included a transitional arrangement to gradually implement standards in phases until January 2019 (SARB, 2015). In the following section, legislation influencing the provision of financial services by commercial banks to its retail clients (thus including SMMEs) in South Africa will be elaborated on.

4.4.2.1 The Financial Advisory and Intermediary Services Act (37 of 2002)

FAIS (37 of 2002) protects the manner in which Financial Services Providers (FSPs) conduct their business and subsequently aims to protect the customers' services by these entities (South Africa, 2002). As such, FSPs which include commercial banks need to be licensed, as a professional code of conduct is enforced on them by means of certain measures. FSPs provide intermediary services and advice to customers pertaining to financial products. FSPs thus need to ensure that they provide adequate information to their customers in an open and transparent manner. FSPs should furthermore ensure that they have qualified people, adhering to a code of conduct and who are compliant in terms of record-keeping. Procedures to administer and manage complaints are further promoted by the Act. Commercial banks are therefore bound to adhere to FAIS (BASA, 2019). The Act thus ensures that SMMEs who are advised by commercial bank officials receive sufficient and adequate advice pertaining to the finances of their operations. Bank officials are qualified to provide advice, as a professional code of conduct is enforced on them.

The National Credit Act (NCA) (34 of 2005) was introduced to facilitate protective rights for consumers for all types of credit agreements. For this reason, the NCA and the subsequent establishment of the National Credit Regulator (NCR) will be examined in the next section.

4.4.2.2 The National Credit Act (35 of 2005)

Prior to 2005 credit legislation to support access to credit, for SMMEs in specific, was restricted (Whittaker, 2008). There were significant problems with regard to financial exclusion and reckless credit practices (Logan, 2008; Whittaker, 2008). The NCA (34 of 2005) was implemented to address the shortcomings of previous credit legislation. The NCA (34 of 2005) was put into place to make consumer credit and commercial banking credit more accessible to South Africans in order to promote economic and social welfare (South Africa, 2006b). The Act now prohibits reckless credit extension provided by credit providers.

The purpose of the NCA is thus to ensure that credit is not granted to customers who cannot repay their debt, and by doing so it tries to promote non-discriminatory and fair access to consumer credit. The NCA also enhanced the disclosure of information so that consumers could make informed decisions when applying for credit. Consumers are educated about their credit rights, and protection is provided against unfair conduct (South Africa, 2006b). The NCA shifted the emphasis in the credit industry to the rights of the consumer (Nel, 2013; Whittaker, 2008). The Act defines a ‘consumer’ to include all natural persons, as well as some juristic persons, including sole proprietors and partnerships. Concerning natural persons, the Act regulates all credit agreements with natural persons, irrespective of the amount involved (Deloitte, 2013).

Subsequently, a National Credit Regulator (NCR) and a National Consumer Tribunal (NCT) were established to provide for related incidental matters, and to give ruling in terms of the NCA as set out in chapter 2 of the Act (Logan 2008; South Africa, 2006b). The Act requires the NCR to research and monitor credit availability, pricing and marketing conditions, conduct and trends, access to consumer credit by small businesses and disadvantaged individuals in the credit industry (South Africa, 2006b). The following types of credit agreements are stipulated in section 8 of the Act and relates to SMMEs accessing finance: mortgage bonds, credit facilities like credit cards, bank overdrafts, leases, personal loans, developmental credit, incidental credit and credit guarantees (South Africa, 2006b).

The NCA does have certain limitations, such as that it does not provide protection to SMMEs. The requirements of the NCA only apply to SMMEs with an asset value or annual turnover at the time of the agreement of R1 000 000 or less. The provision of reckless lending, over-indebtedness, limiting interest rates and other costs of credit does thus not apply to SMMEs with an annual turnover or asset value that exceeds R1 000 000, as discussed in section 6 of the NCA (Goodwin-Groen & Louw, 2006; South Africa, 2006b). Therefore, where the juristic person or business (sole proprietor or partnership) enters into a credit agreement for more than R250 000, the Act does not apply. Thus, where the SMME can afford to enter into a large agreement (more than R250 000), no protection is provided. The rationale for this decision seems to be that the government is willing to protect very small businesses, but where they enter into a large agreement, they should be able to afford lawyers to enforce their own rights (Deloitte, 2013). Thus, very small businesses operating as sole proprietors and partnerships with unlimited liability are protected by the NCA (Act 34 of 2005).

In May 2014 the NCA was revised after the Department of Trade and Industry assessed the outcomes of the NCA (South Africa, 2014). The NCA Amendment Act also allows for the removal of adverse consumer credit records with credit providers and credit bureaus once the consumer has paid its debts in full. This provision of the removal of adverse credit information made in Section 71A of the NCA Amendment Act (19 of 2014) is the most controversial part of the Act (Crotty, 2014).

To provide consumers (who includes SMMEs) who have accessed credit with protection is important. The significance of the services rendered by credit providers in a growing economy should however not be ignored (Goodwin-Groen & Louw, 2006). Because of the protection the NCA provides to SMMEs lending R250 000 or less, the risk to commercial banks is increased, as they need to ensure that they comply with every stipulation in the Act when loans are provided to this section of the market. Finfind (2018) reported that the majority of loans requested by SMMEs was less than R250 000, and these are the businesses who find access to finance the most challenging. It could therefore be argued that whilst these SMMEs are protected by law, their subsequent ability to obtain finance is compromised as the risk to lend to them is higher.

FICA (38 of 2001) is another form of legislation influencing the processes of commercial banks, and as such the requirements of this Act will be reviewed in short.

4.4.2.3 The Financial Intelligence Centre Act (38 of 2001)

FICA (38 of 2001) was introduced to fight financial crime (South Africa, 2001) such as money laundering, tax evasion and terrorist financing activities. FICA (38 of 2001) brings South Africa in line with legislation from other countries in which the movement of money by means of unlawful activities is prevented. FICA (38 of 2001) provides a legal framework in accordance to which clients are identified, as well as the activities that they are involved in whilst generating money. As such FICA (38 of 2001) forces the commercial banks to know their clients. Accountable institutions are thus required to keep copies of the identification of their clients, the nature of the business relationship and transactions they are involved in. The documentation needs to be stored for five years either on hard copy or electronically (BASA, 2019). The requirements of FICA place an additional administrative burden on commercial banks, although the importance of this legislation cannot be debated. SMME owners thus need to be able to provide authentic documentation pertaining to their identity and the transactions that they are involved in, in order to make use of the financial services provided by the bank. Without these records the commercial bank will not provide a service to the SMME.

Banks are the primary providers of credit to SMMEs. Commercial banks have however formed strategic partnerships with Development Financial Institutions (DFIs) in South Africa to support SMME finance. The direction and support government provides to promote SMMEs and the subsequent funding of SMMEs will be examined in the next section.

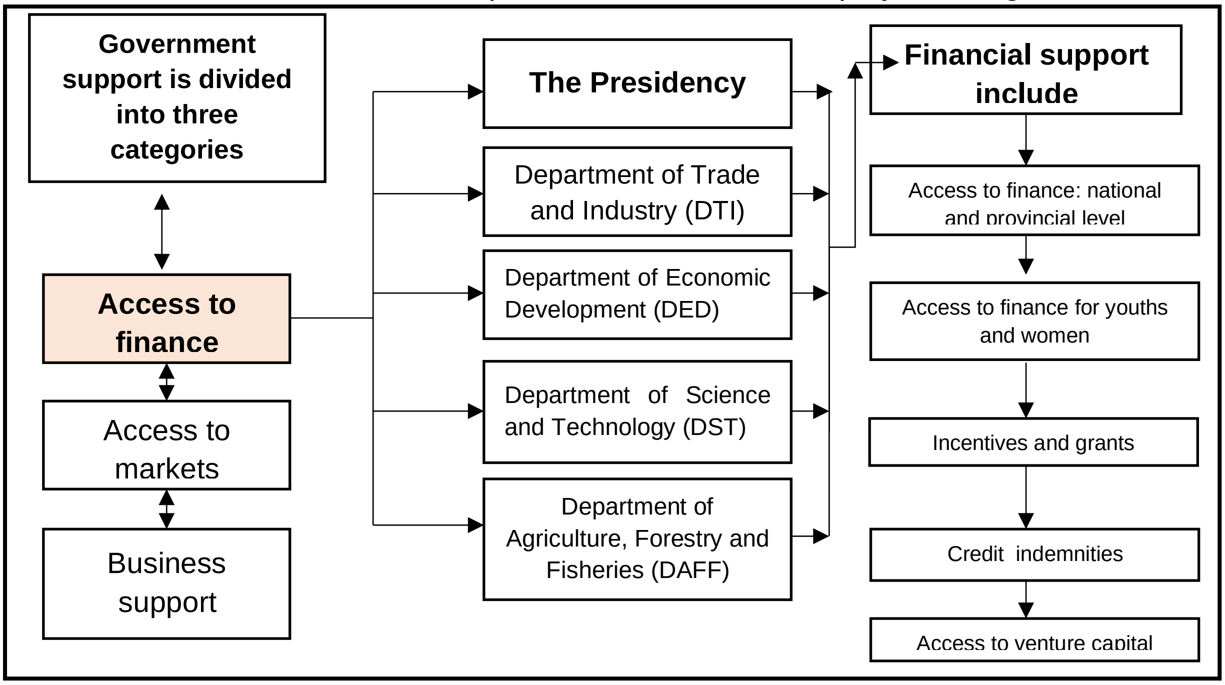
4.4.3 Government-funded programmes for SMMEs in South Africa

South Africa, the World Bank and other multi-lateral agencies pursue strategies to promote SMMEs in order to stimulate economic development and poverty eradication SMME targeting has been central to the South African government's growth policies since the 1980s (Amra et al., 2013). In 1994 the Reconstruction and Development Plan (RDP) was gazetted as the first economic policy documents of the new democratic South Africa (South Africa, 1994). The importance of SMMEs was highlighted in the RDP as a means to create employment, redistribute income and accelerate growth, but did not get enough support and consequently struggled to be maintained in terms of its original intention (Amra et al., 2013). The Growth, Employment and Redistribution Plan (GEAR) (South Africa,1996a), the Accelerated Shared Growth Initiative of South Africa (Asgisa) (South Africa, 2006a), the New Growth Path (2010), the National Development Plan (NDP) (2011) (Amra et al., 2013) and the National Development Plan vision 2030 (2013) all had a recurring emphasis on the promotion of SMMEs for employment creation and economic development (South Africa, 2013).

The Whitepaper (213 of 1995) on the National Strategy for the Development of Small Businesses in South Africa accentuated the need to facilitate information and advice, enhance procurement, expand access to affordable infrastructure, and to advance access to finance (South Africa, 1995). A wide assortment of policies and programmes saw the light in order to promote small businesses since the National Small Businesses Act was gazetted in 1996 as a result of the findings of the White Paper of 1995. The justification for the promotion of SMMEs were two-fold. Firstly, SMMEs were perceived as engines of growth, and secondly SMMEs were positioned to create employment (South Africa, 1996a).

Government programmes supporting SMMEs are divided into three main categories: access to finance, access to markets and business support (Dlova, 2017; NCR, 2011). At provincial and local level initiatives have been undertaken to promote small businesses through business incubators, the provision of finance, business mentorship and skills development (Amra et al., 2013). Government's initiatives to provide financial support to SMMEs are distributed across five departments mainly, namely the Department of Trade and Industry (DTI), the Department of Economic Development (DED), the Department of Science and Technology (DST), the Presidency, and the Department of Agriculture, Forestry and Fisheries (DAFF) (NCR, 2011) as displayed in Figure 4.4. In 1996, Kula Enterprise Finance Limited was established to ensure access to finance for SMMEs. In 2001 the Umsobomvu Youth Fund came into existence to assist youths with finances to participate in this sector. In 2004 the SEDA was established with the merging of Ntiska Enterprise Promotion

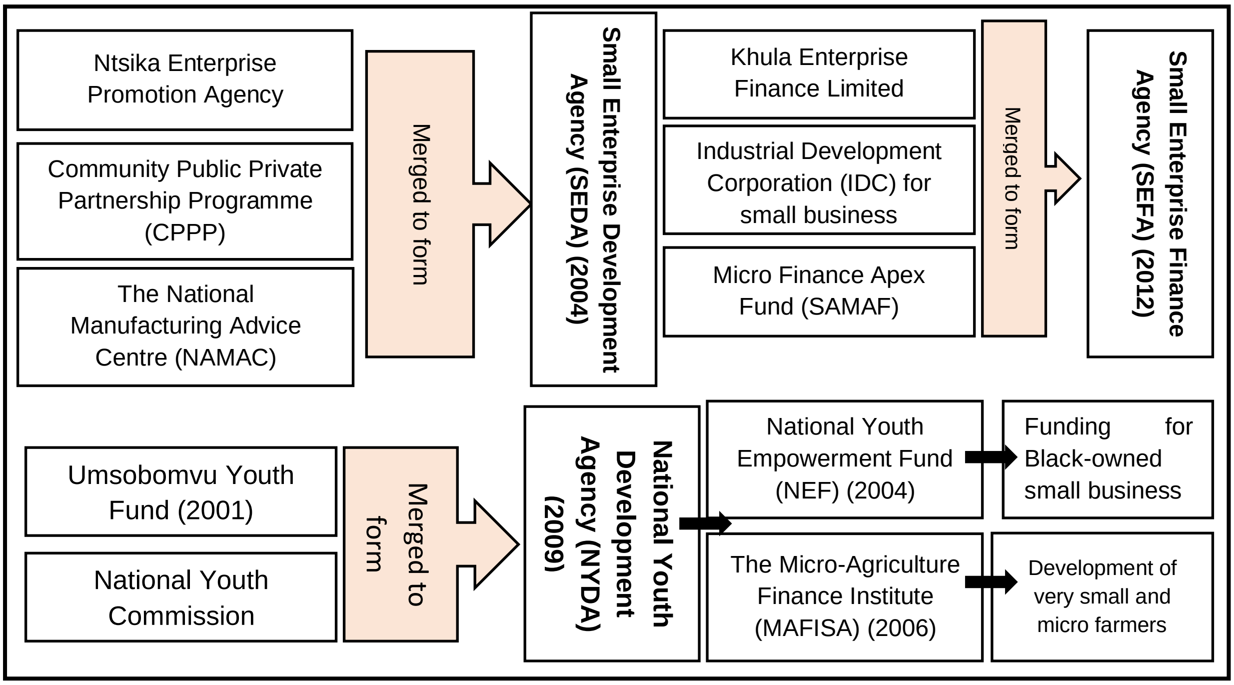
Agency (established with the aim of providing non-financial support to SMMEs), the Community Public Private Partnership programme (CPPP), and the National Manufacturing Advice Centre (NAMAC). The SEDA was authorised to integrate government-funded small businesses enterprise support and to affect government's small business strategy across all levels of government (Amra et al., 2013; DTI, 2010; NCR, 2011). The National Empowerment Fund (NEF) became operational in 2004 with the aim of funding Black-owned small businesses. The Micro Agricultural Financial Institute of South Africa (MAFISA) was launched in 2006 to facilitate the development of very small and micro farmers, small landholders, emerging farmers, and micro-entrepreneurs in the agricultural sector. In 2009 the National Youth Development Agency (NYDA) was formed after a merger between the National Youth Commission and the Umsobomvu Youth Fund. The aim of NYDA is to develop career skills for the youth and to assist them with the establishment of businesses (Van Zyl & Ntiso, 2010). The Technology and Innovation Agency (TIA) was launched in 2010 which includes the Tshumisano Trust, the Innovation Fund and the Council for Scientific and Industrial Research's (CSIR) Advanced Manufacturing Strategy. In 2012 Khula Enterprise Finance Limited, the Industrial Development Corporation's (IDC) small business division and South African Micro Finance Apex Fund (SAMAF) was incorporated to form the Small Enterprise Finance Agency (SEFA) (Amra et al., 2013; Dlova, 2017). Since 1994, programmes and schemes enabling access to finance to SMMEs were established and re-established by means of mergers and incorporations under new names, and in some instances new entities which complicate the identification of the institutions that can assist with access to finance. A summary of how the structures to support SMMEs fit into one another, and the initiatives undertaken to enhance the development of SMMEs are displayed in Figure 4.4.



Source: Adapted from Amra, Hlatswayo & McMillan (2013); DTI (2010); NCR (2011).

Figure 4.4 Government initiatives and structures providing support to SMMEs

The Small Business Development Ministry was established in 2014 in South Africa with the aim to deliver dedicated and focused support to small businesses, and to ensure that the common challenges that confront the sector as mentioned above are addressed in a co-ordinated manner (Thulo, 2014). Priorities of the Small Business Development Ministry include addressing the legal and regulatory environment; improving access to markets, and availability of finance; addressing the skills deficit; enabling better access to information; and improving the effectiveness and reach of support institutions (Thulo, 2014). Three development finance institutions – Khula, SAMAF and the business finance section of the Industrial Development Corporation (IDC) merged into the SEFA. Figure 4.5 provides a display of how the programmes promoting access to finance to SMMEs merged to form new organisations, with the intention to streamline assistance pertaining to access to finance.



Source: Adapted from Amra, Hlatswayo & McMillan (2013)

Figure 4.5 Government programmes supporting access to finance

The lending criteria used by the SEFA and the NYDA to provide access to finance to SMMEs is very similar to what commercial banks require to successfully approve loans, as was found in the study of Dlova (2017). This is supported by the findings of Van Zyl and Ntiso (2010). Their considerations include the five Cs of credit, as well as the business plan. As in the case with commercial banks, Dlova (2017) found that the business plan is of secondary importance to the creditworthiness of the SMME. The owner's contribution is furthermore required to be 30% or more, depending on the risk of the applicant. Collateral requirements, cash flow as well as conditions are also assessed by government institutions, and is viewed as of paramount importance for a successful loan outcome. One of the mandates of the SEFA is to cushion firms with no or poor owners' contribution and insufficient collateral. Dlova (2017) questions this mandate, as the majority of SMMEs studied had no owners' contribution and collateral, as is the case with many SMMEs operating in South Africa. Dlova (2017) indicated that access to credit will remain a continuous challenge if the SEFA does not fulfil its mandate.

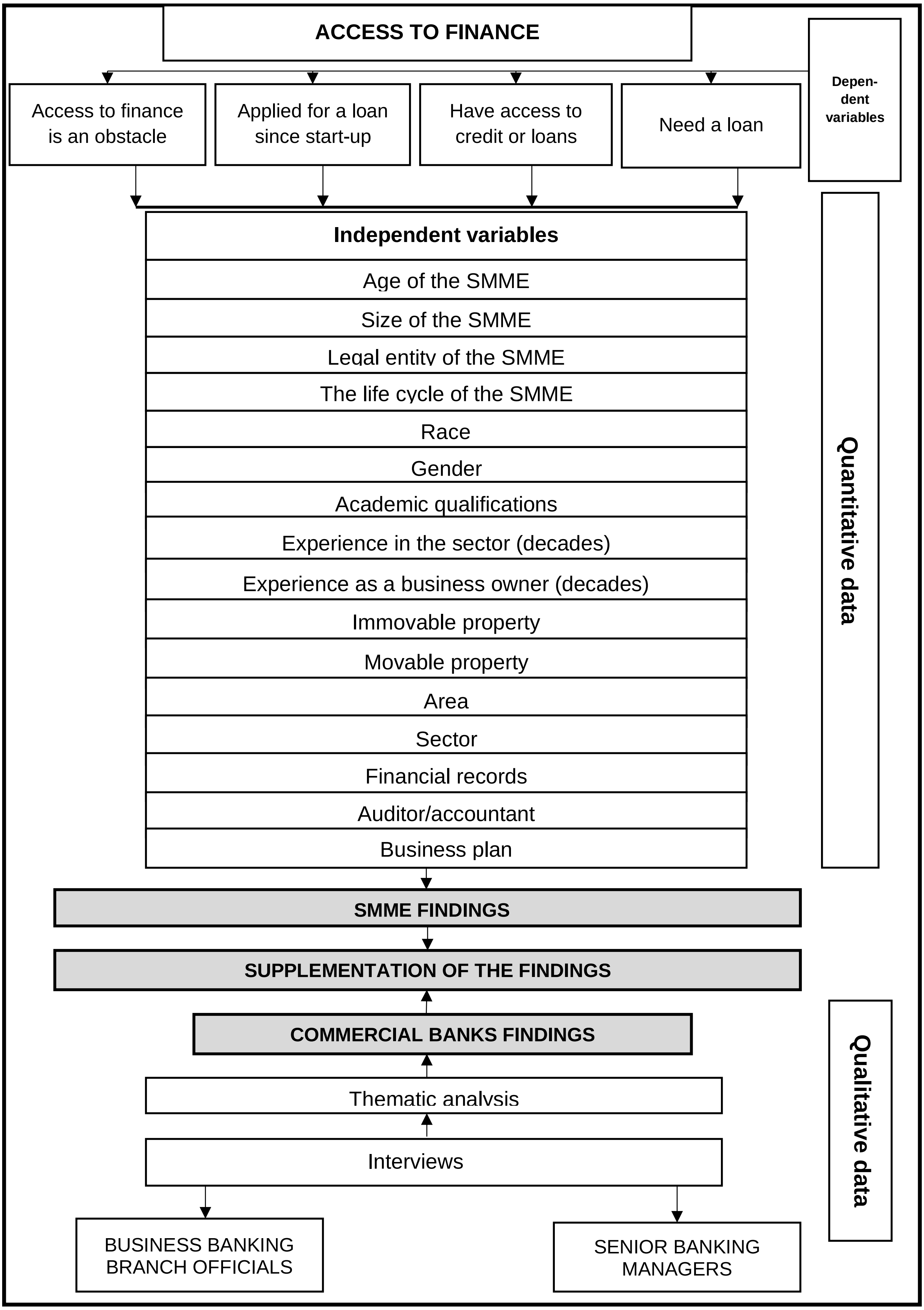
It is similarly reported that SMME owners applying for credit failed to articulate their business plans when required to do so. Dlova (2017) explains that this is attributed to the fact that government agencies such as the SEDA and the NYDA do not appoint consultants to develop business plans and to articulate linkages between what is captured in the business plan, and what it implies for the various functions of the business efficiently.

To conclude Agbenyegah (2013), Dlova (2017), FinScope (2010) and Timm (2011) are of the opinion that programmes instituted by government institutions assisting SMMEs are not effective. These authors question the effectivity of the institutions in their eventual aim to foster an enabling environment for SMMEs to be educated, to be funded, and as a result of the aforesaid, to grow. Finfind (2018) and FinScope (2010) indicated that the awareness of the programmes is furthermore limited.

Taking the literature review pertaining to commercial banks into account, including credit risk analyses and the manner in which loan applications are processed to reach a final loan outcome within a set regulatory environment, the conceptual model for the study is explained in the next section.

4.4.4 Conceptual model for the study

A conceptual model is used in research "to outline the possible courses of action or to present an idea of thought" (Elangovan & Rajendran, 2015:1). A rigorous conceptual model will allow the researcher to collect the right kind of information from a sample, which will facilitate suitable data analysis (Sekaran & Bougie, 2014). As such, a conceptual model provides the course of action that will be followed to gather, process and analyse data in order to reach the objectives of the research. Figure 4.6 provides a visual display of the conceptual model used for this study.


ACCESS TO FINANCE
Access to finance is an obstacle
Applied for a loan since start-up
Have access to credit or loans
Need a loan
Depen-dent variables
Independent variables
Age of the SMME
Size of the SMME
Legal entity of the SMME
The life cycle of the SMME
Race
Gender
Academic qualifications
Experience in the sector (decades)
Experience as a business owner (decades)
Immovable property
Movable property
Area
Sector
Financial records
Auditor/accountant
Business plan
Quantitative data
SMME FINDINGS
SUPPLEMENTATION OF THE FINDINGS
COMMERCIAL BANKS FINDINGS
Thematic analysis
Interviews
BUSINESS BANKING BRANCH OFFICIALS
SENIOR BANKING MANAGERS
Qualitative data

Source: Author

Figure 4.6 Conceptual model of the study

The quantitative variables used for this study are considered at first, after which the thinking process of the qualitative part of the study will be explored. Both methods will be employed to reach the overall objective, namely to explore access to finance of SMMEs from formal lending institutions in the Free State Goldfields.

4.4.4.1 Quantitative part of the study

Insufficient access to finance remains a recurring challenge for SMMEs, as explained in the literature review of Chapter 3. Factors related to the nature and characteristics of SMMEs result in credit rationing. In order to analyse various associations between access to finance and the nature and characteristics of SMME and the SMME owner, four dependent variables were selected to include various components of access to finance. At first, access to finance perceived as an obstacle was selected. The World Bank Enterprise Surveys (World Bank, 2007-2020) required respondents to indicate the biggest obstacle to their business operations. Wang (2016) similarly researched access to finance as an obstacle, as well as the various characteristics of SMMEs. As such, this variable was selected as a dependent variable. The variable applied for a loan was used by the World Bank Enterprise Surveys (World Bank, 2007-2020), Mengistae et al. (2010) and Brijlal and Yan (2015) and was therefore selected. The dependent variable "do have credit or loans" also indicated as having access to finance, credit, loans, debt finance or credit approval in literature, was used as dependent variable in the studies of Brijlal and Yan (2015), Fatoki and Odeyemi (2010), Fatoki and Asah (2011), Mahloana (2019), Mengistae et al. (2010), Mutezo (2015), Kira and He (2012), Kira (2015), Pandula (2011) and the World Bank Enterprise Surveys (World Bank, 2007-2020) and was thus chosen. The dependent variable "need a loan" was used in the studies of Mengistae et al. (2010) and by the World Bank Enterprise Surveys (World Bank, 2007-2020), and was furthermore selected for this study. The rationale for the selection of the four access to finance variables is based on the fact that previous literature attempted to establish relationships with the nature and characteristics of SMMEs in order to determine whether these associations reinforce credit rationing, or not. Although the variables access to debt, credit or finance are most recurring in literature, perceiving access to finance as an obstacle, having applied for a loan and the need for a loan are other variables investigated, yet to a lesser extent. Nevertheless, the selection of access to finance variables for this study was furthermore chosen to enhance comparability with prior literature, and to inform the objectives of this study. The secondary objectives of this study are thus to determine associations between access to finance as an obstacle, having applied for a loan since business start-up, having credit or loans, needing a loan, and the nature and characteristics of SMMEs.

The independent or explanatory variables utilised were classified following the nature of operations of the SMME, characteristics of the SMME owner and other financial characteristics. The rationale for using these variables for the various regressions is provided below.

- The age of the SMME

SMMEs' need and ability to access finance changes over time. At first internal sources of finances are utilised. As the SMME grows and a track record has been established, its ability to access finance from commercial banks is enhanced. Being in business for several years shows that the SMME could sustain itself on average. Information opacity also becomes less with age (Pandula, 2011). Many studies have reported significance between access to finance and the age of the SMME (Fatoki & Odeyemi, 2010; Kira & He, Mahloana, 2019). The SMME moves past the start-up phase between 2 ½ (Falkena et al., 2001) and 3 ½ years (42 months) (Herrington et al., 2017), when it is then expected to grow (Canto-Cuevas et al., 2019). In literature the age of the SMMEs is divided into various categories, and consistency pertaining to the division of years of operation is not evident (Fatoki & Asah, 2011; Kira & He, 2012; Kira, 2015; Mahloana, 2019; Mengistae et al., 2010; Pandula, 2011). The relationship between the various access to finance indicators and the age of the SMME will thus be investigated. The categories of the age of operation for this study were divided into three levels including one to three years (suggesting start-up), four to ten years (suggesting the growth phase), and more than ten years (suggesting the steady phase). The rationale for the selection of the age groups is to establish during which phase of the life cycle access to finance is more challenging, and at what age this particular challenge diminishes. Furthermore, the differences between the association of the age levels and the access to finance variables will also be established.

- The size of the SMME

The size of the SMME is one of the most important variables enabling access to finance (Pandula, 2011). As noted previously, smaller SMMEs are more constrained when it comes to accessing finance, compared to medium and large enterprises (Beck, 2007; Fatoki & Odeyemi, 2010; Kira & He, 2012; Mengistae et al., 2010; Wang, 2016). There is no consistency in the categorisation of size in literature. For example, Fatoki & Odeyemi (2010) considered the difference between small (employing 1 to 49) and medium enterprises (employing 50 to 200). Fatoki and Asah (2011) included additional layers for medium enterprises (100 to 149 and 150 to 200). Pandula (2011) divided the size of the SMME into small (employing 20 or less) and medium (employing more than 20 but less than 99). Kira and He (2012) and Kira (2015) included large enterprises, but did not define parameters for small, medium and large enterprises. Mengistae et al. (2010) divided the size of SMMEs into micro (employing less than 5), small (employing between 5 and 19) and medium (employing between 20 and 99). Fowowe (2017) furthermore divided the size into small (employing 11 to 50) and medium (employing 51 to 200) and large (employing more than 200). Taking the variation in the sizes of SMMEs into consideration, this study focused specifically on the differences in SMMEs' ability to access finance between micro and very small businesses (employing between 1 to 10) and small businesses (employing between 11 to 50), as stipulated by the NSBA (102 of 1996). Micro, very small and small businesses represent the largest cohort of SMMEs operating in South Africa (Finfind, 2018, Finmark Trust, 2015), and were therefore the focus in terms of size for this study, as obtaining finance is significantly more difficult for these businesses. When one considers the categorisation for size used by the World Bank Enterprise Surveys which is the same as used by Mengistae et al. (2010), then the category small businesses stipulated by the NSBA (102 of 1996) also includes medium enterprises (employing 20 to 50). The rationale for the selection of the size category is to determine an association between the type of SMME either being micro or very small, as opposed to small, and the access to finance variables.

- The legal entity of the SMME

The legal or ownership structure does influence the SMME's ability to access finance (Mahloana, 2019). This being said, in the study of Balogun et al. (2018) it was found that ownership structure is a weak predictor of credit accessibility. Sole proprietors and partnerships who face unlimited liability, and who are not required to have financial statements verified by an outside authority such as an accountant or auditor, increase the risk of commercial banks to lend to these entities (Pandula, 2011).

Two levels of ownership will thus be considered for this study, this being SMMEs with unlimited liability and SMMEs with limited liability. The selected access to finance variables will be regressed on SMMEs either being sole proprietors and partnerships versus closed corporations, private companies, incorporated private companies, franchisees and trusts. The motivation for dividing SMMEs as either operating with unlimited liability as opposed to limited liability is to determine which group experiences the challenge of access to finance more severely, and whether operating within a legal entity could be beneficial when applying for finance. The association between the access to finance variables and SMMEs with unlimited liability as opposed to limited liability will thus be established.

- The life cycle of the SMME

The variable age and size influence the growth patterns of the SMME, and therefore where in the life cycle the SMME is operating at. Generally, literature indicates that after the start-up phase of the business it is expected to grow (Canto-Cuevas et al., 2019). In the growth phase the turnover, total assets, profits, return on investment and other performance measures increase (Nieman & Nieuwenhuizen, 2019) as stated in Chapter 3. One would expect that being in a growth phase will enhance the ability of the SMME to obtain finance from commercial banks. Pandula (2011) researched the performance of the SMME and access to finance by using the growth of sales taken over a period of three years. Fowowe (2017) considered employment growth as a dependent variable and regressed it on various access-to-finance variables. Therefore, the relationship of the selected 'access to finance' indicators indicated above, and where in the life cycle the SMME is functioning at will be explored. Just as with the age of the SMME, the life cycle variable was divided into three levels. Level one includes SMMEs in the start-up phase and beyond start-up, and still earning small amounts of revenue. The data collected from the respondents pertaining to the start-up phase will thus be divided into two categories to be analysed descriptively, as the latter (beyond start-up and still earning small amounts of revenue) needs to be targeted by government in specific. For the regression analysis, these two groups will be categorised as one level. Level two entails the growth and expansion phase with or without access to external finance. These two categories will be analysed separately in Chapter six, as the latter (growth and expansion without access to finance) presents an untapped market for commercial banks to exploit. For the regression analyses the two categories will be grouped into one level. Level three includes SMMEs operating in the steady phase. The exit phase will be excluded. Thus, an association between the access to finance variables and the life cycle of the SMME will be established. The significant differences between the three levels will furthermore be determined in association with the access to finance variables. The rationale is thus to ascertain whether functioning at a specific phase of the life cycle has an influence on financial access.

- Race

In the study of Mengistae et al. (2010), it was established that the race of the owner influences their ability to access finance. Access to finance for Black, Indian and Asian SMME owners were noticeably more difficult to obtain compared to White SMME owners, as specified in Chapter 3. Race was also considered in the studies of Brijlal and Yan (2015) and Coleman (2004). Therefore, this study will establish whether or not the selected access to finance variables is associated with the race of the SMME owner. The category "race" will be divided into two levels: level one representing black, Coloured, Asian, Indian, and others (being foreigners), and level two representing white SMME owners.

- Gender

Various studies have attempted to determine similarities and differences between access to credit and gender (Balogun et al., 2018; Brijlal & Yan, 2015; Fatoki & Asah, 2011; Hwaririe, 2012). Brijlal and Yan (2015) found that men applied significantly more for loans, but that women were significantly more successful in obtaining loans. Balogun et al. (2018) and Fatoki and Asah (2011), to the contrary, found gender to be a weak predictor of access to credit, as indicated in Chapter 3. Taking these studies into account, gender will be used as an independent variable in order to determine whether there is an association with the various access to finance indicators.

- Academic qualifications

Previous research attempted to establish a relationship between the level of education and access to credit (Balogun et al., 2018; Brijlal & Yan, 2015; Fatoki & Asah, 2011; Fatoki & Odeyemi, 2010; Mahloana, 2019; Pandula, 2011). Irwin and Scott (2010) found that graduates had less difficulties in obtaining finance compared to non-graduates. The authors explained that a more educated entrepreneur is more capable of presenting financial information and business plans to affect a positive outcome for obtaining loans. The authors furthermore noted that an educated entrepreneur has the ability to manage the various functions of a business, and commercial bank officials value education. It was noted by Pandula (2011) that educated entrepreneurs are more likely to be able to adhere to the complicated administrative requirements of a credit system. These are all aspects related to education enhancing the SMME owners' ability to obtain finance. Therefore, this study will attempt to establish whether an association exists between the various selected access to finance indicators and the education level of the SMME owner. The level of qualifications of the SMME owner was divided into three levels. Level one comprised of SMME owners with no schooling to some form of high school. Level two included SMME owners who have completed Grade 12 or Matric, and level three included those who have apprenticeships, post-Grade 12/Matric certificates or diplomas, degrees or postgraduate degrees. Significant differences between the education levels of the SMME owner in association with the access to finance variables will furthermore be established. Whether or not the education level of the SMME owner influences his/her ability to access finance could therefore be determined.

- Experience in the sector and as a business owner

Studies have attempted to research the relationship between the experience of the SMME owner and access to finance (Balogun et al., 2018; Brijlal & Yan, 2015; Fatoki & Asah, 2011; Fatoki & Odeyemi, 2010; Mahloana, 2019; Pandula, 2011). Mahloana (2019) reported a statistical significance between access to finance and the experience of the business owner or managers. Pandula (2011), to the contrary, found no significance of the said variables. Taking the literature into account, the variables years of experience in the sector and years being a business owner (in decades) will be selected as independent variables. It is thus the aim to establish whether or not an association exists between the selected access to finance indicators and the experience of the SMME owner in the sector and as a manager. The influence of experience on obtaining finance can moreover be verified.

- Having access to immovable property

Previous research established that to secure bank finance collateral is required (Mahloana, 2019; Mutezo, 2015; Pandula, 2011). In general, SMMEs possess fewer tangible assets compared to larger firms. The stage of growth furthermore influences the SMMEs' ability to use retained earnings to acquire fixed assets which could be pledged as collateral. A relationship between the selected access to finance variables and access to immovable property will thus be explored.

- Having access to movable property and access to finance

Some forms of movable property are excepted by commercial banks as security for bank finance, such as equipment or machinery. Generally, all forms of assets which can be moved from place to place are considered as immovable property. Movable property could either be tangible or intangible (Naumann, 2019). Intangible movable property includes amongst others shares and outstanding book debts. Sessions on outstanding book debts is a form of security excepted by commercial banks (Naumann, 2019). Although Xu (2019), researched trends of large firms accessing credit, the author found that collateral law that allows for movable assets to be pledged increases the likelihood of access to bank credit significantly. Having access to movable property will thus be selected as an independent variable in order to establish whether or not an association exist with the various access to finance indicators.

- Area of operation

SMMEs operate in formal and informal environments. As established in Chapter 3, the geographical area in which SMMEs operate can influence the entities' ability to obtain finance, as economic activity differs from place to place. Prior literature indicated that the distance between the bank and the borrower does have an impact on SMMEs' ability to access finance (Hwarire, 2012; Pandula, 2019). The distance between the borrower and lender could influence the relationship the SMME has with the bank. Bank officials operating in rural or informal areas might have a lower designated authority, which could affect the time it takes for loans to be approved. In less formal areas loan rejections might also be more, as loan approvals are done by the head offices of commercial banks, and head offices might not be familiar with the customers and projects (Pandula, 2011). SMMEs furthermore need to have a verifiable address, which is often not the case in informal environments. Having access to insurance also enhances access to finance which is frequently non-existing with SMMEs operating in the townships (Fatoki & Asah, 2011) as stated in Chapter 3. Pandula (2011) further notes that the market value of collateral that SMMEs could provide operating in informal environments is less compared to those operating in formal environments. For this study, an association between the area of operation and the various access to finance variables will thus be explored. As such, the area of operation was divided into SMMEs operating in towns as opposed to townships. This will enable conclusions to be drawn on whether SMMEs operating in townships have a bigger challenge to obtain finance compared to SMMEs operating in towns.

- Sector of operation

Prior literature indicates that the type of sector in which the SMME operates influences their ability to access finance (Dlova, 2017). SMMEs operating in sectors that are competitive, innovative and expanding are funded by commercial banks (Pandula, 2011). However, in Sub-Saharan Africa the general level of innovation tends to be low, and customers do not consider the products that they buy to be unique, since many competitors sell the same products. Products are thus bought and sold without transformation taking place (Singer et al., 2014). Furthermore, SMMEs functioning in some sectors do require more external finance as dictated by their projects and cash flow. These SMMEs might require credit for the purchase of machinery, equipment and buildings (Pandula, 2011). SMMEs functioning specifically in capital-intensive industries might face more than proportionate difficulty in accessing finance (Kumar & Francisco, 2005). SMMEs operating in the services sectors do mainly provide services by means of using human capital. Offering collateral to secure external finance could thus be more challenging for them, as was reported by Silva and Carreira (2010). In literature, there is no consistency in terms of the selection of sectors when a relationship with access to finance is established. For example, Mengistae et al. (2010) only considered manufacturing and the services sectors. Pandula (2011) researched five sectors including food, garments, metals and machinery, non-metallic and plastic materials and textiles. Kira and He (2012) considered the primary, secondary, tertiary and quaternary industries' relationship to access to finance. In a later study, Kira (2015) excluded the quaternary sector. The selection of sectors of operation used to collect descriptive statistics from the respondents for this study was divided into the various categories stipulated in the NSBA (102 of 1996) (South Africa, 1996b) and subsequent amendments in 2003 (South Africa, 2003) and 2004 (South Africa, 2004b). The sector of operation will be grouped into four levels. Level one will include agriculture, mining, manufacturing, electricity and gas and construction, therefore, SMMEs mainly operating in the primary and secondary sectors. Level two will consist of wholesale, retail and motor trade and repair services. This level relates to trade. Level three will include commercial agents, catering, transport, communication and business services, thus comprising of business services in general. Level four will comprise of community, social and personal services. This level combined services to persons and the community. For this study, the association between the sector of operation and the access to finance variables will be explored in order to establish whether or not the sector of operation does have an influence on access to finance. Significant differences between the sector levels in association with the access to finance variables will moreover be determined. Sectors struggling to access finance could thus be identified.

- Financial record-keeping

For SMMEs to access finance keeping financial records is essential. Commercial banks scrutinise financial statements before credit is granted (Nieman & Nieuwenhuizen, 2019). SMMEs do not always have proper accounting systems in place. Financial and production reports are thus not accurate and trustworthy (FinMark Trust, 2015). Incorrect accounting procedure hampers accurate affordability assessments (Tsaih et al., 2004), as indicated in Chapter 3. Baas and Schrooten (2005) concluded that the reason that commercial banks are reluctant to provide credit to SMMEs is that information available on these entities in the public domain is quite limited. The legal accounting requirements for SMMEs operating as sole proprietors or partnerships are furthermore low. The authors established that unreliable financial information could translate into higher interest rates to offset the risk of lending to SMMEs, even if a long-standing relationship exists between the borrower and lender. As such, this study will explore whether or not an association is evident between keeping financial records and the various access to finance variables.

- Utilising an auditor or accountant

Having an accountant or auditor enhances the reliability of the financial record keeping, and therefore makes it easier for SMMEs to access finance from commercial banks. There is thus a reduced risk taken by the commercial bank when financial records are audited by an accountant or auditor (Fatoki & Asah, 2011; Pandula, 2011). The association between having either an accountant or auditor and the various access to finance indicators will thus be analysed to determine whether financial records corroborated by an external authority reduces the challenge to obtain finance.

- Having a business plan

Commercial banks require a business plan when an SMME applies for credit. Pretorius and Shaw (2004) and Nieman and Nieuwenhuizen (2019) reported that commercial banks perceive a business plan as an essential document to obtain credit. The current and future aspiration of the SMME needs to be established. The commercial bank thus needs to ensure that the loan applicant will be able to service the loan. The business plan provides supplementary information to take this decision. The relationship between the various access-to-finance indicators and having a business plan will therefore be investigated in order to establish whether having a business plan in place makes access to finance less challenging.

When SMMEs are knowledgeable about what causes them to be credit rationed, they can plan accordingly so that they are prepared in order to obtain credit and loans once they need to. In the following section the conceptual model will be explained, as it relates to the qualitative part of the study. It will be obtained from the suppliers of financial services, loans and credit - that being commercial banks.

4.4.4.2 Qualitative part of the study

Two levels of decision-making from commercial banks will be considered for financial services provision. Financial access involves a process. Interviews were held with branch officials and senior managers responsible for providing financial services and lines of credit and loans to SMMEs. The objective underpinning the qualitative section is (i) to explore how commercial banks enable the in-house process of providing access to finance to SMMEs, and (ii) to explore the reasons preventing financial access to SMMEs from the perspective of commercial banks. The rationale for the qualitative part is informed by the literature review of Chapter 4, and therefore by how commercial banks' loan criteria is set up to reduce the challenge of asymmetric information. At first, the involvement of commercial banks with SMMEs will be explored in terms of the financial services, loans and credit products that are available for these businesses to use. Various aspects related to the provision of financial services to SMMEs, such as the importance of a relationship with the commercial bank and the processes used and factors influencing SMME loans will be determined. The Cs of credit informed the thinking process. It will thus be determined what enhances SMMEs' ability to obtain loans and credit, and moreover what the challenges are in providing financial services to SMMEs from the views of commercial banks. The rationale for the said aspects explored during the interviews will be provided below.

- Involvement with SMMEs

Commercial banks provide a variety of financial services and credit and loan products to SMMEs, as indicated in the literature review of this chapter. These products are made available to SMMEs in start-up, and to those who are expanding and growing. Banks furthermore attempt to service the previously excluded cohorts of the population, and have implemented a variety of strategies to service this end of the market, taking into consideration that these clients might aspire to start a business or to expand an existing one. Mutezo (2015) similarly collected data pertaining to the types of loans offered by commercial banks to SMMEs, thus from a supply-side perspective. In her study, data were collected quantitatively by means of a structured questionnaire, and not by means of interviews. The involvement of banks in providing various services to SMMEs, and the manner in which loans are structured to fit the specific needs of SMMEs will thus be investigated from both the views of the senior bank managers and the bank officials operating at branch level.

- Importance of a prior relationship between the bank and the SMME

The importance of a relationship between the bank and the SMME has been emphasised in literature. Mahloana (2019) and Mutezo (2015) investigated the importance of a relationship with the SMME from commercial banks' perspectives. Pretorius and Shaw (2004) interviewed bank officials and summarised the data collected as either being objective - thus obtained from 'hard information', or subjective

- obtained from a relationship with the SMME owner. The importance of a relationship with the SMME will therefore be considered in this study.

- Processes used and factors influencing SMME loans

Commercial banks have criteria guiding the process of loan provision, as they have a fiduciary obligation to their depositors and shareholders enforced by fiduciary law, which limits their bank activities (Tuch, 2018). Certain documents are required in advance for pre-screening, after which various procedures and processes are undertaken to approve or reject a loan, as indicated in the literature review of this chapter. The process from applying for a loan until the eventual approval or rejection of the loan will therefore be explored.

- Creditworthiness

The establishment of the creditworthiness, thus the character of the loan applicant, is perceived to be essential for a successful loan outcome, as indicated in the literature review. This was determined in the study of Pretorius and Shaw (2004), amongst others. A creditworthy SMME significantly reduces the problem of asymmetric information (Mahloana, 2019), as a past credit history showcases how SMME owners respond to their obligations. As such the importance of a creditworthy applicant and the manner in which it is determined will be investigated.

- Financial statement data

Financial statement information is assessed to establish the capacity of the SMME owner to service the loan. Various quantitative studies researched the relationship of financial record keeping and access to finance as stated above. Pretorius and Shaw (2004) moreover collected interview data pertaining to the types of financial statement data commercial banks considered to be crucial in assessing the final loan application. Prudent financial statements furthermore reduce the challenge of asymmetric information (Mutezo, 2015). The importance of this aspect will therefore be considered in its relation to determining credit risk from the commercial banks' point of view.

- Owners' equity contribution

The ability of the SMME owners to provide an equity contribution, also known as capital, is determined when a loan is applied for. Insufficient owners' equity contribution was highlighted in literature of Fatoki and Odeyemi (2010) and Finfind (2018) as a reason for loan rejections from a demand-side perspective. Pretorius and Shaw (2004) explored the importance of an inhibited cash contribution in order to secure a loan from a supply-side perspective. This aspect will therefore be considered in order to determine to what extent it reduces the perceived risk of the bank to loan to the SMME, and how the lack thereof could result in credit rationing.

- Collateral

Mahloana (2019), Mutezo (2015), Fatoki and Asah (2011) and Fatoki and Odeyemi (2010), amongst others, investigated the relationship between access to finance and collateral, quantitatively from a demand-side perspective. Only Mutezo (2015) considered the importance of collateral quantitatively from the viewpoint of commercial banks. Pretorius and Shaw (2004) also considered this aspect from the views and perspectives of commercial banks using qualitative data. Collateral is tapped into in the case of adverse events preventing the SMME owner to meet its obligation. The importance of collateral in reducing credit risk will therefore be explored qualitatively and supplemented with the results forthcoming from the SMMEs.

- Characteristics of the SMME and SMME owner

Literature indicates that the structural formality, age and size of the SMME and education and managerial competencies of the SMME owner influence their ability to access to finance. The said aspects influence the capacity of the SMME owner to service the loan, as indicated in the literature review of Chapter 4. The age, size, education, managerial competencies and experience are elaborated on in the business plan, and will therefore be explored, as was done by Pretorius and Shaw (2004). This will allow for comparisons and contrasts with the quantitative results of this study.

- Business plan

The importance of the business plan in all its facets for commercial banks was explored by Pretorius and Shaw (2004). The business plan provides supporting evidence and supplements the Cs of credit, and will therefore be determined in this study. Aspects considered to be important in the business plan can thus be compared with the results obtained from the SMMEs.

- Communicating the outcome of the loan

The NCA (34 of 2005) requires institutions providing credit to communicate the outcome of the loan (South Africa, 2006b). This enables the borrower to establish reasons for the rejection of a loan, and also provides an opportunity to implement corrective measures enabling him/her to approach the bank for a loan at a later stage. Communication pertaining to the outcome of the loan, and whether or not reasons for loan rejections are provided by bank officials to SMMEs to inform them on how to take corrective action will therefore be established.

- Reasons for loan rejections

Various reasons for loan rejections have been researched from both a demand- and supply-side perspective. These include an impaired credit rating, insufficient collateral and owners' equity contribution, lack of financial atonement, and insufficient information provided in the business plan, to name a few (Fatoki & Odeyemi, 2010; Fatoki & Asah, 2011; Mahloana, 2019; Mutezo 2015; Pretorius & Shaw, 2004). Reasons for loan rejections will provide insight into how SMMEs could potentially take corrective action, and how they can be assisted by government institutions to enable easier access to finance. Therefore, this aspect will be explored from a commercial bank perspective.

- Monitoring and managing loan repayments and the risk of default

Commercial banks have procedures in place to monitor loan repayments and to manage the risk of default. Credit management is thus undertaken, as commercial banks act as delegated monitors as a result of their fiduciary obligation towards shareholders and to customers investing (Lumpkin & Schich, 2020). Pretorius and Shaw (2004) reported that the commercial banks verify the failure rate of businesses in areas in which SMMEs operate, as past experienced problems pertaining to certain types of businesses in different areas increase risk. Methods and processes used to monitor loan repayments and to manage the risk of default will thus be explored.

- Success rate of loans

Literature states that commercial banks do provide credit and loans to SMMEs, and their role in this market is clearly defined (BASA, 2018; Dlova, 2017; Mutezo, 2015). To determine whether or not commercial banks have increased their exposure to the SMME market is important to ascertain. The success rate of obtaining a loan furthermore impacts on the risk appetite of commercial banks operating in a specific area. This study will therefore explore whether or not the success rate of loans has increased during the past three years in order to determine their risk aversion in the area under investigation.

- Legislation, regulation and expectations of government

Regulation and legislation guide the processes and requirements used by commercial banks to provide financial services and credit and loans. This is done to protect investments made at commercial banks on the one hand, and on the other hand to protect the rights of consumers (SMMEs). Government furthermore has requirements for commercial banks to assist in creating economic growth by means of expanding credit to SMMEs. This is emphasised in the financial services charter. Commercial banks are regulated and need to make a profit. Therefore, this study will attempt to explore how commercial banks, balance their need to make a profit within a regulatory environment whilst adhering to the expectations of government to assist with advancing SMMEs through financial access.

The empirical results of the regression models and those obtained from the emerging themes from the interviews held with commercial banks will be supplemented with one another. This will be done to provide answers to the challenge of access to finance from the side of the SMME owners, being the demanders of credit, and that of the commercial banks, being the suppliers of credit. Furthermore, the results will be used to devise recommendations to the SMME sector, commercial banks and the government, to a lesser extent, to enhance the ability of SMMEs to access finance.

4.5 CONCLUSION

The literature review of this chapter examined the various functions and roles of banks in society, of which its principal role remains to provide credit by means of its intermediation role. Financial market failure as a result of asymmetric information causing adverse selection, moral hazard and credit rationing is perceived as the root cause of SMMEs' limited access to finance. In order to reduce uncertainty between the commercial bank and the SMME as a result of the information gap, commercial banks partake in a credit analyses process in order to manage their credit risk.

Commercial banks as such utilise both "hard information" obtained from financial statements and forecasts, and "soft information" obtained by means of banking officials' relationship with SMMEs to analyse loan applications. The commercial banks deem the character, capacity, capital, collateral and conditions in the market as important aspects when analysing the risk of granting credit to SMMEs. Other criteria used include control and common sense as proposed by certain authors. In assessing the financial character of the small business owner, past credit information captured by credit bureaus is mainly utilised to establish the same. To assess capacity, previous and projected cash flows and other financial data related to the SMME are also evaluated. Under the heading "capacity" the education, managerial competencies and industry skills of the owner and labourers are similarly considered. The owners' equity contribution and collateral are assessed by commercial banks before approving a loan. Market conditions are also contemplated to be important, specifically as they relate to the performance of other businesses in the same sector. The importance of the business plan was also reviewed, as commercial banks extract information from these documents to ascertain the intent of the SMME.

It can be concluded that South Africa has a sound banking system comparable to most developed countries. Commercial banks are prudent when approving loan applications due to their responsibility to their shareholders. On the one hand, you have the banks that have to comply with regulation. Subsequently, commercial banks that are noted at the stock exchange in the final instance have a fiduciary responsibility to their shareholders. On the other hand, government institutions are attempting to assist SMMEs in establishing a strong Black middle class, yet the efficacy of these institutions are questioned in literature. In South Africa, both the banks and the government aspire to assist SMMEs with access to finance, yet access to finance still remains a problem. In the following chapter, the research methodology of this study is presented.

CHAPTER 5

RESEARCH METHODOLOGY

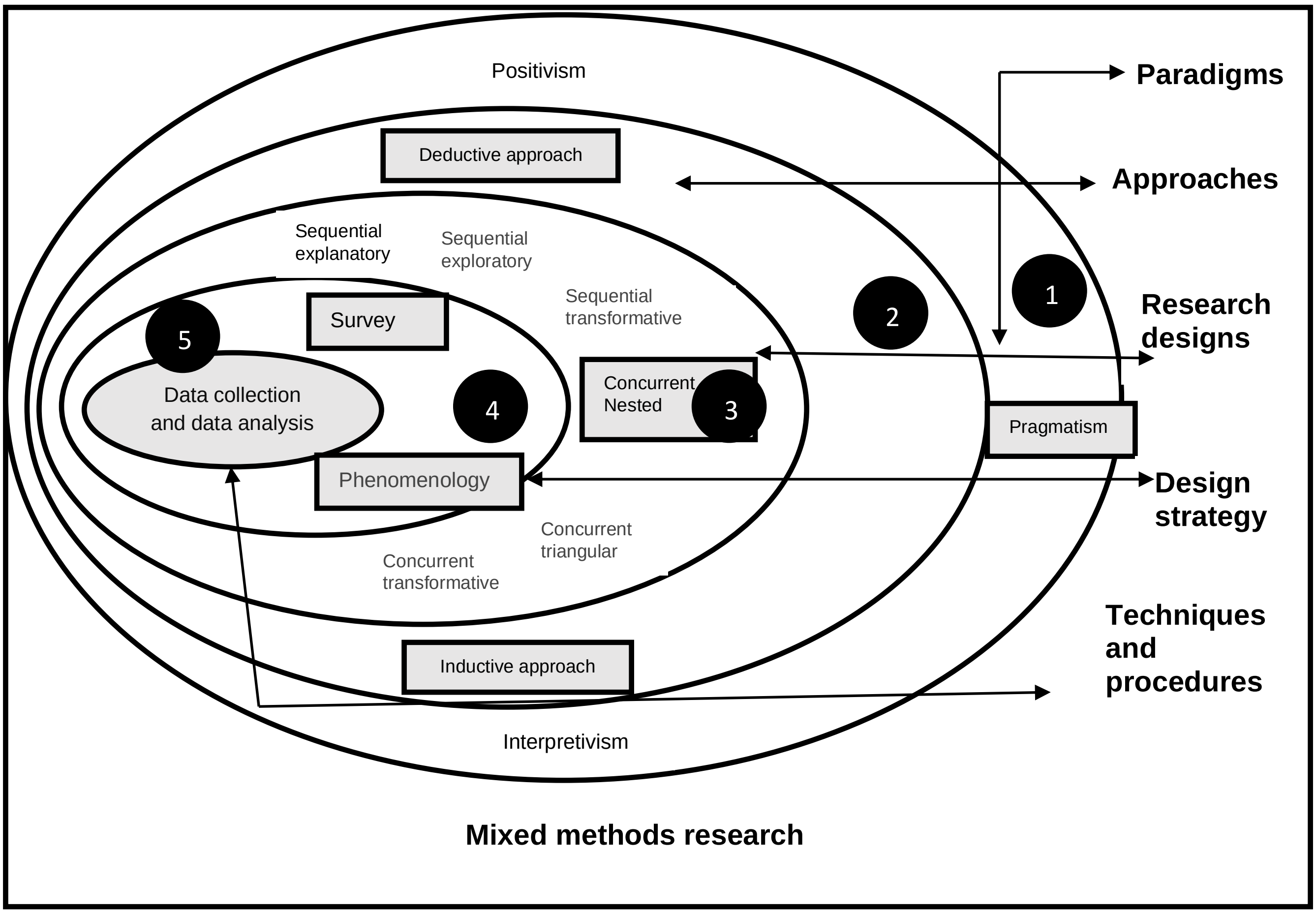
5.1 INTRODUCTION

In this chapter, the methodology used to address the primary research objective of the study, namely to explore the obstacles hindering access to finance for SMMEs situated in the Free State Goldfields, and the subsequent secondary objectives will be discussed.

An overview of the research process, the research design and the sampling methods employed will be provided. The chapter will further focus on the development of the research instruments and the process of the collection of data that was used in the study. This will be followed by explaining how validity and reliability of the quantitative measuring tool were ensured. The trustworthiness, quality and rigour of the qualitative measuring tool will also be explored. Finally, ethical considerations will be disclosed.

5.2 THE RESEARCH PROCESS

The research process explains the paradigms, strategies and methods followed by the researcher. Saunders, Lewis and Thornhill (2015) compared the research process to an ‘onion’ with layers, which conceptualises the process of research. A summary of the important issues in the research process is thus provided, including the philosophical position of the researcher, the research approach adopted, appropriate research strategies, the research time lines and the data collection techniques. This is reflected in Figure 5.1. The numbers in black indicate the research layers considered during the research process. This includes the research paradigm, approach and research design and strategy guiding data collection and analyses. The grey highlighted boxes display the research process used for this study.



Source: Adapted from Saunders, Lewis, Thornhill and Bristow (2015:128).

Figure 5.1 The research process of this study

The next section deals with the components of the so-called research 'union' as it relates to the components of the research process.

5.2.1 Research paradigm

The research paradigm is presented by the outer layer of the research process in Figure 5.1. The research philosophy or research paradigm defines the systematic collection and interpretation of information with the purpose of identifying issues/concepts (Saunders *et al*. 2015), and is the manner in which the researcher views and interprets the research material (De Vos, Strydom, Fouchè & Delport, 2011). A research paradigm is a perspective or a comprehensive belief-system that directs the research and custom in a specific field and provides the theoretical framework for a suitable research methodology.

5.2.1.1. Pragmatic research paradigm

This study utilised a pragmatic approach, as data were collected both quantitatively and qualitatively, and therefore from both a positivist and an interpretivist view post. A pragmatic researcher utilises multiple research designs (Creswell *et al*., 2003), thus called a mixed methods approach.

A mixed methods approach enables the researcher to investigate the problem from a number of perspectives, positions and viewpoints increasing the breadth and depth of the data collected, and furthermore limiting breaches in the information (Johnson *et al*., 2007) as stated in chapter 1. Pre-empted assumptions of the researcher are limited, as data collection methods are varied (Almalki, 2016; Johnson & Onwuegbuzie, 2004).

A major challenge resulting from using a mixed methods approach is trying to balance the two methods of reasoning, namely the interpretivist view for inductive reasoning, and the positivist view for deductive reasoning. Interpretivism entails the construct of meaning from experiences from the phenomenon under study, whereas positivism in social studies emphasises experience in general and observation and testing in particular (Clark, 2009).

It should, however, be noted that a mixed methods design should be perceived as a design in its own right as it is different and separate from the paradigms used to substantiate quantitative and qualitative research designs. As such, pragmatism has emerged as an alternative to the choice of positivism and interpretivism (Creswell & Plano Clark, 2007).

Pragmatism forms the foundation of a mixed method design (Teddlie & Tashakkori, 2009), and was articulated by the work of Cherryholmes (1992), who advocated that researchers should be concerned with applications and with ‘what seems to work’ when investigating, predicting, describing and exploring problems. As such, the combination of both quantitative and qualitative research methods was proposed as an alternative to understand research problems (Creswell *et al*., 2003). It is further seen as an extension of quantitative and qualitative research approaches rather than a replacement (Johnson & Onwuegbuzie, 2004). Almalki (2016) suggests that rather than restricting research opportunities to the utilisation of a singular approach, mixed methods research provides greater scope to investigate a problem by means of using both numbers and words, and as such benefits research and society as a whole.

The challenge of accessing finance is complex and remains a recurring problem for SMMEs. Moreover, taking the complexity of the credit market into account and the manner in which credit is analysed and managed by commercial banks justifies a mixed methods research design. A pragmatic approach was therefore adopted to provide answers to ‘What is’?, ‘How it works’?, ‘Why it works’? and ‘Why it does not work’? in order to provide solutions to the problem researched.

5.2.2 Research approach

Saunders *et al*. (2015) explain a second important layer of the research ‘onion’ known as the research approach, which could either be deductive determined quantitatively or inductive determined qualitatively. Deductive reasoning moves from a general theoretical understanding to a final testable hypothesis to answer research questions or objectives (De Vos *et al*., 2011). Inductive reasoning moves from concrete observations to a general theoretical explanation (Babbie, 2015).

A quantitative research approach involves researching quantities or amounts of variables. The purpose of quantitative research is to explain, predict, confirm, and validate and to test theory. Commonly accepted measures in the physical world or measures of psychological characteristics and behaviours are used in this regard. Quantitative measuring tools include tests, questionnaires, and rating scales. Quantitative researchers will thus identify variables that they intend to study and collect data pertaining to these variables from a population, or from represented samples of the population in manners that are easily converted into numbers. Quantitative researchers tend to rely on deductive reasoning starting with a hypothesis or theory, collecting data, and then drawing conclusions. The researcher stays objective during the research process, remains detached from the phenomenon investigated, and draws unbiased conclusions. Data collated is usually presented in a formal scientific style by means of summarising statistics using impersonal language (Leedy & Omrod, 2013).

A qualitative research approach involves characteristics or qualities. As such, nuances and complexities of a phenomenon are researched. The purpose is to describe, explain, explore, interpret and to build theory. The researcher tends to select a few participants to shed light on the phenomenon investigated. Data are collected verbally by means of interview responses, and non-verbally by means of documents, field notes, drawings, photographs or video material, amongst others. Qualitative researchers assume that reality cannot easily be measured in variables, as it is not concrete. The qualitative researcher becomes part of the research tool used to collect data because of their personal involvement. The researcher immerses him-/herself in the complexity of the research topic. Categories or themes emerge from data collected. The researcher acknowledges that analysis is subjective and potentially biased. The qualitative researcher often constructs interpretive narratives to explain the phenomenon. A personal or literary style is used for reporting, often including the language and perspectives of participants (Leedy & Omrod. 2013).

It should, however, be noted that quantitative researchers could formulate a theory by means of inductive reasoning, and qualitative researchers similarly could move into to deductive mode when the verifying or modifying additional data supporting identified themes obtained from data. Inductive and deductive reasoning are not always used exclusively from one another (Leedy & Omrod, 2013).

For this study, both deductive and inductive research approaches were used. Quantitative data were collected from SMMEs, which were supplemented by qualitative data obtained from commercial banks. Research objectives were investigated using multiple research methods to increase the breadth and depth of the phenomenon researched. Trends and relationships were established from data obtained from SMMEs pertaining to access to finance, as the population is large. Commercial bank officials were interviewed to determine how they assist in enabling access to finance to SMMEs, and to establish reasons preventing financial access. The experiences and expertise of bank officials in providing financial services, including the granting of credit and loans and the challenges forthcoming from delivering these services to SMMEs were investigated to provide meaning to the overall problem of accessing finance. In the next section, the research design adopted for this study is discussed.

5.2.3 Research design

The third layer of the 'onion' includes the research design. De Vos *et al.* (2011) explain that when making the choice of a specific mixed method research design, three decisions need to be made. These decisions are used as criteria to establish the type of research design used for mixed methods research (Creswell *et al*., 2003). First, the timing or sequence of mixed methods data collection needs to be considered. For this purpose, the research design is classified as either being sequential or concurrent. A sequential design occurs when data collection and analysis proceeds through two distinct phases. In a concurrent design quantitative and qualitative data are collected simultaneously in one phase. Second, the weight, priority or relative importance of the quantitative and qualitative research approaches need to be considered. Two possibilities are contemplated in terms of addressing the research problem, namely equal weighting or unequal weighting, and therefore either a qualitative or quantitative priority or emphasis. Third, the integration, embedding, or connectedness of the two datasets need to be determined. Creswell *et al.* (2003) included the theoretical perspective of the researcher as a fourth criterion for mixed methods research designs. This theoretical perspective is the lens through which the research is done, and is known as a transformative design. The theoretical lens may be explicit or implicit in all forms of mixed methods research. With transformative studies the lens is made explicit in the study. This occurs when the research pursued aims to advocate change.

There are various designs for mixed methods research providing extensive detail to the research design, emphasising different features and using different names (Caraceli & Green, 1997, Creswell *et al*., 2003; Creswell & Plano Clark, 2007, Teddlie & Tashakkori, 2009, Leedy & Omrod, 2013). From existing literature and research reports six major designs were identified by Creswell *et al.* (2003) and Creswell and Plano Clark (2007) for mixed methods research by means of using the four criteria: implementation, priority, integration and the theoretical perspective, as stated above. The six designs include sequential explanatory, sequential exploratory, sequential transformative, concurrent triangulation, concurrent nested and concurrent transformative. In the following subsections, the six mixed method research designs identified by Creswell and Plano Clark (2007) will be explored.

5.2.3.1 Sequential explanatory design

A sequential explanatory design involves the collection and analysis of quantitative data, followed by the collection and analysis of qualitative data. The integration takes place in the interpretation phase of the study. The implementation of the design may or may not be influenced by a theoretical viewpoint. The design usually has a quantitative priority (Creswell *et al*., 2003). The quantitative data collected first could also be used to identify groups of interest, and to inform the sampling process of the qualitative data collection process (Castro, Kellison, Boyd & Kopak, 2010; Leedy & Omrod, 2013). The quantitative results in this type of research design are usually enriched by the qualitative results by means of explanations and interpretations. The sequential explanatory design is best suited for explaining and interpreting relationships. The main advantage of a sequential research design is the collection of data in two phases in two different time frames. Phase one of the data collection could be used to transform and inform intended measuring tools of the second phase of the study. This design is also suitable using qualitative data, to explain the surprising or unforeseen results obtained from the quantitative part of the study (Creswell *et al*., 2003).

5.2.3.2 Sequential exploratory design

In contrast to the sequential explanatory design, with an exploratory design the qualitative phase of data collection is first and given a priority in most instances. In the second phase quantitative data is collected. The design could be applied within a certain theoretical perspective, but this is not a necessity. The findings of both the qualitative and quantitative results are integrated in the interpretation phase of the study. The phenomena are explored by means of the qualitative data, and the findings are supplemented with quantitative data. This design is useful for testing elements of a promising theory, or when an instrument is developed and tested. A variation to this design is also possible. This occurs when the quantitative data collected in the second phase of the research process is given a priority, and when the researcher, in principle, wants to conduct a quantitative study, but requires qualitative data to narrow the focus to specific variables. Another variation to the exploratory sequential design occurs when both quantitative and qualitative data are given an equal priority, but taking the two phases into account, the research process could be time consuming. The time limitation is however present in both the sequential explanatory and sequential exploratory designs (Castro *et al*., 2010; Creswell *et al*., 2003; Leedy & Omrod, 2013).

5.2.3.3 Sequential transformative design

In a sequential transformative design two phases of data collection are also present, as with the previous sequential designs discussed. By means of this design it is the choice of the researcher to determine which data type will be collected in the first phase. The priority of the type of data collected is guided by the research questions. The qualitative and quantitative results are integrated separately or together in the interpretation phase. The sequential transformative design does have an explicit theoretical perspective or a conceptual framework to guide the research process. By means of this research method a voice is given to participants, which has the purpose of substantiating advocacies for change. The design has the same advantages and limitations as the previous described research designs; yet this design places multi-method research in a transformative framework. It should however be noted that progress from the data collection phases to the eventual analysis phase could be challenging (Casto *et al*., 2010; Creswell *et al*., 2003).

5.2.3.4 Concurrent triangular design

The concurrent triangular design, also known as a convergent design (Leedy & Omrod, 2013), is the most popular and most commonly found in mixed methods research. The strengths of both quantitative and qualitative data are enhanced, and the limitations of the aforesaid methods of data collection are used in such a way that the one method is used to supplement the limitations of the other. Data are collected in one phase, ideally with an equal priority to both quantitative and qualitative data. The priority could however be uneven. Combining qualitative results with quantitative findings enables corroboration, cross-validation, and confirmation of outcomes in a single study. Similar findings need to be merged, as this strengthens the knowledge claims. Furthermore, the deviations of findings gathered from both data sets need to be explained. In a concurrent design data are furthermore collected in a shortened period compared to a sequential design. Expertise is however required to use both methods of data collection in analysis. Transforming and converging data, and to explain discrepancies could also be problematic (Creswell *et al*., 2003).

5.2.3.5 Concurrent transformative design

In a concurrent transformative design, the research has a definite theoretical perspective and a theoretical framework from which the basis of the study is founded, and as such guides the study throughout. The theoretical perspective thus informs the problem to be researched, the choice of methodology, the research design, data collection methods and finally the interpretation and reporting of results (Teddlie & Tashakorri, 2009). A concurrent transformative design could take the form of triangulation. Data are collected in one phase as is the case with concurrent designs, with an equal or unequal priority in terms of quantitative and qualitative data collection methods. Data integration usually occurs during the analysis of the research, but integration is also possible in the interpretation phase of the study. The concurrent transformative design shares the advantages of triangulation. A further advantage of this research design is that it places multi-method research in a transformative framework which entices the interest of researchers using transformative framework inquiry (Creswell *et al*., 2003; Creswell & Plano Clark, 2007). In the following section the concurrent nested design will be explained as the sixth research design proposed.

5.2.3.6 Concurrent nested design

A concurrent nested design was used for this study. In a concurrent nested design quantitative and qualitative data are collected concurrently. In a nested or embedded design (Leedy & Omrod, 2013) one set of the data collected (either qualitative or quantitative) has a priority weighting. According to Creswell *et al.* (2003), the nesting implies that the less dominant form of data collection is embedded within the dominant data collection method. This type of research design therefore seeks to answer a research question or set of questions different from how it was addressed with the dominant data collection method. The difference might entail that different levels or different groups are researched within a single study using either a quantitative or qualitative data collection method. A theoretical perspective might be present to guide the study. In the analysis phase the results of the data are integrated.

The concurrent nested or embeddedness of this design is used to enable the researcher to gain a broader angle or perspective of the research problem. For example, one group or a level might be studied predominantly quantitively, whilst another level or group could be studied qualitatively to collect information concerning perspectives which might not always be possible to collect with quantitative data. The opposite is also possible. This design is known as a multi-level design (Teddlie & Tashakkori, 2009).

The advantages of the concurrent nested design is that data collection takes place in one phase, which makes the process less time consuming compared to the sequential designs. A further advantage is that it employs both quantitative and qualitative data collection methods. The one therefore supplements the limitations of the other. To integrate the data collected by means of two different methods (quantitative or qualitative) from different groups and levels could potentially be problematic. Furthermore, to explain inconsistencies of the two data sets collected could be challenging. The unequal manner in which data is collected could also provide unequal evidence to address the research questions (Creswell *et al*., 2003).

In this study, data were collected concurrently or simultaneously from three target populations with a quantitative priority of which the integration of results was done in the interpretation phase. The primary and secondary objectives of the study were explored by collecting data from the different target populations. The secondary objectives informed the research design, the methods of data collection and data analysis. Thus, the research design of this study is a concurrent nested design according to Creswell et al. (2003). When secondary objectives are explored by different groups, data reside side by side, providing two different views supporting the primary objective of the study (Creswell, 2009).

Quantitative data were collected to explore the relationships between various access-to-finance indicators and the nature and general characteristics of SMMEs. To determine how commercial banks enable access to finance, and to establish reasons preventing financial access to SMMEs, qualitative data were collected from the views, perceptions and experiences of bank officials. As the focus of the study is on SMMEs, the largest portion of the data was collected and analysed quantitatively. The quantitative data obtained from SMMEs was supplemented with the views of bank officials to increase the breadth and the depth of the primary research objective, that being to explore access to finance of SMMEs from formal lending institutions situated in the Free State Goldfields.

In the following section the design strategy used in this study will be explored.

5.2.4 Design strategy

The fourth layer of the 'research union' includes the design strategy. For the quantitative part of the study, data were collected from SMMEs by means of a survey strategy. Survey research involves acquiring data from one or more groups pertaining to their characteristics, opinions, attitudes, current situations and previous experiences. Questions are posed to respondents and answers are tabulated. Responses are summarised with percentages, frequency counts and statistical inferences. The aim is to research a large population by surveying a sample of the population (Leedy & Omrod, 2013). A survey strategy was chosen for this study in order to determine relationships by means of inferential statistics, and to generalise findings with caution to a larger population, with similar characteristics pertaining to SMMEs accessing finance.

For the qualitative part of this study, a phenomenological strategy was employed. Interview data were collected from bank officials. Phenomenological research involves identifying and locating information-rich participants who are experienced with regard to the research problem or research phenomena. The focus is to understand the complexity of the problem from the individuals' experiences and perspectives (Leedy & Omrod, 2013; Rudestam & Newton, 2014). There is no attempt to generalize the findings to that of the population (Rudestam & Newton, 2014). The aim of a phenomenological strategy is rather to derive meaning from the views of the participants operating within a certain social reality (Leedy & Omrod, 2013). A phenomenological strategy was followed for this study in order to tap into the views and perspectives of bank officials through their experiences as facilitators in providing finance to SMMEs.

In order to further disseminate the rationale for choosing a concurrent nested research design as the fourth layer of the 'research union', the population, sampling methods and samples will be elaborated on in the following sections.

5.2.5 Sampling design

"A population is a group of potential participants under study of which the results of the study are generalised to" (Salkind & Rainwater, 2003:86). It could include groups, individuals and objects sharing similar characteristics. Three population groups were selected for this study: SMME owners, bank branch officials and senior banking managers.

SMME owners operating in the Matjhabeng (Free State Goldfields) area were selected as one group. This area includes the towns Welkom, Riebeeckstad, Bronville and the township Thabong, Odendaalsrus and the township Kutloanong, Virginia and the township Meloding, Hennenman, Ventersburg, Allanridge and the township Nyakallong. SEDA (2019) estimated that there are 2.55 million SMMEs operating in South Africa, of which 121 740 are operational in the Free State province. There are however no accurate data related to the exact number of SMMEs operating in South Africa (Finfind, 2018; NCR, 2011). This situation is exacerbated when one considers the Matjhabeng area. SMME owners were therefore selected as a population group, as they are demanders of credit and loans, and accessing finance remains challenging for these entities.

Furthermore, the portion of SMMEs chosen as a target population is defined as micro - (employing between 1 to 5), very small - (employing between 6 to 10) and small businesses (employing between 11 to 50) in accordance with one category indicated in the NSBA (102 of 1996) (South Africa, 1996b). Micro, very small and small businesses were studied, as literature indicates that access to finance is more problematic for these businesses, compared to medium-sized enterprises (Dlova, 2017; Finfind, 2018; Mengistae *et al*., 2010). In this study, the number of employees was used as the only criteria to determine whether or not a business is micro, very small or small, thus employing 50 or less people. Employee number was similarly used by FinScope (2010) and FinMark Trust (2015).

Target population groups two and three include bank officials employed by the 'Big Four' commercial banks responsible for providing financial services (including credit and loans) to SMMEs in the Matjhabeng (Free State Goldfields) area. The 'Big Four' commercial banks were selected for this study, as they own 87,9% of the total banking assets in South Africa (Norrestad, 2020). The 'Big Four' commercial banks thus dominate the financial sector. As already indicated, the 'Big Four' commercial banks offer a wide variety of financial services (including credit and loans) to SMMEs in South Africa.

Two levels of decision-making within the commercial banks were considered. The one includes bank officials of the ‘Big Four’ commercial banks operational at branch level who are responsible for retail business banking. These bank officials were selected as a population group as they are executors of providing services to SMMEs, and they facilitate the initial application, screening and processing of loans. The bank officials moreover reside in the area under investigation, and as such have the potential to bring to the fore knowledge pertaining to the particular challenges faced by SMMEs in their attempt to access finance.

Senior banking managers operating in the area or region of the ‘Big Four’ commercial banks were considered as another target population group. The senior bank managers are either involved with business banking or credit. This group was selected, as they are responsible to oversee the provision of financial services to SMMEs in the Matjhabeng area. Senior managers function in a system enabling access to finance to SMMEs, which entails accessing loan products and lines of credit. Their reasons for ensuring or preventing a positive outcome are part and parcel of the daily decisions that they need to make. In the following subsections, sample methods and the manner in which the samples were determined from the three target population groups will be explored.

5.2.5.1 Sampling methods

A sample is a subset of the population (Leedy & Omrod, 2013). The identification of a sample depends on the research questions. Different sampling designs fall within two major categories, namely probability and non-probability sampling. By means of probability sampling the researchers indicate that each segment of the population will be represented in the sample of the study in advance. Probability sampling utilises random selection to choose a sample, so that each member of the population has an equal chance to be selected as part of the sample (Leedy & Omrod, 2013; Salkind and Rainwater, 2003). Blind chance is therefore used to determine the outcome of the sample selection process. Non-probability sampling occurs when the population is not known, and the likelihood of any individual or object to be selected cannot be determined (Salkind and Rainwater, 2003).

Probability sampling techniques include simple random sampling, stratified random sampling, proportional stratified sampling, cluster sampling, systematic sampling (Leedy & Omrod, 2013) and panel sampling (De Vos *et al*., 2011). By means of simple random sampling, every member of the population has an equal chance of being selected. This sampling method is easy when the population under study is small and homogenous in nature (Leedy & Omrod, 2005). When different strata or layers of individuals are present in a population that needs to be investigated, stratified random sampling is appropriate, as it guarantees that each layer or strata has equal representation in the sample selected. In this case the population should contain definite strata which are more or less similar in size (Leedy & Omrod, 2005). By means of proportional stratified sampling proportions of the population is sampled. Cluster sampling is used when the population is spread over a large area. The area to be investigated is subdivided in smaller units or areas chosen to be similar as far as possible. Clusters are then randomly selected to form part of the sample. Systematic sampling involves selecting individuals or clusters according to a prearranged sequence or order. The sequence is derived at by means of chance. For example, every 5th unit or individual is thus selected to form part of the sample. With both cluster and systematic sampling each cluster represents the diversity of the population (Leedy & Omrod, 2005). Panel sampling implies that a panel is selected from the population that is proportionately representative of the population (De Vos et al., 2011). For example, when more women utilise a specific product as opposed to men, four women for each man is included in the sample.

By means of non-probability sampling there is no way to warrant that each member, unit or element of the population will be represented in a sample. Therefore, the odds of determining the probability of selecting a particular unit or individual as part of the sample cannot be established, as the population size is unknown (Salkind & Rainwater, 2003). The types of sampling designs which are perceived to be non-probable are known as convenience or accidental sampling, quota sampling, purposive or judgment sampling (Leedy & Omrod, 2005), dimensional sampling, target sampling and snowball sampling (De Vos et al., 2011).

Convenience or accidental sampling is also referred to as an availability or haphazard sample (Babbie & Rubin, 2008). Respondents are selected because they are the nearest to the researcher, or are readily available to participate in the study. Any individual or unit who crosses the path of the researcher is thus selected until the desired sample size is obtained. Convenient samples are known to be biased, as certain groups will be represented in abundance, whilst other groups will be under-represented in the sample.

Purposive or judgement sampling represents a sample that is purely based on the judgement of the researcher (Rubin & Babbie, 2008). Individuals or units are thus chosen for a sample for a specific purpose (Leedy & Omrod, 2005). Quota sampling is a variation of convenient sampling, and the sample is selected to represent the same proportions of the population. With quota sampling only, the size of the category is regulated in the sample, yet the selection of the sample still remains non-random or non-probable (Leedy & Omrod, 2005). Furthermore, the selection of the type of individuals or units chosen to be sampled rests solely on the decision of the researcher, and as such could lead to biased outcomes. It is also furthermore difficult to determine the percentage of various categories used for sampling, as the population size is unknown (De Vos et al., 2011). By means of dimensional sampling all variables of a population are specified, and as such each dimension is represented at least once in the sample chosen. Therefore, a few cases are studied in depth. A shortcoming of dimensional sampling is that some variables might be excluded (De Vos *et al*., 2011).

Target sampling is similar to both quota and purposive sampling, and ensures that individuals, groups or units with specific characteristics within the population of a certain geographical area have a larger chance of being selected in the sample. With target sampling, hidden challenges of individuals, groups or units situated in hidden populations are emphasised. The community is questioned until a sufficient number of respondents are identified, after which data collection commences. Informants, interviews and observations are used to select the respondents to participate in the study. Sampling is done in a flexible manner and is not rigid (De Vos et al., 2011). Spatial sampling includes selecting a sample from a population that exists temporarily, such as individuals attending a soccer game (De Vos et al., 2011). Experts in a particular field are identified by means of key informant sampling and approached to participate in a study informing the research problem. The sample technique is non-probable, as it is challenging to determine the total population of experts in a specific field. Snowball sampling is another form of sampling used if there is no knowledge that could confirm the size of the population. A person or unit is approached to participate in the study, and is used to act as an informant to identify other persons or units - usually more than one - in a similar situation that could potentially participate in the study. The process continues until no other participants with the same characteristics could be identified, or until saturation has been achieved. This sampling technique is used when little is known about the topic under investigation. Sequential sampling is similar to snowball sampling, yet with a difference that the research problem or topic to be investigated is less hidden. To get hold of participants to participate in the study is less complicated compared to snowball sampling (De Vos et al., 2011).

For the purpose of this study, non-probability sampling was used for all three target populations. Both convenience and purposive or judgement sampling were employed to sample three target populations. The rationale for choosing these sampling designs will be argued in the following sections.

5.2.5.2 Sampling of SMMEs

Since there are no accurate data related to the number of SMMEs operating in South Africa and the subsequent number operating in various geographical areas, a convenience sampling method was employed for this study. Convenience sampling is not uncommon in research related to SMMEs in South Africa (Agbenyegah, 2013; Farrington, 2012; Mahloana, 2019), as the population size is unknown. It is acknowledged that by using a non-probability convenience sampling method, the results of this study should be generalised with caution.

In order to determine the sample size, the online Raosoft sample calculator was used. When the population is unknown, the Raosoft sample calculator suggests a population of 20 000. A sample size with a 95% confidence level and a response distribution of 50% was determined to be 377 (Raosoft, 2004). For this study, data were collected by means of a survey strategy from 364 SMMEs, thus representing 97% of the proposed sample indicated by Raosoft (2004).

5.2.5.3 Sampling of banking officials

In most instances qualitative researchers intentionally select data sources in a non-random manner (Leedy & Omrod, 2013; Rudestam & Newton, 2014). They opt for purposeful sampling instead. As such a sample is selected to include those individuals or objects that will produce the most information concerning the topic to be studied (Leedy & Omrod, 2013). Judgment sampling - also known as purposive sampling (Babbie & Rubin, 2008) - was employed to interview bank officials employed by the 'Big Four' commercial banks in South Africa. Participants and sites (bank branches) were purposefully selected guided by the research objectives. Providing access to finance to SMMEs from the bank officials' views, perspectives and experiences were examined.

The sample size was determined by means of establishing saturation. Saturation is used in qualitative studies to guide the discontinuation of the data collection process, and is proposed as an essential element within the research methodology. A failure to reach saturation negatively influences the quality of the qualitative data analysis (Fusch & Ness, 2015). Grady (1998) describes saturation in qualitative studies as the point at which "the researcher begins to hear the same comments again and again". Legard, Keegan and Ward (2003) propose that the researcher continues to probe until a full understanding of the perspective of the participant has been gathered. Most phenomenological studies engage in a relatively small number of participants, for a relatively long period of time (Leedy & Omrod, 2013). According to Rudestam and Newton (2014), an initial sample size of between five and six is recommended, Creswell (2007) recommends a sample size of 5 to 25, whilst Morse (2000) suggests at least five to 50 participants for qualitative research, informed by the scope of the study. Rudestam and Newton (2014) explain that participants should only be added to enhance the understanding of the research problem when required.

- Sample of business banking officials at branch level

Five business banking officials at branch level of the commercial banks in the Matjhabeng (Free State Goldfields) area were interviewed. Financial services rendered to SMMEs, as well as loan applications and approvals in its primary stages take place at the branch level, and is facilitated by the sales consultants being either retail business bankers or business managers. Interviews continued until saturation was attained. Saturation was determined after extensive probing no new meaningful information emerged. One participant was interviewed representing each of the "Big Four" commercial banks. An additional bank official was interviewed from one bank to adhere to the minimum requirements for the selection of an initial sample size as indicated by Creswell (2007).

- Sample of senior bank managers of the area or region

Five senior bank managers overseeing the provision of financial services to SMMEs in the Matjhabeng (Free State Goldfields) region were interviewed, one representing each of the ‘Big Four’ commercial banks. Again, for one bank an additional senior manager was interviewed to fulfil the requirements for initial sampling stipulated by Creswel (2007) for qualitative research. These managers are either responsible for business banking or credit. The interviews of the senior bank managers continued until saturation was reached. Practices and experiences pertaining to servicing SMMEs and the loan approval procedure of banks dominating the financial sector were established. Saturation was determined after extensive probing allowed for a thorough and in-depth understanding of the systems, procedures, requirements and perspectives of the region’s senior banking managers. The bank officials in both levels of decision-making were questioned until no new knowledge pertaining to financial services provision were brought to the fore. Saturation is thus the point established where no additional data could emerge in a theme (Saunders, Sim, Kingstone, Baker, Waterfiel, Bartlam, Burrouhgs and Jinks (2018). The interviews were concluded providing a chance to the bank officials to add additional comments to ensure that all aspects were covered. The bank officials operating on both levels are fully knowledgeable of one another’s roles as it pertains to the provision of financial services to SMMEs, therefore there was an overflow of knowledge between the two levels of decision making. In the following section, the designs of three research instruments used in this study will be discussed.

5.3 RESEARCH INSTRUMENTS

Three research instruments were used to collect data. The development of the research instruments will be explored in the following sections.

5.3.1 Questionnaire for SMMEs

A structured questionnaire was used for the SMMEs. According to Sekaran and Bougie (2014), self-administered questionnaires completed by respondents are a typical research instrument utilised for survey research. A self-administered questionnaire with its closed-ended questions is accommodating, it reduces costs, saves time and is convenient for the respondents to complete, as questions are structured in a standardised format (Zikmund, 2003).

The structured questionnaire used for this study contains closed-ended questions and one open-ended question. The open-ended question was placed at the end to allow the respondents to add any final comments related to the functioning of their business. The questionnaire was based on an extensive literature study and consists of five sections (see annexures E and F (in English and in Afrikaans). The structure of the questionnaire is displayed in Table 5.1, as well as the literature informing the various topics explored.

Table 5.1 SMME questionnaire outlay with references

Section A	**Topics covered**	**Sources**
Personal information of the business owner		
The questions in this section establish the demographic data of the respondents.	• Age; • gender; • race; • academic qualifications.	Agbenyegah, 2013; FinScope, 2010.
Section B	**Topics covered**	**Sources**
The nature, operations and formality of the business		
The questions in this section establish the nature of operations. Various categories were devised for the respondents to choose from.	• Where the business is situated; • the ownership and legal structure; • females' share in ownership; • sources of knowledge; • the formality of the business in terms of registration; • the path of ownership; • years of experience; • the sector and main markets to which the products or services are provided; • the number of operating years; • the life cycle of the business; • employee number; • ownership of movable and immovable property; • formality in terms of financial record keeping; • whether or not the business has a business plan and the subsequent assistance acquired to compile the business plan.	Agbenyegah, 2013; Falkena *et al*., 2001; FinScope, 2010; NSB Act - South Africa, 1996b; Nieman and Nieuwenhuizen, 2019; Waked, 2016.
Section C	**Topics covered**	**Sources**
Business and operational obstacles		
In this section the business owners need to indicate the severity of obstacles hindering their operations.	• Access to finance from commercial banks; • the regulatory environment and laws governing the business; • the education and skills of the workforce; • access to technology and infrastructure; • market demand and the economic environment; • crime, theft and corruption.	Abor & Quartey, 2010; Agbenyegah, 2013; FinScope, 2010; Herrington et al., 2017; OECD, 2009; Olawale & Garwe, 2010; SBP 2014; SBP, 2015; Wang, 2016, World Bank Enterprise Surveys (2007-2020).

Section D (I)	Topics covered	Sources
Financial inclusion		
This section of the questionnaire intends to establish whether or not the small business is financially included in terms of being banked or not.	• Access to a bank account for the business; • type of bank account used; • reasons for not having a bank account; • whether or not the bank account is held in the name of the business; • period banking at main bank; • transactions the main bank account are used for; • e-banking services used;	Absa, 2016; Business Partners, 2015; FinScope, 2010; FNB, 2015; Mahloana. 2019; Mutezo, 2015; Nedbank, 2015a;
Section D (II)	**Topics covered**	**Sources**
Financial access		
This section includes questions with the aim to determine financial access.	• Applied for a loan since business start-up; • does have access to lines of credit or loans; • number of loans; • approval of recent credit application; • need for a loan; • reasons for not applying for a loan; • were reasons provided for rejecting a loan; • loan/credit products used; • reasons for choosing a specific bank for loans and credit products; • interest rate charge for the latest loan; • types of collateral; • sources used to fund working capital; • sources used to fund fixed assets; • usage of SMME start-up services provided by commercial banks; • applied for government funding; • reasons for not applying for government funding; • turnover of the business; • any comments related to the business.	Absa, 2016; FNB, 2015; FinMark Trust, 2015; Hwarire, 2012; Kyophilavong, 2011; Mahloana, 2019; Mengistae *et al*.,2010; Mutezo, 2015; Nedbank, 2015a; OECD, 2009 Waked, 2016 World Bank Enterprise surveys (2007-2020).

Source: Author

5.3.1.1 Types of questions included into the structured questionnaire for SMMEs

The structured questionnaire developed for SMMEs makes use of various types of questions. Table 5.1 displays the types of questions used for the SMME questionnaire.

- Closed-ended dichotomous and multiple-choice questions

Section A, in which the personal information of the business owner was established, consisted of closed-ended questions with alternative options, namely mutually exclusive and collectively exhaustive. Therefore, only one answer can be provided by the respondents (Peterson, 2000). Section B, in a similar fashion, includes closed-ended alternatives including dichotomous and multiple-choice questions requiring the respondent to either indicate the relevant option, or to indicate 'yes or no' when applicable. Closed-ended questions are less complicated to answer compared to open-ended questions. The physical and mental effort it takes to complete the questions are also less, as predetermined possible answers are provided. The respondents can furthermore respond in brief. Closed-ended questions can furthermore be used to collect data faster compared to open-ended questions, and respondents are more likely to answer the questions compared to open-ended questions (Peterson, 2000). Closed-ended multiple choice questions and dichotomous question were also included in Section D (I) and D (II) of the questionnaire to collect formative data from the respondents.

- Likert scale questions

In order to gather data from SMME owners related to the obstacles hindering their business operations, reasons for not having a bank account, reasons for not applying for a loan, reasons for choosing a specific bank providing credit products and loans, and reasons for not applying for government funding, a five-point Likert-scale was used in sections C, D (I) and D (II). A five-point Likert-scale is the most common scale used to collect quantitative data, and is a valuable component of survey research (Losby & Wetmore, 2012). Two types of five-point Likert scales were used in the questionnaire to determine frequency in section C, D(I) and D (II). Hartley (2014) explains that research does not indicate reasons for favouring either a five-point or a seven-point Likert-scale; it does however examine four-point opposed to the five-point scaling. A most obvious advantage of the four-point Likert scale is that it forces the respondent to make a choice. In the research of Østeras, Gullbrandeen, Garratt, Benth, Dahl, Natvig and Brage (2008), when comparing a four-point and a five-point Likert-scale, it was found that although both versions had a good response rate and good quality data with internal consistency, the five-point Likert-scale had better consistency in terms of missing data, end-effects at the item and scale level, as well as higher levels of internal consistency.

A five-point Likert-scale was thus adopted for the study. In order to determine obstacles or challenges influencing the businesses perceived by the business owner obtained in Section C, the following Likert-scale was used for each option related to a potential obstacle, namely no obstacle, minor obstacle, moderate obstacle, major obstacle and very severe obstacle. The respondents were furthermore required to rank the order of the three most important obstacles at the end of section C. This question was also included to cross-reference check the responses provided by the respondents related to obstacles indicated.

In Section D (I) and D (II) of the questionnaire pertaining to financial inclusion and financial access, frequency was determined by the following Likert-scale categories namely to no extent, to a minor extent, to a moderate extent, to a large extent and to a very large extent. This form of categorisation was also used in the study of Mutezo (2015) related to access to finance and was similarly adopted for this study. In both the five-point Likert scales used in Section C, D(i) or D(II) of the study, the frequency is determined by starting with a negative end implying to no extent or no obstacle, and subsequently progressing through to 5, the positive end of the scale, indicating a very severe obstacle or to a very large extent. In section D in which financial access is determined, question D3 relates to reasons for not having a bank account, and negative wording were used for this purpose. The same principle was used for question E6 in which reasons for not applying for a loan was established. Question E17 similarly used negative wording to determine reasons for not having applied for funding from the government. According to Hartley (2014), it is common to have some items in a scale that are negatively worded, as this entices the respondents to reverse their thinking pattern. The Likert-scale questions were not used for the regression modelling, but only to supplement findings.

5.3.1.2 Pre-testing

Barker (2003) defines a pilot study as a procedure used for pre-testing and validating the research instrument. It is suggested that the pilot study is carried out with respondents who are not part of the final study. According to De Vos *et al*. (2011), a pilot study is a dress-rehearsal used to inform the main investigation, although in a smaller scale typically a handful of respondents are taken through the steps of the research process, and elements of the research tool are tested to determine whether it will function as planned or not (De Vos *et al*., 2011).

The study was piloted in Kroonstad and the township Maokeng under the Moqhaka municipality in the Free State province. The town and township were selected, as the area shares similar features with the towns and townships situated in the Matjhabeng area. Also, although the agricultural sector is more significant in Kroonstad and in the surrounding areas compared to the Matjhabeng municipality, mining is also of economic importance (Local Government, 2011). The unemployment rate for Moqhaka municipality is 35% (Stats SA, 2011), which is lower than the 45% (Stats SA, 2016) for the Matjhabeng municipality.

Radhakrishna (2007) stated that the reliability and validity of the research instrument can be established by collecting data from between 20 to 30 subjects. Brace (2008) however indicated that a pilot study could be successful if as little as only ten respondents complete the questionnaire. Taking this into account, 41 questionnaires were issued to and collected from SMMEs employing 50 or less employees. Twelve questionnaires were distributed to SMMEs situated in Kroonstad, and a further 29 in Maokeng. The distribution and collection of the questionnaires were done to include both formal and informal SMMEs.

The administration of the questionnaires was done by the researcher with the assistance of two fieldworkers - the fieldworkers assisted in the township, whilst the researcher administered questionnaires in Kroonstad. The fieldworkers reside in the

Maokeng township, thereby simplifying the data collection process, as they are familiar with the area selected for the pilot study. Before the onset of the data collection process the fieldworkers signed a confidentiality agreement and attended a training session to explain the purpose of the study (see Annexure B).

SMME owners participating in the pilot study were required to sign a document acknowledging that the purpose of the study was communicated to them. The pilot consent letter was translated into English, Afrikaans and Sesotho, and the researcher and the fieldworkers read the questions to the business owners and assisted with the completion thereof. The fieldworkers were instructed not to leave a questionnaire at a business to collect at a later stage. Feedback in terms of improving format and increasing clarity could thus be incorporated. The respondents were furthermore encouraged to indicate which questions were difficult to interpret and understand to allow room for improvement. As with the study of Mutezo (2015), the main points considered in the pilot testing were:

- to exclude biased wording in questions;
- to exclude the overlapping of scales and options to choose from;
- to correct missing instructions; and
- to include definitions in cases where the technical definitions were unfamiliar.

Although the questionnaire intended for the pilot study was translated into Sesotho, it was found that respondents conversant in Sesotho were more comfortable with completing the questionnaire in English. As such, it was not necessary to translate the questionnaire for the major study to Sesotho. The pilot questionnaire also attempted to establish how long it would take to complete the questionnaire. After the collection of the responses from the respondents participating in the pilot study, their suggestions were incorporated, and improvements were made.

5.3.2 Semi-structured interview guides: bank officials

Semi-structured face-to-face interviews are used to "gain a detailed picture of the participant's beliefs about, or perceptions of accounts of, a particular topic" (De Vos *et al*., 2011:351). Both the researcher and participants are provided with more flexibility and interesting insights which may come to the fore during the interview – thus providing a more detailed picture of the topic under study. Semi-structured interviews are principally useful when the researcher is interested in complexity or process, or when the phenomenon is controversial or personal in nature. Comprehensive and comparable data are thus obtained during the interview. With a semi-structured interview schedule, a set of pre-determined questions is created that is prepared beforehand. Open-ended questions are used for this purpose, as it allows for participants to express their views, accounts and experiences freely (De Vos *et al*., 2011).

Two semi-structured interview guides were developed - one for the bank officials responsible for retail business banking services at branch-level, and another for senior banking managers overseeing retail business banking and credit provision in the area or region (see Annexures J and K). The interview guides were informed by the research objectives, which include exploring how commercial banks enable the in-house process of providing access to finance to SMMEs, and to explore the reasons for preventing financial access to SMMEs from the perspective of commercial banks.

The complexity of access to finance, processes required to be followed to enable access to finance, and reasons for loan rejections were determined during these interviews. The questions of the interview guides were structured to supplement the data of the quantitative results. The interview guide intended for business banking officials at branch level included three sections with 17 open-ended questions (see Annexure J and Table 5.2 below). The semi-structured interview schedule deals with the bank officials' involvement with small businesses or retail business banking, as well as products offered and services rendered, and processes and procedures followed to affect loan applications. The bank officials working at branch level in Matjhabeng are in a lower ranking compared to the senior banking managers overseeing the region or area, and as such the semi-structured interview guide developed for bank branch officials is similar but less extensive.

The interview guide intended for senior managers includes two sections with 21 open-ended questions (see Annexure K as well as Table 5.2 below). Questions related to the banks' involvement with SMMEs, processes used and factors influencing SMME loans are included. There are many questions overlapping the interview guide developed for the bank officials situated at branch level. The interview guide for senior managers is more extensive, as these individuals operate in a supervisory capacity managing retail business banking and credit provision in the region. Table 5.2 combines the two interview guides developed for the banking officials.

Table 5.2 A combination of two semi-structured interview schedules developed

SENIOR BANK MANAGERS	**BUSINESS BANKING EMPLOYEES AT BRANCH LEVEL**
SECTION A:	**SECTION A:**
GENERAL INFORMATION AND BANK INVOLVEMENT WITH SMMEs	**GENERAL INFORMATION**
What is your involvement with SMME credit provision?	What type of involvement do you have with SMMEs?
	SECTION B:
	BANK INVOLVEMENT WITH SMMEs
Are your loans structured to meet the specific needs of SMMEs, and if so, in which way?	• What are the criteria used by your division to define an SMME? • What type of lending products and services do you offer to SMMEs? • What type of services and products do you provide for SMMEs start-ups?

	• How are your loans structured to meet the specific needs of SMMEs? • What types of initiatives are the bank involved in to serve the lower-income segments of the market, who might aspire to start a business or to expand an existing one?
SECTION B:	**SECTION C:**
PROCESSES USED AND FACTORS INFLUENCING SMME LOANS	**PROCESSES USED AND FACTORS INFLUENCING SMME LOANS**
What processes are used by your bank to consider the loan application once it reaches the regional office?	What kind of supporting documentation do you require when SMMEs approach your bank for a loan?
How important is a prior relationship between the bank and the SMME owner/owners?	Indicate how the loan pre-screening process typically takes place with SMME lending.
	What procedures do your bank follow to process the loan application?
	How important is a prior relationship between the bank and the SMME owner/owners?
How is the creditworthiness of the SMME loan applicant determined, and what is the importance of creditworthiness in eventual approval of the loan?	
How important is the existence of a business plan for the SMME loan applicant in securing a loan? If important, must such a business plan be in writing, and is it beneficial to the applicant if the same was drafted by a professional person?	
In terms of financial statement information, what does the bank view as important information that has an influence on the success of the loan?	What does the bank in terms of financial statement information regard as important to the extent that it has an influence on the success of the loan?
	Indicate at which level (branch/regional office) and in which way the final loan approval for SMME lending is considered.
What is the importance of the ability of the SMME owners to provide an equity contribution from the viewpoint of the bank?	
What are the requirements, importance and influence of collateral in terms of securing a loan?	
In your opinion, how does the structural formality of the business entity influence the final approval of the loan?	
In your opinion, how does the education level/managerial competencies and the skills of the labour force influence the final loan approval?	
In your opinion, how does the age and the size of the business influence the final loan approval?	
What is the procedure followed to inform SMMEs that the loan application has been either successful or unsuccessful?	What is the procedure followed to inform SMMEs that the loan application has been either successful or unsuccessful?
In your opinion, what are the main or most common reasons for the rejection of SMME loans?	What, in your opinion are the main or most common reasons for SMME loans being unsuccessful?
What procedures are in place to monitor the loan repayment of an SMME?	Which procedures are in place to monitor the loan repayment of an SMME?
Which procedures are in place to manage this risk of default?	
In your opinion, has the success rate of loans to SMMEs changed in the last three years? If so, in which way, with specific reference to the percentage and the number?	Has the success rate of applications of loans to SMMEs in your opinion changed in the past three years? If so, in which way?

In your opinion, has regulation and legislation influenced the granting of loans to SMMEs? If so, in which way?	
In your opinion, has the expectations of government for the private sector to contribute to creating national economic growth influenced the criteria of granting credit to SMMEs? If so, what do such changes entail?	
Exit question	**Exit question**
Are there any other aspects on a practical level you consider important to mention in terms of SMME lending provided by your bank?	Are there any other aspects that you feel are important to point out regarding SMME lending provided by your bank?

Source: Author.

5.4 DATA COLLECTION

Data collection forms part of the fifth layer of the 'research union' displayed in Figure 5.1. As such the manner in which data were collected from SMMEs and bank officials is discussed in the next section.

5.4.1 Data collection of SMMEs

Fourteen fieldworkers were used for data collection in the Matjhabeng (Free State Goldfields) area. Just as with the pilot study, these fieldworkers were trained in a four-hour session by the researcher. The purpose of the training was to explain the purpose of the study before the onset of the data collection process. The sections and the types of questions used in the questionnaire were clarified in detail. Each fieldworker was provided with an information leaflet explaining the purpose, their respective roles, their duties, where and when the data will be collected, the importance of being trained, the rights of the respondents, keeping the data collected confidential, and the remuneration forthcoming from their participation. A section was included into the information leaflet to clarify difficult concepts used in the questionnaire. During the training session, time was allocated for questions from the fieldworkers to further clarify uncertainties.

The fieldworkers were furthermore required to sign a confidentiality agreement to ensure the anonymity of the data collected from the SMMEs (see Annexure B). Similar to the pilot study the fieldworkers were required to collect data in the areas in which they reside. This made the collection process easier, as they were familiar with the area and businesses. The fieldworkers selected for this study were students busy with tertiary education, specialising in business management, and as such they have a theoretical background pertaining to the functioning of a business.

Once the process of data collection commenced, the researcher and the fieldworkers explained the aims of the study as it pertained to SMMEs employing 50 or less employees. SMMEs employing more employees were thus excluded from the study. An information leaflet detailing the study was provided to the SMME owners. It included the purpose of the study; why the business owners were invited to participate in the study; the nature of their participation; issues pertaining to whether or not they can withdraw from the study; the potential benefits of taking part in the study; anticipated inconveniences to the business owners partaking in the study; how confidentiality will be assured; and how the storing and eventual destroying of the data collected will be managed. The leaflet was translated in Afrikaans (see Annexures C and D).

A total of 364 completed questionnaires were collected from SMME owners operating in the Matjhabeng (Free State Goldfields) area (See Annexures E and F). These took an average of 18 minutes to be completed with the assistance of a fieldworker.

5.4.2 Data collection for bank officials

Permission was requested by the researcher to collect data by means of interviewing business banking officials from the head and/or regional offices of the commercial banks (see Annexure G). Both the interview guides were forwarded for scrutiny (see Annexure J and K). Permission was granted by either the head offices and/or regional offices of the commercial banks. In collaboration with the head offices and/or regional offices bank officials were identified to participate in the study.

5.4.2.1 Data collection of business banking officials at branches

Bank officials situated at branch level that could participate in the study were identified by the researcher. These branch officials were visited by the researcher. An information leaflet explaining the purpose of the study, and a consent form were provided to the participants during this visit. The leaflet included the same subsections as was used for the SMME consent form (see Annexure H). The participants were moreover informed that an audio recording would be made to facilitate the authenticity of the transcription of the interview. The participants who agreed to participate were required to sign consent. The semi-structured interview guide was provided to these participants during the first visit. This gave the participants an opportunity to prepare for the interview in advance if they deemed it to be necessary (see Annexure J). A suitable date and time were scheduled for the interviews to take place. The interviews lasted approximately 45 minutes on average. An environment was created in which the participants could discuss the topic in detail with the freedom to be in control. Probing questions were used throughout to direct the process of data collection. The interviews were recorded with the permission of the participants. Two devices were used for the purpose: the recording device of a Dell computer and a dicta phone. The dicta phone was used as a back-up device.

5.4.2.2 Data collection of senior bank managers

Senior bank managers overseeing business banking or credit in the area or region were contacted via e-mail to explain the purpose of the study. An information leaflet explaining the intended research was forwarded, as well as the semi-structured interview guide (see Annexures I and K). The information leaflet is similar to the leaflet provided to the bank officials operating at branch level. Anonymity and confidentiality were ensured. The participants were also informed that an audio recording would be made to facilitate the transcription of the interview. The semi-structured interview guide forwarded in advance provided the opportunity to prepare for the interview beforehand. An appointment was scheduled for the interview to take place. Before the onset of the interview, it was required from the participants to sign consent. The interviews took approximately one hour and fifteen minutes to complete.

Time as a resource plays an important role in the design and method of data collection (Babbie, 2015). This study collected data from various places that are separated geographically. Many constraints were considered in terms of time and finances, as such cross-sectional data were collected from SMMEs situated in the Matjhabeng (Free State Goldfields) area. To collect data from SMMEs took seven months. To collect interview data from bank officials operating either at the regional offices in Bloemfontein or at branch level in the Matjhabeng (Free State Goldfields) area took 12 months. The collection of the interview data from bank officials took much longer compared to the collection of SMME data, as the granting of permission to conduct the research requested from the head offices and/or regional offices of the commercial banks took several months.

5.5 DATA ANALYSIS

The manner in which the data were analysed as an additional part of the fifth layer of the 'research onion' displayed in Figure 5.2 will be explored in the following subsections.

5.5.1 Data analysis of SMMEs

Data were collected from 364 respondents. The unit of analysis for the quantitative part of the study is micro, very small and small businesses operating in the Matjhabeng region. SPSS was used to analyse the data collected. Data were initially analysed descriptively. Frequencies, proportions and means were established to determine trends and patterns forthcoming from the data.

The dependent variables used for this study include various access-to-finance indicators. According to Sekaran and Bougie (2014), the depended variable is the variable of primary interest to the researcher. The dependent variables for this study consist of four access-to-finance indicators or variables indicated in Figure 4.6. Binary data were collected from the various access-to-finance indicators.

The independent variables selected were informed by literature and adapted to accommodate the specific environment in which the SMMEs operate in the

Matjhabeng (Free State Goldfields) area. The independent variables selected for this study is likewise displayed in Figure 4.6. These variables relate to the characteristics inherent to the nature of the SMME and SMME owner/s.

5.5.1.1 Regression analysis

In order to determine the relationship between the dependent and the independent variables, simple logistic, multiple logistic regressions and stepwise model selection were used.

Simple logistic regressions are widely used to study the effects of explanatory variables on binary or dichotomous outcomes, according to Kleinbaum and Klein (2002). In the regression analysis models the causal relationship between the dependent or response variable and one independent variable, as a predictor or explanatory variable, was investigated. Thus, the dependent variable is modelled in the regression analysis as a function of the independent variable (Hair, Black, Babin & Anderson, 2014; Pallant, 2010). For the quantitative part of the study a series of simple logistic regression analyses were carried out to determine the association between each of the four dependent variables separately, and 16 independent variables one at a time, as indicated in Figure 4.6.

A multiple logistics regression yields an equation in which a set of independent variables predict the dependent variable, according to Leedy and Omrod (2013). In this study multiple (multivariable) logistic regressions were performed, whereby the four selected dependent variables one at a time were regressed against the full set of 16 independent variables.

Stepwise model selection is “a method of selecting variables for inclusion in the regression model that starts by selecting the best predictor of the dependent variable. Additional independent variables are selected in terms of the incremental explanatory power they can add to the regression model (Hair *et al*., 2014). Independent variables are added to the model when they are statistically significant and excluded when their predictive power is non-significant. For this study, stepwise model selection was also employed to identify a set of significant predictors of the dependent variable amongst the set of independent variables in the multiple logistic regressions.

This study allows for the fact that some of the independent variables are associated with one another, thus collinear to one another. Collinearity (also known as multicollinearity) occurs when two or more of the independent variables included in the regressions are highly correlated, potentially reducing the predictive power of the variables fitted in the multiple regression model. The accuracy of the interpretation of results can be influenced by collinearity (Johnston, Jones and Manley, 2018). It can result in non-significant associations in multiple logistic regressions, when in a simple logistic regression, the association is significant. For example, cross-classification found that the independent variable race indicated as black, Coloured, Indian, Asian or other, as opposed to white, is significantly associated with the age of the SMME, size of the SMME and legal entity. Due to this, for each independent variable, three regression models were fitted, and significant associations found in each of the models were compared and contrasted. Stepwise-model selection is a common approach used to overcome the effect of collinearity between independent variables (Frost, 2020; Fox, 2014). Collinearity is however never a reason for significant associations. Furthermore, significant associations found with the simple logistic regression analysis and stepwise model selection were also reported on as collinearity will not affect the relationships between the dependent and independent variables. The simple and multiple regressions were analysed by using SAS procedure LOGIST (SAS Institute, 2017), and the model selection was performed using the SAS procedure GLMSELECT.

With regression analyses, odds ratios are used to establish whether or not dichotomous variables are associated (Leedy & Omrod, 2013). For this study, odds ratios were determined between the chosen access-to-finance indicators and the nature and characteristics of SMMEs and owner/s operating in the Matjhabeng (Free State Goldfields) area.

5.5.2 Data analysis for bank officials

Recorded interview data were collected from bank officials. The interviews were transcribed to capture the meaning of what the participants had to say. The data collected from branch bank officials and senior managers were analysed collectively in accordance with the research objectives, as both the semi-structured interview guides have overlapping open-ended questions. Although two levels of decision-making pertaining to the provision of financial services to SMMEs were interviewed, the one level overseeing the other, common themes emerged from the interview data from the views, perspectives and experiences of the participants. The focus with the data analysis was thus to determine commonality, whilst still considering the diversity of the participants in their various settings. After transcribing the data, the interviews were reviewed, and the mistakes were methodically removed. Interview data were analysed to generate themes and subthemes.

A thematic analysis methodology of data analysis was used to analyse the information provided by the ten (10) interviewees, following Braun and Clarke's (2006) thematic analysis process. Thematic analysis is regarded as a rigorous and inductive predictable process designed to identify and examine themes from word-based data in a way that is translucent and dependable (Guest, MacQueen & Namey, 2012). Thematic analysis is common in phenomenological research (Leedy & Omrod, 2013). NVivo (version 12 Pro) was used to analyse the interview data.

After transcribing the audio discussions, the data were organised, coded and grouped. Themes were constructed, refined and finalised. Thematic analysis was used to make sense of the data provided by the participants, and to provide suitable themes that speak to the research objectives of the study. The analysis proceeded through the phases outlined in Table 5.3.

Table 5.3 The phases of thematic analysis adopted for this study

Phases	**Description of the process**
Phase 1: **Familiarising yourself with your data**	Transcribing data (if necessary), reading and re-reading the data, noting down initial ideas.
Phase 2: **Generating initial codes**	Coding interesting features of the data in a systematic fashion across the entire data set, collating data relevant to each code.
Phase 3: **Searching for themes**	Collating codes into potential themes, gathering all data relevant to each potential theme.
Phase 4: **Reviewing themes**	Checking if the themes work, the coded extracts (Level 1) and the entire data set. (Level 2), generating a thematic 'map' of the analysis.
Phase 5: **Defining and naming themes:**	Ongoing analysis to refine the specifics of each theme, and the overall story the analysis tells, generating clear definitions and names for each theme.
Phase 6: **Producing the report:**	The final opportunity for analysis. Selection of vivid, compelling extract examples, final analysis of selected extracts, relating back to the analysis of the research question and literature, producing a scholarly report of the analysis.

Source: Braun and Clarke (2006:35)

5.5.2.1 Cleaning and coding process of the data

The cleaning and preparation process of the interviews for coding included a detailed examination of the transcripts. In the preliminary reading, the relevant paragraphs were highlighted to ease the data analysis process (Creswell, 2013). Using NVivo (version 12 Pro), at an early stage, the transcripts were explored through lexical queries such as word frequency and text search queries to get more insight into the content of the transcript and the dominant words used by participants. The coding process followed Saldaña's (2015) coding manual.

The researcher focused on the themes of access to finance of SMMEs provided by commercial banks servicing the Matjhabeng (Free State Goldfields) area as unit of analysis. The analysis used open coding by assigning initial codes or labels to the selected text or paragraphs. Codes are "tags or labels for assigning units of meaning to the descriptive or inferential information compiled during a study" (Fereday & Muir-Cochrane, 2006). Following Saldaña's (2009) first cycle coding, coding methods such as descriptive coding, in NVivo coding and process coding were applied. After the creation of codes, they were scientifically organised into a codebook according to their categories, types and relationships.

5.6 VALIDITY, RELIABILITY AND TRUSTWORTHINESS OF THE RESEARCH

In the following section the validity, reliability and trustworthiness of both the quantitative and qualitative research are presented.

5.6.1 Validity and reliability of the quantitative part of the study

Babbie (2015) explains that validity and reliability of the data collected and measured influences the extent to which one can learn from the phenomenon being studied. It is therefore necessary to explain the validity of the SMME questionnaire as a measuring tool and the reliability of data collected and analysed.

5.6.1.1 Validity of the measuring tool

Wong (2002) explains that validity includes the accuracy and truthfulness of a measurement, and thus there is no statistical test used to establish validity. Salkind and Rainwater (2003) used terms such as authenticity, genuineness and soundness as synonyms for validity. Salkind and Rainwater (2003) argued that validity establishes whether or not the measuring instrument actually measures what is set out to be measured. Validity is determined by the judgement and opinion of the researcher (Wong, 2002). Internal and external validity are ensured when the design of a study is a good test for the research questions (Twycross & Shields, 2004). Internal validity furthermore has to do with the extent to which the design and data analysis draw accurate conclusions about the cause and effect, and relationships of the variables being analysed (Leedy & Omrod, 2013). The types of internal validity include face validity, content validity, criterion validity and construct validity.

Face validity is determined by the probability that questions might be misunderstood or misinterpreted by the respondents (Wong, 2002), and depends on the subjective judgement of the researcher (Leedy & Omrod, 2013). It is further noted that face validity does not provide convincing proof that the research instrument measures what it intends to measure (Leedy & Omrod, 2013). As such, pre-testing and therefore piloting the measurement tool increases the probability of face validity. Content validity establishes whether or not adequate coverage of the topic under investigation was ensured (Wong, 2002). Expert opinions are usually gathered to determine the content validity of a measuring instrument (Salkind & Rainwater, 2003).

For the purpose of the quantitative part of the research, both face and content validity were established. As already indicated, a pilot study was pursued to enhance the validity of the measuring tool. Inputs from respondents were used to adjust the design of the measuring tool. To ensure content validity experts in the field of Economics, Statistics and Research Methodology were consulted. Their inputs were used to inform and validate the measuring tool, and to establish that it covers the research objectives of this study.

External validity is established when results obtained from research applies to situations beyond the study. Generalisation is thus made possible from the conclusions of the research (Leedy & Omrod, 2013). For the quantitative part of the study, convenience sampling was used to select respondents. Thus, the results of the study should be generalised with caution, and only to populations with similar characteristics as the Matjhabeng (Free State Goldfields) area.

5.6.1.2 Reliability

Reliability is "the consistency with which a measuring instrument yields a certain, consistent result" (Leedy & Omrod, 2013:91). The reliability of the measuring tool can be enhanced by collecting and administering the data in a consistent manner. Standardisation of the method of data collection from one situation to the next and from one respondent to the other needs to be ensured. Criteria dictate the kinds of judgements the researcher makes. Research assistants must therefore be properly trained to ensure the similarity of circumstances when using the measuring tool. The reliability for the SMME questionnaire was thus ensured by providing extensive training to the fieldworkers used to collect the quantitative data. At the stage when the fieldworkers submitted completed questionnaires, the questionnaire was scrutinised, and if required, follow-up training was provided to ensure consistency when administering and collecting data.

5.6.2 Trustworthiness of the qualitative part of the study

In the seminal work of Guba and Lincoln (1982), four criteria for qualitative research were proposed to establish trustworthiness. Trustworthiness is divided into credibility, dependability, transferability and confirmability. Credibility is roughly associated with internal validity, whilst dependability corresponds with reliability. Transferability is associated with external reliability used in quantitative research (Gunawan, 2015). Conformability relates to the objectivity of the research. Findings and interpretations thus need to be corroborated (Leedy & Omrod, 2013).

5.6.2.1 Credibility

Strategies used to enhance the credibility of the research instrument include member checking, peer examination and establishing the authority of researcher and structural coherence (Anney, 2014). Lincoln and Guba (1989) regard member checking as the most critical technique to establish credibility. To ensure credibility, the interview guides were forwarded to academics, statisticians, a bank official, and research experts, to confirm that the research tool is suitable. As such, member checking and peer examination were used for this purpose. It was established that the measuring instruments are appropriate in reaching the research objectives.

5.6.2.2 Dependability

An alternative to reliability which is used as criteria in qualitative research is dependability (Gunawam, 2015). This relates to how coherent the research process was undertaken including the documentation of the data and the auditing thereof. Accurateness and transparency are key in this regard.

For the purpose of this study the interviews with bank officials were recorded and transcribed by the researcher to ensure the accurate documentation of the data collected. Two qualitative data analysis experts from Osmoz Consulting Company were used in the coding process in order to ensure consistency and dependability of the coding process. The quality checks used during the coding and analysis process add to the validity of the assumptions extracted from the codes (Bazeley & Jackson, 2013). Furthermore, for more accuracy and more depth in the data analysis, a Computer Assisted Qualitative Data Analysis Software (CAQDAS) NVivo version 12 Pro was used.

5.6.2.3 Transferability

In terms of transferability, the researcher needs to determine whether or not the findings emerging from the data analysed could be transferred to another group, situation or case. Transferability is perceived to be an alternative to external validity, and is a requirement used in quantitative studies. Both the semi-structured interview guides had overlapping open-ended questions, as indicated above. Themes emerging from the interviews were similar, and as such the findings could be applicable to two levels of decision making in other research with similar settings.

5.6.2.4 Conformability

Although there might still be some elements of subjectivity in the coding process, coding collaboratively aids in considerably reducing the subjectivity bias associated with qualitative data analysis, as it provides diverse standpoints in interpreting the data (Saldaña, 2009; Guest *et al*., 2012). For the quantitative part of the study, the coding and data analysis were done by experts in the field, as indicated above. The processes used for coding and analysing the interview data contribute to the objectivity, and thus the conformability of the analysed data.

5.7 CONCEPTUALISATION OF THE RESEARCH PROCESS OF THIS STUDY

PRIMARY OBJECTIVE

The primary objective of this study is to explore access to finance of SMMEs from formal lending institutions situated in the Free State Goldfields.

SECONDARY OBJECTIVES

Define SMMEs and determine the economic importance and challenges hindering their potential for growth; Define and identify obstacles for SMMEs to access finance; Analyse the role and drivers of commercial banks to provide access to finance in general and SMMEs in particular; Analyse the association between access to finance perceived as an obstacle from commercial banks and the general characteristics of SMMEs; Analyse the association between applying for a loan at a commercial bank and the general characteristics of SMMEs; Analyse the association between having loans from commercial banks and the general characteristics of SMMEs; Analyse the association between the need for a loan and the general characteristics of SMMEs; Explore how commercial banks enable the in-house process of providing access to finance to SMMEs; Explore the reasons preventing financial access to SMMEs from the perspective of commercial banks; Supplement the results obtained from SMMEs with the views and perspectives of commercial banks pertaining to access to finance; Provide recommendations to SMMEs, commercial banks, and the government to enhance the state of access to finance in South Africa.

SECONDARY OBJECTIVES ACHIEVED BY THE LITERATURE REVIEW

Define SMMEs and determine the economic importance and challenges hindering their potential for growth;

Define and identify obstacles for SMMEs to access finance;

Analyse the role and drivers of commercial banks to provide access to finance in general, and SMMEs in particular.

SECONDARY OBJECTIVES ACHIEVED BY ANALYSING THE EMPIRICAL DATA

MIXED METHODS APPROACH Concurrent nested design – with a quantitative priority using three target population groups

		Sample design	**Data collection**	**Data methods**	
• Analyse the association between access to finance perceived as an obstacle from commercial banks and the general characteristics of SMMEs; • Analyse the association between applying for a loan at a commercial bank and the general characteristics of SMMEs; • Analyse the association between having loans from commercial banks and the general characteristics of SMMEs; • Analyse the association between the need for a loan and the general characteristics of SMMEs;	QUANTITATIVE DATA COLLECTION	**SMME target population:** Micro, very small and small businesses (employing between 1 and 50 people) operating in the Matjhabeng area. **Sampling method:** Convenience sampling	Survey research strategy **Research instrument:** Structured questionnaire	• Simple logistic regressions • Multiple regressions • Stepwise model selection	**Analysis and results**
• Explore how commercial banks enable the in-house process of providing access to finance to SMMEs; • Explore the reasons preventing financial access to SMMEs from the perspective of commercial banks;	QUALITATIVE DATA COLLECTION	**Target population:** Senior business banking managers overseeing SMME financial services in the Free State Goldfields. **Target population:** Business banking officials operating at branch level of commercial banks in the Free State Goldfields area. **Sampling method:** Judgment sampling	**Research instrument for senior business banking managers:** Semi-structured interview guide with qualitative open-ended questions. **Research instrument for business banking officials:** Semi-structured interview guide with qualitative open-ended questions.	Analysing recurring themes and sub-themes forthcoming from the interviews.	
• Supplement the results obtained from SMMEs with the views and perspectives of commercial banks pertaining to access to finance;					
• Provide recommendations to SMMEs, commercial banks, and the government to enhance the state of access to finance in South Africa.					**Findings and recommendations**

Source: Author.

Figure 5.2 Conceptualisation of the research process of this study

5.8 ETHICAL CONSIDERATIONS

The ethical considerations that were considered in this study include the following:

- Ethical clearance

Ethical clearance was obtained from the University of the Free State (UFS), and consent to conduct the study was provided by the Faculty of Economic and Management Sciences (see Annexure A, Ethical clearance number UFS-HSD2018/0341).

- Informed consent

SMME owners completed a consent form in which they agreed to participate in the research. These consent letters were also translated in Afrikaans and Sesotho for the pilot study, and in Afrikaans for the major study. During the pilot study, it became evident that the respondents preferred either to communicate in English or Afrikaans. For the major study consent was thus only translated into Afrikaans (see Annexures C and D). Participants were assured of the anonymity of their contribution towards the study. They were further informed that they are free to withdraw at any given time.

The purpose of the study was likewise communicated to the head offices and/or the regional offices of the commercial banks (see Annexure G). After consent was obtained from the commercial banks, bank branch officials and senior managers were notified via e-mail, they were visited personally, and their consent was required in writing. The commercial banks, branch bank officials and senior managers were assured of the anonymity of their contribution. Branch business bank officials and senior business managers were moreover informed that the interviews would be recorded, and that they are free to withdraw from the study at any given time (see Annexures H and I).

- Fieldworkers

Ethical clearance was furthermore obtained from the UFS to use students as fieldworkers. Fieldworkers assisting with the data collection of SMMEs were properly trained. Fieldworkers had to sign a confidentiality agreement (see Annexure B).

- Administration of data processing

The data capturers and statisticians were similarly required to sign a confidentiality agreement to allow them to handle and process the data (see Annexures L and M).

- Safe-keeping of data collected

Extreme care was taken with the gathering, handling and safekeeping of the data. The completed SMME questionnaires were stored and are not available to the public or to any other individual except the researcher and the supervisor to scrutinise.

The interviews were recorded and transcribed by the researcher as an additional safety measure. These recorded interviews were stored electronically, and a password was allocated to each transcription.

5.9 CONCLUSION

This chapter provided an in-depth account of the methodology used for the empirical analysis, being mixed methods. The research process, including the various phases, were discussed. The research design was established as a concurrent nested design with a pragmatic approach. The sampling method for both the SMMEs and the banking officials were particularised. The development of the research instruments and the gathering of research data were detailed. This included a structured questionnaire designed for SMME owners. The validity and reliability of the SMME questionnaire were divulged. The pilot study pursued in Kroonstad and Maokeng were elaborated upon. Data were collected from 41 SMME owners for the pilot study, and 364 SMME owners in the Matjhabeng area of the Free State Goldfields using a survey strategy.

The development of two semi-structured interview guides intended for commercial banking officials was explained. One interview guide was developed for business bank officials employed at branch level, and another interview guide was developed for senior business banking managers. The trustworthiness and dependability of the interview guides as research instruments were discussed. Interview data were collected from five business banking officials situated at branch level in the Matjhabeng area, and five senior business or credit managers overseeing the operations in the Matjhabeng (Free State Goldfields) area.

The process of data collection and data analysis of both the SMMEs and bank officials used in this study were clarified. The chapter concluded with the ethical considerations of the study. In the following chapter, the data analysis of the SMME owners will be rolled out.

CHAPTER 6

DESCRIPTIVE RESULTS OF SMMEs

6.1 INTRODUCTION

In this chapter the empirical results collected from 364 SMME owners operating in the Matjhabeng area of the Free State Goldfields will be provided. The empirical results of the data will be analysed in three chapters. In this chapter, data obtained from the questionnaire will be analysed descriptively. In chapter seven, associations between various access to finance indicators and the general characteristics of SMMEs and owners will be explored by means of regression analyses. In chapter eight, the findings of the interview data will be presented. In the final instance the results pertaining to access to finance of SMMEs will be supplemented with the views and perceptions of commercial banks.

SMME sample data will be described in this chapter by referring to the five sections of the SMME questionnaire and the response rates. Conclusions will be drawn from the SMME survey.

6.2 RESULTS

6.2.1 Personal information of the SMME owners

The demographic characteristics of the SMME owners are presented in Table 6.1 (see Annexure E).

Table 6.1 Personal information of the SMME respondents

Variable	Category	Frequency	Per cent	Cumulative frequency	Cumulative per cent
Age group	16-24	15	4.12	15	4.12
	25-34	97	26.64	112	30.76
	35-44	118	32.42	230	63.18
	45-59	103	28.30	333	91.48
	60+	31	8.52	364	100
Gender	Male	226	62.09	226	62.09
	Female	138	37.91	364	100
Race	Black	259	71.2	259	71.2
	White	81	22.3	340	93.4
	Coloured	5	1.4	345	94.8
	Indian	11	3.0	356	97.8
	Asian	3	0.8	359	98.6

	Other (Malaysian. Pakistani, Bangladeshi, Nigerian, Ethiopian)	5	1.4	364	100
Qualifications	No schooling	6	1.6	6	1.6
	Some primary schooling	7	1.9	13	3.57
	Primary school completed	15	4.1	28	7.69
	Some high school	53	14.6	81	22.2
	Completed Grade 12	154	42.31	235	64.56
	Apprenticeship	2	0.5	237	65.11
	Post-matric certificate	28	7.7	265	72.8
	Post-matric diploma	30	8.2	295	81
	University degree	39	10.7	334	91.7
	Postgraduate degree	30	8.2	364	100

Source: Author.

The majority of SMME owners fall within the age category of 35 to 44 years, representing 32% (n=118) of the respondents. The second largest age category falls between 45 to 49 years, signifying 28% (n=103) of the sample. In the age category 25 to 34 years, 27% (n=97) represents the third largest category. Only 4% (n=15) of the respondents were between the ages 16 to 24 years, and a further 8.52% (n=31) were older than 60 years. The sample shows that SMME ownership at a younger age is fairly low (4%). For the current sample, business ownership increases with age, and then decreases from 60 years onwards.

The respondents were required to indicate their gender. As displayed in Table 6.1, 62% (n=226) of the respondents were male and 38% (n=138) females. The majority of SMME owners in the sample were black, representing 71% (n=259) of the sample size, with whites second at 22% (n=81), and Indian business owners third at 3% (n=11). The Coloured owners formed the fourth category of the sample, being 1.4% (n=5), together with respondents indicating their race as “other”. The section identified as “other” included business owners originating from Pakistan, Bangladesh, Malaysia, Nigeria and Ethiopia.

Respondents were further required to provide their level of qualification. 42% (n=154) of the SMME owners have completed Grade 12/Matric. This represents the largest category. The second largest category includes SMME owners with some high school completed, representing 14.6% (n=53) of respondents, and the third largest category includes SMME owners who have a university degree, representing 10.7% (n=39) of the sample. Respondents who have a post-matric certificate or diploma, or a postgraduate degree are more or less the same, representing between 7.7% and 8.2%

of the sample recorded. The smallest percentage of SMME owners have completed an apprenticeship (0.5%, n=2).

6.2.2 The nature, operations and formality of the SMMEs

This part of the questionnaire includes the results pertaining to the area in which the business functions, the age, size, the legal entity, where in the life cycle the SMME is functioning at, and which sector it serves. The formality of the business is further established by whether or not the SMME owns movable or immovable property, whether the business owner keeps financial records, whether the owner makes use of an accountant or auditor, and whether the business has a business plan.

6.2.2.1 Area of operation

Table 6.2 shows that 50.27% (n=183) of the SMMEs operate in various towns of Matjhabeng. The SMMEs operating in townships represent 49.7% (n=181) of the sample. A breakdown of the SMMEs operating in the various towns and townships are provided below.

Table 6.2 Towns or townships in which SMMEs operate

Town/Township		Frequency	Per cent	Cumulative frequency	Cumulative per cent
Welkom	Town	102	28.02	102	28.02
Riebeeckstad	Town	13	3.57	115	31.59
Thabong	Township	142	39.01	257	70.60
Bronville	Township	3	0.82	260	71.43
Odendaalsrus	Town	34	9.34	294	80.77
Kutloanong	Township	19	5.22	313	85.99
Nyakallong	Township	1	0.27	314	86.26
Virginia	Town	23	6.32	337	92.58
Meloding	Township	16	4.40	353	96.98
Hennenman	Town	10	2.75	363	99.73
Ventersburg	Town	1	0.27	364	100.00

Source: Author.

Data were thus collected from 11 towns and/or townships. The results gathered show that the majority of SMME owners operate in Thabong (39.01%, n=142). The second highest category operates in Welkom, representing 28.02% (n=102) of the sample, followed, in descending order by Odendaalsrus (9.34%; n=34), Virginia (6.32%; n=23), Kutloanong (5.22%; n=19), Meloding (4.40%; n=16), Riebeeckstad (3.57; n=13), Hennenman (2.75%; n=10), Bronville (0.82%, n=3), Nyakallong (0.27%; n=1) and Ventersburg (0.27%; n=1).

6.2.2.2 Legal entities of the SMMEs

The respondents were required to indicate the legal entity of their businesses. Table 6.3 displays the frequencies and percentages pertaining to the legal entities of the sample data.

Table 6.3 Legal entities of SMMEs

Legal entity	Frequency	Per cent	Cumulative frequency	Cumulative per cent
Sole proprietor	229	63	229	63
Partnership	59	16.2	288	79.2
Closed corporation (CC)	41	11.26	329	90.46
Private company (Pty) Ltd	26	7.14	355	97.6
Private incorporated company (Pty) Ltd	6	1.64	361	99.24
Franchise	2	0.54	363	99.78
Trust	1	0.27	364	100

Source: Author.

The results indicate that the majority of SMMEs are sole proprietors (63%, n=229), followed by partnerships (16%, n=59). Closed corporations (CCs), private companies (Pty) Ltd and private incorporated companies (Inc), in descending order, represent 11.26% (n=41), 7.14% (n=26) and 1.64% (n=6) respectively. The majority of the respondents do have businesses with unlimited liability. In other words, their personal estates – in many cases then also the estates of their spouses - are exposed to any and all of the risks of them conducting business (Van Deventer & Van Deventer, 2020).

6.2.2.3 Registration and business licenses

The formality of the SMME was furthermore established by whether the SMME is registered at the Companies and Intellectual Property Commission (CIPC), formerly known as CIPRO; and whether the SMME has a business license or permit. Table 6.4 provides a breakdown of the SMME sample data collected pertaining to their registration status.

Table 6.4 Registered with CIPC and/or has a business license

Registered with CIPC	Frequency	Percentage	Cumulative frequency
Yes	141	38.7	141
No	223	61.3	364
Business license or permit	**Frequency**	**Percentage**	**Cumulative frequency**
Yes	186	51.1	186
No	177	48.6	363
Missing value	1	0.3	364

Source: Author.

The majority of the sample (61.3%, n=223) is not registered with CIPC. Furthermore, 51.1% (n=186) indicated that they have a business permit or license. For this study, if the total number of companies including closed corporations (CCs), private companies (Pty) Ltd, private incorporated companies (Inc) and franchisees are taken into account, only 75 SMMEs should have been registered with the CIPC. Sole proprietors and partnerships are not required to register with CIPC. Yet, 141 SMMEs specified that they are registered. A possible explanation for this could be that SMMEs might have been advised to register with CIPC, although it is not a requirement.

6.2.2.4 The economic sector SMMEs operate in

SMME owners were required to indicate the sector in which they operate. A list of sectors was provided in line with the sectors stipulated in the NSBA (South Africa, 1996b) and NSBAA (South Africa, 2003). Table 6.5 provides a breakdown of the data collected.

Table 6.5 Economic sector SMMEs operate in

Sector	Frequency	Per cent	Cumulative frequency	Cumulative per cent
Agriculture	5	1.37	5	1.37
Mining and quarrying	2	0.55	7	1.92
Manufacturing	3	0.82	10	2.75
Electricity, gas and water	7	1.92	17	4.67
Construction	12	3.30	29	7.97
Wholesale	1	0.27	30	8.24
Retail trade	97	26.65	127	34.89
Motor trade and/repair services	19	5.22	146	40.11
Commercial agents and allied services	1	0.27	147	40.38
Catering and accommodation	44	12.09	191	52.47
Transport and storage	18	4.95	209	57.42
Communication	2	0.55	211	57.97
Finance and business services	11	3.02	222	60.99
Community, social and personal services	142	39.01	364	100.00

Source: Author.

The largest portion of SMMEs operate in community, social and personal services, representing 39% (n=142). The second and third largest sectors are the retail trade sector (26.65%, n=97) and catering and accommodation sectors (12.09%, n=44). SMMEs operating in motor trade and repair services, transport and storage and construction represent 5.22% (n=19), 4.95% (n=18) and 3.3% (n=12) of the sample data, respectively.

6.2.2.5 Years of experience in the sector and as a business owner

The respondents were further asked to indicate the years of experience they have both in the sector and as a business owner, respectively. Table 6.6 provides a summary of the results.

Table 6.6 Years of experience in the sector and as a business owner

Variable	N	Mean	Min.	Median	Max.
Years of experience in the sector	364	11.1	1	9	57
Years of experience as a business owner	364	9.9	0	8	57

Source: Author.

Years of experience in the sector ranges from a minimum of 1 year to a maximum of 57 years, with an average of 11 years of experience. If the standard deviation is taken into account, 68% of the respondents have sector experience ranging from 2 to 20 years. The average experience of the SMME owners as business owners is 10 years (9.9). If the standard deviation is taken into account, 68% of the respondents were business owners for between 1.32 years to 18 years.

6.2.2.6 The age of the business

Table 6.7 provides a breakdown of the frequencies and percentages of the various years of SMME operation.

Table 6.7 Age of the business

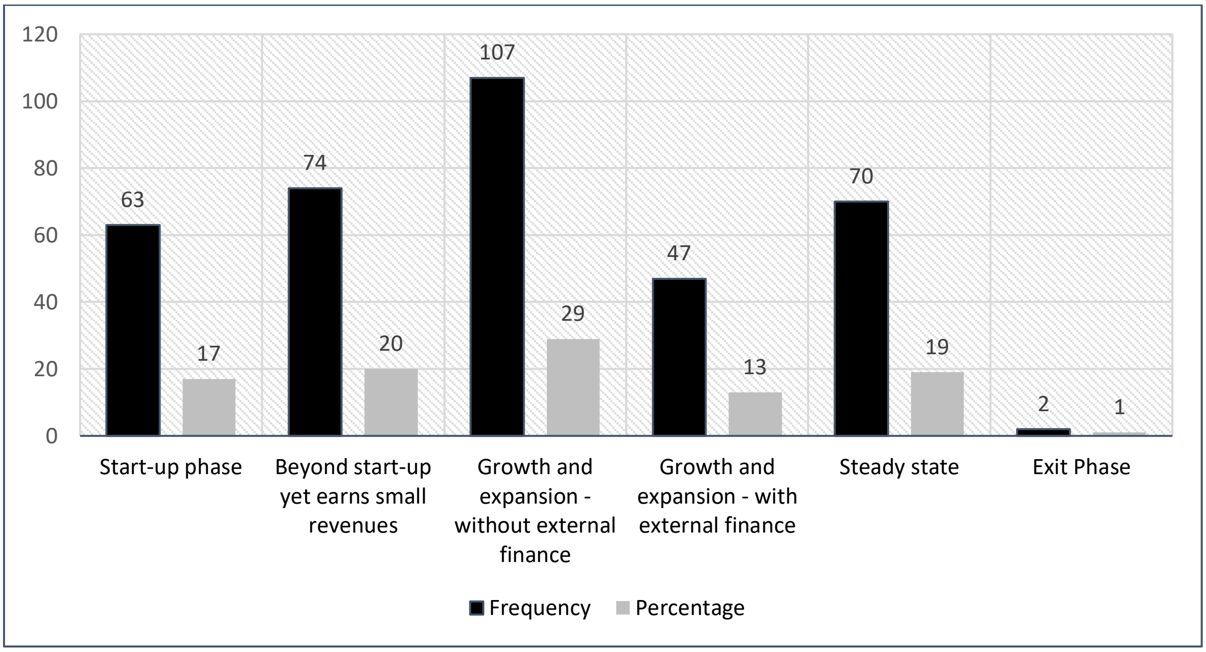
Years' operating	Frequency	Per cent	Cumulative frequency	Cumulative per cent
Less than 1 year	13	3.57	13	3.57
1-3 years	67	18.41	80	21.98
4-5 years	60	16.48	140	38.46
6-10 years	102	28.02	242	66.48
More than 10 years	122	33.52	364	100

Source: Author.

The largest percentage of SMMEs has been operating for more than 10 years (33.52%, n=122). This is followed by SMMEs operating for between 6 to 10 years, representing 28% (n=102). SMMEs operating for between 1 to 3 years represents the third highest category (18.41%, n=67), followed by 4 to 5 years of operation, and less than one year, at 16.48% (n=60) and 3.57% (n=13) respectively.

6.2.2.7 The life cycle of the SMME

The respondents were required to indicate where in the life cycle the SMME is functioning at. In terms of the phases of the life cycle, the researcher separated the categories 'start-up', 'growth' and 'expansion'. The start-up, growth, expansion and steady phases are described in literature as phases through which the business progresses (Nieman & Nieuwenhuizen, 2019). Yet, for the purpose of this study, with the start-up phase, a further distinction was included, being beyond start-up and still earning small amounts of revenue. It became apparent in the pilot study that some SMMEs are functioning beyond start-up, but they are still struggling to break through to a growth phase. These are SMMEs that the government needs to target. Data collected further established whether the SMME is growing with access to external finance, or without having access external finance. SMMEs that are growing without access to external finance form part of a market that could be exploited by commercial banks, and as such the distinction was made. Figure 6.1 displays the frequencies and percentages of the various phases of the life cycle of SMMEs.



Source: Author.

Figure 6.1 The life cycle of SMMEs

The breakdown of Figure 6.1 shows that most of the SMMEs function in the growth and expansion phase without external finance (29%, n=107). Second to this are SMMEs functioning beyond the start-up phase who still earn small revenues, and thus struggle to progress from the start-up through to the growth phase. This category represents 20% of the SMMEs (n=74). Closely related to the aforesaid category in terms of percentage and frequency is the steady state. In the steady state, SMMEs are established and growth tends to remain more or less the same (Nieman & Nieuwenhuizen, 2019). This category represents 19% (n=70) of the sample. Only two SMMEs indicated that they are preparing to exit the market.

6.2.2.8 The size of the business based on employee numbers

Sample data were collected to establish whether SMMEs are either micro, very small or small. These categories were determined by using the employee numbers as set out in the NSBA (South Africa, 1996b). Therefore, micro enterprises are those that employ between 1-5 workers; very small businesses employ between 6-10 workers; and small businesses employ between 11-50 workers. Table 6.8 provides a breakdown of the employee numbers from the data collected.

Table 6.8 Number of employees

Employee number	Frequency	Per cent	Cumulative frequency	Cumulative per cent
1 employee (myself)	63	17.31	63	17.31
2 employees	84	23.08	147	40.38
3-5 employees	112	30.77	259	71.15
6-10 employees	44	12.09	303	83.24
11-20 employees	38	10.44	341	93.68
21-50 employees	23	6.32	364	100.00

Source: Author.

The majority of respondents employ between 3 to 5 workers, representing 30.77% (n=112). This is followed by businesses employing 2 employees, representing 23.08% (n=84). The smallest group employs between 21 to 50 employees, representing 6.32% (n=23). In Table 6.9 the employee numbers are clustered to determine whether or not the business can be categorised as micro, very small or small. The results of the categorisation are presented in Table 6.9.

Table 6.9 Size of SMMEs based on employment numbers

Business type	Employee number	Frequency	Per cent	Cumulative frequency	Cumulative per cent
Micro enterprises	1-5 employees	259	71.15	259	71.15
Very small enterprises	6-10 employees	44	12. 09	303	93.68
Small enterprises	11-50 employees	61	16.76	364	100.00

Source: Author.

The majority of the SMMEs consist of micro enterprises representing 71.15%% (n=259), followed by small enterprises at 16.76% (n=61). Very small enterprises represent the smallest part of the sample, namely 12.09% (n=44).

6.2.2.9 Access to movable and immovable property

It was determined whether or not the SMME owner own movable and/or immovable property, as it enables the SMME owner to pledge the assets as collateral, thereby enhancing the ability to access finance (Mutezo, 2015). Table 6.10 displays the results collected from the sample related to movable and immovable property.

Table 6.10 Access to movable and immovable property

Variable	Category	Frequency	Per cent	Cumulative frequency	Cumulative per cent
Owns immovable property	Yes	111	30.49	111	30.49
	No	253	69.51	364	100
Owns movable property	Yes	330	90.66	330	90.66
	No	34	9.34	364	100

Source: Author.

Table 6.10 shows that 30.49% (n=111) of SMME owners own immovable property, whilst 90.66% (n=330) own movable property.

6.2.2.10 Financial record-keeping

Keeping financial records is imperative for SMMEs if they want to access finance from commercial banks (Nieman & Nieuwenhuizen, 2019). Table 6.11 provides a breakdown of the frequencies and percentages related to whether or not the SMME keeps financial records.

Table 6.11 Financial record-keeping

Financial record-keeping	Frequency	Per cent	Cumulative frequency	Cumulative per cent
SMME keeps financial records	276	75.8	276	75.8
SMME does not keep financial records	61	16.8	337	92.6
SMME does not keep financial records but estimates its financial position	27	7.4	364	100

Source: Author.

Table 6.11 shows that the majority of SMME owners keep financial records, representing 75.82% (n=276) of the total sample. SMME owners who do not keep financial records comprise 16.8% (n=61). SMMEs who do estimate their financial position without keeping financial records represents the smallest category, signifying 7.4% (n=27).

It was furthermore determined who is responsible for and who provides assistance with the recording of the financial information of the business. This question was included to determine whether financial records are validated independently, which further enhances the SMMEs ability to access finance (Nieman & Nieuwenhuizen, 2019). Table 6.12 provides a breakdown of the sample data collected.

Table 6.12 Financial record-keeping of SMMEs

Recording of financial records	Yes frequency	No frequency	TOTAL	Yes %	No %
I do it myself	161	120	281	57.29	42.70
An employee	61	221	282	21.63	78.37
A bookkeeper	68	214	282	24.11	75.89
An accountant	48	234	282	17.02	82.98
An auditor	59	223	282	20.92	79.08
A friend/family member	13	269	282	4.61	95.39
Missing data			1		

Source: Author.

The majority of the respondents indicated that they record their own financial information (57.29%; n=161). Using a bookkeeper to record financial records represents the second largest category (24.11%; n=68). This is followed by SMME owners using an employee to assist with the financial record keeping (21.63%; n=61). An auditor or an accountant represents the fourth and fifth most frequently used method to keep financial records (20.92%; n=59 and 17.02%; n=48 respectively). Only 4.61% (n=13) use a friend or family member to keep financial records.

6.2.2.11 The business plan

A business plan enhances SMMEs' ability to access finance (Nieman & Nieuwenhuizen, 2019). It was thus determined whether or not the SMME has a business plan. Table 6.13 displays the responses.

Table 6.13 The existence of a business plan

Variable	Category	Frequency	Per cent	Cumulative frequency	Cumulative per cent
The business is operating in accordance with a business plan.	Yes	164	45.05	164	45.05
	No	200	54.95	364	100

Source: Author.

The data shows that 45.05% (n=164) of respondents has a business plan. Respondents who have indicated that they do not have a business plan represent 54.95% (n=200).

It was established whether the SMME owner compiled his or her own business plan, or whether assistance was provided in this regard. This question was included to enrich the findings, as it is important for the SMME owner to take ownership of the content and evidence displayed in the business plan, and the strategic direction it intends to pursue. This is specifically relevant when a consultant was used to compile a business plan. Commercial banks interview loan applicants and needs to establish whether the SMME owner is familiar with and knowledgeable with the content of the business plan (Nieman & Nieuwenhuizen, 2019). Table 6.14 provides a detailed breakdown of who compiled, and who provided assistance with crafting a business plan for the SMME.

Table 6.14 Persons responsible for the compilation of the business plan

The business plan was compiled	Yes	No	TOTAL	Yes %	No %
By the business owner/s	120	44	164	73.17	26.83
With the assistance of a private consultant	39	125	164	23.78	76.22
With the assistance of a consultant from the government	30	134	164	18.29	81.71

Source: Author.

The data shows that 73.17% (n=12) of the respondents indicated that the business plan was compiled by the business owner him- or herself, whilst 23.78% (n=39) of respondents received assistance from a consultant. Respondents who indicated that a government consultant assisted them to produce a business plan represented 18.29% (n=30) of the sample.

In the following section the findings pertaining to obstacles impeding the operations of SMMEs will be explored.

6.2.3 Business and operational obstacles

In order to establish whether or not access to finance is perceived as a priority obstacle for SMMEs, ten obstacles hindering SMME operations were provided to respondents to select. Table 6.15 displays the frequencies and percentages of the obstacles hindering the operations of SMMEs collected from the sample. The mean scores were used to rank the various obstacles.

Table 6.15 Obstacles influencing the operations of the SMME

Indicate to what degree the following factors have been obstacles to the current operations of your business	No obstacle (1)	Minor obstacle (2)	Moderate obstacle (3)	Major obstacle (4)	Very severe obstacle (5)	Missing	Mean	Standard deviation	Ranking
Economic environment This refers to the economic conditions, including economic growth and inflation. It also includes the economic outlook which deals with the expectations of economic growth, productivity growth and employment levels.	34 (9.42%)	24 (6.65%)	78 (21.61%)	83 (22.99%)	142 (39.33%)	3	3.73	1.332	1
Crime, theft and corruption This includes, amongst others, robbery, stock theft by customers, fraud, bribery, employee theft and corruption. Corruption is a form of dishonesty or criminal activity undertaken by a person or organisation entrusted with a position of authority which might affect the business.	65 (17,91%)	30 (8.26%)	51 (14.05%)	51 (14.05%)	166 (45.73%)	1	3.60	1.558	2
Market penetration and market demand This includes competition in the market, demand for your product and service from clients, and networking with suppliers and clients.	86 (23.69%)	37 (10.19%)	52 (14.33%)	50 (13.77%)	138 (38.02%)	1	3.31	1.623	3
Access to finance for your kind of business from commercial banks	106 (29.28%)	35 (9.67%)	40 (11.05%)	55 (15.19%)	126 (34.81%)	2	3.15	1.683	4

Indicate to what degree the following factors have been obstacles to the current operations of your business	**No obstacle (1)**	**Minor obstacle (2)**	**Moderate obstacle (3)**	**Major obstacle (4)**	**Very severe obstacle (5)**	**Missing**	**Mean**	**Standard deviation**	**Ranking**
Support and advice provided from government at a local and provincial level	124 (34.16%)	33 (9.09%)	50 (13.78%	46 (12.67%)	110 (30.30%)	1	2.95	1.679	5
Regulatory environment The regulatory environment is the rules and policies set by government that guide businesses. This is also done at local level, as municipalities have their own sets of rules guiding businesses.	114 (31.5%)	36 (9.94%)	70 (19.34%)	47 (12.98%)	95 (26.24%)	2	2.91	1.604	6
Access to infrastructure This includes access to sufficient electricity supply, transport networks, telecommunication, internet access etc. to enable the proper functioning of the business.	106 (29.28%)	61 (16.9%)	60 (16.57%)	53 (14.6%)	82 (22.65%)	2	2.83	1.55	7
Labour laws and labour environment Labour law regulates the relationship between workers, employing entities and the government. Labour laws have a uniform purpose: they protect employees' rights and set forth employers' obligations (wages and salaries) and responsibilities.	135 (37.29%)	46 (12.71%)	56 (15.47%)	43 (11.88%)	82 (22.65%)	2	2.68	1.608	8
The ability to **employ an educated and skilled workforce**	133 (36.64%)	45 (12.40%)	75 (20.66%)	41 (11.3%)	69 (19%)	1	2.63	1.533	9
Access to technology The ability to acquire and use technology for production or to provide a service.	154 (42.54%)	51 (14.09%)	54 (14.92%)	45 (12.43%)	58 (16.02%)	2	2.44	1.528	10

Source: Author.

Table 6.15 indicates that the "most severe obstacle" to the operations of the SMMEs collected from the sample is perceived to be the economic environment, indicated by 39.33% (n = 142), and a mean score of 3.73. The second-ranked obstacle is crime, theft and corruption, as reported by 45.73% (n=166) of respondents, with a mean score of 3.60. Market penetration and market demand are ranked in third place, as indicated by a mean score of 3.31.

Access to finance from commercial banks is ranked in the fourth place and is specified by 34.81% (n=126) of respondents as “a most severe obstacle”, with a mean score of 3.15. This is followed by support and advice provided from government at both a provincial and local level (30.30%; n=110), a regulatory environment (26.24%; n=95), access to infrastructure (22.65%; n=82) and labour laws and the labour environment (22.65%; n=82) in descending order. The last two obstacles ranked include the ability to employ an educated and skilled workforce (19%; n=69), and access to technology (16.02%; n=58).

The last question of section C required the respondents to rank the first, second and third biggest obstacle currently facing the business. It was furthermore included to establish whether access to finance is a priority obstacle. The results correspond with the second and third-ranked obstacles displayed in Table 6.15 above, that being crime, theft and corruption, and market penetration and market demand. Table 6.16 displays the frequencies and percentages recorded as the biggest obstacle hindering the operations of SMMEs.

Table 6.16 Biggest obstacle to business operations

	Type of obstacle	Frequency	Per cent
Biggest obstacle	Crime, theft and corruption	118	33.33
	Market penetration and market demand	54	15.25
	Access to finance for your kind of business from commercial banks	53	14.97
Missing		10	

Source: Author.

The results show that the most frequent biggest obstacle identified by respondents in the sample is collectively crime, theft and corruption (33.3%; n=118). The second most frequent, biggest obstacle identified is market penetration and market demand. (15.25%; n=54). Access to finance from commercial banks was the third most frequent, biggest obstacle, as specified by 14.97% (n=53).

When the results of ranked question C12 is considered, compared to the mean scores established from questions C2 to C11, one would expect that the economic environment, crime, theft and corruption and market penetration and market demand would also feature as the biggest obstacles. Yet, this is not the case. A possible explanation for this could be that accurately differentiating amongst items on a list containing a number of choices that may appear very similar in value to the respondents, could be challenging. Furthermore, if the list of options to be ranked is extensive, ranking could become even more challenging, and respondents may thus struggle to provide meaningful answers – as indicated by Cameron (2020). This could also be a reason for the missing data (10). It is however noted that 166 (45.73%) of the respondents indicated that crime theft and corruption are a very severe obstacle, representing the highest percentage specified (Table 6.15).

6.2.4 Financial inclusion

In the following section, the results pertain to financial inclusion. Data collected from SMMEs related to their day-to-day dealings with a commercial bank will be divulged. This includes issues such as whether they have a business bank account and the type of account used. The commercial bank of their choice and the types of transactional activities they are involved in will furthermore be dealt with.

6.2.4.1. Access to and type of bank account

Table 6.17 displays the results of the data collected pertaining to access to and the type of bank account utilised by SMMEs.

Table 6.17 Access to and type of bank account

Access to a business bank account	Frequency	Per cent	Cumulative frequency	Cumulative percentage
Yes	277	76.1	277	76.1
No	87	23.9	364	100
Type of account	**Frequency**	**Per cent**	**Cumulative frequency**	**Cumulative percentage**
Current account	118	42.4	118	42.4
Savings account	122	43.9	240	86.3
Savings and current account	32	11.5	272	97.8
Savings/transaction account at Post Office	5	1.8	277	99.6
Other	1	0.4	278	100

Source: Author.

Most of the respondents indicated that they do have access to a bank account that they use for business purposes, as stated by 76% of respondents (n=277). Nearly a quarter of the respondents (23.9%; n=87) indicated that they do not have a bank account that they utilise for business operations.

The majority of the respondents either have a current or a savings account - 42.4% (n=118) and 43.9% (n=122) respectively. 11% (n=32) indicated that they do have both a savings and a current account that they use for their business operations. Five respondents specified that they do have a savings/transaction account held at the Postbank. Using a savings account for business operations has some limitations if it comes to the running of the business as, for example, there are withdrawal limits. The bank charges for a savings account are, however, less compared to a current account, provided that the owner maintains the minimum balance required for a savings account (Roberts, 2019).

6.2.4.2 Name of the bank account

It was further established whether the bank account held by an SMME owner was opened specifically in the name of the business, or just in the name of the business owner. The purpose of this question was to ascertain the extent to which the business owner has aligned his/her bank account with the other operations of the business. A bank account held in the name of the business would serve as an indication of the degree of formality of the business. It was moreover established whether the bank account used by the SMME is also used for personal transactions. SMMEs could then potentially run into cash-flow problems, which could ultimately hamper their ability to access to finance, as was reported by Agwa-Ejon and Mbohwa (2015). This information is relevant, as 276 of the respondents indicated that they have a bank account that they use in conducting their business. Table 6.18 displays the frequencies and percentage of the data collected from the respondents.

Table 6.18 Name of the bank account

Name of bank account	**Frequency**	**Percentage**	**Cumulative frequency**	**Cumulative percentage**
Bank account in the name of the business	178	64.5	178	64.5
Bank account in the name of the business owner	98	35.5	276	100
Is the bank account used for personal transactions?	**Frequency**	**Percentage**	**Cumulative frequency**	**Cumulative percentage**
Yes	78	28.3	78	28.3
No	197	71.3	275	99.6
Missing	1		276	100

Source: Author.

Table 6.18 shows that the majority of SMMEs with a bank account, 64.5% (n=178), manage their business in the name of the business. Just more than a third - namely 35.5% - manage the business with a bank account held in the name of the business owner. The data displayed in Table 6.18 furthermore shows that the majority of the SMMEs with access to a bank account does not use the account for personal transactions, representing 71.3% (n=197). Nearly a third of the respondents do however use the business bank account for personal transactions, as indicated by 28.3% (n=78) of the respondents.

6.2.4.3 Commercial bank used by SMMEs

The name of the commercial bank used by SMMEs mainly for the business was determined. The results collected from the respondents are displayed in Table 6.19.

Table 6.19 Commercial banks used by SMMEs

Bank name	Frequency	Percentage	Cumulative frequency	Cumulative percentage
Absa	59	21.3	59	21.3
African Bank	2	0.7	61	22
Capitec	43	15.5	104	37.5
First National Bank (FNB)	90	32.6	194	70.1
Nedbank	32	11.6	226	81.7
Standard Bank	48	17.3	274	99
Other	3	1	277	100

Source: Author.

The results displayed in Table 6.19 show that the majority of SMMEs bank with FNB (32.6%; n=90). 21.3% (n=59) bank with Absa, and 17.3% (n=48) with Standard Bank. Capitec is used by 15.5% (n=43) of respondents, and Nedbank by 11.6% (n=32) of them. Only two SMMEs indicated that they bank with African Bank (0.7%).

It was moreover established how long the respondents have been banking with the main bank used for the business. A relationship with the commercial bank could potentially enhance the SMME's ability to access finance. Table 6.20 displays the data collected from the SMME sample.

Table 6.20 Years banking at a commercial bank

Years with the main bank of your business	Frequency	Percentage	Cumulative frequency	Cumulative percentage
At most a year	14	5.1	14	5.1
2 to 3 years	46	16.6	60	21.7
4 to 5 years	51	18.4	111	40.1
6 to 10 years	56	20.2	167	60.3
Over 10 years	110	39.7	277	100

Source: Author.

Table 6.20 shows that the majority of SMME owners, 39.7% (n=110), have been with the main commercial bank of their choice for more than ten years. A further 20.2% (n=56) identified that they have been with a commercial bank for between six to ten years. Only 5.1% (n=14) indicated that they have been with a commercial bank for at most a year. Most of the respondents have a long-standing relationship with the bank of their choice, and this relationship should enhance their ability to access finance if the need arises to obtain the same.

6.2.4.4 E-banking services used by SMMEs

The respondents were required to indicate whether or not they use e-banking services - to simplify banking. Table 6.21 displays the data collected from the respondents pertaining to the usage of e-banking services.

Table 6.21 E-banking service used by SMMEs

	Frequency			Percentage	
E-banking services used	**Yes**	**No**	**Missing**	**Yes**	**No**
Cell phone banking	190	86	1	68.8	31.2
Internet banking	159	117	1	57.6	42.4

Source: Author.

The data displayed in Table 6.21 shows that more than 50% of the respondents do make use of e-banking services. The majority of the respondents identified that they use cell phone banking, as indicated by 68.8% (n=190) of them, and a further 57.6% (n=159) indicated that they use internet banking to facilitate transactions.

6.2.5 Financial access

Section D(ii) of the questionnaire attempted to establish whether the SMMEs have access to credit and loan products. Issues such as whether or not the SMME owner has applied for a loan since business start-up, whether the business does have lines of credit or loans, the number of loans and the need for loans and credit will be explored. Furthermore, reasons for not applying for a loan, loan credit products utilised and reasons for choosing a specific bank for credit and loans will be established. The types of collateral and sources used to fund working capital and fixed assets are moreover determined in this section.

6.2.5.1 Loans and lines of credit

At first, it was established whether the SMME owner has applied for a loan or credit since business start-up. It was furthermore determined whether or not the business has open lines of credit or loans. The number of loans or lines of credit held by SMME owners was moreover established. Although 60 of the SMMEs have indicated that they do have access to credit, when the number of loans and lines of credit are added together, 63 respondents answered this question. This could possibly be explained by the fact that three respondents in all probability have settled their loans yet went ahead to answer the question. It was moreover ascertained whether the most recent application for a loan has been approved, and the need for a loan was furthermore established. The results are displayed in Table 6.22.

Table 6.22 Loans and lines of credit

Have you applied for a loan or lines of credit since business start-up?	**Frequency**	**Percentage**	**Cumulative frequency**	**Cumulative percentage**
Yes	99	27.2	99	27.2
No	265	72.8	364	100
At this time does the business have lines of credit or loans?	**Frequency**	**Percentage**	**Cumulative frequency**	**Cumulative percentage**
Yes	60	16.8	60	16.8
No	298	83.2	358	100.00
Missing	6		364	

Number of loans and lines of credit outstanding	Frequency	Percentage	Cumulative frequency	Cumulative percentage
One	38	60.3	38	60.3
Two	15	23.8	53	84.1
Three	4	6.4	57	90.5
More than three	6	9.5	63	100
Was the recent loan application approved?	**Frequency**	**Percentage**	**Cumulative frequency**	**Cumulative percentage**
Yes	68	68	68	68
No	32	32	100	100.00
Does your business need a loan or credit from a commercial bank?	**Frequency**	**Percentage**	**Cumulative frequency**	**Cumulative percentage**
Yes	146	40.2	147	40.2
No	217	59.8	363	100
Missing	1		364	

Source: Author.

The results show that the majority of respondents have not applied for a loan or line of credit since the business start-up, representing 72.8% (n=265). Only 27.2% (n=99) made use of lines of credit or loans. It is furthermore indicated that the majority of respondents, namely 83.2% (n=298), do not have lines of credit or loans. Only 16.8% (n=60) of the respondents specified that they do have lines of credit or loans. The majority of the respondents only have access to one loan or a line of credit, representing 60.3% (n=38). A further 23.8% (n=15) have two lines of credit or loans, and a very small percentage have three or more loans or lines of credit, representing 15.9% (n=10).

Table 6.22 furthermore shows that 68% (n=68) of the respondents' latest application for a loan or line of credit was approved, whilst the applications of 32% (n=32) of respondents were rejected. Although only 99 of the respondents have indicated that they have applied for a loan since business start-up, 100 answered the question. It is furthermore established that the majority of SMMEs, 59.8% (n=217), do not need a loan or credit. The rest (40.2%; n=146) indicated that they are in need of a loan or credit. This result, although lower, is to some extent in line with question C2, in which 181 respondents identified that access to finance is a major or severe obstacle to their business operations, representing 50% of the SMMEs.

6.2.5.2 Reasons for not applying for a loan

Reasons for not applying for a loan were furthermore established. Table 6.23 displays the results collected from the respondents. Likert-type scale questions were used for this purpose. The reasons for not applying for a loan are ranked by using the mean scores. The respondents who indicated that they have not applied for a loan or credit since business start-up include 265 of the sample. Only 261 respondents answered all the questions.

Table 6.23 Reasons for not applying for a loan

Reasons	To no extent (1)	To some extent (2)	To a moderate extent (3)	To a large extent (4)	To a very large extent (5)	Means	Standard deviation	Missing	Ranking
The interest rate charged by the banks are too high	41 (16%)	22 (8%)	16 (6%)	47 (18%)	135 (52%)	3.81	1.533	4	1
Collateral requirements for bank loans are too strict	52 (19.8%)	17 (6.5%)	28 (10.7%)	35 (13.4%)	130 (49.6%)	3.66	1.596	3	2
The requirements for owner equity contribution to secure a loan are too high	53 (20%)	25 (9.5%)	30 (11.5%)	42 (16%)	112 (43%)	3.52	1.587	3	3
The application procedure for bank loans is too complicated and burdensome	67 (25.6%)	16 (6.1%)	25 (9.5%)	34 (13%)	120 (45.8%)	3.47	1.683	3	4
My earnings fluctuate from month to month, so therefore I cannot borrow money	81 (31%)	36 (13.7%)	31 (11.8%)	27 (10.3%)	87 (33.2%)	3.01	1.678	3	5
I do not believe in borrowing money	93 (35.2%)	24 (9.2%)	37 (14%)	12 (4.6%)	97 (37%)	2.98	1.742	1	6
I was afraid that my loan would be rejected	127 (48.5%)	23 (8.7%)	19 (7.3%)	28 (10.7%)	65 (24.8%)	2.55	1.712	3	7
The business does not generate enough cash to apply for a loan	116 (44%)	41 (16%)	33 (12.6%)	14 (5.3%)	58 (22.1%)	2.45	1.606	3	8
Lack of a viable business plan	142 (54%)	21 (8%)	25 (10%)	14 (5%)	60 (23%)	2.35	1.674	3	9
I do not qualify to borrow money	166 (63.6%)	32 (12.26%)	18 (6.9%)	11 (4.21%)	34 (13%)	1.90	1.432	4	10
I have a poor credit record	209 (79.8%)	13 (5%)	5 (1.9%)	9 (3.44%)	26 (9.92%)	1.59	1.298	3	11

Source: Author.

Table 6.23 shows that the most important reason identified by the respondents for not applying for a loan is the interest rates charged by the banks. This is perceived to be too high. This reason was specified by 70% (n=182) as either applicable to them “to a large extent” or “to a very large extent”. Collateral requirements being too strict are ranked in second place, and were identified by 49.6% (n=130) as a reason for not applying for a loan “to a very large extent”. This is followed by the requirements for owners’ equity contribution and the application procedures of banks being too complicated and burdensome, as identified by 43% (n=112) and 45.8% (n=120) of the respondents respectively. The requirements for equity contribution are ranked higher compared to the application procedure for a loan being too complicated, as the mean score for the prior is higher (3.52) compared to the latter (3.47).

Ranked in the fifth place is earnings fluctuating from month to month, as indicated by 33.2% (n=87) of respondents, with a mean score of 3.01. This is followed by respondents not believing in borrowing money, as specified by 37% (n=97), with a mean score of 2.98. Being afraid that the loan would be rejected (24.8%; n=65) was ranked in the seventh place, whilst insufficient cash to secure a loan (22%; n=58) was ranked in the eighth place as two more reasons for not applying for a loan. The data displayed in Table 6.29 further show that the lack of a viable business plan, not qualifying to borrow money and a poor credit record were identified by 23% (n=60), 13% (n=34) and 9.92% (n=26) of respondents respectively as applicable to them “to a very large extent”.

6.2.5.3 Reasons provided for the rejection of loans

Reasons for rejecting loans need to be provided by the commercial bank. This is a requirement of the NCA (35 of 2005). It was therefore determined in the case of a loan rejection whether or not reasons for this decision were provided to the SMME. 66% (n=18) out of 27 respondents indicated that the commercial bank has provided reasons why the loan or credit product application was rejected. This question should however be answered by 32 of the respondents if one considers the number of loans that were rejected.

6.2.5.4 Types of credit products and loans

Various types of credit products and loans are used by the SMME respondents. A variety of credit products and loans are provided by the commercial banks to business banking clients. Table 6.24 displays the results pertaining to the credit products and loans used by SMMEs. Sixty respondents do have open lines of credit or loans. However, 65 respondents answered this question. This could possibly be explained by the fact that four respondents completed the question, even though they have settled their outstanding obligations towards the bank. The results pertaining to the loans and types of credit used by the SMMEs are ranked in order of priority determined by both frequency and percentage.

Table 6.24 Types of credit products and loans used

	Frequency			Percentage		
Usage of loans/credit products	**Yes**	**No**	**N**	**Yes**	**No**	**Ranking**
Overdrafts	31	35	66	47	53	1
Term loans	26	39	65	40	60	2
Vehicle finance	18	47	65	28	72	3
Credit card	13	52	65	20	80	4
Finance for working capital	13	52	65	20	80	4
Finance for investments and expansions	11	54	65	17	83	5
Revolving loan	4	61	65	6	94	6
Commercial property finance	4	61	65	6	94	6
Debtor's finance	3	62	65	5	95	7
Women empowerment finance	2	63	65	3	97	8
Empowerment finance	2	63	65	3	97	8
Bankers' acceptances	2	63	65	3	97	8
Financing for franchising	2	63	65	3	97	8

Source: Author.

The most popular form of credit used is an overdraft. The majority of SMMEs with open lines of credit and loans, namely 47% (n=31), indicated that they do have an overdraft facility. This is followed by term loans identified by 40% (n=26) of respondents. Vehicle finance is ranked in third place (28%; n=18). The usage of credit cards and finance intended for working capital were both identified by 20% (n=13) of the respondents. Finance for investments and expansion is used by 17% (n=11) of respondents. Revolving loans, commercial property finance, debtor's finance, women empowerment finance, empowerment finance, bank acceptances and finance for franchising are only used by between 2 to 4 of the respondents.

6.2.5.5 Reasons for choosing a specific bank

Reasons for choosing a specific commercial bank for credit and loan products were established. Table 6.25 displays the results of the Likert-scale questions. In order to rank the results in order of priority, the mean scores were used. The SMME questionnaire required the respondents with credit products and loans to answer the question. Sixty respondents have open lines of credit and loans as indicated above, yet 77 answered the question. This could possibly be explained by the fact that 17 respondents completed the question, even though they have settled their outstanding obligations towards their bank.

Table 6.25 Reasons for choosing a specific commercial bank for credit

Reasons	**To no extent (1)**	**To some extent (2)**	**To a moderate extent (3)**	**To a large extent (4)**	**To a very large extent (5)**	**Means**	**Standard deviation**	**Ranking**
Personal relationship with the commercial bank	24 (31.1%)	0 (0%)	9 (11.7%)	11 (14.3%)	33 (42.9%)	3.36	1.734	1

Reasons	To no extent (1)	To some extent (2)	To a moderate extent (3)	To a large extent (4)	To a very large extent (5)	Means	Standard deviation	Ranking
It is the commercial bank that best understands the needs of SMMEs	20 (25.9%)	5 (6.5%)	16 (20.8%)	4 (5.2%)	32 (41.6%)	3.33	1.652	2
Interest offered for loan repayment	20 (25.64%)	5 (6.4%)	16 (20.5%)	13 (16.66%)	24 (30.8%)	3.20	1.575	3
The commercial bank offers the best terms and conditions for credit	28 (36%)	3 (4%)	13 (17%)	10 (13%)	23 (30%)	2.96	1.685	4
Maturity offered (total duration of the loan)	29 (37.66%)	5 (6.49%)	9 (11.69%)	15 (19.48%)	19 (24.68%)	2.87	1.662	5
Collateral requirements	25 (32.9%)	2 (2.6%)	23 (30.3%)	13 (17.1%)	13 (17.1%)	2.80	1.515	6
It is the commercial bank situated nearest to my business offering credit	43 (55.84%)	7 (9.09%)	8 (10.39%)	11 (14.29%)	8 (10.39%)	2.14	1.479	7

Source: Author.

The data shows that the most important reason for choosing a specific commercial bank for credit products or loans is a personal relationship with their bank, as identified by 42.9% (n=33) of respondents as applicable to them “to a very large extent”. Closely related to this, is the commercial bank that best understands the needs of SMMEs, as indicated by 41.6% (n=32) of respondents. The interest offered for loan repayment is ranked as the third most important reason, as identified by 30.8% (n=24) of respondents. The fourth reason specified for using a specific bank was indicated as the best terms and conditions offered for credit (30%; n=23). This was followed by the maturity extended for loans (24.68%; n=19). The last two reasons ranked for choosing a specific commercial bank include collateral requirements (17.1%; n=13), and the commercial bank offering credit situated the nearest to my business (10.39%; n=8).

6.2.5.6 Types of collateral

The types of collateral used to secure bank loans were furthermore determined. The results obtained are displayed in Table 6.26. Although 60 respondents have indicated that they have open lines of credit or loans, 74 respondents answered this question. The same was found previously. Thus, 14 extra respondents completed the question.

Again, it is assumed that respondents who have settled their outstanding debt went ahead to answer the question. The types of collateral are ranked in order of frequency.

Table 6.26 Types of collateral pledged

	Frequency			Percentage		
Types of collateral	**Yes**	**No**	**N**	**Yes**	**No**	**Ranking**
Personal assets of the owner	37	37	74	50	50	1
Bond over movable assets	30	44	74	40.54	59.46	2
Bond over immovable assets	17	57	74	22.97	77.03	3
A session on outstanding debt	6	68	74	8.1	91.9	4

In most instances, SMMEs with credit products and loans use their personal assets, such as a house, to secure debt, as indicated by 50% of respondents. The same trend was found in the study of Mutezo (2015), in which personal assets were in most instance pledged to secure loans or credit. Bonds over movable property were used by 40.54% (n=30) of respondents as collateral. This is followed by bonds over immovable assets, and sessions on outstanding debt, as identified by 22.97% (n=17) and 8.1% (n=6) of respondents, respectively.

6.2.5.7 Sources used to fund working capital and fixed assets

The types of sources used by the SMME owners to fund their working capital and fixed assets were determined. Table 6.27 displays the results of various funding sources. Rankings are determined by means of frequency.

Table 6.27 Sources used to fund working capital and fixed assets

	Frequency			Percentage		
Sources used to fund working capital	**Yes**	**No**	**N**	**Yes**	**No**	**Ranking**
Internal funds or retained earnings	331	33	364	90.9	9.1	1
Business loans from family or friends	93	271	364	25.5	74.5	2
Credit from suppliers or advances from customers	87	277	364	23.9	76.1	3
Borrowed from non-financial institutions such as micro financiers, credit cooperatives, etc.	42	322	364	11.5	88.5	4
Borrowed from commercial banks	39	325	364	10.7	89.3	5
	Frequency			**Percentage**		
Sources used to fund fixed assets	**Yes**	**No**	**N**	**Yes**	**No**	**Ranking**
Owners' contribution	305	58	363	84	16	1
Internal funds or retained earnings	291	72	363	80	20	2
Business loans from family and friends	89	274	363	25	75	3
Purchases on credit from suppliers and advances from customers	62	301	363	17	83	4
Borrowed from commercial banks	56	307	363	16	84	5
Borrowed from non-financial institutions such as micro financiers, credit cooperatives, etc.	41	321	362	12	88	6

Source: Author.

The data collected and displayed in Table 6.27 show that in most instances the SMMEs do fund their working capital with retained earnings, as identified by 90.9% (n=313) of the respondents. They furthermore utilise funds obtained from family and friends, credit from suppliers and advances from customers to fund working capital, as indicated by 25.5% (n=93) and 23.9% (n=87) of respondents, respectively. This is followed by funds borrowed from institutions such as micro financiers, credit cooperatives, stokvels, credit unions or other finance companies, as indicated by 11.5% (n=42) of respondents. Commercial banks as a source to fund working capital are the last option used by SMMEs, as identified by only 10.7% (n=39) of respondents.

Furthermore, Table 6.27 shows that in most instances the purchase of fixed assets is financed by the owners' equity contribution, as indicated by 84% (n=305) of respondents. This is followed by retained earnings, as indicated by 80% (n=291) of respondents. Loans of family and friends, credit from suppliers and advances of customers used to fund the purchase of fixed assets are identified by 25% (n=89) and 17% (n=62) of respondents, respectively. Borrowing from commercial banks is ranked in fifth place (16%; n=56). The last source of funding used by the SMMEs is institutions such as micro financiers, credit cooperatives, stokvels and credit unions, as indicated by 12% (n=41) of respondents. The data thus show that commercial banks are used as a last and second last source to fund either working capital or fixed assets.

6.2.5.8 Business support services provided by commercial banks

It was moreover established whether the SMMEs make use of the SMME start-up services, workshops and training provided by the commercial banks on the internet or elsewhere. The purpose of the question is to enrich the interview data collected from commercial banks, specifically in relation to the support they provide to SMMEs. Table 6.28 provides a breakdown of the results.

Table 6.28 Support provided by commercial banks

Have you ever used SMME start-up services, workshops and training provided by your commercial bank, either on the internet or otherwise?	Frequency	Percentage	Cumulative frequency	Cumulative Percentage
Yes	53	14.6	53	14.6
No	202	55.5	255	70.1
Not aware of these services	109	29.9	364	100

Source: Author.

Only 14.6% (n=53) of the respondents have utilised business support and training provided by commercial banks on the internet or otherwise. A further 55.5% (n=202) and 29.9% (n=109) have either indicated that they have not utilised these services, or that they are not aware of additional support provided.

6.2.5.9 Turnover

A question pertaining to the turnover of the SMMEs was placed at the end of the SMME questionnaire due to the sensitive nature of the question. Turnover categories were provided for the SMME owners to choose from. Turnover is used by commercial banks to classify SMMEs, and as such, it was included in the questionnaire. The turnover as a variable was, however, not used to classify SMMEs either being micro, very small or small for this study. Table 6.29 portrays the results collected from the respondents.

Table 6.29 Turnover

Indicate the turnover (annual sales) that your business generates. Kindly note that this information will be dealt with as strictly confidential.	Frequency	Percentage
Less than R30 000	65	17.9
R30 000 – R50 000	41	11.3
R50 001 – R100 000	38	10.4
R100 001 – R200 000	31	8.5
R200 001- R500 000	19	5.2
R500 001- R 1 000 000	16	4.4
R 1 000 001- R 2 000 000	1	0.3
R 2 000 001 – R 6 000 000	2	0.5
R 6 000 001 – R 7 500 000	1	0.3
R 7 500 001- R10 000 000	1	0.3
More than R10 000 000	4	1.1
Not comfortable to answer	65	17.9

Source: Author.

Table 6.29 shows that in most instances the SMME respondents are not comfortable in revealing their turnover (17.9%; n=65). The same number furthermore indicated that they earn less than R30 000 a year. This was followed by 11.3% (n=41) of respondents who have identified a turnover between R30 000 to R50 000 a year. A further 10.4% (n=38) indicated a turnover between R50 001 to R100 000 a year. Nearly nine per cent (n=31) specified a yearly turnover of between R100 001 and R200 000. A further 5.2% (n=19) falls in the turnover bracket of between R200 001 and R500 000. Four per cent (n=16) indicated a turnover of between R500 001 and R1 million. A very small percentage (n=5) earns a turnover of more than a million Rand, but less than R10 million. Four respondents representing one per cent of the sample specified a turnover of more than R10 million a year.

6.3 DISCUSSION OF THE FINDINGS

6.3.1 Personal information, nature, operations and formality of the SMMEs

The data collected from 364 SMME business owners show that the majority of them are between the ages of 35 to 44 years. They are predominantly Black males with

Grade 12 or Matric as their highest education level. The aforesaid age range corresponds with the largest group of the labour force that is employed in South Africa (Stats SA, 2020). Only 4% (n=15) of the respondents were between the ages of 16 to 24 years, and a further 9% (n=31) were older than 60 years. For the current sample SMME ownership increases with age, and then decreases from 60 years onwards. This may be due to owners preparing to retire.

The findings show that SMME ownership at a younger age is fairly low. This is concerning taken against the backdrop of youth unemployment in South Africa. The low participation rate of youth could furthermore be attributed to the fact that the economic growth trends in Matjhabeng are very low (recorded as -0.86% in the latest census of 2011) in comparison to other areas in South Africa (Matjhabeng Local Municipality, 2013). For this sample, the youth category was between 16 to 24 years. Thus, it should furthermore be noted that the low participation rate in this category could be as a result of the lack of experience, and also the time it takes to become educated in order to start a business venture. Similar trends pertaining to the age of the SMME owners were reported by Agbenyegah (2013) in the Northern Cape, and Fatoki and Asah (2011) in the Eastern Cape. Mutezo (2015), on the contrary, in a study in Gauteng found that the largest part of sample data collected from SMME owners was less than 30 years old, with a postgraduate diploma or certificate.
The lower average level of education of SMME owners of this study compared to the study of Mutezo (2015) in Gauteng could also be as a result of lower prospects of economic growth in Matjhabeng (Free State Goldfields). Another possible reason for this difference could be because in areas such as Gauteng educational institutions offering training are more compared to areas such as Matjhabeng. SMME owners might also have the financial means to invest in their education, as opposed to SMME owners operating in low growth areas.

Education increases an individual’s self-efficacy and self-confidence and therefore increases their chances of starting a business and navigating it successfully in a competitive and changing business environment (Herrington *et al.*, 2017). According to Herrington et al. (2017) their research indicates a strong correlation between all forms of education, both formal and informal, and entrepreneurial competencies. On average, the results of this study show that SMME owners have 11 years of experience in the SMME sector, and more or less 10 years of experience in running and managing a business.

The sample data show that the majority of SMME owners in Matjhabeng are Black as stated above. This corresponds with the findings of Finfind (2018), in which it was reported that the SMMEs in South Africa are in the majority of cases operated by Blacks. This was also acknowledged by BASA (2018). Most of the SMMEs that partook in this study are operational in the township Thabong situated near Welkom. The majority of SMMEs have been functioning for more than 10 years, employing between 3 to 5 workers (30.77%; n=112). The job opportunities created by most of the SMMEs in this study is on average lower compared to the study of Mutezo (2015). Mutezo noted that 68% of the SMMEs employed between one to 16 workers, whilst 50% employed an average of nine in her study in Gauteng. Most of the SMMEs are micro enterprises this is in line with the findings of Finfind (2018).

The majority of SMMEs in this study provide services to the community, in the social and personal services sector, which includes educational services, hair-dressing, funeral-related services, entertainment activities, as well as medical and dental services. The study furthermore shows that the second and third largest sectors in which SMMEs operate are retail, trade and accommodation (38.7%). This is in line with the statistics reported by the QLFS (Stats SA, 2019d), in which trade and accommodation are the sectors in which 41.3% of the SMMEs are operating. A reliance on the retail trade sector was further reported by Kelley, Singer, & Herrington (2016) pertaining to SMMEs operating in Sub-Saharan Africa. This is to some extent reflected by the findings of this study (26,65%). The lack of innovation, particularly in the retail sector, was highlighted by Kelley et al. (2016) for SMMEs operating in Sub-Saharan Africa. Products are thus bought from suppliers and sold without any transformation taking place, which does have an influence on the SMMEs' ability to grow, as pointed out by the authors.

The sample data collected further indicate gender participation in business ownership Increased participation of females were highlighted by Herrington *et al*. (2017). The responses show that the SMME industry in Matjhabeng is dominated by males. The results correspond with the studies of Agbenyegah (2013), Fatoki (2013), Finfind (2018) and Mutezo (2015). Herrington *et al*. (2017), in the GEM SA Report, acknowledge the difference in the male to female ratios participating in the SMME sector in South Africa. They ascribe these results to cultural believes and customs regarding female participation in the economy.

Although only 76 of the SMMEs collected from the sample data operate their businesses within a limited liability legal structure, 141 indicated that they are registered with the CIPC. Sole-proprietors and partnerships are not required to register with CIPC. A possible explanation for the aforesaid could be that SMMEs who wish to obtain contracts from government need to register with CIPC. Another explanation could be that, when collecting data from SMME owners in which their businesses are their only form of income, enabling them to survive, a question pertaining to registration of any kind might result in distrust. SMMEs particularly operational in the informal economy, who are not complying, cannot afford to adhere to the red tape enforced by government. Thus, they respond positively to any question pertaining to registration.

A further point to note is that SMMEs operating as sole proprietors or partnerships, which represent 79.2% of the sample data, have unlimited liability when it comes to adverse events influencing the SMME. As such, besides the assets of the business, their own assets could also be exposed to execution in cases when they might default on loan repayments as stated previously. In the study of Mutezo (2015), most of the SMMEs operating in Gauteng were registered companies with limited liability. Commercial banks are hesitant to grant loans to sole proprietors and partnerships because of the associated risk, as these entities in most instances fall under the protection of the NCA (34 of 2005) (South Africa, 2006b). As such, it is noted that to trade as a legal entity brings to the fore the benefit of obtaining government contracts and accessing finance more readily.

In terms of where the SMMEs are functioning, taking their life cycles into consideration, the majority of respondents indicated that they are operating in the growth phase without access to external finance. These SMMEs thus could reap the prospects of growth without access to any financial support provided by external entities. This represents a missed opportunity for commercial banks. Commercial banks should exploit this untapped market. A concerning statistic obtained from the results was that 20% of the SMMEs were beyond start-up and are still generating modest turnovers. These are the entities that government needs to target. On the one hand, government needs to establish why these SMMEs do not progress into a growth phase – ideally providing logistical support to them - and on the other hand, assisting with making them investment ready so that they could access lines of credit and loans in order to reap the benefits of growth.

In terms of formality, 30,49% (n=111) of the business owners have indicated that they do own immovable property, and a further 90,66% (n=330) stated that the business possesses movable property. The majority, being 75,82% (n=276), do keep financial records, of which most respondents do the financial record keeping themselves. Furthermore, 29,4% (n=107) of the total sample indicated that they do make use of an accountant or an auditor. Less than half (45,05%) of the respondents have a business plan in place portraying the past, current and future objectives of the business.

For SMMEs to obtain finance from commercial banks, they need to keep prudent record of their finances, have to provide collateral, and need to have a business plan in place. The owner furthermore needs to be familiar with the content of the business plan (Nieman & Nieuwenhuizen, 2019). Without the aforesaid their ability to reap the benefits from using external finance could hamper their future growth prospects. This by implication will negatively influence their ability to provide employment.

6.3.2 Business and operational obstacles

The data displayed in Table 6.15 indicate that that the economic environment, crime, theft and corruption, market penetration and market demand and access to finance are priority obstacles for SMMEs operating in the Matjhabeng (Free State Goldfields) area. Access to finance was indicated by nearly half of the respondents (49,7%; n=181) as a major or severe obstacle - making it the fourth most important obstacle when one considers the mean scores of various obstacles. The World Bank Enterprise Surveys (2007-2020) have indicated that, out of 161 000 firms in 144 countries, access to finance remains a top obstacle impeding the growth and development of businesses.

The ranked obstacles impeding the operations of SMMEs of this study differ to some extent from Herrington et al. (2014) and Herrington et al. (2017) the GEM SA Report. In both these reports lack of government support and inefficient government bureaucracy were listed as the most recurring obstacle to SMMEs. Access to finance was ranked in second place. Limited markets, corruption and bureaucracy were furthermore indicated as obstacles. According to the SBP (2014), in South Africa, the lack of skilled staff, burdensome regulations and local economic conditions were ranked in first, second and third place. Access to finance was indicated as a fourth obstacle, echoing the results of this study.

6.3.3 Financial inclusion

The data collected from SMMEs operating in Matjhabeng show that the majority of the respondents do have access to a bank account (76%; n=277). The biggest group of respondents use a savings account for operating their business (43.9%; n=122). This group is closely followed by a second group of respondents that use a current account for their business operations (42.4%; n=118). Utilising a savings account for business purposes do come with limitations, as pointed out previously. A third group, making up nearly a quarter (23.9%) of the respondents, indicated that they do not have access to a bank account. They are therefore perceived to be financially excluded because they are unbanked.

SMMEs with access to a bank account in the majority of cases trade in the name of the business. What is concerning is that 28.9% of them also utilise their business bank accounts for personal transactions. This could potentially cause cash-flow problems, and the mixing of personal transactions with business transactions could negatively influence their ability to obtain finance from commercial banks.

FNB is the commercial bank most commonly used by SMME owners for their business transactions, followed by Absa and Standard Bank. More respondents make use of Capitec compared to Nedbank, but Capitec only offers business transactions and business support to SMMEs, and does not provide loan products (Capitec, 2019). Most of the SMME owners have been banking with their bank of choice for more than ten years, suggesting an established relationship. This relationship could potentially enhance their ability to access credit if they deem it is necessary as was found in the study of Mahloana (2019).

More than half of respondents utilise e-banking services. The study of Mutezo (2015) found that using e-banking services significantly enhances the SMME's ability to obtain credit.

6.3.4 Financial access

The results show that almost 27% (n=99) of the respondents have applied for a loan or credit since business start-up. Currently, 16,8% (n=60) of the respondents do have open lines of credit or loans. Most of these SMMEs have one line of credit or a loan. Nearly a third of the respondents indicated that their loans were rejected by a commercial bank. Furthermore, 40% of the SMMEs indicated that they are in need of a loan. The most recurring reasons for not applying for a loan is identified to be high interest charges, collateral and owners' equity requirements. These factors are similar to those identified by Olawale and Garwe (2010) and Mutezo (2015) as obstacles hampering the SMME's ability to access finance.

The most frequently used credit products and loans utilised by SMMEs in Matjhabeng are overdrafts and term loans. Empowering finance is not so commonly used, even though these facilities are intended to serve the previously excluded segment of the economy. The most recurring reasons mentioned for choosing a specific commercial bank for credit products and loans are a personal relationship with the bank, as well as a commercial bank that understands the needs of SMMEs.

The most used type of collateral pledged is the personal assets of the SMME owner. The same result was found in the study of Mutezo (2015). Commercial banks as a source of funding for working capital and to purchase fixed assets are used by SMMEs as a last or second last option, compared to retained earnings and loans from family and friends. A very small percentage of the SMMEs make use of business support services provided by the commercial banks.

From literature it was deduced that access to finance implies:

(a) having access to a bank account designated for business purposes;
(b) having access to a wide variety of financial products and services supporting the operations of the business;
(c) using these financial products and services regularly;
(d) having access to lines of credit; and
(e) having access to loans provided at a reasonable cost.

Taking the said definition into account together and that that access to finance was indicated by just less than half of the respondents (49,7%; n=181) as a major or severe obstacle, together with 40,2% (n=146) of respondents indicating that they are currently in need of a loan, it could be deduced that a financing gap for at least 40% of the SMMEs operating in the Matjhabeng (Free State Goldfields) does exist.

6.4 CONCLUSION

Data collected from 364 SMMEs in the Matjhabeng area were analysed descriptively in this chapter. The sample data show that most of the SMMEs are micro enterprises, functioning for more than ten years, and they are in the growth phase of the life cycle of the business. The majority of respondents have completed Grade 12. They have on average ten years' experience in the sector in which they operate.

Nearly a quarter (23.9%) of the SMMEs function without a bank account. They are thus financially excluded. Half of the respondents indicated that access to finance from a commercial bank is a "major" or "severe obstacle" to them. It was furthermore indicated by 40% of the SMMEs that they are in need of a loan to support their business operations. It could therefore be concluded that the lack of access to finance is hampering at least 40% of the SMMEs operating in the Matjhabeng (Free State Goldfields) area.

In the next chapter, the results of the regression analyses are presented.

CHAPTER 7

EMPIRICAL RESULTS: SMMEs

7.1 INTRODUCTION

The purpose of this chapter is to explore the empirical results in which the association between various access to finance indicators and the nature and general characteristics of SMMEs (employing 50 or less) is determined. Factors that could cause the SMME to be credit-rationed could thus be established. These associations could potentially provide meaningful insights to help SMMEs to access finance more effectively. The results of various simple logistic and multiple logistic regression analyses and the stepwise model selection will therefore be presented.

7.2 SPECIFICATION OF THE MODELS FOR ANALYSIS

As mentioned in chapter 6, data was collected from 364 SMMEs operating in the Matjhabeng area of the Free State Goldfields. The statistical package SAS was used to perform the statistical analysis. In the subsections, the method according to which the dependent and the independent variables were used in the regression analyses will be explained, supplementing the conceptual model presented in section 4.4.4.1 of this study.

Three regression models were used to determine the association between four dependent variables one at a time and 16 independent variables (one at a time and collectively). Significant associations found in all three regressions were identified. The significant associations discovered in the simple logistic regression models were compared and contrasted with significant associations established in the multiple logistic regression and the step-wise model selection. Significant associations were identified at the 10% significance level at least, similar as was used in the study of Mengistae et al. (2010).

Odds ratios were determined with the regression analyses. Odds ratios establish whether dichotomous variables are associated, according to Leedy and Ormrod (2013). As such, various odds ratios were determined between the chosen access to finance indicators and the characteristics of SMMEs and SMME owners operating in the Matjhabeng (Free State Goldfields) area.

Table 7.1 provides a breakdown of the dependent variables and the independent variables selected for the regression analyses. The data was collected from selected questions in the questionnaire (see Annexure E), as indicated in Table 7.1.

Table 7.1 Dependent and independent variables used in the regression analyses

	Dependent variables		Independent variables
1	Access to finance is either no obstacle, a minor obstacle, a moderate obstacle or a major or very severe obstacle	1	Age of the SMME
2	Applied for a loan since business start-up	2	Size of the SMME
3	Do have lines of credit and loans	3	The legal entity of the SMME
4	Need a loan?	4	The life cycle of the SMME
		5	The race of the SMME owner
		6	Gender
		7	Academic qualifications
		8	Experience in the sector (in decades)
		9	Experience as a business owner (in decades)
		10	Having immovable property
		11	Having movable property
		12	Area
		13	Sector of operation
		14	Financial record-keeping
		15	Utilising an auditor or an accountant
		16	Business plan

The dependent variables are as follows. “Access to finance is an obstacle” was selected as one dependent variable. The data was collected from the respondents by means of a Likert scale question (see C2 of Annexure E). Access to finance perceived as an obstacle was taken as “yes” when it was specified by respondents as a major or a very severe obstacle, and it was taken as “no” when it was specified as being either no obstacle, a minor obstacle or a moderate obstacle. Three other dependent variables were analysed with dichotomous (“yes” or “no”) responses (see E1, E2 and E5 of Annexure E). The variable “applied for a loan since business start-up” was scored as “yes” or otherwise as “no”. The same was done with the variable “do have lines of credit or loans” and the variable “need a loan?”

The independent (or explanatory) variables used were classified according to the nature of operations of the SMME, the characteristics of the SMME owner, and other financial characteristics (see Annexure E), as indicated in Table 7.1. The categories used to determine the odds ratios for each independent variable as well as the reference category are as follows:

- The age of the SMME

The category “age of operation” for this study was divided into three levels, namely “1–3 years (start-up phase)”, “4–10 years” and “more than 10 years”. Odds ratios were determined between “1–3 years” and “more than 10 years”, and between “4–10 years” and “more than 10 years”. Thus, an age of operation of more than 10 years was taken as the reference category. The various access to finance variables were regressed against the age of the SMME.

- The size of the SMME

Taking the diversity in the size of SMMEs into consideration, this study focused on the difference in the SMME’s ability to access finance between “micro and very small businesses” (employing between 1 and 10) and “small businesses” (employing between 11 and 50). Micro, very small and small businesses represent the largest cohort of SMMEs operating in South Africa (Finfind, 2018; FinMark Trust, 2015), and they were therefore the focus of this study in terms of size, as stated in chapter 4. The odds ratios were determined between “micro and very small businesses” and “small businesses”. Small businesses were therefore taken as the reference category. Kira (2015) also considered the largest size of firms as a reference category. The dependent variables were thus regressed against the size of the SMME, one at a time.

- The legal entity of the SMME

Two levels of ownership were considered for this study, namely SMMEs with unlimited liability and SMMEs with limited liability. The selected access to finance variables were regressed against the legal entity of the SMME, where SMMEs were categorised as either “sole proprietors and partnerships” or “closed corporations, private companies, incorporated private companies, franchisees and trusts”. Thus, closed corporations, private companies, incorporated private companies, franchisees and trusts were used as the reference category. Kira (2015) also considered firms with limited liability as a reference category.

- The life cycle of the SMME

The life cycle variable was divided into three levels. Level 1 consisted of SMMEs in “the start-up phase and beyond start-up and still earning small amounts of revenue”. Level 2 comprised SMMEs in “the growth and expansion phase with or without access to external finance”. Level 3 consisted of SMMEs operating in “the steady phase”. The exit phase was excluded, as only two respondents in this study indicated that they are busy exiting the market. Thus, odds ratios were determined between “the start-up phase and beyond start-up and still earning small amounts of revenue” and “the steady phase”. Odds ratios were also established between “the growth and expansion phase with or without access to external finance” and “the steady phase”. The steady phase was thus taken as the reference category.

- Race

The category of race was divided into two levels. Level 1 represented black, Coloured, Asian, Indian and other (namely foreigner) SMME owners, and level 2 represented white SMME owners. Odds ratios were established between black, Coloured, Asian, Indian and other SMME owners and white SMME owners. The selected access to finance variables were regressed against the race of the SMME owner, independently.

- Gender

The selected access to finance indicators were regressed against the odds ratios of male and female SMME owners, one at a time.

- Academic qualifications

The study also attempted to establish a relationship between the various selected access to finance indicators and the education level of the SMME owner. The education level of the SMME owner was divided into three levels. Level 1 comprised SMME owners with no schooling to some form of high school. Level 2 consisted of SMME owners who had completed Grade 12, or matric, and level three included those who had apprenticeships, post-Grade 12 (post-matric) certificates or diplomas, degrees or postgraduate degrees. Odds ratios were determined between “no schooling and some form of high school” and “apprenticeships, post-Grade 12 (post-matric) certificates or diplomas, degrees or postgraduate degrees”. Odds ratios were also determined between “completed Grade 12, or matric” and “apprenticeships, post-

Grade 12 (post-matric) certificates or diplomas, degrees or postgraduate degrees". The reference category was thus taken as apprenticeships, post-Grade 12 (post-matric) certificates or diplomas, degrees or postgraduate degrees. Kira (2015) considered owners with degrees, thus post-Grade 12 qualifications, as a reference category. The selected access to finance indicators were regressed against the academic qualifications of the SMME owner, one by one.

- Experience in the sector and as a business owner

Consistent with the literature, the various access to finance indicators were regressed one at a time against years of experience in the sector (in decades) and years being a business owner (in decades), in order to establish whether an association exists.

- Access to immovable property

The various access to finance indicators were regressed against the odds of having immovable property as opposed to not having immovable property. Kira (2015) considered firms with no collateral as a reference category.

- Access to movable property

The dependent variables were also regressed against the odds of having movable property as opposed to not having movable property.

- Area of operation

The access to finance variables were regressed against the odds of SMMEs operating in towns as opposed to townships, separately. Kira (2015) considered firms operating in rural areas as a reference category, as opposed to firms located in urban areas.

- Sector of operation

For the regression analyses the sectors were grouped into four levels. Level 1 consisted of agriculture, mining, manufacturing, electricity and gas, and construction. Level 2 consisted of wholesale, retail and motor trade and repair services. Level 3 comprised commercial agents, catering, transport, communication and business services, and level 4 comprised community, social and personal services. The odds ratios between levels 1, 2 and 3 and level 4 were determined. Thus, level 4, representing community, social and personal services, was taken as the reference category. Kira (2015) included the primary, secondary and tertiary sectors as categories. The tertiary sector was taken as the reference category. One could argue that community, social and personal services are part of the tertiary sector. The selected access to finance indicators were regressed against the various sector levels, one at a time.

- Financial record-keeping

For SMMEs to access finance, keeping financial records is essential. As such, this study explored the relationship between keeping financial records and the various selected access to finance variables. The selected access to finance indicators were regressed against the odds of not keeping financial records as opposed to keeping financial records, independently.

- Utilising an auditor or an accountant

Having an accountant or an auditor enhances the reliability of the financial record-keeping and therefore makes it easier for SMMEs to access finance from commercial banks. As such, the selected access to finance indicators were regressed against the odds of not having an accountant/auditor as opposed to having an accountant/auditor, one at a time.

- Having a business plan

Commercial banks require a business plan when a new SMME applies for credit. The relationship between the various access to finance indicators and having a business plan was therefore investigated. The access to finance indicators were thus regressed against the odds of having a business plan as opposed to not having a business plan, independently.

In this section the rationale for the selection of four dependent variables and 16 independent variables was provided for the regression analyses. In the following section the steps employed for statistical analyses are explained.

7.3 STEPS EMPLOYED FOR STATISTICAL ANALYSES

In this section the steps used to process the empirical data of the various models will be explored, to establish significant relationships between the dependent and the independent variables. The association between each dependent variable and the set of independent variables was investigated by carrying out a series of simple logistic and multiple logistic regressions, and also by means of stepwise model selection. Each dependent variable was analysed separately. It was anticipated that using regressions to analyse the association between the dependent and the independent variables, such as was done by Mengistae et al. (2010), bring to the fore collinearity between the independent variables. The fact that there is such a high number of independent variables, and that some of them are collinear, is the reason why three separate regression analyses (univariate, multivariate, and multivariate with variable selection) were conducted, and their respective results were compared and contrasted, as explained in section 5.5.1.1. Nevertheless, the fact that some predictor variables are collinear does not generally affect the ability to obtain a good fit, and it does not affect the responses or predictions (Frost, 2020).

First the association between each dependent variable and the set of independent variables was investigated by carrying out a series of logistic regression analyses. Each dependent variable was analysed separately. These variables include whether the SMME owner perceives access to finance as an obstacle, whether the SMME owner has applied for a loan since business start-up, whether the SMME owner has credit or loans, and whether the SMME owner needs a loan. These variables were also used as finance indicators in Mengistae et al.'s (2010) study and in the World Bank Enterprise Surveys conducted from 2007 to 2020.

In all the logistic regression analyses, the logit link function was used, and the so-called generalised linear model (GLM) parametrisation was used for fitting categorical independent variables. For each categorical independent variable, logistic regression parameter estimates are reported, such that the estimate for the reference category is zero, and the estimates for the remaining category or categories represent the estimated difference in log odds with the reference level or category.

For each regression fit, the point estimates of the logistic regression parameters are reported, together with the P-value for the Wald chi-square statistic associated with each regression parameter. The P-value determines whether a statistically significant association exists (Hair et al., 2014). Estimates at 95% confidence intervals (CIs) for the odds ratios associated with each logistic regression parameter are reported. For categorical independent variables, estimates of odds ratios associated with the non-reference category or categories represent the ratio of the odds for the category in question, divided by the odds for the reference level. All the logistic regression analyses were carried out using the SAS procedure LOGISTIC (SAS Institute Inc., 2017).

Step 1: four simple (univariate) logistic regressions were carried out, where each dependent variable was regressed against one of the independent variables, one at a time. This method of analysis was also used by Fatoki and Asah (2011), Fatoki and Odeyemi (2010), Kira (2015), Kira and He (2012) and Pandula (2011, 2013). The authors, however, only considered access to credit, debt or finance as a dependent variable.

Step 2: multiple (multivariate) logistic regressions were also employed. These regressions were carried out, where the dependent variables (indicated as "access to finance is an obstacle", "applied for a loan since start-up", "do have credit products or loans" and "need a loan?") were regressed one by one against the full set of 16 independent variables. This method of analysis was used by Mahloana (2019) and Mengistae et al. (2010). Mahloana (2019), however, only considered access to credit as a dependent variable.

Step 3: stepwise model selection was also used, where the dependent variables indicated above were again regressed one by one against the full set of independent variables. Starting with the intercept in the model, at each of the steps in the stepwise procedure the chi-square statistic is calculated for each effect not yet in the model. If the largest of these statistics is significant at the 0.1 significance level (SL entry=0.1), the corresponding effect is added to the model. Then the Wald test statistic for all effects in the model is calculated, and the least significant effect is removed if it is not significant at the 0.1 significance level (SL stay=0.1). The stepwise procedure terminates if no further effect can be added to the model, or if the current model is identical to a previously fitted model (SAS Institute Inc., 2017).

7.4 RESULTS

In this section the results of the simple and the multiple logistic regressions and the stepwise model selection are presented.

7.4.1 Simple logistic regressions

The variable “access to finance is an obstacle” was used as the dependent variable and was regressed against each independent variable, one at a time. The effect of the various independent variables on the probability that access to finance is an obstacle was evaluated statistically. The descriptive results indicated that access to finance as an obstacle was indicated by 50% (n=181) of the respondents as either being “major” or “severe”.

The variable “applied for a loan since business start-up”, indicated as either “yes” or “no”, was regressed against each independent variable, one at a time. The descriptive results indicated that 27% (n=99) of the respondents had applied for a loan since business start-up. The two most common reasons indicated for not applying for a loan were that the interest rate charged by the banks is too high and the collateral requirements for bank loans are too strict.

An association was also determined between the variable “do have credit or loans” and the independent variables. The descriptive results show that 16.8% (n=60) of the respondents have credit or loans.

Finally, the variable “need a loan?”, indicated as either “yes” or “no”, was used as the dependent variable and was regressed against each independent variable. The descriptive statistics showed that 40.2% (n=146) of the SMME owners operating in the Matjhabeng (Free State Goldfields) area need a loan. In Table 7.2 the results of the various simple logistic regressions are presented.

Table 7.2 Results of the simple logistic regression analysis

	Access to finance is an obstacle			Applied for a loan since start-up			Do have credit products or loans			Need a loan?		
	Odds ratio	**Confidence interval (95%)**	**Pr>ChiSq**	**Odds ratio**	**Confidence interval (95%)**	**Pr>ChiSq**	**Odds ratio**	**Confidence interval (95%)**	**Pr>ChiSq**	**Odds ratio**	**Confidence interval (95%)**	**Pr>ChiSq**
Age of the SMME			0.1974			**<0.0001*** **			**<0.0001*** **			**0.0060*** **
1–3 years vs >10 years	1.673	0.994-2.967	**0.0782***	0.174	0.080-0.380	**<0.0001*** **	0.180	0.072-0.451	**0.0003*** **	1.967	1.086-3.562	**0.0256** **
4–10 years vs >10 years	1.329	0.826-2.138	0.2409	0.428	0.256-0.714	**0.0012*** **	0.264	0.140-0.499	**<0.0001*** **	2.231	1.348-3.694	**0.0018*** **
Size of the SMME			**0.0072*** **			**<0.0001*** **			**<0.0001*** **			0.3873
Micro and very small businesses (1–10 employees) vs small businesses (11–50 employees)	2.228	1.242-3.999	**0.0072*** **	0.158	0.087-0.285	**<0.0001*** **	0.154	0.082-0.287	**<0.0001*** **	1.291	0.724-2.301	0.3873
Legal entity of the SMME			0.4997			**<0.0001*** **			**<0.0001*** **			0.2219
Sole proprietors/partnerships vs CCs, private companies, incorporated private companies, franchisees and trusts	1.192	0.716-1.985	0.4997	0.300	0.176-0.511	**<0.0001*** **	0.226	0.124-0.411	**<0.0001*** **	1.397	0.817-2.387	0.2219
The life cycle of the SMME			**<0.0001*** **			**<0.0001*** **			**0.0003*** **			**<0.0001*** **
Start-up/beyond start up and still earns small amounts of revenue vs the steady phase	4.043	2.186-7.478	**<0.0001*** **	0.329	0.164-0.660	**0.0017*** **	0.188	0.076-0.462	**0.0003*** **	3.593	1.890-6.831	**<0.0001*** **
Growth and expansion with or without external finance vs the steady phase	1.500	0.828-2.715	0.1808	1.168	0.643-2.122	0.6108	0.905	0.465-1.763	0.7695	1.605	0.846-3.046	0.1477
Race			0.2977			**0.0089*** **			**0.0150** **			**0.0050*** **
Black/Coloured/Asian/Indian/other vs white	1.304	0.791-2.148	0.2977	0.495	0.292-0.838	**0.0089*** **	0.469	0.254-0.863	**0.0150** **	2.201	1.268-3.819	**0.0050*** **
Gender			0.4880			**0.0807***			0.6654			0.5351
Male vs female	1.163	0.759-1.782	0.4880	1.555	0.948-2.550	**0.0807***	1.137	0.636-2.031	0.6654	1.148	0.742-1.775	0.5351
Academic qualifications			0.2311			**0.0009*** **			**0.0048*** **			0.1200

No schooling to some form of high school vs apprenticeship, post-Grade 12 certificate or diploma, degree or postgraduate degree	1.638	0.931-2.883	**0.0872***	0.285	0.140-0.579	**0.0005*****	0.208	0.077-0.561	**0.0019*****	1.702	0.965-3.002	**0.0661***
Completed Grade 12/matric vs apprenticeship, post-Grade 12 certificate or diploma, degree or postgraduate degree	1.226	0.764-1.968	0.3974	0.514	0.308-0.860	**0.0112****	0.569	0.313-1.032	**0.0632***	1.011	0.621-1.645	0.9660
Experience in the sector (in decades)	0.779	0.614-0.987	**0.0388****	1.608	1.253-2.064	**0.0002*****	1.673	1.273-2.200	**0.0002*****	0.667	0.511-0.870	**0.0028*****
Experience as a business owner (in decades)	0.703	0.540-0.914	**0.0086*****	1.454	1.123-1.882	**0.0046*****	1.570	1.182-2.086	**0.0019*****	0.637	0.474-0.854	**0.0026*****
Immovable property			**0.0006*****			**0.0446****			**0.0046*****			**0.0202****
Have immovable property vs do not have immovable property	0.445	0.280-0.706	**0.0006*****	1.649	1.012-2.685	**0.0446****	2.273	1.289-4.009	**0.0046*****	0.569	0.354-0.916	**0.0202****
Movable property			0.2101			**0.0508***			**0.0546***			**0.0577***
Have movable property vs do not have movable property	0.627	0.302-1.302	0.2101	2.912	0.996-8.510	**0.0508***	7.175	0.962-53.544	**0.0546***	2.225	0.974-5.082	**0.0577***
Area			**0.0400****			**<0.0001*****			**0.0003*****			**0.0393****
Towns vs townships	0.646	0.426-0.980	**0.0400****	3.258	1.980-5.361	**<0.0001*****	3.081	1.680-5.651	**0.0003*****	0.640	0.418-0.978	**0.0393****
Sector			**0.0647***			**0.0664***			**0.0966***			0.2106
Agriculture, mining, manufacturing, electricity and gas, construction vs community, social and personal services	0.832	0.374-1.853	0.6533	2.203	0.920-5.275	**0.0763***	0.882	0.240-3.248	0.8507	0.863	0.384-1.940	0.7211
Wholesale trade, retail trade, motor trade and repair services vs community, social and personal services	0.616	0.375-1.015	**0.0571***	1.883	1.059-3.348	**0.0310****	1.560	0.780-3.123	0.2088	0.580	0.347-0.969	**0.0376****
Commercial agents, catering, transport, communication, business services vs community, social and personal services	1.338	0.757-2.363	0.3159	2.052	1.085-3.878	**0.0269****	2.395	1.157-4.956	**0.0186****	0.889	0.506-1.563	0.6824
Financial records			**<0.0001*****			**0.0006*****			**0.0014*****			**<0.0001*****

Do not keep financial records vs keep financial records	3.742	2.195-6.381	**<0.0001*** **	0.305	0.155-0.604	**0.0006*** **	0.182	0.064-0.519	**0.0014*** **	3.012	1.835-4.944	**<0.0001*** **
Auditor/accountant			**0.0120** **			**<0.0001*** **			**0.0001*** **			**0.0035*** **
Does not have an accountant/auditor vs does have an accountant/auditor	1.837	1.143-2.953	**0.0120** **	0.261	0.158-0.431	**<0.0001*** **	0.227	0.127-0.404	**<0.0001*** **	2.122	1.280-3.518	**0.0035*** **
Business plan			**0.0097*** **			**<0.0001*** **			**0.0001*** **			0.2102
Have a business plan vs does not have a business plan	0.575	0.378-0.875	**0.0097*** **	3.316	2.036-5.402	**<0.0001*** **	3.147	1.742-5.685	**0.0001*** **	0.762	0.497-1.166	0.2102

Source: Author.

Notes: * significant at 10%; ** significant at 5%; *** significant at 1%

Based on the results, the following sections indicate the statistically significant associations with the various dependent variables.

- Age of the SMME

In the univariate analysis, overall the factor "age of the SMME" and the variable "access to finance is an obstacle" is not statistically significant (p=0.1974: Wald chi-square statistic = 3.2448, 2 df). However, the odds of "access to finance is an obstacle" between the factor levels "1 to 3 years" and "more than 10 years" differ statistically significantly, at the 10% significance level. The odds ratio "1–3 years/>10 years" is 1.673 (95% CI 0.944 to 2.967: p = 0.0782). This means that the odds of access to finance being an obstacle for SMMEs between the ages of 1 and 3 years are 67% higher than the odds of access to finance being an obstacle for SMMEs older than 10 years.

Overall, the factor "age of the SMME" is statistically significantly associated with "applying for a loan since start-up" (p = <0.0001: Wald chi-square statistic = 22.9425, 2 df), "having credit products or loans" (p = <0.0001: Wald chi-square statistic = 24.0754, 2 df) and the variable "need a loan?" (p = 0.0060: Wald chi-square statistic = 10.2189, 2 df).

Specifically, the odds of applying for a loan since business start-up between the factor levels "1 to 3 years" and "more than 10 years" differ significantly, as the odds ratio is 0.174 (95% CI 0.080 to 0.380: p = <0.0001). Likewise, the odds of applying for a loan since start-up between the factor levels "4 to 10 years" and "more than 10 years" similarly differ statistically significantly, as is evident from the odds ratio of 0.428 (95% CI 0.256 to 0.0714: p = 0.0012).

The odds of having credit or loans between the factor levels "1 to 3 years" and "more than 10 years" also differ statistically significantly. This can be seen from the odds ratio of 0.180 (95% CI 0.072 to 0.451: p = 0.0003). This implies that the odds of having credit products or loans confirmed by SMMEs that have operated for 1–3 years are 82% less than the odds for SMMEs that have operated for more than 10 years. Likewise, the odds of having credit or loans for SMMEs that have operated for 4–10 years as opposed to more than 10 years differ statistically significantly, indicated by an odds ratio of 0.264 (95% CI 0.140 to 0.499: p = <0.0001).

The odds of SMMEs that indicated that they need a loan between the factor levels "1 to 3 years" and "more than 10 years" also differ significantly. The odds ratio ("1–3 years/>10 years) is 1.967 (95% CI 1.086 to 3.562: p = 0.0256). This implies that the odds of needing a loan confirmed by SMMEs that have operated for 1–3 years are about 97% greater than the odds for SMMEs that have operated for more than 10 years. Likewise, the odds of needing a loan between the factor levels "4 to 10 years" and “more than 10 years” differ significantly. This is indicated by an odds ratio of 2.231 (95% CI 1.348 to 3.694: p = 0.0018).

- Size of the SMME

The analysis shows that the size of the SMME is statistically significantly associated with access to finance being perceived as an obstacle (p = 0.0072: Wald chi-square statistic = 7.2113, 1 df). The odds of micro and very small businesses indicating that “access to finance is an obstacle” are about 123% greater than the odds for small businesses. This is evident from the odds ratio of 2.228 (95% CI 1.242 to 3.999: p=0.0072).

The analysis also indicates that the size of the SMME is statistically significantly associated with the variable “applied for a loan since business start-up” (p = <0.0001: Wald chi-square statistic = 37.3870, 1 df). This can be seen from the odds ratio of 0.158 (95% CI 0.087 to 0.285).

The results presented in Table 7.2 indicate that the size of the SMME is also statistically significantly associated with the variable “do have credit or loans” (p = <0.0001: Wald chi-square statistic = 34.5096, 1 df). The odds ratio shows that the odds of micro and very small businesses indicating that they have credit or loans are 85% less than the odds of small businesses having credit or loans. This is evident from the odds ratio of 0.154 (95% CI 0.082 to 0.287). Therefore, micro and very small businesses (employing 1 to 10) have significantly less credit or loans than small businesses (employing 11 to 50).

- Legal entity of the SMME

The analysis shows a statistically significant association between SMMEs that have “applied for a loan since business start-up” and the legal entity of the business (p = <0.0001: Wald chi-square statistic = 19.5946, 1 df). The odds ratio is 0.300 (95% CI 0.176 to 0.511: p= <0.0001). Thus, SMMEs with unlimited liability, such as sole proprietors and partnerships, applied less for loans since business start-up than SMMEs operating as legal entities with limited liability, such as closed corporations, private companies, incorporated private companies, franchisees and trusts.

The analysis also shows a statistically significant association between SMMEs that “do have credit or loans” and the legal entity of the business (p = <0.0001: Wald chi-square statistic = 23.7885, 1 df). The odds of a sole proprietor and a partnership indicating that they have credit or loans statistically significantly differ from the odds for closed corporations, private companies, incorporated private companies, franchisees and trusts. The odds for sole proprietors and partnerships that do have access to credit or loans are about 77% lower than the odds for companies, trusts and franchisees. This is indicated by an odds ratio of 0.226 (95% CI 0.124 to 0.411: p=

<0.0001). Thus, SMMEs with unlimited liability have significantly less credit or loans than SMMEs operating as legal entities with limited liability.

- The life cycle of the SMME

In the univariate analysis the life cycle of the SMME is statistically significantly associated with access to finance being perceived as an obstacle (p=<0.0001: Wald chi-square statistic = 25.4119, 2 df). The odds ratio is 4.043 (95% CI: 2.1866 to 7.478: p=<0.0001).

SMMEs that have "applied for a loan since business start-up" and the life cycle of the SMME are also statistically significantly associated, at the 1% significance level (p=<0.0001: Wald chi-square statistic = 18.6984, 2 df). This is shown by an odds ratio of 0.329 (95% CI: 0.164 to 0.660: p= 0.0017). This means that SMMEs in the start-up phase and beyond start-up and still earning small amounts of revenue applied about 67% less for loans than SMMEs in the steady phase.

SMMEs that "have credit or loans" and the life cycle of the SMME overall are statistically significantly associated (p=0.0003: Wald chi-square statistic = 16.4139, 2 df). Specifically, the odds of SMMEs in the start-up phase and beyond start-up and still earning small amounts of revenue indicating that they "do have credit or loans" statistically significantly differs from SMMEs in the steady phase. The odds ratio is 0.188 (95% CI: 0.076 to 0.462: p= 0.0003).

SMMEs that "need a loan" and the life cycle of the SMME are similarly statistically significantly associated (p=<0.0001: Wald chi-square statistic = 19.3725, 2 df). The odds ratio is 3.593 (95% CI: 1.890 to 6.831: p = <0.0001). This implies that the odds of SMMEs in the start-up phase and beyond start-up and still earning small amounts of revenue indicating that they need loans are almost 260% greater than the odds for SMMEs operating in the steady phase.

- Race of the SMME owner

In the analysis the variable "applied for a loan since business start-up" and race are statistically significantly associated, at the 1% significance level (p = 0.0089: Wald chi-square statistic = 6.8477, 1 df). Specifically, the odds of blacks, Coloureds, Asians, Indians and others (foreigners) indicating that they have "applied for a loan since start-up" statistically significantly differ from the odds for white SMME owners. The odds ratio is 0.495 (95% CI: 0.292 to 0.838). As such, the odds of blacks, Coloureds, Asians, Indians and others indicating that they have applied for a loan since business start-up are about 50% less than the odds for white SMME owners.

In the analysis the variable "do have credit or loans" and race are statistically significantly associated, at the 5% significance level (p = 0.0150: Wald chi-square statistic = 5.9203, 1 df). The association is negative. This is indicated by an odds ratio of 0.469 (95% CI: 0.254 to 0.863). This means that the odds of blacks, Coloureds, Asians, Indians and others indicating that they “do have credit and loans” are about 53% less than the odds of white SMME owners indicating that they have loans and credit.

The variable “need a loan?” and race are also statistically significantly associated (p = 0.0050: Wald chi-square statistic = 7.8723, 1 df). Table 7.2 shows an odds ratio of 2.201 (95% CI: 1.268 to 3.819). Therefore, SMME owners from previously disadvantaged communities do have a significantly greater need for loans than white SMME owners.

- Gender of the SMME owner

Regarding the factor “gender of the SMME owner”, indicated as either male or female, “having applied for a loan since start-up” is overall statistically significant, at the 10% significance level, not the 5% significance level (p=0.0.0807: Wald chi-square statistic = 3.0512, 1 df). The odds ratio for “male versus female” is 1.555 (95% CI 0.948 to 2.550). Thus, male SMME owners operational in the Matjhabeng (Free State Goldfields) area have applied significantly more for loans than female SMME owners.

- Academic qualifications of the SMME owner

In the analysis the association between “access to finance is an obstacle” and academic qualifications of the SMME owner was not statistically significantly associated (p=0.2311: Wald chi-square statistic = 2.9300, 2 df). However, the odds of access to finance being perceived as an obstacle between factor level 1 (SMME owners without Grade 12, or matric) and factor level 3 (SMME owners with some sort of post-matric qualification) differ statistically significantly, at the 10% significance level. This is indicated by an odds ratio of 1.638 (95% CI 0.931 to 2.883: p=0.0872). This implies that the odds of access to finance being an obstacle for SMMEs with no schooling to some form of high school are about 64% greater than the odds of access to finance being an obstacle for SMMEs with apprenticeships or post-Grade 12 (post-matric) qualifications.

Table 7.2 also shows that overall, the association between academic qualifications of the SMME owner and the variable “having applied for a loan since business start-up” is statistically significant, at the 1% significance level (p=0.0009: Wald chi-square statistic = 14.0572, 2 df). The odds ratio of “no schooling to some form of high school” versus “apprenticeships, post-Grade 12 certificates, diplomas, university degrees or postgraduate degrees” is 0.285 (95% CI 0.140 to 0.579: p=0.0005). Similarly, the odds of “having applied for a loan since business start-up” between SMME owners with Grade 12, or matric, and SMME owners with a post-matric qualification differ statistically significantly. The odds ratio is 0.514 (95% CI 0.308 to 0.860: p=0.0112).

The univariate analysis also shows that academic qualifications of the SMME owner and the variable "do have credit or loans" are statistically significantly associated (p=0.0048: Wald chi-square statistic = 10.6970, 2 df). Specifically, the odds of having credit or loans between SMME owners without Grade 12, or matric, and SMME owners with a post-matric qualification differ statistically significantly. The odds ratio is 0.208 (95% CI 0.077 to 0.561: p=0.0019). This implies that the odds of having credit or loans for SMME owners with no schooling to some form of high school are about 79% less than the odds of having credit and loans for SMME owners with apprenticeships or post-Grade 12 (post-matric) qualifications.

Likewise, the odds of having credit or loans between SMME owners with Grade 12, or matric, and SMME owners with a post-matric qualification differ statistically significantly, at the 10% level. The odds ratio is 0.569 (95% CI 0.313 to 1.032: p=0.0632). This suggests that the odds of SMME owners with Grade 12, or matric, having credit or loans are 43% less than the odds for SMME owners with post-Grade 12 (post-matric) qualifications. Thus, SMME owners with a higher level of education do have significantly more credit or loans than SMME owners with a lower level of education.

The univariate analysis overall shows that academic qualifications of the SMME owner and the variable "need a loan?" are not statistically significantly associated (p=0.1200: Wald chi-square statistic = 4.2404, 2 df). Yet, the odds of SMME owners without Grade 12, or matric, indicating that they need a loan compared to SMME owners with a post-matric qualification differ statistically significantly, although at the 10% level, not the 5% level. The odds ratio is 1.702 (95% CI 0.965 to 3.002: p=0.0661). Thus, SMME owners with lower levels of education are significantly more in need of loans than SMME owners with higher levels of education.

- Years of experience in the sector

"Access to finance is an obstacle" and the variable "years of experience in the sector (in decades)" are statistically significantly associated (p=0.0388: Wald chi-square statistic = 4.2691,1 df). This is indicated by an odds ratio of 0.779 (95% CI 0.614 to 0.987). Thus, the odds of access to finance being perceived as an obstacle by SMME owners decrease by about 22% for each decade of experience in the sector.

Likewise, the variable "applied for a loan since start-up" and the variable "years of experience in the sector (in decades)" are statistically significantly associated (p=0.0002: Wald chi-square statistic = 13.9029, 1 df). The association between "applied for a loan since start-up" and the experience of the SMME owner in the sector is positive. This is evident from the odds ratio of 1.608 (95% CI 1.253 to 2.064). Thus, the odds of having applied for a loan since start-up for SMME owners increase by about 61% for each decade of experience in the sector.

The variable “do have credit or loans” and the variable “years of experience in the sector (in decades)” are also statistically significantly associated (p=0.0002: Wald chi-square statistic = 13.6328, 1 df). This can be seen from the odds ratio of 1.673 (95% CI 1.273 to 2.200). Thus, the odds of having credit or loans for SMME owners increase by about 67% for each decade of experience in the sector.

The need for a loan and the variable “years of experience in the sector (in decades)” are also statistically significantly associated (p=0.0028: Wald chi-square statistic = 8.9356, 1 df). The association between needing a loan and experience of the SMME owner in the sector is negative, indicated by an odds ratio of 0.667 (95% CI 0.511 to 0.870). Thus, the odds of a need for a loan decrease by about 33% for each decade of experience in the sector.

- Years of experience as a business owner

In the analysis “access to finance is an obstacle” and years of experience as a business owner (in decades) are statistically significantly associated (p=0.0086: Wald chi-square statistic = 6.8986, 1 df). This is shown by an odds ratio of 0.703 (95% CI 0.540 to 0.914). Thus, the odds of access to finance being perceived as an obstacle by SMME owners with more years of experience as a business owner decrease by about 30% for each decade of experience.

The analysis also shows that “applied for a loan since business start-up” and years of experience as a business owner (in decades) are statistically significantly associated (p=0.0046: Wald chi-square statistic = 8.0457, 1 df). This is indicated by an odds ratio of 1.454 (95% CI 1.123 to 1.882). Thus, the odds of applying for a loan since business start-up increase by about 45% for each decade of experience as a business owner.

Table 7.2 also shows that the variable “do have credit or loans” and years of experience as a business owner (in decades) are statistically significantly associated (p=0.0019: Wald chi-square statistic = 9.6905, 1 df). This is evident from the odds ratio of 1.570 (95% CI 1.182 to 2.086). Thus, the odds of having lines of credit or loans for SMME owners with more years of experience increase by 57% for each decade of experience.

In the analysis the variable “need a loan?” and years of experience as a business owner (in decades) are statistically significantly associated (p=0.0026: Wald chi-square statistic = 9.0440, 1 df), indicated by an odds ratio of 0.637 (95% CI 0.474 to 0.854). Therefore, the odds of SMME owners indicating that they need a loan decrease by about 36% for each decade of experience as a business owner.

- Access to immovable property

Immovable property was categorised as either “having immovable property” or “not having immovable property”. In the analysis “access to finance is an obstacle” and the factor “access to immovable property” are statistically significantly associated (p=0.0006: Wald chi-square statistic = 11.7964, 1 df). The odds of SMME owners that own immovable property indicating that access to finance is an obstacle are about 55% lower than the odds for SMME owners that do not own immovable property. This is evident from the odds ratio of 0.445 (95% CI 0.280 to 0.706).

The analysis also shows that having applied for a loan since start-up and the factor “having immovable property” as opposed to “not having immovable property” are statistically significantly associated, at the 5% level (p=0.0446: Wald chi-square statistic = 4.0341, 1 df), indicated by an odds ratio of 1.649 (95% CI 1.012 to 2.685).

In the analysis “do have credit or loans” and the factor “having immovable property” as opposed to “not having immovable property” are also statistically significantly associated, at the 1% level (p=0.0046: Wald chi-square statistic = 8.0391, 1 df), shown by an odds ratio of 2.273 (95% CI 1.289 to 4.009: p=0.00046).

Likewise, the need for a loan and the factor “having immovable property” as opposed to “not having immovable property” are statistically significantly associated, at the 5% level (p=0.0202: Wald chi-square statistic = 5.3930, 1 df), evident from the odds ratio of 0.569 (95% CI 0.354 to 0.916: p=0.0202).

- Access to movable property

In the analysis “applied for a loan since start-up” and the factor “access to movable property” are statistically significantly associated, at the 10% level, but not at the 5% level (p=0.0508: Wald chi-square statistic = 3.8162, 1 df). The results show that the odds of SMME owners with movable property indicating that they have applied for a loan since business start-up are nearly three times greater than the odds for SMMEs with no movable property (odds ratio = 2.912; 95% CI 0.996 to 8.510).

The results also indicate that the variable “do have credit or loans” and the factor “having movable property” as opposed to “not having movable property” are statistically significantly associated, at the 10% level (p=0.0546: Wald chi-square statistic = 3.6931, 1 df), indicated by an odds ratio of 7.175 (95% CI 0.962 to 53.544).

The results in Table 7.2 also show that the variable “need a loan?” and the factor “having movable property” as opposed to “not having movable property” are statistically significantly associated, at the 10% level (p=0.0577: Wald chi-square statistic = 3.6022, 1 df). This is evident from the odds ratio of 2.225 (95% CI 0.974 to 5.082).

- Area of operation

In the analysis the variable “access to finance is an obstacle” and the area of operation (towns versus townships) are statistically significantly associated, at the 5% level ($p=0.0400$: Wald chi-square statistic = 4.2196, 1 df), indicated by an odds ratio of 0.646 (95% CI 0.426 to 0.980).

Having applied for a loan since start-up and the factor “area of operation” are also statistically significantly associated ($p=<0.0001$: Wald chi-square statistic = 21.6087, 1 df), shown by an odds ratio of 3.258 (“towns/townships”) (95% CI 1.980 to 5.361). This implies that SMMEs operating in townships are significantly less likely to apply for loans than SMMEs operating in the various towns of the Matjhabeng (Free State Goldfields) area.

In the analysis the variable “do have credit and loans” and the factor “area of operation” are similarly statistically significantly associated ($p=0.0003$: Wald chi-square statistic = 13.2203, 1 df), shown by an odds ratio of 3.081 (towns/townships) (95% CI 1.680 to 5.651).

The analysis shows that the need for a loan and the area of operation are statistically significantly associated ($p=0.0393$: Wald chi-square statistic = 4.2468, 1 df). Specifically, the odds of SMMEs operating in towns indicating that they need a loan are 36% less than the odds for their counterparts operating in townships, as can be seen from the odds ratio of 0.640 (“towns/townships”) (95% CI 0.418 to 0.978).

- Sector of operation

Table 7.2 shows that the association between “access to finance is an obstacle” and the sector in which the SMME operates is statistically significant, at the 10% level, but not at the 5% level ($p=0.0647$: Wald chi-square statistic = 7.2386, 3 df). Specifically, the odds of access to finance being perceived as an obstacle between factor level 2 (wholesale trade, retail trade, motor trade and repair services) and factor level 4 (community, social and personal services) differ statistically significantly, at the 10% level. This is shown by an odds ratio of 0.616 (95% CI 0.375 to 1.015: $p = 0.0571$).

In the univariate analysis the association between “applied for a loan since business start-up” and the sector in which the SMME operates is also statistically significant, at the 10% level ($p=0.0664$: Wald chi-square statistic = 7.1804, 3 df). Specifically, the odds of having applied for a loan since start-up between factor level 1 (agriculture, mining, manufacturing, electricity and gas, and construction) and factor level 4 (community, social and personal services) differ statistically significantly, at the 10% level, indicated by an odds ratio of 2.203 (95% CI 0.920 to 5.275: $p = 0.0763$). Similarly, factor level 2 (wholesale trade, retail trade, motor trade and repair services) and factor level 4 (community, social and personal services) differ statistically significantly, at the 5% significance level. This is shown by an odds ratio of 1.883 (95% CI 1.059 to 3.348: p = 0.0310). Factor level 3 (commercial agents, catering, transport, communication and business services) and factor level 4 (community, social and personal services) also differ statistically significantly, at the 5% significance level, as can be seen from the odds ratio of 2.052 (95% CI 1.085 to 3.878: p = 0.0269).

In the univariate analysis the association between "do have credit or loans" and the sector in which the SMME operates is statistically significant, at the 10% level (p=0.0966: Wald chi-square statistic = 6.3312, 3 df). Specifically, the odds of having credit or loans between factor level 3 (commercial agents, catering, transport, communication and business services) and factor level 4 (community, social and personal services) differ statistically significantly, indicated by an odds ratio of 2.395 (95% CI 1.157 to 4.956: p = 0.0186).

The univariate analysis also shows overall that the association between a need for a loan and the sector in which the SMME operates is not statistically significant (p=0.2106: Wald chi-square statistic = 4.5187, 3 df). Yet, the odds of needing a loan between factor level 2 (wholesale trade, retail trade, motor trade and repair services) and factor level 4 (community, social and personal services) differ statistically significantly, at the 5% level. This is shown by an odds ratio of 0.580 (95% CI 0.347 to 0.969: p = 0.0376). This implies that the odds of SMMEs operating in wholesale, retail and motor trade and repair services having indicated that they need a loan are 42% less than the odds for SMMEs operating in the community, social and personal services sector.

- Financial record-keeping

In the analysis the association between access to finance being perceived as an obstacle and not keeping financial records as opposed to keeping financial records is statistically significant (p = < 0.0001: Wald chi-square statistic = 23.4910, 1 df), indicated by an odds ratio of 3.742 (95% CI 2.195 to 6.381: p=<0.0001).

In the analysis the association between having applied for a loan since start-up and not keeping financial records as opposed to keeping financial records is statistically significant (p = < 0.0006: Wald chi-square statistic = 11.6474, 1 df). This can be seen from the odds ratio of 0.305 (95% CI 0.155 to 0.604). Thus, SMMEs that do not keep financial records have applied significantly less for business loans since business start-up than SMMEs that do keep financial records.

The association between having credit or loans and not keeping financial records as opposed to keeping financial records is also statistically significant (p = < 0.0014: Wald chi-square statistic = 10.1694, 1 df). The association between the variables is negative. Specifically, the odds of SMMEs that do not keep financial records indicating that they have credit or loans are 82% less than the odds for SMMEs that do keep financial records. This is evident from the odds ratio of 0.182 (95% CI 0.064 to 0.519).

The association between the variables "need a loan?" and not keeping financial records as opposed to keeping financial records is similarly statistically significant (p = < 0.0001: Wald chi-square statistic = 19.0068, 1 df), shown by an odds ratio of 3.012 (95% CI 1.835 to 4.944). This would imply that SMMEs that do not keep financial records are more likely to need a loan than SMMEs that keep financial records.

- Utilising an auditor or an accountant

Table 7.2 shows that access to finance perceived as an obstacle is statistically significantly associated with not having an auditor or an accountant as opposed to having an auditor or an accountant (p = < 0.0120: Wald chi-square statistic = 6.3097, 1 df). Specifically, the odds of SMMEs that do not have an auditor or an accountant indicating that access to finance is an obstacle are about 84% higher than the odds for SMMEs that do have an accountant or an auditor. The odds ratio is 1.837 (95% CI 1.143 to 2.953: p=0.0120). This would imply that SMMEs that do not have an auditor, or an accountant perceive access to finance as a greater obstacle.

The variable "applied for a loan since start-up" and the independent variable "not having an auditor or an accountant" as opposed to "having an auditor or an accountant" are also statistically significantly associated (p = <0.0001: Wald chi-square statistic = 27.6628, 1 df), indicated by an odds ratio of 0.261 (95% CI 0.158-0.431).

In the analysis having credit or loans and the independent variable "not having an auditor or an accountant" as opposed to "having an auditor or an accountant" are statistically significantly associated (p = <0.0001: Wald chi-square statistic = 25.2354, 1 df). The association between the variables is negative. Therefore, the odds of SMMEs that do not have an auditor or an accountant indicating that they do have credit or loans are about 77% less than the odds for SMMEs that do have an auditor or an accountant. This is shown by an odds ratio of 0.227 (95% CI 0.127 to 0.404). This would imply that SMMEs that do not have an auditor, or an accountant are significantly less likely to have credit and loans.

The dependent variable "needing a loan" as opposed to "not needing a loan" and the independent variable "not having an auditor or an accountant" as opposed to "having an auditor or an accountant" are statistically significantly associated (p = 0.0035: Wald chi-square statistic = 8.5019, 1 df). This is indicated by an odds ratio of 2.122 (95% CI 1.280 to 3.518). This would imply that SMMEs that do not have an auditor, or an accountant are significantly more likely to need a loan.

- Business plan

In the analysis the association between access to finance being perceived as an obstacle and having a business plan as opposed to not having a business plan is statistically significant ($p = < 0.0097$: Wald chi-square statistic = 6.6814, 1 df). This is shown by an odds ratio of 0.575 (95% CI 0.378 to 0.875).

The association between having applied for a loan since start-up and having a business plan as opposed to not having a business plan is also statistically significant ($p = < 0.0001$: Wald chi-square statistic = 23.1994, 1 df). This is evident from the odds ratio of 3.316 (95% CI 2.036 to 5.402).

The association between having credit or loans and having a business plan as opposed to not having a business plan is statistically significant ($p = 0.0001$: Wald chi-square statistic = 14.4316, 1 df). The odds of SMMEs that have a business plan indicating that they have credit and loans are about 215% greater than the odds for SMMEs that do not have a business plan. This can be seen from the odds ratio of 3.147 (95% CI 1.742 to 5.685).

7.4.2 Multiple logistic regressions

The four dependent variables selected for this study were also regressed against all 16 independent variables, collectively. The results are presented in Table 7.3.

Table 7.3 Results of the multiple logistic regression analysis

	Access to finance is an obstacle			Applied for a loan since start-up			Do have credit products or loans			Need a loan?		
	Odds ratio	**Confidence interval (95%)**	**Pr>ChiSq**	**Odds ratio**	**Confidence interval (95%)**	**Pr>ChiSq**	**Odds ratio**	**Confidence interval (95%)**	**Pr>ChiSq**	**Odds ratio**	**Confidence interval (95%)**	**Pr>ChiSq**
Age of the SMME			0.5705			0.1114			0.1731			0.2101
1–3 years vs >10 years	0.641	0.267-1.517	0.3147	0.323	0.111-0.943	**0.0386****	0.449	0.128-1.576	0.2111	0.789	0.327-1.890	0.5899
4–10 years vs >10 years	0.739	0.383-1.418	0.3647	0.737	0.358-1.515	0.4065	0.443	0.185-1.063	**0.0683***	1.351	0.694-2.633	0.3763
Size of the SMME			0.3148			**0.0142****			**0.0271****			0.2399
Micro and very small businesses (1–10 employees) vs small businesses (11–50 employees)	1.446	0.710-3.015	0.3148	0.397	0.190-0.831	**0.0142****	0.393	0.171-0.899	**0.0271****	0.645	0.311-1.340	0.2399
Legal entity of the SMME			0.5233			0.2671			**0.0234****			0.6792
Sole proprietors/partnerships vs CCs, private companies, incorporated private companies, franchisees and trusts	0.799	0.399-1.587	0.5233	0.661	0.318-1.373	0.2671	0.361	0.149-0.871	**0.0234****	0.859	0.417-1.767	0.6792
The life cycle of the SMME			**0.0165****			0.7204			0.6035			**0.0262****
Start-up/beyond start up and still earns small amounts of revenue vs the steady phase	3.055	1.414-6.728	**0.0049*****	1.159	0.441-3.045	0.7649	0.577	0.175-1.905	0.3670	2.887	1.305-6.385	**0.0088*****
Growth and expansion with or without external finance vs the steady phase	1.575	0.824-3.065	0.1738	1.350	0.633-2.878	0.4374	0.951	0.403-2.243	0.9090	1.527	0.763-3.055	0.2314
Race			**0.0607***			0.1253			**0.0307****			0.7913
Black/Coloured/Asian/Indian/other vs white	0.471	0.212-1.027	**0.0607***	1.986	0.826-4.773	0.1253	3.272	1.117-9.586	**0.0307****	1.115	0.497-2.504	0.7913
Gender			0.2620			0.8298			0.1502			0.7196
Male vs female	1.335	0.807-2.221	0.2620	0.935	0.504-1.733	0.8298	0.574	0.269-1.223	0.1502	1.098	0.659-1.830	0.7196
Academic qualifications			0.8311			0.4600			0.1624			0.3842

No schooling to some form of high school vs apprenticeship, post-Grade 12 certificate or diploma, degree or postgraduate degree	1.064	0.526-2.150	0.8632	0.626	0.265-1.480	0.2862	0.501	0.156-1.610	0.2461	0.999	0.497-2.011	0.9989
Completed Grade 12/matric vs apprenticeship, post-Grade 12 certificate or diploma, degree or postgraduate degree	0.890	0.509-1.550	0.6798	1.050	0.558-1976	0.8800	1.475	0.694-3.137	0.3124	0.710	0.400-1.260	0.2422
Experience in the sector (in decades)	1.197	0.713-2.038	0.4989	1.767	0.963-3.243	**0.0659***	1.950	0.929-4.094	**0.0774***	0.771	0.448-1.327	0.3484
Experience as a business owner (in decades)	0.697	0.390-1.219	0.2110	0.647	0.338-1.241	0.1902	0.590	0.272-1.278	0.1812	1.092	0.605-1.973	0.7701
Immovable property			**0.0442****			0.9335			0.4301			0.2560
Have immovable property vs do not have immovable property	0.586	0.347-0.984	**0.0442****	1.026	0.558-1.889	0.9335	1.326	0.658-2.674	0.4301	0.730	0.425-1.256	0.2560
Movable property			0.5982			0.4448			0.1165			**0.0116****
Have movable property vs do not have movable property	0.800	0.343-1.818	0.5982	1.587	0.486-5.186	0.4448	5.521	0.654-46.626	0.1165	3.232	1.299-8.040	**0.0116****
Area			0.3318			**0.0014*****			**0.0334****			0.6154
Towns vs townships	0.756	0.428-1.332	0.3318	3.015	1.529-5.945	**0.0014*****	2.490	1.074-5.769	**0.0334****	0.867	0.497-1.513	0.6154
Sector			**0.0817***			0.2117			0.1088			0.7706
Agriculture, mining, manufacturing, electricity and gas, construction vs community, social and personal services	0.870	0.347-2.166	0.7636	1.296	0.445-3.778	0.6348	0.394	0.084-1.852	0.2380	0.718	0.288-1.790	0.4779
Wholesale trade, retail trade, motor trade and repair services vs community, social and personal services	0.735	0.411-1.314	0.2991	2.093	1.027-4.267	**0.0421****	1.663	0.692-3.995	0.2551	0.753	0.418-1.355	0.3436
Commercial agents, catering, transport, communication, business	1.805	0.946-3.501	**0.0760***	1.739	0.809-3.735	0.1562	2.217	0.903-5.446	**0.0825***	0.895	0.472-1.697	0.7341

services vs community, social and personal services												
Financial records			**0.0315****			0.1867			0.8254			**0.0359****
Do not keep financial records vs keep financial records	2.129	1.075-4.277	**0.0315****	1.901	0.733-4.930	0.1867	1.163	0.304-4.441	0.8254	2.033	1.048-3.946	**0.0359****
Auditor/accountant			0.4365			**0.0685***			0.2986			0.3311
Does not have an accountant/auditor vs does have an accountant/auditor	1.312	0.666-2.625	0.4365	0.511	0.248-1.052	**0.0685***	0.631	0.265-1.503	0.2986	1.419	0.701-2.873	0.3311
Business plan			0.8396			**0.0030*****			**0.0859***			0.6894
Have a business plan vs does not have a business plan	0.946	0.552-1.627	0.8396	2.708	1.404-5.223	**0.0030*****	1.977	0.908-4.305	**0.0859***	1.119	0.644-1.946	0.6894

Source: Author.

Notes: * significant at 10%; ** significant at 5%; *** significant at 1%

7.4.2.1 Access to finance is an obstacle

The results of the multiple logistic regression analysis show that access to finance being perceived as an obstacle is statistically significantly associated with the life cycle of the SMME, the race of the SMME owner, immovable property, the sector in which the SMME operates and financial records, at the 10% significance level at least.

The association between "access to finance is an obstacle" and the various independent variables shows that SMME owners have greater odds of perceiving access to finance as an obstacle if they

- are operating in the start-up phase and beyond start-up and still earn small amounts of revenue, versus operating in the steady phase,
- are operating as commercial agents and are in the catering, transport, communication and business services sectors as opposed to the community, social and personal services sector, and
- do not keep financial records, as opposed to keeping financial records.

SMME owners have less odds of indicating access to finance as an obstacle if they

- are black, Coloured, Asian, Indian or other, as opposed to being white, and
- have immovable property, as opposed to not having immovable property.

It is noted that all variables found to be statistically significant in the multiple logistic regression analysis were also found to be statistically significant in the simple logistic regression analysis (the results of which are presented in Table 7.2), except for race. Statistical significance was also found in a different sector in the multiple logistic regression (commercial agents, and in the catering, transport, communication and business services sectors, as opposed to the community, social and personal services sector) compared to the simple logistic regression (wholesale trade, retail trade, motor trade and repair services, as opposed to community, social and personal services). What is surprising is that the odds of black, Coloured, Asian, Indian and other SMME owners indicating that "access to finance is an obstacle", as opposed to white SMME owners, are statistically significantly lower. The association in the multiple logistic regression analysis is in the opposite direction from what was found in the simple logistic regression analysis.

Furthermore, in the simple logistic regression analysis, statistically significant associations were reported between "access to finance is an obstacle" and the age of the SMME (1–3 years, as opposed to more than 10 years), the size of the SMME, the academic qualifications of the business owner (no schooling to some form of high school, as opposed to apprenticeships, post-Grade 12 certificates or diplomas, degrees or postgraduate degrees), experience in the sector (in decades), experience as a business owner (in decades), the area of operation, having an auditor or an accountant, and having a business plan (see Table 7.2). These independent variables were not found to be significant in the multiple logistic regression analysis.

7.4.2.2 Applied for a loan since start-up

In the multiple regression analysis, the variable "applied for a loan since start-up" was used as the dependent variable and was regressed against all 16 independent variables, collectively.

The multiple regression analysis shows that the variable "applied for a loan since business start-up" is statistically significantly associated with the age of the SMME (1–3 years, as opposed to more than 10 years), the size of the SMME, experience in the sector (in decades), the area of operation, the sector (wholesale trade, retail trade, motor trade and repair services, as opposed to community, social and personal services), having an auditor or an accountant, and having a business plan, at the 10% significance level at least.

The odds ratios show the following trends related to the association between the variable "applied for a loan since start-up" and the various independent variables. SMMEs have greater odds of having applied for a loan since start-up if they

- have more experience in the sector (in decades),
- are situated in towns, as opposed to operating in townships,
- operate in the wholesale, retail and motor trade and repair services sectors, as opposed to the community, social and personal services sector, and
- have a business plan, as opposed to not having a business plan.

SMMEs have less odds of having applied for a loan since start-up if they

- have been operating for 1–3 years, versus more than 10 years,
- are micro or very small businesses (with 1 to 10 employees), as opposed to small businesses (with 11 to 50 employees), and
- do not have an accountant or an auditor, as opposed to having an accountant or an auditor.

All variables found to be statistically significant in the multiple regression analysis, the results of which are presented in Table 7.3, were also found to be statistically significant in the simple logistic regression analysis carried out between "applied for a loan since start-up" and the various independent variables, one by one (see Table 7.2).

In the simple logistic regression analysis statistically significant associations between "applied for a loan since start-up" and the age of the SMME (all levels), the legal entity of the SMME, the life cycle of the SMME, the race of the SMME owner, the gender of the SMME owner, and the academic qualifications of the SMME owner were found. In addition, experience as a business owner (in decades), immovable property, movable property, the sector of operation (all levels) and financial records were found to be significant in the simple logistic regression analysis, but not in the multiple logistic regression analysis.

7.4.2.3 Do have credit or loans

The multiple regression analysis summarised in Table 7.3 shows that the variable "do have credit or loans" is statistically significantly associated with the age of the SMME (4–10 years versus more than 10 years), the size of the SMME, the legal entity of the SMME, the race of the SMME owner, experience in the sector (in decades), the area of operation, the sector (commercial agents, catering, transport, communication and business services, versus community, social and personal services) and having a business plan, at the 10% significance level at least.

The trends related to the association between having credit or loans and the various independent variables indicate that SMMEs have greater odds of having credit or loans if they

- are black, Coloured, Asian, Indian or other, as opposed to white,
- have more experience in the sector (in decades),
- are situated in towns, as opposed to operating in townships,
- are operating as commercial agents and in the catering, transport, communication and business services sectors, as opposed to operating in the community, social and personal services sector, and
- have a business plan, as opposed to not having a business plan.

SMMEs have less odds of having credit or loans if they

- have been operating for 4–10 years, versus more than 10 years,
- are micro or very small businesses (with 1 to 10 employees), as opposed to small businesses (with 11 to 50 employees), and
- are sole proprietors or partnerships, as opposed to closed corporations, private companies, incorporated private companies, franchisees or trusts.

The variables found to be statistically significant in the multiple regression analysis were also found to be statistically significant in the simple logistic regression analysis carried out between "do have credit or loans" and the various independent variables, one by one (see Table 7.2). What is surprising is that the association for race

(black/Coloured/Asian/Indian/other versus white) was in the opposite direction from what was reported in the findings of the simple logistic regression. This was also the case with the variable "access to finance is an obstacle". This could be due to the collinearity of independent variables in the multiple regression analysis.
The simple logistic regression analysis also showed statistically significant associations between "do have credit or loans" and the age of the SMME overall. Significance was also reported regarding the life cycle of the SMME overall, and specifically for SMMEs operating in the start-up phase and beyond start-up and still earning small amounts of revenue, as opposed to SMMEs operating in the steady phase. The academic qualifications of the SMME owner, experience as a business owner (in decades), immovable property, movable property, financial records and having an auditor or an accountant were other variables found to be significant in the simple logistic regression analysis.

7.4.2.4 Need a loan?

The effect of the various independent variables on the probability of needing a loan was also evaluated statistically. The multiple regression analysis summarised in Table 7.3 shows that the need for a loan is statistically significantly associated with the life cycle of the SMME, and specifically with SMMEs in the start-up phase and beyond start-up and still earning small amounts of revenue, as opposed to SMMEs in the steady phase. Statistically significant associations are also evident between the need for a loan and movable property and financial records. The significant associations were found at the 10% significance level at least.

The odds ratio estimates suggest the following about the direction of the association between a need for a loan and the various independent variables. SMMEs have greater odds of needing a loan if they

- are operating in the start-up phase or beyond start-up and are still earning small amounts of revenue, versus operating in the steady phase,
- have movable property, as opposed to not having movable property, and
- do not keep financial records, as opposed to keeping financial records.

All variables found to be statistically significant in the multiple regression analysis, the results of which are presented in Table 7.3, were also found to be statistically significant in the simple logistic regression analysis carried out between the variable "need a loan?" and the various independent variables, one by one (see Table 7.2).

In the simple logistic regression analysis statistically significant associations were also found between needing a loan and the age of the SMME, the race of the SMME owner and the academic qualifications of the SMME owner, specifically those with no schooling to some form of high school versus those who have post-Grade 12 (post-matric) qualifications. Experience in the sector (in decades), experience as a business owner (in decades), immovable property and the area of operation were also significantly associated with the variable “need a loan?” Furthermore, the sector, specifically SMMEs operating in wholesale, retail and motor trade and repair services as opposed to community, social and personal services, and not having an auditor or an accountant as opposed to having an auditor or an accountant were also found to be statistically significant in the simple logistic regression analysis, but not in the multiple logistic regression analysis.

7.4.3 Multiple regression stepwise model selection

In the following sections the results of the stepwise model selection used, showing the association between selected predictors and the four dependent variables, will be presented. Stepwise model selection was employed to select the significant effects (at the 10% significance level) among the full set of independent variables, which were fitted in the “full model” multiple logistic regression analysis. Each dependent variable was regressed against the full set of 16 independent variables, as stated above. Table 7.4 shows the significant predictors associated with the dependent variables.

Table 7.4 Stepwise model selection

"Access to finance is an obstacle"	Odds ratio	Confidence interval (95%)	Pr>ChiSq	"Applied for a loan since business start-up"	Odds ratio	Confidence interval (95%)	Pr>ChiSq	"Do have credit or loans"	Odds ratio	Confidence interval (95%)	Pr>ChiSq	"Need a loan?"	Odds ratio	Confidence interval (95%)	Pr>ChiSq
The life cycle of the SMME			**0.0049*****	**Age of the SMME**			**0.0271****	**Age of the SMME**			**0.0125****	**The life cycle of the SMME**			**0.0054*****
Start-up and beyond start up and still earns small amounts of revenue vs the steady phase	2.866	1.510-5.531	**0.0014*****	1–3 years vs >10 years	0.309	0.131-0.729	**0.0073*****	1–3 years vs >10 years	0.317	0.119-0.843	**0.0213****	Start-up/beyond start up and still earns small amounts of revenue vs the steady phase	2.948	1.500-5.794	**0.0017*****
Growth and expansion with or without external finance vs the steady phase	1.605	0.882-2.978	0.1266	4–10 years vs >10 years	0.768	0.423-1.393	0.3844	4–10 years vs >10 years	0.421	0.210-0.841	**0.0142****	Growth and expansion with or without external finance vs the steady phase	1.695	0.882-3.258	0.1136
Immovable property			**0.0438****	**Size of the SMME**			**0.0018*****	**Size of the SMME**			**0.0036*****	**Immovable property**			**0.0116****
Have immovable property vs do not have immovable property	0.604	0.369-0.984	**0.0438****	Micro and very small businesses (1–10 employees) vs small businesses (11–50 employees)	0.347	0.178-0.674	**0.0018*****	Micro and very small businesses (1–10 employees) vs small businesses (11–50 employees)	0.351	0.173-0.711	**0.0036*****	Have immovable property vs do not have immovable property	3.116	1.289-7.529	**0.0116****
Financial records			**0.0035*****	**Area**			**0.0006*****	**Legal entity of the SMME**			**0.0399****	**Financial records**			**0.0016*****
Do not keep financial records vs keep financial records	2.423	1.348-4.438	**0.0035*****	Towns vs townships	2.609	1.505-4.523	**0.0006*****	Sole proprietors/ partnerships vs CCs, private companies, incorporated private companies, franchisees and trusts	0.485	0.244-0.967	**0.0399****	Do not keep financial records vs keep financial records	2.456	1.405-4.292	**0.0016*****
				Auditor/accountant			**0.0864***	**Area**			**0.0311****				
				Does not have an accountant/auditor vs does have an accountant/auditor	0.591	0.325-1.078	**0.0864***	Towns vs townships	2.090	1.069-4.085	**0.0311****				
				Business plan			**0.0007*****	**Business plan**			**0.0100*****				

					Have a business plan vs does not have a business plan	2.546	1.488-4.358	**0.0007*** **		Have a business plan vs does not have a business plan	2.343	1.226-4.479	**0.0100*** **					

Source: Author.

Notes: * significant at 10%; ** significant at 5%; *** significant at 1%

The results of the stepwise model selection indicate that the variable "access to finance is an obstacle" is statistically significantly associated with the life cycle of the SMME, immovable property and financial records, at the 5% significance level at least.

The direction of the association between access to finance being perceived as an obstacle and the various selected independent variables shows that SMMEs have greater odds of indicating that access to finance is an obstacle if they

- are in the start-up phase or beyond start-up and still earn small amounts of revenue, as opposed to operating in the steady phase, and
- do not keep financial records, as opposed to keeping financial records.

SMMEs have less odds of indicating that access to finance is an obstacle if they

- Have immovable property, as opposed to not having immovable property.

Furthermore, the results show the selected predictors associated with the dependent variable "applied for a loan since start-up" obtained by means of the stepwise model selection. The variable "applied for a loan since business start-up" is statistically significantly associated with the age of the SMME, the size of the SMME, the area of operation, having an auditor or an accountant, and having a business plan, at the 10% significance level at least.

The odds ratio estimates suggest the following about the direction of the association between having "applied for a loan since business start-up" and the various independent variables. SMMEs have greater odds of having "applied for a loan since business start-up" if they

- are situated in towns, as opposed to townships, and
- have a business plan, as opposed to not having a business plan.

SMMEs have less odds of having "applied for a loan since business start-up" if they

- have been operating for between 1 and 3 years, as opposed to more than 10 years,
- are micro or very small businesses (1 to 10 employees), as opposed to small businesses (11 to 50 employees), and
- do not have an accountant or an auditor, as opposed to having an accountant or an auditor.

The model selection also shows that the variable "do have credit or loans" is statistically significantly associated with the age of the SMME, the size of the SMME, the legal entity of the SMME, the area of operation and having a business plan, at the 5% significance level at least.

SMMEs have greater odds of having access to credit or loans if they

- are situated in towns, as opposed to townships, and
- have a business plan, as opposed to not having a business plan.

SMMEs have less odds of having access to credit or loans if they

- have been operating for between 1 and 3 years, as opposed to more than 10 years,
- have been operating for between 4 and 10 years, as opposed to more than 10 years,
- are micro or very small businesses (1 to 10 employees), as opposed to small businesses (11 to 50 employees), and
- are sole proprietors or partnerships, as opposed to closed corporations, private companies, incorporated private companies, franchisees or trusts.

Table 7.4 also shows that the variable "need a loan?" is statistically significantly associated with the life cycle of the SMME, immovable property and financial records, at the 5% significance level at least.

The odds ratio estimates suggest the following association between the need for a loan and the various independent variables. SMMEs have greater odds of needing a loan if they

- are operating in the start-up phase or beyond start-up and are still earning small amounts of revenue, as opposed to operating in the steady phase,
- have immovable property, as opposed to not having immovable property, and
- do not keep financial records, as opposed to keeping financial records.

7.5 DISCUSSION OF THE RESULTS

Table 7.5 provides a summary of the significant associations of the various dependent variables and the groups of independent variables, at either the 10%, the 5% or the 1% significance level, obtained from the simple logistic regression, the multiple logistic regression and the stepwise model selection.

Table 7.5 Summary of statistically significant associations

	Access to finance is an obstacle			Applied for a loan since business start-up			Do have credit or loans			Need a loan?		
	Simple logistic regression	**Multiple logistic regression**	**Model selection**	**Simple Logistic regression**	**Multiple logistic regression**	**Model selection**	**Simple Logistic regression**	**Multiple Logistic regression**	**Model selection**	**Simple Logistic regression**	**Multiple Logistic regression**	**Model selection**
Age of the SMME				<0.0001***		0.271**	<0.0001***		0.0125**	0.0060***		
1–3 years	0.782*			<0.0001***	0.0386**	0.0073***	0.0003***		0.0213**	0.0256**		
4–10 years				0.0012***			<0.0001***	0.0683*	0.0142**	0.0018***		
Size of the SMME	0.0072***			<0.0001***	0.0142**	0.0018***	<0.0001***	0.0271**	0.0036***			
Legal entity of the SMME				<0.0001***			<0.0001***	0.0234**	0.0399**			
The life cycle of the SMME	<0.0001***	0.0165**	0.0049***	<0.0001***			0.0003***			<0.0001***	0.0262**	0.0054***
Start-up/beyond start up and still earning small amounts of revenue	<0.0001***	0.0049***	0.0014***	0.0017***			0.0003***			<0.0001***	0.0088***	0.0017***
Growth and expansion with or without external finance												
Race		0.0607*		0.0089***			0.0150**	0.0307**		0.0050***		
Gender				0.0807*								
Academic qualifications				0.0009***			0.0048***					
No schooling to some form of high school	0.0872*			0.0005***			0.0019***			0.0661*		
Completed Grade 12/matric				0.0112**			0.0632*					
Experience in the sector (in decades)	0.0388**			0.0002***	0.0659*		0.0002***	0.0774*		0.0028***		
Experience as a business owner (in decades)	0.0086***			0.0046***			0.0019***			0.0026***		

Immovable property	0.0006***	0.0442**	0.0438**		0.0446**				0.0046***				0.0202**		0.0116**	
Movable property					0.0508*				0.0546*				0.0577*	0.0116**		
Area	0.0400**				<0.0001***	0.0014***	0.0006***		0.0003***	0.0334**	0.0311**		0.0393**			
Sector	0.0647*	0.0817*			0.0664*				0.0966*							
Agriculture, mining, manufacturing, electricity and gas, construction					0.0763*											
Wholesale trade, retail trade, motor trade and repair services	0.0571*				0.0310**	0.0421**							0.0376**			
Commercial agents, catering, transport, communication, business services		0.0760*			0.0269**				0.0186**	0.0825*						
Financial records	<0.0001***	0.0315**	0.0035***		0.0006***				0.0014***				<0.0001***	0.0359**	0.0016***	
Auditor/accountant	0.0120**				<0.0001***	0.0685*	0.0864*		0.0001***				0.0035**			
Business plan	0.0097***				<0.0001***	0.0030***	0.0007***		0.0001***	0.0859*	0.0100***					

Source: Author.

Notes: * significant at 10%; ** significant at 5%; *** significant at 1%

In this section significant associations found in all three of the regression models will be discussed. The section will also mention significant associations found in both the simple logistic regression analysis and the stepwise model selection. One can assume that if significance is present in all three regression models, and with the simple logistic regression and with the model selection the associations with the access to finance indicators exclude the impact of collinearity between the independent variables.

7.5.1 Dependent variable: Access to finance is an obstacle

- Life cycle of the SMME

The simple logistic and the multiple logistic regressions as well as the model selection show a statistically significant association between access to finance as an obstacle and the life cycle of the SMME. Specifically, the odds of SMMEs operating in the start-up phase and beyond start-up and still earning small amounts of revenue face greater obstacles in obtaining finance than SMMEs operating in the steady phase.

The life cycle indicates the various growth phases of the SMME. Generally, the literature shows that firms are expected to grow when they get older, particularly in terms of size, according to Canto-Cuevas et al. (2019) and the FinMark Trust (2015), as stated previously. Furthermore, in the simple logistic regression analysis of this study significance was found between the age (1 to 3 years, as opposed to more than 10 years) and the size of the SMME and access to finance indicated as an obstacle. A statistically significant association between the size of the SMME (micro enterprises) and access to finance indicated as one of the top three obstacles was reported in Mengistae et al.'s (2010) study. In Fowowe's (2017) research significance was also reported between growth of the SMME and having access to finance, and it can thus be assumed that the odds of access to finance being perceived as an obstacle will decrease as the SMME grows.

To the contrary, Pandula (2011) found no significance between growth of a firm and having credit. The results of this study, however, show that as the SMME grows, access to finance becomes less of a challenge.

- Immovable property

The simple logistic and the multiple logistic regressions as well as the model selection show a statistically significant association between the variables "access to finance is an obstacle" and "having immovable property" as opposed to "not having immovable property". Specifically, the results of the simple logistic regression analysis show that the odds of access to finance being perceived as an obstacle are about 55% less for SMMEs with immovable property than for SMMEs without immovable property.

Ownership of immovable property enables the SMME owner to provide collateral or surety when accessing loans. Fatoki and Odeyemi (2010) similarly found a statistically significant association between having property and successful credit applications, and the assumption is that successful credit applications will reduce the perception that access to finance is an obstacle. Mutezo (2015) also found a significant positive association between having collateral and access to credit and further noted that collateral reduces information asymmetry present between the SMME and the commercial bank. To the contrary, Mengistae et al. (2010) found no significance between SMMEs owning land and access to finance being indicated as one of the top three obstacles specified by these entities.

- Financial records

The simple logistic and the multiple logistic regressions as well as the model selection show a statistically significant association between access to finance being perceived as an obstacle and not keeping financial records as opposed to keeping financial records. The direction of the association between the simple logistic regression and the model selection is positive, while the multiple regression analysis shows a negative association. A possible explanation for the difference in direction could be the impact of the confounding independent variables in the multiple regression analysis. However, this concern is addressed with the model selection. Thus, it is taken that the odds of access to finance being perceived as an obstacle are greater for SMMEs that do not keep financial records than for SMMEs that do. Mahloana (2019), to the contrary, found no significance between keeping financial records and having access to finance. A possible explanation for this could be that the focus of Mahloana's (2019) study is SMMEs operating in the mining industry in Gauteng.

7.5.2 Dependent variable: Applied for a loan since business start-up

- Age of the SMME

The simple logistic regression and the stepwise model selection show a significant association between having applied for a loan since start-up and the age of the SMME overall. Furthermore, the simple logistic and the multiple logistic regressions and the model selection show a statistically significant association between having "applied for a loan since business start-up" and the age of the business (1–3 years as opposed to more than 10 years). The odds of having "applied for a loan since business start-up" are less for SMMEs that have operated for 1–3 years than for SMMEs that have operated for more than 10 years.

Contrary to the results of this study, the regression analyses used by Mengistae et al. (2010) did not find significance between the age of the firm, categorised as 1–5 years and 6–10 years, and the dependent variable “applied for a loan”. The difference in the results could be attributed to the difference in the age categories used between this study and Mengistae et al.’s (2010) study.

Nevertheless, from the results obtained from this study it is assumed that as the SMME matures, it is more likely that SMMEs operating in the Matjhabeng (Free State Goldfields) area will apply for a loan to support activities of the business.

- Size of the SMME

The simple logistic regression analysis, the multiple regression analysis and the model selection show a statistically significant association between having “applied for a loan since business start-up” and the size of the business. The odds of “having applied for a loan since business start-up” are less for micro and very small businesses (1 to 10 employees) than for small businesses (11 to 50 employees). The results of this study are supported by the studies of Riding, Orser, Spence and Belanger (2012) and Du and Girma (2012), which found that firm size is positively correlated with the application for external finance. Compared to small businesses (with 11–50 employees), micro and very small businesses (with 1–10 employees) could potentially have less tangible assets to provide as collateral, and might still need to establish a track record in order to approach the bank for loans. This deduction is supported by the findings of Berger, Cowan and Frame (2011).

The results of this study are, however, contrary to Mengistae et al.’s (2010) study, where no significance was found between the size of the business and the variable “applied for a loan”. A possible explanation for this could be that the area under investigation in this study differs from the area used in Mengistae et al.’s (2010) study.

- Area of operation

The simple logistic and the multiple logistic regressions as well as the model selection show a statistically significant association between having “applied for a loan since business start-up” and the area, namely towns or townships, in which the SMME operates. The odds of SMMEs operating in towns having “applied for a loan since start-up” are greater than those for their counterparts operating in the townships. In Mengistae et al.’s (2010) study a statistically significant association was reported between having “applied for a loan” and the regions of Durban, Johannesburg and Port Elizabeth. Fatoki and Asah (2011) reported a statistically significant association between access to debt finance and SMMEs operating in urban areas as opposed to rural areas. For their study it is assumed that if the SMME has access to debt finance, it must have applied for a loan in advance.

- Auditor or accountant

The simple logistic and the multiple logistic regressions as well as the model selection show a statistically significant association between having “applied for a loan since business start-up” and not having an auditor or an accountant as opposed to having an accountant or an auditor. Micro and very small businesses trading as sole proprietors or partnerships do not have to have an auditor to validate and legitimise their financial record-keeping. Contrary to the findings of this study, Mengistae et al. (2010) found no significance between having an auditor and SMMEs indicating that they have applied for a loan.

- Business plan

All three regressions show a statistically significant association between having “applied for a loan since business start-up” and having a business plan as opposed to not having a business plan. Thus, the odds of having “applied for a loan since business start-up” are greater for SMMEs with a business plan than for SMMEs without a business plan.

Similar to the results of this study, Fatoki and Odeyemi (2010) reported a statistically significant association between having a business plan and a successful loan application. The results of this study are supported by the results of Abdesamed and Wahab (2014), where having a business plan had a positive and significant influence on the bank loan applications of SMMEs.

7.5.3 Dependent variable: Do have credit or loans

- Age of the SMME

Table 7.5 shows significant associations in both the logistic regression analysis and the stepwise model selection between having credit or loans and the age of the SMME overall, as well as for SMMEs operating for 1–3 years as opposed to more than 10 years. The results of all three regressions also show a statistically significant association between having credit and loans and SMMEs operating for 4–10 years as opposed to more than 10 years. The reported associations are negative.

The results obtained above are confirmed by Mengistae et al.’s (2010) study. These authors found a statistically significant association between “having any credit product” and the age of the firm. Fatoki and Asah (2011) also reported a significant positive association between access to debt finance and SMMEs operating for more than five years, where SMMEs operating for 1–4 years was the reference category. It appears that as SMMEs progress in age, their ability to access credit and loans becomes easier.

- Size of the SMME

The simple logistic and the multiple logistic regressions as well as the model selection show a statistically significant association between the variable “do have credit or loans” and the size of the SMME. Micro and very small businesses (employing 1 to 10) have less credit or loans than small businesses (employing 11 to 50).

The results obtained above are similar to the findings of Mengistae et al. (2010). These authors found a statistically significant association between the variable “any credit product” and micro and small enterprises.

- Legal entity

The results of all three regression show a statistically significant association between having credit or loans and the legal entity of the SMME. The findings show that SMMEs with unlimited liability, such as sole proprietors and partnerships, have less credit or loans than SMMEs operating as legal entities with limited liability, such as closed corporations, private companies, incorporated private companies, franchisees and trusts.

The results of this study are supported by the findings of Fatoki and Odeyemi (2010) and Mahloana (2019), where significance was reported between having access to finance and the legal status of the SMME.

The findings of this study are, however, contradicted by Mengistae et al.’s (2010) results. In their study they found no significance between SMMEs with limited liability and the dependent variable “any credit product”.

- Area of operation

The simple logistic and the multiple logistic regressions as well as the model selection show a statistically significant association between the variable “do have credit or loans” and the area of operation, namely towns or townships.

In Mengistae et al.’s (2010) study a statistically significant association was only found between the variable “any credit product” and the region of Port Elizabeth. No significance was found in the regions of Durban and Johannesburg. Balogun et al. (2018), Fatoki and Asah (2011) and Fatoki and Odeyemi (2010) did, however, report statistical significance between access to credit and the location of the business, as reported above.

Fatoki and Odeyemi (2010) concluded that new SMMEs located in the city are significantly more likely to be successful with a credit application than new SMMEs located in rural areas. They attributed this to the crime rate being lower in the city than in rural areas. Taking the informal nature of the townships into account, and consequently the higher rate of crime, the results of this study are confirmed by the findings of Fatoki and Odeyemi (2010).

- Business plan

The regressions indicate a statistically significant association between having credit or loans and having a business plan as opposed to not having a business plan.

These results are expected, as Fatoki and Odeyemi (2010) reported a statistically significant association between having a business plan and a successful loan application, as stated previously. To the contrary, Mahloana's (2019) study reported no significance between having access to finance and having a business plan in place.

7.5.4 Dependent variable: Need a loan?

- Life cycle of the SMME

The simple logistic and the multiple logistic regressions as well as the model selection show a statistically significant association between needing a loan and the life cycle of the SMME. The odds of needing a loan for SMMEs in the start-up phase and beyond start-up and still earning small amounts of revenue are greater than the odds for SMMEs in the steady phase. Supporting this study, Fowowe (2017) found that insufficient access to finance does have a negative impact on the growth of firms in Africa.

- Financial records

The regressions indicate a statistically significant association between a need for a loan and not keeping financial records as opposed to keeping financial records. This would imply that SMMEs that do not keep financial records are more likely to be in need of loans than SMMEs that do keep financial records. The results reported above are expected, as commercial banks will not provide loans or credit to businesses without financial records. This explains the greater need for loans indicated by SMMEs that do not keep records of their finances. It is mandatory for SMMEs to have documentary evidence to access finance, as indicated by Mutezo (2013).

7.6 CONCLUSION

The aim of this chapter was to explore the relationship between access to finance from commercial banks and the general characteristics of micro, very small and small businesses.

In this chapter the results of the simple logistic and the multiple logistic regressions and the model selection were presented with data collected from 364 SMMEs operating in Matjhabeng in the Free State Goldfields. Four dependent access to finance variables were selected, namely “access to finance is an obstacle”, “applied for a loan since business start-up”, “do have credit or loans” and “need a loan?” These variables were regressed against the 16 independent variables related to the nature and characteristics of SMMEs, separately and collectively. Model selection was employed to choose predictors associated with the four dependent access to finance variables. The various methods of analysis were compared with each other. The summarised results presented in Table 7.5 of (1) the regressions collectively and (2) the simple logistic regressions and the model selection both show that the life cycle, having immovable property as opposed to not having immovable property, and not keeping financial records as opposed to keeping financial records are statistically significantly associated with access to finance being perceived as an obstacle.

Having applied for a loan since business start-up is statistically significantly associated with the age of the SMME overall and with having operated for 1–3 years as opposed to more than 10 years, the size of the SMME, the area of operation, not having an accountant or an auditor as opposed to having an accountant or an auditor, and having a business plan as opposed to not having a business plan.

Having credit or loans is statistically significantly associated with the age of the SMME overall, with having operated for 1–3 years as opposed to more than 10 years, with having operated for 4–10 years as opposed to more than 10 years, with the size of the SMME, with the legal entity of the SMME, with the area of operation, and with having a business plan as opposed to not having a business plan. Lastly, the dependent variable “need a loan?” is significantly associated with the life cycle of the SMME (start-up phase and beyond start-up and still earning small amounts of revenue, as opposed to the steady phase) and not keeping financial records as opposed to keeping financial records.

Thus, the age, the size, the life cycle and the legal entity of the SMME and the area in which it operates have an influence on the ability of these entities to access finance. Ownership of immovable property also enables SMME owners to access finance. SMME owners also need to record their day-to-day financial transactions, they need to have a qualified external person to monitor the process, and they need a business plan in place to improve their chances of accessing external finance from commercial banks.

In the following chapter the qualitative findings obtained from the interview data collected from bank officials employed by commercial banks will be presented.

CHAPTER 8

QUALITATIVE FINDINGS FROM THE COMMERCIAL BANKS

8.1 INTRODUCTION

The main objectives of this chapter are to explore how commercial banks enable the in-house process of providing access to finance to SMMEs, and to explore the reasons preventing financial access to SMMEs, from the perspective of commercial banks.

Interview data was collected from senior managers responsible either for credit or for business banking, and from bank officials operating at branch level, dealing directly with SMMEs. Ten participants were interviewed that are employed by the so-called Big Four commercial banks, which dominate the South African banking industry. In the following sections the profile of the participants and themes and sub-themes that emerged from the interview data will be discussed.

8.2 PROFILE OF THE PARTICIPANTS

The demographic profile of the participants that participated in the qualitative part of the study is depicted in Table 8.1 below.

Table 8.1 Demographic profile of the participants

Participant	Age category	Gender	Race	Level of education	Current position	Number of years in banking	Years of involvement in providing services to SMMEs	City where the bank is situated
Participant 1	**25–34**	**Male**	**Coloured**	**Post-graduate degree**	**Team leader credit analyst**	**6**	**6**	**Bloemfontein**
Participant 2	**35–44**	**Male**	**Black**	**Post-matric diploma**	**Area sales manager**	**23**	**16**	**Welkom**
Participant 3	**35–44**	**Male**	**Coloured**	**Post-matric diploma**	**Area sales manager**	**24**	**Did not indicate**	**Bloemfontein**
Participant 4	**35–44**	**Female**	**Black**	**University degree**	**Business manager**	**11**	**5**	**Welkom**
Participant 5	**35–44**	**Female**	**Black**	**Post-matric diploma**	**Business banker**	**16**	**7**	**Welkom**

Participant 6	**35–44**	**Male**	**White**	**University degree**	**Regional head: business banking**	**20**	**6**	**Bloemfontein**
Participant 7	**35–44**	**Male**	**Coloured**	**Post-matric diploma**	**Business manager**	**15**	**6**	**Welkom**
Participant 8	**35–44**	**Female**	**White**	**University degree**	**Business manager**	**21**	**10**	**Welkom**
Participant 9	**25–34**	**Male**	**Black**	**Post-matric diploma**	**Relationship manager**	**13**	**9**	**Welkom**
Participant 10	**35–44**	**Female**	**Black**	**Post-matric diploma**	**Area client manager: retail relationship banking**	**19**	**1 ½**	**Welkom**

Source: Author.

The data collected in the qualitative study represents the views of both males and females. Six (60%) males and four (40%) females participated in the research study. Ten participants were interviewed.

From the information presented in Table 8.1, it is evident that the ages of the participants ranged from 25 to 44 years. Five of the participants are black, two are white, and three are Coloured. Regarding their educational background, one has a postgraduate degree, three have degrees, and six have post-matric diplomas.

The above table also indicates the current occupational position for each participant. One participant is a business banker, and four are either business managers or relationship managers. Three are either area sales managers or area client managers for retail relationship banking. One participant is the team leader for credit, and another is the regional head for business banking. Regarding the participants' involvement in providing services to SMMEs, the number of years of their involvement ranges from 1 ½ to 16 years. The number of years working at the bank ranges from 6 to 23 years. Finally, three participants are situated in Bloemfontein, operating as regional heads either for credit or for business banking, while seven are in Welkom. Two banks have their regional heads operating in Welkom occupying the position of either area sales manager or area client manager for retail relationship banking. Thus, five of the participants (participants 1, 2, 3, 6 and 10) are senior heads responsible either for credit or for business banking at a Big Four South African bank. The other five participants (participants 4, 5, 7, 8 and 9) are either business managers, relationship managers or business bankers operating at branch level in Welkom at a lower level of authority than the senior heads.

8.2.1 Contribution of each participant to the study

Table 8.2 below indicates how each participant provided relevant information for the analysis. "Number of codes" refers to the total number of codes where information was extracted from a participant's interview, and "number of references" refers to the number of times an excerpt, or quote, from the interview was coded with a specific code. The contribution of each participant needs to be taken against the background that there were two interview guides prepared, where one guide was intended for the senior business banking managers (see Annexure K), and the other was intended for the business banking officials operating at branch level (see Annexure J).

Table 8.2 Contribution of each participant to the study

NAME	NUMBER OF CODES	NUMBER OF REFERENCES
Participant 1	40	152
Participant 2	44	117
Participant 3	47	113
Participant 4	37	77
Participant 5	18	47
Participant 6	40	142
Participant 7	30	62
Participant 8	37	81
Participant 9	28	53
Participant 10	43	82

Source: Author.

From the above table it can be seen that participant 1 provided the most input in the qualitative part of this study, with 152 quotations. The quotations of participants 6, 2 and 3 were all above 100. Participants 4, 7, 8 and 10 contributed more than 60 quotations each. Participants 5 and 9's quotations that were analysed were less than 60 each.

8.3 SUMMARY OF THE THEMES GENERATED FROM THE INTERVIEW DATA

The main themes that emerged from the interviews are presented in Table 8.3 below. The table also indicates the number of quotations retrieved from each theme, and the number of participants that contributed to the themes.

Table 8.3 Themes generated from the interview data

No.	Main theme	Number of participants (sources)	Number of quotations
1	Relationship – prior and existing	9	17
2	Involvement	9	62
3	Documentation	7	18
4	Processes	7	19
5	Screening and evaluation	5	9
6	Character	8	16
7	Capacity	10	39
8	Capital	6	17
9	Conditions	10	61
10	Success rate of loans to SMMEs	8	12
11	Reasons for loan rejections	10	26
12	Collateral	8	28
13	Business plan	9	32
14	Communicating the outcome of the loan	9	27
15	Control	9	54
16	Expectations of government	5	11

Source: Author

From Table 8.3 it can be seen that the most discussed theme in the interviews was "involvement", with 62 references from all the participants in the research study. This was followed by "conditions", with at least 61 references. In the third place was "control", with 54 references.

Two semi-structured interview guides were prepared for the purposes of interviewing the officials from the commercial banks. One was intended for business banking officials operating at branch level, and the other was intended for officials operating at regional offices as senior business banking managers. In the premises two levels of decision-making were considered. Although some questions included in the two interview guides were similar, some differed, the responses form an aggregation of views obtained from the officials involved in providing finance to SMMEs. Responses to the two interview guides thus complemented each other (see Table 5.2). The interview guides were informed by the literature review in chapter 4. The results were aggregated to achieve the two objectives of this study, namely, to explore how commercial banks enable the in-house process of providing access to finance to SMMEs and to explore the reasons preventing financial access to SMMEs, from the perspective of commercial banks.

As such, the interview data was analysed collectively, taking both levels of decision-making into account. Only one theme emerged that relates to the inputs of the senior managers only, and that was "expectations of government". A primary aim of qualitative data collection is to ensure that researchers and, by implication, those who read their research reports, will "hear the voices of participants loudly and clearly" (Badenhorst & Radile, 2018:9). To this end, research participants' verbatim words constitute the study's authentic empirical data.

8.4 RESULTS

In this section the themes that emerged from the interview data, depicted in Table 8.3, will be presented. For each theme, quotes extracted from the interview data will be presented to substantiate the selection of a theme with sub-themes, after which the implications of the theme will be discussed. In qualitative research the reporting of results and the explanation of the implications of the results can either be combined or separated (Silverman, 2005). For the qualitative part of this study, the results and the implications were treated separately. This allowed the researcher to focus on the results emerging from the interviews first. Implications were thus reported on after a main theme was explored. It should, however, be noted that some researchers find it easier to combine the results with their implications, as the two are closely connected (Silverman, 2005). Considering that in this study the quantitative results will ultimately be supplemented with the qualitative results, in the following chapter, separating the results of the qualitative data from the implications made the process of supplementation less complicated.

Before the themes are discussed, the term “SMME” will be defined from the perspective of the commercial banks. The literature indicates that there are various ways of defining an SMME. It was therefore established how commercial banks define SMMEs. Although this aspect did not emerge as a main theme, the way the commercial banks define an SMME is important. Participants were thus asked what criteria their bank uses to define an SMME.

Participant 4 mentioned that they usually look at the turnover of the SMME. The participant said that

> *“[w]e normally look at the turnover and the account conduct as well. Let’s say the account has been opened, as in how much is still there in the account. It means it also deals with the turnover, so main is the turnover and the existence of the account”*.

Participant 9 also highlighted turnover: *“Between 1 and 50 employees is where the majority of our portfolio falls. So, we segment turnover-based.”*

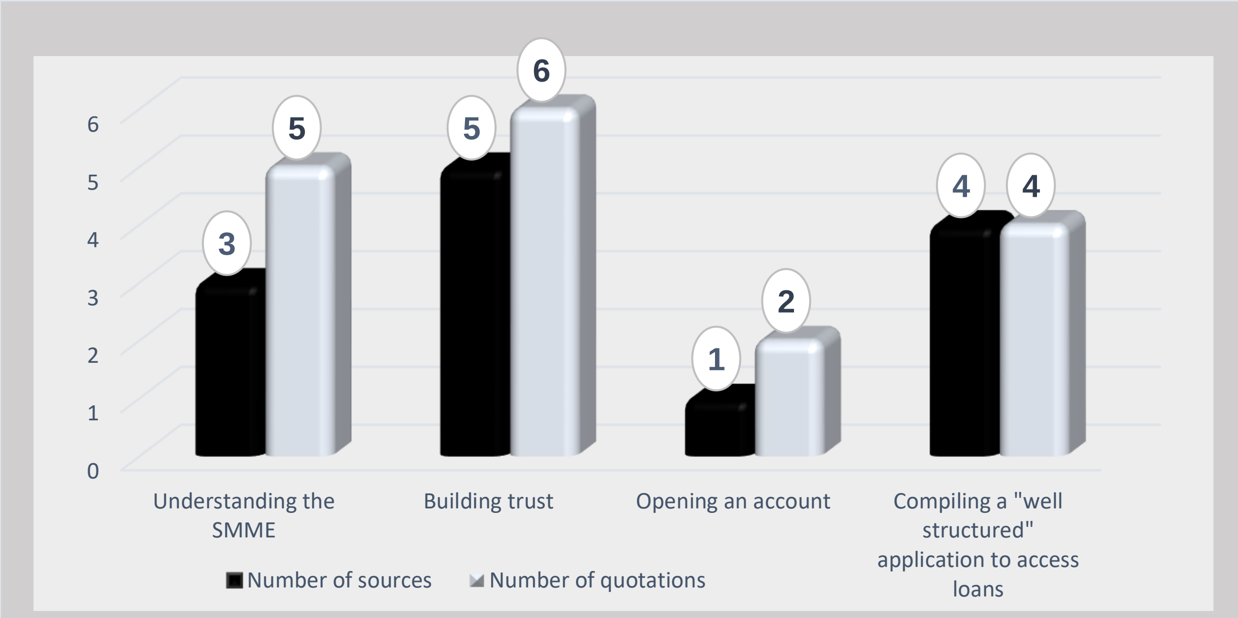
Participant 6 responded as follows:

> *“So, there is that aspect of SMME funding in their personal capacity. The in-business banking you segment them based on turnover. So, if your turnover is between zero and R10 million per annum, we call that our growth sector, and the reason why we segment based on turnover is that we have different service models depending on the client’s turnover.”*

The BASA (2018), of which the major banks are members, acknowledges the definition of SMMEs set out in the NSBA (102 of 1996) (South Africa, 1996b) and its amendments. Although the said definition is acknowledged, SMME turnover is used by the banks to divide their business banking clients into categories, or segments, as noted by the participants. As one participant indicated, the banks have different service models for different business banking clients, based primarily on their turnover. This deduction of segmentation based on turnover was also reported in Hwarire’s (2012) paper.

8.4.1 Theme 1: Prior and existing relationship between the bank and the SMME

Participants were required to elaborate on the importance of a prior relationship between the bank and the SMME. It was found that not just a prior relationship but an existing one is regarded as important by bank officials. Table 8.3 indicates that nine participants through 17 quotations mentioned the importance of a prior and an existing relationship with the bank. Sub-themes that emerged include understanding the SMME, building trust, opening an account, and compiling a well-structured application to access credit or loans. Figure 8.1 shows the sub-themes that emanated from the main theme, as well as the number of quotations extracted from the interview data and the number of sources, or participants, that alluded to each sub-theme.



Source: Author

Figure 8.1 Sub-themes for theme 1

- Understanding the SMME

Three participants mentioned that a prior relationship between the bank and the small business enables the bank to understand the SMME before loans are accessed. For instance, **participant 9** argued that

> *"it is very important for the SMME and the bank to have a relationship even prior to the opening of a bank account, because opening of a bank account should be the last step, because the important thing for us is to first understand the SMME, to understand what it is that the SMME does."*

Expressing the same sentiments as participant 9, **participant 2** said,

> *"The relationship is very important, and we encourage our relationship executives and business managers to pay regular visits to the customers, to constantly be on the face of SMMEs, because it helps us if there is any trend with SMMEs, and it is important. And we don't only see them in our offices; we go out to their businesses. It is important that we assess what is happening with their business and that we understand their business better. And, you know, we ask a lot of questions in terms of how many people*

work for them and how it has been, who is managing the business in their absence if they are not around, and so on. It helps us if, for… even if they come for a facility, for instance, we have a better picture, because we know we always present at their premises. From where we are sitting it is important that we exactly know what is happening with their businesses."

- Building trust

Five of the participants mentioned the importance of SMMEs having a prior relationship with the bank in order to build trust. **Participant 7** claimed that

> *"[i]t plays a huge role that is a difference in compiling and putting forward a well-structured application, because if you know your customer's business and you have built that trust relationship with the customer and there is certain changes that you actually want to make towards what he feels his business requires and towards the actual analysis that you have done, then it will actually complement one another"*.

Confirming what participant 7 said, **participant 8** said that

> *"[i]t is very important. There is nothing nicer than if someone comes to the bank and you do not have to repeat your story every time and explain where you are coming from. So it is a relationship of trust. This… it is why it will take a while for me to find my feet, because I need to know my clients, again, and they need to know that they can trust me. A client must be able to tell you 'You know, over a month I want to do this' and he will know that you are working on it, so that you could have it right for his business in a month for whatever it is that he wants to do for the business. So, it is a relationship build on trust. So, you learn to know your clients, and you know, 'OK, fine, if this one says this is going to happen, you know it will happen.'"*

Participant 10 indicated that

> *"[i]n our space you would notice that we are in relationship banking, not in business banking. So, our call is to build relationships with a client before we could do any finance. It is much easier to have a relationship when you get to discuss the things. And then once we have a relationship, 3 months, 4 months, 6 months later, when you have a lead, then you know, 'Previously I have discussed this with the bank. They have guided me, they have come to see my property, and they have showed me how to expand my business, and all of that. So, now I have to expand in the manner that they have taught me or showed me previously. So, now I can approach them for finance.' Already at that time, we already know why you would be taking finance, because of that relationship. We have already somebody that you have entrusted with your business, that knows your business, somebody that, if anything happens, you can actually call that person in the middle of the night, take the phone and call. And our business SMME market is not based on sales; it is based on relationships. So, it is founded on relationships, so that we find ourselves in relationship banking. And that*

is why most of the time we don't let our clients, or any small or medium businesses, come into the bank".

- Opening an account

The participants argued that a prior relationship between the bank and the SMME owner helps the latter to open an account smoothly without minor hurdles.

Participant 5 highlighted the importance of opening an account:

> *"We start a relationship with the client by opening an account and giving them facilities, tell them how to conduct their account. We form a relationship with the involvement that we have with the customer, because the customers tells us what they going to do in the business. Then they can decide what type of account do they want to open with us."*

- Compiling a well-structured application to access credit or loans

Four participants argued that a prior and an existing relationship helps the SMME owner to compile a well-structured application, and it enables the bank to better assess the application.

Participant 1 responded as follows:

> *"Look, it is not a necessity, but the more you know about the client the better. If they have historical performance or a historical relationship with the bank, and it makes the assessment of the bank easier. But it is not a necessity at this stage. The bank also needs new clients. The bank is also a business. They can't just grow on existing clients."*

Participant 9 stated that

> *"[i]t plays a huge role, that is the difference in compiling and putting forward a well-structured application, because if you know your customer's business and you have built that trust relationship with the customer and there is certain changes that you actually want to make towards what he feels his business requires and towards the actual analysis that you have done, then it will actually complement one another, and the customer will have the trust and say 'Listen, if that is what you feel is best for my business in the long run in terms of cash flow management'".*

Supporting participant 9's view, **participant 10** argued,

> *"So, normally it is easier to give finance to somebody already banking with us for a period of six months and longer. But for somebody who is banking with another bank,*

the competitor then now wanting finance, because we do not have that relationship with you. We have not seen how you have been conducting your business. However, for any business, the first point of application… our advice is 'Start with your own bank'. It is a weird way of doing business, because we are looking for that money. We want to finance you in order to make money. However, we are not going to finance you for the sake of or to get you, but then we will guide you. Start with your own bank, and then you understand that you already have a relationship with them and a track record with them. However, if unsuccessful… Let's start with you, with that relationship… with you, especially with established businesses."

8.4.1.1 Discussion of theme 1: The importance of a relationship between the commercial bank and the SMME owner

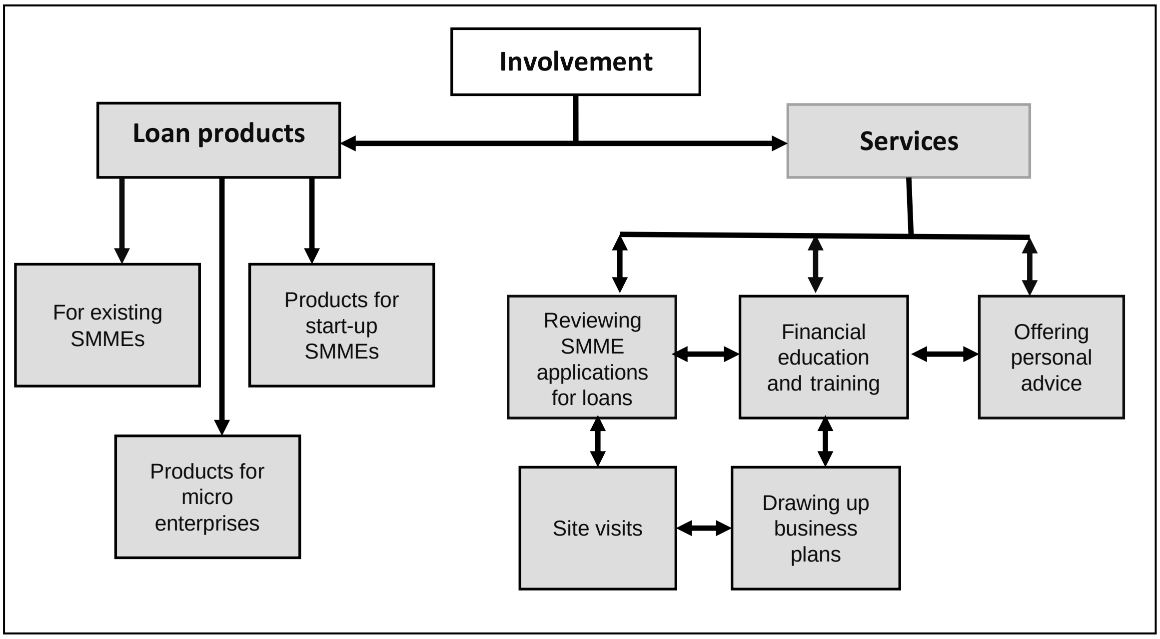
Most of the participants highlighted the importance of a prior relationship between the bank and the SMME owner. Some stressed the importance of a relationship between these two parties before a loan is applied for, as it makes it easier for the bank to process a loan application.

Thus, there should be a relationship even before the SMME owner opens a bank account. The SMME owner divulges various aspects of the business to the commercial bank official, by providing information pertaining to the type of business venture, how funds will be committed, including where the SMME is currently functioning, and where the SMME intends to go in the future. Berger and Udell (2004) explain that relationship lending is one type of lending technology used by banks. Soft information is gathered from the SMME based on the relationship between the entity and the commercial bank. The authors further note that this type of lending technology is more appropriate for SMME lending in which risk is perceived to be high. In South Africa, Langa and Govender (2019) however found that commercial banks mainly utilise "hard information" portrayed in the financial statements of SMMEs to approve loans. Supporting this is the view of **participant 1** who have stated " *….it (referring to the relationship) is not a necessity at this stage.* The ability of the bank to judge the character of the client and to trust the client to service a loan is however enhanced when a relationship exists, according to Fatoki (2014).

The relationship gives the commercial bank the bigger picture regarding the SMME, and, as such, they can provide better assistance, not just in terms of providing access to loans, but also in terms of various other services that they have to offer. The relationship helps with the support that will ultimately follow if the bank decides to grant credit to the SMME owner. Furthermore, when the SMME owner applies for credit or a loan, a well-structured loan application which includes all relevant information can thus be prepared. Although Mutezo (2015) used a quantitative method to gather data from commercial banks, a positive but insignificant association was reported between the bank–SMME relationship and the supply of credit. Mahloana (2019), to the contrary, found a statistically significant association between having a relationship with the bank (determined by having a bank account) and access to credit. Mutezo (2015) noted that a relationship between the bank and the SMME is essential, and that it enhances credit availability to SMMEs. Mahloana (2019) explained that this relationship starts when the SMME opens a bank account. The cited literature thus supports the views and perceptions of the participants in this study.

8.4.2 Theme 2: Involvement

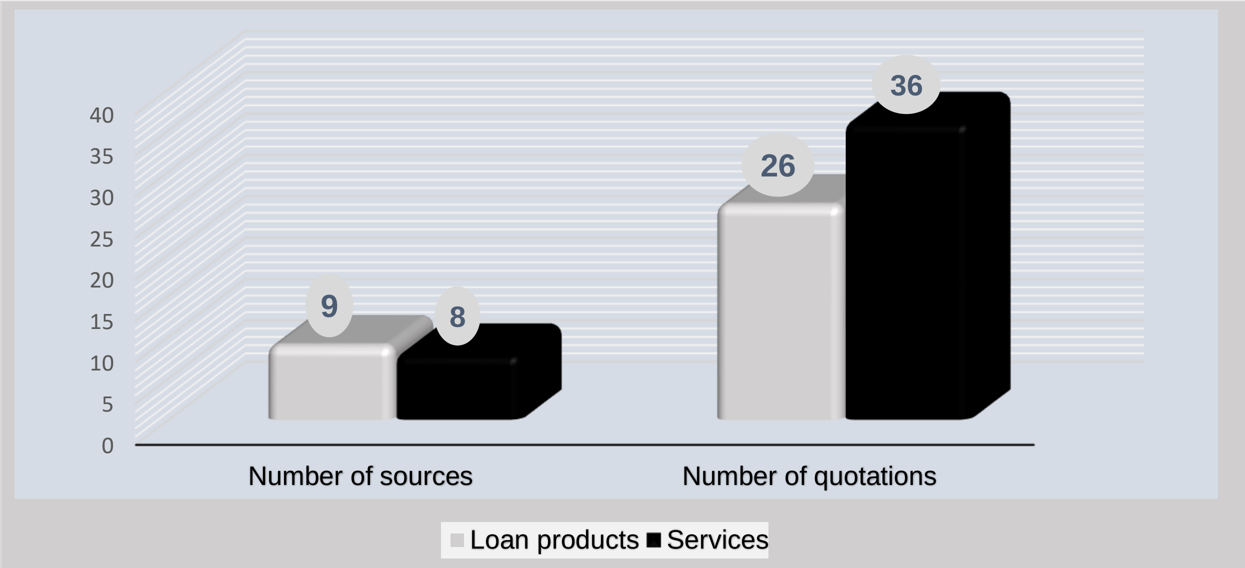
Participants were required to explain their involvement with SMMEs, namely the lending products and services offered to SMMEs, including those in start-up, how loans are structured to meet the specific needs of SMMEs, and initiatives taken to serve the lower-income segment of the market. Table 8.3 shows that nine participants alluded to their involvement with SMMEs, and that 62 quotes were extracted from the content. The theme of commercial banks' involvement with SMMEs was divided into various sub-themes. Figure 8.2 depicts the recurrent themes pertaining to commercial banks' involvement with SMMEs. From the coding process in this research it is noted that there are two types of involvement that the bank and the bank officials have with SMMEs, namely (1) loan products and (2) services they provide.



Source: Author

Figure 8.2 Sub-themes for theme 2

Figure 8.3 portrays the number of sources and quotations for the theme "involvement", including the sub-themes "provision of loan products to SMMEs by commercial banks" and "services offered to SMMEs by commercial banks". Nine participants alluded to the types of loan products offered to SMMEs, and 26 quotations were extracted from the interview data. Eight participants elaborated on the services provided to SMMEs, and 36 quotations were extracted.



Source: Author

Figure 8.3 Sources and quotations for theme 2

8.4.2.1 Loan products

Through the analysis, the different types of products that emerged in the study were classified into three categories, namely products for existing SMMEs, products for start-ups, and products for micro enterprises.

8.4.2.1.1 Products for existing SMMEs

The participants in the research mentioned the types of products provided by the banks for existing SMMEs. These include credit cards, overdrafts, commercial property finance, term loans, revolving loans, asset-based finance and other customised products.

The participants stated that the banks provide a variety of credit and loan products to existing SMMEs. In this regard, **participant 4** said, *“That will be your overdraft, your credit card, your loan, investments as well.”*

The types of credit products and loans were acknowledged by **participant 9**: *“Yes, it includes everything, from commercial loans, residential loans to overdrafts, term loans. I am more in charge of the businesses, retail, wholesale. What else is there? Credit cards.”*

This is supported by **participant 7**, who said,

> *"That is overdraft facilities, business term loans, medium term loans, business revolving credit facilities. The main basic one is access to a bank account facility, and all of those are linked to it, like your overdraft facility are linked to that."*

Focusing on overdrafts, **participant 3** said,

> *"Then we have the normal overdraft facilities, which is overdraft facility for a twelve-month period, which is reviewed annually by the banks, and should there be any behaviour or any misconduct on the account or there is some transgression on the account."*

Participant 8 indicated that

> *"[w]ith a term loan is the normal term about five years, so this will be when guys wants to do something different. With a term loan you can pretty much diversify, as you have said. If you maybe have to purchase furniture for the building, you can structure it so that he pays it back in five years. Commercial property purchases are usually 10 years, and there you look at the term, 120 months".*

Some of the participants in the study mentioned that banks also provide revolving loans as a product to assist existing SMMEs. **Participant 3** stated that the bank also provides a business revolving credit plan (BRCP):

> *"We have what we call a BRCP, which is a business revolving credit plan, whereby a client when he pays a certain portion back, 20% back, he can then, you know, take that balance up again to the original amount."*

Some participants in the study mentioned that the banks offer customised products for SMMEs based on what they want the funding for. For instance, **participant 10** indicated that

> *"we do have different types of finances. We would have probably if you need to finance your trucks or your vehicles for. We will then have to go for asset-based finance. If you want to finance the building, you would then have commercial property finance. It depends on what you are looking for. Sometimes you only want to finance your debtors book then, and then we will have finance for that. So, it depends on what the SMME is looking for".*

Participant 4 confirmed what participant 10 said:

> *"OK, well, it all depends, like from client to client. It can't just be one product, obviously. So mainly we look at the account conduct. That plays a huge role. So… and also the*

income in the account, if there is some type of income. And then we go into negotiating the interest, how they can maybe structure it. We have a department that actually specialises in that, yes."

The commercial banks are thus geared to provide products that are tailor-made to meet the specific needs of the SMME in its unique situation.

8.4.2.1.2 Products for SMME start-ups and micro enterprises

Through the coding process employed in the study, some participants mentioned the types of products that are provided by the banks for SMMEs starting up. These include overdrafts and equipment financing, encouraging start-up SMMEs to open a business bank account to establish a track record, and funding for development.

- Overdrafts and equipment finance

Some of the participants in the study mentioned that the banks assist SMME start-ups with overdrafts to build their businesses. For example, **participant 9** said, *"But yes, here with start-ups, I would say… if I think about it, you can assist them with overdraft, naturally, for working capital."* **Participant 6** mentioned that

> *"in terms of SMME funding, it is generally in your retail space. Let's say I am a normal consumer and I want to start up a business… I am a salaried employee at my bank and I want to start a small business. Generally you will look at your personal funding requirements against my bond and gain some funds there to start up a business. So, there is that aspect of SMME funding in their personal capacity".*

Participant 8 mentioned that start-up SMMEs are provided with equipment finance by the banks. She said that

> *"you can look at asset financing where equipment and vehicles are purchased. You can look at a term loan for maybe if you want to renovate the building, and you can assist with the purchase of the building if you do not want to hire the premises anymore".*

- Opening a business bank account to encourage start-up SMMEs to establish a track record

Participant 5 indicated that her bank encourages any business owner to start by opening a business bank account, so that a track record is established. The participant said,

> *"So we have different type of accounts. So we listen to the customer firstly what is it that they are going to do with the business, are they already operating, have they*

been operating for long, when did they start. We get that information, and then after we explain to the customer what different kinds of accounts we have. But we don't decide for the customer which one. We give the customer the benefits throughout the accounts, and they will decide which one, depending on the information."

Participant 5 added that a special bank account was created for SMMEs, which charges the same bank charges irrespective of the turnover that the SMME generates, and SMMEs can thus save on bank charges. The business can use the bank account for trading, and it can do *x* number of bank-facilitated transactions for free. In this way, bank charges are saved on. Elaborating on this issue, **participant 5** stated,

"I love to say to my customer 'We are forcing you to know what is happening in your business, because when you transact, we are giving you free transactions. You stick to that. Even if there is R3 million in your account, we only take so much, and we are consistent'."

Furthermore, **participant 5** indicated that the SMME owner is informed and guided to use the business banking account in such a way that bank charges are kept to a minimum. The, participant said,

"So, we try to help. And that's why for customer also to keep record, because if you pay your employee cash, you actually suffer with the fees [bank fees], because to draw cash is very expensive than to transfer the money, and anything can happen when you leave this bank with the cash. So, we try to show the customers all of these things."

Furthermore, **participant 5** explained that if the account conduct is exemplary for 12 months, the computer system will flag the name of the business if it has shown growth, and the commercial bank will then contact the client to offer a loan facility. She stated that *"the system will tell us 'Contact this customers'. And then it is the leads. It will be those who have grown to qualify for facility".* As such, the commercial bank is proactive in identifying clients that qualify for a facility. It does not wait for the client to approach the bank.

- Development funding

Participants noted that there are various funds available to assist SMMEs from previously disadvantaged or lower-income communities. Explaining about alternative funding as a product offered to SMMEs by the banks, **participant 1** said,

"Historically, the bank… we painted everybody with the same brush. But about, I think, three years ago, the company launched an alternative funding specifically aimed for SMMEs. This is basically in part backed by other funders, not just Treasury, the government itself. There is actually three programmes in this alternative funding. It is

> *basically aimed for your normal BEE guys, it's the Women Empowerment Fund, and the other one is also more for the agri space, for this land reform and everything, how to assist and that as well."*

Participant 3 mentioned that the Enterprise Development Fund is a unique product developed by the bank for micro enterprises. The participant said, *"It definitely is, because of the different solutions that we can offer to SMMEs."*

Elaborating on alternative funding, **participant 2** said,

> *"How it works is… remember now the government is also promoting banks to look into SMMEs, and irrespective of the jockey, if he is on ITC [the former name of the credit bureau TransUnion] or debt counselling or what, as long there is good business, you know, and then we look into that. The alternative funding takes care of those businesses that cannot stand on their own or that cannot go the normal credit route. And if there is contracts, for instances, if that contract pays out, the first take belongs to us, and then we give the rest to go and pay whoever he needs to be paid."*

The commercial banks are thus proactive in identifying SMMEs that show promise of growth, particularly those that were previously excluded, even if their credit standing is poor.

Besides various lending products offered to SMMEs, the commercial banks also provide other services to help SMMEs to function. This will be explored in the following section.

8.4.2.2 Services

Through the content analysis process, participants in the research study highlighted the services that the banks provide to assist SMMEs. They mentioned drawing up business plans, financial education and training, site visits, reviewing loan applications, and offering advice.

- Drafting a good business plan

Participants in the study mentioned that banks have experienced consultants that assist SMMEs to draft good business plans. For example, **participant 1** asserted that

> *"every region has what we call enterprise development consultants. They are also experienced in this, and they assist the clients in drawing up the business plan. That is the service that the bank gives to these customers. Yes, especially if you look at this company, one in each region and one in each major city, that helps these guys with drawing up business plans, and we have these workshops and everything".*

Considering that drafting a business plan can be challenging, commercial banks provide assistance to SMMEs in this regard.

- Financial education and training

Most of the participants in the research study mentioned assisting with financial education and training as a service provided to the SMMEs by the banks before SMMEs apply for loans. The reason for such education and training is that small business owners must have comprehensive financial knowledge, and this education and training is usually provided to SMMEs through training sessions. Some of the participants also mentioned that the banks have implemented strategies such as opening training centres, where they train SMMEs in financial issues.

Elaborating on this, **participant 2** said,

> *"We try and make sure that we take care of those previously disadvantaged, or those that was excluded before, and for that reason we have got the other unit, the Enterprise Development Centres. At times we know that most of our SMEs are not really educated, hence the Enterprise Development Centre. Remember I was telling you about this other unit comes in where they put these SMMEs on a programme for six months, where they teach them about financial management, business management, so… you know, all those soft skills that comes with the day-to-day running of the business."*

Participant 6 explained,

> *"So, what we have done we have partnered with an organisation called Worldwide Hope, and they do amazing work. They provide training to these development centres or whatever, and we try and come alongside. We gave them offices this year, gave them computers here, so they can actually go and register their businesses as Section 21s. They can get the tax benefits. They can apply and get the government grants. So that is what we kind of doing to try and formalise the business, and there we're talking financial literacy, teaching them how to budget, how to plan, how to use Excel, how to use Word, and small things like attendance registers, you know, small things like that. So, we can always do more, but we do run these financial literacy classes also."*

Participant 10 claimed:

> *"Ja, we always have informing sessions. We are having one now coming next month with small communities, with small business and small and medium enterprises. We invite anybody, whether you do bank with us or whether you have a relationship with us already. Just to do that education within the communities. We have that almost*

every second month. And if SMMEs have events, we always request to be invited, just to… even if it is 15-minutes, 30-minutes slot. And we will stay there and just get to explain the banking needs and what the relationship between the bank and the SMME should be. And you don't necessarily have to be banking with us to attend those sessions."

Commercial banks thus take the development of SMMEs seriously. This is shown by the contribution they make to enhance SMMEs' knowledge base of how to manage the day-to-day operations of the business, as well as finances.

- Reviewing SMMEs' applications for loans

Some participants mentioned the reviewing of SMME loan applications to ensure compliance as another service offered by the bank. When a loan application is submitted, all the necessary documentation is included for the SMME to qualify for a loan.

For instance, **participant 10** mentioned that

"[m]y involvement for the region's SMME bankers (we call them managers in our region): they would take applications, and then for me will be to check their applications if they are correct, if the SMME's application do comply. However, most of the applications are done at an SMME banker level, so mine is just to check that and verify. The reason why I check and VAT-verify is to avoid reworks, because once we send to Credit [the Credit Department] it's a process that takes longer, between 4 and 24 hours. So, if it is returned because of an error, it is another 48 hours, and then we delay the client".

Confirming the above, **participant 1** said,

"Currently I am the team leader of the credit analysts. So those are the people who basically compile the applications for everyone. I assist the bankers and everybody in the whole process to get things approved, where there is appeals, assisting the clients and just getting their stories."

Participant 2 pointed out that

"[w]hen the SMMEs come in to apply for a facility, we go through their financials, and when there is anything that is not clear on financials, that is when we ask questions. And we send the applications to Credit [the Credit Department] in Johannesburg, to make sure that we have covered almost everything, so that when they ask questions, we are able to answer them".

Commercial bank officials take precautionary steps to make sure that when the SMME owner applies for credit, all the relevant information and documentation is correct, as they are familiar with the system of the bank. This reduces rework and ensures that the loan is approved in the shortest time possible.

- Site visits

Through the analysis, some of the participants highlighted that site visits are another service provided by the banks to SMMEs. For example, **participant 9** indicated that

> *“this why in my space, and that space would be… in the… the bank will call it the RRB, which is retail relationship banking space, there we go out to our clients. The reason you go out is the client feels more at ease when you meet them at their own premises. They feel more in control. They are more honest. Clients will tell us this setup… the bank’s setup is hostile, you know”.*

Supporting the above, **participant 2** mentioned the importance of site visits. **Participant 2** argued as follows:

> *“The relationship is very important, and we encourage our relationship executives and business managers to pay regular visits to the customers to constantly be on the face of SMMEs, because it helps us if there is any trend with SMMEs”.*

Echoing the above, **participant 10** mentioned that

> *“[w]e go to them, because it is only when we go to them we will hear what they really need and what they are having. Sometimes people do not even need credit. They don’t need credit, they just need to restructure how they are operating, and then they can fund themselves in a way. It’s only when we get out to them, to their businesses, that we will be able to determine whether they really need credit or not”.*

- Offering advice

Some participants in the research study highlighted that banks offer personal advice and words of encouragement to SMME owners to help them to make sound decisions that they will not regret in the future. For example, **participant 2** asserted,

> *“I always say that this is my passion, and that I think I am at the right place personally, and wherever I go I always encourage good. You know, I speak to business people, you know, a lot, and people they will ask me questions about certain things. I will explain to them. And I am also very harsh as well, you know. When you are focusing on your business, forget about living expensive up until your business is up and running. I always look for good talks when it comes to things like those, encouraging people to open a business, look into things like a franchise, and see what you can generate to grow the economy. Because that is what I always talk about, even when we have to close a business. I look into these things very deep, to say how many*

other people are going to be affected, how is it going to affect our community, and I look into the social aspects of things, you know. And so we look into many things. I, personally, wherever I go, I talk business."

Supporting the above, **participant 9** pointed out that

> *"[t]here is other forms of funding, like your SEFA, which is your Small Enterprises Finance Agency, you have got your NYDA for the youth, you have venture capital and funding angels, all this other… So there is a lot of funding tools out there. And when we go out, we tell the clients about it: 'Look, don't only look at the bank. There is other means. There is your NYDA. There is a lot of places, depending on what it is that you want to do. But go knock on those doors. Go to SEDA, you know. They can assist you with funding. But a bank… unfortunately, the criteria is very strict".*

8.4.2.3 Discussion of theme 2: Involvement of commercial banks with SMMEs

All four commercial banks interviewed do have designated business services units situated in the town of Welkom, which enable them to provide specialised services to individuals who intend to start a business, and for existing SMMEs. Two of the banks established specialised regional enterprise development units to enhance service provision to SMMEs. The business services units of the banks group SMMEs that approach them for service into categories according to the turnover generated by the SMME. Business banking officials ranking lower in the hierarchy of the bank will service SMMEs with a lower turnover, while business banking officials ranking higher in the bank's hierarchy will service SMMEs with a higher turnover. Implicit in this is allocation of expertise to where the higher monetary value lies.

The interview data shows that the main theme, namely "involvement", consists of the sub-themes of loan products and services provided to SMMEs in start-up, micro enterprises and established SMMEs. A variety of loan products is provided, including credit cards, overdrafts, term loans, revolving loans, asset-based finance, including commercial property finance, bridging capital (working capital) and financing of the debtors book. The account conduct of the SMME owner dictates the basis on which terms and conditions pertaining to the duration of a loan and the interest rate are negotiated.

One participant pointed out that SMME owners are encouraged to open a business bank account. Through a process of being guided, the SMME owner is equipped to establish a track record, including the keeping of proper records of receipts and payments, which usually ensures that they have more accurate knowledge of what exactly is happening in their business. The SMME owner is advised to transact in such a way that the bank charges applicable are charged at the most favourable rate, taking into account the specific circumstances of the SMME at that given point in time. As part of this process, the banks follow a proactive approach, where a computer system identifies SMMEs that qualify for a bank facility. Such a facility will only be made available after a few months, provided that the account conduct has been proper.

One commercial bank has development funding available to finance SMME start-ups. This is an initiative taken together with government and international organisations. The development funding is particularly focused on businesses from previously disadvantaged communities. This includes funding for SMMEs operated by women, BEE SMMEs, and previously disadvantaged SMMEs that would like to access land. Another bank uses alternative funding to assist micro enterprises specifically. Furthermore, when an SMME owner is on ITC with a bad credit rating or is on debt counselling and the business shows promise, alternative funding is used to assist these SMMEs.

The literature suggests that commercial banks need to diversify their loan products to meet the specific and diverse needs of SMMEs (Mutezo, 2013, 2015). Mutezo (2013) noted that the number and the quality of products offered to SMMEs need to fit their operational requirements as they pertain to the sector in which they operate. It is also suggested by this author that banks should have start-up packages for SMMEs that do not meet the requirements of traditional lending technologies.

The data collected from the interviews show that the banks have a variety of lending products available to assist SMMEs. Terms and conditions could be structured in such a way as to meet the diverse needs of SMMEs. This should be taken against the backdrop of risk, an obligation to shareholders, and adhering to regulations from the side of the commercial bank. Alternative routes are followed when an SMME has a bad credit rating but shows growth potential. As such, the question arises whether the perception that commercial banks do not offer the right products to SMMEs has more to do with the lack of information and communication than there being insufficient product lines. Similarly, Mutezo (2015) suggested that the commercial banks should aggressively advertise their services to SMMEs. This will enable SMMEs to know where to go and what to do to obtain finance.

Mutezo (2013) and others have argued that SMMEs operating in remote geographical areas situated far from commercial banks are excluded from the specialised services that commercial banks provide. In this study specifically it is argued that SMMEs operating in the towns and townships of Odendaalsrus, Hennenman, Ventersburg, Allanridge and Virginia might find it difficult to travel to Welkom to reap the benefits of the business services provided by the commercial banks. Yet, SMME owners that intend to be profitable need to make an effort to approach the commercial banks' specialised business units, to gain knowledge and to be assisted in terms of the right lending products, if they intend to manage their businesses more effectively and efficiently and to grow.

Besides the loan products that commercial banks offer, services to support SMMEs also emerged as a sub-theme of the theme “involvement of the banks with SMMEs”. These services include drawing up good business plans, financial education and training, site visits, opening a bank account, reviewing loan applications and offering advice.

Mutezo (2015) suggested that commercial banks should assist SMMEs by increasing their financial knowledge, through workshops and seminars. The interview data, however, shows that commercial banks do offer various forms of training to increase SMMEs’ knowledge base. One participant indicated that experts are available to assist SMMEs to draw up a good business plan. Workshops are also presented on how to draft a business plan. Training is presented by the commercial banks through development centres, workshops and seminars. Aspects that are focused on are management, financial and operational training, including soft skills pertaining to the day-to-day managing of a business, such as budgeting, how to keep attendance registers, and how to use Excel. Commercial banks furthermore attend business seminars to showcase the products that they have on offer to support SMMEs.

The participants indicated that they do site visits. Site visits enable the commercial bank to understand the SMME in an environment where the owner feels at ease. Trends with SMMEs are further determined with these visits, including how the business is managed, how many people are employed, and who manages the business in the absence of the owner. Needs are further established in this regard.

Commercial banks furthermore are careful to ensure that when an SMME applies for a loan, the application is correct, and that all relevant information is included. Clients are contacted to make adjustments or to gather more information to support the loan application, should this be necessary. As such, rework is prevented, thus reducing the time it takes for a loan to be approved.

Some participants indicated that they offer advice to SMMEs. SMMEs that do not qualify for funding from a commercial bank, where the criteria for lending are strict, will be advised to contact government agencies for financial support, as indicated by one participant.

SMMEs have several challenges that make it difficult for them to access finance. These challenges include an uncertain competitive environment (Mutezo, 2013), bad credit ratings in some instances (Mazanai & Fatoki, 2012), insufficient accounting systems, which undermines the reliability of information pertaining to their profitability and repayment ability (Agwa-Ejon & Mbohwa, 2015), lack of designated business banking accounts (Agwa-Ejon & Mbohwa, 2015), inadequate business plans (Pretorius & Shaw, 2004), and being poorly equipped in terms of human and financial resources (Smit & Fatoki, 2012). These aspects increase the risk of borrowing money for SMMEs.

The results of the interview data from this study show that the services that commercial banks provide to SMMEs other than loans or credit are geared to reduce the challenges mentioned by the authors cited above. Pretorius and Shaw (2004) indicated in their study that one bank official mentioned that they "find more reasons to say yes rather than no to clients", attributing this to a potential marketing-focused statement. Yet, the results of the interviews in this study confirm the statement by the bank official in Pretorius and Shaw's (2004) study. The commercial banks take great care to assist SMMEs to ultimately be in a position to access a loan or credit facility from the bank. Taking the political history of our country into account, the commercial banks furthermore do have many services and ways to ensure that loans and credit are provided to SMMEs from previously disadvantaged communities.

8.4.3 Theme 3: Documentation required to access finance

The bank branch officials were required to elaborate on the supporting documentation required when the SMME approaches the bank for financing. Related to this, the senior managers were required to elaborate on the importance of various documents, including the business plan, financial statement information, and the structural formality of the SMME influencing the outcome of the loan. Seven participants referred to the documentation required to access finance, indicated by 18 quotes. Participants highlighted that a CV, business registration and ownership documents, a business plan and financial statements are documents that are required when an SMME applies to a bank for funding.

- Curriculum vitae

From the information provided through the content analysis process, two of the participants working for the same bank explained the importance of having a CV when applying for funding. For instance, **participant 10** said,

> *"We would require things like a CV for a reason, 'cause most people will asked 'But why a CV when I am starting a business and I am applying for finance?' You started marketing, but all of a sudden now you want to open a pharmacy. Is that going to collapse? What do you know about medication and all of those things that you will be dispensing over there as a pharmacist?"*

Participant 10 further claimed that the qualifications declared in the CV are scrutinised, stating,

> *"Yes, we check that [education certificates], and sometimes we even go into SAQA [South African Qualifications Authority]. Like if you be going to start a crèche, because that is a common business nowadays, and you do not have anything, all you know is to watch somebody's kids, we will check that in order to approve for your start-up loan. You cannot take that risk, 'cause tomorrow the crèche is going to be closed down, and you will not get your money."*

One commercial bank thus utilises a CV to verify whether the SMME owner does have the relevant educational background to manage a certain business.

- Business registration and ownership documents

Through the content analysis process, participants in the research study emphasised that business registration and ownership documents are very important in the process of applying for loans from the banks.

Participant 2 stressed that companies that apply for funding have to prove that they are registered, because banks do not fund unregistered companies. The participant asserted,

> *"It does, and when we look at both ways, from the SMME point of view, they always need to make sure that they are compliant. And more especially when you talk about the operations, I can mention things like deregistrations, and so on, and so on, meaning that they always need to make sure that their affairs are in order, they pay what is due, you know, their obligations and everything, to stay in business, because we can never do business with a deregistered company, even though their doors is still open, but we don't. And coming to our side, we also need to make sure that our regulations are in place. You know, we look into if the customers… if they meet the requirements, and because we also have an obligation towards those regulations. You know, we also need to make sure that the type of businesses that we do business with are compliant."*

Participant 8 argued,

> *"Everything is linked to FICA, the Financially Advisory and Service Act, so documents required if it is a sole proprietorship it could be ID, proof of residential address, business address, and then we also check credit records. If it is a CC, it would be the same documents, with a registration document at CIPRO, which we will also verify. If it is a Pty, your registration document that you get from CIPRO, that we also verify, check for frauds, and all that."*

Participant 5 confirmed what the previous two participants said:

> *"If it is a sole prop, he gives you his ID and his proof of address and what the business lane is. If it is a registered company, then we need the CIPRO documents and we need the customer's identity or the director's or member's identity plus proof of address."*

From the interview data it is evident that for SMMEs with unlimited liability, an ID, proof of address and a description of the type of business are required. SMMEs with limited liability need to provide proof that they are registered with the CIPC, formerly known as CIPRO. These entities also need to provide information pertaining to their directors and proof of the address from which the business is operating. The documentation requirements are in line with FICA (South Africa, 2001).

- Business plan

Participants in the study emphasised that the business plan is one of the most important documents required from an SMME when they want to obtain a loan. Some participants mentioned that SMMEs must show their business plan segments, including the financial information of the business.
For example, **participant 4** said that *"the application: what they do is just to give me the documents. That's the business plan and the cash flow and your collateral and your personal balance sheet".*

Participant 2 shared that *"in your business plan there will be your marketing strategy, your financials, and your projections as well. No, we definitely look into that".*

- Financial statements

Through the data provided in the research study some of the participants mentioned the importance of having financial statements presented in the business plan. For instance, **participant 8** said,

> *"Financial statements is always a requirement, whether it is an existing or an already operating entity, but for a start-up it would be like your proof balance sheet that you basically, or the start-up basically, put together in conjunction with a business consultant that have assisted you, that will say 'Right, this will be my contribution. Is the balance sheet solvent? What will be my income and expenditure over the forecasted 24 to 36 months?'"*

Participant 7 claimed,

> *"On the financials it will be your financial statements that we need and a comparative year-on-year, and then your cash flow and the projections that we will require. Your*

projections should be for the coming 12 months, from the month that you are applying up until… for the coming 12 months, and then we will also need your management accounts if your financials are more than five months old, and your bank statements for six months."

Financial statement information, current and projected, is perceived to be important when an SMME applies for a loan.

8.4.3.1 Discussion of theme 3: Documentation required to access finance

The interview data collected shows that the following documents are required to access finance: a CV (indicated by one bank), proof that the business is registered with the CIPC (if it is a closed corporation or a company), documents required to be compliant with FICA, financial statements and projections, cash flow statements and projections, balance sheets, management accounts, bank statements, collateral and a business plan.

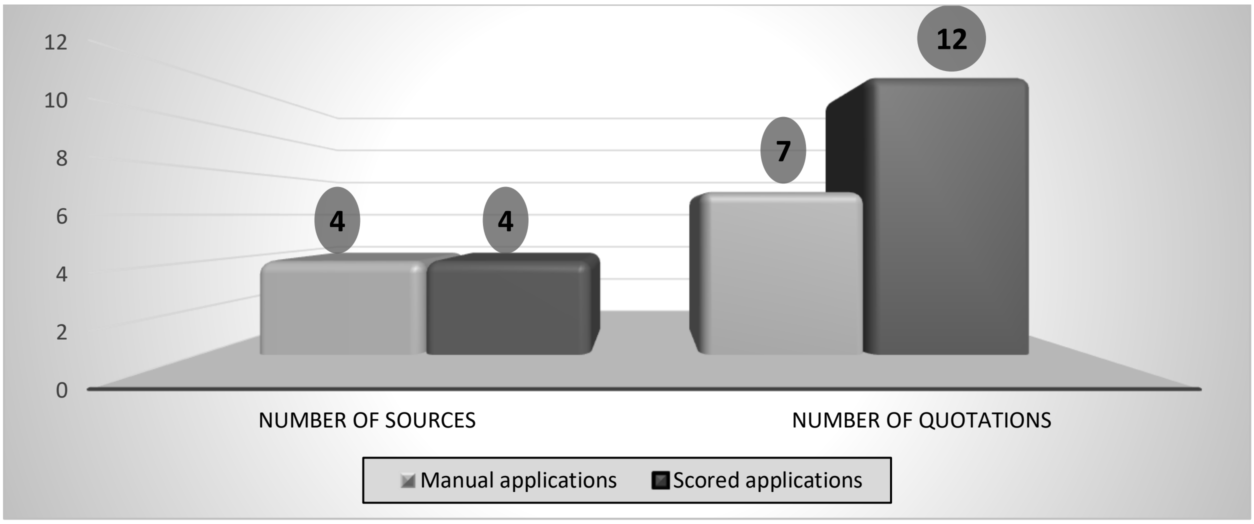
One bank insists that a CV is included so that the academic qualifications of the owner or the director can be scrutinised. This is done to ensure that the academic qualifications are in line with the specialisation of the business. Documentation related to FICA is required, not just for the commercial bank to verify, but also to be compliant with regulations. Besides the business plan, various forms of financial statement data are required.

The above list of documentation is consistent with the Finfind (2018) report and Mutezo (2013). The authors indicate that it is mandatory for SMMEs to provide documents such as your cash flow, financial statements and/or a payslip, a verifiable credit history, a cash deposit and collateral when trying to access finance. The importance of the business plan is highlighted by Pretorius and Shaw (2004). Inappropriate identification to open a bank account is a reason mentioned in the literature (Beard, 2010) for not opening a bank account. According to Demirgüç-Kunt et al. (2018), documentation requirements are particularly problematic for people living in the rural areas or operating in the informal sector, who are less likely to have proof of domicile.

Aspects related to the character (creditworthiness), the capacity (financial statement data and the education and skills of the owner), collateral, owner's equity contribution and the business plan will be discussed under themes 6, 7, 8, 10 and 11.

8.4.4 Theme 4: Processes

The participants were required to explain the processes and procedures followed when an SMME applies for a loan. These processes include the processes followed when the SMME approaches the bank to obtain a loan, and also the processes when the application reaches the regional office. Manual application and scored application processes emerged from the data coding process of the study. Figure 8.4 portrays the number of sources (participants) and quotations in the interview data pertaining to the processing and evaluation of loans, whether scored applications or manual applications.



Source: Author

Figure 8.4 Sources and quotations for theme 4

- Scored and manual application processes

Some participants in the study highlighted how the scored application process works. For example, **participant 2** argued,

> *"It is system-driven. It tells you exactly what to capture, where to capture it. Now that is why we can never do that without the financials, audited financial, because then that is when you… let's say take your total assets, punch it into the system, the number of total liabilities you punch it into the system. We feed the system with every information that we have of the client, and then you click the Enter button, and then all the information comes out, and then it says 'OK, straight approve', and then it goes straight to Credit [the Credit Department]. And then we just submit to Credit [the Credit Department] what we have captured on the system, and then they make their decision, and then they finalise, and then they pay out."*

Participant 4 stated,

> *"I score the application on the system. Everything has to start on the system. So, I populate whatever that I need to on the system. And then if it approves, then I just drop the documents immediately. And then the client signs. And then I load the money*

on the account, right? And then the reason for me to send it to Credit [the Credit Department] is when I scored on the system, and then it refers… it refers, because it is questioning some of the aspects that we look at, you know, what we actually consider for an application to be approved. So when it refers, it means that we have to refer it to Credit [the Credit Department]. So that is when we would need the supporting documents. And also in instances whereby it declines… when it declines, then you see, 'But no, this account should not be declining.' Then you build up your case, why it is that you think it should be approved, together with the supporting documents. Then you send it to Credit [the Credit Department]."

Participant 3 indicated that the process for scored applications is faster than the process for manual applications. S/He said,

"Scored one it is quick. But obviously if you have to put up an application for a… about 7 million-rand facility, it will take you a decent day and a half to do a proper assessment, 'cause, as I said, you need to do your competitor analysis with the client, and you also have to make sure that you understand the industry, what is the risk in the specific industry, and then address it in your motivation. And obviously if there is… there is relations and stuff, is the property valuated, and make sure that there is sufficient collateral based on the loan required".

From the analysis process of the study, some participants explained the manual application process. For instance, **participant 1** said,

"Those are manual applications, where you take everything, where you do a SWOT analysis and all these things, and those the credit analysts prepare. That is a manual thing. Then we send that off to Credit [the Credit Department] in Johannesburg, where in this application you have to do the requests, the historical performance, the conduct of the client, the market analysis, and all these things. So, it is a more in-depth thing. I would say the scoring is… you will not get scoring for more than R2 million."

Supporting the above, **participant 4** indicated,

"I must say as well there are two different applications. For a farmer we do a manual application, but for any other commercial clients we do it on the system. We call it system. Once it has been assessed and the guys are happy at our Credit Department, then they come to say 'OK, approved', or sometimes 'Approved in principle', and obvious that means the… there is a couple of things that we need to sort out before it is finally approved."

8.4.4.1 Discussion of theme 4: Processes

When an SMME applies for a loan facility, the application can be processed through either a scored or a manual process. For the scored application to be effective, all the necessary documentation pertaining to the SMME needs to be present. The information is loaded on a computer system, and the system scores the loan application. If a high enough score is obtained, the application is deemed successful. One commercial bank has granted authority to the business banker at branch level to then arrange to deposit the money into the client's account. Another bank requires the approval of the Credit Department, and only then is the money transferred into the client's account. The process for scored applications is faster than the process for manual applications, and decision-making is thus expedited.

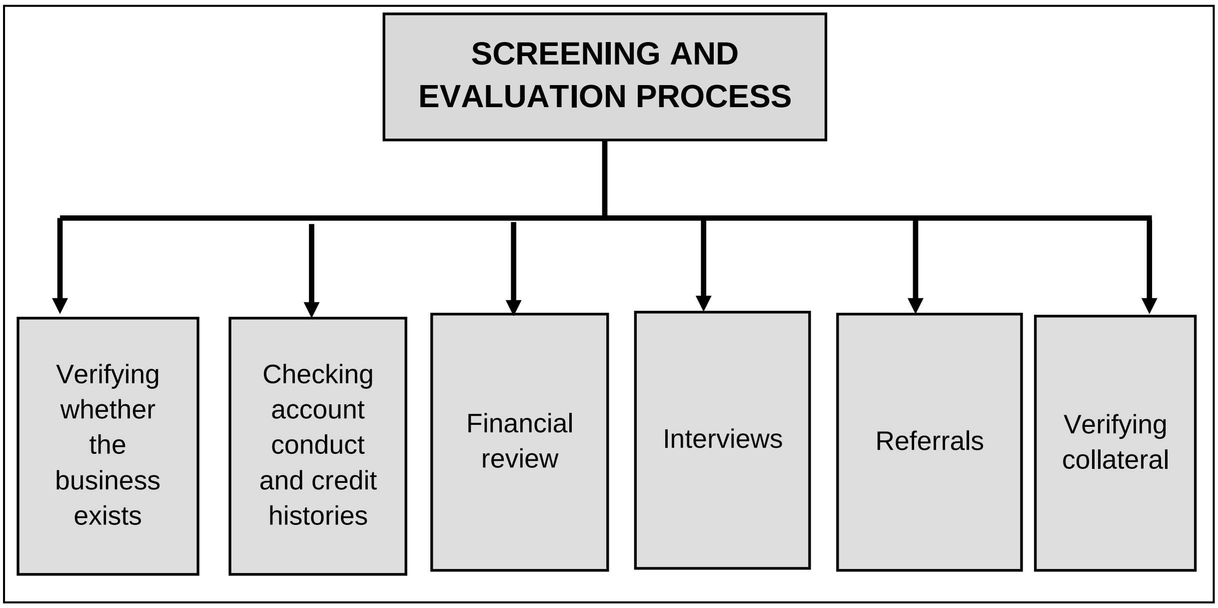
The interview data shows that manual applications are generally used when SMMEs have applied for higher loan amounts. This kind of application requires an in-depth analysis of the SMME. The historical performance and the account conduct of the SMME are assessed and considered. A SWOT analysis and a market analysis are also prepared, the results of which must accompany the loan application. A manual application might also be necessary when the SMME is more complex in terms of its management systems and operations.

Okurut, Olalekan and Mangadi (2011) asserted that commercial banks need to improve their efficiency in terms of processing loans. Their study was undertaken in Botswana. Three of the Big Four South African banks are operational in Botswana (Absa, 2018; FirstRand, 2019; Standard Bank, 2018), which implies that the banking practices followed in South Africa are carried over into Botswana. In South Africa, the scoring system described above is already in place to reduce the time it should take commercial banks to decide the outcome of a loan application. The scoring system can, however, only be effective if all the required information requested by the bank is indeed available. If only a short time has passed before a loan application is denied, it still leaves the SMME owner with enough time to search for other avenues to obtain finance.

Although some SMMEs do have challenges in the way they document their finances (Agwa-Ejon & Mbohwa, 2015; Mutezo, 2013; Smit & Fatoki, 2012), this is not the case for all SMMEs. As such, commercial banks need to provide specifically developed services/products dedicated to those SMMEs that are indeed compliant and that do meet the stringent requirements for accessing a loan. Manual applications are thus reserved for the more sophisticated SMMEs, which fall into a higher turnover category. In this case all aspects of the SMME are analysed in order to make a rational decision as to the granting of credit. Granted, manual applications are more time-consuming, but this negative should be offset by the probability that the circumstances surrounding such SMMEs are more complex, and the potential returns to the bank are more substantial.

8.4.5 Theme 5: Screening and evaluation process

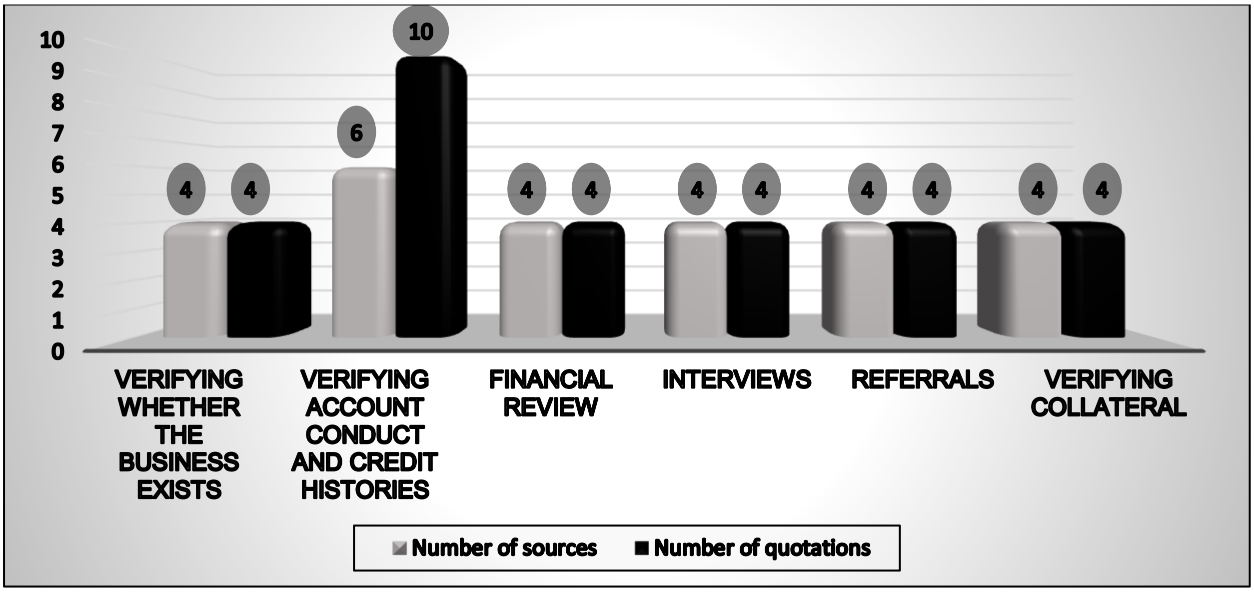
The participants were required to explain how the loan pre-screening and screening typically takes place when an SMME approaches the bank for a loan. The way the loan application is evaluated was also elaborated on. Five participants alluded to the screening and evaluation process, indicated by nine quotes. From the interview data generated in the research study, it is evident that verifying the existence of the business, verifying the account conduct, verifying credit histories, the financial review, referrals, interviews and verifying collateral all form part of the screening and evaluation process. Figure 8.5 depicts the main theme and the sub-themes that emerged from the interview data.



Source: Author

Figure 8.5 Sub-themes emerging from theme 5

Figure 8.6 portrays the number of sources (participants) and quotations in the interview data related to the screening and evaluation process.



Source: Author

Figure 8.6 Sources and quotations for theme 5

- Verifying whether the business exists

Participant 5 focused on the pre-screening process that takes place after the SMME has completed the application documents. Some participants mentioned that the bank will verify whether the SMME exists. For example, **participant 5** mentioned,

> *"The computer looks at if the business is still in existence, if it is a registered company. Then we looking at the company that it is not listed [blacklisted]. So we do credit checks… so we do credit checks on the manager as a director and the company. Both the director and the company needs to be clean on credit. When we do the facility for the registered company, it's like I am the CEO of this company. So if I… my credit scoring is… it's a mess, the possibility of me not be handling the company's finances is there. So both the company and the director has to be on".*

- Verifying account conduct and credit histories

Some participants in the study mentioned that the banks do background checks on the account conduct of the SMME business owner before they actually grant them loans. For instance, **participant 4** mentioned that

> *"your ITC and dishonours in the account, then maybe the statements from the previous bank. If they banked with another bank, get the statements, so that we can actually see how they have conducted their account. But different cases or scenarios: we have find with some of the businesses that they used to have a… maybe a debt or judgment or whatever, and they paid off, but it is not updated with ITC. Then they bring all the proof that it has been paid off and nothing is actually owing. Then we*

send it to Credit [the Credit Department]… then at that point we send it to Credit [the Credit Department], that they must actually approve on the system. Because such instances when it declines, but when you look at the documents, then you see that no, that should actually be approved. Like the one that… the example I am making it actually approved. It declines, but they actually paid off their debts. It says that maybe they have a judgment. Take it to Credit [the Credit Department]. It is Credit [the Credit Department] that has to approve the application on the system".

Participant 5 said, *"The loan pre-screening: what we do is if a customer approach us to do a loan, we check on the system how the customer conducted his account, because we only give loans to existing accounts 12 months and over."*

- Financial review

The data shows that the banks do a financial review by uploading all the information pertaining to the SMME on the system. Through the data analysis process, **participant 8** said,

"It is not a physical application that client completes. We have a system, and then you load all these things on the system. What I do is I write a background on the client. You tell Credit [the Credit Department] who he is, where he comes from, how long has… You put the position of his business on black and white, who's his creditors, is he hiring, did he purchase the premises, how many employees are there, the whole picture, and then you bring in the financials. The optimist report is then generated for you. It does a scoring for you. We call it a XX rating. Then you get a rating, and no one has given me a proper guide on this, but I think it needs to be under 60. If the XX grading is correct… I can show you how an optimist report looks. [She shows the researcher the report.] It really has any ratio under the sun that you can look at. Here the results are consolidated, and then here is a comparable period. Here is three, four years at least, depending how long the client is with you. Here you start with revenue, growth, EBITDA, profit, income, interest cover ratio, EBITDA. So all the ratios are being calculated for you, all the financial ratios. And then it shows you precisely where is there trends, where is there increase, when is it decreasing. Any discrepancies we will discuss here. This here is a health check, so it will go and show you what decreased and what increased. And my part is obviously here. You liaise with the client or the auditor or whoever, and you get feedback on credit, on what happened here, why is it up, why is it down, what changed over the past 12 months in this business. So, this is how the application works."

- Interviews

Participant 10 highlighted that the banks do conduct interviews with the SMME owner to get to know more about their business. The participant said, *"It depends on the client. Sometimes, say a start-up… a start-up will not have financials or anything. They would have sent you a CV, what they have in their minds, their business plans. But you still want to go and see, because some type of start-ups would be 'I have been doing this informally, but now I want to do it formally, and I am applying for a start-up'. So, you want to go and see where the quality of the work, or where they are based, or what they are offering. Sometimes you only interview the owner, sometimes the stakeholders in the business and what the employees are doing."*

- Referrals

Some participants mentioned referral of the application, which banks do when they find faults in the application of the SMME that might lead to a loan rejection. They refer the application to other bank personnel to do the checks thoroughly.

Participant 10 contended,

"Yes, it stops with the banker. We have different decline stages. You can decline at source as and on what you have seen. It could decline at source but with referral. It will be referred to me. We call it referral one-up. So, I will be one-up. They will then refer it to me. So, if there is a chance that I think that we can still send it to Credit [the Credit Department], before sending the application we will sign the documents and say 'Please reconfirm that you are available to be seen'. Sometimes I will see affordability, and somebody else, a credit analyst, will see non-affordability when they analyse the application, because we will have different skits. So it just depends on the complexity of the application."

- Verifying collateral

Participant 4 mentioned that it is important for the banks to check the collateral provided by the SMME and their repayment ability before granting them the loan. H/She said,

"So, we need the documents that I just mentioned, OK? And then there is a two-to-three-pager that you have to fill in. So, the kind of information that they want to know is the amount that is needed, why does the client need that amount? And then the client's profile we also need that. And then we also look at the collateral. Like, we will have to put it exactly what it is and how much it is and what type of collateral it is."

8.4.5.1 Discussion of theme 5: Screening and evaluation

The screening process starts with verifying whether the business exists and whether it is registered. The account conduct at the bank and the credit histories are also assessed, to determine the financial background of the SMME. The need for a loan is then established, as well as how much the client wants to borrow, and this is verified against the collateral that the SMME can provide. Financial statement data is loaded onto a computer system to determine various ratios and trends based on the historical data provided. The outcome of the financial data captured is then discussed with the SMME owner, and their auditor if need be. A report is then compiled and is submitted to the Credit Department for approval.

One participant indicated that specifically with SMMEs that want to start up, interviews are held. Information presented in the CV and the business plan is verified, as financial records are not available. Interviews are also held with other potential stakeholders in the business.

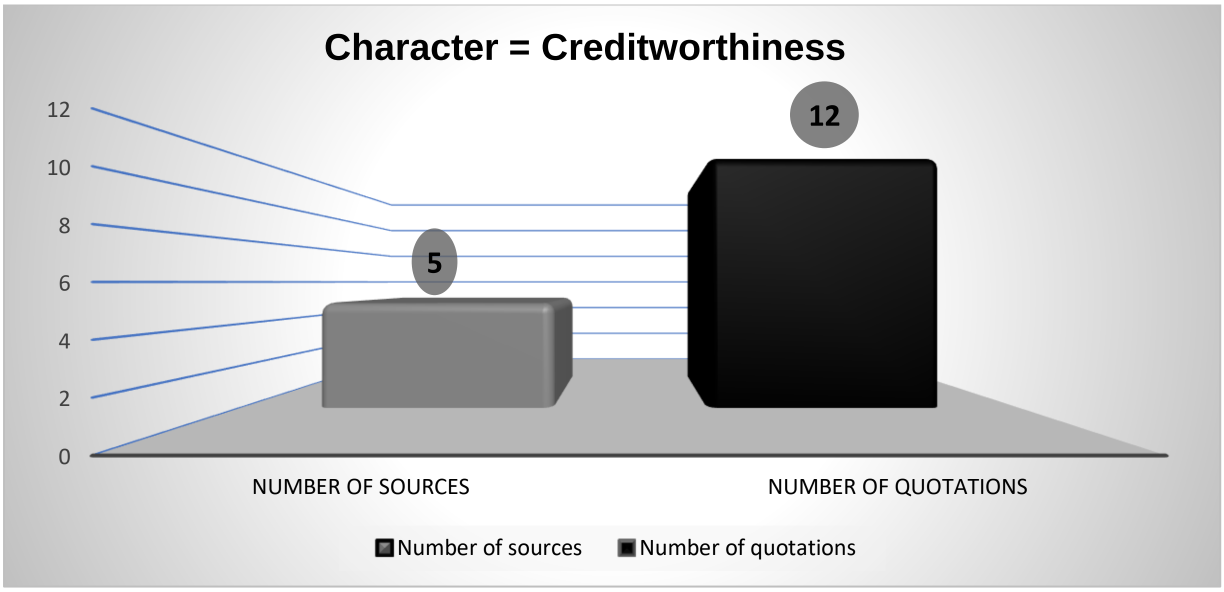
When an application is declined at source but with a referral, a business banking official with higher authority evaluates the application. The application is forwarded to a credit analyst, and between the recommendation of the business banking official and the assessment done by the Credit Department a decision is reached to either approve or deny the loan.

The screening and evaluation route that is followed to determine whether the loan application is successful is similar to what is reported by Mutezo (2013). The importance of the SMME being creditworthy and having financial statement data to determine the capacity of the SMME, collateral and a business plan will be discussed under themes 6, 7, 10 and 11.

The literature explains the practice of the “Cs” of credit being used to determine whether a loan or credit product can be granted (Abor et al., 2019; Baiden, 2011; Mutezo, 2013; Smit & Fatoki, 2012). Credit assessment entails a process of considering the character, the capacity, the capital and the collateral of the SMME owner, together with the market conditions. The business plan is an important supplementary document that is considered and analysed during the loan application process. In the following section the main theme and the sub-themes emerging from the interview data pertaining to the above aspects will be explored, as they have a bearing on the assessment of the SMME owner’s ability to repay the loan.

8.4.6 Theme 6: Creditworthiness

The character of the SMME owner is determined by the creditworthiness of the owner and/or the director. During the interviews, the creditworthiness of the SMME owner was reported as being very important when applying for a loan or credit. The creditworthiness of the SMME owner establishes this individual’s willingness to meet the loan obligation based on the history of the management of their credit. Figure 8.7 depicts the number of sources (participants) and quotations for the theme “creditworthiness”.



Source: Author

Figure 8.7 Sources and quotations for theme 6

- Creditworthiness

Most of the participants in the study mentioned that the creditworthiness of the loan applicant is determined by ITC checks.

For example, **participant 1** said,

> *"Obviously, it is very important, but you get applicants that is on ITC or has judgments and all these things. It also depends. It is a case-by-case thing. If it's like guys that did not pay rent for one month, things like that (we see a lot of that, like R5,000 and things like that), that is fine, we do accept it. We just need proof that it was paid, and usually the High Court, the case outcome basically, the judgment. And what we picked up a lot of times is that some of these clients don't even know that they are blacklisted or whatever. And then that thing is captured and it is been since 2004. And now he comes to apply. And then this thing pops up."*

Supporting what the above participant said, **participant 2** mentioned,

> *"We have got different vehicles in the industry, or in our organisation. A normal credit [credit application route] will decline if a client has missed [repayments] and is on ITC. And then we have another one, which we call Enterprise Development Centre. It's also a unit that takes care of enterprises, you know, your small, medium enterprises, who would look into those applications, that is, business creditworthiness, you know, and most of the time we would find out they are listed [blacklisted] on ITC. However, we look at if there are any arrangements in terms of repayment and if there is an agreement between the SMME and the service provider whom they owe. If there is*

such an agreement, then we always look at that application, and obviously then we turn to take a detour, instead of going the normal credit [application] route, and then we will go for alternative funding."

Echoing the above, **participant 3** argued,

"If there is a trend of non-payment, then obviously it is a risk for the bank. But if there are reasons, and the [computer] system indicates that, it has to be referred or be declined. But if the banker feel that there is a merit, he can still do a motivation and then provide reasons to the Credit [Credit Department], whereby it can be overridden based on the motivation."

Supporting what the above participants said, **participant 10** indicated,

"Creditworthiness is not only based on your Experian or ITC score. We use both and… both Experian and ITC. However, creditworthiness has to do with your own business, the profitability of the business, the liquidity in your own business. We do multiple ratios to check if you do… going to be liquidated in a year to come or in two years to come. And that is also testing if you still will be affording. And then it is not only based on your financials, because your financials could be that you made profit last year. But the fact that you made R2 million profit last year does [not] mean that you going to make the same [this year]. Probably last year there was some once-off transaction that you made R2 million or 1.5 [R1.5 million]. Or maybe you sold part of the building. That is why you had that money."

8.4.6.1 Discussion of theme 6: Character – creditworthiness

Creditworthiness emerged as another major theme from the participants that is considered by commercial banks. The character of the SMME is determined by the creditworthiness of the owner and/or the director, as well as the business itself. In order to establish whether the SMME will be able to meet the loan obligation, the credit history of the owner and/or the director in their personal capacity and the business are considered.

A decision on whether the SMME qualifies for a loan can be made at this stage. A loan application can be rejected at source, that is, the first level of decision-making, being still at branch level. But if the SMME owner can prove that defaults on previous credit obligations have been rectified or satisfactory arrangements for repayments have been made and the business shows promise, a motivation is prepared and is forwarded for approval at the next level.

One of the interviewed banks indicated that in cases where the ITC record of an SMME owner is impaired, alternative sources of funding can be made available – if the business shows convincing viability. SMMEs could otherwise have a negative ITC rating due to a judgment that was settled years ago but the computer system has not been updated. In such instances, motivations for loans are likewise prepared and forwarded for approval. Thus, it seems that the issue of creditworthiness is determined on a case-by-case basis.

According to Evans (2005), a business owner's character is determined by the owner's credit score. Since commercial banks do not have the time and the resources at their disposal to judge character, the credit score becomes an instant substitute for judging the trustworthiness of the loan applicant. Furthermore, the author states that the loan applicant's creditworthiness is determined at the screening stage of the intended loan application. This is mainly done by means of ITC checks. Other credit bureaus are also utilised for this purpose. The findings obtained from the interview data in this study are thus supported.

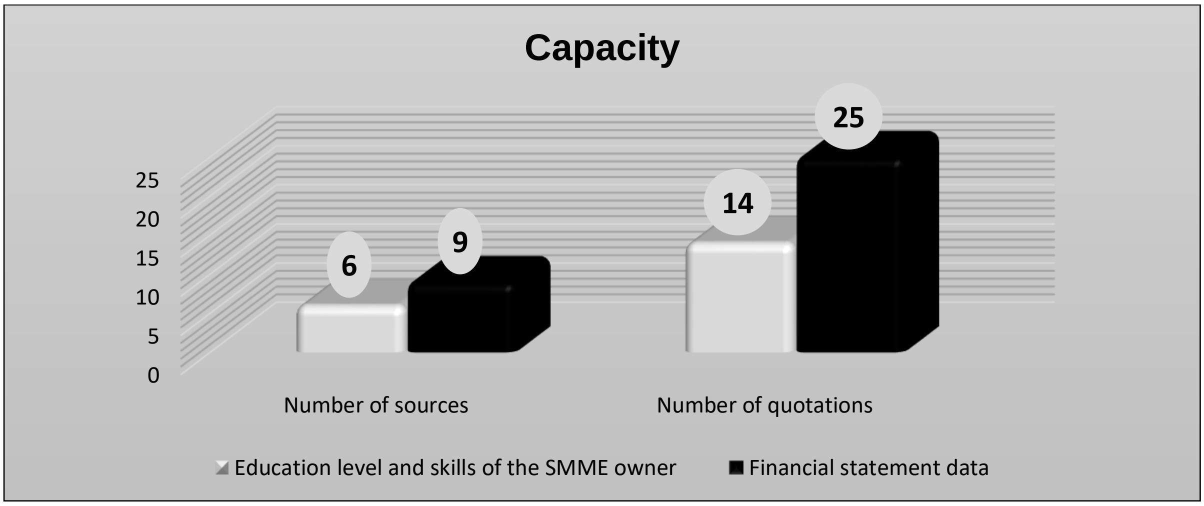
Mutezo (2013) reports that in South Africa SMMEs that are not creditworthy are completely excluded from obtaining loans. This contributes to credit rationing. In a further study, Mutezo (2015) reported a significant positive relationship between the creditworthiness of the SMME and their access to bank credit. This association was also reported by Mahloana (2019). The findings of Mahloana (2019) and Mutezo (2015) support the relevance of creditworthiness as far as the interview data processed in this study is concerned.

The interview data also shows that commercial banks do assist SMMEs that have challenges regarding their credit records if the business shows promise. This assistance is, however, always offset by their primary responsibility, namely to protect the interest of their shareholders. Thus, maintaining a good credit record is of the utmost importance for SMMEs if they intend ever to obtain loans from commercial banks.

8.4.7 Theme 7: Capacity

The participants were required to elaborate on the importance of financial statement data and the types of financial statement data that influence the final outcome of the loan application. The participants were furthermore required to elaborate on how the education level and the managerial competencies of the SMME owner or the director influence the final outcome of the loan application. The literature indicates that financial statement data and the education level and managerial skills of the SMME owner determine the capacity of the business (Baiden, 2011).

Figure 8.8 shows the number of sources and quotations obtained from the interview data regarding the importance of the education level and skills of the SMME owner and their financial statement data.



Source: Author

Figure 8.8 Sources and quotations for theme 7

- Education level and skills of the SMME owner

Some participants in the study mentioned that the education level and skills of the SMME owner have an influence on loan approval. For instance, **participant 6** asserted,

> *"Education does play a role. A lot of our farming clients have got no education. They've got a matric. They did not go study a BSc, agricultural economics or anything like that. Some of them have marketing diplomas and business diplomas, but a lot of them have… they have got history. They are the third- or fourth-generation farmers. If you think about it, let's say it is a start-up business. This person has got a matric, and he comes out and he wants to start up in a transport or a logistics company. His risk of failure is a lot higher than someone that's, like, a well-known business who has made it, which is someone who has been in the business for a…* x *amount of years who knows the industry well, you know. So it does play a role."*

Participant 10 claimed,

> *"It [education and managerial skills] does have an influence, especially with the start-ups, because if you are in a start-up and you are the jockey and you do not have the right experience or you do not have the right product knowledge on what you will be producing or selling, there is no chance of that business surviving, or even if you can have a person that is supporting you. You need to have the right experience and the right exposure for what business you will be conducting."*

Confirming what the above two participants said, **participant 3** indicated*, "So one important thing also is obviously the jockey itself. So if an SMME enters into a new venture,* *we as the bank will like to know what his experience and his knowledge regarding the industry”*.

Participant 2 explained,

> *“Let’s say a client comes in. It’s a new client, who don’t have a history, you know. And then we base our judgement on the jockey himself. We look at his qualifications as well, how well does he know the business world, has he studied. Those things are also important.”*

- Financial statement data

Most of the participants in the study mentioned that the financials (financial information) of the business are very important and have an impact on the approval of loans. Supporting this, **participant 3** argued,

> *“We use the financial statements to make sure that the company is solvent, as well as whether the company will be able to repay, based on the turnover. So, we look at the financial statements, obviously we look at the cash flow, and we also look at if there is future income. We look at the projected 12-months income and expenses. So, that projected cash flow and income statements give us an indication on whether the client will be able to service the loan and the repayments on a monthly basis. Then obviously the personal assets and liabilities of the directors.”*

Echoing this, **participant 5** indicated,

> *“The repayment ability is very important, is our number-one focus. If we give you R10 million, will the business be able to pay this R10 million back? The way we determine that is to… how many assets, the value of the assets that the business is having, which is anything that belongs to the business. Are your assets higher than what you are borrowing? That is number one. Number two: your annual income, the profits that the business is making. Is it justifiable enough to pay this, because will you be able to carry what you are borrowing? So, we have calculations what we are doing, where we are saying if the profits is so much in 12 months [and] you pay us what we are borrowing [lending] you now, will the business still survive?”*

Confirming what the above participants said, **participant 10** explained,

> *“The client has an existing business trading. He then give us his annual financial statements so that we can see how the business has been doing. We then say we want your cash flow projections, including repayments of the loan that you are wanting to take, to see is it going to be repaid, is the repayment ability evident? Then we say if you are saying that you going to grow this business of yours from a turnover of R2 million to a turnover of R3 million, that is why you need the money. How are you going to get to do that?”*

Participant 1 asserted,

> *"We basically look at three things there: the balance sheet, your income statement, and your cash flow statement. If I look at the balance sheet I would say the bank looks at ratios basically, your gearing ratio, cash-to-debt ratio, your solvency, and your liquidity. In terms of cash (the trade cycle), we look at… there is different dates in which the debtors pay: accounts receivable, when a SMME collects, when a SMME settle debt, that whole cycle."*

8.4.7.1 Discussion of theme 7: Capacity

The literature indicates that capacity includes the SMME's ability to generate and manage cash. Financial statement data is considered in this regard. Capacity also includes the borrower's capacity in terms of managerial experience, thus including the borrower's education level and their skills and training for the enterprise (Baiden, 2011). As such, in terms of capacity, the above-mentioned aspects, namely financial statement data and the education level and managerial competencies of the SMME owner, emerged as secondary themes from the interview data, the main theme being the determination of the capacity of the SMME.

In terms of financial statement data, the participants indicated that the bank, in the first place, needs to determine whether the SMME is solvent. The commercial banks indicated that they require annual cash flow statements, income statements, including the turnover and the profits, and the balance sheets of the SMME. Future projected cash flow and income and expenses after the loan has been serviced also need to be provided. The assets and liabilities of both the SMME owner and the director in their personal capacity, and those of the business as a separate entity, are also considered. The repayment ability should then be evident.

Various other ratios are calculated, including the gearing ratio, the cash-to-debt ratio, the liquidity ratio, the interest cover ratio, EBITDA and the trade cycle, as indicated by two participants. Depending on the age of the SMME, trends are then determined in terms of revenue, growth, profit and income. Trends showing either decreases or increases in turnover or profit are then discussed with the loan applicant.

Hard evidence in the form of financial statement data must be provided to show the repayment ability of the loan. The findings are consistent with Pretorius and Shaw's (2004) study, where it was indicated that two of the Big Four banks focus strictly on the financial statement information, which corresponds with what is reported by the participants in this study.

It should be noted that new SMMEs and SMMEs from previously disadvantaged communities could find it challenging to provide the bank with accurate, realistic and sufficient financial statement data. This has the potential to reduce their ability to reap the benefits of expanding and growing by means of accessing loans from commercial banks.

In terms of determining capacity, the interview data shows that managerial skills and education are extremely important, especially for SMME start-ups when they request credit from commercial banks. Furthermore, the data shows that in cases where a different commercial bank which is not familiar with the SMME's trade history gets involved, the education level and managerial skills of the "jockey" are used as an ancillary measurement to judge whether a loan should be granted, as indicated by one participant. The education level and experience of the loan applicant could thus be used as a substitute for the lack of a track record by the bank at which the loan is applied for.

It is further reported by participants that lower levels of education and knowledge increase the SMME's chances of failure, and thus raise the risk of loaning to these entities. For one bank the education and training of the SMME owner are so important that they require the SMME owner to include a CV as part of the documentation for a loan application. The qualifications are then verified with the relevant education or training authority. One participant noted that the SMME owner needs to have *"the right experience"*, *"the right product knowledge"* and *"the right exposure to business"*.

The above findings correspond with the findings of Herrington et al. (2010) that a lack of education, managerial skills and experience is a factor that limits the SMME's ability to access loans. Mahloana (2019) similarly reported a statistically significant association between access to credit and the experience of the SMME owner.

The results of the interview data are also supported by a study undertaken by Fatoki (2014). In this study in-depth interviews were held with the bank officials responsible for approving credit at the Big Four commercial banks situated in Johannesburg. It was reported by one of the officials that loans will only be approved if the borrower understands the business and is perceived to be competent.

According to Fatoki (2014), managerial competency, measured by both education and industry-specific experience, has a positive impact on the performance of a new SMME, and consequently on its ability to access credit. Thus, as the business experience of the SMME owner increases, so does their consequent ability to access finance. SMME owners should therefore take responsibility for improving their education and managerial skills, as this could contribute to their future ability to access finance from commercial banks.

8.4.8 Theme 8: Capital

The literature indicates that capital is synonymous with the owner's equity contribution (Baiden, 2011). The participants were required to explain the importance of the SMME owner's ability to provide equity, from the perspective of the commercial bank. Six participants mentioned the importance of the owner's equity contribution. The total number of quotations that referred to this aspect was 17.

From the information derived from the coding process, most of the participants alluded to the importance of the ability of the SMME owner to provide an owner's equity contribution. Participants indicated that the quantum of the owner's equity contribution is determined on a case-by-case basis.

For instance, **participant 1** explained,

> *"So, it also is a case-by-case basis. But it also helps to be honest. If you can give a contribution it shows commitment from the client as well, and that is what you want to see. There it is 50:50, sometimes 70:30. Sometimes we did full [amount]. Yes, the client does not have to contribute anything. But then you look at contracts and all these other stuff."*

Adding to what the above participant said, **participant 2** argued, *"It depends on the product as well. You find that sometimes they will only contribute 10%, their own contribution. It depends. Sometimes we give 60, they give 40. Sometimes it's 10:90 and 20:80."*

Participant 3 added,

> *"It actually depends on… you find that some of the owner's equity or owner's contribution can be in the form of an asset or whatever the case may be. So we look at… we don't want to be, or any other bank don't want to be, whereby we invest in the business more than what the owners are investing. So I cannot divulge, or to give you the ratio. So some of them 70:30. It depends on the assets. Some of them it is 50:50. It depends."*

8.4.8.1 Discussion of theme 8: Capital

The interview data shows that the owner's equity contribution is a recurrent main theme and is important for commercial banks. Matanda (2010) maintains that the bank will rarely lend more than what the SMME owner is prepared to contribute. The owner's equity contribution shows commitment. One participant mentioned that the bank expects the owner to invest the same quantum as what the bank is contributing. This shows that the commercial bank will only invest if the owner is prepared to invest. The question that thus arises is whether the bank should carry all the risk if the SMME owner is not also prepared to take a risk. Thus, it can be argued that if the owner is sure that the business will be viable in future, the cash commitment is a way of communicating this to the commercial bank.

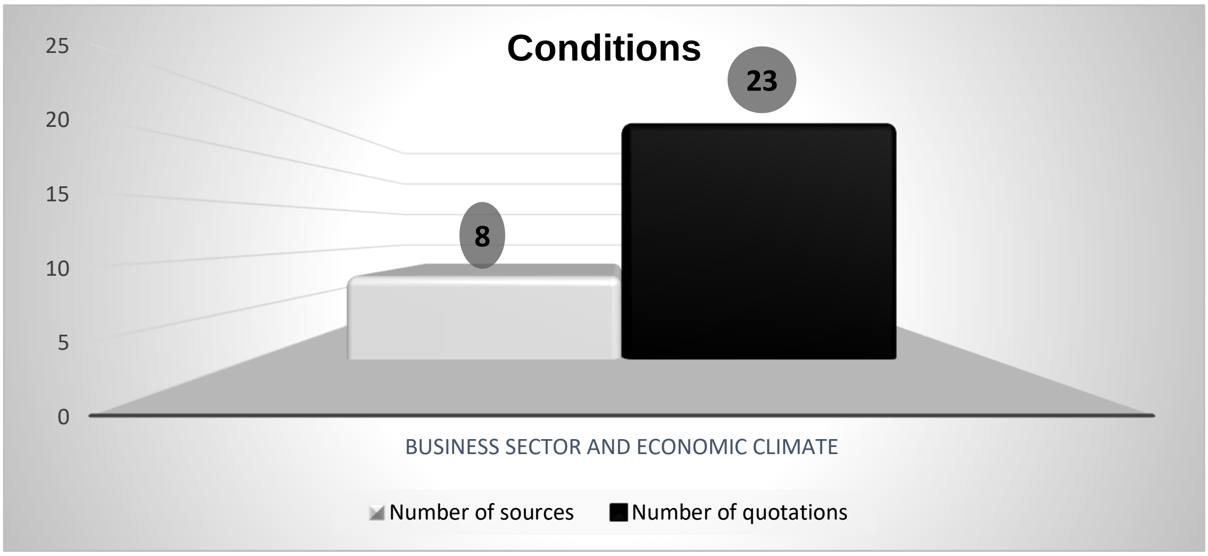
Other participants stated that the ratios of owner’s equity contribution differ, and that the quantum of the owner’s equity contribution is determined on a case-by-case basis. As such, various ratios were reported pertaining to equity contributions. Pledging assets was mentioned as another way in which owners can contribute towards their projects. One participant mentioned that in some cases owner’s equity contribution is not required, but then other aspects, such as having contracts to supply a product or deliver a service, are considered.

The interview data collected from the participants is supported by the findings of Pretorius and Shaw’s (2004) study, where an uninhibited cash contribution by the SMME owner is important, as reported by both junior and senior credit managers employed by the Big Four commercial banks. Mutezo (2013) explains that it is mandatory for an SMME to put down a cash deposit in order to access a loan. The author further explains that the owner’s equity contribution requirement could be another form of credit rationing. Fatoki (2014) asserted that for SMMEs generally to improve the availability of debt, new and existing SMMEs anticipating a need in this regard must plan and save in advance so that they in due course can be able to offer suitable equity and/or contributions. Thus, SMMEs need to plan ahead to be investment-ready. If an SMME is unable to make a contribution, a loan facility will rarely be provided. This could be the reason why SMMEs perceive the process of applying for access to loans and credit as cumbersome, as they do not always have sufficient equity to contribute.

8.4.9 Theme 9: Conditions

The theme “conditions” relates to the market environment in which the SMME operates. Through the data analysis process, the impact of the business sector in which the SMME operates and the economic climate emerged as a sub-theme under the main theme of conditions.

Figure 8.9 depicts the number of sources and quotations related to the sub-theme that emerged from the interview data in relation to the main theme of conditions.



Source: Author

Figure 8.9 Sources and quotations for theme 9

Most of the participants in the study highlighted the business sector and the economic climate in which the SMME operates as an important factor in getting a loan approved. For instance, **participant 8** indicated*,*

> *"Sector, ja. Let's take agri, the seasonality of the business. You take a look at that. If you take the transport industry, obviously you can see that their gearing ratios is much higher, because they rely on finance, and what they do finance is vehicles. I mean it is trucks, horses and tailors, and so on. So, ja, you do need to look at your market, and you do need to know your local market, the Offsetters, who they're contracted to."*

Confirming what the above participant said, **participant 1** contended,

> *"We look at that. Stringent. Like I told you now, we actually get feedback from head office, where we look at stats and the performance and what's in the news and with the Basil Read and all these guys. We now lately decided at this point is that construction is not what we want to play for now. We not going to play in that segment, your leisure industry, hotels and all these things. So that gets assessed on a month-to-month basis. Look, the bank has certain segments where it wants to grow and where it wants to stay. In the current economic performance, we look at GDP and all these other things, where we want to play."*

Supporting the views of the above participants, **participant 9** asserted,

> *"You know, you can never standardise it, because you got different sectors. For instance, the wholesale, retail, you know, franchise, you have got your construction companies. So you have different sectors. And each sector have their own gradings,*

hence then it is important for us when we got an application or a loan application or a facility we specifically look into this sector what this SMME is all about and what do they do. Hence then we base our decision on that."

Participant 2 claimed,

"Absolutely, because you get sectors that we regard as high-risk in our industry, and we have got sectors that you feel 'You know what? This is worth trying', and so on, depending as well on the environment that we are in, you know, because obvious you cannot have a farming sector in the city or, you know, things like those. And hence then in our industry it is very important that we look at the sector."

Participant 3 said,

"Definitely if you look at agri… if there is certain trends in certain environments, then our risk appetite will not be that much. So we will be very cautious when lending, because of the specific risk appetite. I mean all the banks I have worked for… I am now working for… all the banks base their criteria differently. Just after the [FIFA] World Cup, guest houses were seen as being high-risk, because there were too many guest houses. So, you know, not all of them survived."

In terms of the economic conditions in the Matjhabeng (Free State Goldfields) area specifically, **participant 8** highlighted,

"There has not been much development in Matjhabeng in the last couple of years, and with the mining sector in such a mess, and most of the businesses are relying on these minings. And so, ja, we have a lot of applications, guys wanting to borrow, but unfortunately you cannot."

Participant 9 added:

"People are in difficult times. There are businesses who have been in existence for years. It is a vicious cycle, especially with… when the guys worked with the mines and they do not get their payments. It is those guys who is suffering. So, the guys who work with the mines do have it challenging."

8.4.9.1 Discussion of theme 9: Conditions

Another main theme that emerged from the interview data is the conditions of the market in which the SMME operates. Conditions include the economic climate and the business sector in which the SMME trades. Matanda (2010) explains that the commercial bank needs to offset the optimism of the borrower against the real prospects of the venture succeeding, taking the market conditions into account. According to Baiden (2011), conditions as factors include variables such as interest rates, employment indicators, growth expectations, changes brought about in the market because of technology enhancements, and the state of the local economy.

One participant in the study indicated that the head office provides them with statistics on the performance of the economy on a regular basis. Trends in the economy are thus established, and, as such, these officials stay informed. Another participant indicated that the bank has a certain risk appetite, and therefore the bank has preferred sectors in which they would like to invest.

Economic conditions vary from industry to industry and from borrower to borrower, according to Baiden (2011). This is taken against the backdrop of the seasonality of business, as well as local trends evident in the market. Financial ratios are also influenced by the type of sector in which the SMME operates, as explained by one participant, who indicated that the sector of operation influences the gearing ratio of the SMME, which is the owner's equity contribution in relation to funds borrowed.

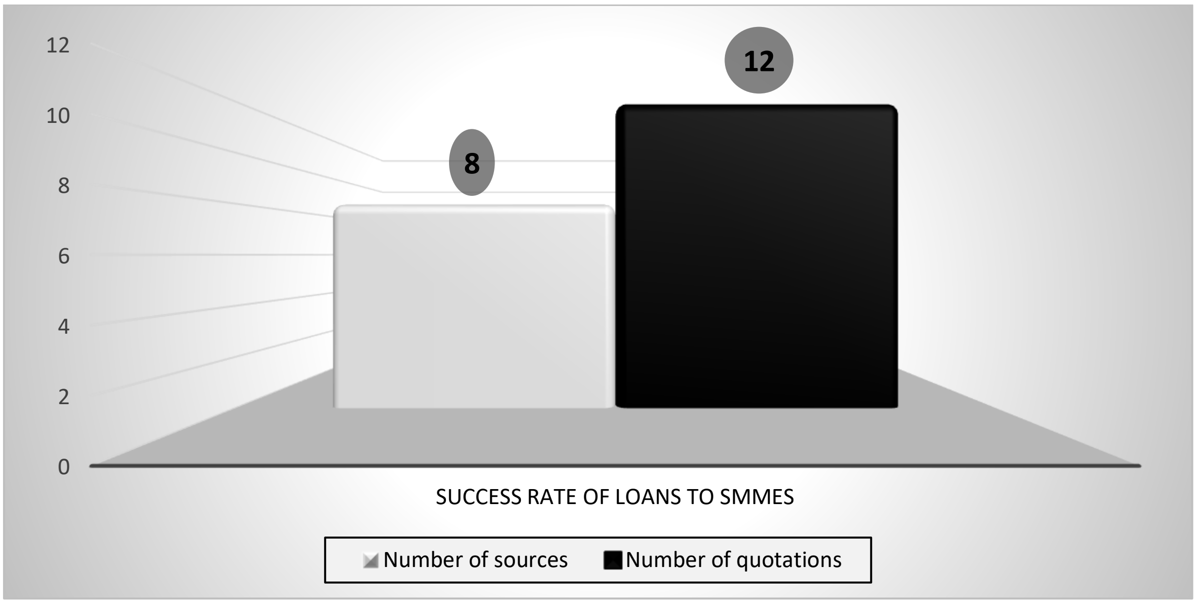
The decline in the mining sector in the Matjhabeng area was mentioned by participants as having a negative influence on business growth. This is particularly relevant to businesses that rely on the mining industry for their survival. As the economic conditions in the Matjhabeng area have deteriorated in the past 20 years, the trend of low growth is not conducive to start-up SMMEs and established SMMEs that wish to access loans from commercial banks. As such, access to loans in this particular area can be seen as challenging.

Participants furthermore indicated that they regularly do site visits to enhance their understanding of the operations of the SMME in a specific environment, as was noted in section 8.4.2.2. The findings from the interview data are supported by the findings from Mazanai and Fatoki's (2012) study and Pretorius and Shaw's (2004) study that the location and the sector of operation are considered important aspects when loans are granted to SMMEs.

Conditions also include the number of loans that have been approved or rejected in a specific area (Baiden, 2011). Themes 10 and 11, namely the success rate of loans and the reasons for loan rejections, emerged as main themes. These themes will be discussed in the following two sections.

8.4.10 Theme 10: Success rate of loans to SMMEs

The participants were required to elaborate on the success rate of loans in the past three years. Eight participants mentioned trends in the success rate of the SMME loans in the area. Information provided by the participants indicates that the success rate has improved over the years. Figure 8.10 portrays the number of sources (participants) and quotations related to the success rate of SMME loans in the interview data.



Source: Author

Figure 8.10 Sources and quotations for theme 10

Concerning the success rate of SMME loans, **participant 3** asserted,

> *"There is definitely… obviously we get measured on year-to-year growth. If I look at the yearly growth, there has been a substantial increase. Obviously we are granting more loans than what we granted last year, if I can say so."*

Confirming what the above participant said, **participant 5** contended,

> *"I think it have increased. Even now starting with last year the bank has implemented another system of you come as a sole prop, we search whatever we are searching, it approves immediately, so the rate [time] at which we are trying to help our customers to grow has been halved for sole members and sole directors. That has improved a lot."*

Participant 2 stated, *"Yes, there is more. Yes, it is definitely more. There is an increase."* However, some participants felt that even though the success rate has improved, the improvement is not sufficient. This is supported by **participant 1**, who mentioned, *"Yes, it did improve, but it is not where it is supposed to be, according to my personal opinion."*

Confirming what **participant 1** said, **participant 7** argued, *"In the past three years, steady increasing, not rapidly, because there has not been much development in Matjhabeng. So yes, there was an increase [in loan applications], but you can't say that the approval rate increased."*

8.4.10.1 Discussion of theme 10: Success rate of SMME loans

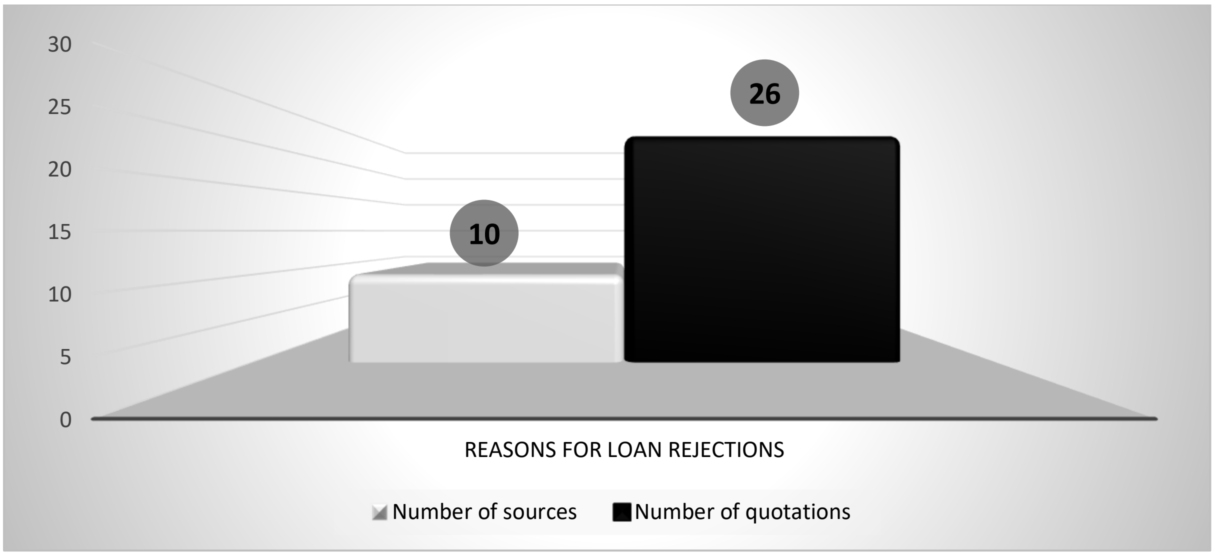
From the interview data obtained most of the participants indicated that the success rate of loans has steadily improved when compared to the previous year. It was indicated by one participant that a commercial bank has implemented an improved system to reduce the processing time for loan approvals, particularly for sole proprietors and sole directors. This change has resulted in an improvement in the success rate of loan applications.

Another participant mentioned that although the success rate of loans to SMMEs has improved, it has not improved sufficiently. However, contrary to the aforementioned response, another participant said that the number of loan applications at their bank has increased during the past year, but that due to the low growth prospects in the Matjhabeng area, the effective approval rate of loans has not improved.

It is encouraging to be able to deduce from the interview results that most of the participants are of the opinion that granting of loans to SMMEs has increased. The NCR (2011) reported that only 25% of SMMEs that applied for loans from banks were successful in their applications. Yet, the quantitative data in this study shows that 68% of SMMEs who have applied for credit or loans since business start-up were successful in their applications. This to some extent demonstrates the progress that commercial banks have made to assist SMMEs with loans. Yet, for SMMEs operating in Matjhabeng it could be argued that the economic climate contributes negatively to their ability to access loans.

8.4.11 Theme 11: Reasons for loan rejections

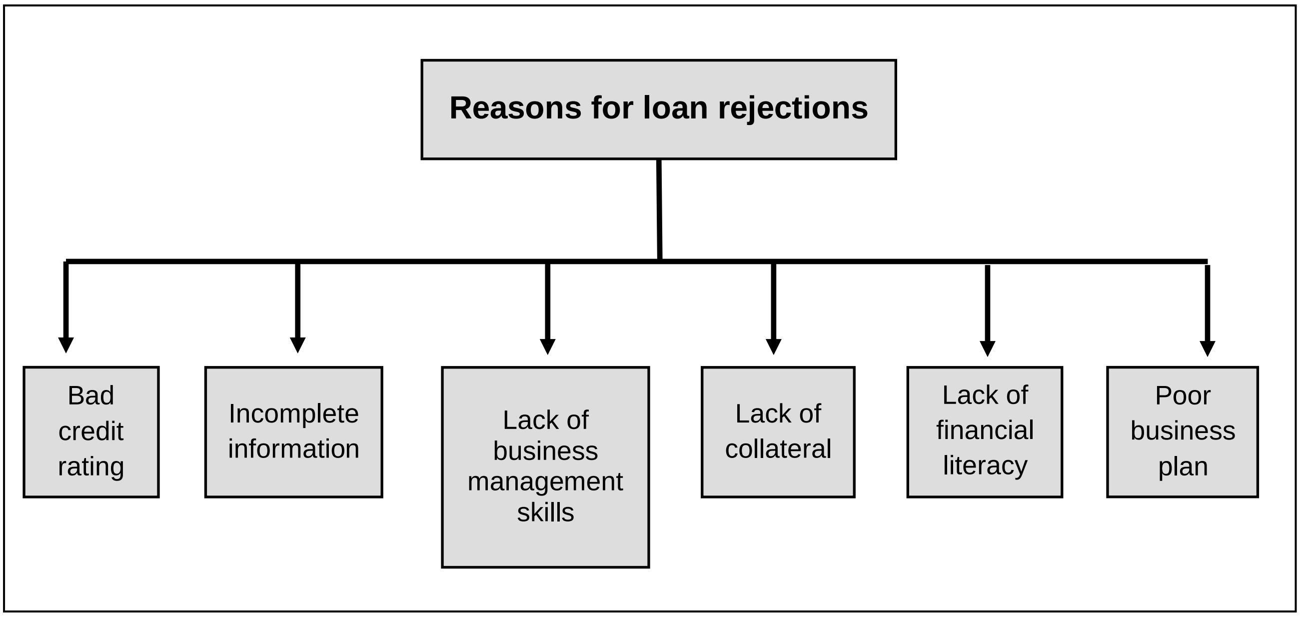
Participants were required to indicate the main and the common reasons for SMME loans being unsuccessful. The rejection rate of loans in an area has an impact on how the commercial bank assesses the market environment in which SMMEs operate. All the participants provided reasons for rejections of loans. Figure 8.11 depicts the number of sources (participants) and the number of quotations in the interview data related to the reasons why loans are rejected.



Source: Author

Figure 8.11 Sources and quotations for theme 11

From the content analysis process of the study, participants listed the reasons for loan rejections. Figure 8.12 provides a breakdown of the sub-themes emerging from the main theme, namely reasons for loan rejections.



Source: Author

Figure 8.12 Reasons for SMME loan rejections

- Bad credit rating

Some participants in the study mentioned that a bad credit rating is associated with an inability to access funding in the form of loans from the banks. This is supported by **participant 2**:

> *"But we look at the jockey. Now, for instance, if the owner of the business is on ITC or he has got a bad credit record, then it raises questions, you know, how he runs a business if he cannot run his own personal finance. We decide based on that as well. A normal credit [credit application route] will decline if a client has missed [repayments] and is on ITC."*

Confirming the above, **participant 7** stated, *"It could be late payments that happen."* **Participant 10** said, *"Most businesses were dependent on the mining sector. So, the closure of mines made them to be in arrears. Most of the debt that they already have acquired. Now they are dented in their credit standing."*

Supporting the opinions of the above participants and noting that each application is assessed on its own merits, **participant 8** claimed, *"ITC can also sometimes… as a result, they can reject if you cannot prove that the judgments and defaults have been sorted out. But, again, it is also from a deal-to-deal basis."*

- Lack of information

From the information provided through the coding process, participants mentioned that the lack of information serves as a barrier for the banks to make more informed decisions in processing loans. Confirming this, **participant 7** argued,

> *"Yes, it does play a role, and we do assist, because we need to have all the available information at hand in order to establish the viability and sustainability of that specific business. If you lack information, you won't be able to make an informed decision, and that's why most of applications gets declined on those basis: either inability to make an informed decision due to a lack of information."*

Supporting the above, **participant 6** claimed,

> *"I would say the lack of historical information, financials, because if there is no history in terms of how the business has performed with financials the past three or four years… So often we find that the information is not there."*

Corroborating what the above two participants said, **participant 8** indicated,

> *"Many times it is affordability, lack of financial info, but the major thing, according to me, is affordability and financial info that is not up to date. And then you cannot prove that this client will be able to pay."*

- Lack of business management skills

A few participants in the study mentioned lack of business management skills as a condition that hinders SMME owners from getting funding from banks. For example, **participant 3** said,

> *"So, it's a struggle for SMMEs to get finance. The reason for that is that they sometimes do not have the right necessary skills. So, you will get that they will come and ask for lending without even having appointed a bookkeeper, and this is specifically where the turnover is less than R5 million, specifically tenderpreneurs."*

- Lack of collateral

Through the content analysis process, some of the participants mentioned a lack of collateral, or security, by the SMMEs, which generally has a negative impact on accessing funding from banks. For example, **participant 1** said that *"the reason why a lot of guys do not get funding in the normal stream is security (collateral). Now this SMME is basically… almost partially unsecured lending"*.

Supporting the above statement, **participant 7** said, *"In our region, which is the Matjhabeng region, is the collateral that is not available most of the time."*

Participant 8 cautioned that although security is important, security only enables the bank to have a back-up plan in case the loan is not repaid, *"Security does not make a facility good, so if a guy does not have security… security is just a back-up plan, but it does not repay the facility."*

- Lack of financial education

Some participants in the study mentioned a lack of financial education as a barrier preventing SMMEs from accessing financial assistance. For instance, **participant 1** said,

> *"Like I said previously, the financial literacy it really lacks with the client, and obviously there is no collateral and equity contributions. But I think the problem is we don't get taught these things from upbringing, and now you come, and guys get loans, or they don't get loans, and they never know tax, and they must pay tax now. Also, the lifestyle*

of some of these guys really affects it. They don't understand the impact of things like this."

Concurring with the above, **participant 4** said,

"Most of the clients they don't have knowledge, but um… but number one you will find that some of the people that is an SMME they just operate using a personal account. So they come to look for a business account. We don't have anything to look at, because there is no profile of the business. We don't actually give out loans based on their personal account. We strictly look at… at the business accounts, unless it is things like products, like your merchants. Then we can maybe consider the personal accounts. So that… so that actually affects the clients and their personal account conduct, you know. They will tell themselves 'If I go to the bank, they will just look at my business account'. But we also do look at the personal account conduct, reason being that whenever we give out money, it's the person, the business owner, that will be running the account So we actually need to look at how they run their personal accounts. So it is those two of which they also do not know what actually counts, and um, the importance of um, having their debit orders in place. So what they will do is that they are not even sure even if the money is coming in. Probably they will say their agreement is going to be on the fifth, but then sometimes there are people they are late… the people that are supposed to be paying them they are late, and then the debit order bounces. So what I would advise them is that because they are not sure that they will be having it on the fifth, they must have it on the tenth, when they are probably sure that the money will be there."

- Poor business plans

A few participants in the study attributed inability to access funding from banks to poor business plans by SMMEs. This is supported by **participant 9**, who argued,

"Now the challenge with the likes of SEDA is that all these consultants give the guys a copy-and-paste. And you sit with a guy and you will ask him about his business, and he will say something totally different to what is in the business plan."

Corroborating what the above participant said, **participant 10** said,

"Ja, sometimes you would see that here is a business plan that is correct, but then you see it is a cut-and-paste from the internet, most of the time especially with young people. You will see that, and you will find a lot of loopholes. [Let's say] I want to apply for finance. I want to open a glass recycling company. But because there is so many versions on the internet, I do not have my own idea. I saw it being successful somewhere else. I want to do it as well. I don't even have an idea to drive that. Then I could go copy-paste the stuff from the internet, or somebody goes and does the business plan for me. When we start interviewing you, whatever that is coming from

you it is not what is in the business plan, and some of the things are too complicated that you can't even explain it yourself."

8.4.11.1 Discussion of theme 11: Reasons for loan rejections

From the interview data collected the following reasons emerged as sub-themes when considering the reasons for the rejection of loans: a bad credit rating, incomplete information, lack of financial literacy, lack of managerial skills, lack of collateral and poor business plans, as stated above.

In terms of a bad credit rating, both the personal finances of the SMME owner or the director and the finances of the business itself are considered. One participant noted that if an SMME owner or director is unable to manage their personal finances, it is doubtful that they will be able to manage the finances of a business. Sometimes SMMEs are in arrears due to liquidity shortages, either because of new debt incurred or as a result of changes in the market environment. The latter applies especially to services rendered by SMMEs to the local mines, which results in loans being rejected.

The lack of comprehensive financial information, both historical and current, was also indicated as a reason for the rejection of loans. Without the minimum required information, the commercial banks cannot assess the viability and the sustainability of the SMME. In addition, one participant indicated that sometimes SMME owners lack managerial skills and will try to operate a business without employing a staff member with adequate bookkeeping skills.

Participants mentioned that insufficient collateral also leads to loan applications being unsuccessful. This was identified as a common problem in the Matjhabeng area. A participant stated the lack of owner's equity contribution as a reason for the rejection of loans. Participants noted that some SMME owners lack financial literacy, and that, as such, their loan applications are rejected. It happens that SMME owners mix their personal finances and their business finances, or do not even have a designated business account at all. In such cases, loans will not be considered, as indicated by one participant. It happens that debit orders that are scheduled to deduct on certain dates are not aligned to the dates on which the SMME normally expects payments, which leads to defaults on the debit orders, with a consequent negative effect on the SMME's credit rating.

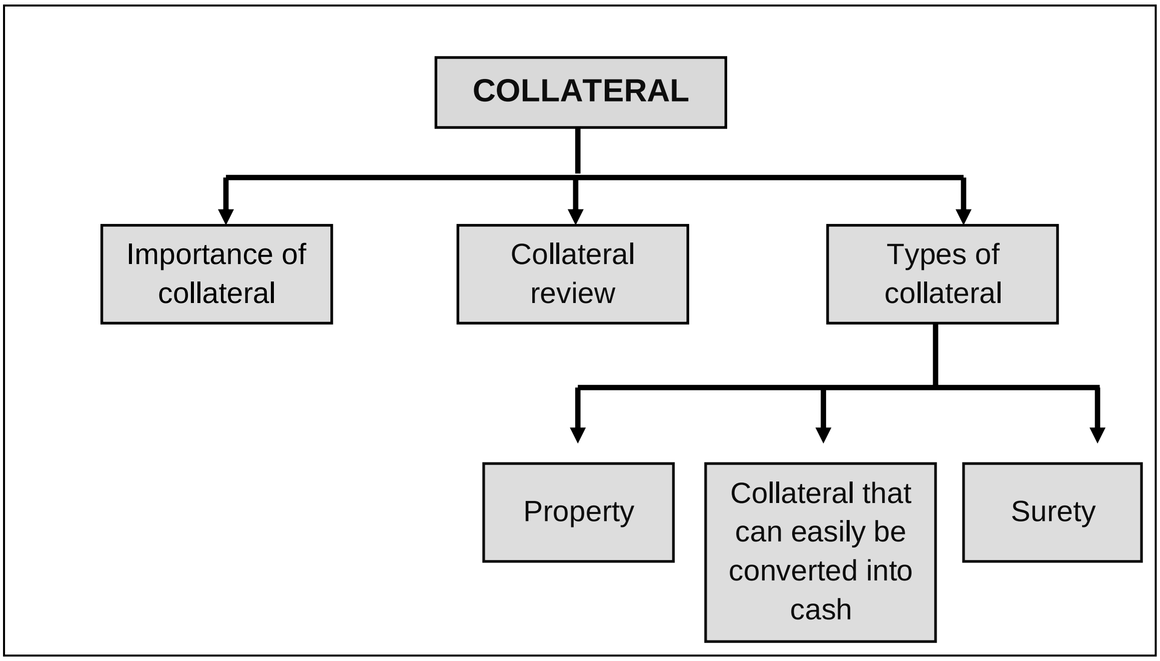
In addition, participants indicated that in some instances business plans are drafted by simply cutting and pasting templates obtained from the internet. The content of the business plan then fails to reflect a true picture of what the SMME owner has in mind businesswise. When the SMME owner is physically interviewed by bank officials, it becomes clear that they are not at all familiar with the content of the business plan that they submitted. This compromises the ability of these SMMEs to access loans.

The above findings are similar to those that were reported in Chimucheka and Rungani's (2013) study, where insufficient collateral, lack of financial deposits, poor business plans and non-viable businesses were indicated as aspects resulting in the failure of SMME loan applications. Agwa-Ejon and Mbohwa (2015) reported that mixing of personal finances with business finances and a lack of financial record-keeping result in SMMEs not being able to furnish proper reports on their financial status. As such, they are excluded from accessing loans from commercial banks. The findings are also supported by the results of Mutezo's (2015) study, where it was reported that collateral and a good credit record statistically significantly enhance credit supply from commercial banks. Mahloana (2019) similarly reported that collateral and a good credit record are strong predictors of having obtained credit, but the author found having a business plan to be a weak predictor.

A bad credit rating, incomplete information, lack of financial literacy, lack of managerial skills, lack of collateral and poor business plans contribute to information asymmetry, and, as such, proper risk assessments cannot be made by the commercial bank. The chances of an SMME being successful with a loan application if it has a bad credit rating and lacks financial and managerial skills are slim, as the risk profile of the business increases. As such, the business is not considered by commercial banks for loans.

8.4.12 Theme 12: Collateral

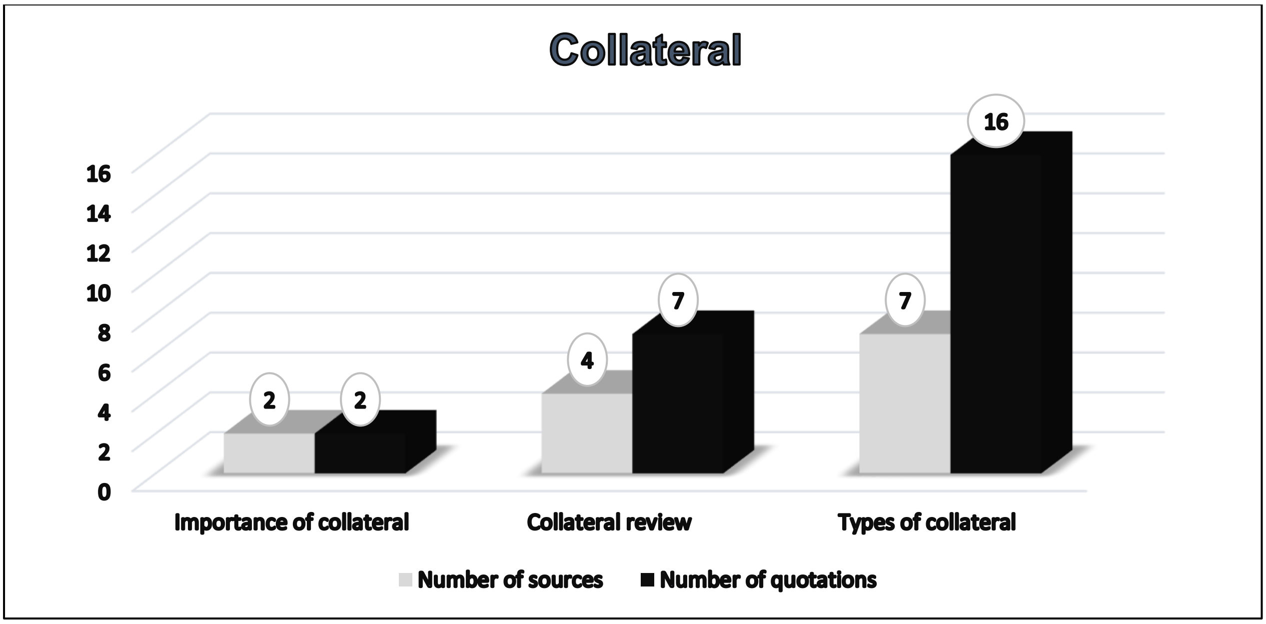
The participants were required to elaborate on the importance of collateral in securing a loan. Eight participants referred to collateral during the interviews, and 28 quotations were extracted from the interview data, as shown in Table 8.3. Through the content analysis process, the importance of collateral, the types of collateral and collateral review emerged as sub-themes under the main theme of collateral. Figure 8.13 depicts how the sub-themes relate to the main theme, namely collateral.



Source: Author

Figure 8.13 Sub-themes emerging from theme 12

Figure 8.14 portrays the number of sources (participants) and the number of quotations related to the sub-themes, namely collateral review, the importance of collateral and the types of collateral, which emerged from the main theme, namely collateral.



Source: Author

Figure 8.14 Sources and quotations for theme 12

- Importance of collateral

Some participants alluded to the importance of collateral and its effects on the approval of the loan applications of SMMEs. Information provided through the data analysis process indicates that SMMEs need to pledge, or guarantee, that they will be able to pay back the money they have borrowed from the bank.

For example, **participant 3** contended,

> *"So we sometimes look at secondary sources of income as well when we are assessing the applications. And secondary source of income can be in the event of the business not paying, is there something that the bank can fall back onto. Maybe one of the members whatsoever if they are having collateral in their personal capacity and strong assets. Your assets that we say that we can rely on. It's also considered. But we rely on it to get the application approved."*

Corroborating what the above participant said, **participant 2** said,

> *"It [collateral] is important, because, remember now, we have got different vehicles in terms of credit. There are strict rules when it comes to borrowing. Hence, it is important that collateral is in place. We got to secure the money that we are lending out, you know, and sometimes you will find out security is not enough, but the client is willing to build up something. Hence, then we offer them certain products that will help him to build up and to close that gap. So collateral, yes, it is very important."*

Participant 8 contended,

> *"No, collateral… collateral is your back-up plan. Collateral is when you see some factors that say to you there is maybe a 50:50 chance that something could not work out here, and just to protect me, and the client actually. Then you take collateral if they cannot pay, to fall back on. But security have never repaid a facility. It is your business, it is the profits that he generates, which repays loans, and that is always the most important."*

- Types of collateral

In this section the results related to the types of collateral most commonly considered by the commercial banks mentioned by the participants are presented.

- Collateral that can easily be converted into cash

Collateral that can be converted into cash, and investments, property and surety, emerged from the data coding process as the types of collateral most preferred by banks. The majority of the participants in the study maintained that most banks prefer cash and investments that are easily converted into cash for repayment of a loan, especially if the investment covers the whole amount that is borrowed by the debtor.

For instance, **participant 2** said, *"It depends what the customer can offer. (1) You can use an investment, you know, that covers the whole amount that you borrow [lend] out."* Elaborating on what the above participant said, **participant 3** said,

> *"We will look at investments as collateral in certain instances, specifically if it comes to cash-covered guarantees. We would rather take an investment, so should the client not deliver to that specific guarantee and it's been called up that the funds is easily available for the bank to actually settle that guarantee."*

Echoing what the above participants shared, **participant 6** asserted,

> *"Depending on the collateral that you provide, so it also affects the pricing. So the better the collateral, so the quicker we can get it into cash, the better for us. If there is an asset, let's say it is a tractor, you know, and it is a generally stock-standing tractor or whatever, or a bakkie or whatever, you can turn it into cash quickly when it [the business] becomes highly specialised. Let's say a drilling… drilling equipment. They going to drill a mine or mining equipment in Kathu. That is highly specialised. You not just going to put that on the market and get it sold in a day. But a bakkie and a motorbike and those kind of things can get into cash quite quickly. So, depending on what collateral that you give to us, that affects then the pricing."*

- Property

Most participants in the study highlighted that the banks also take property as collateral for the loans they provide to SMMEs. For example, **participant 6** said, *"We prefer bond collateral as first choice."*

Adding to the above information, **participant 3** said that *"in farming we will take the property of the farm. Commercial property depends on was the commercial property financed".*

Elaborating on immovable assets, **participant 10** said,

> *"OK, for… the collateral that we normally use is your immovable assets, because if we go to something that is movable, we cannot recover that if it is machinery. If you have a caravan that you can use for security, tomorrow it can be stolen. What do we do with it then? We don't have anything. It is very important, and it needs to be*

immovable assets that is then… because you cannot just use collateral. That does not have value."

- Surety

Through the data analysis process of the study, the participants mentioned surety as a form of collateral that the banks need from the SMME owner. The participants indicated that the signing of surety is vital in the loan application process.

For instance, **participant 10** said,

> *"We do take investments, we do take any asset, and you can also have somebody to stand as surety for your assets. So, if you do not have any assets that you can provide, you can ask a friend, an uncle or anything, that can stand as surety for you, and they will provide security for you, or any other business that can stand security for you."*

Backing up what **participant 10** said, **participant 9** maintained,

> *"Personal assets and liabilities. That is also for us to try and see is there any secondary sources of repayment. The guy defaults, business goes under, things are not going well. What else can we look at? Because you can also not really ask a guy to sign surety when he has got literally nothing in his personal capacity. So, you will still want him to sign surety, because the business might grow."*

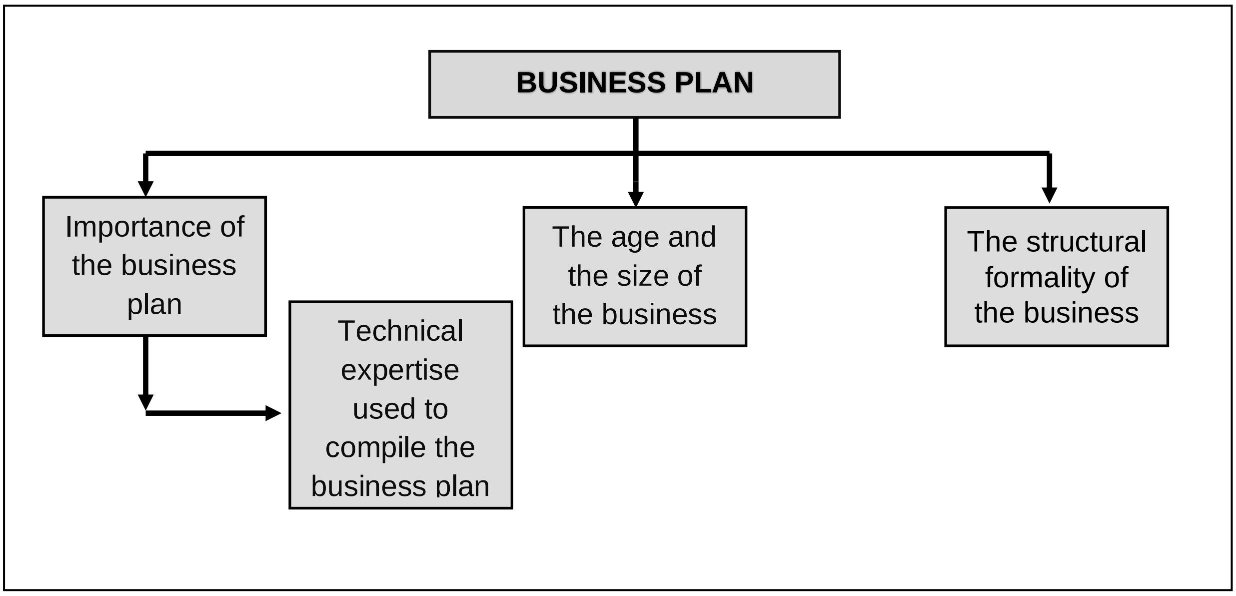
8.4.12.1 Discussion of theme 12: Collateral

The participants pointed out the importance of suitable collateral being made available. In this regard, the bank can rely on either movable or immovable assets. Movable assets offered as security must not be so exclusive that they are difficult to monetise. One of the banks has reservations about accepting movable property as security, due to the obvious risk of theft.

Sometimes the bank will consider alternatives to property to meet the requirement of collateral. They have certain products they can offer to the client if the latter struggles to raise collateral in the conventional form. Surety furnished by creditworthy individuals willing to support the cause of a particular SMME owner can be accepted by the bank in cases where collateral is found wanting. One participant commented that security has never repaid a facility, that in reality it is the profits generated by the business that must repay the loan. The extent to which satisfactory security influences the risk for the bank obviously also affects the applicable interest rate, and thus the pricing of the loan. The importance of collateral in securing a loan is emphasised by Baiden (2011), Longenecker et al. (2006), Mahloana (2019), Mutezo (2013, 2015) and Smit and Fatoki (2012), where collateral serves as an alternative source of repayment when adverse events occur. This is confirmed by the results of the interview data collected in this study. Collateral reduces information asymmetry and moral hazard problems arising between commercial banks and SMMEs (Coco, 2000). Commercial banks utilise the calling up of security as a last resort when recovering outstanding loans in the case of default (Arroyo, 2007). The willingness of an SMME owner to pledge collateral embodies their confidence in and commitment towards the viability of their business. In the Matjhabeng area SMMEs being unable to furnish sufficient collateral is often mentioned by banks as the main reason for their loan applications being rejected. Although one commercial bank indicated that they do provide SMMEs the opportunity to build up collateral, and another stated that surety can also be used as an alternative if collateral is insufficient, credit rationing is exacerbated by the collateral requirements of the bank.

8.4.13 Theme 13: The business plan

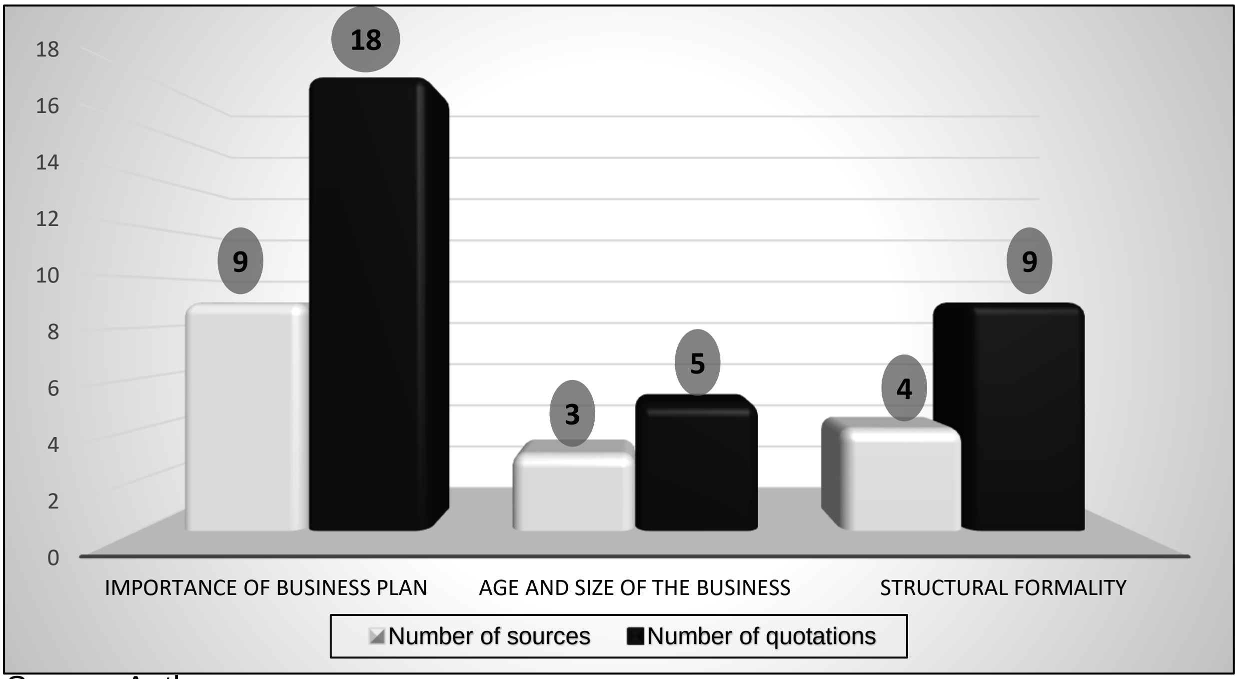
Nine participants in the study mentioned the importance of having a business plan when applying for funding, as shown in Table 8.3. They highlighted the impact of the age and the size of the business and the structural formality of the business in the approval of loans. Figure 8.15 portrays how the sub-themes relate to the main theme, namely the business plan.



Source: Author

Figure 8.15 Sub-themes emerging from theme 13

Figure 8.16 depicts the number of sources (participants) and quotations pertaining to the theme of the business plan and its various sub-themes mentioned during the interviews.



Source: Author

Figure 8.16 Sources and quotations for theme 13

- Importance of the business plan

Participants in the study mentioned the importance of a business plan because it clearly shows what the business is all about and is a guide on how profits will be red.

Participant 9 indicated that the business plan is important when the client decides to diversify or expand the business:

> *"The business plan will come in and then say, 'Currently I only have the shop, and now I want to buy a caravan, where I will then move from this point to that point, and there is so much that can able… So, it is no longer just income coming from the shop, but there will also be a mobile store, which will then bring this funds that I say will increase my turnover. Or I am currently sending some of my work to an external guy that has to do this for me, and I want to buy this machine, 'cause now I will not be sending that work away. I will be doing that work in-house.' Only a business plan can tell us that information. So, he must have a business plan where he has done a feasibility study to say it can work, 'I have got the clientele, I have got the know-how, it can bring me this turnover'."*

Confirming the above, **participant 3** claimed that

> *"it is easy for us to get detail on your business plan, so that we can beef up our motivation, you understand, so that we have a holistic… to what the business is all*

about, where the business is situated. But we find that we get more information from our interview with the client than in the business plan".

Participant 2 asserted,

"You know, in your business plan there will be your marketing strategy, your financials, and your projections as well. We definitely look into that. It is important when you look at the financials. We look into the history of the business, what has been happening, is this business sustainable?"

- Getting a technical expert to assist with the business plan

From the content analysis process, four participants highlighted the importance of getting a technical expert to assist when drafting a business plan as a factor in the approval of loans by the banks. For instance, **participant 1** mentioned, *"If you want R10 million, we need to do a proper assessment, and then I will recommend getting maybe an external person to assist with the business plan, a professional or someone."*

Participant 7 argued,

"It is not wrong to have somebody compile a business plan for you, someone professional. But the advice that we normally give is that go and sit with this professional person. Tell them exactly your vision, tell them what you want to do, tell them how you are going to go about, and then they can do it for you, rather than just going and doing the copy-and-paste, and all of that."

- The age and the size of the business

The content shows that some of the participants in the study asserted that the age and the size of the business which is elaborated on in the business plan do not have much influence on the approval of loans by the banks. Yet, the age of the business owner, or jockey, could potentially influence the outcome of the loan, as age enhances the experience of the SMME owner.

Participant 3 elaborated as follows:

"You can have an established business of 20 years. If it's not managed properly, then chances are there that we might not grant the facility. But you can have a new business that's two or three years up and running that shows growth and potential, and we can grant a facility. So, age and the size of the business does not actually matter. It matters on the merit of the application in the specific point in time, and it is also based on the opportunities, because you will find that a business might be 20 years in business, but they haven't adapted to changes within that specific industry,

which makes it difficult for them acquire new tenders and new contracts and new customers coming into their business."

Participant 9 asserted,

"No, it does not necessarily. However, the age will tell us as to how long have you been trading and if you are well established and what exactly are you doing. It is the age of the individuals that will have an impact on loan approval if you are applying individually. But [with] the juristic person with multiple directors the age does [not] have much of an effect."

Supporting the above, **participant 6** said,

"Is probably when we look at the funding (this is the stretch on the funding), you look at the jockey, how long has he been in existence, what is his experience, what is his age, what is his qualifications, what is his history like. OK, maybe he got a couple of bad years, but this is his average over the time, and we will back the jockey."

- Structural formality of the business entity

Four of the participants in the study highlighted that the structural formality of the business entity has an influence on whether the SMME is granted a loan. For instance, **participant 6** argued,

"Definitely obviously, with a sole prop and the NCA, so your checks for compliance is much more in terms of affordability, and obviously the risk also of that business coming to a standstill if something happens to the business owner. Business basically comes to a standstill, from a bank's perspective. So, we encourage people to use a corporate structure, so that the business can still continue. Partnership is also the risk if one of partner passes away. So, we used to have a lot of partnerships in the system, but currently not."

8.4.13.1 Discussion of theme 13: The business plan

The importance of a business plan emerged as another theme that is important in enabling the SMME owner to successfully access a loan. The business plan shows sustainability, how profits have been, and how the owner plans to generate profits. Using technical expertise to compile the business plan, the structural formality of the business, and the age and the size of the business emerged as sub-themes.

The results indicate that the business plan adds value to the motivation for a loan. The interviews show that the business plan provides a holistic view of, among other things, the marketing strategy and the financial projections of the business, as indicated by one participant. The importance of a proper business plan was further emphasised in cases where an SMME aims at diversification or growth.

Using professional assistance when compiling a business plan was recommended by one participant. The importance of the SMME owner fully understanding what the business plan entails if it is drafted in collaboration with a professional was mentioned. One participant noted that more insight into the business is provided in the interview between the bank official and the SMME owner if the bank compares the interview responses with the information obtained from the business plan.

According to Fatoki (2014), the websites of the Big Four commercial banks in South Africa confirm that no credit will be granted to new SMMEs without a business plan. The importance of a proper business plan to the major banks in South Africa was pointed out in Pretorius and Shaw's (2004) study. The authors noted that the business plan needs to be understood by the SMME owner, which corresponds to what is reported in this study. Contrary to the interview data collected, Mahloana (2019) found that the business plan is a weak predictor of access to credit.

The business plan includes many aspects. Besides the financial information and the marketing strategy, information pertaining to the age and the size and the structural formality of the entity is disclosed. Participants noted that the age and the size of the SMME do not influence their ability to access loans, due to the fact that older SMMEs might not have adjusted to the requirements of a changing market environment. The results of the interview data collected contradict the quantitative findings of Mengistae et al. (2010), where statistical significance was reported between access to credit and loans and the age and the size of the business, irrespective of whether it was a micro enterprise or a small enterprise.

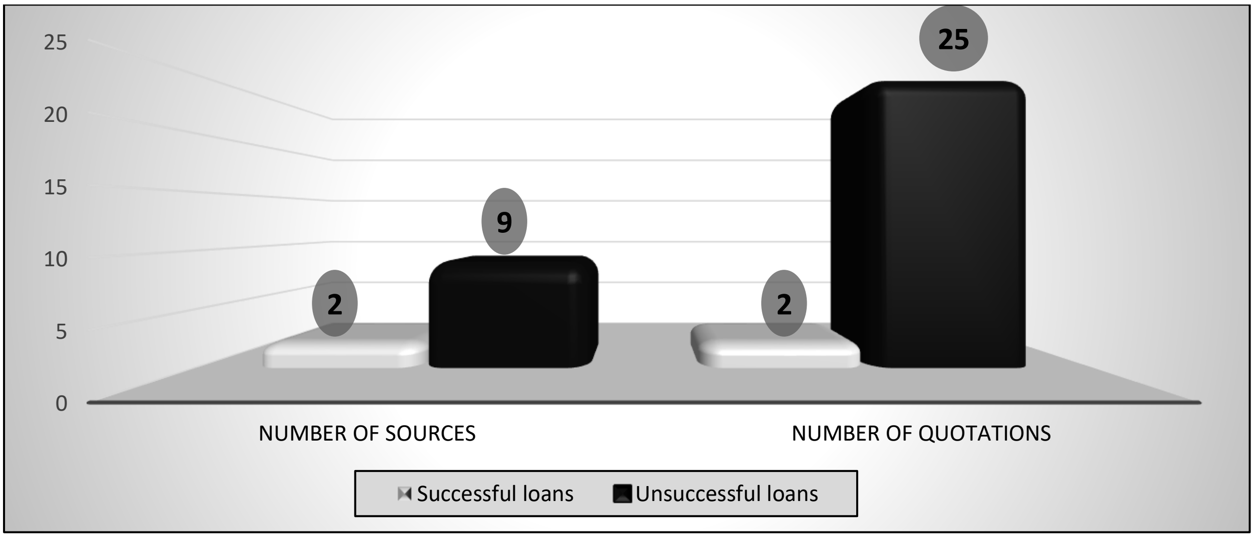
The age of the SMME owner and their expertise, experience and financial history were, however, mentioned by one participant as being an important consideration. It is apparent that the loan facility is granted on the merit of the application and evidence of growth and opportunities. This is supported by the findings of Brijlal and Yan (2015), where a statistically significant relationship between successful loan applications and business owners owning other businesses and having management experience was reported.

The interview data further mentions that the formal structure of the business has an influence on the SMME's ability to access finance. One participant noted that sole proprietors in particular fall under the NCA. Meeting the requirements of the NCA increases the risk of the commercial bank. Furthermore, in the case of both sole proprietors and partnerships, the business can come to a standstill if one of the owners dies. It is thus recommended that SMMEs operate their business from within a corporate structure.

In spite of Fatoki and Odeyemi (2010) and Mahloana (2019) using a quantitative research method, their results show a statistically significant association between credit approvals and the legal status of newly started and established SMMEs. This supports the view that a company with limited liability can access finance more easily, as indeed is indicated by the data collected from the commercial banks interviewed in this study.

8.4.14 Theme 14: Communicating the outcome of the loan

Participants were required to explain the procedures that the commercial bank uses to communicate the outcome of the loan. Through the content analysis process in the study, nine participants shared information on the outcome of unsuccessful loans. The participants mentioned that most banks communicate with the loan applicant and show them the reasons why their application was unsuccessful. Two participants shared information pertaining to communication of the outcome when the loan has been successful. Figure 8.17 depicts the number of sources and quotations in the interview data pertaining to successful loan outcomes and unsuccessful loan outcomes.



Source: Author

Figure 8.17 Sources and quotations for theme 14

- Outcome of successful loans

A few participants in the study alluded to procedures followed by the banks when the loan application has been successful. For instance, **participant 4** said, *"So the other one is when it is approved. Still the same thing with the client: prepare the documents for the client to sign, and we sign it together with the client, and then you load them on the system, and then you also load the money in the client's account."*

Supporting the above, **participant 3** mentioned,

"So, the client signs the agreement, which we have to send for preparation to our collateral department. After it has been approved, they will then draw up the security, if there is any surety or guarantees or any collateral that needs to be in place. Then we call in the client to sign. Then after the client have signed, we scan and email it through for scrutiny, to making sure that all the collateral is in place. And only after that the facility is loaded. So, all in all, it's three to four days until the facility is loaded."

- Outcome of unsuccessful loans

The participants mentioned that most banks communicate in the event that a loan application was unsuccessful. This is supported by **participant 7**, who said,

"You also inform the client, because you're the first contact for the customer or client. So the credit guys they don't notify the customer; they notify you. And you need to sit down with your customer and explain to him, 'Listen, this is the reasons why it was declined.' But if you feel strong enough if certain stuff can be addressed, then the reasons given for the decline, then you discuss that with your customer, and then you can raise it for an appeal."

Confirming the above, **participant 2** explained,

"So sometimes the application gets declined at source. The moment I see that no, this is not going to fly, then I decline it. That is based on my experience, as well as in terms of the credit application, and hence I have the mandate to decline it if I see it is not going to fly. If it's a decline, and then it comes back to me and the relationships executives as well. They are equipped to do those assessments. They look into the application, what the system tells us, and then they communicate to the customer and says, 'Listen, it is one, two, three that we picked up. What is your take on this?' That is why we don't just take the decline. We linked into the client, 'Why it is declined? Can we have reasons of the issue that has been picked up, the reasons for the decline?' And we discuss them with the client. And then it comes to me for motivation or recommendation. And then we send it. And then based on the findings, the credit people will say, 'It is fine. We have approved it.'"

Elaborating on what the above participants said, **participant 3** contended,

"What we do is when the application is declined, we will then communicate to the client the reasons for the decline, and then in some cases we will say to the client that

> *we will reconsider within six months based on 1, 2 and 3 being fixed. So, it can be that there is dishonour on the account, it can be that there was a default somewhere, on the business or on the member itself or the director, and then we can reconsider it within six months. It can be that the turnover took a knock, and based on the client's expected income we might reconsider within six months."*

Participant 10 stressed,

> *"Even if we decline your application, we don't just decline your application and then say 'Goodbye! Go!' We decline and show you the reasons what made us to get to that decline decision, and then show you and guide you and support you up until you get your stuff in the right order."*

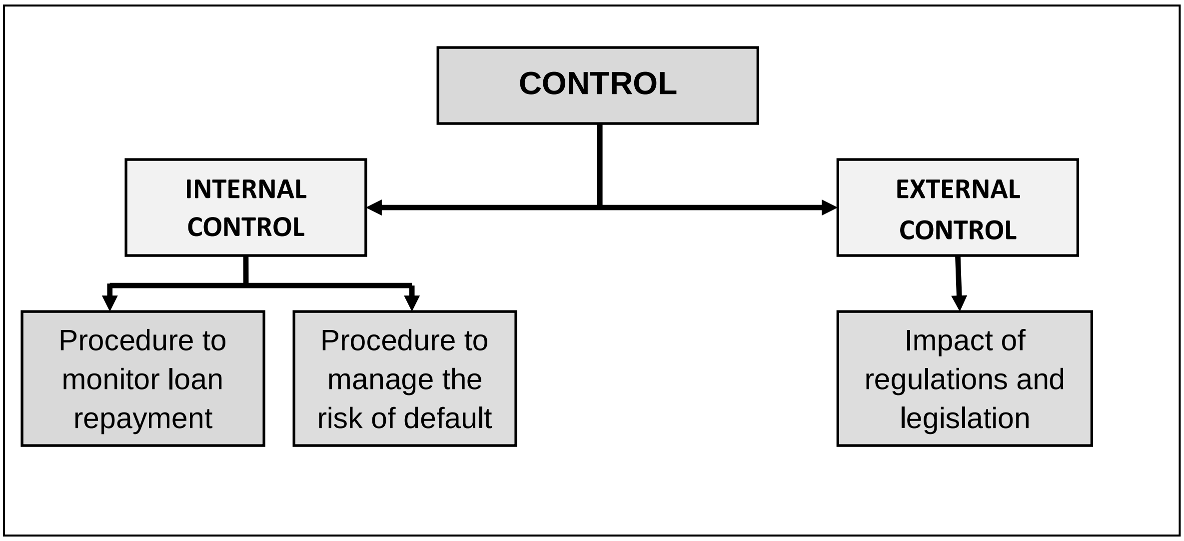
8.4.14.1 Discussion of theme 14: Communicating the outcome of the loan

The interview data shows that when a loan application is successful, the SMME owner is notified to sign the agreement. This takes place after the collateral, surety and guarantees have been verified, as indicated by one participant. When a loan is unsuccessful, the SMME owner is also informed. Reasons for the rejection of the loan are communicated. It was indicated by two banks that SMME owners are provided with the opportunity to try and correct what is required by the commercial bank for them to obtain a loan. The SMME owner is then provided with an opportunity to reapply for a loan in future. One participant mentioned that the bank guides and supports the SMME owner to ultimately be in a position to reapply for a loan.

The NCA (34 of 2005) requires that the commercial banks inform the borrower in the event that the loan outcome is unsuccessful (South Africa, 2006b). As such, commercial banks adhere to this requirement. The interview data shows that the commercial banks do assist SMMEs to implement corrective measures, as these entities could become an investment opportunity in future.

8.4.15 Theme 15: Control

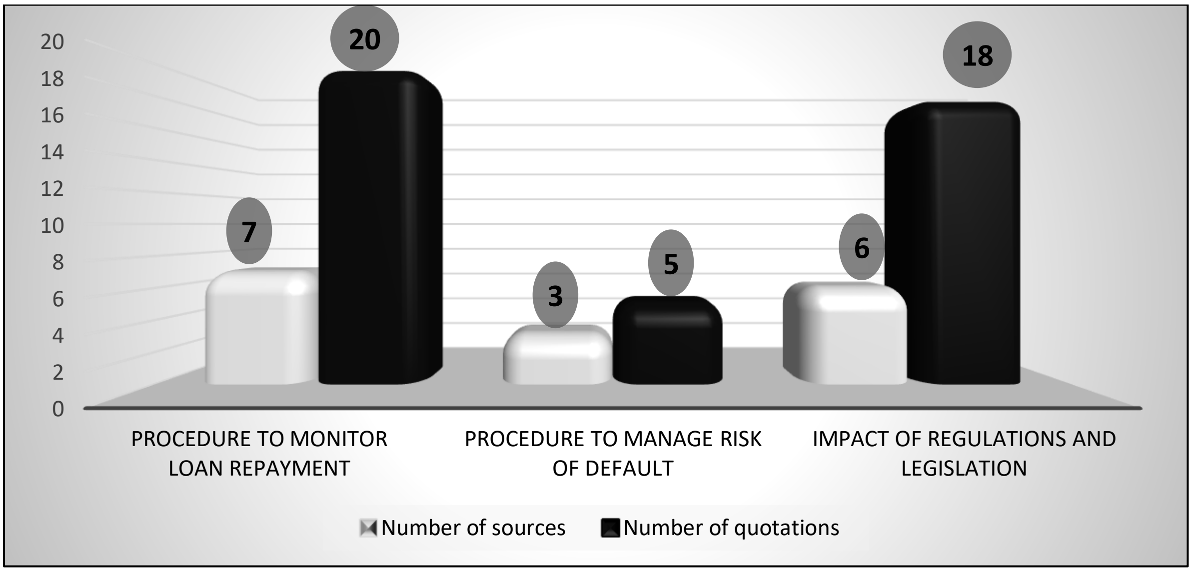
The participants were required to elaborate on procedures followed to monitor the outcome of the loan. They were also required to provide their opinion in terms of the influence of regulations and legislation on the granting of loans. Control from the perspective of the commercial banks includes both the procedure used to monitor loan repayment and the procedure used to manage the risk of default. This is regarded as internal control measures. External control is manifested in regulations and legislation, thus directing the provision of loans in South Africa. Figure 8.18 depicts the sub-themes in the interview data related to control.



Source: Author

Figure 8.18 Sub-themes emerging from theme 15

Figure 8.19 shows the number of sources (participants) and quotations emerging from the main theme, namely control.



Source: Author

Figure 8.19 Sources and quotations for theme 15

- Procedure to monitor loan repayment

Through the coding process of the study, seven of the participants highlighted procedures that are in place to monitor loan repayment. Some participants mentioned that they use the computer system to monitor the repayment of loans.

For example, **participant 6** indicated,

> *"The system will run and will give us on a monthly basis an indication of loans that are in arrears. How we handle it by being proactive we got triggers that will flag on the system. For example, if there is a decrease in turnover, continuous unpaid, it will flag a specific account, and we know we have to pay attention."*

Participant 2 said,

> *"Look, Credit [the Credit Department] does that. We have got a unit, a department, yes. The moment they did not pay for a month, they get a SMS, they get called, and, you know, we don't manage it. And then if there is any problems, the client have not paid, or the Credit Department cannot allocate or trace the client, they pause. Yes, then we go and visit the client or look for them and say, 'Hey, Credit [the Credit Department] is looking for you. This is what happened.'"*

Supporting what the above participants said, **participant 1** asserted,

> *"The SMME specifically it's done on a daily basis in Johannesburg as well. There is daily referrals. The credit managers check that on a daily basis. Guys that are in excess, accounts that's in arrears, we have listings looking at dormant accounts, accounts where no funds have been received in the last few months. It gets monitored daily and monthly. There is about three people that check those things."*

Sharing the same information as the above participants, **participant 7** claimed,

> *"It's system-based… -generated, so in the mornings when you come in, you basically go onto the system, and it will show you, 'But these guys have exceeded their overdraft limits, this guy's payment was returned. You need to contact and find out what is the reason, by when will he rectify.' So it is electronically driven, and it is driven in conjunction with our compliance interest."*

- Procedure to manage the risk of default

From the analysis, three participants explained the procedure to manage the risk of default by the SMME owner. For instance, **participant 3** indicated,

> *"I can't say, because it also depends on the type of industry. And then your risk for default can be that, you know, you have your 30 days, your 60 days, your 90 days, like normal businesses also. So if we have non-performing loans for 30 days, we try to detect it early to make sure is there any way that we can assist the client. Maybe the facility is not enough, maybe the client's payments comes in later than what is expected. Should we reschedule the payment date? Or whatever the case may be. So, there is all scenarios that we look in to first understanding the default in assisting the client. And obviously if they progressed after we have tried our utmost best, then*

obviously it goes to our Collections Department. Then from our Collections Department obviously to issuing a section 129 [notice]. We call up the facility. If the client can't meet the arrangements made, then obviously we will go the route of appointing attorneys and stuff. But that is the final stage [a last resort]."

Supporting the above, **participant 2** said,

"The procedures to manage risk has to do with that if there is a default, then you will phone them and then you go and see if you can't get the client. If the client really now is in trouble, obvious we don't just decide taking the client to the Legal Department, no. There are measures that we put in place and see where we can assist, and sometimes you will find that OK, we restructure to make it easier for the client, and then sometimes we give them, you know, a chance, you know."

- Regulations and legislation

Six participants in the study indicated that regulations and legislation influence the granting of loans by the banks to SMMEs. For example, **participant 6** said, *"They do all the audits on a regular base [basis]. They can walk in here any time and say, 'We want to see your stuff.'"*

Participant 9 asserted,

"In terms of regulations, we are not going to be dealing with someone where, from a regulatory point of view, who can put us under, who can impact the bank negatively. So, it is important then, before we open an account, that discussions take place."

Participants also indicated that legislation in terms of the NCA has a positive influence on their operations. For example, **participant 6** claimed that the NCA, when it was initially implemented, made it a bit more difficult for the banks to adhere to legislation:

"There was a bit more admin that we had to overcome and more documentation and that kind of stuff. But I think better decisions were made and better lending was made. So, maybe we do not have growth rates of 20%–25%, but did not have bad debts of 10%."

Corroborating the above, **participant 3** argued,

"The NCA makes us certain that when we grant the loan, we make sure that we adhere to legislation, and not fore-sell or grant facilities to clients that do not qualify. It protects us. Sometimes clients get cross with us to say that 'unfortunately you do not meet the lending criteria set out in the National Credit Act'. And then we obviously supply them with the reasons. Then they feel that 'this NCA is standing in front of me and the loan'. But it is not the NCA. It is you who do not meet the criteria set out. And it is also for us to make sure that we don't do reckless lending."

Elaborating on what the above participants said, **participant 5** claimed,

> *"And, you see, with the NCA, the bank won't borrow [lend] money to a customer if the bank see that the customer won't be able to do the payments. That is very important. And we try to combat through that fraud and losses also and make sure that the customer also at the end of the day… the customer won't say, 'But you borrowed [lent] me money and I cannot afford it.'"*

In terms of regulations, another important form of legislation is the FICA requirements. **Participant 6** noted that the responsibility on the bank is *"huge"* in this regard. **Participant 6** further explained,

> *"FICA is there to stop money laundering. FICA is about KYC, knowing your client. FICA is about 'Do I know what my client does, how does he get his money'. So if it is a cash business, where does he get the cash from, OK? He runs a… OK, that makes sense. People pay cash. But if he is an attorney and all of a sudden he is making these cash deposits, then you got to say 'Come on, why will an attorney collect cash?', you know."*

Participant 1 asserted,

> *"The other thing is FICA, and the banks get penalised R10 million or whatever if they don't comply. And that also obviously influence how much risk you are willing to take, taking into account how many you willing to pay in fines and penalties. And a lot of these entrepreneurs are foreign nationals. If you look at guys in Lesotho, we can't really do anything. We can, but it takes so much time to sign it off. If we look at all these wholesale and retail entities, your Pakistanis and Bangladeshis and all these guys…"*

Lastly, **participant 10** said that the Financial Advisory and Intermediary Services (FAIS) Act requirements ensure that financial advisors employed by the banks provide sound advice:

> *"The FAIS requirements that the consultants need to have is already also saying if you are giving advice, it needs to be sound advice for the client. And should it not be sound, then the entity, the bank, gets to lose their licences or gets to be charged a fine or penalised in some other ways. So, there is penalties and all those… Regulation is playing a huge part in the lending of the product."*

8.4.15.1 Discussion of theme 15: Control

The interview data shows that extensive internal and external control measures are in place at the four major banks, with the aim of monitoring loan repayments, managing risk and ensuring adherence to regulations and legislation. The participants indicated that accounts that are in arrears are flagged by the computer system either on a daily or a monthly basis. The client is then advised accordingly. The next step by the bank is that arrangements are made with the client, which gives them an opportunity to rectify the default.

In order to manage the risk of non-payment, early detection and action are of the utmost importance. Understanding the reasons for default is imperative. Options to correct any default on the account are provided, which may include rescheduling the payment dates or restructuring the loan. If the SMME fails to rectify the default in a satisfactory way, the matter is forwarded to the Collections Department, and the facility is called up. What is noteworthy is that the commercial banks do not summarily exercise their legal remedies when an SMME owner is in default. They will give opportunities to rectify the situation.

The participants pointed out that complying with regulations and the legislation audits that are executed by banking authorities, including the NCA, FICA and FAIS, form part of the external control measures that they need to adhere to. Audits by banking authorities are done on a regular basis. All lending requirements and documentation thus need to be in place at all times. One participant indicated that the commercial bank will not assist a client if, from a regulatory perspective, the client could affect the bank in a negative way.

Another participant indicated that compliance with the stipulations of the NCA in the initial stages when the act was implemented complicated the provision of credit at first. Yet, it is the opinion of the participant that better lending decisions are currently made as a result of the NCA, and that bad debts as such are fewer. Money is therefore not loaned to clients that cannot afford it, and reckless credit lending is thus avoided.

The commercial banks must also adhere to FICA requirements. These requirements fulfil an important role, as the aim is to prevent and limit fraud and corruption. One participant noted that compliance with FICA results in you knowing your client and what their business is all about. Irregularities pertaining to their account conduct can then be identified and reported.

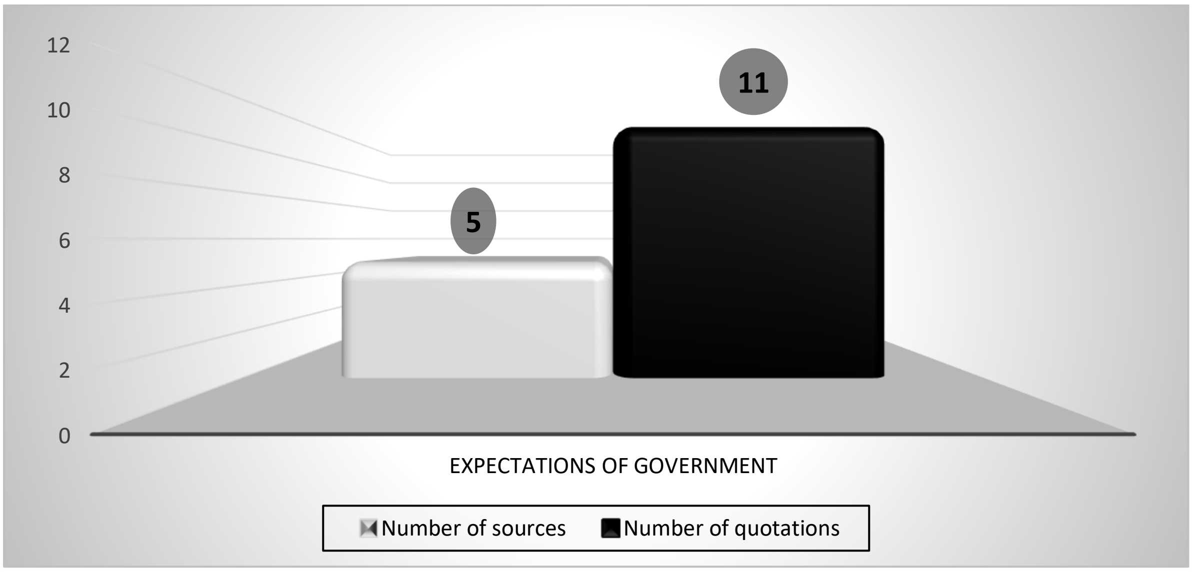
A participant also mentioned that the FAIS requirements ensure that commercial banks provide sound financial advice to the public. It was also indicated that penalties for not adhering to regulations and legislation are generally comprehensive and have a definite and substantial impact on loan decision-making.

The interview data shows that while compliance with the regulations is difficult, it protects the commercial bank. Mutezo (2015) reported that regulations pertaining to

FICA and the NCA strongly featured as a factor hindering the provision of loans to SMMEs in her study. It was also reported by Mutezo (2015) that when it comes to approval of SMME loans, being compliant with the requirements of the NCA was ranked higher in importance than the credit history and profitability of the applicant. The statements made by the participants in this study are thus supported.

8.4.16 Theme 16: Expectations of government

Only senior managers of the commercial banks interviewed were required to elaborate on whether the expectations of government for the private sector to contribute to economic growth have an influence on the criteria for granting credit. Participants from the study highlighted that government expectations do not have an influence on loan approvals. Figure 8.20 shows the number of sources (participants) and quotations pertaining to the expectations of government influencing the granting of loans to SMMEs.



Source: Author

Figure 8.20 Sources and quotations for theme 16

In terms of the expectations of government, **participant 6** argued,

> *"No, we don't think so. We are proudly South Africans. We follow the letter of the law, and we applied the same principles. We have not been… we don't feel that we have been bullied or influenced by government now, because to stimulate the economy now we must do dodgy deals. Our first obligation is to our shareholders. They want return on their money. If people do not see value in [name of the bank], [name of the bank] will close its doors."*

Confirming what the above participant said, **participant 2** said,

> *"Look, we can never succumb to the pressure of the government, you know. We need to look at our risk, and as much as we try and make sure that we take care of those previously disadvantaged, or those that was excluded before, and for that reason we have got the other unit, the Development Centre, now we cannot just say, 'No, you are on ITC. We cannot help you.' We can say that, but then what are we doing, you know, because we are not helping them. That's now where we take them in. Hence I have mentioned the programme that the organisation has embark on with other companies, like other stakeholders, SEDA and all these guys, where they try and create a programme where they can assist small businesses or the previously disadvantaged or the SMMEs, whatever you call them, and enable them to manage their businesses better with regards to teaching them how to managed businesses, teaching them financial management, because we have seen them failing in the next first year or second year."*

Participant 3 asserted,

> *"I think with regard to certain initiatives that we put in place assisting SMMEs, we also have our education programmes together with, you know, government and other non-profitable organisations or business chambers and stuff like, whereby we assist through our incubator programmes, whereby we assist customers with upskilling them. So we also have a role to play in that instance, and not just as a financial institution that just…"*

Adding to what the above three participants said, **participant 10** explained,

> *"In a way, in a way, because now we see government are availing funding, especially to the previously disadvantaged businesses and businesses who are now ran by the youth. But nowadays we see black farmers and they get prioritised in terms… from the government. So the banks now have a huge role to play in terms of getting this people understanding the industries."*

Lastly, **participant 1** said,

> *"Because the funds for these alternative funding programmes is not from Treasury itself, it is from another income stream, some international banks also, and foundations and stuff like that, if you look at the informal sector, there is a huge drive now, because I read an article: I do not know how many billions of incomes lies within this sector, and that is a sector that no one has touched."*

8.4.16.1 Discussion of theme 16: Expectations of government

A further theme that emerged from the data collected pertains to the expectation that the government has that the banks must grant loans in financially supporting SMMEs, to enable the latter to grow and provide employment. The interview data, however, generally show that the expectations of government have not influenced the commercial banks as such.

According to the commercial banks, their first obligation is to their shareholders. To fulfil this obligation, they need to mitigate risk and secure return on their investment. This is against the backdrop that the commercial banks adhere to the letter of the law, as one participant explicitly indicated. The participants also pointed out that assistance by government, international banks and foundations, various development programmes and incubators are available to assist SMMEs. These forms of assistance are specifically aimed at benefiting SMMEs from previously disadvantaged communities.

The commercial banks grant additional assistance in the form of financial, administrative and management training and guidance in the compilation of business plans. The interviewees felt that they have a very specific role to play in terms of upskilling SMMEs, to ensure that the latter understand the industry. Initiatives by banks to empower SMMEs by means of business seminars and workshops were also suggested by Mutezo (2013). Lastly, one participant noted the importance of getting the informal sector on board, as it represents an untapped market which could potentially generate substantial revenue for the banks.

To conclude, the participants concur that commercial banks, together with traditional financial services, also render extensive additional services to support SMMEs. The findings of a study by Agwa-Ejon and Mbohwa (2015), however, show that many SMMEs are not aware of existing opportunities to borrow from commercial banks, and the supplementary services that they provide. The authors reported that these SMMEs find it difficult to approach or deal with the bank, as they assume that they do not meet the bank’s minimum requirements. The aforementioned study also maintained that SMME owners are ignorant when it comes to the services that commercial banks provide. As a result, many SMME owners remain uninformed. As SMME owners do not fully understand the functions of commercial banks, they are generally not geared to approach such institutions, and, as such, considerable opportunities to obtain advice and to access loans are forfeited. This is especially unfortunate for SMMEs from previously disadvantaged communities.

8.5 CONCLUSION

The aim of this chapter was to achieve two objectives of this study, namely to determine how commercial banks enable access to finance for SMMEs, and to establish the reasons preventing financial access to SMMEs, from the perspective of the commercial bank. To achieve these objectives, the Big Four commercial banks were interviewed. Business banking officials operating at branch level and senior managers responsible for either credit or business services were interviewed. Ten participants took part in the study. Two interview guides were prepared for this purpose. Sixteen themes emerged from the interview data collected from the bank officials. These are the importance of a relationship with the commercial bank, involvement, documentation, processes, screening and evaluation, character, capacity, capital, conditions, the success rate of loans, reasons for loan rejections, collateral, the business plan, procedures followed to communicate the outcome of the loan, control and the expectations of government.

The commercial banks are involved in various ways to assist SMMEs to grow and expand by providing a variety of loan products. Furthermore, services are rendered to reduce the challenges that they experience in obtaining finance and to support the day-to-day management of their business. Processes to create an enabling environment in which loans can be accessed were discussed. SMMEs can access loans if they meet a certain set of criteria. Some participants indicated that they do have alternative routes to follow if an SMME is not fully compliant, to enable a successful loan application. These routes are followed particularly with SMMEs from previously disadvantaged communities.

The participants also indicated that the main reasons for rejection of loans are a bad credit rating, incomplete information, lack of business management skills, lack of collateral, lack of financial literacy and poor business plans. The commercial banks can thus only provide loans to SMMEs in a way that they stay true to their obligation to their shareholders, and at the same time adhere to regulations and legislation.

Given the mixed methods design of this study, in the following chapters the results will be interpreted, and conclusions will be drawn from the quantitative results together with the qualitative findings, to address the objectives of this study.

CHAPTER 9

DISCUSSION AND INTERPRETATION OF THE RESULTS

9.1 INTRODUCTION

In this chapter, the primary and the secondary objectives are discussed as they relate to the literature study and the results obtained from the quantitative and the qualitative data collected. This chapter also aims to interpret and integrate the results obtained from chapters 6, 7 and 8, to achieve the objectives of the study. This is done within the framework of the conceptual model provided in Figure 4.6. Given that the study adopted a mixed methods approach, integration of the results within the context of the conceptual framework is vital to ensure that the objectives of the study are achieved.

9.2 INTERPRETATION AND INTEGRATION OF THE OBJECTIVES

The primary objective of this study is to explore the obstacles hindering access to finance for SMMEs situated in the Free State Goldfields. It is generally acknowledged that SMMEs are a major source of employment creation, which is so direly needed to stimulate the South African economy, especially when it comes to areas situated outside metropolitan regions, of which the Matjhabeng (Free State Goldfields) area forms part. One of the most enduring challenges that SMMEs face is to obtain external finance from commercial banks. The literature suggests that this challenge is less problematic for large companies. Obtaining finance from the commercial banks will enable these entities to grow, develop and expand. Access to finance, whether access to credit or other loans, is indispensable for the development and expansion of these entities. Without access to finance specifically in the start-up phase, opportunities for employment creation and economic growth are lost.

Profit maximisation, regulations and adherence to the requirements of shareholders are major concerns for the commercial banks. SMMEs are perceived to be risky investments with poor credit histories, a lack of collateral, poor business plans, and a lack of financial literacy and management skills. The risk pertaining to SMME lending minimises credit and loan provision by the commercial banks. The results of the study show that SMMEs face obstacles in obtaining access to credit and loans, and that they are not only influenced by the lending criteria and processes used by the commercial banks, but also by the characteristics and nature of SMMEs. Certain characteristics contribute to credit rationing, as a result of asymmetric information experienced on the side of the commercial bank.

The discussion of the secondary objectives is divided into four parts: first, objectives 1, 2 and 3 refer specifically to objectives pertaining to the literature review, provided in chapters 2, 3 and 4; second, objectives 4 to 7 refer to the empirical results provided in chapters 6 and 7; third, objectives 8 and 9 refer to the qualitative findings of chapter 8; finally, secondary objective 10 provides an integration of the quantitative and the qualitative results, indicative of a mixed methods study. The last objective, namely to provide recommendations to SMMEs, the commercial banks and government to enhance the state of access to finance in South Africa, is addressed in chapter 10 of this study.

9.2.1 Literature-based secondary objectives

- **To define SMMEs and to determine their economic importance and the challenges hindering their potential for growth**

Several definitions of SMMEs are used internationally and nationally, because SMMEs are diverse in nature. This complicates the conduct of comparative studies within a country and between countries (NCR, 2011). The categories employed in the majority of definitions of SMMEs remain the same, namely turnover, number of employees, and value of assets. This categorisation is similarly stipulated in the NSBA (102 of 1996) and the NSBAA (26 of 2003) in South Africa, but the upper and lower limits differ from those of international definitions. The volume of turnover of the business is generally a more appropriate and consistent measure to define and classify SMMEs, according to Gibson and Van der Vaart (2008). Although the commercial banks acknowledge the definition of SMMEs indicated in the NSBA (102 of 1996) (BASA, 2018), they consider turnover when providing services to SMMEs. To ensure reliability of research, both government and private researchers should use the same agreed-upon definition of SMMEs. Policymakers should use turnover set at a prescribed limit to define and categorise SMMEs. Although this suggestion could perhaps hamper the conduct of international comparative studies, it will facilitate the making of comparisons related to SMMEs by government and academic researchers in South Africa.

In South Africa, the SMME sector is diverse in terms of geographical location, size and sector categorisation, and it is furthermore segmented in terms of SMME growth. Streams of evidence indicate the economic importance of SMMEs internationally and nationally. The economic importance of SMMEs is not limited to their contribution to the GDP, economic growth and employment creation. But in the South African context of low growth and high unemployment, the contribution of SMMEs towards growth and employment provides a compelling argument for promoting this sector. The exact number of SMMEs operating in South Africa is not known. SEDA (2019), however, published several quarterly reports estimating the number of SMMEs operating in

South Africa by using data obtained from the QLFSs and the QFSs prepared by Stats SA. SEDA (2019) noted that the exact contribution of SMMEs towards the GDP in South Africa is contested, and this author recommended further research by and cooperation from Stats SA in this regard. As the number of SMMEs operating in South Africa is not known, data reflecting the true contribution of SMMEs towards the GDP and employment, and consequently the economic importance of SMMEs, cannot be established. Tracking their performance and determining whether government assistance provided is beneficial becomes a futile exercise. Evidence-based trends can thus not be established with the lack of evidence.

- **To define and identify the obstacles to SMMEs accessing finance**

Access to finance is a universal problem (Herrington & Kew, 2018) and is reported to be a recurrent obstacle in the literature internationally and nationally. An overarching definition of access to finance of SMMEs based on a combination of various definitions reported in the literature both internationally (EC, 2008; Máxima, 2013; World Bank, 2008) and nationally (FinMark Trust, 2013; FinScope, 2010) includes

- having access to a bank account designated for business purposes,
- having access to a wide variety of financial products and services supporting business operations,
- using these financial products and services regularly,
- having access to lines of credit, and
- having access to loans offered at a reasonable cost provided by sound financial institutions to SMMEs in need, to ensure equality of opportunity to creditworthy customers.

In South Africa SMME financing is particularly low when compared to similar economies in the world (Herrington et al., 2017). The literature review pertaining to obstacles impeding the growth of SMMEs indicated that access to finance is a recurrent obstacle to the growth of SMMEs (Agbenyegah, 2013; Finfind, 2018; FinScope, 2010; Herrington et al., 2017; Herrington & Kew, 2018; Kalane, 2015; Olawale & Garwe, 2010; SBP,2014, 2015; Sitharam & Hoque, 2016). As such, SMME owners rely on their personal wealth or funds from family and friends to finance business operations (Bushe, 2019; Dlova, 2017; Herrington & Kew, 2018; Mutezo, 2015). The commercial banks are often blamed for their unwillingness to fund SMMEs (Herrington & Kew, 2018). Major reasons for loan rejections include insufficient collateral, insufficient profitability, insufficient owner’s equity contribution, inability to repay the loan, problems with a credit record and insufficient information (Chimucheka & Rungani, 2013; Dlova, 2017; Mutezo, 2015), inadequate business plans, and financially unviable business ideas (Herrington & Kew, 2018). These are all factors contributing to SMMEs being credit-rationed. In many cases the SMME expects the financial institution to carry all the risk when supplying finance, according to Herrington and Kew (2018). The perception of SMMEs that access to finance is challenging could perhaps be exacerbated by a lack of knowledge pertaining to the accessibility of banks/financial institutions and the products they offer, and the perception that the preceding criteria stipulated by these institutions in approving loans cannot be satisfied. The same deduction was made in the studies of Dlova (2017) and Agwa-Ejon and Mbohwa (2015). In the South African context the literature indicates the following reasons for not applying for a loan generally: the application procedure is too complicated, interest rates are not favourable, unattainable collateral requirements, and fear of being rejected (Chimucheka & Rungani, 2013; Mengistae et al., 2010). The same reasons for not applying for loans were found in the empirical results of this study, but fear of rejection was reported by only a quarter (25.5%) of the respondents as being applicable to them to a large or a very great extent.

Data pertaining to SMME finance is limited in South Africa. The OECD countries report on SMME interest rates, the difference in interest rate spreads between SMMEs and large companies, and the proportion of SMME loans to business loans, thus comparing loan provision to SMMEs with loan provision to large companies. The OECD countries furthermore report on SMME loans authorised against SMME loans requested, thus rejection rates, the percentage of SMME loans outstanding, non-performing short-term and long-term loans, the percentage of SMMEs required to provide collateral on their last bank loan, and payment delays and bankruptcies, indicating either a cash flow shortage or a critical cash flow shortage (OECD, 2018). The World Bank Enterprise Surveys (World Bank, 2007–2020) report on various aspects related to finance of businesses, similar to what is reported on by the OECD. The data used by the World Bank Enterprise Surveys distinguishes between small, medium-sized and large enterprises, which enhances comparability. Additional finance indicators employed by them include the percentage of firms with a checking or savings account, the percentage of firms using banks to finance fixed investments, and the proportion of investments and working capital financed by banks.

Data pertaining to the reasons why SMMEs apply for funding, financing terms, rejection rates and reasons for rejection, and non-performing SMME loans do not exist in the public domain in South Africa (Finfind, 2018). These statistics are crucial for planning and for ultimately informing policy, for tracking progress in terms of SMME funding, and for academic research. Furthermore, not knowing the number of SMMEs operating in South Africa makes the determination of their financing requirements almost impossible.

Several studies internationally and nationally have been undertaken to establish the relationship between the nature and characteristics of SMMEs and SMME owners and their ability to access finance (Balogun et al., 2018; Kira, 2015; Mahloana, 2019).

Significant associations reported in the mentioned studies between the characteristics and nature of SMMEs and access to finance contribute to SMMEs being credit-rationed.

As such, the literature reports that there is a financing gap for SMMEs in start-up (taken as having operated for less than five years) (Mahloana, 2019) and micro enterprises (Mengistae et al., 2010) that operate as sole proprietors and partnerships (Fatoki & Asah, 2011; Mahloana, 2019), that do not have a relationship with the bank (determined by not having a bank account) (Mahloana, 2019), that do not own collateral (Fatoki & Asah, 2011; Mahloana, 2019; Mutezo, 2015), that do not have a proper credit record (Mahloana, 2019; Mutezo, 2015), that do not have a business plan (Fatoki & Asah, 2011), that do not keep accurate financial records (Fatoki & Asah, 2011), that do not have sufficient education and managerial experience (Fatoki & Asah, 2011; Mahloana, 2019) and that operate in rural areas (Fatoki & Asah, 2011).

Besides commercial banks, as the main providers of credit and loans, the government also provides financial assistance to SMMEs to fund start-up and expansion. SMMEs should, however, also consider approaching venture capitalists, business angels, crowdfunders and P2P lending platforms to obtain finance. These investors are less risk-averse (Abdulsaleh & Worthington, 2013). They specifically focus on young SMMEs that show promise of growth, that are informationally opaque, and that have few tangible assets (Gompers & Lerner, 2001). Expertise in managing the SMME can also be obtained from investors, as they are experienced in running a business successfully (Gompers et al., 2020). Venture capital and lending platforms provide an alternative avenue by which the financing gap can be narrowed, and this form of funding has not been fully exploited by SMMEs in South Africa.

- **To analyse the role and the drivers of the commercial banks in providing access to finance generally, and to SMMEs in particular**

Although the central role of the commercial banks is intermediation, the role of the banks has expanded and is not limited to taking deposits and providing credit (Rose & Hudgins, 2013). The pace of change is dictated by changes in competition in response to the needs of customers, innovation and regulation, and risk preferences (Lumpkin & Schich, 2020). With the emergence of digital banking, many of the roles of banks and the activities provided by them have evolved. Technological advancements allow for service proliferation, which, in turn, enables the commercial banks to increase their income (Abor et al., 2019). The reluctance to provide credit to SMMEs is as a result of the serious information asymmetry that exists between the commercial banks and businesses requiring credit (Abdesamed & Wahab, 2014; Huang et al., 2014).

The commercial banks have criteria in place guiding the provision of financial services and loans, subject to regulation. Literature pertaining to the processes and requirements used by the commercial banks to supply finance to SMMEs specifically is limited. Although various studies have attempted to explore the relationship between the characteristics of SMMEs and access to credit or loans from the demand side, research pertaining to the success rate of financing, approval and rejection rates, and reasons for rejections is limited from the supply side, as noted by Finfind (2018), and as indicated in the previous section. The exact number of SMMEs serviced by the commercial banks is also not available in the public domain. This hampers the tracking of successes for policymakers and researchers and leaves little room to come up with solutions for the challenge of SMMEs accessing finance.

For the commercial banks to reduce the problem of asymmetric information, lenders engage in activities to collect information to reduce the information gap. As such, the commercial banks screen and monitor information (Lumpkin & Schich, 2020) from borrowers to reduce the risk of providing credit. Credit assessments consider the bank–client relationship, quantitative information related to the financial nature of the business, information pertaining to the management capacity of the business, and information that mitigates risk, such as whether the client has collateral or guarantees (Abor et al., 2019; Soares et al., 2011). The commercial banks analyse the character, capacity, capital, conditions and collateral of the prospective borrower of the business (Baiden, 2011; Fatoki, 2014; Longenecker et al., 2006; Sathye & Bartle, 2017) to determine credit risk. In other literature, cash as opposed to capital (Rose & Hudgins, 2013), control and common sense (Matanda, 2010) are included as additional aspects emphasised in the credit assessment process.

The character of the SMME owner is determined by the credit record of the SMME owner and director. Capacity refers to the business's ability to generate and manage cash (Evans, 2005), which will enable ultimate repayment of the loan (Baiden, 2011; Longenecker et al., 2006; Matanda, 2010; Sathye & Bartle, 2017). Financial statement data and the education level and managerial competencies of the owner or director are also scrutinised in this regard. Capital or equity contribution substantiated by the net worth of the SMME represents funds retained by the business to be tapped into in the event of unexpected losses (Baiden, 2011). Conditions relate to the external market environment affecting the SMME (Abor et al., 2019). Collateral needs to be pledged, which represents another aspect that is scrutinised by commercial banks (Abor et al., 2019; Sathye & Bartle, 2017). The SMME needs to provide insurance, security or a guarantee to the commercial bank for the event of default. Slight variants are used when analysing credit, according to Sathye and Bartle (2017), but taken collectively, the commercial banks use the same focus areas in this regard.

The business plan is also considered by commercial banks when credit is assessed. Bewayo (2015) argues that the commercial banks will assess the loan application-based objective criteria to determine the creditworthiness of an applicant, and that they will require a business plan in summary format as a last resort. A summary of the business plan is in some instances provided in the loan proposal. Information that the bank sees as relevant in the evaluation of the loan application is thus gathered from the loan proposal (Kaplan & Warren, 2013).

Although the so-called five Cs of credit are generally discussed in the literature pertaining to credit risk analysis, as indicated above, namely character (creditworthiness), capacity, collateral, capital and conditions, seven Cs are suggested in this regard. Under “capacity”, the financial information and education and experience of the owner are considered as one criterion. The commercial banks take the education, experience and managerial competencies of the SMME owner very seriously when a loan is granted, as was determined by the thematic analysis of this study. SMME owners need to have relevant education and experience for the sector that they service. As such, six Cs are proposed, namely character, capacity, competence (education and experience), capital, conditions, and control.
It should, however, be noted that technological advancements bring to the fore other platforms that the commercial banks can exploit further to assist in providing equity and debt finance to deserving SMMEs. Although commercial banks do collaborate with equity financiers and other lenders, such as venture capitalists in terms of their intermediation role. Such collaboration allows for risk-sharing with equity financiers and investors that are less risk-averse (Abdulsaleh & Worthington, 2013). This avenue of loan provision needs to be explored and exploited further.

Furthermore, increased computing power and the availability of more data has paved the way for alternative methods to predict repayment behaviour to the traditional lending technologies used by the commercial banks. Through psychometric assessments, the willingness of SMMEs to meet their loan obligations can thus be established. In Peru, as stated in chapter 4, it was reported that psychometric credit assessment increased loan provision to SMMEs without a credit history by 54% (Arráiz et al., 2018). For a country such as South Africa, where there are large numbers (68.8% (SEDA, 2019)) of SMMEs operating in the untapped informal market, psychometric credit assessments provide a promising alternative. Although Standard Bank, as stated in the literature review, has explored the value of this form of credit assessment, the outcome of psychometric testing in loan provision and loan defaults should be investigated if the commercial banks intend to increase their market share in the informal and unbanked SMME sector.

9.2.2 Quantitative-based secondary objectives

Before discussing the quantitative secondary objectives, the following tables provide a summary of the main findings extracted from the study.

Firstly, Table 9.1 provides a summary of the findings relating to the nature and characteristics of SMMEs in the Matjhabeng (Free State Goldfields) area.

Table 9.1 Summary of the nature and characteristics of SMMEs, and obstacles hindering their operations

	Nature and characteristics of SMMEs
1	Most of the SMME owners have been operating their business for between 6 and 10 years (28.02%) or for more than 10 years (33.52%).
2	Most of the SMMEs employ 2 (23.08%) or 3–5 employees (30.77%).
3	The majority of the SMMEs are micro enterprises (71.15%).
4	Nearly two-thirds (63%) of the SMMEs are sole proprietors.
5	Most (29%) of the SMMEs operate in the growth and expansion phase without access to external finance. This is followed by SMMEs operating beyond the start-up phase but still earning small amounts of revenue (20%).
6	The majority of the SMME owners (71.2%) are black.
7	Nearly two-thirds (62.09%) of the SMME owners are male.
8	The majority of the SMME owners (42.31%) have completed Grade 12.
9	The SMME owners have, on average, 11.1 years of experience in the sector.
10	The SMME owners have, on average, 9.9 years of experience as a business owner.
11	Nearly one-third (30.49%) of the SMME owners have immovable property.
12	The majority of the SMME owners (90.66%) have movable property.
13	Almost half (49.7%) of the SMME respondents are operational in the townships of Matjhabeng, and thus operate in the informal sector.
14	The majority of the SMMEs (39%) operate in the community, social and personal services sector, followed by the retail trade sector (26.65%).
15	Three-quarters of the SMMEs (75.8%) indicated that they keep financial records.
16	In most instances (57%) the financial record-keeping is done by the SMME owner themselves. A further 17.02% and 20.92% indicated that they have an accountant or an auditor, respectively.
17	Nearly half (45.05%) of the SMME owners indicated that they have a business plan.
	Obstacles hindering SMME operations
18	The following obstacles were indicated by respondents as major or very severe obstacles, listed in descending order of severity: the economic environment (62%), crime, theft and corruption (59.8%), market penetration and market demand (51.8%), access to finance for your kind of business from the commercial banks (50%), support and advice provided by government (43%), the regulatory environment (39%), access to infrastructure (37%), labour laws and the labour environment (34.5%), the ability to employ an educated and skilled workforce (30%) and access to technology (28%).

Source: Author

Secondly, Table 9.2 summarises the results pertaining to the various aspects of financial inclusion for SMMEs.

Table 9.2 Summary of the financial inclusion of SMMEs

	Financial inclusion – being banked (having a bank account and using it regularly)
1	Just more than three-quarters (76%) of the SMMEs have a bank account.
2	A current account (42%) or a savings account (43.9%) are mostly utilised for SMME business operations.
3	More than one-quarter (28%) of the SMMEs indicated that they use their business account for personal transactions as well.
4	Most of the SMMEs (60%) indicated that they have been banking with their commercial bank for either between 6 and 10 years or more than 10 years. This indicates that they have a relationship with their commercial bank.
5	Besides the normal day-to-day banking transactions, cell phone banking (68.8%) and internet banking (57.6%) are used by the majority of the SMMEs.
	Financial inclusion – having access to loans and credit
6	More than one-quarter (27.2%) of the SMMEs had applied for a loan since business start-up.
7	At the time data was collected, only 16.8% of the SMMEs had open lines of credit and a loan provided by a commercial bank.
8	Just over two-thirds (68%) of the SMMEs that had applied for a loan since start-up indicated that their last application for a loan was approved.
9	Two-thirds of the SMMEs (66%) that had applied for a loan and were rejected indicated that reasons were provided to them for the rejection of the loan.
10	Only 40.2% of the SMMEs indicated that they are currently in need of a loan or credit from a commercial bank.
11	The major reasons indicated by the SMMEs for not applying for loans are interest charges, collateral requirements, and requirements for owner's equity contribution to secure a loan. More than half of the respondents (58.8%) indicated that the application procedure for bank loans is too complicated and burdensome. Thirteen percent cited a poor credit record applicable to them to a large or a very large extent as the reason for them not applying for a loan.
12	The most popular credit and loan products used by the SMMEs are overdrafts and term loans.
13	Although women empowerment finance and empowerment finance are provided by the commercial banks to SMMEs, uptake of these products is low. Only 3% of the SMMEs indicated that they have either women empowerment finance or empowerment finance.
14	In the majority of instances, the SMMEs' stated reasons for choosing a specific bank were having a personal relationship with the bank and that it is the commercial bank that best understands their needs.
15	In most instances, SMMEs that had acquired a loan indicated that they had pledged their personal assets or bonds over immovable property as collateral.
16	Only 10.7% of the SMMEs that had applied for a loan from a commercial bank indicated that the loan was used to fund working capital.
17	Sixteen per cent of the SMMEs that had secured a loan from a commercial bank indicated that the loan was used to purchase fixed assets.
18	Nearly 15% (14.6%) of the respondents indicated that they have attended workshops and training provided by the commercial banks. Thirty per cent indicated that they were not aware of training workshops presented by the commercial banks.

Source: Author

Based on the above tables, a discussion follows below of the quantitative-based secondary objectives pertinent to this study.

- **To analyse the association between access to finance from the commercial banks perceived as an obstacle and the general characteristics of SMMEs**

The most severe obstacle experienced by the SMME respondents is the economic environment in which they operate. Ranked second is crime, theft and corruption. This is followed by insufficient market penetration and market demand. When one considers the severity of the obstacles indicated by the respondents, the economic environment and insufficient market penetration and market demand relate to low GDP growth trends, which are not unique to the Free State Goldfields. Without government policies in place to stimulate growth, particularly in SMMEs operating in municipal areas outside metropolitan areas, the said obstacles will remain a challenge to SMMEs. Furthermore, if one considers that the majority of SMMEs operating in the area under investigation are micro enterprises, employing five or less employees, government policies need to be directed to assist these businesses, as was proposed by Amra et al. (2013). Crime, theft and corruption are another major obstacle that the government needs to address urgently. An economic area or cluster cannot grow if crime, theft and corruption continue to hamper business operations. This also prevents potential investors from starting a business, as the environment is not conducive, and future employment opportunities are thus lost. Furthermore, the commercial banks will be more willing to invest in economic environments that are less exposed to crime and theft, as this reduces the risk of providing loans and credit. To prevent migration to metropolitan areas, the government needs to ensure that growth opportunities are targeted at businesses functioning outside metropolitan areas, such as Matjhabeng (Free State Goldfields), thus ensuring equal opportunity for economic development in all the geographical areas of South Africa. Lower levels of migration to metropolitan areas will also increase local market demand.

The fourth-greatest obstacle is access to finance from commercial banks. Half of the respondents indicated that access to finance from the commercial banks is a major or a very severe obstacle to their business operations. Fourty per cent of the respondents indicated that their business is currently in need of credit or a loan from a commercial bank. It can thus be concluded that access to finance is the fourth-greatest obstacle facing the operations of SMMEs. This finding is supported by FinScope (2010), Herrington et al. (2017), Olawale and Garwe (2010), the SBP (2014) and the World Bank (2007). These studies reported that access to finance is indicated as either the first-, the second-, the third- or the fourth-greatest obstacle impeding the operations of businesses.

Obstacles 5 to 9, indicated by the SMME owners as either major or severe obstacles, are all additional challenges that the government needs to address. These are support and advice from government (43%), the regulatory environment (39%), access to infrastructure (37%), labour laws and the labour environment (34%) and the ability to employ an educated and skilled workforce (30%). Infrastructure development needs to be a primary focus in government policy, especially as it pertains to areas such as townships. The government nationally and locally furthermore needs to address the burden of regulation, and labour laws need to be more flexible to accommodate SMMEs, as regulation and adherence to legislation increase the cost of doing business. The challenges indicated by the SMMEs are not new and have frequently been reported in the literature. Taking this into consideration, the question that arises again is whether government institutions are willing to ensure a favourable environment for trade and growth.

Furthermore, the regression models show that access to finance perceived as an obstacle is statistically significantly associated with the life cycle of the SMME, and specifically with start-up SMMEs and SMMEs beyond start-up and still earning small amounts of revenue, as opposed to SMMEs in the steady phase. A fifth (20%) of the SMMEs indicated that they are functioning beyond start-up but still earning small amounts of revenue. These are the businesses that the government needs to target, specifically to assist them to progress into the growth phase. The results of the regressions are supported by the literature, which indicates that access to finance as an obstacle is experienced more severely by start-ups (Finfind, 2018).

The regressions also show a statistically significant negative association between access to finance perceived as an obstacle and having immovable property. Thus, the odds of SMMEs perceiving that “access to finance is an obstacle” are less for entities that have immovable property than for entities that do not have immovable property. The descriptive results indicate that only a third (30.49%) of the SMME owners own immovable property. Immovable property can be pledged if a loan is applied for. This finding of the regressions echoes the results of Mutezo’s (2015) study, where it was reported that having collateral significantly enhances the SMME’s ability to access finance, thus reducing the perception that to obtain finance is an obstacle. It can be concluded that without ownership of immovable property, access to finance is perceived as a more severe challenge by SMMEs.

The regression analyses furthermore show a statistically significant positive association between access to finance perceived as an obstacle and the variable “keep financial records”. Three-quarters (75.8%) of the SMMEs indicated that they keep financial records, and more than a fifth (20.92%) have an accountant or an auditor verifying the authenticity of the documents. The association shows that the odds of SMMEs identifying access to finance as an obstacle are greater for SMMEs that do not keep financial records than for SMMEs that keep financial records. SMMEs that do not keep financial records will not be considered by the commercial banks for loans or credit. This is supported by the results of Mahloana (2019), where keeping financial records was reported as a strong predictor of having access to credit.

Thus, it can be concluded that the odds of SMMEs operating in the start-up phase or beyond start-up and still earning small amounts of revenue and not having immovable property and not keeping financial records perceiving access to finance as an obstacle to them are greater than for SMMEs operating in the steady phase that own immovable property and that keep financial records.

- **To analyse the association between applying for a loan at a commercial bank and the general characteristics of SMMEs**

Regarding the variable “applied for a loan since start-up”, the simple logistic regression and the model selection indicate a statistically significant association with the age of the SMME. All three regressions also show statistically significant negative associations with having operated for between 1 and 3 years as opposed to having operated for more than 10 years. Likewise, a statistically significant negative association is shown between “applied for a loan since start-up” and the size of the SMME, specifically for micro and very small businesses (1 to 10 employees) as opposed to small businesses (11 to 50 employees). In addition, a statistically significant negative association was reported between the variable “applied for a loan since start-up” and not having an auditor or an accountant as opposed to having an auditor or an accountant.

Furthermore, a statistically significant positive association was reported between “applied for a loan since start-up” and the area of operation, namely towns as opposed to townships. Likewise, a statistically significant positive association was reported between “applied for a loan since start-up” and having a business plan as opposed to not having a business plan. Having a business plan was similarly found to be positively related to the application for loans in Abdesamed and Wahab’s (2014) study.

Thus, the age of the SMME and having operated for between 1 and 3 years as opposed to more than 10 years, the size of the SMME and operating in an informal environment (such as a township), not having an external person or body verifying financial statement information, and not having a business plan influence the decision of SMME owners to apply for loans from the commercial banks. SMMEs will thus apply for a loan if they have passed the start-up phase and if they are compliant in terms of having authentic financial records and a business plan. The way SMMEs will opt to fund their establishment and initial expansion through internal sources, and then after a proven track record will opt to apply for and obtain debt financing, is supported by the pecking order theory (Fatoki & Smit, 2011). Support for the pecking order theory is found in the studies of Yuan et al. (2019) in Malaysia and Adair and Adaskou (2015) in France, as stated in chapter 3. In these studies, it was reported that the majority of SMMEs favour internal sources of finance initially. The aforementioned findings are similar to those of Mogashoa's (2016) study in South Africa, where empirical evidence supports the pecking order theory. The results of this study show that after start-up and when a track record has been established, shown by the SMME having authentic financial records and a business plan, the SMME is more likely to apply for a loan.

- **To analyse the association between having loans from a commercial bank and the general characteristics of SMMEs**

The simple logistic regression and the stepwise model selection both show a statistically significant negative association between having loans and credit and the age of the SMME. This finding is supported by the research of Fatoki and Asah (2011) and Mahloana (2019). Specifically, the chances of having credit or loans for SMMEs that have operated for between 1 and 3 years are significantly less than those of SMMEs that have operated for more than 10 years. All three regressions show that the odds of SMMEs that have operated for between 4 and 10 years "having credit or loans" are less than those of SMMEs that have operated for more than 10 years. Also, a statistically significant negative association was reported between "having access to credit or loans" and the size of the SMME. The odds ratios show that SMMEs operating as micro and very small businesses (1 to 10 employees) have less access to credit and loans than small businesses (11 to 50 employees). The findings furthermore show a statistically significant negative association between having credit and loans and being an SMME with unlimited liability, such as a sole proprietor or a partnership, as opposed to an SMME operating as a legal entity with limited liability, such as a closed corporation, a private company, an incorporated private company, a franchisee or a trust. These findings are supported by the research of Fatoki and Asah (2011), Mahloana (2019) and Mutezo (2015). The SEDA together with the SEFA need to specifically assist smaller SMMEs. Furthermore, when SMMEs have shown growth potential while operating as sole proprietors or partnerships, they need to consider registering as a company. Operating as a legal entity with limited liability reduces the perceived risk, from the perspective of the commercial banks. Sole proprietors and partnerships are to some extent protected by the NCA (34 of 2005), provided that their turnover is less than R1,000,000 at the time of the agreement. Thus, granting loans recklessly could result in serious consequences for the commercial banks, and for this reason commercial banks are more risk-averse to lend to these types of entities. Sole proprietors and partnerships also face the risk of discontinuation when an owner dies. This increases the risk of lending to these entities.

In addition, a statistically significant positive association was reported between "having access to credit and loans" and operating in towns as opposed to townships. Thus, SMMEs operating in an environment in which they were previously excluded from the formal economy currently negatively impacts on their ability to secure loans, as compared to SMMEs operating in the formal economy. Informal-sector SMMEs based in townships are another segment that needs to be targeted by government policy, as they were excluded during the apartheid era, and they are still grappling with the consequences. Infrastructure development and crime prevention, as noted earlier, need to be the main focus areas of government policy in townships. Government interventions through the SEDA should emphasise SMMEs becoming compliant in order to reap the benefits of what is accessible to SMMEs operating in a formal economic environment, such as towns. Lastly, a statistically significant positive association was reported between "having access to credit and loans" and having a business plan as opposed to not having a business plan. This finding is consistent with Fatoki and Asah's (2011) research. Training in compiling a business plan for the purpose of accessing finance needs to be broadened and intensified, particularly that offered by the SEDA.

Thus, the odds of SMMEs "having access to credit and loans" are greater for SMMEs that have operated for more than 10 years, for small businesses (employing between 11 and 50), for SMMEs operating in towns, and for SMMEs that have business plans than for SMMEs that have operated for between 1 and 3 years and between 4 and 10 years, for micro or very small businesses (employing between 1 and 10), for SMMEs operating in the townships, and for SMMEs that do not have business plans. Thus, the age, the size, the legal entity and the area of operation of the SMME and having a business plan are characteristics related to the SMME that influence its ability to obtain credit or loans, as the empirical results show at the 10% significance level at least.

- **To analyse the association between the need for a loan and the general characteristics of SMMEs**

All three regressions show a significant positive association between the need for a loan and the life cycle of the SMME. The odds of needing a loan for SMMEs operating in the start-up phase or beyond start-up and still earning small amounts of revenue are greater than those for SMMEs operating in the steady phase. The simple logistic regression and the stepwise model selection furthermore show a statistically significant negative association between needing a loan and having immovable property as opposed to not having immovable property. A statistically significant positive association was found between "having a need for a loan" and not keeping financial records as opposed to keeping financial records, indicated in all three of the regressions.

Thus, SMMEs have greater odds of needing a loan if they are in start-up or beyond start-up and still earning small amounts of revenue, if they do not have immovable property, and if they do not keep financial records than if they are operating in the steady phase, if they own immovable property, and if they keep financial records. The commercial banks will not provide loans or credit to businesses without financial records, as their current growth and their potential future growth need to be established (Mutezo, 2015). This explains the more urgent need for loans indicated by SMMEs that are in start-up, that do not have immovable property, and that do not keep records of their finances. Support provided particularly by the SEDA and the SEFA to enable SMMEs in the start-up phase to access finance needs to be intensified and broadened. Training and guidance focusing specifically on financial record-keeping, the benefit of having an accounting system, and integration of these systems to enhance management efficiency needs to be strengthened and expanded. The SEFA furthermore needs to increase the reach of their guarantee scheme, to enable SMMEs to provide some form of surety when applying for loans.

The regressions collectively and the simple logistic regressions and the stepwise model selection of the dependent variables "access to finance is an obstacle" and "need a loan?" show statistically significant associations with similar independent variables, namely the life cycle of the SMME (start-up and beyond start-up and still earning small amounts of revenue, as opposed to the steady phase), having immovable property as opposed to not having immovable property, and not keeping financial records as opposed to keeping financial records. Therefore, SMMEs that perceive access to finance as an obstacle will also be more in need of a loan.

9.2.3 Qualitative-based secondary objectives

As with the previous section, Table 9.3 provides a summary of the major themes identified in the qualitative part of the study (the interviews) pertaining specifically to the commercial banks.

Table 9.3 Summary of themes emerging from the interview data obtained from the commercial banks

	Defining SMMEs
	The commercial banks divide businesses into categories according to their turnover for financial services provision. As the SMME progresses in terms of turnover, more experienced bank personnel are allocated to service their financial needs.
Theme 1	**Prior and existing relationship between the bank and the SMME**
	The commercial banks perceive a relationship between themselves and the SMME as extremely important. This enables the commercial bank to understand the SMME's operations holistically. A relationship should exist even before a bank account is opened or funds are applied for, so that the SMME can make informed decisions with the assistance of the bank. As a relationship of trust develops, information is disclosed, which reduces information asymmetry experienced by the commercial bank.

Theme 2	Involvement
	The commercial banks are involved in the SMME sector and have designated business or enterprise development units to manage SMME relations. The commercial banks offer diversified products and services, not just loans. These services and loan products are available for SMME start-ups, micro enterprises and existing SMMEs. These services and products include credit cards, overdrafts, commercial loans, term loans and asset-based finance. The pricing of the loans is negotiated and is based on, among other things, the account conduct and the cash flow. Start-up SMMEs are encouraged to open a business bank account to establish a track record. To assist the lower-income segment of the market or SMMEs from previously disadvantaged communities, some banks have development funding, also known as alternative funding, to support these entities. The commercial banks provide a large variety of services to assist SMMEs to comply with their lending criteria. Some commercial bank respondents indicated that these services include providing assistance with the drafting of a good business plan and offering workshops to enhance financial and management skills. Training in soft skills needed for the day-to-day management of the business is also provided, as indicated by one bank official. The commercial banks do site visits to foster the relationship between them and the SMME owner and to enhance their understanding of the business. SMME owners in their own business environment are more relaxed, and information is consequently shared.
Theme 3	**Documentation required to access finance**
	The following aspects are scrutinised when an SMME applies for a loan: the personal information of the SMME owner and director, FICA documentation, whether the SMME is registered with CIPC, the business plan (with the marketing strategy, financial history and future projections), the cash flow, collateral, the personal balance sheet of the owner and director, the balance sheet of the business, and financial statement data. One commercial bank also requires the SMME owner to provide a CV. Qualifications obtained are also verified.
Theme 4	**Processes**
	The commercial banks have both a scored and a manual application process that they use to evaluate loan applications. For the scored loan application to be successful, information must be complete for the computer system to generate an outcome. The scored application is quick, it saves time, and the loan outcome is communicated to the client immediately. The manual application includes an in-depth analysis of the business. This method is used when the loan amount applied for is more than a certain amount, as indicated by one participant.
Theme 5	**Screening and evaluation process**
	The pre-screening and the screening of the loan typically take place at branch level. This process includes verifying whether the SMME exists and verifying the account conduct, credit histories, the financial statement data and collateral. Interviews are held with the loan applicant. When the loan application is rejected based on a faulty application, bank officials with more authority will scrutinise the application to try and motivate for a successful outcome. The application with a motivation is then referred to the credit analyst for further verification and decision-making.

Theme 6	Creditworthiness
	The character of the SMME owner is mainly determined by the creditworthiness of the owner. Creditworthiness is determined by ITC checks. Experian is also used for this purpose. Loan applicants with judgments need to provide proof of the arrangements made in terms of repayments. Alternative funding is used if a client is listed on ITC and has made repayment arrangements, as indicated by some of the commercial banks. If there is a trend of non-payment, the risk of providing a loan increases. If the business banker still feels there is merit in the case, a motivation can be provided to the Credit Department.
Theme 7	**Capacity**
	To determine the capacity of the SMME, financial statement data of the owner and the director and their education and managerial skills are considered. The importance of education and experience was highlighted, specifically as they pertain to SMME start-ups. Knowledge and experience of the industry are particularly important in this regard. The financial statement data of the business is very important in terms of the approval of loans. Solvency, liquidity and repayment ability need to be proven to justify the loan. The financial statement data furthermore indicate whether the SMME will be able to service the loan. For this purpose, the balance sheet of the business, cash flow and future projected income are considered.
Theme 8	**Capital**
	Capital is synonymous with owner's equity contribution. Owner's equity contribution is determined on a case-by-case basis. A contribution shows commitment. If the SMME owner has secured contracts, they can be used as a substitute for owner's equity contribution, as indicated by one participant. It was indicated that the commercial bank does not want to invest more than what the owner is prepared to invest.
Theme 9	**Conditions**
	The economic environment and the sector in which the SMME operates are important considerations. The loan application success rate and the reasons for loan rejections in a particular area are also considered in this regard. The growth trend of the local economy influences the commercial bank's decision on the risk of investing in an area. Some commercial banks also have certain sectors or segments that they want to target for future growth. Some sectors are identified as high-risk sectors. As such, the risk appetite of the commercial bank is less in these sectors. Gearing ratios are influenced by the sector in which the SMME operates. This is considered in the seasonality of the sectors.
Theme 10	**Success rate of loans to SMMEs**
	Some of the commercial banks indicated that the success rate of loans has increased in the past three years. Others indicated that the application rate for loans has increased but not the approval rate.
Theme 11	**Reasons for loan rejections**
	Reasons for loan rejections include a bad credit rating, incomplete information, lack of business management skills, lack of collateral, lack of financial literacy and poor business plans.
Theme 12	**Collateral**
	Having collateral in place is another aspect considered by the commercial banks. The importance of pledging collateral to guarantee that the SMME will be able to repay the loan in the case of adverse events was highlighted. Collateral that can easily be converted into cash, investments, property and surety emerged as the types of collateral most preferred by the commercial banks.

Theme 13	The business plan
	The importance of having a business plan was emphasised for start-ups and for SMMEs intending to diversify. The commercial banks indicated that the SMME owner needs to be familiar with the content of the business plan and needs to understand the impact and implications thereof.
Theme 14	**Communicating the outcome of the loan**
	The outcome of the loan is communicated to the SMME loan applicant, as this is a requirement stipulated in the NCA (34 of 2005). The reasons for an unsuccessful loan are communicated. Communicating the reasons for the decline of a loan provides the SMME with an opportunity to take corrective measures and to reapply in the months to come. The commercial banks are aware that SMMEs can become an investment opportunity in the future.
Theme 15	**Control**
	Internal and external control measures are important. Internal control has to do with the procedure to monitor loan repayments and manage the risk of default. External control relates to the impact of regulations and legislation in enabling access to finance. Some participants mentioned that monitoring of loan repayments is system-driven. Clients that have defaulted are contacted. The reasons for default are established. After the reasons have been obtained, the payment date is rescheduled or the loan is restructured to accommodate the client, as mentioned by some participants. If the SMME owner or director keeps on defaulting, the matter is referred to the Collections Department, and the facility is called up. The commercial banks mentioned that regulations and legislation influence the granting of loans. Regulations of the NCA and FICA thus influence the loan decision-making process.
Theme 16	**Expectations of government**
	The regional business heads of the commercial banks indicated that the expectations of government for the private sector to contribute to economic growth do not influence the granting of loans. A commercial bank official indicated that the letter of the law is adhered to, and that the commercial banks' first obligation is to their shareholders.

Source: Author

Below the secondary objectives related to the interviews with the commercial banks are discussed.

- **To explore how the commercial banks enable the in-house process of providing access to finance to SMMEs**

The literature on financial intermediation questions the "specialness" of banks (Coetzee, 2016). When the interview data is assessed, as indicated in Table 9.3, it is deduced that the commercial banks remain special as a result of their intermediation role and their role as delegated monitors (see Boot & Thakor, 2018; Diamond, 1984). Thus, the banks remain special, as they have a superior ability to collect information and to monitor it on behalf of depositing clients. This is a role that they take very seriously, by adhering to a process of credit analysis. The interview data collected shows that the commercial banks will not provide loans to SMMEs that are not compliant in terms of regulations, legislation and their credit risk policies.

The commercial banks are aware of the challenges experienced by SMMEs in accessing loans. This awareness provides them with an advantage in servicing the market. The branches of the commercial banks are favourably situated geographically, providing them with in-depth knowledge regarding the economic environment of the region in which they function. The SEDA, the SEFA and other government organisations need to collaborate with the commercial banks specifically in areas situated outside metropolitan regions, to tap into the knowledge base of the commercial banks as it pertains to the economic environment and the unique challenges experienced by SMMEs, particularly in obtaining finance. Guidance and training provided by the SEDA and the SEFA to SMMEs can thus remain relevant and informed by the requirements of the commercial banks.

The commercial banks' involvement with SMMEs is subject to the obligation to adhere to international standards, local regulations, policy and legislation, while still pursuing profitability. The macroeconomic environment, bank-specific policy and characteristics related to the nature of SMMEs and SMME owners – all elements of managing credit risk – influence the bank's decision on when to provide credit and loans. The lack of sufficient information related to the nature and characteristics of SMMEs contributes to the problem of asymmetric information, which leads to credit rationing. The commercial banks will thus only grant finance to SMMEs that show sustainable profitability and growth. This must be substantiated by authentic documentation and records.

To reduce the problem of asymmetric information, the importance of a relationship between the commercial bank and the SMME is emphasised. A relationship ensures that the commercial bank understands the SMME. The relationship then develops based on trust. A relationship furthermore ensures that the correct type of business account is opened even before the SMME applies for a loan. A relationship also enables flow of information between the SMME and the commercial bank. Thus, repetition of the same information from the SMME to the bank official is prevented. A relationship helps the bank official to compile a well-structured loan application when the need arises, as the risk assessment is more thorough and accurate. The soft data related to the relationship enables the bank official to motivate reasons for a loan application when the need arises.

The descriptive results show that most of the SMMEs (60%) indicated that they have been banking with their commercial bank for between 6 and 10 years or for more than 10 years. A long-standing relationship thus exists between the commercial banks and the SMMEs operating in Matjhabeng (Free State Goldfields). The statistical results of Mahloana (2019) and Fatoki and Odeyemi (2010) support the views obtained from the interview data from the bank officials. In their studies, a statistically significant association was reported between having a prior relationship with a commercial bank and the success of a loan application.

In the research of Dlova (2017), Finfind (2018) and Mutezo (2015) it is proposed that the commercial banks need to diversify their loan products to cater for the diverse financial needs of SMMEs. This proposal is based on the assumption that the commercial banks provide a one-size-fits-all service to SMMEs, which in practice has several shortcomings. However, the interview data collected from the commercial banks shows that the loan applications of SMMEs are treated case by case. The commercial banks are aware that the market is extremely diverse. As such, owner's equity contribution, collateral pledged, future contracts secured and the growth potential of the business all influence the successfulness of the loan application and the terms and conditions of the credit and loans that are provided to such businesses. For the SMME owner to have collateral and owner's equity contribution is important for the commercial banks, as it shows commitment from the side of the SMME owner or its director. Some commercial banks, however, have alternative funding options aimed specifically at dealing with SMMEs that experience challenges such as a bad credit rating and insufficient collateral and owner's equity contribution. These alternative funding channels were developed in collaboration with other stakeholders, and they aim to help SMMEs from previously disadvantaged communities, subject to the SMME showing growth potential.

The literature also shows that the loan application documentation is complex (Dlova, 2017; Pretorius & Shaw, 2004), and that the commercial banks take too long to communicate the outcome of a loan (Dlova, 2017). More than half of the SMME owners in this study (58.8%) indicated that the application procedure for bank loans is too complicated and burdensome (applicable to them to a large or a very large extent). The results of this study show that the commercial banks indicated that both of these issues have been addressed. To make a proper assessment of the SMME owner's repayment ability and their willingness to service a loan, a large amount of information needs to be obtained from the SMME owner, thus fulfilling the banks' role as delegated monitors. Being delegated monitors, the onus is on the banks to ensure that loans are provided to clients that can meet the bank's obligations. The commercial banks have designated business units and bank officials to assist SMMEs with completing loan applications. They also have a scored loan application, where the outcome of the loan is expedited. A computer program will process information relevant to the loan application, and an outcome is determined immediately. For effective use of this service, all relevant documentation needs to be in place, and the SMME owner needs to be compliant. This decision is thus taken at branch level. If information is outstanding, the SMME owner is notified, and additional information is obtained when necessary. When a loan application exceeds a certain amount, the application is processed manually. These applications take longer, as the credit assessment is more complicated because of the increased risk in loaning larger sums of money. A higher level of authority in the bank oversees and ultimately approves or rejects the loan.

Dlova (2017) recommended that commercial banks need to employ staff with experience and knowledge to provide financial services to SMMEs. The commercial bank officials that participated in the interviews have, on average, 16.8 years of experience in banking, and 7.3 years of experience in providing services to SMMEs. These officials are strategically placed as a result of their banking experience and knowledge. Just as the commercial bank puts a premium on the education, knowledge and experience of the SMME owner, their officials also need to be knowledgeable to provide the correct information, follow the correct procedures, and provide solutions to financial and managerial challenges experienced by SMME owners. Commercial bank officials are trained to fulfil this role, as FAIS ensures that financial advice provided to customers is done properly and truthfully.

Dlova (2017) suggested less emphasis on the credit history of the SMME owner or director when determining the outcome of the loan. The researcher pointed out that SMME owners with a poor credit rating are excluded from obtaining loans. This represents a large cohort of businesses functioning in the Eastern Cape. The same deduction was made by Mahloana (2019) and Mutezo (2015), where the authors stated that the bank will not grant loans to SMMEs with an impaired credit record. The commercial banks assess the cash flow of the SMME and debt-to-equity ratios, to ensure that after the loan instalments are considered, the SMME owner will be able to service the loan, thus ensuring repayment ability. The reason that the commercial banks emphasise the credit score is that this shows the intent, inclination and/or willingness of the SMME owner or director to honour their credit obligations. This can only be established by their past credit history. The SMME owner or director should therefore not only have enough cash to meet their obligations, but they must show that they will meet their credit obligations. Nevertheless, only 13% of the SMME owners indicated a poor credit record applicable to them to a large or a very large extent as a reason for not applying for a loan. There were other more pertinent reasons specified for not applying for a loan, as explained in chapter 6.

When SMMEs default on their loans, the commercial banks will first establish the reasons for the default. Various avenues will be investigated to assist the SMME owner to repay the loan. In some instances, the commercial bank will restructure the loan to make adherence to repayment easier. Only as a last resort will the loan be called up and will legal proceedings follow.

If one considers the various strategies employed to assist SMMEs to obtain finance, as explained above, it is concluded that the commercial banks are engaged in the SMME market and have implemented various initiatives to service this market. This view is taken against the regulations and the fiduciary obligation of the commercial banks to their shareholders.

- **To explore the reasons preventing access to finance to SMMEs, from the perspective of the commercial banks**

The reasons provided by the participants for the rejection of loans include a bad credit rating, incomplete information on the loan application, lack of business and management skills, lack of financial education, lack of collateral and poor business plans. These findings are supported by Chimucheka and Rungani (2013), Finfind (2018) and Mutezo (2013, 2015).

SMMEs thus need to transact in such a way that their credit rating remains unimpaired. The participants mentioned that an impaired credit rating hampers access to loans. Both the credit rating of the SMME owner or director in their personal capacity and that of the business are considered. One participant indicated that if the loan applicant cannot manage their personal finances, it casts doubt on whether the finances of the business will be managed properly. When an SMME has a compromised credit rating, the commercial bank needs to be informed, so that alternative arrangements can be made, which could include accessing funds earmarked for SMMEs with bad credit ratings.

It was indicated by some of the commercial banks that the success rate of loans has steadily improved in the last three years in the Matjhabeng (Free State Goldfields) area. One participant was of the opinion that the approval rate for loans could be higher. This shows the risk aversion of the commercial banks. This finding echoes the views of Mutezo (2013, 2015), where the author stated that the overarching objective of the commercial banks is to make a profit while at the same time minimising risk. Thus, these entities follow a cautionary investment paradigm.

Another participant indicated that because of the lack of economic development in the Matjhabeng (Free State Goldfields) area and the reliance of some businesses on the mining industry, application for loans has increased but the approval rate has not increased. SMMEs in the Matjhabeng (Free State Goldfields) area operate in an uncertain competitive environment with subdued growth prospects, which impacts negatively on their rate of return. This complex environment makes it difficult for banks to grant loans, as the risk of SMMEs not meeting their loan obligations is increased. The commercial banks are furthermore aware of the high failure rate of SMMEs in South Africa, particularly when it comes to the first two years of operation (Brink, Cant & Ligthelm, 2003; Finfind, 2018; Herrington et al., 2017), and this influences their risk appetite negatively.

9.2.4 Qualitative- and quantitative-based secondary objectives

In this section, the quantitative data will be supplemented with the qualitative interview data.

- **To supplement the results obtained from the SMMEs with the views and perceptions of the commercial banks regarding access to finance**

In this section, the results obtained from the SMMEs descriptively, as well as the significant associations found with the regressions, thus a demand-side perspective, will be supplemented with the themes emerging from the interview data related to the views and perceptions of the commercial banks pertaining to access to finance, thus a supply-side perspective.

- The importance of having a relationship with the commercial bank

As indicated in Table 9.3, a relationship between the SMME and the commercial bank is important in ultimately successfully securing a loan. The importance of a relationship emerged from the interview data and the results obtained from the SMMEs. The SMMEs indicated the following two main reasons for choosing a particular commercial bank, applicable to them to a large or a very large extent: (1) they have a personal relationship with the commercial bank, and (2) it is the commercial bank that best understands the needs of SMMEs.

When one considers that most of the SMMEs situated in the Matjhabeng (Free State Goldfields) area have had a relationship with their commercial bank for more than 6 years, as stated above, it can be argued that although having a relationship with the SMME is important for the banks, the SMME also needs to be compliant to reap the benefits of obtaining loans. Although the commercial banks have several years of information pertaining to the SMME, as reflected by their cash flows in their bank account, from which the commercial banks do make a profit through their bank fees, they still have additional measures in place, such as their requirement of collateral and owner's equity, to offset the risk when providing loans. This is an indication of how risk-averse the commercial banks are to servicing the SMME market, and promising cash flows alone will not secure a loan. Furthermore, the models used to assess business loans are more complex and they consider more aspects when compared to consumer lending (Hwarire, 2012), as the commercial bank must ensure that the money loaned is used for the business only.

- The involvement of the commercial banks with SMMEs, and the uptake of loans and credit

As indicated in Table 9.3, the commercial banks provide a wide variety of financial services, including credit and loans, to SMMEs. The loan products are customised to fit the unique needs of the SMME applying for a loan. The commercial banks have taken measures to assist SMMEs with training and completing loan documents and compiling business plans. They also have alternative avenues that can be followed when an SMME from a previously disadvantaged community with an impaired credit history and insufficient collateral and equity contribution applies for a loan, as indicated by some of the bank officials. The most popular loan products used by SMMEs in the Free State Goldfields are overdrafts and term loans. The data obtained from the SMMEs indicates that uptake of women empowerment finance and empowerment finance is low. It could be that these loans are not properly marketed to service SMMEs from previously disadvantaged communities. The commercial banks also train SMMEs by offering workshops to enhance financial and management skills and soft skills needed for the day-to-day management of the business, as indicated by one bank official. Nearly 15% (14.6%) of the SMME respondents indicated that they have attended workshops and training provided by the commercial banks. However, 29.9% of the SMME respondents were not aware of the training offered by the commercial banks. The commercial banks could thus better market opportunities for training.

- The importance of being creditworthy

As mentioned in the literature, the character of the SMME owner is mainly determined by the creditworthiness of the owner and director. Various credit bureaus (for example ITC and Experian) are utilised to establish the credit rating of the SMME owner and director in their personal capacity and that of the business itself, as stated above. Alternative, or development, funding is used for clients with an impaired credit rating, as indicated by participants from two commercial banks. Thirteen per cent of the SMME owners indicated a poor credit record applicable to them to a large or a very large extent as a reason for not applying for loans. A further 17% indicated as a reason applicable to them to a large or a very large extent that they do not qualify to borrow money. This could be as a result of various aspects that are considered when an SMME applies for a loan, such as their credit rating. Some interviewees from the commercial banks explained that when a credit rating is impaired but there is merit to a case, the loan application will be motivated when it is submitted for consideration. Creditworthiness shows the willingness and the determination of the SMME owner to honour their debt obligations based on historical data, and the commercial banks put a premium on this. Therefore, SMME owners need to know how their credit record could influence their future intentions to obtain loans. They thus need to take the utmost care to maintain a good credit record for the business and in their personal capacity, as the commercial banks will be hesitant to lend to an SMME that does not meet this requirement.

- Determining capacity: Financial statement information, and the education and experience of the SMME owner

Capacity is one of the Cs of credit considered by the commercial banks to determine credit risk, as determined in the literature review. Financial statement data and the education level and managerial competencies of the SMME owner or director are considered in this regard. Financial statement data verified by an accountant or an auditor validates the authenticity of records. The SMME owner or director, who is referred to as "the jockey" by some interviewees, needs to have relevant education and experience for the sector in which they operate. This is especially important with start-ups, where a track record has not fully been established. One participant indicated that the education level of an SMME owner who wants to start a business could be used as a substitute when financial history is insufficient. Another participant indicated that *"you need to have the right experience and the right exposure for what business you will be conducting".*

Table 9.1 indicates that just over three-quarters (75.8%) of the SMMEs keep financial records, and that in most cases the financial record-keeping is done by the SMME owner themselves. Between 17% and 21% of the SMME owners utilise an accountant or an auditor.

Regarding theme 7, namely the theme of capacity, statistically significant associations were found in this study between access to finance perceived as an obstacle and the need for a loan, on the one hand, and not keeping financial records as opposed to keeping financial records, on the other hand. Significance was also found between having applied for a loan since start-up and not having an auditor or an accountant as opposed to having an auditor or an accountant. Thus, SMMEs that keep financial records will be less likely to perceive access to finance as an obstacle, and consequently the need for a loan will be less. Having an auditor or an accountant enables the SMME to position itself to apply for loans and credit, as compared to SMMEs that do not have financial records authenticated externally by either an accountant or an auditor. Thus, as the SMME grows, keeping financial records authenticated by an external official is of the utmost importance to enable easier access to finance.

Incomplete information, particularly as it pertains to the financial history of the SMME, limits the commercial bank's capacity to make informed decisions when processing the loan application. Financial information also helps the bank to prove that the SMME owner will be able to repay a loan. The results show that 28% of the SMMEs use their business account for personal transactions. This could potentially cause cash flow problems and could provide an inaccurate indication of profits. The commercial bank cannot do a proper risk assessment when the accuracy of the record of flows into and from the business bank account is compromised. Furthermore, the ability to predict future income, expenses and cash flow is also compromised. This finding is similar to that of Agwa-Ejon and Mbohwa's (2015) research.

The interview data obtained related to the education level of the SMME owner or director and the lack of financial and business skills as reasons for unsuccessful loans can be supplemented with the results of the simple logistic regression analysis for the variable "have credit or loans". Statistical significance was not found in all three of the regressions. Nevertheless, the simple logistic regression was regressed with the education level of the SMME owner and experience in the sector (in decades) and experience as a business owner (in decades). The odds of SMME owners with no schooling to some form of high school having credit or loans are significantly less likely than those for SMME owners with post-Grade 12 qualifications (including apprenticeships, certificates, diplomas, degrees and postgraduate degrees).

The odds of SMME owners or directors who have completed Grade 12 having loans and/or credit are significantly less likely than those for SMME owners with post-Grade 12 qualifications (including apprenticeships, certificates, diplomas, degrees and postgraduate degrees). Having more experience in the sector (in decades) and having more experience as a business owner (in decades) statistically significantly increases the odds of having credit and loans. These associations are supported by the studies of Fatoki and Odeyemi (2010) and Kira and He (2012).

Thus, SMME owners that have completed Grade 12 need to invest in their education, as acquisition of post-Grade 12 certificates, diplomas, degrees and postgraduate degrees improves the ability of the SMME owner or director to access loans and credit, as compared to SMME owners with lower levels of education. One would assume that further education should be directed towards the type of business and the sector of operation, with managerial and financial education and skills supporting this. Besides the normal routes to obtain knowledge and skills, some commercial banks do provide another avenue by which financial and management skills can be obtained. Workshops are presented to support knowledge advancement related to financial and managerial skills. Workshops on the soft skills required to manage a business are also offered by some of the commercial banks. Training should, however, not be the responsibility of the commercial banks. This service needs to be provided with more rigour by the government, through the SEDA. Training needs to be broadened in terms of substance and reach. It also needs to be relevant and needs to take the dynamics of the market and the financial sector into consideration, and it should be offered by experts who have experience in running a business successfully.

- Capital and the equity contribution of the SMME

Capital is synonymous with owner's equity contribution. The commercial bank interviewees indicated that owner's equity contribution is determined on a case-by-case basis. A contribution shows commitment. If the SMME owner has secured contracts, these can be used as a substitute for owner's equity contribution, as indicated by one participant. The commercial banks do not want to invest more than what the SMME owner is prepared to invest, one participant indicated.

The SMME owners specified that one of the reasons for not applying for loans is that the requirements for owner's equity contribution to secure a loan are too high. This was indicated by 59% of the respondents as a reason applicable to them to a large or a very large extent. On the one hand, the commercial banks could lower this requirement, when one considers that more than half of the SMME respondents that had not applied for a loan indicated owner's equity contribution as a reason. In this regard, an approach where owner's equity contribution is set regionally should be considered. On the other hand, SMME owners need to save to enable them to have sufficient equity available to provide when loans are required.

- Conditions: Economic environment and outlook

Conditions are another aspect considered by the commercial banks when credit is assessed, as stated in the literature review. Abor et al. (2019) state that this aspect includes variables such as interest rates, employment indicators, growth expectations, changes brought about in the market because of technology enhancements, the state of the local economy, and the trends of borrowers in various industries or sectors. In Pretorius and Shaw's (2004) study conditions were determined both objectively and subjectively. Senior and junior credit managers at commercial banks in South Africa reported that the bank might deem projects unfeasible contrary to the opinion of the loan applicant, due to demographics, competition and infrastructure. It was reported that demographics, location, transport and security in the area in which the business is located or intends to be established need to be verified. The bank's management team will personally visit the area in which the business anticipates operating or is currently operating. Only by means of personal visits can an accurate assessment of the environment be made, as indicated by some participants. Commercial bank officials in this study also alluded to them making personal visits to verify the business premises and to obtain information from the SMME owner.

The interview results indicated that the economic environment plays a role in the granting of loans, especially when one considers the trend of subdued growth evident in Matjhabeng (Free State Goldfields) as a result of the decline in the mining sector. A trend of subdued growth increases the risk for the commercial banks to lend to SMMEs. This is consistent with the data collected from the SMMEs, where the economic environment was ranked as the greatest obstacle hindering their operations. The results obtained from the SMMEs, presented in chapter 6, furthermore indicate that access to infrastructure, including access to sufficient electricity supply, transport networks, telecommunication, the internet, etc., to enable the proper functioning of the business was specified as a major or a very severe obstacle by 37.25% of the respondents.

In all three regressions, statistically significant associations were found in this study between having applied for a loan since start-up and having access to credit and loans, on the one hand, and the area of operation, namely towns as opposed to townships, on the other hand. The informal sector is generally perceived to be a risky environment in which to invest, taking into consideration the lack of insurance and infrastructure and the challenge of crime and theft, which increases the risk of lending to SMMEs operating in this sector. These are all aspects confirmed in Fatoki and Asah's (2011) research. As noted before, township infrastructure development should be a priority for government if they want to foster an environment for SMMEs to grow, and to make these areas of economic activity more lucrative for the commercial banks as investment opportunities. In addition, without a concerted effort to deal with crime, theft and corruption in the townships, SMMEs cannot grow, and employment opportunities are thus lost.

The sector of operation was not found to be statistically significant in all three of the regression models. Nevertheless, the simple logistic regression found a statistically significant association between access to finance perceived as an obstacle, "applied for a loan since start-up" and "having credit or loans", on the one hand, and the sector of operation, on the other hand. The results support the significant associations reported in the research of Kira and He (2012) and Kira (2015).

Thus, the results of the simple logistic regression show that the sector of operation influences the SMME's ability to obtain credit and loans. In this regard, one participant explained that the decision of the commercial banks to grant loans is influenced by the sector of operation and the growth trend: *"Look, the bank has certain segments where it wants to grow and where it wants to stay. In the current economic performance, we look at GDP and all these other things, where we want to play."* Supporting this view, another participant asserted, *"You know, you can never standardise it, because you got different sectors. We specifically look into this sector, what this SMME is all about and what do they do. Hence then we base our decision on that."* Thus, it can be concluded that the economic conditions and environment, the economic outlook, and the sector and the area of operation influence access to finance, as indicated by both the qualitative and the quantitative findings.

- Success rate of loans

Some of the commercial banks indicated that the success rate of loans has improved in the last three years. One participant indicated that the application rate for loans has increased but not the approval rate. This can be attributed to the decline in the economic environment in Matjhabeng (Free State Goldfields), and as a result of requirements that the loan applicants are not able to meet. A participant opined that although the success rate of loan approvals has improved, the improvement is not enough.

The descriptive results obtained from the SMMEs show that over a quarter (27.2%) of the SMMEs had applied for a loan since start-up. Nearly 17% had open lines of credit and loans at the time the data was collected. More than two-thirds (68%) indicated that the last loan that they applied for was approved. A further 40.2% indicated that they are currently in need of a loan or credit from a commercial bank, and 181 (50%) specified that getting access to finance for their type of business from a commercial bank is a major or a very severe obstacle to their operations. Only 10.7% who had applied for a loan from a commercial bank used the loan to fund working capital. In the majority of instances, working capital is funded by internal funds and/or retained earnings (90.9%) and loans from family and friends (25.5%). In addition, 16% used loans from the commercial banks to fund fixed assets. In the majority of cases, owner's equity contribution (84%) and internal funds and retained earnings were used to fund fixed assets. Only as a last resort and a second-last resort were commercial bank loans used to fund working capital and fixed assets, respectively. It can thus be concluded that although the SMME market is seen as an investment opportunity for the commercial banks, and they are trying to make inroads into servicing this segment, provision of loans and credit is not enough for SMMEs to operate effectively.

- Reasons for not applying for loans and loan rejections

Reasons for loan rejections provided by the commercial banks include a bad credit rating, incomplete information, lack of business management skills, lack of collateral, lack of financial literacy and poor business plans. Major reasons indicated by the SMMEs for not applying for loans are interest charges, collateral requirements, and requirements for owner's equity contribution to secure a loan. The major reasons indicated by SMME owners are consistent with the literature (Fatoki & Odeyemi, 2010; Finfind, 2018; Mahloana, 2019; Mutezo, 2015). More than half of the respondents (58.8% applicable to them to a large or a very large extent) indicated that the application procedure for bank loans is too complicated and burdensome, as stated above. This could be the reason why their loan applications have incomplete information, as indicated by the commercial banks as a reason for rejecting loans. Nearly 36% of the SMME owners specified as a reason for not applying for a loan, (applicable to them to a large or a very large extent), is that they are afraid that their loan application will be rejected. Inadequate business plans was indicated by the commercial banks as a reason for the rejection of loans, and 28% of the SMME owners specified this same reason for not applying for a loan (applicable to them to a large or a very large extent). A bad credit rating was another reason indicated by the commercial banks for loan rejections, but only 13% of the SMME owners specified that a poor credit record applied to them to a large or a very large extent. The importance of having collateral and a business plan will be explored in the following sections.

- Collateral and owning immovable property

Another aspect taken into consideration to determine credit risk is collateral. A reason for loan rejections indicated by the interview data is insufficient collateral provided by SMMEs, as stated above. In the majority of cases (50%), SMME owners pledged their personal assets as collateral. They furthermore pledged bonds over movable assets (40.5%) and immovable assets (22.9%). SMME owners operating in the Free State Goldfields have more movable assets than immovable assets, and they are thus in a better position to use movable assets rather than immovable assets as collateral, if one considers that only 30% of SMME owners own immovable property, while 91% own movable property.

In all three regressions, a statistically significant negative association was observed between perceiving access to finance as an obstacle and having immovable property as opposed to not having immovable property. Furthermore, the simple logistic regression shows that the odds of SMMEs with immovable property having access to credit or loans are about 127% greater than those for SMMEs without immovable property. This significant association was also found in the studies of Mahloana (2019) and Mutezo (2015). Having collateral mitigates adverse selection and credit rationing (Berger, Espinosa-Vega, Frame & Miller, 2011), and thus increases the likelihood of accessing bank finance.

If one considers that SMMEs operating in Matjhabeng (Free State Goldfields) have more movable assets than immovable assets, the commercial banks should allow for larger classes of movable assets to be considered as collateral. In Xu’s (2019) study it was found that when more categories of movable assets are used as collateral, bank credit is increased. Although this study was conducted in China and it investigated large companies only, increasing the number of categories of movable assets allowed to be pledged for collateral could perhaps have a positive impact on the provision of credit and loans. This is an avenue that needs to be explored. Currently, banks emphasise collateral in the loan policy, as reflected in both the qualitative and the quantitative results of this study. As such, SMMEs need to be knowledgeable about specific requirements regarding collateral, and they need to obtain assets that can be pledged as collateral once loans are required.

- The importance of having a business plan

A main theme that emerged from the commercial banks is the importance of having a business plan. The importance of having a business plan, technical expertise used to compile the business plan, the age and the size (influenced by the life cycle) of the SMME, and the structural formality of the business were emphasised by the commercial banks. A few bank officials indicated that poor business plans are a reason for loan rejections. The business plan shows what the business is about and how profits will be generated in future. It is particularly important for SMMEs in start-up and for SMMEs that want to diversify. The business plan can be used to augment the motivation for a loan application. Based on personal experience, one bank official indicated that in practice more information is actually obtained from an interview between the bank and the SMME than from what is explained in the business plan.

The above supplements the results obtained from the three regressions, where significance was found between having applied for a loan since start-up and having credit or loans, on the one hand, and having a business plan as opposed to not having a business plan, on the other hand. The results of the simple logistic regression analysis show that the odds of SMMEs with a business plan having credit or loans are about 214% greater than those for SMMEs without a business plan. Having a well-structured business plan, where the implications are fully understood by the SMME owner, can significantly result in a successful loan outcome. This positive association is supported by the findings of Fatoki and Odeyemi's (2010) research. Some banks have identified the challenge of compiling business plans that are suitable for a successful loan application, and, as such, they have experienced consultants available to assist with this task.

The structural formality of the business entity was also highlighted by the commercial banks as it relates to information obtained from the business plan. Some bank officials mentioned that because sole proprietors and partnerships fall under the protection of the NCA, the burden of compliance, affordability and risk, from the perspective of the banks, increases. Thus, SMMEs are encouraged to use a corporate structure to operate from.

The results of all three regressions show that having credit products or loans is statistically significantly negatively associated with the legal entity of the SMME (sole proprietors and partnerships as opposed to closed corporations, private companies, incorporated private companies, franchisees and trusts). The simple logistic regression analysis indicated that the odds of SMMEs operating as sole proprietors and partnerships having credit and loans are 77% less than those for closed corporations, private companies, incorporated private companies, franchisees and trusts. The results are confirmed by the research of Fatoki and Odeyemi (2010) and Mahloana (2019). SMMEs with limited liability are more organised, and are therefore in a better position to take up credit and loans. SMMEs in start-up without a track record need to be supported by government, through the SEFA, in terms of financing needs, because their age and their size negatively influence their ability to obtain credit from the commercial banks. SMMEs should also, once they are in a position to do so, register as a company with limited liability, in order to enable easier access to finance when it becomes necessary. The SMME owner's personal assets are also better protected when the business fails as a result of adverse events if the SMME owner operates within a limited liability structure.

- Communicating the outcome of the loan

The outcome of the loan and, when necessary, the reasons for an unsuccessful application need to be communicated to the loan applicant, as stipulated by the NCA (34 of 2005). The commercial banks are aware that corrective steps taken by SMMEs to become compliant can hold opportunities for future investments, as indicated by the interviewees. The data obtained from the SMMEs shows that 66% of the SMMEs that had applied for a loan and were rejected were provided with reasons by the commercial bank explaining the bank's decision to decline the loan. A third of the applicants were never provided with reasons for being rejected. This is in violation of the NCA (34 of 2005). Besides not adhering to the requirements of the NCA, by not providing reasons related to the outcome of the loan the commercial banks are also preventing themselves from reaping the benefits of future investments once the SMME becomes compliant and shows a growth trend.

- Control and the expectations of government

Themes 15 (control) and 16 (the expectations of government) were addressed in relation to the secondary objective of the in-house process used by the commercial banks to provide access to finance to SMMEs. Although economic growth is important for the commercial banks, it was indicated that the expectations of government for the private sector to contribute to economic growth do not influence the granting of loans, as the commercial banks operate within a regulatory environment and need to adhere to the letter of the law, and their first obligation is to their shareholders.

9.3 CONCLUSION

In this chapter, conclusions were drawn from the literature review and the empirical findings of the data collected. The quantitative data was also merged with the results obtained from the qualitative interview data.

The commercial banks are key role players in facilitating the future growth path of a business, and without their support managing a business is almost impossible. The results from the interview data obtained from the commercial banks show that, contrary to the view that the commercial banks are not inclined to provide credit to SMMEs, the banks do have diverse loan products and are more than willing to serve this market. As such, the commercial banks have designated business services divisions instituted for this purpose. Besides provision of credit and loans, several other business services are also provided to assist the SMME market. Reasons indicated for unsuccessful loans include bad credit ratings, incomplete information, lack of financial literacy and business management skills, lack of collateral and poor business plans.

SMMEs should not assume that the commercial banks will not be willing to assist with their business operations. Due to the unique nature of a business, it is of the utmost importance to foster a meaningful relationship with the bank. Advice about the products, processes and requirements of the commercial banks needs to be obtained, specifically from bank officials operating at the various business services divisions. These officials are strategically placed at the business services units of the commercial banks with the sole aim of assisting businesses in a variety of ways. It is also suggested that SMMEs investigate the most appropriate legal entity to manage their business from, to take active steps to become compliant, to take the time to prepare a comprehensive business plan, and to keep financial records. Only by adhering to prudent processes, which are not just required by the commercial banks but are also necessary for managing a business effectively, can profits be generated and can the commercial banks be approached to access loans. The data obtained show that the age, the size, the legal structure and the area of operation of the SMME and having a business plan increase the SMME's chances of obtaining loans and credit.

In the following chapter recommendations are provided, the limitations of the study are mentioned, and areas for future research are suggested.

CHAPTER 10

RECOMMENDATIONS, FUTURE RESEARCH AND CONCLUSION

10.1 INTRODUCTION

This chapter aims to make recommendations to the SMME sector, commercial banks and the government, to add value to the efficacy of the process of accessing finance. Lastly, proposals for future research will be put forward.

10.2 RECOMMENDATIONS

In the following subsections, the recommendations for SMMEs, commercial banks and the government in enabling access to finance are provided based on the results from this study.

10.2.1 Recommendations for SMMEs

It was established in this study that between 40 to 50% of SMMEs in the Matjhabeng (Free State Goldfields) area have serious problems to access finance or need a loan. This hampers their ability to effectively continue with their business operations and is a specific challenge for SMMEs operating in municipal areas situated outside metropolitan areas, defined as municipalities B. A lack of access to finance is perceived to be a barrier to activity and innovation in the business, an obstacle to its growth, and it consequently results in missed opportunities for SMMEs and society, as opportunities for subsequent employment creation are lost. The majority of SMMEs have invested their personal savings and that of family and friends to create a source of income for themselves, their families and the people who they employ. The results of this study show that access to credit and loans is significantly less likely for micro and very small businesses (employing 1 to 10 people) as opposed to small businesses (employing 11 to 50 people). Access to finance perceived as an obstacle and the need for loans are significantly more for SMMEs in the start-up phase and beyond start-up, and still earning small amounts of revenue, as opposed to the SMMEs functioning in the steady phase.

Commercial banks as the main suppliers of finance are cautious in making funds available to SMMEs. Commercial banks need to assess the information provided by SMMEs since future loan performance largely depends on the financial history of the business. Commercial banks also have certain lending criteria. The lack of the predictability of revenue and expenses, insufficient credit histories, collateral, owners' equity contribution and incorrect accounting procedure makes it difficult for commercial banks to assess risk, especially in the start-up phase of businesses. This leads to information asymmetry on the side of the lender, and applications for credit and loans are subsequently rejected. Without access to finance from lenders who understand the risks associated with SMME lending operating in municipal areas situated outside metropolitan areas such as Matjhabeng (Free State Goldfields), the financial and economic implications are potentially devastating to the local economy.

This study attempted to establish how the nature and characteristics inherent to SMMEs contribute to credit rationing as a result of information asymmetry. Knowing what causes information asymmetry from a demand- and supply-side perspective could assist SMMEs to take action to be more compliant as far as possible, in order to obtain credit and loans easier, and if information asymmetry is addressed, this will enable banks to reduce their perceived risk. By doing so, they will be in a better position to address the credit needs of the SMMEs.

The proposed recommendations to SMMEs will thus have the aim to reduce the information asymmetry that the commercial bank has to grapple with when providing credit or loans. These recommendations, in particular, relate to SMMEs who perceive access to finance as an obstacle, and who need loans or credit. For SMMEs to reduce the challenge of asymmetric information that the commercial banks have, they need to foster a relationship with the commercial bank and adhere to the Cs of credit, specifically character, capacity, capital, and collateral explained in banking theory, and which subsequently emerged from the interview data obtained from commercial banks. SMMEs thus need to be creditworthy, display capacity and competence through financial record keeping, and by means of increasing their knowledge base. Furthermore, they need to save for owners' equity contribution and obtain collateral in order to be investment-ready when loans and credit are required. The Cs of credit needs to be supported by a business plan showcasing where the business intends to be in future. Taking the above into account, recommendations for SMMEs are presented below.

- **SMMEs must foster a relationship with the commercial bank that is aimed at reducing the perceived risks not easily identified through typical screening and risk assessment practices**

To reduce the problem of asymmetric information experienced from the side of the commercial banks, SMMEs need to start a relationship with the commercial bank, even before opening a bank account. The empirical results show that commercial banks perceive a relationship with the SMME as extremely important and the intention of the business needs to be communicated. Advice should be obtained from the bank officials employed at the business services units at the commercial banks. These officials are trained and will provide guidance on an appropriate business banking account suitable for the needs of the business.

The business bank account can also be used as a specific tool to exhibit the performance of the business to the commercial bank, as cash flow is a key consideration when deciding whether or not to grant a loan. If the implication is that an account needs to be maintained for a few months before applying for credit or a loan, SMMEs should see this as the first step in building a relationship with the commercial bank. The prospect of obtaining future finance for expanding the SMME relies on this relationship, as having a relationship with the commercial bank in which they can track the day-to-day activities in a bank account reduces the challenge of asymmetric information. Since the livelihoods of the SMME owner and people related to the business depends on the sustainability of the SMME, taking the initiative to visit the commercial banks' business units and to get expert advice can be hugely beneficial. Although most of the day-to-day transactions taking place in a business could be done through internet banking, the sometimes diverse needs of SMMEs - in specific insofar as it pertains to their future endeavours - makes personal contact with the commercial bank, and fostering a relationship with them, vital.

- **SMMEs must take all possible measures to maintain a good credit record**

SMMEs need to take all possible measures to maintain a good credit rating for the business including that of the owners or directors. A credit rating communicates to the commercial bank the kind and nature of the character of the SMME owner/s and directors and reduces the perception of risk from the perspective of the commercial bank. The bank must not only establish the ability to service a loan, but also the apparent inclination to do so. This is mainly determined by how the applicant adhered to past loan obligations. A bad credit rating makes it nearly impossible to obtain credit and loans from commercial banks. In an instance where an SMME owner or directors had previous judgements taken against them, this must be divulged to the commercial bank. The commercial bank must be advised regarding arrangements made to settle such an outstanding obligation. The SMME owner or directors must ensure that already-settled judgements are removed from their ITC records. Thus, they need to be knowledgeable about what influences the businesses' creditworthiness and its subsequent credit score.

- **SMMEs must demonstrate their capacity and competence to manage the business**

SMMEs must demonstrate their capacity to manage a business through prudently keeping records of their finances. Compliance is key in this regard. Accurate records of assets and liabilities, income and expenditures and cash flow are of great importance. Keeping financial records significantly reduces the obstacle of accessing finance and needing loans. The financial information provided by the SMMEs is analysed by the commercial banks, and the present performance and a realistic prospect of a successful financial future are used to determine the repayment ability of the SMME. Proper record-keeping reduces the problem of asymmetric information from the perspective of the bank and eases obtaining credit and loans. Financial record-keeping furthermore enables the SMME owner to make informed decisions about the business. Showing that commitments and amounts owing are managed in an effective manner assists in convincing the bank that the chance for future liquidity problems is reduced.

SMMEs should furthermore not use a business banking account for personal transactions. The empirical results show that more than a quarter (28,3%) of SMMEs are using their business banking account for personal transactions as well. Mixing personal transactions with that of the business could potentially cause cash flow problems and negatively influence the accuracy of the flow of income and expenditures to and from the business. It also prevents the commercial banks to make affordability assessments once loans are applied for and subsequently increases the risk to lend to such SMMEs.

The results furthermore show that SMMEs operating within a limited liability business structure significantly increases access to loans and credit. SMMEs could thus obtain finance easier if they formalise their business structure by trading as a legal entity. Sole proprietors and partnerships fall under the protection of the National Credit Act (NCA), and this increases the risk for commercial banks when lending to natural persons, as they need to take great care to avoid being guilty of reckless credit lending practices. In addition, the risk for commercial banks is increased when the sole proprietor or one of the partners are deceased, as explained in the previous chapter. A formalised SMME furthermore does have the advantage of limited liability, and if the owner's assets are not pledged as collateral, or he/she did not sign surety, their personal assets are protected in case of business failure. Legal entities are furthermore required to have an accountant or auditor to verify financial records. The verification by either an accountant and/or auditor can significantly increase the SMMEs ability to apply for credit and loans, as shown by the results of this study.

To expedite the outcome after a loan application has been submitted at a commercial bank, a scoring system which is initially executed at branch level is utilised by these banks. For the SMMEs to reap the benefit of a quick response to their loan application, all their documentation should be in place. A quick indication on the success of the loan application will assist the SMMEs to either pursue the opportunity to take up the loan and continue with business operations or if declined, investigate other avenues where finance could be obtained. For SMMEs with a proven track record, the eventual interview that the bank official of the commercial bank's business unit has with the loan applicant brings to the fore a greater richness of information. SMMEs who do apply for loans need to prepare in advance for such interviews. It assists in expediting the process of accurate and comprehensive completion of the required bank documents.

- **In an ever-changing environment, SMMEs must adopt a mindset that encapsulates lifelong learning**

As part of establishing the capacity of the SMME owner to be successful, the commercial banks consider the academic qualifications and experience of the SMME owner when deciding to approve or reject a loan. Reasons mentioned for loan rejections obtained from commercial banks relating to the competency of SMMEs include incomplete information, lack of business management skills, lack of financial literacy and poor business plans. The simple logistic regression analysis showed that academic qualifications, experience in the sector and experience as a business owner significantly enhances the likelihood of having credit or loans. The lack of skills to manage a business enhances the problem of asymmetric information, and the commercial bank is not sure whether or not the SMME will be successful. This increases risk. As such, SMME owners need to improve their managerial and financial skills, as well as the soft skills required to manage a business. Programmes offered by educational institutions should be enrolled for. Workshops provided by both the commercial banks and government institutions should be attended regularly. Lifelong learning should become a way of life for the SMME owner. Training and education will enable SMMEs to better articulate their specific needs for finance for their particular business. Expert advice could also be obtained from either the commercial banks, the SEDA and the SEFA. SMMEs need to familiarise themselves with the lending criteria used by commercial banks. For this, the bank officials at the business services units of commercial banks should be consulted. Information about the lending criteria is furthermore available on the internet. Thoroughly informed SMMEs can negotiate more advantageous terms for the pricing of loans that they have applied for. The owners' equity contribution, collateral offered, cash flow and information about what the competitors are offering are key in this regard. A trained and skilful owner reduces the bank's perception of risk and is therefore essential when credit and loans are applied for.

An SMME who has applied for a loan and was turned down by a commercial bank needs to investigate the feasibility of implementing corrective measures to overcome the identified shortcomings. The reason provided for the rejection of loans provides a further opportunity to become knowledgeable about the requirements of commercial banks for loans.

- **SMMEs must save for an owners' equity contribution and obtain assets that could be pledged as collateral when loans are applied for**

The results show that SMMEs operating in Matjhabeng perceive the requirement of owners' equity and collateral as problematic. They identified the said challenges as reasons for not applying for loans. Commercial banks deem owners' equity contribution and collateral important, and as factors that enable them to reduce the risk associated with providing loans to SMMEs. As stated earlier, owners' equity contribution exhibits commitment, and the risk of the business that could either succeed or fail is thus shared between the SMME owner/s and the bank. It cannot be expected of the commercial bank to carry all the risk, as pointed out by Herrington and Kew (2018). SMMEs thus need to save to have owners' equity available when the need arises to obtain loans. A partnership is formed with the commercial bank when loans are obtained by the SMME, and both parties contribute - the one in terms of equity and the other providing loans.

In addition, SMMEs should invest in tangible assets that could later be pledged as collateral. SMME owners or directors can as a further option, approach family members or friends to sign surety on their behalf. Government institutions could also be approached to provide guarantees. These measures, or a combination thereof, can significantly increase the SMME's chances to access loans in future, should the need arise. SMMEs anticipating a future need for finance must act proactively, establishing timeously what the requirements of the respective commercial banks insofar as collateral are, and what challenges they would need to overcome to successfully meet such requirements.

SMMEs who originate from previously disadvantaged communities should establish from the particular commercial bank whether they do offer assistance to obtain loans earmarked for upliftment. Some banks offer empowerment finance in general, and for female owners in particular, and assist when a credit record is impaired, or owners' equity and collateral are insufficient, provided that the SMME shows growth potential. SMMEs should establish if they qualify to benefit from such programmes.

- **SMMEs in the start-up phase wanting to diversify must have a proper business plan in place to access funding**

The business plan supplements information obtained for loan applications and is used to motivate for a successful loan application, as indicated by the interview data obtained from commercial banks. A well-rounded business plan providing supporting evidence to the growth trajectory of the SMME reduces the perception of risk transpiring from information asymmetry. SMMEs - especially in the start-up, and beyond start-up phase whilst still earning small amounts of revenue – need to compile a business plan to show to the bank the strategic focus and alignment of the business and hence its potential viability. Even more, settled SMMEs who do want to diversify need to have a business plan to enhance their chances of obtaining finance.

It is advisable to utilise the expertise of a qualified consultant to ensure that the technical requirements of a coherent business plan are met. The SMME owner needs to be very familiar with the detail of the business plan. A cut-and-paste exercise serves little purpose, and its shortcomings will be easily exposed. The SMME must provide a holistic view regarding the challenges and opportunities that exist when operating its business. The road for the future needs to be plotted clearly, and threats and challenges need to be red-flagged. A well-structured business plan indicates to the commercial bank that the current situation and future path of the business have been thought through. The marketing strategy, the financial information and the past and current projections of the SMME are of importance. Commercial banks have experienced consultants that, when requested, assist with the compilation of a good business plan. Thorough market research must be presented to establish the viability of a new venture and to determine adequate demand. Products and services offered should appeal to customers' needs.

10.2.2 Recommendations for commercial banks

The empirical results of the study show that the majority of SMMEs (29%) are in a growth phase and operate without external finance. This presents an untapped market for commercial banks to exploit. Furthermore, the sample data show that the majority of SMMEs have been operating for more than ten years, the owners are between the ages of 35 to 44 years and do have on average 11 years of experience in the sector, and nearly ten years of experience as a business owner. Moreover, the empirical results obtained from SMMEs show that 58,8% have been banking with their bank of choice for more than six years, thus showcasing that a relationship with the bank exists. When one considers the average duration of the bank-SMME relationship and the average age, education level and experience of the SMMEs owner and that the businesses are growing without access to finance, the question arises whether or not commercial banks are too risk-averse in providing loans to SMMEs operating in areas outside metropolitan areas, of which Matjhabeng (Free State Goldfields) is an example. The economic conditions in the area have a negative influence on the risk perception of commercial banks, which makes them hesitant to invest. Taking the aforesaid into account, recommendations for commercial banks are presented below.

- **Commercial banks must rely more on the soft information obtained from SMMEs to assess credit risk**

Commercial banks grapple with incomplete information. This is presented as the root cause of the cautionary approach they follow when providing loans to SMMEs. As such a financing gap exists between the demanders of credit (such as SMMEs) and the supplies of credit (the commercial banks). Information asymmetry causes SMMEs to be credit-rationed. For commercial banks to reduce the problem of asymmetric information, they partake in activities to collect information such as screening and monitoring (Lumpkin & Schich, 2020). The obvious challenge for lending institutions is to accumulate accurate and comprehensive records from the loan applicant to determine the financial viability and repayment ability of the SMME. The qualitative results show that commercial banks consider various aspects, guided by their lending criteria, to eventually approve or reject a loan application.

Commercial bank officials situated at branch level in the Matjhabeng area responsible for business services are knowledgeable and experienced, as indicated in Chapter 9. These officials are strategically placed to provide financial services, including credit and loans, and to provide solutions to financial and managerial challenges experienced by the SMME owners. In some instances, site visits are done to verify SMME operations and to provide support. This places them in an advantageous position in terms of their relationship with the SMME. Besides access to the SMMEs' business account conduct, commercial branch officials have soft information available obtained from their relationship with the SMME.

As stated in the literature review by Batroli et al. (2013), when banks use soft information obtained from a relationship with the SMME, the probability of credit rationing becomes less severe. Langa and Govender (2019) have pointed out in their study in South Africa that commercial banks mainly utilise "hard information" portrayed in financial statements of SMMEs to approve loans. Traditional lending technologies are used in the majority of cases, in which it requires that SMMEs should have a business plan, proof of collateral, financial statement information, managerial competency, and they should be objectively regarded as creditworthy (Dlovu, 2017; Mutezo, 2015). When considering the relationship that SMMEs have with the commercial banks in the Matjhabeng area, commercial banks, in general, must make more use of the soft information obtained to assess credit risk. This soft information needs to be factored into the lending criteria and emphasised when risk assessments are done.

Commercial banks thus need to reconsider whether the extent of their risk aversion evidenced by their lending criteria is sensible for servicing SMMEs. By explicitly incorporating soft information, commercial banks can adapt innovatively to adjust for risk in a risk-conscious manner. The Banks can thus expand their assessment of SMME credit to include psychometric testing. This credit information tool uses psychometric application to predict SMME owners' repayment behaviour as indicated by Arráiz et al. (2018). Test scores are used to separate good clients from bad ones. The psychometric test measures the SMME owner's attributes such as the entrepreneur's psychological profile including ethics, integrity, business skills and intelligence. This method has the power to increase the success rate of loan applications as was found by Chironga, Dahl, Goland, Pinshaw and Sonnekus (2012) and Klinger et al. (2013).

Previously disadvantaged communities are an untapped market that has not been exploited by commercial banks to its fullest extent. This is if one considers that SMMEs operating in towns are significantly more likely to have credit and loans compared to SMMEs operating in townships. Commercial banks should in particular expand their research to determine the success of psychometric credit assessments used to provide credit and loans to opaque SMMEs, and the subsequent occurrence of SMMEs defaulting on these loan obligations. This research might take a few years but could prove to provide valuable insight into the alternative yet feasible ways to provide credit to informal business entities.

- **Commercial banks should develop innovative metrics and/or criteria to assess lending to SMMEs**

The research results show that commercial banks expect the SMME owner to provide a contribution when loans are granted. It was pointed out that this showcases commitment. One participant indicated that the bank will not provide a loan for more than the equity contributed by the SMME. Commercial banks with access to soft information obtained from their relationship with the SMME as indicated above should furthermore factor this in when they consider the amount of equity that the SMME owner needs to contribute to secure a loan, provided that their bank account conduct and credit rating are satisfactory and their business is viable. As stated above psychometric tests separate good clients from bad ones. When a loan applicant receives a scoring indicating that they are "good", this should be used as a motivation for a lower cash contribution to secure a loan.

Collateral requirements were indicated by both the commercial banks and the SMMEs as a reason for loan rejections, and for not applying for loans. Taking into consideration that most of the SMMEs operating in the Matjhabeng area own more movable assets when compared to immovable assets, the commercial bank should consider broadening their collateral register, thus accepting more types of movable assets in this regard. This decision will however need to consider the regulatory requirements related to which forms of collateral are acceptable when granting loans.

- **Commercial banks need to market the extent of their outreach to SMMEs to inform the public of the service that they render in this regard**

When the themes forthcoming from the interview data are considered, it is evident that commercial banks have positioned themselves favourably in the market, and that they perceive serving SMMEs as a viable investment opportunity. Commercial banks are cognisant of the challenges experienced by SMMEs in accessing loans. This awareness provides them with an advantage in servicing the market. For this reason, commercial banks should aggressively market the lengths to which they go to assist SMMEs with the provision of financial services, including loans and credit. It is necessary to inform the public of the business units and divisions that they have with knowledgeable staff who not only assist with the provision of financial services but also with providing guidance to manage the day-to-day challenges an SMME might experience. Commercial banks must in particular emphasise the services that they render to start-ups and micro enterprises, and specifically to SMME owners originating from previously disadvantaged communities. Commercial banks should accentuate the fact that their business units will guide start-ups to open a business account that is suitable for their specific needs. Commercial banks should further market the workshops and seminars and other opportunities for training that they do provide to enable SMMEs to be compliant. Development or alternative funding that is provided by some banks to assist SMMEs with impaired credit records, insufficient contribution and collateral should be made known, especially when one considers the empowerment finance that is available to be tapped into. The results of this study show that commercial banks have employed various strategies to assist SMMEs to obtain finance, and implemented various initiatives to service this market. SMMEs perceiving access to finance as an obstacle might reconsider this opinion when they are more informed and knowledgeable about the services rendered by commercial banks.

Showcasing the extent of their outreach to assist SMMEs will contribute to the sometimes negative perceptions portrayed pertaining to the reluctance of commercial banks to provide funding to SMMEs.

10.2.3 Recommendations for government

The recommendations to government aim to emphasise the importance of creating a conducive economic environment, especially for the local economy to function in. Local economic development for the Matjhabeng (Free State Goldfields) area is key in this regard. Commercial banks consider conditions relating to the economic environment when deciding to provide loans in an area, as it influences the risk that they are exposed to. Obstacles indicated by SMMEs hampering their business operations obtained from the empirical results, besides access to finance, are mainly the responsibility of government. Therefore the recommendations for the government are disseminated considering the importance of conditions from the commercial banks' point of view, and the obstacles specified by SMMEs hampering their business operations.

The empirical results show the following obstacles experienced by SMMEs functioning in Matjhabeng, which necessitate government intervention in specific, namely the economic environment; crime; theft and corruption; market penetration and market demand; support and advice provided from the government at a local and provincial level; the regulatory environment; access to infrastructure; labour laws and labour environment; and the ability to employ an educated and skilled workforce.

Herrington et al. (2017) indicated that South Africa have concrete policies supporting SMMEs. It is acknowledged in literature that policies that are commonly good for SMMEs also improve economic growth and GDP per capita (Beck, Demirguc-Kunt & Levine, 2005; De Ferranti & Ody, 2007). Taking this into the consideration, recommendations for the government in its various spheres are presented below.

- **Local government must create a conducive economic environment for SMMEs to function in by addressing the obstacles hindering their business operations**

The economic environment, crime, theft and corruption and market penetration and market demand, as well as access to infrastructure, were indicated as obstacles experienced by SMMEs operating in the Matjhabeng area. The area is perceived as a high-risk area for investment as a result of the lack of economic growth and high unemployment levels, mainly due to the decline in the mining sector, as highlighted by the empirical data obtained from commercial banks. A key development strategy for local government should be to facilitate inclusive growth to create employment and reduce poverty. For this to occur, infrastructure development is key. Rural and semi-rural areas' poor infrastructure (physical and commercial) present a major barrier for SMMEs to grow, as indicated by Herrington et al. (2017). Investments should be directed specifically to ensure sufficient access to electricity, transport networks and telecommunication to enhance the ease of doing business operations, and to increase productivity. Infrastructure development must, in particular, be directed towards uplifting the townships surrounding the various towns of Matjhabeng, as the results of this study show that SMMEs operating in towns as opposed to townships are significantly more likely to have access to loans. With better infrastructure positively contributing to the economic environment, not only commercial banks but also other investors will be more prone to do business in the area. Infrastructure development with the aim to foster an environment for SMMEs to grow will eventually contribute to economic growth (Beck et al.,2005; De Ferranti and Ody, 2007). With increased growth, the challenge of insufficient market demand indicated as an obstacle by respondents will also be addressed.

Crime, theft and corruption were moreover indicated as the second most important obstacle to SMMEs operating in the Matjhabeng (Free State Goldfields) area. Crime, theft and corruption increase the risk of doing business in a particular area. The government needs to address this aspect decisively and with urgency. Robust united partnerships between the government and the private sector are suggested in this regard. The community needs to partake in developing shared solutions for the areas. Another obstacle identified is the regulatory environment, and the labour laws and labour environment. The regulatory burden increases the administrative costs to do business. The opportunity cost for the informal sector SMME to become compliant and to contribute to the tax base and reap the benefits of being compliant is reduced. Government policy directing regulation in general and the labour market in specific needs to be streamlined, and should be more flexible considering the unique challenges of SMMEs to adhere to these requirements. Regulation and the labour laws should be structured in such a way to enhance the ease of doing business (see Herrington and Kew, 2018). Challenges such as an inconducive regulatory environment and inflexible labour laws have been highlighted in many reports of the GEM and in literature, and are not a new concern, yet it remains a recurring challenge faced by SMMEs.

- **The diverse nature of SMMEs needs to be emphasised in policies and the willingness and efforts to support them in various clusters need to be intensified**

SMMEs are diverse in terms of size, age, sector and area of operation, where in the life cycle they are functioning at, their formality, the SMME owners' education, level of experience, and the sophistication with which the business is managed, including the keeping of records. This diversity needs to be emphasised in SMME-related policies. Such policies should be stratified to provide customised support since the needs and severity of challenges experienced by SMMEs are not the same across the board. This need for diversity in policies related to SMMEs is also acknowledged by Herrington et al. (2017). Government organisations need to increase and intensify their willingness to support SMMEs. The effectivity of government institutions to foster an enabling environment for SMMEs to be educated, to be funded, and as a result to grow is questioned in literature by Agbenyegah (2013), Dlova (2017), FinScope (2010) and Timm (2011).

The majority of SMMEs in the Matjhabeng area are micro-enterprises (71%) and the results show that micro and very small businesses, as opposed to small businesses, are significantly less likely to have loans. Micro-enterprises and very small businesses should thus specifically be targeted in SMME-related policies. This same recommendation was made by Amra et al. (2013). The motivation for this focus lies in the assumption that businesses with less than 10 employees are more labour intensive compared to bigger businesses. SMME policies assisting micro-enterprises are essential if one considers their employment potential in an area. Micro-enterprises and very small businesses as a subcategory are furthermore particularly suitable for creating employment opportunities in the bracket of lower-skilled persons.

SMME policy furthermore needs to take the age and where in the life cycle the SMME is functioning at, into account when guiding and assisting. The needs of SMMEs in start-up differ from those in a growth trajectory. The descriptive results show that 17% of the SMMEs sampled are in the start-up phase, and a further 20% are beyond start-up, but still earn small amounts of revenue. SMME-related policies have to distinguish between the said groups, as the former SMMEs need to be supported and assisted to have a successful start-up, whilst the latter SMMEs need to be guided to surpass the start-up into the growth phase, to eventually reap the benefits of sustainable turnovers. Once the SMME is in a growth trajectory, opportunities for the private sector such as commercial banks to invest are made more promising as a result of lower risk.

SMME policymakers should take into account the difference between SMMEs operating in towns as opposed to SMMEs operating in townships. The township SMME needs to get more support and guidance, as these owners were previously excluded from various opportunities presented in the formal economy. Furthermore, township SMMEs should be targeted, as they present an untapped opportunity for employment creation in these areas, and they need to be supported so that they can reap the same benefits as the SMMEs operating in towns in accessing loans.

Taking the unique requirements of SMMEs operating in areas outside metropolitan regions into account in which the formal economy does not present sufficient opportunities for employment, SMMEs in their diverse forms, coupled with their unique requirements in various stages of their life cycle, must be assisted by government to operate efficiently. SMMEs managed effectively lessens the risk perception from the side of the commercial bank and increases the chance of obtaining finance.

- **Opportunities for training and skills development need to be broadened and intensified so that SMMEs can articulate their financing needs**

Reasons for the rejection of loans obtained from the empirical results of this study include, amongst others, the lack of financial and management skills, and poor business plans. The educational level and managerial skills and experience relevant for the sector in which SMMEs operate are perceived to be of importance to commercial banks when providing loans and credit. Although training workshops and seminars are presented by the SEDA, opportunities for skills development need to be enhanced and broadened for township SMMEs. Digital training provides opportunities to further increase the outreach.

The opportunities for training should focus on key aspects such as how to effectively manage the day-to-day activities of the business, the method, importance and benefit of financial record-keeping, how to interpret financial results, and the advantages and disadvantages presented when trading as a legal entity, as opposed to being a sole proprietor or partnership. Although the SEDA assists with the training and compilation of business plans, the organisation should ensure that business plans earmarked for obtaining finance meet the requirements of a particular commercial bank, and that the SMME owner fully comprehends what is documented in the business plan. SMMEs who submit business plans to obtain loans from commercial banks are in some instances not familiar with the content of their submissions as was pointed out by some commercial banks in this study. In order to assist SMMEs to obtain finance, the SEDA, in collaboration with commercial banks, needs to provide information and training sessions related to funding available and the lending criteria used by commercial banks in this regard. There should be a particular focus on the Cs of credit, and a rationale should be provided not only on how lending and credit are assessed, but reasons, why banks follow set criteria, need to be emphasised. Understanding why commercial banks follow specific criteria when granting loans can assist SMMEs to be knowledgeable, to become compliant, and to eventually articulate their funding needs when applying for loans. The importance of having a relationship with the commercial bank; having a good credit record; understanding how the granting of a loan is determined; what to do when a credit record is impaired; providing owners' equity showcasing commitment; and the importance, reason for and types of immovable and movable assets considered by commercial banks as collateral need to be part of the curricula of these training sessions. Emphasis should furthermore be placed on the procedures and assistance provided by commercial banks when the SMME has defaulted.

The SEDA furthermore needs to have a national database in place which SMMEs could make use of when funding is required. Technological advancements bring to the fore other platforms which SMMEs can exploit to obtain equity and debt finance. SMMEs thus need to be made aware of these platforms. Increased collaboration with equity financiers and other lenders such as venture capitalists, business angels, crowd-funders, and P2P lending platforms is suggested, as these equity financiers are usually less risk-averse compared to commercial banks, as was evident from the literature review conducted as part of this study.

- **The outreach of the government's guarantee scheme for SMMEs needs to be improved**

Although the government has a guarantee scheme, the outreach of this scheme is limited and needs to be enhanced for it to have a greater impact (Dlova, 2017). The government should actively market the existence and availability of these guarantees. Access to such government guarantees would go a long way in assisting SMMEs to offer additional security in support of owners' equity contribution and collateral; thus more easily meeting the banks' loan requirements.

- **The government needs to improve the data collection of SMMEs as well as tracking the magnitude of finance provided to this sector**

The government needs to actively focus on accurately determining the number of SMMEs operating in South Africa. Information about SMMEs' contribution and employment also need to be readily available, which will, amongst others, enable planners to determine trends. The SEDA is currently publishing quarterly reports on the number of SMMEs operating in South Africa and in various provinces by using the statistics of Stats SA's QLFSs. Yet, it was noted that their statistics come with shortcomings and that further research pertaining to the contribution of SMMEs to the GDP was suggested. Up-to-date statistics related to district municipalities must be made available by government institutions. Without such statistics, reflecting the current position, planning, and evaluating any assistance provided to SMMEs, becomes impossible.

Furthermore, the government needs to collect and collate data pertaining to loan provision to SMMEs, as this data is not available in the public domain. Although commercial banks include a section in their annual reporting on the types of financial products and services offered to SMMEs, as well as their contribution to train these entities and uplift them, the size of loans provided to this segment is not reported on separately in their financial statements. The percentage of loans provided against the loans requested; reasons for loan rejections; the difference in interest rate spreads between SMMEs and large businesses; the percentage of loans used to fund working capital; the percentage of loans used for fixed assets; and the percentage of non-performing loans against total loans granted are important indicators that need to be used to direct policy and track progress. The same data should also be collected from other financial institutions. This will enable government institutions such as the DTI, the SEDA and the SEFA to track the progress on funding provided to SMMEs and to assist SMMEs on how to become compliant and eventually be successful in obtaining external finance.

In conclusion, all government initiatives (local and national) should be required to report to one body to ensure standardisation of SMME development and efficient spending.

10.3 LIMITATIONS OF THE STUDY

Non-probability sampling used for the quantitative part of this study can be regarded as a limitation, as the sample selection is not random and the population therefore does not have an equal chance of being selected. This could have a potential influence on the generalisation of the results. Results of this study should therefore be generalised with caution, and should ideally only be made applicable to regions with similar characteristics as specifically the Matjhabeng municipality and generally the Free State Goldfields area.

Commercial bank officials communicated that the provision of access to finance to SMMEs is treated case by case. Particulars pertaining to the exact equity to debt ratios, collateral requirements and interest rate spreads dictated by bank policy were not revealed due to confidentiality concerns. Borrow-specific data were thus not obtained. This could also be regarded as a limitation of the study.

10.4 AREAS SUGGESTED FOR FUTURE RESEARCH

The following topics were identified as areas for future research:

- The informal sector includes a large part of SMMEs, and their economic importance in providing employment cannot be ignored. Research pertaining to the opportunity cost of enabling informal sector SMMEs to become compliant, enabling these entities to have access to loans and credit, is suggested. Such research should include indications whether it is advantageous for SMME owners to expand into a more formal environment when compared to continue operating in the informal sector – an environment with which they are quite familiar.
- In this study, the regulatory environment was indicated as an obstacle affecting the operations of SMMEs. More research which investigates the underlying and hidden cost involved to be compliant and to adhere to government regulation in various sectors is necessary. A comparative study between regulations involving large companies as opposed to SMMEs is thus suggested, as the latter is not curtailed by economies-of-scale.
- A longitudinal examination of access to credit and loans is suggested, as the need for credit and loans, and the ability to access credit and loans vary through the growth phases of the SMME.

- SMMEs are seen as a vehicle to reduce the unemployment rate in South Africa. What would be interesting to research is whether access to formal credit and loans opens more opportunities for job creation.
- Research pertaining to the processes, criteria and challenges relevant in channelling funding from government organisations to SMMEs - in the start-up phase in specific - is suggested. This should pertain to SMMEs operating in areas outside metropolitan areas resorting under the jurisdiction of municipalities Bs.
- In terms of commercial banks, future research is suggested on the commercial banks' ability to absorb losses, compared to the financial benefit of increasing the number of business loans allocated in the SMME sector. This will be a strong indicator if the risk appetite of commercial banks can be reconciled with the financial needs of SMMEs. Obtaining an answer here will be indicative of whether the stance of commercial banks towards business loans is too risk-averse.
- Furthermore, research is suggested to determine the exact number of loan applications at commercial banks in South Africa, the percentage of loans that are respectively granted and rejected, and reasons for these rejections. Data relating to the reasons for loan rejections could improve the ability of the government and other subordinate and supporting organisations in assisting SMMEs to be financially compliant and eventually becoming successful lenders.

10.5 CONCLUSION

Commercial banks are key role players in facilitating the future and growth path of SMMEs. Without their involvement, successfully running a business can be challenging. The results from the interview data obtained from commercial banks show that - contrary to the view that commercial banks are not inclined to provide credit to SMMEs - banks do have a variety of credit and loan products, and they strive to get involved in this market. Commercial banks do have designated business services divisions instated for this purpose. Besides the provision of credit and loans, several other business services are also provided to assist in particular the SMME sector.

SMMEs should not pre-empt that commercial banks will not be willing to assist with their business operations. Due to the unique nature of a business, it is of the utmost importance to foster a meaningful relationship with the bank. Advice pertaining to the products, processes and requirements of commercial banks needs to be obtained - specifically from bank officials operating at the various business services divisions. These officials are strategically placed at the business services units of commercial banks, with the sole aim of assisting businesses in a variety of ways. It is furthermore proposed that SMMEs establish the most appropriate legal entity from which to operate a business, to take active steps to become compliant, to take the time to prepare a well-rounded business plan and to keep financial records. Only by adhering to prudent processes, not just required by commercial banks but also necessary for managing a business effectively, can profits be generated and can commercial banks be approached with confidence to access credit or loans.

The government and its subordinate structures should accumulate data and make available the vital statistics pertaining to the economic contribution of SMMEs operating in various geographical areas. With updated and regularly refreshed statistics, this segment of the market could be properly developed to ensure their growth, expansion and evolvement. The informal sector, and SMMEs operating beyond start-up but still having modest turnovers, need to be guided. Assistance needs to be provided so that these SMMEs could surpass the start-up phase and grow. SMMEs employing ten or less people should be another primary focus of the assistance provided by the government. Prudent policies need to be in place to get SMMEs compliant. Only with properly focused assistance from the government could SMMEs prosper, grow and subsequently contribute to the creation of employment, which is direly needed in areas surrounding metropolitan areas - of which Matjhabeng (Free State Goldfields) is a prime example.

Commercial banks need to incorporate soft information based on their relationship with SMMEs into their loan criteria. Although commercial banks do perceive a relationship with the SMME as important, the information obtained from this relationship needs to be explicitly factored into their loan criteria. This will enable commercial banks to exploit the untapped SMME market that is evident from the results of this study. Although easier said than done, commercial banks should ideally not be lulled into a mindset that providing access to SMMEs should be solely based on traditional measures of creditworthiness. This suggests a more innovative approach to the assessment of risk that may include non-traditional techniques related to, for example, the ‘softer’ behavioural characteristics of borrowers. Commercial banks, therefore, need to reassess the nature and extent of their risk-aversion mindset evidenced in the lending process. In doing this, commercial banks can potentially innovate in ways that contribute to the economic prosperity of not only the Matjhabeng municipal area, but SMMEs in communities outside metropolitan areas across South Africa.

REFERENCES

Abdesamed, K.H. & Wahab, K.A. 2014. Financing of small and medium enterprises (SMEs): Determinants of bank loan application. *African Journal of Business Management*, 8(17):717–727.Retrieved from http://www.academicjournals.org/article/article1411119146_Abdesamed%20and%20Wahab.pdf [Accessed 21 January 2017].

Abdulsaleh, A.M. & Worthington, A.C. 2013. Small and medium-sized enterprises financing: A review of literature. *International Journal of Business and Management*, 8(14):36–54. Retrieved from http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.922.4126&rep=rep1&type=pdf [Accessed 22 February 2020].

Abe, M., Troilo, M. & Batsaikhan, O. 2015. Financing small and medium enterprises in Asia and the Pacific. *Journal of Entrepreneurship and Public Policy*, 4(1):2–32.

Abor, J. & Quartey, P. 2010. Issues in SME development in Ghana and South Africa. *International Research Journal of Finance and Economics*, 39:218–228. Retrieved from http://www.eurojournals.com/irjfe_39_15.pdf [Accessed 30 November 2018].

Abor, J.Y. 2017. *Entrepreneurial finance for MSMEs: A managerial approach for developing markets*. Cham, Switzerland: Palgrave Macmillan.

Abor, J.Y., Gyeke-Dako, A., Fiador, V.O., Agbloyor, E.K., Amidu, M. & Mensah, L. 2019. *Money and banking in Africa*. Cham, Switzerland: Springer.

Absa. 2016. Drafting a business plan. Retrieved from https://www.absa.co.za/business/starting-my-business/setting-up-my-business/drafting-a-business-plan/ [Accessed 14 December 2018].

Absa. 2018. Absa Group Limited 2018 Integrated Report. Retrieved from http://absa2018ar.africa/pdf/Absa_Group_2018_Integrated_Report.pdf [Accessed 10 August 2019].

Absa. 2020. Business. Retrieved from https://www.absa.co.za/business/products-solutions/ [Accessed 21 November 2020].

Accounting for Management. 2015. Debt to equity ratio. Retrieved from http://www.accountingformanagement.org/debt-to-equity-ratio/ [Accessed 7 December 2017].

Adair, P. & Adaskou, M. 2015. Trade-off-theory vs. pecking order theory and the determinants of corporate leverage: Evidence from a panel data analysis upon French SMEs (2002–2010). *Cogent Economics & Finance*, 3(1). Retrieved from https://www.tandfonline.com/doi/pdf/10.1080/23322039.2015.1006477?needAccess=true [Accessed 18 March 2020].

Agbenyegah, A.T. 2013. Challenges facing rural entrepreneurship in selected areas in South Africa. Potchefstroom: North-West University. (Thesis – PhD). Retrieved from http://dspace.nwu.ac.za/bitstream/handle/10394/9493/Agbenyegah_AT.pdf?sequence=1 [Accessed 22 June 2017].

Agwa-Ejon, J. & Mbohwa, C. 2015. Financial challenges faced by SMMES in Gauteng South Africa. International Association for Management of Technology: IAMOT 2015 Conference Proceedings.

Akkoç, S. 2012. An empirical comparison of conventional techniques, neural networks and the three-stage hybrid Adaptive Neuro Fuzzy Inference System (ANFIS) model for credit scoring analysis: The case of Turkish credit card data. *European Journal of Operational Research*, 222(1):168–178.

Allen, D. & Powell, R. 2011. Credit risk measurement methodologies. Retrieved from https://ro.ecu.edu.au/cgi/viewcontent.cgi?article=1657&context=ecuworks2011 [Accessed 23 April 2020].

Almalki, S. 2016. Integrating quantitative and qualitative data in mixed methods research—challenges and benefits. *Journal of Education and Learning*, 5(3):288–296. Retrieved from https://eric.ed.gov/?id=EJ1110464 [Accessed 26 June 2017].

Alsemgeest. L., Du Toit. E., Ngwenya, S., Thomas. K. 2015. *Corporate Finance. A South African Perspective.* Second Edition. Oxford University Press Southern Africa. ABC Press, Cape Town.

Altman, E.I. 1968. Financial ratios, discriminant analysis and the prediction of corporate bankruptcy. *The Journal of Finance*, 23(4):589–609.

Altman, E.I., Caouette, J.B. & Narayanan, P. 1998. Credit-risk measurement and management: The ironic challenge in the next decade. *Financial Analysts Journal*, 54(1):7–11. Retrieved from https://archive.nyu.edu/bitstream/2451/26844/2/wpa98003.pdf [Accessed 8 May 2018].

Altman, E.I., Marco, G. & Varetto, F. 1994. Corporate distress diagnosis: Comparisons using linear discriminant analysis and neural networks (the Italian experience). *Journal of Banking & Finance*, 18(3):505–529.

Amanor, S. 2013. The impact of South Africa's sluggish growth on sub-Saharan Africa. Consultancy Africa Intelligence (Pty) Ltd. Retrieved from http://www.consultancyafrica.com/index.php?option=com_content&view=article&id=1343:the-impact-of-south-africas-sluggish-growth-on-sub-saharan-africa&catid=87:african-finance-a-economy&Itemid=294 [Accessed 24 June 2017].

Amra, R., Hlatshwayo, A. & McMillan, L. 2013. SMME employment in South Africa. Paper presented at the biennial conference of the Economic Society of South Africa, Bloemfontein, 25–27 September. Retrieved from www.essa2013.org.za/fullpaper/essa2013_2768.pdf [Accessed 25 June 2017].

Anney, V.N. 2014. Ensuring the quality of the findings of qualitative research: Looking at trustworthiness criteria. *Journal of Emerging Trends in Educational Research and Policy Studies (JETERAPS)*, 5(2):272–281. Retrieved from http://jeteraps.scholarlinkresearch.com/articles/Ensuring%20The%20Quality%20Of%20The%20Findings%20new.pdf [Accessed 22 June 2019].

Apătăchioae, A. 2015. The performance, banking risks and their regulation. *Procedia Economics and Finance*, 20:35–43.

Arráiz, I., Bruhn, M., Ortega, C.R. & Stucchi, R. 2018. Are psychometric tools a viable screening method for small and medium-size enterprise lending?: Evidence from Peru. IDB Invest. Inter-American Investment Corporation, April. Retrieved from https://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-8276 [Accessed 22 May 2020].

Arroyo, M.R. 2007. Banking concentration, information asymmetries and credit rationing: The Argentinean case. MPRA Paper 29968. Munich: University Library of Munich. Retrieved from https://mpra.ub.uni-muenchen.de/29968/1/MPRA_paper_29968.pdf [Accessed 19 August 2020].

Asian Development Bank. 2014. ADB–OECD study on enhancing financial accessibility for SMEs: Lessons from the recent crises. Mandaluyong City, Philippines: Asian Development Bank. Retrieved from http://www.oecd.org/cfe/smes/adb-oecd-study-enhancing-financial-accessibility-smes.pdf [Accessed 26 June 2018].

Atkinson, D. 2014. *Rural-urban linkages: South Africa case study*. Working paper prepared for Rimisp as a contribution to a Desktop Review on Inclusive Rural–Urban Linkages commissioned by The Ford Foundation. Retrieved from http://rimisp.org/2015/wp-content/files_mf/1422297966R_ULinkages_SouthAfrica_countrycasestudy_Final_edited.pdf [Accessed 17 October 2017].

Baas, T. & Schrooten, M. 2005. Relationship banking and SMEs: A theoretical analysis. *DIW Discussion Papers, 469*. Berlin: German Institute for Economic Research. Retrieved from https://www.diw.de/documents/publikationen/73/diw_01.c.42833.de/dp469.pdf [Accessed 19 August 2020].

Babbie, E.R. 2015. *The practice of social research*. Fourteenth edition. Toronto, ON: Nelson Education.

Badenhorst, J.W. & Radile, R.S. 2018. Poor performance at TVET colleges: Conceptualising a distributed instructional leadership approach as a solution. *Africa Education Review*, 15(3):91–112. Retrieved from http://ir.cut.ac.za/bitstream/handle/11462/1502/Badenhorst%2CJ.W%3BRadile%2CR.S%3BPages%20p.1-22.pdf?sequence=1&isAllowed=y [Accessed 18 August 2020].

Baiden, J.E. 2011. *The 5 C's of credit in the lending industry*. Ghana: Central University College.

Balogun, O.A., Agumba, N.J. & Ansary, N. 2018. Determinants of business overdraft accessibility within small and medium-sized enterprises in the South African construction industry: A case of Gauteng province. In *Proceedings of the 21st International Symposium on Advancement of Construction Management and Real Estate* (pp. 617–628). Singapore: Springer. Retrieved from https://www.springerprofessional.de/en/determinants-of-business-overdraft-accessibility-within-small-an/15314612 [Accessed 16 November 2019].

Bartoli, F., Ferri, G., Murro, P. and Rotondi, Z., 2013. SME financing and the choice of lending technology in Italy: Complementarity or substitutability?. *Journal of Banking & Finance*, *37*(12):5476-5485.

Barker, R.L. 2003. *The social work dictionary*. Fifth Edition. Washington, DC:NASW Press.

Bas, T., Muradoglu, G. & Phylaktis, K. 2009. Determinants of capital structure in developing countries. European Financial Management Symposium, First draft, Cass Business School, London, UK. Retrieved from https://www.researchgate.net/profile/Gulnur_Muradoglu/publication/228465937_Determinants_of_Capital_Structure_in_Developing_Countries/links/0c960528f4a56601b8000000.pdf [Accessed 16 August 2018].

BASA (The Banking Association South Africa). 2017. Annual Report 2017. Retrieved from https://www.banking.org.za/wp-content/uploads/2019/10/BASA-Annual-Report-2017.pdf [Accessed 3 May 2019].

BASA (The Banking Association South Africa). 2018. Annual Report 2018. Retrieved from https://www.banking.org.za/wp-content/uploads/2019/08/BASA-Annual-Report-2018.pdf [Accessed 19 November 2019].

BASA (The Banking Association South Africa). 2019. Consumer information and legislation. Retrieved from https://www.banking.org.za/consumer-information/consumer-information-legislation/financial-sector-charter-code/ [Accessed 12 January 2020].

Bazeley, P. & Jackson, K. (eds.). 2013. *Qualitative data analysis with NVivo*. Second edition. London: Sage.

Bbenkele, E.K. 2007. An investigation of small and medium enterprises perceptions towards services offered by commercial banks in South Africa. *African Journal of Accounting, Economics, Finance and Banking Research*, 1(1). Retrieved from http://www.africres.org/SMME%20Research/SMME%20Research%20General/Journal%20Articles/SMME%20perceptions%20on%20bank%20services.pdf [Accessed 6 September 2018].

BCBS (Basel Committee on Banking Supervision). 2015. Range of practice in the regulation and supervision of institutions relevant to financial inclusion. Basel: Bank for International Settlements.

Beard, M.P. 2010. In-depth: Reaching the unbanked and underbanked. Federal Reserve Bank of St. Louis. Winter 2010. Retrieved from https://www.stlouisfed.org/Publications/Central-Banker/Winter-2010/Reaching-the-Unbanked-and-Underbanked [Accessed 21 November 2017].

Beck, T. 2007. Financing constraints of SMEs in developing countries: Evidence, determinants and solutions. *KDI 36th Anniversary International Conference*. Retrieved from http://www.smmeresearch.co.za/SMME%20Research%20General/Conference%20Papers/Financing%20constraints%20of%20SMEs%20in%20developing%20countires.pdf [Accessed 25 June 2017].

Beck, T. & Cull, R. 2014. SME finance in Africa. *Journal of African Economies*, 23(5):583–613. Retrieved from https://openaccess.city.ac.uk/id/eprint/13174/1/ [Accessed 12 January 2017].

Beck, T. & Demirgüç-Kunt, A. 2006. Small and medium-size enterprises: Access to finance as a growth constraint. *Journal of Banking & Finance*, 30(11):2931–2943.

Beck, T., Demirgüç-Kunt, A., Laeven, L. & Maksimovic, V. 2006. The determinants of financing obstacles. *Journal of International Money and Finance*, 25(6):932–952.

Beck, T., Demirguc-Kunt, A. & Levine, R. 2005. SMEs, growth, and poverty: cross-country evidence. *Journal of economic growth*, *10*(3):199-229.

Beck, T., Demirgüç-Kunt, A. & Levine, R. 2003. Bank concentration and crises. *National Bureau of Economic Research Working Paper No. 9921*. Cambridge, MA: NBER. Retrieved from www.nber.org/papers/w9921 [Accessed 25 June 2017].

Beck, T., Demirgüç-Kunt, A., Martinez Peria, M.S. 2007. Reaching out: Access to and use of banking services across countries. *Journal of Financial Economics*, 85(1):234–266. Retrieved from http://ac.els-cdn.com/S0304405X07000542/1-s2.0-S0304405X07000542-main.pdf?_tid=2b3a3c58-e155-11e6-93a4-00000aab0f6c&acdnat=1485166839_0ed865524f5af9cb2d03c4e36073925f [Accessed 23 January 2017].

Bekhet, H.A. & Eletter, S.F.K. 2012. Credit risk management for the Jordanian commercial banks: A business intelligence approach. *Australian Journal of Basic and Applied Sciences*, 6(9):188–195. Retrieved from https://pdfs.semanticscholar.org/58d8/a47af3db7c93839f3b8f8a5bb24f02ce659f.pdf [Accessed 19 April 2020].

Belleflamme, P. & Lambert, T. 2014. Crowdfunding: Some empirical findings and microeconomic underpinnings. Retrieved from https://dial.uclouvain.be/pr/boreal/object/boreal:157835/datastream/PDF_01/view [Accessed 21 March 2020].

Belleflamme, P., Omrani, N. & Peitz, M. 2015. The economics of crowdfunding platforms. *Information Economics and Policy*, 33(C):11–28.

Benzing, C. & Chu, H.M. 2012. The perceived success factors and problems of small business owners in Africa. *Journal of African Development*, 14(1):63–94.

Berger, A.N. & Black, L.K. 2011. Bank size, lending technologies, and small business finance. *Journal of Banking & Finance*, 35(3):724–735.

Berger, A.N., Cowan, A.M. & Frame, W.S. 2011. The surprising use of credit scoring in small business lending by community banks and the attendant effects on credit availability, risk, and profitability. *Journal of Financial Services Research*, 39(1–2):1–17. Retrieved from https://www.econstor.eu/bitstream/10419/70607/1/595211356.pdf [Accessed 10 February 2020].

Berger, A.N., Espinosa-Vega, M.A., Frame, W.S. & Miller, N.H. 2011. Why do borrowers pledge collateral? New empirical evidence on the role of asymmetric information. *Journal of Financial Intermediation*, *20*(1):55-70. Retrieved from https://www.econstor.eu/bitstream/10419/70686/1/572293593.pdf [Accessed 23 November 2020].

Berger, A.N. & Frame, W.S. 2007. Small business credit scoring and credit availability. *Journal of Small Business Management*, 45(1):5–22.

Berger, A.N. & Udell, G.F. 2004. The institutional memory hypothesis and the procyclicality of bank lending behavior. *Journal of Financial Intermediation*, 13(4):458–495. Retrieved from https://www.federalreserve.gov/PUBS/FEDS/2003/200302/200302pap.pdf [Accessed 25 June 2018].

Bessis, J. 2011. *Risk management in banking*. Third edition. New York, NY: Wiley.

Bewayo, E.D. 2015. The overemphasis on business plans in entrepreneurship education: Why does it persist?. *Journal of Small Business and Entrepreneurship Development*, 3(1):1–7. Retrieved from http://jsbednet.com/journals/jsbed/Vol_3_No_1_June_2015/1.pdf [Accessed 2 March 2018].

Bezuidenhout, S. 2014. The business plan. In I. Van Aardt & S. Bezuidenhout (eds.), *Entrepreneurship & new venture management*. Fifth edition. Cape Town: Oxford University Press, 120–130.

Bhidé, A. 1999. The origin and evolution of new businesses. Oxford: Oxford University Press.

Boot, A. & Thakor, A.V. 2018. Commercial banking and shadow banking: The accelerating integration of banks and markets and its implications for regulation. SSRN Electronic Journal, January 2018.

Bosma, N. & Kelley, D. 2019. Global Entrepreneurship Monitor. Global Report 2018/2019. Retrieved from https://www.gemconsortium.org/file/open?fileId=50213 [Accessed 17 November 2019]. (Also see GEM. 2019)

Bottiglia, R. & Pichler, F. (eds.). 2016. *Crowdfunding for SMEs: A European perspective*. London, UK: Palgrave Macmillan.

Brace, I. 2008. *Questionnaire design: How to plan, structure and write survey material for effective market research*. London: Kogan Page.

Braun, V. & Clarke, V. 2006. Using thematic analysis in psychology. *Qualitative Research in Psychology*, 3(2):77–101. Retrieved from https://uwe-repository.worktribe.com/output/1043060 [Accessed 17 August 2019].

Brey, Z. & Mhlaba, S. 2014. SMME development in South Africa: Through the voices of entrepreneurs. *DNA Economics*, 7 July. Retrieved from http://www.dnaeconomics.com/pages/public_finance/?zDispID=NewsArtSMME_development_in_South_Africa_Through_the_voices_of_entrepreneurs [Accessed 7 June 2017].

Brijlal, P. & Yan, B. 2015. Accessing bank finance in relation to human capital, gender and race among SMMEs in a developing economy. In *2015 IEEE International Conference on Industrial Engineering and Engineering Management (IEEM)* (pp. 1133–1137). IEEE. 6–9 December, Singapore. Retrieved from https://repository.uwc.ac.za/bitstream/handle/10566/3821/Brijlal_Accessing-bank_2015.pdf?sequence=1&isAllowed=y [Accessed 10 July 2019].

Brown, K. & Moles, P. 2016. *Credit risk management*. Edinburgh: Edinburgh Business School, Heriot-Watt University.

Brown, M., Jappelli, T. & Pagano, M. 2009. Information sharing and credit: Firm-level evidence from transition countries. *Journal of Financial Intermediation*, 18(2):151–172. Retrieved from https://conference.nber.org/conferences/2007/si2007/EFEL/jappelli.pdf [Accessed 25 April 2020].

Bushe, B. 2019. The causes and impact of business failure among small to micro and medium enterprises in South Africa. *Africa's Public Service Delivery and Performance Review*, 7(1):1–26. Retrieved from https://www.researchgate.net/publication/330621803_The_causes_and_impact_of_business_failure_among_small_to_micro_and_medium_enterprises_in_South_Africa [Accessed 17 November 2019].

Business Partners. 2019. South African small, medium and micro enterprise (SMME) financiers. Retrieved from http://smetoolkit.businesspartners.co.za/sites/default/files/body-files/en/Small%20Business%20Financiers%202019.pdf [Accessed 21 November 2020].

BusinessTech. 2017. Battle of the banks: South Africa's big 5 banks compared. 2 July. Retrieved from https://businesstech.co.za/news/banking/182873/battle-of-the-banks-how-sas-big-five-banks-compare/ [Accessed 11 May 2018].

BusinessTech. 2019. Battle of the banks: South Africa's big 5 banks compared. 8 September. Retrieved from https://businesstech.co.za/news/banking/339319/battle-of-the-banks-south-africas-big-5-banks-compared/ [Accessed 11 November 2019].

Butters, J.K., 1949. Federal income taxation and external vs. internal financing. *The Journal of finance*, *4*(3):197-205.

Calomiris, C.W. 1997. *The postmodern bank safety net: Lessons from developed and developing economies*. Washington, DC: American Enterprise Institute.

Calvino, F., Criscuolo, C. & Menon, C. 2016. No country for young firms?: Start-up dynamics and national policies. *OECD Science, Technology and Industry Policy Papers*, No. 29. Paris: OECD Publishing.

Cameron, J. 2020. Advantages and disadvantages of ranking scales. eHow. 14 July. Retrieved from https://www.ehow.co.uk/info_12278441_advantages-disadvantages-ranking-scales.html [Accessed 6 August 2020].

Cancino, S. & Cancino-Escalante, G. 2020. Credit decision-making and information requirements. *Dimensión Empresarial*, 18(1):12–27. Retrieved from http://www.scielo.org.co/pdf/diem/v18n1/1692-8563-diem-18-01-00012.pdf [Accessed 2 July 2020].

Canto-Cuevas, F.-J., Palacín-Sánchez, M.J. & Di Pietro, F. 2019. Trade credit as a sustainable resource during an SME's life cycle. *Sustainability*, 11(3):670. Retrieved from https://www.mdpi.com/2071-1050/11/3/670 [Accessed 5 March 2019].

Caouette, J.B. Altman, E.I., & Narayanan, P. 1998. Credit-risk measurement and management: The ironic challenge in the next decade. *Financial Analysts Journal*, *54*(1):7-11. Retrieved from https://archive.nyu.edu/bitstream/2451/26844/2/wpa98003.pdf [Accessed 8 May 2018].

Capitec Bank. 2019. One to one. People, passionately delivering on clients' needs. Integrated Annual Report 2019. Retrieved from https://www.capitecbank.co.za/globalassets/pages/investor-relations/financial-results/2019/annual-report/integrated_annual_report_2019.pdf [Accessed 16 November 2019].

Caracelli, V.J. & Greene, J.C. 1997. Crafting mixed-method evaluation designs. *New Directions for Evaluation*, 1997(74):19–32.

Castro, F.G., Kellison, J.G., Boyd, S.J. & Kopak, A. 2010. A methodology for conducting integrative mixed methods research and data analyses. *Journal of Mixed Methods Research*, 4(4):342–360.

Cathcart, L., Dufour, A., Rossi, L. & Varotto, S. 2020. The differential impact of leverage on the default risk of small and large firms. *Journal of Corporate Finance*, 60(C). Retrieved from https://www.sciencedirect.com/science/article/pii/S0929119918305443 [Accessed 12 March 2020].

Cenni, S., Monferrà, S., Salotti, V., Sangiorgi, M. & Torluccio, G. 2015. Credit rationing and relationship lending. Does firm size matter?. *Journal of Banking & Finance*, 53(C):249–265.

Chandler, J.G. 2009. Marketing tactics of selected small firms in the East London CBD area. Pretoria: University of South Africa.

Chauvet, L. & Jacolin, L. 2017. Financial inclusion, bank concentration, and firm performance. *World Development*, 97(C):1–13. Retrieved from https://abc-economie.banque-france.fr/sites/default/files/medias/documents/dt-615.pdf [Accessed 5 April 2020].

Chen, J., Jiang, C. & Lin, Y. 2014. What determine firms' capital structure in China?. *Managerial Finance*, 40(10):1024–1039. Retrieved from https://eprints.mdx.ac.uk/17219/1/Capital%20Structure%20in%20China%202014.pdf [Accessed 29 July 2018].

Cherryholmes, C.H. 1992. Notes on pragmatism and scientific realism. *Educational Researcher*, 21(6):13–17.

Chimucheka, T. & Rungani, E.C. 2013. Obstacles to accessing finance by small business operators in the Buffalo City Metropolitan Municipality. *East Asian Journal of Business Management*, 3(1):17–22. Retrieved from http://www.researchgate.net/profile/Tendai_Chimucheka/publication/259674055_Obstacles_to_Accessing_Finance_by_Small_Business_Operators_in_the_Buffalo_City_Metropolitan_Municipality/links/0c96052d44c7b4e13d000000.pdf [Accessed 30 June 2017].

Chironga, M., Dahl, J., Goland, T., Pinshaw, G. & Sonnekus, M. 2012. Micro-, small and medium-sized enterprises in emerging markets: How banks can grasp a $350 billion opportunity. McKinsey & Company. Retrieved from http://arabbrains.com/wp-content/uploads/2012/03/MSME-Emerging-Market-Banking-report.pdf [Accessed 12 April 2020].

Clarke, C. 2009. Paths between positivism and interpretivism: An appraisal of Hay's *Via Media*. *Politics*, 29(1):28–36. Retrieved from https://onlinelibrary.wiley.com/doi/pdf/10.1111/j.1467-9256.2008.01335.x [Accessed 16 May 2020].

Coco, G. 2000. On the use of collateral. *Journal of Economic Surveys*, 14(2):191–214. Retrieved from https://s3.amazonaws.com/academia.edu.documents/51228116/1467-6419.0010920170106-6546-rri618.pdf? [Accessed 11 May 2019].

Coetzee, J. 2016. Financial intermediation theory. In J. Coetzee (ed.), *Bank management in South Africa: A risk-based perspective.* Cape Town: Juta, 3–17.

Coleman, S. 2004. Access to debt capital for women- and minority-owned small firms: Does educational attainment have an impact?. *Journal of Developmental Entrepreneurship*, 9(2):127–143. Retrieved from https://www.researchgate.net/profile/Susan_Coleman/publication/228252650_Access_to_Debt_Capital_for_Women-_and_Minority-Owned_Small_Firms_Does_Educational_Attainment_Have_an_Impact/links/546373d20cf2cb7e9da9600e.pdf [Accessed 5 July 2019].

Committee on the Global Financial System (CGFS). 2018. *Structural changes in banking after the crisis*. Bank of International Settlements. No. 60. January. Retrieved from https://www.bis.org/publ/cgfs60.htm [Accessed 16 August 2020].

Corrigan, E.G. 1982. Are banks special?. Federal Reserve Bank of Minneapolis, Annual Report, 1982.

Cravo, T.A., Gourlay, A. & Becker, B. 2012. SMEs and regional economic growth in Brazil. *Small Business Economics*, 38(2):217–230. Retrieved from https://core.ac.uk/download/pdf/6338814.pdf [Accessed 19 February 2020].

Creswell, J.W. 2007. *Qualitative inquiry & research design: Choosing among five approaches*. Second edition. London: Sage.

Creswell, J.W. 2009. *Research design: Qualitative, quantitative, and mixed methods approaches*. Third edition. Los Angeles: Sage.

Creswell, J.W. 2013. Steps in conducting a scholarly mixed methods study. Retrieved from https://digitalcommons.unl.edu/cgi/viewcontent.cgi?article=1047&context=dberspeakers [Accessed 15 July 2019].

Creswell, J.W. & Plano Clark, V.L. 2007. *Designing and conducting mixed methods research*. Thousand Oaks, CA: Sage.

Creswell, J.W., Plano Clark, V.L., Gutmann, M.L. & Hanson, W.E. 2003. Advanced mixed methods research designs. In A. Tashakkori & C. Teddlie (eds.), *Handbook of mixed methods in social and behavioral research*. Thousand Oaks, CA: Sage, 209–240. Retrieved from http://www.corwin.com/upm-data/19291_Chapter_7.pdf [Accessed 6 June 2015].

Crotty, A. 2014. New bill to tighten up credit industry. Business Report.24 February. Retrieved from www.iol.co.za/.../new-bill-to-tighten-up-credit-industry-1.1651483 [Accessed 2 February 2017].

Cuevas-Rodríguez, G., Gomez-Mejia, L.R. & Wiseman, R.M. 2012. Has agency theory run its course?: Making the theory more flexible to inform the management of reward systems. *Corporate Governance: An International Review*, 20(6):526–546. Retrieved from https://asu.pure.elsevier.com/en/publications/has-agency-theory-run-its-course-making-the-theory-more-flexible- [Accessed 19 March 2020].

Dane, E. & Pratt, M.G. 2007. Exploring intuition and its role in managerial decision making. *The Academy of Management Review*, 32(1):33–54.

De Ferranti, D. & Ody, A.J. 2007. Beyond micro finance: Getting capital to small and medium enterprises to fuel faster development. Policy Brief 159. March. Washington, DC: The Brookings Institution. Retrieved from http://www.brookings.edu/~/media/research/files/papers/2007/3/development-de-ferranti/pb159.pdf [Accessed 13 June 2017].

De Vos, A.S., Strydom, H., Fouché, C.B. & Delport, C.S.L. 2011. *Research at grass roots: For the social sciences and human services professions*. Fourth edition. Pretoria: Van Schaik.

De Vries, M. 2019. Crowdfunding for start-up financing in Kenya, South Africa & Uganda. Enschede, The Netherlands: University of Twente. (Essay – Bachelor degree). Retrieved from http://essay.utwente.nl/78529/1/de%20Vries%2C%20IBA%2C%20BSc.pdf [Accessed 22 April 2020].

Deloitte. 2013. The National Credit Act. Reckless credit. Southern Africa Accounting & Auditing. Retrieved from https://www2.deloitte.com/content/dam/Deloitte/za/Documents/governance-risk-compliance/ZA_RecklessCreditUnderTheNationalCreditAct_16042014.pdf [Accessed 12 March 2017].

Demirgüç-Kunt, A., Klapper, L., Singer, D., Ansar, S. & Hess, J. 2018. *The Global Findex Database 2017: Measuring financial inclusion and the Fintech revolution*. The World Bank. Retrieved from http://documents.worldbank.org/curated/en/332881525873182837/pdf/126033-PUB-PUBLIC-pubdate-4-19-2018.pdf [Accessed 23 February 2020].

Denenberg, H.S. 1964. *Risk and insurance*. Englewood Cliffs, NJ: Prentice Hall.

Dharwadkar, R., George, G. & Brandes, P. 2000. Privatization in emerging economies: An agency theory perspective. *The Academy of Management Review*, 25(3):650–669. Retrieved from https://ink.library.smu.edu.sg/cgi/viewcontent.cgi?article=5631&context=lkcsb_research [Accessed 17 March 2020].

Diamond, D.W. 1984. Financial intermediation and delegated monitoring. *The Review of Economic Studies*, 51(3):393–414. Retrieved from https://www.jstor.org/stable/2297430 [Accessed 21 April 2020].

Dimitriu, M. & Oprea, I.A. 2009. Credit risk management in financial crisis. *Review of International Comparative Management*, 2:987–994.

Djankov, S., Miranda, P., Seira, E. & Sharma. S. 2008. Who are the unbanked?. World Bank Policy Research Working Paper 4647. Washington, DC: World Bank.

Dlova, M.R. 2017. Small, micro and medium enterprises access to credit in the Eastern Cape, South Africa. Johannesburg: University of the Witwatersrand. (Dissertation – PhD). Retrieved from http://wiredspace.wits.ac.za/xmlui/bitstream/handle/10539/23472/Final%20Thesis_0%203.pdf?sequence=1&isAllowed=y [Accessed 2 July 2019].

DTI (Department of Trade and Industry). 2008. Annual Review of Small Business in South Africa 2005–2007. Retrieved from http://www.dti.gov.za/sme_development/docs/smme_report.pdf [Accessed 28 May 2017].

DTI (Department of Trade and Industry). 2010. National Directory of Small Business Support Programmes 2010. Retrieved from http://bee.b1sa.co.za/National%20Directory%20of%20Small%20Business%20Support%20Programmes%202010%20-%20Master.pdf [Accessed 14 June 2017]. (See also South Africa.)

DTI (Department of Trade and Industry). 2017. Codes of good practice on Broad-Based Black Economic Empowerment. Government Gazette No. 41024. 4 August. Retrieved from https://www.thedti.gov.za/gazettes/41024.pdf [Accessed 13 October 2019].

Du, J. & Girma, S. 2012. Firm size, source of finance, and growth - evidence from China. *International Journal of the Economics of Business*, 19(3):397–419. Retrieved from https://www.tandfonline.com/doi/full/10.1080/13571516.2012.715272 [Accessed 10 February 2020].

Eisenhardt, K.M. 1989. Agency theory: An assessment and review. *The Academy of Management Review*, 14(1):57–74. Retrieved from http://www.petersvmd.com/PrincipalAgent/short%20principal%20agent/agency.pdf [Accessed 12 February 2020].

Eisfeldt, A.L. & Rampini, A.A. 2009. Leasing, ability to repossess, and debt capacity. *The Review of Financial Studies*, 22(4):1621–1657.

Elangovan, N & Rajendran, R. 2015. Conceptual model: A framework for institutionalizing the vigor in business research. *Third National Conference on Indian Business Management*. Sri Ramakrishna Institute of Technology. New Delhi. 25 April:1–32. Retrieved from https://www.researchgate.net/publication/279268895_Conceptual_Model_A_Framework_for_Institutionalizing_the_Vigor_in_Business_Research/link/5591516b08aed6ec4bf82a5c/download [Accessed 15 May 2020].

Elomo, P.N. 2014. Determinants of capital structure of start-up firms in South Africa. Johannesburg: University of the Witwatersrand. (Dissertation – Master in Finance and Investment Management). Retrieved from https://pdfs.semanticscholar.org/3827/91d7279edccd20f1acc3e79e46d984b19c97.pdf [Accessed 22 April 2017].

Els, G., Erasmus, P. & Viviers, S. (eds.). 2015. *Corporate finance: A South African perspective*. Second edition. Cape Town: Oxford University Press Southern Africa.

Enterprise Surveys: Brazil. 2009. Brazil Country Profile 2009. International Finance Corporation, World Bank.
Retrieved from https://www.enterprisesurveys.org/content/dam/enterprisesurveys/documents/country-profiles/Brazil-2009.pdf [Accessed 16 August 2018].

Eposoti, C. 2014. A statistical view of crowdfunding. In S. Dresner (ed.), *Crowdfunding: A guide to raising capital on the internet*. Hoboken, NJ: Wiley, 31–46.

European Commission (EC). 2008. Financial Services Provision and Prevention of Financial Exclusion. Directorate-General for Employment, Social Affairs and Equal Opportunities Inclusion, Social Policy Aspects of Migration, Streamlining of Social Policies. Executive summary completed in March. Retrieved from https://scholar.google.co.za/scholar?q=European+Commission.+2008.+Financial+Services+Provision+and+Prevention+of+Financial+Exclusion.&hl=en&as_sdt=0&as_vis=1&oi=scholart&sa=X&ved=0ahUKEwjwls_wgvfSAhVhKcAKHaniBLkQgQMIFzAA [Accessed 13 January 2017].

Evans, K.N. 2005. Becoming bankable: 5 steps to getting money for your business. New York, NY: iUniverse Inc. Retrieved from https://books.google.co.za/books?id=_VpApE_xxggC&pg=PA6&lpg=PA6&dq=becoming+bankable&source=bl&ots=AJp2LJP66n&sig=pZ6dt8kl7vROM6e22Qw8zIrFWK4&hl=en&sa=X&ved=0ahUKEwiz4_7Ny9nQAhULJ8AKHTgRAQ0Q6AEIIDAC#v=onepage&q=becoming%20bankable&f=false [Accessed 4 December 2017].

Falkena, H., Abedian, I., Von Blottnitz, M., Coovadia, C., Davel, G., Madungandaba, J., Masilela, E. & Rees, S. 2001. SMEs' access to finance in South Africa – a supply-side regulatory review. Internal report. Retrieved from http://www.treasury.gov.za/publications/other/Access%20to%20Finance%20in%20South%20Africa%20-%20A%20Supply-Side%20Regulatory%20Review.pdf [Accessed 11 June 2017].

Farrington, S.M. 2012. Does personality matter for small business success?. *South African Journal of Economic and Management Sciences*, 15(4):382–401. Retrieved from http://www.sajems.org/index.php/sajems/article/view/243 [Accessed 29 July 2017].

Fatoki, O. 2013. The determinants of longevity of micro enterprises in South Africa. *Journal of Economics*, 4(2):133–143. Retrieved from http://www.krepublishers.com/02-Journals/JE/JE-04-0-000-13-Web/JE-04-2-000-13-Abst-PDF/JE-04-2-133-13-132-Fatoki-O/JE-04-2-133-13-132-fatoki-O-Tt.pdf [Accessed 29 July 2018].

Fatoki, O. 2014. The causes of the failure of new small and medium enterprises in South Africa. *Mediterranean Journal of Social Sciences*, 5(20):922–927. Retrieved from https://www.researchgate.net/publication/272707965_The_Causes_of_the_Failure_of_New_Small_and_Medium_Enterprises_in_South_Africa [Accessed 10 April 2018].

Fatoki, O. & Asah, F. 2011. The impact of firm and entrepreneurial characteristics on access to debt finance by SMEs in King Williams' Town, South Africa. *International Journal of Business and Management*, 6(8):170–179. Retrieved from https://pdfs.semanticscholar.org/a603/053c7b7b5a15995378ebbe93395caab99af9.pdf [Accessed 17 August 2018].

Fatoki, O. & Odeyemi, A. 2010. Which new small and medium enterprises in South Africa have access to bank credit?. *International Journal of Business and Management*, 5(10):128–136. Retrieved from http://www.ccsenet.org/journal/index.php/ijbm/article/viewFile/7639/5918 [Accessed 16 January 2018].

Fawthrop, A. 2019. Biggest banks in South Africa: Profiling the top lenders by assets. NS Banking. 13 May. Retrieved from https://www.nsbanking.com/analysis/biggest-banks-south-africa/ [Accessed 20 November 2020].

Feldman, R.J. 1997. Small business loans, small banks and a big change in technology called credit scoring. *The Region*, 11(September):19–25. Retrieved from www.ic.gc/eic/site/bsf-osb/eng/bro2031.htm [Accessed 19 August 2017].

Fereday, J. & Muir-Cochrane, E. 2006. Demonstrating rigor using thematic analysis: A hybrid approach of inductive and deductive coding and theme development. *International Journal of Qualitative Methods*, 5(1):80–92. Retrieved from https://journals.sagepub.com/doi/pdf/10.1177/160940690600500107 [Accessed 19 August 2019].

Ferri, G., Murro, P., Peruzzi, V. & Rotondi, Z. 2019. Bank lending technologies and credit availability in Europe: What can we learn from the crisis?. *Journal of International Money and Finance*, 95(C):128–148.

Finfind. 2018. Inaugural South African SMME Access to Finance Report. Retrieved from https://www.accesstofinancereport.co.za/pdf/INAUGURAL-REPORT.pdf [Accessed 19 November 2019].

FinMark Trust. 2013. GENESIS: The Study of the Emergence of Entry-Level Bank Branches in South Africa. Final Report. July. Retrieved from http://cenfri.org/documents/Retail%20Payments/FMT%20Entry%20level%20branches_Final%20Report%20092013_KM.PDF [Accessed 16 June 2018].

FinMark Trust. 2015. Financial Access and SME Size in South Africa. Occasional Research Paper. December. Retrieved from http://www.finmark.org.za/wp-content/uploads/2016/01/Rep_Financial-Access-and-SME-Size-in-SA_Dec2015-1.pdf [Accessed 16 June 2018].

FinScope. 2010. South Africa Small Business Survey. FinMark Trust. Retrieved from www.finmark.org.za/finscope/.../finscope-south-africa-sme-survey-2010/ [Accessed 6 February 2018].

First National Bank (FNB). 2020. Online banking for business: Banking your business 24/7. Retrieved from https://www.fnb.co.za/business-banking/business-loan/businessLoan.html [Accessed 21 November 2020].

FirstRand. 2015. Annual Integrated Report 2015. Retrieved from https://www.firstrand.co.za/media/1333/2015-fsr-annual-integrated-report.pdf [Accessed 21 January 2017].

FirstRand. 2019. Annual Integrated Report 2019. Retrieved from https://www.firstrand.co.za/media/investors/annual-reporting/firstrand-annual-integrated-report-2019.pdf [Accessed 22 April 2020].

FirstRand Bank. 2018. Annual Report 2018. Retrieved from https://www.firstrand.co.za/media/1667/firstrand-bank-annual-report-2018.pdf [Accessed 22 June 2020].

Fjose, S., Grünfeld, L.A. & Green, C. 2010. SMEs and growth in Sub-Saharan Africa: Identifying SME roles and obstacles to SME growth. MENON-Business Economics – Publication no. 14/2010. Oslo, June. Retrieved from http://www.norfund.no/getfile.php/Documents/Homepage/Reports%20and%20presentations/Studies%20for%20Norfund/SME%20and%20growth%20MENON%20%5BFINAL%5D.pdf [Accessed 7 May 2017].

Fowowe, B. 2017. Access to finance and firm performance: Evidence from African countries. *Review of Development Finance*, 7(1):6–17. Retrieved from https://www.sciencedirect.com/science/article/pii/S1879933717300106 [Accessed 17 January 2019].

Fox, J. 2014. Collinearity and model selection. Lecture notes. Retrieved from https://socialsciences.mcmaster.ca/jfox/Courses/soc740/lecture-7-notes.pdf [Accessed 12 August 2020].

Frank, M.Z. & Goyal, V.K. 2008. Trade-off and pecking order theories of debt. In B.E. Eckbo (ed.), *Handbook of corporate finance: Empirical corporate finance. Volume 2*. Amsterdam: Elsevier, 135–202. Retrieved from https://edisciplinas.usp.br/pluginfile.php/2808509/mod_resource/content/2/Handbook%20of%20Corporate%20Finance_ECKBO-vol_2.pdf#page=162 [Accessed 3 May 2018].

Freixas, W. & Rochet, J.-C. 1997. *Microeconomics of banking*. Cambridge, MA: The MIT Press.

Frost, J. 2020. Guide to stepwise regression and best subsets regression. Retrieved from https://statisticsbyjim.com/regression/guide-stepwise-best-subsets-regression/ [Accessed 12 August 2020].

Fusch, P.I. & Ness, L.R. 2015. Are we there yet?: Data saturation in qualitative research. *The Qualitative Report*, 20(9):1408–1416.

Ganbold, B. 2008. Improving access to finance for SME: International good experiences and lessons for Mongolia (No. 438). Institute of Developing Economies. Retrieved from http://www.ide-jetro.jp/English/Publish/Download/Vrf/pdf/438.pdf [Accessed 17 August 2017].

Gande, A. & Saunders, A. 2012. Are banks still special when there is a secondary market for loans?. *The Journal of Finance*, 67(5):1649–1684. Retrieved from http://lamfin.arizona.edu/fixi/creditmod/MarketforLoans.pdf [Accessed 21 April 2020].

Gasealahwe, B. 2013. Wherein lies the difference in the estimate of the size of the South African small business sector?. Cape Town: University of Cape Town. (Thesis – MCom). Retrieved from https://open.uct.ac.za/handle/11427/5788 [Accessed 14 February 2015].

GEM. 2010. Global Entrepreneurship Monitor. 2010 Global Report. Retrieved from https://www.gemconsortium.org/report/gem-2010-global-report [Accessed 24 June 2018]. (Also see Kelley, Bosma & Amorós, 2010).

GEM. 2014. Global Entrepreneurship Monitor. 2014 Global Report. Retrieved from https://www.gemconsortium.org/file/open?fileId=49079 [Accessed 24 June 2018]. (Also see Singer, Amorós & Moska, 2014).

GEM. 2016. Global Entrepreneurship Monitor. 2015/16 Global Report. Retrieved from https://www.gemconsortium.org/file/open?fileId=49480 [Accessed 17 July 2017]. (Also see Kelley, Singer, Herrington, 2016).

GEM. 2019. Global Entrepreneurship Monitor. 2018/2019 Global Report. Retrieved from https://www.gemconsortium.org/file/open?fileId=50213 [Accessed 17 November 2019]. (Also see Bosma, N & Kelley, 2019).

Gerber, E.M. & Hui, J. 2013. Crowdfunding: Motivations and deterrents for participation. *ACM Transactions on Computer-Human Interaction (TOCHI)*, 20(6):1–32. Retrieved from https://www.researchgate.net/profile/Julie_Hui/publication/275961145_Crowdfunding_Motivations_and_Deterrents_for_Participation/links/554b9ede0cf21ed21359cc7c.pdf [Accessed 12 May 2019].

Gibson, T. & Van der Vaart, H.J. 2008. Defining SMEs: A less imperfect way of defining small and medium enterprises in developing countries. Brookings Global Economy and Development. Retrieved from https://www.brookings.edu/wp-content/uploads/2016/06/09_development_gibson.pdf [Accessed 15 January 2016].

Gitman, L.J. & Zutter, C.J. 2012. *Principles of managerial finance*. Thirteenth Edition. Boston, MA: Prentice Hall.

Godlewski, C.J. & Weill, L. 2011. Does collateral help mitigate adverse selection?: A cross-country analysis. *Journal of Financial Services Research*, 40(1–2):49–78. Retrieved from https://www.researchgate.net/publication/226360759_Does_Collateral_Help_Mitigate_Adverse_Selection_A_Cross-Country_Analysis [Accessed 2 May 2019].

Gompers, P. & Lerner, J. 2001. The venture capital revolution. *Journal of Economic Perspectives*, 15(2):145–168. Retrieved from https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.15.2.145 [Accessed 20 March 2020].

Gompers, P.A., Gornall, W., Kaplan, S.N. & Strebulaev, I.A. 2020. How do venture capitalists make decisions?. *Journal of Financial Economics*, 135(1):169–190.

Goodwin-Groen, R.P. & Kelly-Louw, M. 2006. The National Credit Act and its regulations in the context of access to finance in South Africa. Report prepared for FinMark Trust, South Africa. Retrieved from www.finmark.org.za/.../the-national-credit-act-and-its-regulations-in-the-context-of-access-to-finance-in-sa [Accessed 6 April 2015].

Grady, M.P., 1998. *Qualitative and action research: A practitioner handbook*. Phi Delta Kappa International.

Gualandri, E., Venturelli, V. & Sclip, A. 2019. *Frontier topics in banking: Investigating new trends and recent developments in the financial industry*. Cham, Switzerland: Palgrave Macmillan.

Guba, E.G. & Lincoln, Y.S. 1982. Epistemological and methodological bases of naturalistic inquiry. *Educational Communication & Technology Journal*, 30(4):233–252.

Guest, G., MacQueen, K.M. & Namey, E.E. 2012. Validity and reliability (credibility and dependability) in qualitative research and data analysis. In G. Guest, K.M. MacQueen & E.E. Namey (eds.), *Applied thematic analysis*. London: Sage, 79–106.

Gunawan, J. 2015. Ensuring trustworthiness in qualitative research. *Belitung Nursing Journal*, 1(1):10–11. Retrieved from https://belitungraya.org/BRP/index.php/bnj/article/viewFile/4/pdf [Accessed 11 July 2019].

Gurley, J.G. & Shaw, E.S. 1960. *Money in a theory of finance*. Washington, DC: The Brookings Institution.

Gvetadze, S., Pal, K. & Torfs, W. 2020. *The business angel portfolio under the European Angels Fund: An empirical analysis*. EIF Working Paper No. 2020/62. Luxembourg: European Investment Fund (EIF). Retrieved from https://www.econstor.eu/bitstream/10419/213873/1/1689254033.pdf [Accessed 20 April 2020].

Hagedorn, A. & Pinkwart, A. 2016. The financing process of equity-based crowdfunding: An empirical analysis. In D. Brüntje & O. Gajda (eds.), *Crowdfunding in Europe: State of the art in theory and practice*. Cham, Switzerland: Springer, 71–85.

Hair, J.F., Black, W.C., Babin, B.J. & Anderson, R.E. 2014. *Multivariate data analysis*. Seventh edition. Harlow, UK: Pearson Education.

Hall, B.H. & Lerner, J. 2010. The financing of R&D and innovation. In B.H. Hall & N. Rosenberg (eds.), *Handbook of the economics of innovation. Vol. 1*. Amsterdam: Elsevier, 609–639. Retrieved from https://www.nber.org/papers/w15325.pdf [Accessed 21 March 2020].

Haltuf, M. 2014. Support vector machines for credit scoring. Prague: University of Economics in Prague. (Thesis – Master's degree). Retrieved from www.quantitative.cz/.../support-vector-machines-for-credit-scoring-mich [Accessed 16 November 2017].

Hamilton, B. 2003. EBITDA: Still crucial to credit analysis. *Commercial Lending Review*, 18:47.

Harc, M. 2015. The relationship between tangible assets and capital structure of small and medium-sized companies in Croatia. *Review of Contemporary Business, Entrepreneurship and Economic Issues*, 28(1):213–224.

Hartley, J. 2014. Some thoughts on Likert-type scales. *International Journal of Clinical and Health Psychology*, 14(1):83–86. Retrieved from https://www.sciencedirect.com/science/article/pii/S1697260014700407 [Accessed 31 May 2018].

Hawkins, P. 2011. Financial access: What has the crisis changed?. BIS Papers chapters. In Bank for International Settlements (ed.), *Central Banking in Africa:*

Prospects in a Changing World, 56(September):11–20. Basel, Switzerland: Bank for International Settlements. Retrieved from http://www.bis.org/publ/bppdf/bispap56c.pdf [Accessed 28 July 2017].

Herrington, M., Kew, J. & Kew, P. 2010. 2010 GEM South Africa Report: Tracking entrepreneurship in South Africa: A GEM perspective. Retrieved from www.gsb.uct.za/files/Gembook2009.pdf [Accessed 7 April 2017].

Herrington, M., Kew, J. & Kew, P. 2014. 2014 GEM South Africa Report: South Africa: The crossroads – a goldmine or a time bomb?. Retrieved from https://www.gemconsortium.org/report/gem-south-africa-2014-report [Accessed 19 November 2018].

Herrington, M. & Kew, P. 2018. GEM South Africa Report 2017/18: Is there a change in attitude towards the small and medium business sector in South Africa?. Retrieved from https://www.gemconsortium.org/file/open?fileId=50411 [Accessed 19 November 2018].

Herrington, M., Kew, P. & Mwanga, A. 2017. GEM South Africa Report 2016/2017: Can small businesses survive in South Africa?. Retrieved from https://www.gemconsortium.org/news/Can%20small%20business%20survive%20in%20South%20Africa%3F [Accessed 19 November 2018].

Heymans, A. 2016. The identification and measurement of risk in banking. In J. Coetzee (ed.). *Bank management in South Africa: A risk-based perspective.* Cape Town: Juta, 249–275.

Howe, J. 2008. *Crowdsourcing: How the power of the crowd is driving the future of business*. New York, NY: Random House.

Housing Development Agency (HDA). 2015. Matjhabeng – Free State. Housing Market Overview. Intervention Human Settlements Mining Town. 2008-2013.Retrieved from http://thehda.co.za/pdf/uploads/multimedia/Matjhabeng FreeState.pdf [Accessed 22 November 2020].

Huang, C., When, Y. & Liu, Z. 2014. Analysis on financing difficulties for SMEs due to asymmetric information. *Global Disclosure of Economics and Business*, 3(2):28–31. Retrieved from http://publicationslist.org/data/gdeb/ref-7/GDEB_6.4.pdf [Accessed 21 January 2017].

Hudson, M. 2018. New research on individual angels provides insights for startup ecosystems. Global Entrepreneurship Network. Retrieved from https://www.genglobal.org/united-states-gban/new-research-individual-angels-provides-insights-startup-ecosystem [Accessed 1 April 2020].

Huertas, T.F. 2018. Are banks still special?. *The Journal of Financial Perspectives*, 5(1). Retrieved from https://www.researchgate.net/profile/Thomas_Huertas/publication/259411672_Charles_E_Mitchell_Scapegoat_of_the_Crash/links/5b885c23299bf1d5a7332ef1/Charles-E-Mitchell-Scapegoat-of-the-Crash.pdf [Accessed 18 April 2020].

Hutchinson, J. & Xavier, A. 2006. Comparing the impact of credit constraints on the growth of SMEs in a transition country with an established market economy. *Small Business Economics*, 27(2–3):169–179.

Hwarire, C. 2012. Loan repayment and credit management of small businesses: A case study of a South African commercial bank. Paper presented at the African Development Finance Workshop, Cape Town, South Africa, 7–8 August.

International Labour Organization (ILO). 2019. World employment and social outlook – trends 2019. Retrieved from https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_670554.pdf [Accessed 17 November 2019].

Irwin, D. and Scott, J.M. 2010. Barriers faced by SMEs in raising bank finance. *International journal of entrepreneurial behavior & research*, 16(3):245-259. Retrieved from http://nrl.northumbria.ac.uk/id/eprint/29961/1/IJEBR_16_3.pdf [Accessed 19 January 2019].

Jaffee, D. & Stiglitz, J. 1990. Credit rationing. In B.M. Friedman & F. Hahn (eds.), *Handbook of monetary economics. Vol. 2*. Amsterdam: Elsevier, 837–888. Retrieved from http://faculty.haas.berkeley.edu/jaffee/papers/JaffeeStiglitz.pdf [Accessed 22 April 2020].

Johnson, R.B. & Onwuegbuzie, A.J. 2004. Mixed methods research: A research paradigm whose time has come. *Educational Researcher*, 33(7):14–26. Retrieved from http://edr.sagepub.com/content/33/7/14 [Accessed 24 January 2018].

Johnson, R.B., Onwuegbuzie, A.J. & Turner, L.A. 2007. Toward a definition of mixed methods research. *Journal of Mixed Methods Research*, 1(2):112–133. Retrieved from http://www.wellsreserve.org/writable/files/ctp/Qualitative_Research/mixed_methods.pdf [Accessed 24 January 2018].

Johnston, R., Jones, K. & Manley, D. 2018. Confounding and collinearity in regression analysis: A cautionary tale and an alternative procedure, illustrated by studies of British voting behaviour. *Quality & Quantity*, 52(4):1957–1976.

Kalane, L. 2015. *Reasons for failure of SMEs in the Free State*. Bloemfontein: University of the Free State. (Dissertation – MBA). Retrieved from https://scholar.ufs.ac.za/bitstream/handle/11660/4557/KalaneL.pdf?sequence=1&isAllowed=y [Accessed 10 July 2017].

Kaplan, J.M. & Warren, A.C. 2013. *Patterns of entrepreneurship management*. Fourth edition. New York, NY: Wiley.

Kardashov, A. 2020. Russia's small businesses contribute just 20% of economy. *The Moscow Times*, 28 January. Retrieved from https://www.themoscowtimes.com/2020/01/28/russias-small-businesses-contribute-20-percent-russia-economy-a69063 [Accessed 7 April 2020].

Kelley, D., Bosma, N. & Omorós, J. E. 2010. Global Entrepreneurship Monitor. Global Report 2010. Retrieved from https://www.gemconsortium.org/report/gem-2010-global-report [Accessed 24 June 2018].

Kelley, D., Singer, S. & Herrington, M. 2016. Global Entrepreneurship Monitor. Global Report 2015/2016. Retrieved from https://www.gemconsortium.org/file/open?fileId=49480 [Accessed 17 July 2017].

Kelly, M.V. 2007. *Financial institutions in South Africa: Financial investment and risk management*. Cape Town: Juta.

Kendal, J., Mylenko, N. & Alejandro, P. 2010. Measuring financial access around the world. Policy Research Working Paper 5253. World Bank. March. Retrieved from https://www.cgap.org/sites/default/files/CGAP-Measuring-Financial-Access-around-the-World-Mar-2010.pdf [Accessed 20 November 2020].

Kerr, A., Wittenberg, M. & Arrow, J. 2013. Job creation and destruction in South Africa. Southern Africa Labour and Development Research Unit Working Paper No. 92. Cape Town: University of Cape Town. Retrieved from http://www.opensaldru.uct.ac.za/handle/11090/608 [Accessed 30 June 2017].

Kim, E.H. 1978. A mean-variance theory of capital structure and corporate debt capacity. *The Journal of Finance*, 33(1):45–63. Retrieved from http://dx.doi.org/10.1111/j.1540-6261.1978.tb03388.x [Accessed 22 February 2019].

Kira, A.R. 2015. Testing SMEs determinants of access to debt financing by using logistic regression model. *Journal of Social Sciences*, 1(1):76–92. Retrieved from https://www.researchgate.net/profile/Alex_Kira/publication/313165093_Testing_SMEs_Determinants_of_Access_to_Debt_Financing_by_Using_Logistic_Regression_Model/links/595a27290f7e9b897eab298a/Testing-SMEs-Determinants-of-Access-to-Debt-Financing-by-Using-Logistic-Regression-Model.pdf [Accessed 12 June 2018].

Kira, A.R. & He, Z. 2012. The impact of firm characteristics in access of financing by small and medium-sized enterprises in Tanzania. *International Journal of Business and Management*, 7(24):108–119. Retrieved from https://www.researchgate.net/profile/Alex_Kira/publication/272724027_The_Impact_of_Firm_Characteristics_in_Access_of_Financing_by_Small_and_Medium-sized_Enterprises_in_Tanzania/links/5891db48a6fdcc1b414684ed/The-Impact-of-Firm-Characteristics-in-Access-of-Financing-by-Small-and-Medium-sized-Enterprises-in-Tanzania.pdf [Accessed 18 June 2019].

Kirby, E. & Worner, S. 2014. Crowd-funding: An infant industry growing fast. Staff Working Paper of the International Organisation of Securities Commissions Research Department. Retrieved from https://www.finextra.com/finextra-downloads/newsdocs/crowd-funding-an-infant-industry-growing-fast.pdf [Accessed 12 June 2019].

Klapper, L. 2006. Export financing for SMEs: The role of factoring. World Bank Group, Trade Note 29. Retrieved from http://documents1.worldbank.org/curated/en/916461468331756323/pdf/382390Trade1Note1291Klapper01PUBLIC1.pdf [Accessed 22 May 2020].

Klapper, L.F. & Parker, S.C. 2010. Gender and the business environment for new firm creation. *The World Bank Research Observer*, 26(2):237–257. Retrieved from https://openknowledge.worldbank.org/bitstream/handle/10986/13515/wbro_26_2_237.pdf?sequence=1 [Accessed 9 July 2018].

Kleinbaum, D.G. & Klein, M. 2002. *Logistic regression: A self-learning text*. Second edition. New York, NY: Springer.

Klinger, B., Castro, L., Szenkman, P. & Khwaja, A. 2013. Unlocking SME finance in Argentina with psychometrics. *Inter-American Development Bank Technical Note No. IDB-TN-532*. Retrieved from http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.984.7298&rep=rep1&type=pdf [Accessed 8 May 2020].

Koch, T.W. & MacDonald, S.S. 2006. *Bank management*. Sixth edition. Mason, OH: Thomson Higher Education.

Kraus, A. & Litzenberger, R.H. 1973. A state-preference model of optimal financial leverage. *The Journal of Finance*, 28(4):911–922.

Kumar, A. & Francisco, M. 2005. Enterprise size, financing patterns, and credit constraints in Brazil: Analysis of data from the investment climate assessment survey. World Bank Working Paper No. 49. Washington, DC: World Bank. Retrieved from https://openknowledge.worldbank.org/handle/10986/7330 [Accessed 26 June 2020].

Kuratko, D.F. 2016. *Entrepreneurship: Theory, process, and practice*. Mason, OH: Cengage Learning.

Kyophilavong, P. 2011. SME access to finance: Evidence from Laos. In C. Harvie, S. Oum & D. Narjoko (eds.), *Small and medium enterprises (SMEs) access to finance in selected East Asian economies*. ERIA Research Project Report 2010–14. Jakarta: ERIA, 117–150.

Langa, M.T. & Govender, K.K. 2019. The need for agile relationship lending between small business and banks, towards a more engaged relationship: A case study in Khayelitsha, South Africa. *Asian Business Research Journal*, 4:29–34.

Lee, T.S., Chiu, C.C., Lu, C.J. & Chen, I.F. 2002. Credit scoring using the hybrid neural discriminant technique. *Expert Systems with Applications*, 23(3):245–254.

Leedy, P.D. & Ormrod, J.E. 2005. *Practical research: Planning and design*. Eighth edition. New York, NY: Pearson Custom.

Leedy, P.D. & Ormrod, J.E. 2013. *Practical research: Planning and design*. Tenth edition. Boston: Pearson Custom.

Legard, R., Keegan, J. & Ward, K. 2003. In-depth interviews. In: Ritchie, J., Lewis, J. (eds.) *Qualitative Research Practice: A Guide for Social Science Students and Researchers*. London: Sage, 139-169.

Lejweleputswa District Municipality. 2018. Annual Report 2017-2018. Retrieved from http://lejweleputswa.co.za/wp-content/uploads/2019/03/2017-18-Consolidated-Annual-Report.pdf [Accessed 15 November 2019].

Lesonsky, R. 2015. What is a debt-service coverage ratio (DSCR)?. Fundera Ledger. New York. Retrieved from https://www.fundera.com/blog/debt-service-coverage-ratio [Accessed 16 June 2017].

Lincoln, Y.S. & Guba, E.G. 1989. Ethics: The failure of positivist science. *The Review of Higher Education*, 12(3):221–240. Retrieved from https://files.eric.ed.gov/fulltext/ED282918.pdf [Accessed 11 May 2020].

Lisboa, I. 2017. Capital structure of exporter SMEs during the financial crisis: Evidence from Portugal. *European Journal of Management Studies*, 22(1):25–49. Retrieved from https://www.repository.utl.pt/bitstream/10400.5/13947/1/4_EJMSVol22Issue1.2017_C-25-49.pdf [Accessed 16 March 2020].

Logan, S. 2008. *The National Credit Act 34 of 2005: A basic guide for attorneys*. Pretoria: Law Society of South Africa. Retrieved from www.debtpack.com/Portals/0/docs/LSSA_NCA_GUIDE.pdf [Accessed 7 February 2017].

Local Government. 2011. Different categories of Local Government. http://www.paralegaladvice.org.za/docs/chap04/03.html Date of access:11 December 2017.

Local Government. 2019. South African Government. Retrieved from https://www.gov.za/about-government/government-system/local-government. [Accessed 19 March 2020].

Long, K.T. & Chan, C.D.K. 2020. SMEs' financial access between Macau and Singapore.

Longenecker, J.G., Moore, C.W., Petty, J.W. & Palich, L.E. 2006. *Small business management: An entrepreneurial emphasis*. Thirteenth edition. Mason, OH: Thomson/South-Western.

Losby, J. & Wetmore, A. 2012. CDC coffee break: Using Likert scales in evaluation survey work. Centers for Disease Control and Prevention. Retrieved from https://www.cdc.gov/dhdsp/pubs/docs/CB_February_14_2012.pdf [Accessed 21 August 2020].

Luhmann, N. 1996. *Modern society shocked by its risks*. Social Sciences Research Centre Occasional Paper 17. Hong Kong: Social Sciences Research Centre, University of Hong Kong. Retrieved from https://core.ac.uk/download/pdf/37881887.pdf [Accessed 22 April 2020].

Lumpkin, S. & Schich, S. 2020. Banks, digital banking initiatives and the financial safety net: Theory and analytical framework. *Journal of Economic Science Research*, 03(01):24–46. Retrieved from https://www.researchgate.net/publication/338297263_Banks_Digital_Banking_Initiatives_and_the_Financial_Safety_Net_Theory_and_Analytical_Framework [Accessed 19 April 2020].

Mahloana, K.F. 2019. Factors influencing access to finance for SMEs in the mining sector in Gauteng. Johannesburg: University of the Witwatersrand. (Research article – MBA).

Main, O. (ed.). 2014. *The local government handbook South Africa 2015: A complete guide to municipalities in South Africa*. Fifth edition. Cape Town: Yes! Media. Retrieved from https://issuu.com/yesmedia/docs/lgh2015 [Accessed 17 April 2018].

Malhotra, R. & Malhotra, D.K. 2003. Evaluating consumer loans using neural networks. *Omega*, 31(2):83–96.

Masiak, C., Block, J.H., Moritz, A., Lang, F. & Kraemer-Eis, H. 2019. How do micro firms differ in their financing patterns from larger SMEs?. *Venture Capital*, 21(4):301–325. Retrieved from https://www.researchgate.net/profile/Joern_Block/publication/332425431_How_do_micro_firms_differ_in_their_financing_patterns_from_larger_SMEs/links/5cb8cb97a6fdcc1d499eedac/How-do-micro-firms-differ-in-their-financing-patterns-from-larger-SMEs.pdf [Accessed 22 May 2020].

Mason, C., Botelho, T. & Harrison, R. 2016. The transformation of the business angel market: Empirical evidence and research implications. *Venture Capital*, 18(4):321–344.

Mat Nawi, H. 2015. *Determinants of capital structure in small and medium-sized enterprises in Malaysia*. London: Brunel University London. (Thesis – PhD). Retrieved from https://bura.brunel.ac.uk/bitstream/2438/11054/1/FulltextThesis.pdf [Accessed 16 March 2020].

Matanda, W.J. 2010. The effect of 7Cs credit appraisal model on the level of non-performing advances of commercial banks in Kenya. Nairobi: University of Nairobi. (Research paper – MBA). Retrieved from http://erepository.uonbi.ac.ke/bitstream/handle/11295/13895/Matanda_The%20effect

%20of%207cs%20credit%20appraisal%20model%20on%20the%20level%20of%20Non-performing%20advances%20of%20commercial%20banks%20in%20Kenya.pdf?sequence=1 [Accessed 6 June 2018].

Mathjabeng Local Municipality. 2011. Annual Report. 1 July 2010-30 June 2011. Retrieved fromhttp://mfma.treasury.gov.za/Documents/06.%20Annual%20Reports/2010-11/02.%20Local%20Municipalities/FS184%20Matjhabeng/FS184%20Matjhabeng%20Annual%20Report%202010-11.pdf [Accessed 24 November 2015].

Matjhabeng Local Municipality. 2013. Matjhabeng Local Municipality municipal profile. Retrieved from http://www.citysolve.co.za/hda/files/pdf2/matjhabeng-local-municipality.pdf [Accessed 27 June 2020].

Máxima, H.R.H. 2013. Speech delivered at the Post-2015 development agenda panel titled "Partnerships to Achieve Financial Inclusion for Development". Bali. 26 March. Retrieved from http://www.un.org/sq/managament/hlppost2015.shtml [Accessed 17 August 2018].

Maye, M. 2014. Small business in South Africa: What the Department of Small Business Development can do to stimulate growth. Southern African Catholic Bishops' Conference. Parliamentary Liaison Office. Occasional Paper 35. Cape Town. September. Retrieved from http://www.cplo.org.za/?wpdmdl=71&&ind=0 [Accessed 30 July 2015].

Mazanai, M. & Fatoki, O. 2012. Access to finance in the SME sector: A South African perspective. *Asian Journal of Business Management*, 4(1):58–67. Retrieved from https://maxwellsci.com/print/ajbm/v4-58-67.pdf [Accessed 17 May 2018].

Mengistae, T., Daniels, R., Habiyarimana, J., Kaplan, D., Love, I., Ramachandran, V., Shah, M. & Xu, C. 2010. South Africa: Second investment climate assessment: Business environment issues in shared growth. Volume 2. Full report. July. Retrieved from http://siteresources.worldbank.org/INTSOUTHAFRICA/Resources/South_Africa_ICA-Full_Report_volume_2-DTI-0716.pdf [Accessed 2 May 2017].

Meyer, P.G. 2005. The determinants of credit risk mitigation in lending to Black Economic Empowerment (BEE) companies, from a banker's perspective. Pretoria: University of South Africa. (Research report – MBL).

Modigliani, F. & Miller, M.H. 1958. The cost of capital, corporation finance and the theory of investment. *The American Economic Review*, 48(3):261–297. Retrieved from http://www.jstor.org/stable/1809766 [Accessed 16 July 2019].

Modigliani, F. & Miller, M.H. 1963. Corporate income taxes and the cost of capital: A correction. *The American Economic Review*, 53(3):433–443. Retrieved from http://www.jstor.org/stable/1809766 [Accessed 16 July 2019].

Mogashoa, M.T. 2017. *Capital structure decision making for SMMEs in the South African context*. Pretoria: University of Pretoria. (Research project – MBA). Retrieved from https://repository.up.ac.za/bitstream/handle/2263/59880/Mogashoa_Capital_2017.pdf?sequence=1 [Accessed 18 March 2020].

Mohr, P. 2015. *Economics for South African students*. Fifth edition. Pretoria: Van Schaik.

Morse, J. M. 2000. Determining sample size. *Qualitative Health Research, 10*: 3–5.

Motta, V. & Sharma, A. 2020. Lending technologies and access to finance for SMEs in the hospitality industry. *International Journal of Hospitality Management*, 86:102371.

Municipalities of South Africa. 2016. Matjhabeng Local Municipality (FS184) https://municipalities.co.za/demographic/1044/matjhabeng-local-municipality [Accessed 15 November 2018].

Murray, J. 2020. What is a loan principal?: Definition and examples of loan principals. *The Balance Small Business.* Retrieved from https://www.thebalancesmb.com/loan-principal-questions-and-answers-398400 [Accessed 5 August 2020].

Mutezo, A.T. 2005. Obstacles in the access to SMME finance: An empirical perspective on Tshwane. Pretoria: University of South Africa. (Dissertation – MCom). Retrieved from http://uir.unisa.ac.za/bitstream/handle/10500/1803/?sequence=1 [Accessed 25 March 2017].

Mutezo, A.T. 2013. Credit rationing and risk management for SMEs: The way forward for South Africa. *Corporate Ownership & Control*, 10(2):153–163. Retrieved from http://www.virtusinterpress.org/IMG/pdf/10-22495_cocv10i2c1art1.pdf [Accessed 11 January 2019].

Mutezo, A.T. 2015. Small and medium enterprise financing and credit rationing: The role of banks in South Africa. Pretoria: University of South Africa. (Thesis – DCom). Retrieved from http://uir.unisa.ac.za/bitstream/handle/10500/23479/Thesis_Mutezo_AT.pdf?sequence=1&isAllowed=y [Accessed 13 November 2018].

Mutoko, W.R. & Kapunda, S.M. 2017. Factors influencing small, medium and micro-sized enterprises' borrowing from banks: The case of the Botswana manufacturing sector. *Acta Commercii*, 17(1):1–9. Retrieved from http://www.scielo.org.za/scielo.php?script=sci_arttext&pid=S1684-19992017000100013 [Accessed 9 July 2019].

Mutwiri, J.M., 2003. The use of 6 c's credit risk appraisal model and its relationship with the level of non-performing loans of commercial banks in Kenya (Doctoral dissertation, Univesity of Nairobi).

Myers, S.C. & Majluf, N.S. 1984. Corporate financing and investment decisions when firms have information that investors do not have. *Journal of Financial Economics*, 13(2):187–221.

Nagarajan, G. & Meyer, R.L. 2005. *Rural finance: Recent advances and emerging lessons, debates, and opportunities*. Working Paper AEDE-WP-0041-05. Columbus, OH: Department of Agricultural, Environmental, and Development Economics, The Ohio State University. Retrieved from https://scholar.google.com/scholar?hl=en&as_sdt=0%2C5&q=Meyer+2005+Role+of+banks&oq=Meyer [Accessed 17 May 2018].

National Credit Regulator (NCR). 2011. Literature review on small and medium enterprises' access to credit and support in South Africa. Report prepared for the National Credit Regulator by Underhill Corporate Solutions (UCS). Project manager and lead researcher: E. Mahembe. December. Pretoria. Retrieved from https://www.smallbusinessinstitute.co.za/wp-content/uploads/2019/12/NCRLiterature-Review-on-SME-Access-to-Credit-in-South-Africa_Final-Report_NCR_Dec-2011.pdf[Accessed 20 November 2017].

National Planning Commission. 2012. National Development Plan 2030: Our future – make it work. 15 August. Retrieved from http://www.gov.za/issues/national-development-plan-2030 [Accessed 19 June 2018].

Naumann, U. 2019. Lending and taking security in South Africa: Overview. Retrieved from https://content.next.westlaw.com/2-384-

6156?transitionType=Default&contextData=(sc.Default)&__lrTS=20190325091455605&firstPage=true&bhcp=1 [Accessed 20 August 2019].

Nedbank. 2018. Nedbank Group Limited integrated report for the year ended 31 December 2017. Retrieved from https://www.nedbank.co.za/content/dam/nedbank/site-assets/AboutUs/Information%20Hub/Integrated%20Report/2018/2018%20Nedbank%20Group%20Integrated%20Report.pdf [Accessed 13 November 2019].

Nedbank. 2020. Business. Retrieved from https://www.nedbank.co.za/content/nedbank/desktop/gt/en/business/small-business-services.html [Accessed 21 November 2020].

Nel, I.-R. 2013. The impact of the National Credit Act 34 of 2005 on insolvency proceedings. Johannesburg: University of Johannesburg. (Thesis – LLM (Commercial Law)). Retrieved from https://ujdigispace.uj.ac.za [Accessed 27 March 2015].

Newman, A. 2010. *Capital structure determinants of private small and medium-sized enterprises in China*. Nottingham: University of Nottingham. (Thesis – PhD). Retrieved from http://eprints.nottingham.ac.uk/12235/1/537616.pdf [Accessed 16 February 2020].

Nieman, G. 2006. Small Business Management. A South African Approach. Pretoria: Van Schaik.

Nieman, G. & Nieuwenhuizen, C. 2019. *Entrepreneurship: A South African perspective*. Fourth edition. Pretoria: Van Schaik.

Norrestad.F.2020. Leading banks registered in South Africa 2017 by assets (in billion SA Rand). Statica. 9 November. Retrieved fromhttps://www.statista.com/statistics/915616/leading-banks-registered-south-africa-by-assets/ [Accessed 20 November 2020].

OECD (Organisation for Economic Co-operation and Development). 2005. SBS expert meeting “Towards better structural business and SME statistics”. 3–4 November. Paris: Statistics Directorate, OECD. Retrieved from http://www.oecd.org/std/business-stats/35501496.pdf [Accessed 26 May 2017].

OECD (Organisation for Economic Co-operation and Development). 2009. The impact of the global crisis on SME and entrepreneurship financing and policy responses. Paris: Centre for Entrepreneurship, SMEs and Local Development, OECD. Retrieved from http://www.oecd.org/cfe/smes/43183090.pdf [Accessed 15 July 2017].

OECD (Organisation for Economic Co-operation and Development). 2014. Italy: Key issues and policies. OECD Studies on SMEs and Entrepreneurship. Paris: OECD Publishing.

OECD (Organisation for Economic Co-operation and Development). 2015. New approaches to SME and entrepreneurship financing: Broadening the range of instruments. Retrieved from https://www.oecd.org/cfe/smes/New-Approaches-SME-full-report.pdf [Accessed 19 February 2020].

OECD (Organisation for Economic Co-operation and Development). 2017. Enhancing the contribution of SMEs in a global and digitalised economy. Retrieved from https://www.oecd.org/mcm/documents/C-MIN-2017-8-EN.pdf [Accessed 17 November 2019].

OECD (Organisation for Economic Co-operation and Development). 2018. Enhancing competitiveness in Central Asia. Retrieved from https://www.oecd.org/about/sge/enhancing-competitiveness-in-central-asia-9789264288133-en [Accessed 12 November 2019].

OECD (Organisation for Economic Co-operation and Development). 2019. OECD SME and entrepreneurship outlook 2019. Retrieved from http://www.oecd.org/industry/smes/SME-Outlook-Highlights-FINAL.pdf [Accessed 20 February 2020].

OECD (Organisation for Economic Co-operation and Development). 2020. SME and entrepreneurship policy in Brazil 2020. OECD Studies on SMEs and Entrepreneurship. Paris: OECD Publishing. Retrieved from https://doi.org/10.1787/cc5feb81-en [Accessed 7 April 2020].

Okurut, F.N., Olalekan, Y. & Mangadi, K. 2011. Credit rationing and SME development in Botswana: Implications for economic diversification. *Botswana Journal of Economics*, 8(12):62–85. Retrieved from https://www.ajol.info/index.php/boje/article/view/72978/61869 [Accessed 12 May 2019].

Olawale, F. & Garwe, D. 2010. Obstacles to the growth of new SMEs in South Africa: A principal component analysis approach. *African Journal of Business Management*, 4(5):729–738. Retrieved from https://academicjournals.org/article/article1380715803_Olawale%20and%20Garwe.pdf [Accessed 30 March 2016].

Olson, M.O. 2006. Are banks still special?. Remarks by Mr Mark W. Olson, Member of the Board of Governors of the US Federal Reserve System at the Annual Washington Conference of the Institute of International Bankers, Washington, DC, 13 March. Retrieved from https://www.bis.org/review/r060322c.pdf [Accessed 19 April 2020].

Ong, C.-S., Huang, J.-J. & Tzeng, G.-H. 2005. Building credit scoring models using genetic programming. *Expert Systems with Applications*, 29(1):41–47. Retrieved from https://ir.nctu.edu.tw/bitstream/11536/13530/1/000228843300004.pdf [Accessed 23 June 2020].

Østerås, N., Gulbrandsen, P., Garratt, A., Benth, J.Š., Dahl, F.A., Natvig, B. & Brage, S. 2008. A randomised comparison of a four- and a five-point scale version of the Norwegian Function Assessment Scale. *Health and Quality of Life Outcomes*, 6(1):14. Retrieved from http://doi.org/10.1186/1477-7525-6-14 [Accessed 31 May 2018].

Ou, C. & Haynes, G.W. 2006. Acquisition of additional equity capital by small firms – findings from the National Survey of Small Business Finances. *Small Business Economics*, 27(2–3):157–168. Retrieved from https://link.springer.com/content/pdf/10.1007/s11187-006-0009-8.pdf [Accessed 17 March 2020].

Pallant, J. 2010. *SPSS survival manual: A step by step guide to data analysis using SPSS*. Fourth edition. Maidenhead, UK: Open University Press.

Pandula, G. 2011. An empirical investigation of small and medium enterprises' access to bank finance: The case of an emerging economy. In *Proceedings of the ASBBS Annual Conference* (Vol. 18, No. 1, p. 18). Las Vegas. February. Retrieved from https://pdfs.semanticscholar.org/0d7d/59873ab765a8f1ce3ee3b26dab3fb5479a50.pdf [Accessed 20 October 2019].

Peterson, R.A. 2000. *Constructing effective questionnaires*. Thousand Oaks, CA: Sage.

Pikoko, V. and Phiri, A., 2019. Is there hysteresis in South African unemployment? Evidence from the post-recessionary period. *Acta Universitatis Danubius. Œconomica*, *15*(3): 365-378

Pichler, F. & Tezza, I. 2016. Crowdfunding as a new phenomenon: Origins, features and literature review. In R. Bottiglia & F. Pichler (eds.), *Crowdfunding for SMEs: A European perspective*. London: Palgrave Macmillan, 5–43.

Pretorius, M. & Shaw, G. 2004. Business plans in bank decision-making when financing new ventures in South Africa. *South African Journal of Economic and Management Sciences (SAJEMS)*, 7(2):221–241. Retrieved from http://repository.up.ac.za/bitstream/handle/2263/3104/Pretorius_Business%282004%29.pdf?sequence=1&isAllowed=y [Accessed 6 June 2018].

PwC. 2018. A positive path. South Africa – Major banks analysis. March. Retrieved from https://www.pwc.co.za/en/assets/pdf/major-banks-analysis-april-2018.pdf [Accessed 10 June 2019].

PwC. 2019. Striving for growth in a challenging environment. South Africa – Major banks analysis. April. Retrieved from https://www.pwc.co.za/en/assets/pdf/major-banks-analysis-april-2019.pdf [Accessed 10 November 2019].

Radhakrishna, R.B. 2007. Tips for developing and testing questionnaires/instruments. *Journal of Extension*, 45(1):1–4. Retrieved from http://www.joe.org/joe/2007february/tt2p.shtml [Accessed 27 June 2017].

Ramukumba, T. 2014. Overcoming SMEs challenges through critical success factors: A case of SMEs in the Western Cape province, South Africa. *Economic and Business Review*, 16(1):19–38. Retrieved from http://search.proquest.com/openview/cd1726a204af2a14780f40034f41fbfd/1?pq-origsite=gscholar&cbl=44642 [Accessed 12 January 2017].

Raosoft. 2004. Sample size calculator. Retrieved from http://www.raosoft.com/samplesize.html [Accessed 16 January 2015].

Reindl, J., Stoughton, N. & Zechner, J. 2017. Market implied costs of bankruptcy. CFS Working Paper, No. 2013/27. Frankfurt am Main: Center for Financial Studies (CFS), Goethe University Frankfurt. Retrieved from https://www.econstor.eu/bitstream/10419/88432/1/773913246.pdf [Accessed 17 July 2018].

Riding, A., Orser, B.J., Spence, M. & Belanger, B. 2012. Financing new venture exporters. *Small Business Economics*, 38(2):147–163.

Roberts, C. 2019. Advantages and disadvantages of savings and checking accounts. Zacks. 28 January. Retrieved from https://finance.zacks.com/advantages-disadvantages-savings-checking-accounts-3843.html [Accessed 7 June 2020].

Robu, M. 2013. The dynamic and importance of SMEs in economy. *The USV Annals of Economics and Public Administration*, 13(1(17)):84–89. Retrieved from http://www.seap.usv.ro/annals/ojs/index.php/annals/article/viewFile/495/547 [Accessed 30 June 2017].

Rogerson, C.M. 2008. Tracking SMME development in South Africa: Issues of finance, training and the regulatory environment. *Urban Forum*, 19(1):61–81.
Rose, P.S. & Hudgins, S.C. 2013. *Bank management & financial services*. Ninth edition. New York: McGraw-Hill.

Rubin, A. & Babbie, E.R. 2008. *Research methods for social work*. Belmont, CA: Brooks/Cole.

Rudestam, K.E. & Newton, R.R. 2014. *Surviving your dissertation: A comprehensive guide to content and process*. Fourth edition. Thousand Oaks, CA: Sage.

Rungani, E.C. & Potgieter, M. 2018. The impact of financial support on the success of small, medium and micro enterprises in the Eastern Cape province. *Acta Commercii*, 18(1):1–12. Retrieved from http://www.scielo.org.za/scielo.php?script=sci_arttext&pid=S1684-19992018000100022 [Accessed 12 May 2020].

Sahay, R., Čihák, M., N'Diaye, P., Barajas, A., Bi, R., Ayala, D., Gao, Y., Kyobe, A., Nguyen, L., Saborowski, C., Svirydzenka, K. & Yousefi, S.R. 2015. Rethinking financial deepening: Stability and growth in emerging markets. IMF Staff Discussion Note, SDN/15/08. May. Retrieved from https://www.imf.org/external/pubs/ft/sdn/2015/sdn1508.pdf [Accessed 23 January 2017].

Saldaña, J. 2009. *The coding manual for qualitative researchers*. London: Sage.

Saldaña, J. 2015. *The coding manual for qualitative researchers*. Third edition. London: Sage.

Salih, H. 2017. A guide to credit bureaus in South Africa. Clear Score. 29 April. Retrieved from https://www.clearscore.com/za/learn/credit-score-and-report/a-guide-to-the-credit-bureaus-in-south-africa/ [Accessed 22 November 2020].

Salkind, N.J. & Rainwater, T. 2003. *Exploring research*. Fourth edition. Upper Saddle River, NJ: Pearson Prentice Hall.

SAS Institute Inc. 2017. *SAS/STAT 14.3 user's guide: High-performance procedures*. Cary, NC: SAS Institute Inc.

Sathye, M.M. & Bartle, J. 2017. *Credit analysis and lending management*. Fourth edition. Prahran, Victoria, Australia: Mirabel.

Saunders, M.N., Lewis, P. & Thornhill, A. 2015. *Research methods for business students eBook*. Pearson Australia Pty Limited.

Saunders, B., Sim, J., Kingstone, T., Baker, S., Waterfield, J., Bartlam, B., Burroughs, H. and Jinks, C., 2018. Saturation in qualitative research: exploring its conceptualization and operationalization. *Quality & quantity*, *52*(4):1893-1907.

SBP (business environment specialists). 2014. Headline report of SBP's SME Growth Index: Growth & competitiveness for small business in South Africa. February. Retrieved from http://www.sbp.org.za/uploads/media/SBP_s_SME_Growth_Index_-_Headline_Report_2013.pdf [Accessed 25 May 2017].

SBP (business environment specialists). 2015. 2015 SME Growth Index Headline Results. Alert, (2). Retrieved from http://www.sbp.org.za/uploads/media/SBP_Alert_2015_SME_Growth_Index_Headline_Results.pdf [Accessed 25 May 2017].

Schoeman, M. 2015. 2015 budget: Too little too late for South Africa's public debt?. South African Institute of International Affairs. 18 March. Retrieved from http://www.saiia.org.za/opinion-analysis/2015-budget-too-little-too-late-for-south-africas-public-debt [Accessed 18 June 2017].

Scott Jr., J.H. 1976. A theory of optimal capital structure. *The Bell Journal of Economics*, 7(1):33–54.

SEDA (Small Enterprise Development Agency). 2013. Research study to identify needs, opportunities and challenges of SME's in the plastics and chemical sector. Report prepared for the Small Enterprise Development Agency (SEDA) by Underhill Corporate Solutions (UCS). Project manager and lead researcher: E. Mahembe. 31 January. Pretoria. Retrieved from http://www.seda.org.za/Publications/Publications/Research%20study%20to%20identify%20the%20Needs,%20Opportunities%20and%20Challenges%20of%20SMEs%2

0in%20the%20Plastic%20and%20Chemicals%20Sector.pdf [Accessed 27 July 2017].

SEDA (Small Enterprise Development Agency). 2016. The small, medium and micro enterprise sector of South Africa. Research Note 1. Commissioned by the Small Enterprise Development Agency. Project executed by the Bureau of Economic Research. January. Retrieved from http://www.seda.org.za/Publications/Publications/The%20Small,%20Medium%20and%20Micro%20Enterprise%20Sector%20of%20South%20Africa%20Commissioned%20by%20Seda.pdf [Accessed 10 January 2017].

SEDA (Small Enterprise Development Agency). 2019. SMME Quarterly Update: 1st Quarter 2019. August. Retrieved from http://www.seda.org.za/Publications/Publications/SMME%20Quarterly%202019-Q1.pdf [Accessed 10 November 2019].

Seed Academy. 2016. Seed Academy's Second Annual Startup Survey Results 2016. Retrieved from https://www.seedengine.co.za/wp-content/uploads/2018/03/Seed_Academy_StartupSurveyResults2016.pdf [Accessed 22 April 2019].

Sekaran, U. & Bougie, R. 2014. *Research methods for business: A skill-building approach*. Sixth edition. Haddington, UK: Wiley.

Serrasqueiro, Z.S., Armada, M.R. & Nunes, P.M. 2011. Pecking order theory versus trade-off theory: Are service SMEs' capital structure decisions different?. *Service Business*, 5(4):381–409. Retrieved from https://repositorium.sdum.uminho.pt/bitstream/1822/17966/3/SUBMIT_SBUS_vers%25C3%25A3o%2520%25C3%25BAltima.pdf [Accessed 3 May 2018].

Shyam-Sunder, L. & Myers, S.C. 1999. Testing static tradeoff against pecking order models of capital structure. *Journal of Financial Economics*, 51(2):219–244. Retrieved from https://www.nber.org/papers/w4722.pdf [Accessed 3 May 2018].

Silva, F. & Carreira, C. 2010. *Financial constraints: Are there differences between manufacturing and services?*. GEMF Working Papers 2010-16. GEMF, Faculty of Economics, University of Coimbra. Retrieved from https://www.researchgate.net/publication/254417691_Financial_Constraints_are_There_Differences_between_Manufacturing_and_Services/link/555e46e708ae9963a11415b9/download [Accessed 27 June 2020].

Silverman, D. 2005, September. Instances or sequences?: Improving the state of the art of qualitative research. *Forum: Qualitative Sozialforschung/Forum: Qualitative Social Research*, 6(3).

Singer, S., Amorós, J. E., Moska, D. 2014. Global Entrepreneurship Monitor. 2014 Global Report. Retrieved from https://www.gemconsortium.org/file/open?fileId=49079 [Accessed 24 June 2018].

Sitharam, S. & Hoque, M. 2016. Factors affecting the performance of small and medium enterprises in KwaZulu-Natal, South Africa. *Problems and Perspectives in Management*, 14(2–2):277–288. Retrieved from https://pdfs.semanticscholar.org/32f1/97d075b84feb0f0ac7f9c98bfb25ccc7c358.pdf [Accessed 20 February 2020].

Smit, A.v.A. & Fatoki, O.O. 2012. Debt financing to new small ventures in South Africa: The impact of collateral, ethics and the legal system. *African Journal of Business Management*, 6(3):1136–1146. Retrieved from http://www.academicjournals.org/app/webroot/article/article1380704046_Smit%20and%20Fatoki.pdf [Accessed 10 September 2019].

Smolarski, J. & Kut, C. 2011. The impact of venture capital financing method on SME performance and internationalization. *International Entrepreneurship and Management Journal*, 7(1):39–55.

Soares, J.O., Pina, J., Ribeiro, M. & Lopes, M.C. 2011. Quantitative vs. qualitative criteria for credit risk assessment. *Frontiers in Finance and Economics*, 8(1):69–87. Retrieved from https://www.researchgate.net/profile/Joao_Soares17/publication/276267854_Quantitative_vs_Qualitative_Criteria_for_Credit_Risk_Assessment/links/55537aee08ae6fd2d81f1ea5/Quantitative-vs-Qualitative-Criteria-for-Credit-Risk-Assessment.pdf [Accessed 2 July 2018].

South Africa. 1990. Banks Act, 1990 (Act no. 94 of 1990). (Proclamation no. 12). Government Gazette, 13003:12, 1 February 1991. Retrieved from http://www.saflii.org/za/legis/consol_act/ba199063.pdf [Accessed 20 June 2018].

South Africa. 1994. The Reconstruction and Development Programme (RDP): A policy framework. Retrieved from https://www.nelsonmandela.org/omalley/index.php/site/q/03lv02039/04lv02103/05lv02120/06lv02126.htm [Accessed 19 June 2018].

South Africa. 1995. White Paper on National Strategy for the Development and Promotion of Small Business in South Africa. (Notice 213 of 1995). Tabled in Parliament, WPA/1995 16317, 20 March. Retrieved from https://www.thedti.gov.za/sme_development/docs/White_paper.pdf [Accessed 29 June 2018].

South Africa. 1996a. Growth, Employment and Redistribution: A macroeconomic strategy. Department of Finance, Republic of South Africa. Retrieved from http://www.treasury.gov.za/publications/other/gear/chapters.pdf [Accessed 24 May 2018].

South Africa. 1996b. National Small Business Act, 1996 (Act no. 102 of 1996). (Proclamation no. 1901). 27 November. Retrieved from https://www.thedti.gov.za/sme_development/docs/act.pdf [Accessed 18 June 2018].

South Africa. 2001. Financial Intelligence Centre Act, 2001 (Act no. 38 of 2001). (Proclamation no. 1262). Government Gazette, 438:22886, 3 December. Retrieved from https://www.gov.za/sites/default/files/gcis_document/201409/a38-010.pdf [Accessed 7 July 2019].

South Africa. 2002. Financial Advisory and Intermediary Services Act, 2002 (Act no. 37 of 2002). (Proclamation no. 1453). Government Gazette, 449:24079, 15 November. Retrieved from https://www.gov.za/sites/default/files/gcis_document/201409/a37-020.pdf [Accessed 6 July 2019].

South Africa. 2003. National Small Business Amendment Act, 2003 (Act no. 26 of 2003). (Proclamation no. 1732). Government Gazette, 461:25763, 26 November. Retrieved from http://www.saflii.org/za/legis/num_act/nsbaa2003331.pdf [Accessed 3 July 2018].

South Africa. 2004a. Broad-Based Black Economic Empowerment Act, 2003 (Act no. 53 of 2003). (Proclamation no. 17). Government Gazette, 463:25899, 9 January. Retrieved from https://www.gov.za/sites/default/files/gcis_document/201409/a53-030.pdf [Accessed 9 May 2018].

South Africa. 2004b. National Small Business Amendment Act, 2004 (Act no. 29 of 2004). (Proclamation no. 1459). Government Gazette, 474:27101, 15 December. Retrieved from https://www.thedti.gov.za/business_regulation/acts/small_business_amendment_act.pdf [Accessed 21 June 2018].

South Africa. 2006a. Accelerated and Shared Growth Initiative for South Africa (AsgiSA). Retrieved from https://www.nelsonmandela.org/omalley/index.php/site/q/03lv02409/04lv02410/05lv02415/06lv02416.htm [Accessed 18 June 2017].

South Africa. 2006b. National Credit Act, 2005 (Act no. 34 of 2005). (Proclamation no. 230). Government Gazette, 489:28619, 15 March. Retrieved from www.justice.gov/mc/vnbp/act2005-034.pdf [Accessed 20 October 2017].

South Africa. 2010. The New Growth Path: Framework. Department of Economic Development. Retrieved from http://www.economic.gov.za/communications/publications/new-growth-path-series [Accessed 18 June 2017].

South Africa. 2014. National Credit Amendment Act, 2014 (Act no. 19 of 2014). (Proclamation no. 389). Government Gazette, 587:37665, 19 May. Retrieved from www.gov.za/sites/www.gov.za/files/37665_gon389.pdf [Accessed 3 February 2018].
South African Reserve Bank (SARB). 2015. Bank Supervision Department. Annual Report 2014. Pretoria: SARB.

South African Reserve Bank (SARB). 2019a. Prudential Authority Annual Report 2018/19. Retrieved from https://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/9316/Prudential%20Authority%20Annual%20Report%202018-2019.pdf [Accessed 23 August 2019].

South African Reserve Bank (SARB). 2019b. Selected South African Banking Sector Trends. April. Retrieved from https://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/9136/04%20April%202019.pdf [Accessed 22 August 2019].

Southern African Venture Capital and Private Equity Association (SAVCA). 2019. SAVCA 2019 Venture Capital Industry Survey: Covering the 2018 calendar year. Retrieved from https://savca.co.za/wp-content/uploads/2019/09/SAVCA-VC-Industry-Survey-2019_Electronic.pdf [Accessed 20 March 2020].

Standard Bank. 2015. Standard Bank Group Annual Integrated Report 2015. Retrieved from https://thevault.exchange/?get_group_doc=18/1461565691-SBG_FY15_Annualintegratedreport.pdf [Accessed 17 January 2017].

Standard Bank. 2018. Standard Bank Group Annual Integrated Report 2018. Retrieved from https://thevault.exchange/?get_group_doc=18/1555480910-SBGAnnualIntegratedReport2018LORESSingles.pdf [Accessed 11 November 2019].

Standard Bank. 2020. Business. Retrieved from https://www.standardbank.co.za/southafrica/business/products-and-services/bank-with-us/business-bank-accounts/business-current-account? [Accessed 21 November 2020]

Statistics South Africa. 2009. Labour Force Survey. Historical revision. September series: 2000–2007. Statistical release P0210. March. Pretoria: SSA.

Statistics South Africa. 2011. Kroonstad: Main place 475005 from Census 2011. Pretoria: SSA. Retrieved from http://census2011.adrianfrith.com/place/475005 [Accessed 19 August 2019].

Statistics South Africa. 2013. Quarterly Labour Force Survey. Statistical Release.P0211. Quarter 4. 11 February 2014. SSA: Pretoria. http://beta2.statssa.gov.za/publications/P0211/P02114thQuarter2013.pdf [Accessed 20 February 2020].

Statistics South Africa. 2016. Community Survey 2016. Statistical release P0301. Pretoria: SSA. Retrieved from http://cs2016.statssa.gov.za/wp-content/uploads/2016/07/NT-30-06-2016-RELEASE-for-CS-2016-_Statistical-releas_1-July-2016.pdf [Accessed 13 November 2019].

Statistics South Africa. 2019a. Gross domestic product. Third quarter 2019. Statistical release P0441. 3 December. Pretoria: SSA. Retrieved from http://www.statssa.gov.za/publications/P0441/P04413rdQuarter2019.pdf [Accessed 5 December 2019].

Statistics South Africa. 2019b. Mid-year population estimates. Statistical release P0302. 29 July. Pretoria: SSA. Retrieved from http://www.statssa.gov.za/publications/P0302/P03022019.pdf [Accessed 29 November 2019].

Statistics South Africa. 2019c. Quarterly financial statistics (QFS). Statistical release P0044. March. Pretoria: SSA. Retrieved from http://www.statssa.gov.za/publications/P0044/P0044March2019.pdf [Accessed 28 November 2019].

Statistics South Africa. 2019d. Quarterly Labour Force Survey. Quarter 1: 2019. Statistical release P0211. 14 May. Pretoria: SSA. Retrieved from https://www.statssa.gov.za/publications/P0211/P02111stQuarter2020.pdf [Accessed 17 November 2019].

Statistics South Africa. 2020. Quarterly Labour Force Survey. Quarter 1: 2020. Statistical release P0211. 23 June. Pretoria: SSA. Retrieved from http://www.statssa.gov.za/publications/P0211/P02111stQuarter2020.pdf [Accessed 17 July 2020].

Stats SA ***see*** Statistics South Africa.

Stiglitz, J.E. & Weiss, A. 1981. Credit rationing in markets with imperfect information. *The American Economic Review*, 71(3):393–410. Retrieved from http://pascal.iseg.utl.pt/~aafonso/eif/pdf/crrinf81.pdf [Accessed 14 August 2015].

Stuart, A.C. 2013. A comparison of business angels and venture capitalists: The case of technological start-ups. Utrecht: Utrecht University. (Thesis – Master's degree).

Teddlie, C. & Tashakkori, A. 2009. *Foundations of mixed methods research: Integrating quantitative and qualitative approaches in the social and behavioral sciences*. Thousand Oaks, CA: Sage.

Thulo, L. 2014. The Small Business Development ministry 2014 highlights. *SME South Africa*, 19 December. Retrieved from http://www.smesouthafrica.co.za/Highlights-of-the-small-business-ministry-so-far/ [Accessed 1 May 2019].

Timm, S. 2011. How South Africa can boost support to small businesses: Lessons from Brazil and India. Trade & Industrial Policy Strategies (TIPS). Retrieved from http://www.tips.org.za/files/india_brazil_2011_edit_s_timm.pdf [Accessed 18 February 2017].

Tsaih, R., Liu, Y.J., Liu, W. & Lien, Y.L. 2004. Credit scoring system for small business loans. *Decision Support Systems*, 38(1):91–99.

Tuch, A.F. 2018. Fiduciary principles in banking law. *Oxford Business Law Blog*. 6 August. Retrieved from https://www.law.ox.ac.uk/business-law-blog/blog/2018/08/fiduciary-principles-banking-law [Accessed 2 August 2020].

Tugas, F.C. 2012. A comparative analysis of the financial ratios of listed firms belonging to the education subsector in the Philippines for the years 2009-2011. *International Journal of Business and Social Science*, 3(21):173–190.

Twycross, A. & Shields, L. 2004. Validity and reliability – What's it all about? Part 1 Validity in quantitative studies. *Paediatric Nursing*, 16(9):28.

USAID (United States Agency for International Development). 2007. Booklet of standardized small and medium enterprises definition. August. Retrieved from http://pdf.usaid.gov/pdf_docs/Pnadm845.pdf [Accessed 26 May 2017].

Van Deventer & Van Deventer. 2020. Marriage in community of property. Retrieved from: https://www.vandeventers.law/Services/Marriage-Matrimonial-Property/Community-Of-Property [Accessed 12 September 2020].

Van Zyl, J. & Ntiso, L.A. 2010. SMMEs' access to finance: A case of Free State. Paper presented at the 7th African Finance Journal Conference, 18–19 March. Retrieved from https://scholar.google.co.za/scholar?q=SMMEs+access+to+finance%3A+a+case+of+Free+State&btnG=&hl=en&as_sdt=0%2C5 [Accessed 26 June 2017].

Venter, R., Urban, B. & Rwigema, H. 2010. *Entrepreneurship: Theory in practice*. Second edition. Cape Town: Oxford University Press Southern Africa.

Volschenk, L. 2015. Regional manager of SEDA interviewed by Henine Jordaan, 25 June.

Vojtek, M. & Kočenda, E. 2006. Credit scoring methods. *Czech Journal of Economics and Finance (Finance a úvěr)*, 56(3-4):152–167.

Waked, B. 2016. *Access to finance by Saudi SMEs: Constraints and the impact on their performance*. Melbourne, Victoria, Australia: Victoria University. (Thesis – DBA). Retrieved from http://vuir.vu.edu.au/32466/1/WAKED%20Bandar%20-%20Thesis.pdf [Accessed 11 April 2018].

Wang, Y. 2016. What are the biggest obstacles to growth of SMEs in developing countries? – An empirical evidence from an enterprise survey. *Borsa Istanbul Review*, 16(3):167-176. Retrieved from https://ac.els-cdn.com/S2214845016300539/1-s2.0-S2214845016300539-main.pdf?_tid=bfaad155-cfc4-4c04-9622-c1e97ebf4fe2&acdnat=1525056993_9d183973cdba2c1c9efb147ebd5b950b [Accessed 11 April 2018].

WEF (World Economic Forum). 2019. The Global Competitiveness Report 2019. Editor: K. Schwab. Geneva, Switzerland: WEF. Retrieved from http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf [Accessed 15 August 2018].

Werner, R.A. 2014. Can banks individually create money out of nothing? — The theories and the empirical evidence. *International Review of Financial Analysis*, 36:1–19. Retrieved from https://reader.elsevier.com/reader/sd/pii/S1057521914001070?token=B0A65F9FAD8F5C2B9755785D06F80E8D974617405B6FFDC92F0E93044180D173194BE020A2DF667CD7277FC2654394A5 [Accessed 21 April 2020].

Whittaker, M. 2008. South Africa's National Credit Act: A possible model for the proper role of interest rate ceilings for microfinance. *Northwestern Journal of International Law & Business*, 28(3):561–582. Retrieved from https://scholarlycommons.law.northwestern.edu/cgi/viewcontent.cgi?article=1678&context=njilb [Accessed 5 November 2016].

Wiltbank, R.E. 2009. *Siding with the Angels: Business angel investing – promising outcomes and effective strategies*. Research report. April. London: National Endowment for Science, Technology and the Arts (NESTA).

Wong, P.T.P. 2002. How to write a research proposal. Retrieved from http://www.drpaulwong.com/how-to-write-a-research-proposal/ [Accessed 17 June 2019].

World Bank. 2005. Access to financial services in Brazil. No. 30858. Project leader: A. Kumar. Washington, DC: World Bank. Retrieved from http://siteresources.worldbank.org/EXTINCLUSIVEFINSYS/Resources/AccesstoFinancialServicesBrazil.pdf [Accessed 12 July 2017].

World Bank. 2009. Enterprise Survey. Brazil Country Profile 2009. Retrieved from https://www.enterprisesurveys.org/ [Accessed 22 March 2020].

World Bank. 2007–2020. Enterprise Surveys: What businesses experience. Retrieved from https://www.enterprisesurveys.org/ [Accessed 22 March 2020].

World Bank. 2008. Finance for all?: Policies and pitfalls in expanding access. World Bank Policy Research Report. Washington, DC: World Bank. Retrieved from http://siteresources.worldbank.org/INTFINFORALL/Resources/4099583-1194373512632/FFA_book.pdf [Accessed 2 August 2015].

World Bank. 2012. Enterprise Surveys. China Country Profile 2012. Retrieved from https://www.enterprisesurveys.org/content/dam/enterprisesurveys/documents/country-profiles/China-2012.pdf [Accessed 22 May 2020].

World Bank. 2014. Enterprise Surveys. India Country Profile 2014. Retrieved from https://www.enterprisesurveys.org/content/dam/enterprisesurveys/documents/country-profiles/India-2014.pdf [Accessed 22 May 2020].

World Bank. 2018a. Enterprise Surveys. Greece 2018 Country Profile. Retrieved from https://www.enterprisesurveys.org/ [Accessed 22 May 2020].

World Bank. 2018b. Overcoming poverty and inequality in South Africa: An assessment of drivers, constraints and opportunities. Retrieved from http://documents.worldbank.org/curated/en/530481521735906534/pdf/124521-REV-OUO-South-Africa-Poverty-and-Inequality-Assessment-Report-2018-FINAL-WEB.pdf [Accessed 16 October 2019].

World Bank. 2019a. Italy - Enterprise Survey 2019. Italy 2019 Country Profile. Retrieved from https://www.enterprisesurveys.org/ [Accessed 22 May 2020].

World Bank. 2019b. Poland – Enterprise Survey. Poland 2019 Country Profile. Retrieved from https://www.enterprisesurveys.org/ [Accessed 22 May 2020].

World Bank. 2019c. Portugal - Enterprise Survey 2019. Portugal 2019 Country Profile. Retrieved from https://www.enterprisesurveys.org/ [Accessed 22 May 2020].

World Bank. 2019d. Romania. Enterprise Surveys. Romania 2019 Country Profile. Retrieved from https://www.enterprisesurveys.org/ [Accessed 22 May 2020].

World Bank. 2019e. Russian Federation - Enterprise Survey. Russian Federation 2019 Country Profile. Retrieved from https://www.enterprisesurveys.org/ [Accessed 22 May 2020].

World Bank. 2020. Small and medium enterprises (SMEs) finance: Improving SMEs' access to finance and finding innovative solutions to unlock sources of capital. Retrieved from https://www.worldbank.org/en/topic/smefinance [Accessed 22 May 2020].

Woźniak, M., Duda, J., Gąsior, A. & Bernat, T. 2019. Relations of GDP growth and development of SMEs in Poland. *Procedia Computer Science*, 159:2470–2480. Retrieved from https://reader.elsevier.com/reader/sd/pii/S1877050919316278?token=0DF3038333F

ECDD56C3E91A926D70B8300F008EA9434DCC27C08605763A81A4BDF2B72902399BA4D30FCB31DB3486B9A [Accessed 19 February 2020].

Xu, B. 2019. Permissible collateral and access to finance: Evidence from a quasi-natural experiment. *China Economic Review*, 54(C):237–255. Retrieved from https://www.bde.es/f/webbde/SES/Secciones/Publicaciones/PublicacionesSeriadas/DocumentosTrabajo/17/Fich/dt1750e.pdf [Accessed 11 June 2019].

Yuan, Y., Ferdous Azam, S.M. & Tham, J. 2019. Factors influencing enterprise performance of small and medium size enterprises (SMEs) in Malaysia. *European Journal of Management and Marketing Studies*, 4(4):112–127. Retrieved from https://www.oapub.org/soc/index.php/EJSSS/article/viewFile/709/1291 [Accessed 18 March 2020].

Zikmund, W.G. 2003. *Business research methods*. Seventh edition. Mason, OH: Thomson Learning.

ANNEXURE A

Faculty of Economic and Management Sciences

17 July 2018

Dear **Mrs Henine Jordaan**

Ethics Clearance: **Access to finance of SMMEs from formal lending institutions in the Free State Goldfields**

Principal **Mrs Henine Jordaan**

Department: **Economic and Management Sciences (Bloemfontein Campus)**

APPLICATION APPROVED

With reference to your application for ethical clearance with the Faculty of Economic & Management Sciences, I am pleased to inform you on behalf of the Ethics Committee of the faculty that you have been
granted ethical clearance for your research.
Your ethical clearance number, to be used in all correspondence is: **UFS-HSD2018/0341**
This ethical clearance number is valid from **17-Jul-2018** to **16-Jul-2023**. Should you require more time to
complete this research, please apply for an extension.
We request that any changes that may take place during the course of your research project be submitted to the ethics office to ensure we are kept up to date with your progress and any ethical implications that may arise.
Thank you for submitting this proposal for ethical clearance and we wish you every success with your research.

Yours Sincerely

Dr. Petrus Nel
Chairperson: Ethics Committee Faculty of Economic & Management Sciences

Economics Ethics Committee
Office of the Dean: Economic and Management Sciences
T: +27 (0)51 401 2310 | T: +27(0)51 401 9111 | F: +27(0)51 444 5465
205 Nelson Mandela Drive/Rylaan, Park West/Parkweg, Bloemfontein
P.O. Box/Posbus 339, Bloemfontein 9300, South
www.ufs.

ANNEXURE B

FIELDWORKERS - INFORMATION LEAFLET AND CONFIDENTIALITY AGREEMENT FORM

PILOT AND MAJOR STUDY

DATE

August - November 2018

TITLE OF THE RESEARCH PROJECT

Access to finance of SMMEs from formal lending institutions in the Free State Goldfields

PRINCIPLE INVESTIGATOR / RESEARCHER(S) NAME(S) AND CONTACT NUMBER(S):

Ms Henine Jordaan *2006130260* *083-490-7958*

FACULTY AND DEPARTMENT:

Faculty of Economic and Management Sciences
Department of Economics and Finance

STUDY LEADER(S) NAME AND CONTACT NUMBER:

Dr Johan Coetzee
051-401-9266

WHAT IS THE AIM / PURPOSE OF THE STUDY?

The objective if this survey is to gather information pertaining to the sources of finance of your business, obstacles in seeking and obtaining finance for your business, and the main challenges – if any - preventing your business from growing. As such the primary and secondary objectives are as follows:

Primary objective

To explore the obstacles hindering access to finance of SMMEs.

Secondary objectives

The objectives of this study are to:

- *establish whether access to finance is perceived as a priority obstacle to micro, very small and small businesses; and*
- *determine the relationship between access to finance and the nature or general characteristics of micro, very small and small businesses.*

WHO IS DOING THE RESEARCH?

I, Henine Jordaan, am currently doing research with Dr J Coetzee - a senior lecturer in Banking and Finance of the Department of Economics and Finance at the University of the Free State - being my study leader. The information gathered will be used solely for academic purposes, specifically and primarily enabling the researcher to obtain a PhD (Economics), but also to publish articles in academic journals and to advise commercial banks and policymakers locally, at provincial and national level, in supporting SMME access to finance, development and growth in South Africa.

WHAT IS THE ROLE OF THE FIELDWORKERS AND FOR WHAT WILL THE DATA COLLECTED BE USED?

You will be assisting in conducting a face-to-face survey by means of a structured questionnaire. The questionnaire should be completed by the Small, Medium and Micro Enterprises (SMMEs) owners employing 50 or less. The goal of the survey is to collect the best possible information pertaining to obstacles hindering access to finance of SMMEs. Firstly, the findings of this study will be useful in identifying the factors - in terms of accessing finance - obstructing the development of small businesses in a local municipality consisting of urban and rural areas situated outside a metropolitan area. Other obstacles pertaining to the operations of the business will also be identified. Secondly, the study will identify factors that could potentially advance the expansion of this sector if small businesses in the same way could obtain easier access to finance. The results of the study will inform policymakers in terms of the obstacles experienced by businesses and hopefully guide policymakers in simplifying procedures, and ultimately the protocol to be followed by SMMEs, when trying to obtain financial assistance in particular. The results may also assist businesses to change their systems to be more formalized, if it is not, in line with the requirements of banks and if it is a future intention of the business to approach a commercial bank to obtain finance. This is taken against the backdrop of literature indicating that businesses with access to external finance grow proportionately more than businesses without it. The researcher and fieldworkers are all residing in a region in which the economic growth is very low and together a difference could be made in in this municipal area.

UNDERSTANDING THE QUESTIONNAIRE

To enable the researcher to reach the intended objectives of the research project it is required that the business owner complete the questionnaire. A comprehensive questionnaire intended for small businesses was compiled to gather data intended for the quantitative section of the research. According to Zikmund (2003) a self – administered questionnaire including closed-ended questions is accommodating, reduces costs and saves time and is convenient for the respondents to complete as questions are structured in a standardised format.

The structured questionnaire contains only closed-ended questions. The questionnaire was based on an extensive literature study and consist of five sections. The structure of the questionnaire is as follows:

- ***Section A: Personal information of the business owner***

Section A of the questionnaire includes demographic questions related to the age, gender, race and academic qualifications of the small business owner.

- ***Section B: The nature, operations and formality of the business***

Section B of the questionnaire includes questions related to the town or township in which the business is situated in Kroonstad and Maokeng or the Mathjabeng district, the ownership and legal structure, whether or not females share in the ownership of the business, sources of knowledge obtained to manage the business, the formality of the business in terms of registration, the path of ownership, years of experience in running the business, the industry and main markets to which the products or services are provided, the number of operating years, the life cycle of the business, employee number, ownership of movable and immovable property, formality in terms of financial record keeping and whether or not the business has a business plan and the subsequent assistance acquired to compile the business plan. Section B includes 20 questions.

- ***Section C: Business and operational obstacles***

Section C includes questions related to the severity of obstacles perceived by the business owner including access to finance, the regulatory environment and laws governing the business, the education and skills of the workforce, access to technology and infrastructure, market demand and the economic environment and crime, theft and corruption. Section C includes 12 questions in total.

- ***Section D (I): Financial inclusion***

Section D of the questionnaire intends to establish whether or not the small business is financially included. This is established by determining whether the business do have a designated bank account or not and was further explored by including questions related to the types and extent of the usage of certain transaction activities and e-banking services. Section D consists of 9 questions.

- ***Section D(II): Financial access***

Section D(ii) furthermore includes questions with the aim to determine financial access. Questions related to whether or not the business does have access to lines of credit and loans, the types of loan products used by the business, sources used to fund working capital and fixed assets are included into the questionnaire. Section D(ii) subsequently includes questions related to whether or not the business has applied or has access to funding provided by the government. Although not part of *determining access to finance Section D(ii) concludes with a question related to the turnover of the business and an open- ended questions to allow for any further comments. Question 18 was placed near the end of the questionnaire as it is perceived to be sensitive in nature and might discourage respondents to continue with the questionnaire if it was placed in Section B. Section D(ii) consists of 19 questions.*

Section A in which the personal information of the business owner was established closed-ended questions with alternative options were used being mutually exclusive and collectively exhaustive. Therefore, only one answer can be provided by the respondents. Section B in a similar fashion includes closed-ended alternatives and dichotomous (Yes or No) questions. Closed-ended questions are less complicated to answer compared to open-ended questions. The physical and mental effort it takes to complete the questions is also less as predetermined possible answers are provided. The respondents could furthermore respond in brief. Closed-ended alternative questions and dichotomous questions were also included to a lesser extent in Section D and E in the questionnaire.

In order to gather data from the small businesses owners questions, a five-point Likert-scale was used in section C, D and E. A five-point Likert-scale is the most common scale used to collect quantitative data and is a valuable component of survey research (Losby & Wetmore, 2012). Likert-scales have numericals attached to each response category and therefore allows for statistical analysis. Two, five-point Likert scales were used in the questionnaire to determine the frequency in section C, D and E. In order to determine obstacles or challenges influencing the businesses perceived by the business owner obtained in Section C of the questionnaire, the following Likert-scale was used for each question related to a potential obstacle namely no obstacle, minor obstacle, moderate obstacle, major obstacle and very severe obstacle. The respondents are ultimately required to rank the order of the three most important obstacles at the end of section C. This question was included to cross-reference check the responses provided by the respondents related to obstacles indicated. In Section D and E of the questionnaire pertaining to financial inclusion and financial access frequency were determined by the following Likert-scale categories namely to no extent, to a minor extent, to a moderate extent, to a large extent and to a very large extent. In both the five-point Likert scales used in either Section C, D or E of the study the frequency is determined by 1 starting with a negative end implying to no extent or no obstacle and subsequently progresses through to 5 the positive end of the scale indicating a very severe obstacle or to a very large extent. In section D in which financial inclusion is determined, question D3 relates to reasons for not having a bank account a negative wording was used for this purpose. The same principle was used for question E6 in which reasons are established for not having a loan or lines of credit and E8 in which possible reasons for the rejection of a loan application is established from the respondents. Question E17 similarly used negative wording to determine reasons for not have applying for funding from the government. According to Hartley (2014:84) it is common to have some items in a scale that are negatively worded as this entices the respondent to reverse their thinking pattern.

The expected duration to explain the purpose of the study, the subsequent completion of the consent form and the completion of the questionnaire with the assistance of a fieldworker will take approximately 35 minutes. The pilot study will be used to verify if the duration of completion was *estimated correctly. The fieldworker will be provided with the copies of the questionnaire presented in English, Afrikaans and Sotho. They will furthermore be provided with a pen and a diary.*

WHAT ARE THE DUTIES OF THE FIELDWORKER?

Providing accurate information pertaining to the obstacles hindering the operations of SMMEs, whether or not they are financially included and whether or not they do have access to finance could contribute greatly to enhance the businesses' operational ability and could subsequently enhance economic growth in the region.

Fieldworkers together with the assistance of the researcher play an essential role in the research process. As a field worker, you are responsible for collecting the information that will later be analysed and written up in a report. Your main task is to attend training, to explain the purpose of the study to the business owner, to collect data by conducting face-to-face interviews using the structured questionnaire, to check the questionnaires and to return the completed questionnaire to Ms H Jordaan the researcher. It is important that the fieldworker understand the scientific procedures according to which the research will be concluded. Missing information, or the incorrect selection of respondents, could make it difficult to analyse the data and could impact on the quality of the research produced. High-quality data collection is crucial for the research process and responsibility for this lies with both the researcher and the fieldworker.

Before the data collection can commence, the fieldworker will introduce him/herself. The fieldworker will explain the nature, procedure, potential benefits and anticipated inconvenience to the participant in partaking in the study as explained in the information leaflet and consent forms compiled for the pilot and the major study. The fieldworker will provide the participant an opportunity to ask questions. The fieldworker will furthermore assist the business owner to complete the letter of consent in duplicate and a copy will be provided to the business owner. If the business owner cannot complete the questionnaire straight away a follow-up meeting should be arranged only if the business owner agrees to it. After the data has been collected the fieldworker should ask the business owner to direct him/her to other business owners that could potentially also participate in the study. The collection of the data from the business owner should be concluded by thanking the business owner for participating in the study.

WHERE AND FROM WHOM WILL THE DATA BE COLLECTED BY THE FIELDWORKERS?

The pilot study will be undertaken in Kroonstad and Maokeng. Thirty completed questionnaires will be collected from micro, very small and small business owners employing 50 or less operating in the aforesaid areas. The major study will take place in the following towns and townships indicated in the table 1.1. A total of 364 completed questionnaires is required for the researcher to do statistical analysis. The fieldworker will be required to collect data in the areas in which they reside.

Table 1.1 Areas intended for data collection for the major study

	FORMAL	INFORMAL	TOTAL	%
ALLANRIDGE/NYAKALLONG	17	33	**50**	**0.7**
HENNENMAN/ PHOMOLONG	116	225	**341**	**5%**
ODENDAALSRUS/ KUTLUANONG	178	346	**524**	**8%**
VENTERSBURG/MMAMAHABANE AND TSWELANGPELE	32	62	**94**	**1.3%**
VIRGINIA/MELODING	289	561	**850**	**13%**
WELKOM/RIEBEECKSTAD/BRONVILLE/ THABONG	1619	3143	**4762**	**72%**
			6621	**100%**

WHAT IS THE DIFFERENCE BETWEEN THE PILOT AND THE MAJOR STUDY?

A pilot study is undertaken to gather information related to the suitability of the format of the questionnaire, the clarity of the questions and concepts. As such it is required from the fieldworker assisting with the pilot study to motivate the business owners to indicate which of the questions they found difficult to answer or could not understand during the completion of the questionnaire. The respondents should also be motivated to provide suggestions on the layout of the questionnaire. The main point considered in a pilot testing is to exclude biased wording in questions, to eliminate inappropriate demographic data required from the respondents, to exclude the overlapping of scales and options to choose from, to correct missing instructions and to include definitions in cases were the technical definitions are found to be unfamiliar to the respondents. The pilot study furthermore attempts to establish how long it will take to complete the questionnaire. This will provide the researcher with an opportunity to adjust the structure of the questionnaire and in doing so improving the measuring tool (questionnaire).

After the pilot study has been concluded and the aforesaid mentioned suggested improvements have been incorporated the major study will follow.

WHEN WILL THE DATA BE COLLECTED FOR BOTH THE PILOT AND MAJOR STUDY?

It is the intention of the researcher to start with the pilot study during the month of July 2018. After the data of the pilot study is analysed and adjustments to the questionnaire are made, the major study will commence and proceed in August 2018.

WHY IS IT IMPORTANT TO BE TRAINED TO BE A FIELDWORKER?

The purpose of attending the training session before the offset of the pilot and major study is to:

- *explain the background of the study and the role of the fieldworker in it;*
- *provide a common understanding of what the study requires;*
- *describe the responsibilities of the fieldworkers and the researcher;*
- *describe the specific procedure to be followed;*
- *explain concepts used in the questionnaire;*
- *explain the logical flow of the questionnaire;*
- *explain practical details of administering the questionnaire;*
- *avoid misunderstandings and to*
- *ensure a good working relationship.*

WHAT ARE THE RIGHTS OF THE RESPONDENTS?

The respondent (business owner) has several rights that must be respected:

- *the right to know the true purpose of the research;*
- *the right to participate voluntarily in the study;*
- *the right to privacy;*
- *the right to decide which questions to answer.*

ENSURING CONFIDENTIALITY

The fieldworker needs to inform the business owner that the information obtained during the process of data collection will be held in the strictest confidence. Neither the name of the business owner/s or the name of the business will be used in any document. The name of the business owner/s and the business will thus stay anonymous. The data collected will be coded. Coded data obtained from the questionnaire will be used for publications such as research reports, journal articles, conference presentations, etc. The collected data will only be used in aggregate. The fieldworkers should provide a copy of the confidentiality agreement that the fieldworker has signed if it is required by the business owner. The fieldworker should inform the respondent that no one will be able to connect the answers provided by the business owner/s to the business.

The fieldworker is required to protect the confidentiality of the respondents. As a field worker, you must not discuss the responses given by the respondents with anyone except the researcher Ms H Jordaan. Sharing information about the respondents with anyone is in direct violation of the *confidentiality agreement that would have been established with the respondents. It is therefore very important for the fieldworker to remain professional throughout the research process.*

WILL I RECEIVE PAYMENT OR ANY INCENTIVES FOR PARTICIPATING IN THIS STUDY?

Payment for travelling will not be included in the payment of the questionnaire.
The fieldworker will receive R50 for the collection of a questionnaire. Ms Jordaan will audit the submissions of the questionnaires and Prof van der Walt (appointed to audit the money spent by the Bankseta grant) will provide the final approval for the allowances to be made available to the fieldworkers.

WHO WILL THE FIELDWORKERS CONTACT IF THEY HAVE A PROBLEM?

Please contact the researcher, H Jordaan, 057-910-3582 or 083-490-7958, hjordaan@cut.ac.za. Should you require any further information or want to contact the researcher about any aspect of this study please feel free to do so.

DEFINITIONS OF CONCEPTS – SMME QUESTIONNAIRE

Commercial agents and Allied Services	Commercial agents find customers for other companies and business. They usually receive payment in the form of commission. They work independent from companies and businesses. These businesses are contracted to do a service by other companies and businesses. Allied services are services related to commercial services such as labour consultants and businesses operating on behalf of the labour.
Owners' Equity Contribution	A capital contribution is a contribution of capital, in the form of money or property, to a business by an owner, partner, or shareholder. The contribution increases the owner's equity interest in the business. When you start a business, you will have to put in money to get it going. This money is your capital contribution.
Collateral requirements	Collateral is a property or other asset that a borrower offers as a way for a lender to secure the loan. If the borrower stops making the promised loan payments, the lender can seize the collateral to recoup its losses.
Lines of credit	A line of credit (bank line) is a type of loan agreement between a bank and a borrower. Basically, a line of credit states that a borrower can borrow funds from the bank at will, up to a certain limit and within a specified period of time. During the specified time period and within the limitations of the allowable amount, the borrower may borrow and repay funds at the borrower's discretion. When the line of credit expires, the borrower must repay all borrowed funds as well as any unpaid interest. A bank charges interest on the borrowed money, charges a fee for the unused portion of the loan, and requires a collateral deposit from the borrower. A line of credit (bank line) typically has a maturity of a year. However, there are contracts with longer maturities, called revolving lines of credit. There are also contracts with no maturities at all, called evergreen credit. A line of credit is also referred to as a bank line.
Business overdraft	A business overdraft is a line of credit that becomes available when you make any withdrawal for an amount greater than the balance in your business debit account. This means you can continue making withdrawals even if the account is empty, giving you flexibility in your cash flow.
Business revolving loan	A revolving loan facility is a financial institution that lets the borrower obtain a business or personal loan where the borrower has the flexibility to drawdown, repay and redraw loans advanced to it. This type of loan is considered a flexible financing tool due to its repayment and reborrowing flexibility. It is not considered a term loan because, during this allotted period of time, the facility allows the borrower to repay or take the loan out again.
Term loans	A term loan is a loan from a bank for a specific amount that has a specified repayment schedule and a fixed or floating interest rate. For example, many banks have term-loan programs that can offer small businesses the cash they need to operate from month to month. Often, a small business uses the cash from a term loan to purchase fixed assets such as equipment for its production process.
Women empowerment finance	Female entrepreneurs are growing in numbers, but without access to appropriate funding many start-ups will find it difficult to grow their businesses, regardless of whether there's a man or woman at the helm. Fortunately, access to funds for female entrepreneurs is improving thanks to government and private enterprises.
Empowering finance	Financial Empowerment is a new approach to poverty reduction that focuses on improving the financial security of low-income people. Empowering finance in the South African context implies that banks

	targets the previous disadvantaged segment of the population in terms of providing loans and other credit products intended for business operations.
Financing for franchising	Financing a franchise is easier than financing an independent business. The major banks in South Africa support the business model of franchising and they offer different types of finance. As someone who wants to own a franchise, it's important that you understand what banks offer and match your loan request to your funding needs. Banks offer term loans to fund the long-term capital needs for the franchise operation. The bank will usually grant a term loan for a period of between 36 and 60 months.
Business Mortgage	A commercial mortgage is a mortgage loan secured by commercial property, such as an office building, shopping center, industrial warehouse, or apartment complex. The proceeds from a commercial mortgage are typically used to acquire, refinance, or redevelop commercial property.
Bankers' acceptances	A banker's acceptance (BA) is a short-term debt instrument issued by a company that is guaranteed by a commercial bank. Banker's acceptances are issued as part of a commercial transaction.
Bond	A bond is a fixed income investment in which an investor loans money to an entity (typically corporate or governmental) which borrows the funds for a defined period of time at a variable or fixed interest rate. Bonds are used by companies, municipalities, states and sovereign governments to raise money and finance a variety of projects and activities. Owners of bonds are debtholders, or creditors, of the issuer.
Notarial bond	A notarial bond is a form of credit security that is registered in the Deeds Office over some kind of movable property that the debtor has put up as security for its obligations to the creditor in terms of the loan.
Credit cooperatives	FINANCE a financial organization owned and controlled by its members, who can borrow at low interest rates from an amount of money they have saved as a group: Credit co-operatives provide financial services to poor and low-income people in many countries.
Credit unions	Financial cooperative created for and by its members who are its depositors, borrowers, and shareholders. Operated on non-profit basis, credit unions offer many banking services, such as consumer and commercial loans (usually at lower than market interest rates), time deposits (usually at higher than market interest rates), credit cards, and guaranties. Credit unions are normally taxed at rates lower than those applied to commercial banks and other financial institutions. Their members often have a common-bond, such as employment in the same firm or domicile in the same community. Credit unions are a type of mutual association.
Finance companies	Financial organization that accepts deposits (and pays out interest on them) and lends to consumers and/or businesses.

UNIVERSITY OF THE FREE STATE
UNIVERSITEIT VAN DIE VRYSTAAT
YUNIVESITHI YA FREISTATA
UFS UV

CONFIDENTIALITY AGREEMENT FOR FIELDWORKERS

I, ____________________________________ (participant name), agree with the following statements:

I have read the information leaflet for fieldworkers and understood the study as explained in the information sheet.

I have been trained to act as a fieldworker for the research project;

I have familiarised myself with the questions in the questionnaire;

I have familiarised myself with the research information leaflet intended for SMMEs;

I have had sufficient opportunity to ask questions and am prepared to act as a fieldworker in this study;

I fully comprehend the legal consequences that might follow from the unauthorised sharing of the information that I have collected in terms of the responses from the business owners (-including the name of the business); I am not allowed to divulge any of the data collected with any other person or fieldworker, except for the researcher (Ms H Jordaan)

Any violation in terms of the confidentiality agreement will result in the immediate termination of the working relationship between the researcher and me __________________________ (the fieldworker). I accept full responsibility of the legal consequences forthcoming from not adhering to this agreement.

I have received a signed copy of the informed consent agreement.

Full Name of the fieldworker:____

Signature of the fieldworker:__________________________________ Date: ____________________

Full Name of Researcher:____

Signature of Researcher:__________________________ Date: _______________________________

Signature of a witness: *__________________________ Date: ____________________________*

ANNEXURE C

RESEARCH STUDY INFORMATION LEAFLET AND CONSENT FORM

MAJOR STUDY – MATHJABENG DISTRICT

DATE

August 2018

TITLE OF THE RESEARCH PROJECT

Access to finance of SMMEs from formal lending institutions in the Free State Goldfields

PRINCIPLE INVESTIGATOR / RESEARCHER(S) NAME(S) AND CONTACT NUMBER(S):

Ms Henine Jordaan *2006130260* *083-490-7958*

FACULTY AND DEPARTMENT:

Faculty of Economic and Management Sciences
Department of Economics and Finance

STUDY LEADER(S) NAME AND CONTACT NUMBER:

Dr Johan Coetzee
051-401-9266

WHAT IS THE AIM / PURPOSE OF THE STUDY?

The objective if this survey is to gather information pertaining to the sources of finance of your business, obstacles in seeking and obtaining finance for your business, and the main challenges – if any - preventing your business from growing. As such the primary and secondary objectives are as follows:

Primary objective

To explore the obstacles hindering access to finance of SMMEs.

Secondary objectives

The objectives of this study are to:

- *establish whether access to finance is perceived as a priority obstacle to micro, very small and small businesses; and*
- *determine the relationship between access to finance and the nature or general characteristics of micro, very small and small businesses.*

WHO IS DOING THE RESEARCH?

I, Henine Jordaan, am currently doing research with Dr J Coetzee - a senior lecturer in Banking and Finance of the Department of Economics and Finance at the University of the Free State - being my study leader. The information gathered will be used solely for academic purposes, specifically and primarily enabling the researcher to obtain a PhD (Economics), but also to publish articles in academic journals and to advise commercial banks and policy-makers locally, at provincial and national level, in supporting SMME access to finance, development and growth in South Africa.

HAS THE STUDY RECEIVED ETHICAL APPROVAL?

This study was approved for ethical clearance by the Research Ethics Committee of UFS. The Ethical clearance number is: UFS-HSD2018/0341

WHY ARE YOU INVITED TO TAKE PART IN THIS RESEARCH PROJECT?

The literature indicates that access to finance is an obstacle amongst many impeding the growth of specifically micro, very small and small businesses in South Africa. As such it is the researcher's intention to determine whether the aforesaid is problematic to small businesses employing 50 people or less. Your business situated in the Mathjabeng area of the Free State Goldfields was selected to participate in the study as it falls within the criteria stipulated above. Trained fieldworkers were instructed to approach your businesses in the area in order to establish whether or not you will be willing to complete a questionnaire intended to gather information pertaining to the research topic. Data needs to be collected from 364 businesses operational in the Mathjabeng area. A non-probability snowball sampling technique will be used. This implies that if you have agreed to participate in the study and have successfully completed the questionnaire you will be asked to direct the fieldworker to other businesses that would potentially also be willing to participate in the study.

WHAT IS THE NATURE OF PARTICIPATION IN THIS STUDY?

To enable the researcher to reach the intended objectives of the research project it is required that the business owner/s or complete the questionnaire. In the first part of the questionnaire, biographical *data pertaining to the business owner/s will be collected. The second part of the questionnaire entails questions related to the nature and formality of the business. The third part includes questions pertaining to the operational obstacles of the business. The final section of the questionnaire deals with financial inclusion and financial access. The expected duration to complete the questionnaire with the assistance of a fieldworker will be approximately 35 minutes.*

CAN THE PARTICIPANT WITHDRAW FROM THE STUDY?

Participating in this study is voluntary and there is no penalty or loss of benefit for non-participation. Being in this study is voluntary and you are under no obligation to consent to participate. If you do decide to take part, you will be given this information sheet to keep and be asked to sign a written consent form. You are free to withdraw from the study at any time and without giving a reason. Once a completed questionnaire has been submitted to the fieldworker it will not be able for you to withdraw from the study.

WHAT ARE THE POTENTIAL BENEFITS OF TAKING PART IN THIS STUDY?

Firstly, the findings of this study will be useful in identifying the factors - in terms of accessing finance - obstructing the development of small businesses in a local municipality consisting of urban and rural areas situated outside a metropolitan area. Other obstacles pertaining to the operations of the business will also be identified. Secondly, the study will identify factors that could potentially advance the expansion of this sector if small businesses, in the same way, could obtain easier access to finance. The results of the study will inform policymakers in terms of the obstacles experienced by businesses and hopefully guide policymakers in simplifying procedures, and ultimately the protocol to be followed by SMMEs, when trying to obtain financial assistance in particular. In a similar vein, the study will likely be useful to banks and financial institutions in developing credit products suitable for small businesses. This information could furthermore enhance the strategic management process of commercial banks servicing small businesses outside metropolitan areas. The study further intends to increase the awareness of government support programmes available to SMMEs in particular as it pertains to access to finance. The results may also assist businesses to change their systems to be more formalized, if it is not, in line with the requirements of banks if it is a future intention of the business to approach a commercial bank to obtain finance. This is taken against the backdrop of literature indicating that businesses with access to external finance grow proportionately more than businesses without it. The results of the study will be made available to the SEDA, commercial banks who have participated in the study, the Free State Chamber of Commerce and Bankseta. This will enable these organisations to further explore initiatives that could be set into place to assist SMMEs as growth and development are priorities for many stakeholders in South Africa. The information obtained will be held in the strictest confidence. Neither your name nor the name of your business will be used in any document based on this survey. The information will only be used by the researcher and the study leader for academic purposes and for publications. The Research Ethics Review Committee could access the recorded data to verify the research methods and procedures.

WHAT IS THE ANTICIPATED INCONVENIENCE OF TAKING PART IN THIS STUDY?

The potential inconvenience in participating in this study is the time it will take to explain the purpose of the study and the subsequent completion of the questionnaire. This is taken against the backdrop that time is perceived to be a scarce resource in a business and the manner in which businesses choose to spend their time needs to be determined wisely. It should however, be noted that the collection of data from businesses in order to inform commercial banks and the government are of importance in ensuring proper and relevant support related to a variety of issues affecting these businesses. There is a risk of being identified as a respondent or participant in this study, yet this risk will be managed with the utmost caution. The fieldworkers assisting with data collection as well as the persons that will be responsible to capture the data reported in the questionnaire will sign a confidentiality agreement. This agreement will entail that no one will divulge any information related to the businesses participating in the study.

WILL WHAT I SAY BE KEPT CONFIDENTIAL?

The information obtained during the process of data collection will be held in the strictest confidence. Neither the name of the business owner/s or the name of the business will be used in any document. The name of the business owner/s and the business will thus stay anonymous. Members of the Research Ethics Committee and the study leader might review the answers collected from the questionnaires intended for businesses in an attempt to ensure that the research was properly done. The coded data obtained from the questionnaire will be used for publications such as research reports, journal articles, conference presentations, etc. The collected data will only be used in aggregate. The fieldworkers and persons who will process the data will sign a confidentiality agreement as stated in the aforesaid paragraph. No one will be able to connect the answers provided by the business owner/s to the business. A fictitious code number will be used to refer to the business and subsequent data collected.

HOW WILL THE INFORMATION BE STORED AND ULTIMATELY DESTROYED?

Hard copies of the completed questionnaires and data recorded will only be available to the principal researcher (Henine Jordaan). These copies will be stored at the Central University, Welkom Campus room 108 in a filing cabinet with a lock. These hard copies will be kept for a period of five years after which it will be destroyed. Electronic information of the data recorded obtained from the questionnaires will be stored on a computer with a password to protect the access of the data. Future use of stored data will be subjected to further scrutiny of the Research Ethics Review Committee and approved if applicable.

WILL I RECEIVE PAYMENT OR ANY INCENTIVES FOR PARTICIPATING IN THIS STUDY?

There will be no reward or payment offered to the participants.

HOW WILL THE PARTICIPANT BE INFORMED OF THE FINDINGS / RESULTS OF THE STUDY?

The findings and results of the research will be available in 2020. Please contact the researcher, Henine Jordaan, 057-910-3582 or 083-490-7958, hjordaan@cut.ac.za. Should you require any further information or want to contact the researcher about any aspect of this study please feel free to do so.

Thank you for taking time to read this information sheet and for participating in this study.

UNIVERSITY OF THE FREE STATE
UNIVERSITEIT VAN DIE VRYSTAAT
YUNIVESITHI YA FREISTATA

CONSENT TO PARTICIPATE IN THIS STUDY

I, ______________________________________ (participant name), confirm that the person asking my consent to take part in this research has told me about the nature, procedure, potential benefits and anticipated inconvenience of participation.

I have read (or had explained to me) and understood the study as explained in the information sheet. I have had sufficient opportunity to ask questions and am prepared to participate in the study. I understand that my participation is voluntary and that I am free to withdraw at any time without penalty (if applicable). I am aware that the findings of this study will be anonymously processed into a research report, journal publications and/or conference proceedings.

I agree to complete the questionnaire as a method of data collection.

I have received a signed copy of the informed consent agreement.

Full Name of Participant: ____

Signature of Participant: _____________________________________ Date: ____________________

Full Name of Researcher/ Fieldworker:____

Signature of Researcher/Fieldworker:__________________________ Date: ____________________

ANNEXURE D

<u>INLIGTING OOR DIE STUDIE EN TOESTEMMINGSVORM</u>

MATHJABENG DISTRIK

DATUM

Augustus - November 2018

TITEL VAN DIE NAVORSINGSPROJEK:

TOEGANG TOT BEFONDSING VAN KLEIN, MEDIUM EN MIKRO ONDERNEMINGS (KMMOs) VAN FORMELE FINANSIËLE INSTELLINGS IN DIE VRYSTAATSE-GOUDVELDE

HOOF NAVORSER/ NAAM EN KONTAKBESONDERHEDE:

Me Henine Jordaan *2006130260* *083-490-7958*

FAKULTEIT EN DEPARTEMENT:

Fakulteit van Ekonomiese en Bestuurswetenskappe
Department van Ekonomie en Finansies

STUDIELEIER/ NAAM EN KONTAKBESONDERHEDE:

Dr Johan Coetzee
051-401-9266

WAT IS DIE DOEL VAN DIE STUDIE?

Die oogmerk van hierdie ondersoek is om inligting oor die bronne van finansiering, die bestaande hindernisse in die verkryging van befondsing en ander uitdagings wat die groei van u besigheid – indien enige – mag inperk, in te samel. Die primêre en sekondêre doelwitte van die navorsingsprojek is dus die volgende:

Primêre doelwit:

Om die uitdagings ten opsigte van die verkryging van finansiering van KMMOs te verken.

Sekondêre doelwitte:

Die sekondêre doelwitte van die studie is om:

- *vas te stel of toegang tot finansiering 'n prioriteits-hindernis vir mikro, baie klein en klein besighede is;*
- *die verhouding tussen die toegang tot finansiering en die algemene karaktereienskappe van mikro, baie klein en klein besighede te bepaal.*

WIE DOEN DIE NAVORSING?

Ek, Henine Jordaan is tans besig met navorsing saam met Dr J Coetzee – 'n senior dosent in Bankwese en Finansies werksaam in die Departement Ekonomie en Finansies verbonde aan die Universiteit van die Vrystaat. Dr Johan Coetzee is my studieleier. Die inligting wat tydens hierdie studie ingesamel gaan word gaan gebruik word vir akademiese doeleindes - allereers en in hoofsaak om die navorser in staat te stel om 'n PhD (Ekonomie) te verwerf, maar mettertyd ook vir die publikasie van artikels in akademiese joernale. Voorts sal dit gebruik word om kommersiële banke en beleidsmakers - plaaslik, provinsiaal en nasionaal - te adviseer oor wyses om KMMOs se toegang tot befondsing, ontwikkeling en groei in Suid-Afrika te ondersteun en te bevorder.

HET DIE STUDIE ETIESE GOEDKEURING?

Die studie het etiese etiese goedkeuring by die Navorsings- en Etiesekomitee van die Universiteit van die Vrystaat.

Die etiese goedkeuringsnommer is: UFS-HSD2018/0341

WAAROM IS U UITGENOOI OM AAN DIE NAVORSINGPROJEK DEEL TE NEEM?

Die literatuurstudie dui daarop dat toegang tot finansiering 'n hindernis vir die gro ei van veral mikro, baie klein en klein besighede in Suid-Afrika is. Daarom het die navorser ten doel om te bepaal of die voormelde problematies vir klein besighede is wat 50 of minder mense in diens het. U besigheid is werksaam in die Mathjabeng area van die Vrystaatse Goudvelde en is gekies om aan die studie deel te neem omdat dit aan die bosstaande vereistes voldoen. Daar is aan opgeleide veldwerkers opgdrag gegee om u besigheid te nader en vas te stel of u aan die studie sal deel wat sal beteken dat u 'n vraelys sal moet voltooi. 'n Nie-waarskynlike steekproef sal vir die studie gebruik word. Die studie sal van 'n sneeubal steekproeftegniek gebruik maak. Dit behels dat indien u toestemming gee om aan die studie deel te neem, die veldwerker u sal vra om die name van ander besighede te verskaf wat potensieël dalk ook sal toestem om aan die studie deel te neem. Die navorser het ten doel om data van 364 besighede in die Mathjabeng area in te samel.

WAT IS DIE AARD VAN DEELNAME IN DIE STUDIE?

Om die navorser in staat te stel om die uiteindelike doelwitte van die studie te bereik is dit nodig dat die besigheidseienaar/s van die besigheid die vraelys voltooi. Die eerste gedeelte van die vraelys het ten doel om persoonlike inligting van die besigheidseienaar in te samel. Die tweede gedeelte van die vraelys het ten doel om die aard, bedrywighede en formaliteit van die besigheid vas te stel. Die derde gedeelte van die vraelys het ten doel om die hindernisse van die besigheid te bepaal. Die finale gedeelte van die vraelys sluit vrae in wat verband hou met finansiële insluiting en toegang tot befondsing. Die verwagte tydsduur wat dit die besigheidseienaar sal neem om die vraelys te voltooi met behulp van 'n veldwerker is om en by 35 minute.

KAN DIE DEELNEMER ONTTREK VAN DIE STUDIE?

Deelname aan die studie is vrywillig en daar is geen straftoemeting of verlies van voordeel vir nie-deelname nie. Indien u besluit om aan die studie deel te neem, sal u hierdie dokument ontvang wat inligting bevat oor die doel van die studie. U sal ook 'n toestemmingsvorm moet voltooi. U kan op enige stadium sonder die verskaffing van 'n rede van die studie te onttrek. As u wel die vraelys voltooi het en dit aan die veldwerker verskaf het sal u nie meer instaat wees om van die studie te onttrek nie.

WAT IS DIE POTENSIËLE VOORDELE OM AAN DIE STUDIE DEEL TE NEEM?

Ten eerste sal die bevindings van die studie nuttig wees om faktore wat die toegang tot befondsing van besighede verhinder, te identifiseer. Dit sluit besighede in wat operasioneel in plaaslike owerhede bestaande uit stedelike en landelike gebiede geleë buite metropole, is. Ander uitdagings of hindernisse wat die werksaamhede van besighede beinvloed sal ook geïdentifiseer word. Tweedens, sal die studie faktore identifiseer wat die uitbreiding van besighede kan bevorder indien toegang tot befondsing vergemaklik word. Die resultate en bevindings van die studie sal gebruik word om beleidsmakers in te lig ten opsigte van die uitdagings en hindernisse van besighede en hopelik kan die inligting beleidsmakers lei om prosedures en die uiteindelike protokol wat gevolg moet word om toegang tot befondsing te kry vereenvoudig word. Die studie kan ook potensieël vir die banke van waarde wees in die ontwikkeling van kredietprodukte wat meer geskik is om besighede te diens wat operasioneel in areas buite metropole werksaam is. Die studie het verder ten doel om die bewustheid van regeringsprogramme beskikbaar om KMMOs te ondersteun veral ten opsigte van die toegang tot befondsing, te bevorder. Die resultate van die studie kan ook gebruik word om die besigheid te help om hul sisteme te formaliseer, as dit nie reeds formeel is nie. Hierdie formalisering behoort in lyn met die vereistes van banke te wees as die besigheid in die toekoms ten doel het om finansiering te bekom. Dit word gesien teen die agtergrond dat studies bevind het dat besighede met toegang tot eksterne fondse vinniger groei as besighede daarsonder. Die resultate van die studie sal aan SEDA, die kommersiële banke wat aan die studie deelgeneem het, die Goudveldse Kamer van Koophandel en Bankseta verskaf word. Dit sal hierdie organisasies in staat stel om inisiatiewe ten doel om die ontwikkeling en groei van KMMOs te bevorder verder te verken in die lig gesien dat die bevordering van KMMOs die prioriteit van verskeie belanghebbendes in Suid-Afrika is. Die inligting wat ingesamel *word sal streng vertroulik hanteer word. Nie die naam van die eienaar/s of besigheid sal in enige dokument gebruik word wat op die opname gebasseer sal word nie.*

WAT IS DIE VERWAGTE ONGERIEF OM AAN DIE STUDIE DEEL TE NEEM?

Die potensiële ongerief om aan die studie deel te neem het in hoofsaak te doen met die tydsduur wat dit sal neem vir die veldwerker om die doel van die studie te verduidelik en die daaropvolgende tyd wat dit sal neem om die vraelys te voltooi. Hierdie word gesien teen die agtergrond dat tyd 'n skaars hulpbron vir besighede is. Die insameling van data om die banke en die regering in te lig is wel van belang, sodat hierdie instansies relevante ondersteuning en dienste aan KMMOs kan lewer. Daar is wel risiko betrokke rondom die identifisering van die besigheid en daarom sal hierdie risiko met uiterse sorgsaamheid hanteer word. Die veldwerkers wat by die studie betrokke is sal 'n vertroulikheidsooreenkoms teken, so ook die persone wat die data van die vraelyste sal verwerk. Die vertroulikheidsooreenkoms sal behels dat niemand enige inligting rondom u besigheid openbaar mag maak nie.

SAL WAT EK Sê VERTROULIK GEHOU WORD?

Die inligting wat gedurende die proses van data kollektering ingewin sal word sal streng konfidensieël gehou word. Nie die naam van die besigheidseienaar/s of die naam van die besigheid sal in enige dokument gebruik word nie. Die naam van die besigheid en die besigheidseienaar/s sal dus anoniem bly. Die inligting sal net gebruik word deur die navorser en die studieleier vir akademiese doeleindes en vir die doeleindes van publikasies. Die Navorsings- en- Etiesekomitee kan dalk die data bestudeer om die korrektheid van die navorsingmetodes en prosedures te verifieer. Die data sal in gekombineerde formaat gebruik word. Die veldwerkers en die persone wat die data verwerk sal 'n vetroulikheidsooreenkoms teken soos in die vorige paragraag aangedui. Niemand sal in staat wees om die antwoorde wat in die vraelys verskyn met die besigheid te verbind nie. 'n Fiktiewe kode sal gebruik word om na die besigheid te verwys en die daaropvolgende data in te samel.

HOE SAL DIE INLIGTING GESTOOR WORD EN UITEINDELIK TOT NIET GEMAAK WORD?

Die oorspronlike kopieë van die vraelsyte en die verwerkte data sal net deur die primêre navorser (Henine Jordaan) gestoor word. Hierdie kopieë sal by die Sentrale Universiteit van Tegnologie, Welkomkampus in die kantoor 108 in 'n liaseerkabinet met 'n slot gestoor word. Die oorspronklike kopieë sal vir vyf jaar gehou word waarna dit vernietig sal word. Elektroniese verwerkte data wat van die vraelyste afkomstig is sal op 'n rekenaar met 'n wagwoord gestoor word om toegang tot die data te beskerm. Die toekomstige gebruik van gestoorde data sal weer onder die soeklig geplaas word deur die Navorsings- en Etiesekomitee en goedgekeur word indien nodig.

SAL EK BETALING OF ENIGE VOORDEEL ONTVANG OM AAN DIE STUDIE DEEL TE NEEM?

Daar is geen beloning, of betaling vir die deelname aan die studie nie.

HOE SAL DIE DEELNEMER AAN DIE STUDIE INGELIG WORD OOR DIE BEVINDINGE EN RESULTATE VAN DIE STUDIE?

Die bevindinge en resultate van die navorsing sal in 2020 beskikbaar wees. Kontak gerus die navorser, Henine Jordaan, by 057-910-3582 of 083-490-7958, hjordaan@cut.ac.za. Sou u enige verdere inligting in verband met die enige aspek van die studie wou hê voel vry om die navorser te kontak.

Dankie vir die tyd wat u spandeer het om die inligtingsblad deur te lees en vir die deelname aan die studie.

TOESTEMMING OM AAN DIE STUDIE DEEL TE NEEM

Ek, _____________________________________ (deelnemer se naam), bevestig dat die persoon wat my toestemming gevra het om aan die navorsing deel te neem het my oor die aard, prosedures, potensiële voordele en verwagte ongerief ten opsigte van my deelname in die studie, ingelig.

Ek het die inligtingsblad gelees (of dit was aan my verduidelik) en ek verstaan waaroor die studie gaan. Ek het genoeg geleentheid gekry om vrae te vra en is bereid om aan die studie deel te neem. Ek verstaan dat my deelname aan die studie vrywillig is en dat ek op enige stadium van die studie kan onttrek sonder om benadeel te word. Ek is bewus dat die bevindinge van die studie anomiem verwerk sal word vir die doeleindes van 'n navorsingsverslag, publikasies en vir konferensies.

Ek stem toe om die vraelys te voltooi as 'n metode van data-insameling.
Ek het 'n getekende afskrif van die inligtings-toestemmingsooreenkoms gekry.

*Naam en Van van die deelnemer:*____

*Handtekening van die deelnemer:*____________________________*Datum:* ____________________

*Naam en Van van die navorser/veldwerker:*____

*Handtekening van die navorser/veldwerker:*____________________*Datum:* ____________________

ANNEXURE E

205 Nelson Mandela Drive
Park West,
Bloemfontein,
9301

Code number:

QUESTIONNAIRE - MATJHABENG DISTRICT

ACCESS TO FINANCE OF SMALL, MEDIUM AND MICRO-ENTERPRISES FROM FORMAL LENDING INSTITUTIONS

CONTACT DETAILS:
HENINE JORDAAN
Central University of Technology, Welkom Campus
Mothusi Road MotsiThabong
Welkom
9460
Cell: 083-490-7958/057-910-3582
Email: hjordaan@cut.ac.za

FIELD WORKER:

INTRODUCE YOURSELF AND READ THE FOLLOWING TO THE RESPONDENT BEFORE PROCEEDING.

The objective if this survey is to gather information about the following:

- access to finance of your business from formal lending institutions
- obstacles in seeking and obtaining finance for your business
- the main obstacles in preventing your business from growing

The information gathered will be used for academic purposes, to enable the researcher to obtain a PhD (Economics) and to inform policy of both commercial banks and local, provincial and national government to support SMME development in South Africa. If you do have one business, we will be gather information from the small business where you spend the most time running the business.

The information obtained will be confidential. Neither your name nor the name of your business will be used in any document based on this survey.
The results of the study will be available in 2020. If you would like to receive a summary of the results please e-mail the researcher.

Thank you very much for your time and effort.

FIELD WORKER:
READ THE FOLLOWING TO THE RESPONDENT

The questionnaire must be completed by the manager or owner of a small business situated in the Matjhabeng area, employing 50 or less people.

INSTRUCTION TO THE FIELDWORKER:
If the respondent cannot complete the questionnaire immediately please make an appointment to see the business owner at a later stage.

SECTION A
PERSONAL INFORMATION OF THE BUSINESS OWNER

Mark the box that describe the facts applicable to you with an X. Choose only one option. If necessary, furnish the additional information requested.

A1	**In which age group do you fall?**	16-24	25-34	35-44	45-59	60+
		(01)	(02)	(03)	(04)	(05)

A2	**Indicate your gender.**	**(X)**	
	Male		(01)
	Female		(02)

A3	**Indicate your race.**	**(X)**	
	Black African		(01)
	White		(02)
	Coloured		(03)
	Indian		(04)
	Asian		(05)
	Other: (Please specify)		(06)

A4	**Indicate your highest academic qualification.**	**(X)**	
	No schooling		(01)
	Some primary schooling		(02)
	Primary school completed		(03)
	Some high school		(04)
	Completed Grade 12		(05)
	Apprenticeship		(06)
	Post matric Certificate		(07)
`	Post matric Diploma		(08)
	University Degree		(09)
	Post graduate Degree		(10)

SECTION B
THE NATURE, OPERATIONS AND FORMALITY OF THE SMALL BUSINESS

Mark the box that best describe your situation, and/or your opinion with an X. Choose only one option. If necessary, furnish the additional information requested.

B1	**In which area is your business located in Matjhabeng in the Free State Goldfields?**	**(X)**	
	Welkom		(01)
	Riebeeckstad		(02)
	Thabong		(03)
	Bronville		(04)
	Odendaalsrus		(05)
	Kutloanong		(06)
	Allanridge		(07)
	Nyakallong		(08)
	Virginia		(09)
	Meloding		(10)
	Hennenman		(11)
	Phomolong		(12)
	Ventersburg		(13)
	Mmamahabane		(14)
	Tselangpele		(15)

B2	**Indicate the legal status of your business (form of business ownership).**	**(X)**	
	Sole proprietor “It is a business that is owned and managed by one individual”		(01)
	Partnership “It can be described as a contractual relationship between 2 – 20 persons who operate a lawful business with the object of making a profit”		(02)
	Close Corporation (CC) “A CC has between 1 -10 members. Members own and control the business”		(03)

B2 Cont.	**Indicate the legal status of your business (form of business ownership).**	**(X)**	
	Private company (Pty) Ltd "A company is a juristic person and thus has its own rights, assets and liabilities. The number of members ranges from 1 – 50."		(04)
	Private incorporated company (Inc) "Certain professions allow their members to form an incorporated company instead of practicing in a partnership such as lawyers."		(05)
	Franchise "A franchise describes the manner in which the business is packaged to enable expansion. Franchises could be a partnership or a company".		(06)
	Trust "It is established when the founder of the trust places assets under the control of a trustee to be administered for the benefit of beneficiaries"		(07)

B3	**Do you have any females as partners or shareholders?**	**(X)**	
	Yes		(01)
	No		(02)

B4	**Indicate to what extent each of the sources of knowledge mentioned below have assisted you in obtaining the skills for managing your business.**	**Yes**	**No**
B4.1	Taught by family	1	2
B4.2	Learned whilst managing the business itself/on the job	1	2
B4.3	Previous job or work experience	1	2
B4.4	Training programmes/courses	1	2
B4.5	University/Technikon/College (Tertiary education)	1	2
B4.6	Taught by your spouse/life partner	1	2
B4.7	Taught by a mentor or advisor	1	2

B5	**Indicate whether you have registered your business with the Companies and Intellectual Property Commission (CIPC), formerly known as CIPRO.**	**(X)**	
	Yes		(01)
	No		(02)

B6	**Does your business have a business permit?**	**(X)**	
	Yes		(01)
	No		(02)

B7	**Indicate your path to business ownership.**	**(X)**	
	Started the business myself		(01)
	Started the business with my spouse/life partner		(02)
	Bought an existing business		(03)
	Joined a family business		(04)

B8	Indicate in which industry or sector your business operates.	(X)	
	Agriculture		(01)
	Mining and quarrying		(02)
	Manufacturing		(03)
	Electricity, Gas and Water		(04)
	Construction		(05)
	Wholesale trade		(06)
	Retail trade Retailers are businesses or firms providing goods directly to consumers.		(07)
	Motor trade and/ repair services		(08)
	Commercial agents and Allied Services Commercial agents find customers for other companies and business. They usually receive payment in the form of commission. They work independent from companies and businesses. These businesses are contracted to do a service by other companies and businesses.		(09)
	Catering and Accommodation		(10)
	Transport and storage		(11)
	Communication		(12)
	Finance and Business Services		(13)
	Community, Social and Personal Services It includes amongst others educational services, medical and dental activities, hairdressing services, funeral related services, entertainment activities.		(14)

B9	How many years of experience do you have in the sector that your business is operating in?

B10	How many years of experience do you have as a business owner?

B11	In which market/markets do you sell your products or provide your services? (Identify one option only)	(X)	
	Local community in the district (local market)		(01)
	Distribute to other provinces only		(02)
	Local community and other provinces		(03)
	National and international markets		(04)
	International markets only		(05)

B12	Indicate the number of years that your business is operating.	(X)	
	Less than one (1) year		(01)
	1-3 years		(02)
	4-5 years		(03)
	6-10 years		(04)
	More than 10 years. Please specify:		(05)

B13	**In your opinion, in which stage of the life cycle is your business currently functioning at?** ***The life cycle of the business pertains to how the business progresses from its birth into its initial growth stage, its expansion stage in which it moves into new markets, its mature operation stage and then its eventual termination.***	**(X)**	
	Start-up phase – earning small amounts to prove the financial viability of the business – trying to secure finance.		(01)
	Business is functioning beyond start-up, yet still earns only small amounts of revenue		(02)
	Growth or expansion phase – business is established and growing and functions without external finance		(03)
	Growth or expansion phase – business is established has secured external finance and is growing with sufficient working capital		(04)
	Steady-state – business is established, and growth trends remain the same		(05)
	Exit phase – business prepares to exit via a trade sale/closing		(06)

B14	**Including yourself, how many employees do you employ on a full time and part time basis?**	**(X)**	
	1 employee (myself)		(01)
	2 employees		(02)
	3-5 employees		(03)
	6-10 employees		(04)
	11-20 employees		(05)
	21-50 employees		(06)

B15	**Indicate whether the business owns immovable property e.g. business buildings, land or farms**	**(X)**	
	Yes		(01)
	No		(02)

B16	**Indicate whether the business owns movable property e.g. stock, machinery, fixtures and furniture.**	**(X)**	
	Yes		(01)
	No		(02)

B17	**Indicate the appropriate option related to financial record keeping.**	**(X)**	
	Your small business keeps financial records.		(01)
	Your small business **does not** keep financial records **(Proceed to B19)**.		(02)
	Your small business **does not keep** formal financial records but estimates its financial position **(Proceed to B19)**.		(03)

B18	**Indicate who assists you with the recording of your financial records.**	**Yes**	**No**
B18.1	I do it myself	1	2
B18.2	An employee	1	2
B18.3	A book-keeper	1	2
B18.4	An accountant	1	2
B18.5	An auditor	1	2
B18.6	A friend/family member	1	2

B19	**Indicate whether the business is operating in accordance with a business plan.**	**(X)**	
	Yes		(01)
	No **(Proceed to Section C)**		(02)

B20.	**If you have indicated that the business has a business plan – how was the business plan compiled?**	**Yes**	**No**
B20.1	By the owner/s	1	2
B20.2	With the assistance of a private consultant	1	2
B20.3	With the assistance of a consultant appointed by the government	1	2

SECTION C
BUSINESS AND OPERATIONAL OBSTACLES

C1 Indicate to what degree the following factors have been obstacles to the current operations of your business. Mark the box that best describe your situation with a X.

1	2	3	4	5
No obstacle	Minor obstacle	Moderate obstacle	Major obstacle	Very severe obstacle

	Obstacles	**Scale**				
C2	**Access to finance for your kind of business from commercial banks**	1	2	3	4	5
C3	**Regulatory environment** The regulatory environment is rules and policies set by government that guide businesses. This is also done at local level as municipalities have their own sets of rules guiding businesses (business licensing, permits, tax administration and tax compliance etc.).	1	2	3	4	5
C4	**Support and advice provided from government** at a local and provincial level	1	2	3	4	5
C5	**Labour laws and labour environment** Labour law regulates the relationship between workers, employing entities and the government. Labour laws have a uniform purpose: they protect employees' rights and set forth employers' obligations (wages and salaries) and responsibilities.	1	2	3	4	5
C6	**The ability to employ an educated and skilled workforce**	1	2	3	4	5
C7	**Access to technology** The ability to acquire and use technology for production or to provide a service.	1	2	3	4	5
C8	**Access to infrastructure.** This includes access to sufficient electricity supply, transport networks, telecommunication, internet access etc. to enable the proper functioning of the business.	1	2	3	4	5

C1 (Cont.) Indicate to what degree the following factors have been an obstacle to the current operations of your business. Mark the box that best describe your situation with a X.

1	2	3	4	5
No obstacle	Minor obstacle	Moderate obstacle	Major obstacle	Very severe obstacle

	Obstacle	**Scale**				
C9	**Market penetration and market demand** This includes competition in the market, demand for your product or service from clients and networking with suppliers and clients.	1	2	3	4	5
C10	**Economic environment** The economic environment refers to the economic conditions including economic growth rates and inflation. It also includes the economic outlook which deals with the expectations of economic growth, productivity growth and employment levels.	1	2	3	4	5
C11	**Crime, theft and corruption** This includes amongst others robbery or stock theft by customers, fraud, bribery and employee theft which is broadly defined as stealing or the use or misuse of various assets of a workplace without permission. Corruption is a form of dishonesty or criminal activity undertaken by a person or organization entrusted with a position of authority which might affect the business.	1	2	3	4	5

C12	**Out of the obstacles listed in section C – what is the biggest obstacle, second biggest and third biggest obstacle facing your current business operation?**		
	Biggest Obstacle		(01)
	Second Obstacle		(02)
	Third Obstacle		(03)

SECTION D
FINANCIAL INCLUSION AND ACCESS TO FINANCE
Section D(I): FINANCIAL INCLUSION

D1.	**Do you have a bank account for your business?**	**(X)**	
	Yes		(01)
	No **(Proceed to D3 and continue with the questionnaire)**		(02)

D2.	**Indicate the type of bank account that you use for your business (Mention one option only – and then proceed to D4 and continue with the questionnaire)**	**(X)**	
	Currently, the business has a current account at a formal bank.		(01)
	Currently, the business has a savings account at a formal bank.		(02)
	Currently, the business has a savings and a current account at a formal bank.		(03)
	Currently, the business has a Post Office savings/transaction account.		(04)
	Other: **(Please Specify)**		(05)

D3. If you have indicated that you **DO NOT** have a bank account, indicate to what extent the following considerations are responsible for your business not having a bank account. Mark the box that best describes your opinion with an X.

1	2	3	4	5
To no extent	To some extent	To a moderate extent	To a large extent	To a very large extent

	Reasons	**Scales**				
D3.1	Income is too irregular to have a bank account	1	2	3	4	5
D3.2	Not enough money is generated from the business to have a bank account	1	2	3	4	5
D3.3	Do not qualify for a bank account	1	2	3	4	5
D3.4	Do not need a bank account	1	2	3	4	5
D3.5	Do not have a bank account because of religious/cultural reasons	1	2	3	4	5
D3.6	Bank charges are too high	1	2	3	4	5
D3.7	Cannot afford the minimum balance required for a bank account	1	2	3	4	5
D3.8	The terms and conditions offered by the bank are not suitable for my small business	1	2	3	4	5
D3.9	Too complicated to open a bank account	1	2	3	4	5
D3.10	Do not trust banks	1	2	3	4	5
D3.11	The bank is situated too far from my business	1	2	3	4	5

(Proceed to E1 and continue completing the questionnaire)

D4	**Is the bank account indicated in D2 held in the name of the business or the business owner?**	**(X)**	
	The bank account is in the name of the **business**		(01)
	The bank account is the name of the **business owner**		(02)

D5	**Is the bank account that you have indicated in D2 also used for the personal transactions of the owner?**	**(X)**	
	Yes		(01)
	No		(02)

D6	**Indicate the MAIN bank that you use for your business transactions (Mention one option only).**	**(X)**	
	Absa (Barclays Africa)		(01)
	African Bank		(02)
	Capitec		(03)
	First National Bank (FNB)		(04)
	Nedbank		(05)
	Standard Bank		(06)
	Other: **(Please specify)**		(07)

D7	**How long have you been banking with the main bank of your business?**	**(X)**		
At most a year	2-3 years	4-5 years	6-10 years	Over 10 years
(01)	(02)	(03)	(04)	(05)

D8. Indicate which of the following monthly transaction activities the MAIN bank account is used for. Mark the appropriate box with an X.

	Transaction activities of the MAIN bank account	**Yes**	**No**
D8.1	Cash deposits for the business	1	2
D8.2	Cash withdrawals for the business	1	2
D8.3	Pay utility bills e.g. water, electricity, cell phone or telephone used for the business	1	2
D8.4	Balance enquiry for the business	1	2
D8.5	Paying business accounts e.g. suppliers	1	2
D8.6	Request mini bank statements for the business	1	2
D8.7	Buy cell phone or Telkom airtime for the business	1	2
D8.8	Purchase items using a debit card	1	2
D8.9	Cheque deposits for the business	1	2

D8.10	Transfers between bank accounts	1	2
D9	**Indicate which of the following E-banking services your business uses.**	**Yes**	**No**
D9.1	Cell phone banking	1	2
D9.2	Internet banking	1	2

SECTION D(II): FINANCIAL ACCESS

E1	Have you applied for a loan or lines of credit from a commercial bank since the business start-up?	(X)	
	Yes		(01)
	No		(02)

E2	At this time does the business have a line of credit or a loan from a commercial bank?	(X)	
	Yes		(01)
	No **(Proceed to E5 if you have never applied for a loan)** **(Proceed to E4 if you have applied for a loan)**		(02)

E3	If you have answered yes in E2 – what is the total number of open lines of credit and outstanding loans owed to commercial banks?	(X)	
	One		(01)
	Two		(02)
	Three		(03)
	More than three		(04)

E4	Referring to the most recent application for a line of credit or a loan - was this application approved?	(X)	
	Yes		(01)
	No		(02)

E5	Does your business need a loan or credit from a commercial bank if your current situation is taken into account?	(X)	
	Yes		(01)
	No		(02)

- If you have answered **YES to question E2 and YES to question E4 (Your business does have loans and lines of credit and the last application for a loan or credit product was approved)** proceed **to question E8** and complete the rest of the questionnaire.
- If you have answered **NO to question E4, the application for your loan was NOT approved** proceed **to question E7** and complete the rest of the questionnaire.
- If you have answered that you have **NOT APPLIED** for bank loan since the business start-up proceed with **question E6**.

E6. To what extent are the following reasons relevant for your business NOT applying for a loan/credit? Mark the box that best describe your opinion with an X.

1	2	3	4	5
To no extent	To some extent	To a moderate extent	To a large extent	To a very large extent

	Reasons for not applying for a loan	**Scale**				
E6.1	I do not believe in borrowing money	1	2	3	4	5
E6.2	The application procedures for bank loans are too complicated and burdensome	1	2	3	4	5
E6.3	Collateral requirements for bank loans are to strict	1	2	3	4	5
E6.4	The requirements for owner equity contribution to secure the loan is too high	1	2	3	4	5
E6.5	The interest rate charged by the banks are too high	1	2	3	4	5
E6.6	I was afraid that my loan would be rejected	1	2	3	4	5
E6.7	My earnings fluctuate from month to month so therefore I cannot borrow money	1	2	3	4	5
E6.8	The business does not generate enough cash to apply for a loan	1	2	3	4	5
E6.9	I do not qualify to borrow money	1	2	3	4	5
E6.10	I have a poor credit record	1	2	3	4	5
E6.11	Lack of a viable business plan	1	2	3	4	5

(Proceed to directly to E12 and continue with the questionnaire)

E7.	**If your recent loan/credit application was rejected – did the bank provide reasons for their decision?**	**(X)**	
	Yes		(01)
	No		(02)

- If your **business does have other lines of credit and loans** although your last application for lines of credit or loans were rejected **proceed with E8**.
- If **your business does not have any lines of credit or loans** and the last loan application was rejected proceed to **E12.**

E8. Indicate which of the following lines of credit and loan products provided by a commercial bank is the business currently using. Mark the appropriate box with an X.

	The usage of loan/credit products	**Yes**	**No**
E8.1	Business overdraft	1	2
E8.2	A credit card used for the business	1	2
E8.3	Business revolving loan	1	2
E8.4	A loan to finance working capital	1	2
E8.5	A loan to finance investment and expansion	1	2
E8.6	Term loans	1	2
E8.7	Women empowerment finance	1	2
E8.8	Empowerment finance	1	2
E8.9	Financing for franchising	1	2
E8.10	Commercial property finance	1	2
E8.11	Debtor's finance	1	2
E8.12	Vehicle asset finance by means of financial rentals, financial leases or instalment sales	1	2
E8.13	Bankers' acceptances	1	2

E9. In terms of credit products or loans used indicate to what extent the following reasons are applicable in the choosing of a specific commercial bank. Mark the box that best represents your reasons with an X.

1	2	3	4	5
To no extent	To some extent	To a moderate extent	To a large extent	To a very large extent

	Reasons for choosing a specific bank	**Scale**				
E9.1	Personal relationship with the commercial bank	1	2	3	4	5
E9.2	Interest rate offered for the loan repayment	1	2	3	4	5
E9.3	Collateral requirements	1	2	3	4	5
E9.4	Maturity offered (total duration of the loan)	1	2	3	4	5

E9.5	The commercial bank offers the best terms and conditions for credit	1	2	3	4	5
E9.6	It is the commercial bank situated nearest to my business offering credit	1	2	3	4	5
E9.7	It is the commercial bank that best understands the needs of SMMEs	1	2	3	4	5

E10.	**Referring to the latest line of credit or loan what is the interest rate percentage charged by the commercial bank for this loan product?**		
			(01)

E11. In terms of providing collateral to secure bank loans, which of the following forms of collateral have the business pledged to secure credit from a commercial bank? Mark the appropriate box with an X.

	Types of collateral	**Yes**	**No**
E11.1	Bond over immovable assets (land, buildings)	1	2
E11.2	Bond over moveable assets (machinery, equipment)	1	2
E11.3	A session of outstanding debt (e.g a government contract, accounts receivable)	1	2
E11.4	Personal assets of the owner (house etc.)	1	2

E12. During the past year indicate which of the following sources of finance were used for business working capital (that is funds available for day-to-day operations)? Mark the applicable box with an X.

	Source used to fund working capital	**Yes**	**No**
E12.1	Internal funds or retained earnings	1	2
E12.2	Borrowed from commercial banks	1	2
E12.3	Borrowed from non-bank financial institutions which include microfinance institutions, credit cooperatives, stokvels, credit unions or finance companies	1	2
E12.4	Purchases on credit from suppliers and advances from customers	1	2
E12.5	Business loans from family or friends	1	2

E13. Indicate which of the following sources of finance does the business use to purchase fixed assets (buildings, vehicles and equipment). Mark the applicable box with an X.

	Source used to fund fixed assets	**Yes**	**No**
E13.1	Internal funds or retained earnings	1	2
E13.2	Borrowed from commercial banks	1	2
E13.3	Owners' contribution	1	2
E13.4	Borrowed from non-bank financial institutions which include microfinance institutions, credit cooperatives, stokvels, credit unions or finance companies	1	2
E13.5	Purchases on credit from suppliers and advances from customers	1	2
E13.6	Business loans from family or friends	1	2

E14	**Have you ever used the SMME start-up services, workshops and training provided by your commercial bank, either provided on the internet or otherwise?**	**(X)**	
	Yes		(01)
	No		(02)
	Not aware of the SMME start-up, workshops and training services provided by commercial banks		(03)
E15.	**Have you ever applied for government funding for your business?**	**(X)**	
	Yes (Continue)		(01)
	No **(Proceed to E17 and continue to answer the questions)**		(02)

E16.	**Has your loan application for government funding been successful?**	**(X)**	
	Yes **(Proceed to E18 and continue to answer the questions**		(01)
	No **(Proceed to E18 and continue to answer the questions)**		(02)

E17. If you have indicated that you have NOT applied for government funding, to what extent is the following reasons applicable to you. Mark the box that best represents your situation with an X.

1	2	3	4	5
To no extent	To some extent	To a moderate extent	To a large extent	To a very large extent

	Reasons	**Scale**				
E17.1	Not aware of programmes, services or financing provided by the government to SMMEs	1	2	3	4	5
E17.2	Do not meet the criteria specified by the government	1	2	3	4	5
E17.3	Government approval takes too long	1	2	3	4	5
E17.4	Procedures required by the government for funding is to complex	1	2	3	4	5
E17.5	I do not trust that the processes used by government institutions for funding are administratively effective	1	2	3	4	5
E17.6	I do not believe that my business will receive funding from the government without corrupt processes followed	1	2	3	4	5

E18.	**Indicate the turnover (annual sales) that your business generates. Kindly note that this information will be dealt with in strictest confidence.**	**(X)**	
	Less than R30 000		(01)
	R30 000 – R50 000		(02)
	R50 001 – R100 000		(03)
	R100 001 – R200 000		(04)
	R200 001- R500 000		(05)
	R500 001- R 1 000 000		(06)
	R 1 000 001- R 2 000 000		(07)
	R 2 000 001 – R 6 000 000		(08)
	R 6 000 001 – R 7 500 000		(09)
	R 7 500 001- R10 000 000		(10)
	More than R10 000 000		(11)
	Not comfortable to answer		(12)

E19.	**Are there any other comments that you wish to make related to your business?**

Thank you for completing the questionnaire.

ANNEXURE F

205 Nelson Mandela-weg
Park West,
Bloemfontein,
9301

Kode:

VRAELYS - MATJHABENG DISTRIK

TOEGANG TOT FINANSIERING DEUR KLEIN, MEDIUM EN MIKRO SAKEONDERNEMINGS BY FORMELE LENINGS-INSTELLINGS

KONTAKBESONDERHEDE:
HENINE JORDAAN
Central University of Technology, Welkom Campus
Mothusi Road MotsiThabong
Welkom
9460
Sel: 083-490-7958/057-910-3582
E-pos: hjordaan@cut.ac.za

VELDWERKER:
STEL JOUSELF VOOR EN LEES DIE VOLGENDE VOOR AAN DIE RESPONDENT VOORDAT DAAR MET DIE VOLTOOIING VAN DIE VRAELYS VOORTGEGAAN WORD:

Die doelwit van die ondersoek is om inligting rakende die volgende in te samel:

- toegang tot finansiering van u besigheid by formele leeninstellings
- om hindernisse in die verkryging van finansiering aan te toon en om
- die vernaamste struikelblokke van jou onderneming te identifiseer

Die inligting wat ingewin word sal vir akademiese doeleindes aangewend word wat die navorser uiteindelik in staat sal stel om ‘n PhD in Ekonomie te verwerf. Die navorsing het verder ten doel om beleidsvoorstelle aan beide die kommersiële banke en die regering op nasionale en provinsiale vlak te maak en om sodoende by te dra tot die ontwikkeling en groei van klein-, medium- en makro-ondernemings (KKMOs) in Suid-Afrika. Indien u meer as een sakeonderneming besit, sal daar inligting ingewin word oor die sakeonderneming waaraan u as eienaar die meeste tyd spandeer.

Die inligting wat verkry word sal streng vertroulik wees en die naam van die eienaar of die besigheid sal in geen dokument gebruik word nie.
Die bevindings van die navorsing sal in 2020 beskikbaar wees. Indien u belangstel in ‘n opsomming van die bevindings kan u ‘n versoek per e-pos aan die navorser rig.

Baie dankie vir u tyd en deelname aan die ondersoek.

VELDWERKER:
LEES DIE VOLGENDE VOOR AAN DIE RESPONDENT

Die vraelys moet net voltooi word as u ‘n eienaar of bestuurder van ‘n KMMO is wat in die Mathjabeng distrik werksaam is en wat minder as 50 werkers in diens het.

INSTRUKSIE AAN DIE VELDWERKER:
As die respondent nie die vraelys dadelik kan voltooi nie, maak ‘n afspraak om die besigheidseienaar op ‘n alternatiewe datum te besoek.

AFDELING A
PERSOONLIKE INLIGTING VAN DIE BESIGHEIDSEIENAAR

Merk die toepaslike opsie met 'n kruisie (X). Verskaf die gevraagde inligting. Kies EEN opsie.

A1	**In watter ouderdomsgroep val u?**	16-24	25-34	35-44	45-59	60+
		(01)	(02)	(03)	(04)	(05)

A2	**Dui u geslag aan.**	**(X)**	
	Manlik		(01)
	Vroulik		(02)

A3	**Dui u ras aan.**	**(X)**	
	Swart		(01)
	Wit		(02)
	Bruin		(03)
	Indiër		(04)
	Asiër		(05)
	Ander (spesifiseer asseblief)		(06)

A4	**Dui u hoogste akademiese kwalifikasie aan.**	**(X)**	
	Geen skolastiese opleiding		(01)
	Primêre onderrig gedeeltelik voltooi		(02)
	Primêre onderrig voltooi		(03)
	Sekondêre onderrig gedeeltelik voltooi		(04)
	Graad 12/ matriek		(05)
	Vakleeringskap		(06)
	Post-matriek sertifikaat		(07)
	Post-matriek diploma		(08)
	Universiteitsgraad		(09)
	Nagraadse opleiding		(10)

AFDELING B

DIE AARD, BEDRYWIGHEDE EN FORMALITEIT VAN DIE KLEIN SAKEONDERNEMING

Merk die toepaslike opsie met 'n kruisie (X). Voltooi die vrae. Kies EEN opsie.

B1	**In watter area in Matjhabeng in die Vrystaatse Goudvelde is jou besigheid werksaam?**	**(X)**	
	Welkom		(01)
	Riebeeckstad		(02)
	Thabong		(03)
	Bronville		(04)
	Odendaalsrus		(05)
	Kutloanong		(06)
	Allanridge		(07)
	Nyakallong		(08)
	Virginia		(09)
	Meloding		(10)
	Hennenman		(11)
	Phomolong		(12)
	Ventersburg		(13)
	Mmamahabane		(14)
	Tselangpele		(15)

B2.	**Dui die tipe regspersoon van u besigheid aan (vorm van besigheidseienaarskap).**	**(X)**	
	Eenmansaak "Dit is 'n besigheid wat deur een individue besit en bestuur word"		(01)
	Vennootskap "Dit is 'n kontraktuele verbintenis tussen 2-20 persone wat 'n besigheid bedryf met die oog om wins te maak"		(02)
	Beslote Korporasie (BK) "'n BK het tussen 1 – 10 lede. Lede besit en beheer die besigheid"		(03)

B2. Verv	**Dui die tipe regspersoon van u besigheid aan (vorm van besigheidseienaarskap).**	**(X)**	
	Private maatskappy (Edms) Bpk “Dit is ‘n maarskappy met ‘n onafhanklike regspersoon en het dus sy eie regte, bates en laste. Die lede wissel van 1 tot 50”		(04)
	Private Ingelyfde Maatskappy “Sekere professies laat lede toe om ‘n ingelyfde maatskappy te vorm in plaas daarvan om as ‘n vennootskap te funksioneer soos byvoorbeeld prokureurs”		(05)
	Franses (Konsessie-ooreenkoms) (“Franchise”) “n Franses beskryf die manier waarvolgens ‘n besigheid kan uitbrei. ‘n Franses kan ‘n vennootskap of ‘n maatskappy wees”		(06)
	Trust “’n Trust onstaan wanneer die stigter bates onder die beheer van ‘n trustee plaas om geadministreer te word tot die voordeel van begunstigdes”		(07)

B3.	**Het u besigheid vroulike vennote of aandeelhouers?**	**(X)**	
	Ja		(01)
	Nee		(02)

B4.	**Dui aan hoe u die vaardighede verkry het om u kleinsakeonderneming te bedryf.**	**Ja**	**Nee**
B4.1	Geleer deur familie	1	2
B4.2	Verkry deur die besigheid self te bestuur (“on the job”)	1	2
B4.3	Vorige werkservaring	1	2
B4.4	Opleidingsprogramme en -kursusse	1	2
B4.5	Opleiding by ‘n universiteit, tegnikon of kollege (tersiëre opleiding)	1	2
B4.6	Geleer deur my gade of lewensmaat	1	2
B4.7	Geleer met behulp van ‘n mentor of adviseur	1	2

B5.	**Dui aan of u besigheid by die Companies and Intellectual Property Commission (CIPC) (voorheen bekend as CIPRO) geregistreer is.**	**(X)**	
	Ja		(01)
	Nee		(02)

B6.	**Het u ‘n besigheids-permit vir die besigheid?**	**(X)**	
	Ja		(01)
	Nee		(02)

B7.	**Dui aan hoe u die eienaarskap van die besigheid verkry het.**	**(X)**	
	Het die besigheid self begin		(01)
	Het die besigheid saam met my gade/lewensmaat begin		(02)
	Het ‘n bestaande besigheid gekoop		(03)
	Het by ‘n familiebesigheid aangesluit		(04)

B8.	Dui aan in watter industrie of sektor u besigheid werksaam is.	(X)	
	Landbou		(01)
	Mynbou en steengroewe		(02)
	Vervaardiging		(03)
	Elektrisiteit, gas en water		(04)
	Konstruksie		(05)
	Groothandel		(06)
	Kleinhandel "Kleinhandelaars is besighede wat goedere direk aan die uiteindelike verbruiker lewer"		(07)
	Motorhandel en hersteldienste		(08)
	Kommersiële agente en verwante dienste "Kommersiële agente kry kliënte vir ander maatskappye en besighede. Hierdie agente ontvang betaling in die vorm van kommissie. Hulle werk onafhanklik van die maatskappye en besighede. Die besigheid word gekontrakteer om 'n diens aan maatskappye en besighede te lewer"		(09)
	Spyseniering en akkommodasie		(10)
	Vervoer en stoordienste		(11)
	Kommunikasie		(12)
	Finansiële en besigheidsdienste		(13)
	Gemeenskap, sosiale en persoonlike dienste "Dit sluit onder andere onderwys aktiwiteite, mediese en tandheelkundige aktiwiteite, haarkapperye, begrafnis-dienste en vermaaklikheids-aktiwiteite in"		(14)

B9.	Hoeveel jare ervaring het u in die sektor waarin jou besigheid tans werksaam is?

B10.	Hoeveel jare ervaring het u as 'n entrepreneur/besigheidseienaar?

B11.	Aan watter mark/markte word u produkte en dienste gelewer? (Merk net een opsie)	(X)	
	Plaaslike gemeenskap		(01)
	Versprei net na ander provinsies		(02)
	Plaaslike gemeenskap en ander provinsies		(03)
	Nasionale en internasionale markte		(04)
	Slegs internasionale markte		(05)

B12.	Dui aan hoeveel jaar die besigheid operasioneel is.	(X)	
	Minder as 'n jaar		(01)
	Tussen 1 en 3 jaar		(02)
	Tussen 4 en 5 jaar		(03)
	Tussen 6 en 10 jaar		(04)
	Meer as 10 jaar: Spesifiseer asseblief		(05)

B13.	**In watter fase van die lewensiklus is u besigheid op die oomblik?** **Die lewensiklus van die besigheid dui op die ontwikkeling van die besigheid vanaf die ontstaan, deur die aanvanklike groeifase, deur die uitbreidingsfase waartydens nuwe markte ontgin word, en deur die operasionele fase tot die uiteindelike versadiging en afname.**	**(X)**	
	Ontstaan- of bekendstellingsfase – klein hoeveelhede word verdien om die finansiële lewensvatbaarheid van die besigheid te bepaal terwyl gepoog word om finansiering te bekom		(01)
	Besigheid is verby die bekenstellingsfase, maar genereer klein hoeveelheid winste.		(02)
	Groei- of uitbreidingsfase – die besigheid is gevestig en groei en bestaan sonder toegang tot eksterne finansiering.		(03)
	Groei- of uitbreidingsfase – die besigheid is gevestig en het eksterne finansiering vir uitbreiding en bedryfskapitaal bekom		(04)
	Vesadiging- of rypheidsfase – die besigheid is gevestig en die groei neiging bly konstant		(05)
	Dalende- of uittredefase – die besigheid se neiging tot groei verminder of die besigheid word voorberei om die mark te verlaat deur te sluit of deur die die besigheid te verkoop		(06)

B14.	**Uself ingesluit, hoeveel werknemers is daar op ‘n voltydse en deeltydse basis in u diens?**	**(X)**	
	1 werknemer (uself)		(01)
	2 werknemers		(02)
	3-5 werknemers		(03)
	6-10 werknemers		(04)
	11-20 werknemers		(05)
	21-50 werknemers		(06)

B15.	**Dui aan of die besigheid onroerende eiendom besit of nie (Soos byvoorbeeld geboue, grond en plase).**	**(X)**	
	Ja		(01)
	Nee		(02)

B16.	**Dui aan of die besigheid roerende eiendom soos byvoorbeeld voorraad, masjinerie, meubels en toerusting, en vaste uitrusting (fixtures) besit.**	**(X)**	
	Ja		(01)
	Nee		(02)

B17.	**Dui die toepaslike opsie aan insake die finansiële rekordhouding in die besigheid.**	**(X)**	
	Die besigheid hou finansiële rekords		(01)
	Die besigheid **hou nie** finansiële rekords nie **(Vorder tot vraag B19)**		(02)
	Die besigheid **hou nie** finansiële rekords nie, maar skat die finansiële posisie **(Vorder tot vraag B19)**		(03)

B18	Dui aan wie jou met die dokumentering van die finansiële rekords van jou onderneming help.	Ja	Nee
B18.1	Ek doen dit self	1	2
B18.2	‘n Werknemer	1	2
B18.3	‘n Boekhouer	1	2
B18.4	‘n Rekenmeester	1	2
B18.5	‘n Ouditeur	1	2
B18.6	‘n Vriend/familielid	1	2

B19.	Dui aan of die besigheid oor ‘n besigheidsplan beskik.	(X)	
	Ja		(01)
	Nee **(Gaan asseblief na afdeling C en voltooi dan die vraelys verder)**		(02)

B20.	Indien u hierbo aangedui het dat die besigheid oor ‘n besigheidsplan beskik, dui aan hoe die plan opgestel is.	Ja	Nee
B20.1	Deur die eienaars	1	2
B20.2	Met die hulp van ‘n private konsultant	1	2
B20.3	Met die hulp van ‘n konsultant wat in diens van die regering is.	1	2

AFDELING C

BESIGHEIDS- EN OPERASIONELEUITDAGINGS VAN DIE SAKEONDERNEMING

C1 Dui aan tot watter mate die volgende faktore uitdagings of hindernisse in jou besigheid is. Merk die opsie met 'n kruisie (X) wat jou situasie die beste beskryf.

1	2	3	4	5
Geen uitdaging	Geringe uitdaging	Matige uitdaging	Groot uitdaging	Erge uitdaging

	Uitdagings	Skaal				
C2	**Toegang tot finansiering** vir jou besigheidstipe	1	2	3	4	5
C3	**Regulering en beleidsmaatstawwe van die regering** Regulering het te make met die reëls en beleide wat deur die regering daar gestel is om besighede te lei. Dit word ook gedoen op plaaslik vlak waar munisipaliteite hulle eie reëls het om besighede te lei (byvoorbeeld besigheids- lisensiëring, permitte, belastingadministrasie en belastingpligtigheid ens.)	1	2	3	4	5
C4	**Ondersteuning en advies van regeringsinstansies**	1	2	3	4	5
C5	**Arbeidswetgewing en die arbeidsomgewing** Arbeidswette reguleer die verhouding tussen werkers, indiensnemingsentiteite en die regering. Arbeidswetgewing het 'n gemeenskaplike doel naamlik om werknemers se regte te beskerm en om werkgewers se verpligtinge (byvoorbeeld salarisse en lone ens.) en verantwoordelikhede te reguleer.	1	2	3	4	5
C6	**Vermoë om geskoolde en vaardige werknemers in diens te neem**	1	2	3	4	5
C7	**Die vermoë om toegang tot tegnologie te verkry** en dit te gebruik vir produksie en dienslewering	1	2	3	4	5
C8	**Toegang tot infrastruktuur** (Dit sluit in elektrisiteitsvoorsiening, vervoernetwerke, telekommunikasie en toegang tot die internet ens. om die behoorlike funksionering van die besigheid te verseker)	1	2	3	4	5

C1. (Verv) Dui aan tot watter mate die volgende faktore uitdagings of hindernisse in jou besigheid is. Merk die opsie met 'n kruisie (X) wat jou situasie die beste beskryf.

1	2	3	4	5
Geen uitdaging	Geringe uitdaging	Matige uitdaging	Groot uitdaging	Erge uitdaging

	Uitdagings	**Skaal**				
C9	**Markpenetrasie en markvraag** Dit sluit die kompetisie in die mark asook die markvraag vir jou produk of diens en die skakeling met verskaffers en kliënte in.	1	2	3	4	5
C10	**Ekonomiese omgewing** Die ekonomiese omgewing verwys na aspekte soos die ekonomiese groeikoers en inflasie. Dit verwys ook na die ekonomiese vooruitskouing in terme van ekonomiese groei, groei in produktiwiteit en werkskeppingsvooruitsigte.	1	2	3	4	5
C11	**Misdaad, diefstal en korrupsie** Dit sluit onder andere roof, die steel van voorraad deur kliënte, bedrog, omkopery en diefstal of die misbruik van bates van die besigheid sonder toestemming deur werknemers in. Korrupsie is 'n vorm van oneerlikheid of kriminele aktiwiteit wat deur 'n persoon of organisasie toevertrou met gesag gepleeg word wat die besigheid nadelig kan beinvloed.	1	2	3	4	5

C12	**Uit die lys van uitdagings in afdeling C, rangskik die uitdagings in rangorde van belangrikheid in terme van hul impak op jou besigheid (Die grootse uitdaging, die tweede grootste uitdaging en die derde grootste uitdaging).**		
	Grootse uitdaging		(01)
	Tweede grootste uitdaging		(02)
	Derde grootste uitdaging		(03)

AFDELING D

FINANSIËLE INSLUITING EN TOEGANG TOT BEFONDSING

AFDELING D(I): FINANSIËLE INSLUITING

D1.	**Beskik u oor 'n bankrekening wat vir u kleinsakeonderneming gebruik word?**	**(X)**	
	Ja		(01)
	Nee **(Gaan na vraag D3 en voltooi dan die vraelys verder)**		(02)

D2.	**Dui aan watter tipe bankrekening vir u besigheid gebruik word (Kies slegs een opsie en gaan dan na vraag D4 en voltooi die vraelys verder)**	**(X)**	
	Tans het die besigheid 'n lopende rekening by 'n formele bankinstelling.		(01)
	Tans het die besigheid 'n spaar rekening by 'n formele bankinstelling.		(02)
	Tans het die besigheid 'n spaar- en 'n lopende rekening by 'n formele bankinstelling.		(03)
	Tans het die besigheid 'n spaar-/transaksierekening by die Poskantoor.		(05)
	Ander (spesifiseer asseblief)		(06)

D3. Indien jy aangedui het dat jy nie 'n bankrekening het nie, dui aan tot watter mate die volgende aspekte verantwoordelik is vir jou keuse om nie 'n bankrekening te hê nie. Merk die opsie wat jou opinie die beste beskryf met 'n X.

1	2	3	4	5
Tot geen mate nie	Tot 'n geringe mate	Tot 'n matige mate	Tot 'n groot mate	Tot 'n baie groot mate

D3.1	Onreëlmatige inkomstes word gegenereer	1	2	3	4	5
D3.2	Die besigheid genereer nie genoeg kontant om 'n besigheidsbankrekening te open nie	1	2	3	4	5
D3.3	Die besigheid kwalifiseer nie vir 'n bankrekening nie	1	2	3	4	5
D3.4	Het **NIE** 'n bankrekening nodig nie	1	2	3	4	5
D3.5	Het nie 'n bankrekening weens geloofs-/kulturele oorwegings	1	2	3	4	5
D3.6	Bankkostes is te hoog	1	2	3	4	5
D3.7	Kan nie die mininmum balans wat die banke vereis, bekostig nie	1	2	3	4	5
D3.8	Die terme en voorwaardes wat die banke bied is nie geskik vir my besigheid nie	1	2	3	4	5
D3.9	Te moeilik om 'n bankrekening oop te maak	1	2	3	4	5
D3.10	Ek vertrou nie die banke nie	1	2	3	4	5
D3.11	Die bank is te ver van my klein sakeonderneming geleë	1	2	3	4	5

(Vorder na E1 en voltooi die vraelys verder).

D4.	**Is die bankrekening wat u aangedui het in vraag D2 in die naam van die besigheid of in die naam van die besigheid se eienaar?**	**(X)**	
	Die bankrekening is in die naam van die **besigheid.**		(01)
	Die bankrekening is in die naam van die **besigheidseienaar.**		(02)

D5.	**Word die bankrekening wat u aangedui het in D2 ook vir persoonlike transaksies van die eienaar gebruik?**	**(X)**	
	Ja		(01)
	Nee		(02)

D6.	**Dui die naam aan van die bank wat hoofsaaklik vir die besigheid gebruik word. (Kies slegs EEN opsie)**	**(X)**	
	Absa (Barclays Africa)		(01)
	African Bank		(02)
	Capitec		(03)
	First National Bank (FNB)		(04)
	Nedbank		(05)
	Standard Bank		(06)
	Ander (spesifiseer asseblief)		(07)

D7. Hoe lank bank die besigheid by die by bank wat hoofsaaklik vir die besigheid gebruik word?				
Hoogstens ‘n jaar	**2 -3 jaar**	**4 -5 jaar**	**6 – 10 jaar**	**Meer as 10 Jaar**
(01)	(02)	(03)	(04)	(05)

D8. Dui aan tot watter van die volgende transaksie aktiwiteite die hoof-bankrekening van die besigheid maandeliks gebruik word. Merk die opsie met ‘n X.

	Maandelikse transaksies van die HOOF bankrekening van die besigheid.	**Ja**	**Nee**
D8.1	Kontantdeposito’s van die besigheid	1	2
D8.2	Kontantontrekkings van die besigheid	1	2
D8.3	Betalings van dienste-uitgawes soos byvoorbeeld die water, ligte, telefoon/sellulêre foon van die besigheid	1	2
D8.4	Vir balans-navrae van die besigheid	1	2
D8.5	Betaling van besigheidsrekeninge soos byvoorbeeld aan verskaffers	1	2
D8.6	Aanvraag vir bankstate van die besigheid	1	2
D8.7	Koop selfoon of Telkom-vlugtyd vir die besigheid	1	2

D8.8	Koop items met behulp van 'n debietkaart	1	2
D8.9	Deponering van tjek deposito's ten gunste van die besigheid	1	2
D8.10	Kontantoorplasings tussen bankrekeninge	1	2

D9.	**Dui aan watter van die E-(Elektroniese) bankdienste die besigheid gebruik maak?**	**Ja**	**Nee**
	Bankdienste met behulp van 'n selfoon	1	2
	Internet bankdienste	1	2

AFDELING D(II): TOEGANG TOT BEFONDSING

E1	**Het u sedert die onstaan van u besigheid ooit vir ‘n lening by ‘n kommersiële bank aansoek gedoen?**	**(X)**	
	Ja		(01)
	Nee		(02)

E2	**Benut die besigheid lening/s of kredietprodukte van ‘n kommersiële bank?**	**(X)**	
	Ja		(01)
	Nee (**Vorder tot vraag E5 as jy nog nooit aansoek vir ‘n lening gedoen het nie**) (**Vorder tot vraag E4 as jy al vir ‘n lening aansoek gedoen** het).		(02)

E3	**As jy JA geantwoord het op vraag E2 – wat is die aantal uitstaande lenings of kredietprodukte tans verskuldig aan kommersiële banke?**	**(X)**	
	Een		(01)
	Twee		(02)
	Drie		(03)
	Meer as drie		(04

E4	**Verwysend na jou mees resente aansoek vir ‘n lening of krediet, was die aansoek goedgekeur?**	**(X)**	
	Ja		(01)
	Nee		(02)

E5	**Inagenome u huidige posisie, het u besigheid ‘n behoefte aan ‘n lening of krediet by ‘n kommersiële bank?**	**(X)**	
	Ja		(01)
	Nee		(02)

- As U **JA** geantwoord het op vraag **E2** en **JA** op vraag **E4** (**Jou besigheid het lenings en kredietprodukte en die laaste aansoek vir ‘n lening is goedgekeur**) **vorder tot vraag E8** en voltooi dan die vraelys verder.
- As U **NEE** geantwoord het op **vraag E4** (**Mees resente aansoek vir ‘n lening is nie goedgekeur nie**) vorder tot **vraag E7** en voltooi die vraelys verder.
- As jy **NEE** geantwoord het op **vraag E1** (**Jy het NOG NIE vir ‘n lening van die bank aansoek gedoen het nie vanaf die ontstaan van jou besigheid nie**) gaan voort met **vraag E6**.

E6. Dui aan tot watter mate die volgende redes van toepassing is vir jou besluit om nie vir 'n lening aansoek te doen nie. Merk die blokkie wat jou situasie die beste beskryf met 'n X.

1	2	3	4	5
Tot geen mate nie	Tot 'n geringe mate	Tot 'n matige mate	Tot 'n groot mate	Tot 'n baie groot mate

	Redes waarom daar nie vir 'n lening aansoek gedoen word nie	**Skaal**				
E6.1	Ek as eienaar glo nie daarin om geld te leen nie	1	2	3	4	5
E6.2	Die prosedures om vir 'n lening aansoek te doen is te kompleks en vermoeiend	1	2	3	4	5
E6.3	Die kollateraalvereistes van die bank is te streng	1	2	3	4	5
E6.4	Die vereistes ten opsigte van die eienaar se kontribusie of bydrae om 'n lening verseker is te hoog	1	2	3	4	5
E6.5	Die rentekoers vir die terugbetaling van 'n lening is te hoog	1	2	3	4	5
E6.6	Ek is bang die leningsaansoek word verwerp	1	2	3	4	5
E6.7	My inkomste fluktueer van maand tot maand en daarom kan ek nie geld leen nie	1	2	3	4	5
E6.8	Die kontantvloei van die besigheid is onvoldoende om vir 'n lening aansoek te doen	1	2	3	4	5
E6.9	Ek kwalifiseer nie om geld te leen nie	1	2	3	4	5
E6.10	Ek het 'n swak kredietrekord	1	2	3	4	5
E6.11	Die besigheid het nie 'n lewensvatbare besigheidsplan in plek nie	1	2	3	4	5

(Vorder reguit na Vraag E12 en voltooi die vraelys verder)

E7.	**As die leningsaansoek verwerp is, het die bank redes vir die besluit verskaf?**	**(X)**	
	Ja		(01)
	Nee		(02)

- As jou besigheid wel **ANDER LENINGS en kredietprodukte het** alhoewel die laaste aansoek vir 'n lening verwerp is **gaan voort om vraag E8 te beantwoord.**
- As jou besigheid **GEEN LENINGS of kredietprodukte het nie** en die laaste leningsaansoek is verwerp vorder **tot vraag E12.**

E8. Dui watter van die volgende lyne van krediet en leningssoorte wat deur die kommersiële banke aangebied word, word deur jou besigheid gebruik. Merk die toepaslike blokkie met 'n X.

	Die gebruik van lenings en kredietprodukte	**Ja**	**Nee**
E8.1	Oortrokke fasiliteit vir die besigheid	1	2
E8.2	Kredietkaart vir die besigheid	1	2
E8.3	Besigheidswentellening ("revolving loan")	1	2
E8.4	'n Lening vir bedryfskapitaal	1	2
E8.5	Termynlening vir investering en uitbreiding	1	2
E8.6	Termynlening	1	2
E8.7	Vrouebemagtingingsfinansiering	1	2
E8.8	Bemagtigingsfinansiering	1	2
E8.9	Lening vir 'n franses (franchise) of 'n konsessie	1	2
E8.10	Kommersiële eiendomsfinansiering	1	2
E8.11	Debiteure finansiering	1	2
E8.12	Motorbatefinansiering deur middel van huurgeld, bruikhuurkontrakte of paaiement verkope	1	2
E8.13	Bank-aksepte	1	2

E9. In terme van die gebruik van kredietprodukte en lenings, tot wattter mate is die volgende redes van toepassing op jou keuse vir 'n spesifieke kommersiële bank. Merk die opsie wat jou situasie die beste verteenwoordig met 'n X.

1	2	3	4	5
Tot geen mate nie	Tot 'n geringe mate	Tot 'n matige mate	Tot 'n groot mate	Tot 'n baie groot mate

	Redes vir die keuse 'n spesifieke bank.	**Skaal**				
E9.1	Persoonlike verhouding met die instansie	1	2	3	4	5
E9.2	Rentekoers wat deur die bank aangebied word vir lenings/krediet	1	2	3	4	5
E9.3	Vereistes vir kollateraal of sekuriteit	1	2	3	4	5
E9.4	Termyn van die lening (totale tudsduur vir terugbetaling)	1	2	3	4	5

E9.5	Die kommersiële bank bied die beste termes en voorwaardes aan ten opsigte van krediet	1	2	3	4	5
E9.6	Dit is die enigste kommersiële bank wat krediet in die area aanbied	1	2	3	4	5
E9.7	Dit is die bank wat die beste diens aan KMMOs lewer en hul behoeftes die beste verstaan.	1	2	3	4	5

E10.	**Verwysende na jou mees resente lyn van krediet of lening, wat is die rentekoers wat deur die kommersiële bank gevra is vir hierdie kredietproduk?**		
			(01)

E11. In terme van die verskaffing van kollateraal om banklenings te verseker, watter van die volgende vorme van kollateraal het die besigheid as sekuriteit aangebied? Merk die opsies met 'n X.

	Soorte kollateraal	**Ja**	**Nee**
E11.1	Verband oor onroerende bates (grond en geboue)	1	2
E11.2	Verband oor roerende bates (masjinerie, toerusting)	1	2
E11.3	'n Sessie van boekskulde of debiteure (byvoorbeeld 'n regeringskontrak)	1	2
E11.4	Persoonlike bates van die eienaar (byvoorbeeld eiendom)	1	2

E12. Gedurende die afgelope jaar watter van die volgende bronne van fondse is gebruik om die besigheids se bedryfskapitaal (dit is fondse wat gebruik word vir dag-tot-dag uitgawes) te finansier? Merk die opsies met 'n X.

	Fondse gebruik vir die finansiering van bedryfskapitaal	**Ja**	**Nee**
E12.1	Interne fondse gegenereer (retained earnings)	1	2
E12.2	Fondse geleen van kommersiële banke	1	2
E12.3	Fondse geleen van nie-bank finansiële-instellings soos mikro-uitleners, kredietkoöperatiewe, 'n Stokvel, krediet-unies of finansieringsondernemings	1	2
E12.4	Aankope op krediet van verskaffers en voorskotte van kliënte af	1	2
E12.5	Besigheidslenings van familie of vriende	1	2

E13. Watter is die bronne van finansiering wat die besigheid gebruik om die aankoop van vaste bates (grond en geboue, voertuie en masjienerie) mee te finansier. Merk die toepaslike opsies met 'n X.

	Fondse gebruik vir die finansiering van vaste bates	**Yes**	**No**
E13.1	Interne fondse gegenereer (retained earnings)	1	2
E13.2	Fondse geleen van kommersiële banke	1	2
E13.3	Eienaar se eie kapitale bydrae	1	2
E13.4	Fondse geleen van nie-bank finansiële-instellings soos mikro-uitleners, kredietkoöperatiewe, 'n Stokvel, krediet-unies of finansieringsondernemings	1	2
E13.5	Aankope op krediet van verskaffers en voorskotte van kliënte af	1	2
E13.6	Besigheidslenings van familie of vriende	1	2

E14.	**Het die onderneming al ooit gebruik gemaak van KMMO-oprigtingsdienste (SMME start-up services), werkswinkels en opleiding wat deur kommersiële banke op die internet en elders aangebied word?**	**(X)**	
	Ja		(01)
	Nee		(02)
	Nie bewus van KMMO-oprigtingsdienste en -opleiding wat deur kommersiële banke verskaf word nie		(03)

E15.	**Het die besigheid al ooit aansoek gedoen vir befondsing van die regering af?**	**(X)**	
	Ja		(01)
	Nee **(Vorder na vraag E17 en voltooi die vraelys verder)**		(02)

E16.	**Was die leningsaansoek vir regeringsbefondsing suksesvol?**	**(X)**	
	Ja **(Vorder na vraag E18 en voltooi die vraelys)**		(01)
	Nee **(Vorder na vraag E18 en voltooi die vraelys)**		(02)

E17. As jy aangedui het dat die besigheid NIE vir regeringsfondse aansoek gedoen het nie, tot watter mate is die volgende redes vir jou besluit. Merk die opsie wat jou besluit die beste verteenwoordig met ‘n X.

1	2	3	4	5
Tot geen mate nie	Tot ‘n geringe mate	Tot ‘n matige mate	Tot ‘n groot mate	Tot ‘n baie groot mate

	Redes	**Skaal**				
E17.1	Is nie bewus van programme/dienste en befondsing wat deur regeringsorganisasies aan KMMOs aangebied word nie	1	2	3	4	5
E17.2	Voldoen nie aan die vereistes wat deur regeringsorganisasies vir befondsing daargestel is nie	1	2	3	4	5
E17.3	Die proses om goedkeuring vir befondsing vanaf die regering te kry, neem te lank	1	2	3	4	5
E17.4	Die prosedures wat gevolg moet word om befondsing van die regering te kry, is te gekompliseerd	1	2	3	4	5
E17.5	Vertrou nie dat die prosesse van befondsing vanaf regeringsinstansies administratief effektief is nie	1	2	3	4	5
E17.6	Ek glo nie dat die besigheid regeringsbefondsing kan verkry sonder dat korrupte prosesse gevolg word nie	1	2	3	4	5

E18.	**Dui die jaarlikse geskatte omset van die besigheid aan.** **U word daarop gewys dat die inligting streng vertroulik hanteer sal word. (Merk EEN opsie)**	**(X)**	
	Minder as R30 000		(01)
	R30 000 – R50 000		(02)
	R50 001 – R100 000		(03)
	R100 001 – R200 000		(04)
	R200 001- R500 000		(05)
	R500 001- R 1 000 000		(06)
	R 1 000 001- R 2 000 000		(07)
	R 2 000 001 – R 6 000 000		(08)
	R 6 000 001 – R 7 500 000		(09)
	R 7 500 001- R10 000 000		(10)
	Meer as R10 000 000		(11)
	Nie gemaklik om hierdie vraag te antwoord nie		(12)

E19.	**Is daar enige ander aspekte waaroor u kommentaar wil lewer ten opsigte van u besigheid?**

Dankie vir u bereidwilligheid om die vraelys te voltooi.

ANNEXURE G

REQUEST FOR PERMISSION TO CONDUCT RESEARCH WITH YOUR BANK

DATE *July 2018 on appointment*

TITLE OF THE RESEARCH PROJECT

Access to finance of SMMEs from formal lending institutions

PRINCIPLE INVESTIGATOR / RESEARCHER(S) NAME(S) AND CONTACT NUMBER(S):

Henine Jordaan *2006130260* *083-4907958*

FACULTY AND DEPARTMENT:

Faculty of Economics and Management Sciences

Department Economics

STUDY LEADER NAME AND CONTACT NUMBER:

Dr Johan Coetzee (UFS staff member)

051-401-9266

WHAT IS THE AIM / PURPOSE OF THE STUDY?

The objective of the study is to determine how commercial banks enable access to finance to SMMEs and to establish reasons preventing financial access to SMMEs from the views and perceptions of the commercial bank. The information gathered will be used solely for academic purposes, specifically and primarily enabling the researcher to obtain a PhD (Economics), but also to publish articles in academic journals and to hopefully to advise commercial banks and policymakers locally, at provincial and national level, in supporting SMME access to finance, development and growth in South Africa.

WHO IS DOING THE RESEARCH?

I am currently enrolled for a PhD (Economics) at the University of the Free State. I am also a lecturer in the Department of Business Studies employed at the Central University of Technology, Welkom Campus. The Mathjabeng district in which I reside has experienced high unemployment and low economic growth rates since the decline in the mining sector's contribution to the local economy. SMMEs are perceived as growth engines and employment creators. SMMEs need to have access to finance in order to grow and expand. Literature informs that one of the obstacles of SMMEs to start-up or expand and grow is access to finance. The big four commercial banks remain the largest contributors in providing external finance to SMMEs and as such researching what enhances the ability of SMMEs to access finance from formal financial institutions could increase their creation rate and growth rate and reduce the failure rate of these growth engines in the South African economy.

HAS THE STUDY RECEIVED ETHICAL APPROVAL?

This study was approved for ethical clearance by the Research Ethics Committee of UFS.
The Ethical clearance number is: UFS-HSD2018/0341

WHY ARE YOUR INSTITUTION/ORGANISATION/COMPANY INVITED TO TAKE PART IN THIS RESEARCH PROJECT?

Your commercial bank was chosen to participate in the study as it forms part of the big four commercial banks dominating financial services sector in South Africa and as such are part of a larger group servicing small businesses. We are therefore requesting permission to interview TWO sales consultant that will be randomly selected from the following branches of your commercial bank situated in the Mathjabeng area (including Welkom, Odendaalsrus, Virginia, Hennenman and Ventersburg) responsible for small business (SMME) services. Furthermore, after permission has been granted by the commercial bank and the random selected sales consultant agrees to participate in the study an appointment will be made for an interview. An interview guide including the questions that the researcher will ask will be forwarded to the selected sales consultant a week before the interview will be conducted. We are furthermore requesting permission to interview the ONE credit risk manager situated at the regional office responsible for small business loans and credit application approvals and risk determination in the Mathjabeng area. An interview guide will also be forwarded to the selected participant a week before the actual interview. The intention is to gather information from personnel employed at your commercial bank involved with small businesses services in the chain from where loan or credit application originates until the eventual approval or rejection of the application.

WHAT IS THE NATURE OF PARTICIPATION IN THIS STUDY?

The sale consultants responsible for small businesses services will be interviewed related to the bank's involvement with small businesses, processes used and factors influencing small businesses loans including opinions related to the most common reasons for small businesses loans to be unsuccessful. The duration of the interview will be 1 hour. See attachment A. The credit risk managers responsible for the ultimate loan approvals of small businesses will be interviewed related to the bank's involvement with small businesses and factors, processes, legislation and regulation influencing the success of loan applications of small businesses. The interview guide also includes questions related to the risk of default. The duration of this interview will be 2 hours. See attachment B. The interviews will *be recorded to enable the researcher to transcribe the data. The data will be used to supplement survey data collected from SMME owners in the Mathjabeng region.*

WHAT ARE THE POTENTIAL BENEFITS OF TAKING PART IN THIS STUDY?

Firstly, the findings of this study will be useful in identifying the factors - in terms of accessing finance - obstructing the development of small businesses in a local municipality consisting of urban and rural areas situated outside a metropolitan area. Secondly, the study will identify factors that could potentially advance the expansion of this sector if small businesses in the same way could obtain easier access to finance. The results of the study will hopefully guide policymakers in simplifying procedures, and ultimately the protocol to be followed by SMMEs, when trying to obtain financial assistance. In a similar vein, the study will likely be useful to banks and financial institutions in developing credit products suitable for small businesses. This information could furthermore enhance the strategic management process of commercial banks servicing small businesses outside metropolitan areas. It could also possibly assist the bank to identify a new niche market. The findings of the study could potentially also be used as a marketing tool informing government institutions of the important role and service played by commercial banks. Studies related to access to finance as an obstacle to growth of small businesses has never been pursued in the Mathjabeng region (Volschenk, 2015). The study further intends to increase the awareness of government support programmes available for access to finance of SMMEs. The results of the study will be made available to the SEDA, commercial banks who have participated in the study, the Black Management Forum (BMF), the Free State Chamber of Commerce situated in Mathjabeng and Bankseta. This will enable these organisations to further explore initiatives that could be set into place to assist SMMEs as growth and development are priorities for many stakeholders in South Africa.

WHAT ARE THE POTENTIAL RISKS TAKING PART IN THIS STUDY?

The interviews intended for the bank personnel which ranges from one to two hours could potentially be problematic as these employees have clients to service and workloads to complete. The primary investigator will as such try an interview the bank personnel at a convenient time taking their responsibilities and workload into consideration. The researcher has furthermore invited Standard Bank, Nedbank and First National Bank to also participate in the study. The final report emerging from this research project will thus be provided to these companies if they do agree to participate in the study and subsequently request a copy of the aforesaid. The risk of being identified by other organisations, institutions or individuals will be managed with the utmost caution.

WILL THE INFORMATION BE KEPT CONFIDENTIAL?

The information obtained during the interviews will be held in the strictest confidence. Neither the interviewee nor the name of the commercial bank will be used in any document. The name of the interviewee/commercial bank will thus stay anonymous. The interviews with the bank personnel will be recorded. The name of the interviewee will not be recorded, and no one will be able to connect the answers to the interviewee or to the bank. The recordings will be transcribed by a transcriber and coded into themes and subthemes by an external coder. Both these individuals will sign a confidentiality agreement. Members of the Research Ethics Committee and the study leader might review the answers of the interviews in an attempt to ensure that the research was properly done. The coded data obtained *from the interviews will be used for publications such as research reports, journal articles, conference presentations, etc.*

HOW WILL THE INFORMATION BE STORED AND ULTIMATELY DESTROYED?

Hard copies of the recordings will only be available to the principal researcher (Henine Jordaan). These copies will be stored at the Central University, Welkom Campus room 108 in a filing cabinet with a lock. Hard copies of the recordings will be kept for a period of five years after which it will be destroyed. Electronic information of the transcribed interviews will be stored on a password-protected computer. Future use of stored data will be subjected to further scrutiny of the Research Ethics Review Committee and approved if applicable.

WILL THERE BE PAYMENT OR ANY INCENTIVES FOR PARTICIPATING IN THIS STUDY?

There will be no reward or payment offered to the participants.

HOW WILL THE INSTITUTION / ORGANISATION / COMPANY BE INFORMED OF THE FINDINGS / RESULTS OF THE STUDY?

The findings of the research will be available in 2020. Please contact the researcher, Henine Jordaan, 057-910-3582 or 083-490-7958, hjordaan@cut.ac.za. Should you require any further information or want to contact the researcher about any aspect of this study please feel free to do so.

Yours sincerely

HJordaan

Henine Jordaan

ANNEXURE H

RESEARCH STUDY INFORMATION LEAFLET AND CONSENT FORM
BANK CONSULTANTS RESPONSIBLE FOR RETAIL BUSINESS BANKING SERVICES AT BRANCH LEVEL

DATE

2018 and 2019 on appointment

TITLE OF THE RESEARCH PROJECT

Access to finance of SMMEs from formal lending institutions

PRINCIPLE INVESTIGATOR / RESEARCHER(S) NAME(S) AND CONTACT NUMBER(S):

Ms Henine Jordaan 2006130260 083-490-7958

FACULTY AND DEPARTMENT:

Faculty of Economic and Management Sciences
Department of Economics and Finance

STUDY LEADER(S) NAME AND CONTACT NUMBER:

Dr Johan Coetzee
051-401-9266

WHAT IS THE AIM / PURPOSE OF THE STUDY?

The objective of the study is to explore the obstacles hindering access to finance of small, medium and micro enterprises (SMMEs). As such the researcher aims to determine how commercial banks enable access to finance to SMMEs and furthermore the researcher wants to establish reasons preventing financial access to SMMEs from the views and perceptions of the commercial bank.

WHO IS DOING THE RESEARCH?

I, Henine Jordaan, am currently doing research with Dr J Coetzee - a senior lecturer in Banking and Finance of the Department of Economics and Finance at the University of the Free State - being my study leader. The information gathered will be used solely for academic purposes, specifically and primarily enabling the researcher to obtain a PhD (Economics), but also to publish articles in academic journals and to advise commercial banks and policymakers locally, at provincial and national level, in supporting SMME access to finance, development and growth in South Africa.

HAS THE STUDY RECEIVED ETHICAL APPROVAL?

This study was approved for ethical clearance by the Research Ethics Committee of UFS. The Ethical clearance number is: UFS-HSD2018/0341

WHY ARE YOU INVITED TO TAKE PART IN THIS RESEARCH PROJECT?

Your commercial bank was chosen to participate in the study as it forms part of the big four commercial banks dominating financial services sector in South Africa and as such is part of a larger group servicing small businesses. I (Henine Jordaan) have requested permission to interview ONE retail business bank official situated at branch level responsible for small business loans and credit applications in the Mathjabeng (Free State Goldfields) area. The intention is to gather information from personnel employed at your commercial bank involved with small businesses services in the chain from where loan or credit application originates until the eventual approval or rejection of the application. As you are involved with small businesses services in the chain from where a loan or credit application originates you were selected to participate in the study and to be interviewed.

WHAT IS THE NATURE OF PARTICIPATION IN THIS STUDY?

As you are responsible to facilitate small business/retail business services which include the application for loans and credit products, you will be interviewed related to the bank's involvement with small businesses and factors and processes influencing retail business loans and credit applications. An interview guide was prepared for this purpose. The duration of this interview will be one hour. See the attached document including the interview questions. An audio recording of the interview will be made to enable the researcher to transcribe the answers provided by you. The audio recording of the interview will be transcribed. The transcribed data will be categorized in themes and sub-themes. The data will be used together with interviews held with credit risk managers situated at regional/head offices responsible for the ultimate approval of retail business loans and this will subsequently be used to supplement survey data collected from SMME owners in the Mathjabeng area.

CAN THE PARTICIPANT WITHDRAW FROM THE STUDY?

Participating in this study is voluntary and there is no penalty or loss of benefit for non-participation. Being in this study is voluntary and you are under no obligation to consent to participate. If you do decide to take part, you will be given this information sheet to keep and be asked to sign a written consent form. You are free to withdraw from the study at any time without giving a reason. Your name and the name of the commercial bank will not be recorded at all. Yet once an audio recording of the interview has been made and the interview is concluded it will not be able for you to withdraw from the study.

WHAT ARE THE POTENTIAL BENEFITS OF TAKING PART IN THIS STUDY?

Firstly, the findings of this study will be useful in identifying the factors - in terms of accessing finance - obstructing the development of small businesses in a local municipality consisting of urban and rural areas situated outside a metropolitan area. Secondly, the study will identify factors that could potentially advance the expansion of this sector if small businesses in the same way could obtain easier access to finance. The results of the study will hopefully guide policymakers in simplifying procedures, and ultimately the protocol to be followed by SMMEs, when trying to obtain financial assistance. In a similar vein, the study will likely be useful to banks and financial institutions in developing credit products suitable for small businesses. This information could furthermore enhance the strategic management process of commercial banks servicing small businesses outside metropolitan areas. It could also possibly assist the bank to identify a new niche market. The findings of the study could potentially also be used as a marketing tool informing government institutions of the important role and service played by commercial banks. Studies related to access to finance as an obstacle to growth of small businesses has never been pursued in the Mathjabeng region (Volschenk, 2015). The study further intends to increase the awareness of government support programmes available for access to finance of SMMEs. The results of the study will be made available to the SEDA, commercial banks who have participated in the study, the Free State Chamber of Commerce and Bankseta. This will enable these organisations to further explore initiatives that could be set into place to assist SMMEs as growth and development are priorities for many stakeholders in South Africa.

WHAT IS THE ANTICIPATED INCONVENIENCE OF TAKING PART IN THIS STUDY?

The interview intended for you, a consultant responsible for business services will be one hour, and this could be potentially problematic taking your responsibilities and workload into consideration. The primary investigator will as such try an interview you at a convenient time. The interview could therefore be scheduled before the beginning of the business day or thereafter. The researcher has furthermore invited the Big Four dominating the financial sector including Absa, Nedbank, Standard Bank and First National Bank to also participate in the study. The final report emerging from this research project will thus be provided to the aforesaid companies if they do agree to participate in the study and require a copy of the same. Furthermore, the risk of being identified by other organisations, institutions or individuals will be managed with the utmost caution. The interview will only be undertaken by the researcher and the persons responsible for transcribing the recorded data will sign a confidentiality agreement. This agreement will entail that no one will divulge any information related to you or to the bank at which you are employed.

WILL WHAT I SAY BE KEPT CONFIDENTIAL?

The information obtained during the process of the interview will be held in the strictest confidence. Your name and the name of the bank where you are employed will not be recorded on audio during the interview and subsequently will also not be used in any document. Your name and the name of the bank will thus stay anonymous. Members of the Research Ethics Committee and the study leader might review the transcribed data collected from the interview in an attempt to ensure that the research was *properly done. The transcribed data obtained from the recorded interview categorized in themes and sub-themes will be used for publications such as research reports, journal articles, conference presentations, etc. No one will be able to connect the answers provided by you to the bank.*

HOW WILL THE INFORMATION BE STORED AND ULTIMATELY DESTROYED?

The audio recording made of the interview and the transcribed data obtained from the recording will only be available to the principal researcher (Henine Jordaan). The data will be stored at the Central University, Welkom Campus room 108 in a filing cabinet with a lock. The recorded interview with the transcribed data will be kept for a period of five years after which it will be destroyed. Electronic information capturing the data of the interview will be stored on a computer with a password to protect the access of the data. Future use of stored data will be subjected to further scrutiny of the Research Ethics Review Committee and approved if applicable.

WILL I RECEIVE PAYMENT OR ANY INCENTIVES FOR PARTICIPATING IN THIS STUDY?

There will be no reward or payment offered to the participants.

HOW WILL THE PARTICIPANT BE INFORMED OF THE FINDINGS / RESULTS OF THE STUDY?

The findings and results of the research will be available in 2020. Please contact the researcher, Henine Jordaan, 057-910-3582 or 083-490-7958, hjordaan@cut.ac.za. Should you require any further information or want to contact the researcher about any aspect of this study please feel free to do so.

Thank you for taking time to read this information sheet and for participating in this study.

UNIVERSITY OF THE FREE STATE
UNIVERSITEIT VAN DIE VRYSTAAT
YUNIVESITHI YA FREISTATA
UFS UV

CONSENT TO PARTICIPATE IN THIS STUDY

I, _____________________________________ (participant name), confirm that the person asking my consent to take part in this research has told me about the nature, procedure, potential benefits and anticipated inconvenience of participation.

I have read (or had explained to me) and understood the study as explained in the information sheet. I have had sufficient opportunity to ask questions and am prepared to participate in the study. I understand that my participation is voluntary and that I am free to withdraw at any time without penalty (if applicable). I am aware that the findings of this study will be anonymously processed into a research report, journal publications and/or conference proceedings.

I agree to be interviewed as a method of data collection.
I furthermore agree that the researcher can make an audio recording of the interview to enable the researcher to transcribe the answers provided by me during the interview.

I have received a signed copy of the informed consent agreement.

Full Name of Participant: ____

Signature of Participant: ____________________________________ *Date:* ____________________

*Full Name of Researcher:*____

*Signature of Researcher:*_____________________________________ *Date:* ____________________

ANNEXURE I

RESEARCH STUDY INFORMATION LEAFLET AND CONSENT FORM
RESPONSIBLE FOR REGIONAL CREDIT RISK MANAGER/REGIONAL RETAIL BUSINESS MANAGERS

DATE

July 2018 on appointment

TITLE OF THE RESEARCH PROJECT

Access to finance of SMMEs from formal lending institutions

PRINCIPLE INVESTIGATOR / RESEARCHER(S) NAME(S) AND CONTACT NUMBER(S):

Ms Henine Jordaan *2006130260* *083-490-7958*

FACULTY AND DEPARTMENT:

Faculty of Economic and Management Sciences
Department of Economics and Finance

STUDYLEADER(S) NAME AND CONTACT NUMBER:

Dr Johan Coetzee
051-401-9266

WHAT IS THE AIM / PURPOSE OF THE STUDY?

The objective of the study is to explore the obstacles hindering access to finance of small, medium and micro enterprises (SMMEs). As such the researcher aims to determine how commercial banks enable access to finance to SMMEs and furthermore the researcher wants to establish reasons preventing financial access to SMMEs from the views and perceptions of the commercial bank.

WHO IS DOING THE RESEARCH?

I, Henine Jordaan, am currently doing research with Dr J Coetzee - a senior lecturer in Banking and Finance of the Department of Economics and Finance at the University of the Free State - being my study leader. The information gathered will be used solely for academic purposes, specifically and primarily enabling the researcher to obtain a PhD (Economics), but also to publish articles in academic journals and to advise commercial banks and policymakers locally, at provincial and national level, in supporting SMME access to finance, development and growth in South Africa.

HAS THE STUDY RECEIVED ETHICAL APPROVAL?

This study was approved for ethical clearance by the Research Ethics Committee of UFS. The Ethical clearance number is: UFS-HSD2018/0341

WHY ARE YOU INVITED TO TAKE PART IN THIS RESEARCH PROJECT?

Your commercial bank was chosen to participate in the study as it forms part of the big four commercial banks dominating financial services sector in South Africa and as such is part of a larger group servicing small businesses. I (Henine Jordaan) have requested permission to interview ONE credit risk manager situated at the regional office responsible for small business loans and credit application approvals and risk determination in the Mathjabeng (Free State Goldfields) area. The intention is to gather information from personnel employed at your commercial bank involved with small businesses services in the chain from where loan or credit application originates until the eventual approval or rejection of the application. As you are responsible for the final approval of the loan applications and subsequent risk determination you were selected to be interviewed.

WHAT IS THE NATURE OF PARTICIPATION IN THIS STUDY?

You as the credit risk manager responsible for the ultimate loan approvals of small businesses will be interviewed related to the bank's involvement with small businesses and factors, processes, legislation and regulation influencing the success of loan applications of small businesses. An interview guide was prepared for this purpose. The interview guide also includes questions related to the risk of default. The duration of this interview will be 2 hours. See the attached document including the interview questions. An audio recording of the interview will be made to enable the researcher to transcribe the answers provided by you. The transcribed data will be categorized in themes and sub-themes. The data will be used together with interviews held with bank officials responsible for retail business services at branch level and this will subsequently be used to supplement survey data collected from SMME owners in the Mathjabeng area.

CAN THE PARTICIPANT WITHDRAW FROM THE STUDY?

Participating in this study is voluntary and there is no penalty or loss of benefit for non-participation. Being in this study is voluntary and you are under no obligation to consent to participate. If you do decide to take part, you will be given this information sheet to keep and be asked to sign a written consent form. You are free to withdraw from the study at any time without giving a reason. Your name and the name of the commercial bank will not be recorded at all. Yet once an audio recording of the interview has been made and the interview is concluded it will not be able for you to withdraw from the study.

WHAT ARE THE POTENTIAL BENEFITS OF TAKING PART IN THIS STUDY?

Firstly, the findings of this study will be useful in identifying the factors - in terms of accessing finance - obstructing the development of small businesses in a local municipality consisting of urban and rural areas situated outside a metropolitan area. Secondly, the study will identify factors that could potentially advance the expansion of this sector if small businesses in the same way could obtain easier access to finance. The results of the study will hopefully guide policymakers in simplifying procedures, and ultimately the protocol to be followed by SMMEs, when trying to obtain financial assistance. In a similar vein, the study will likely be useful to banks and financial institutions in developing credit products suitable for small businesses. This information could furthermore enhance the strategic management process of commercial banks servicing small businesses outside metropolitan areas. It could also possibly assist the bank to identify a new niche market. The findings of the study could potentially also be used as a marketing tool informing government institutions of the important role and service played by commercial banks. Studies related to access to finance as an obstacle to growth of small businesses has never been pursued in the Mathjabeng region (Volschenk, 2015). The study further intends to increase the awareness of government support programmes available for access to finance of SMMEs. The results of the study will be made available to the SEDA, commercial banks who have participated in the study, the Free State Chamber of Commerce and Bankseta. This will enable these organisations to further explore initiatives that could be set into place to assist SMMEs as growth and development are priorities for many stakeholders in South Africa.

WHAT IS THE ANTICIPATED INCONVENIENCE OF TAKING PART IN THIS STUDY?

The interview intended for you, the credit risk manager will be two hours, and this could be potentially problematic taking your responsibilities and workload into consideration. The primary investigator will as such try an interview you at a convenient time. The interview could therefore be scheduled before the beginning of the business day or thereafter. The researcher has furthermore invited the Big Four dominating the financial sector including Absa, Nedbank, Standard Bank and First National Bank to also participate in the study. The final report emerging from this research project will thus be provided to the aforesaid companies if they do agree to participate in the study and require a copy of the same. Furthermore, the risk of being identified by other organisations, institutions or individuals will be managed with the utmost caution. The interview will only be undertaken by the researcher and the persons responsible for transcribing the recorded data will sign a confidentiality agreement. This agreement will entail that no one will divulge any information related to you or to the bank at which you are employed.

WILL WHAT I SAY BE KEPT CONFIDENTIAL?

The information obtained during the process of the interview will be held in the strictest confidence. Your name and the name of the bank where you are employed will not be recorded on audio during the interview and subsequently will also not be used in any document. Your name and the name of the bank will thus stay anonymous. Members of the Research Ethics Committee and the study leader might review the transcribed data collected from the interview in an attempt to ensure that the research was *properly done. The transcribed data obtained from the recorded interview categorized in themes and sub-themes will be used for publications such as research reports, journal articles, conference presentations, etc. No one will be able to connect the answers provided by you to the bank.*

HOW WILL THE INFORMATION BE STORED AND ULTIMATELY DESTROYED?

The audio recording made of the interview and the transcribed data obtained from the recording will only be available to the principal researcher (Henine Jordaan). The data will be stored at the Central University, Welkom Campus room 108 in a filing cabinet with a lock. The recorded interview with the transcribed data will be kept for a period of five years after which it will be destroyed. Electronic information capturing the data of the interview will be stored on a computer with a password to protect the access of the data. Future use of stored data will be subjected to further scrutiny of the Research Ethics Review Committee and approved if applicable.

WILL I RECEIVE PAYMENT OR ANY INCENTIVES FOR PARTICIPATING IN THIS STUDY?

There will be no reward or payment offered to the participants.

HOW WILL THE PARTICIPANT BE INFORMED OF THE FINDINGS / RESULTS OF THE STUDY?

The findings and results of the research will be available in 2020. Please contact the researcher, Henine Jordaan, 057-910-3582 or 083-490-7958, hjordaan@cut.ac.za. Should you require any further information or want to contact the researcher about any aspect of this study please feel free to do so.

Thank you for taking time to read this information sheet and for participating in this study.

UNIVERSITY OF THE FREE STATE
UNIVERSITEIT VAN DIE VRYSTAAT
YUNIVESITHI YA FREISTATA
UFS UV

CONSENT TO PARTICIPATE IN THIS STUDY

I, _____________________________________ (participant name), confirm that the person asking my consent to take part in this research has told me about the nature, procedure, potential benefits and anticipated inconvenience of participation.

I have read (or had explained to me) and understood the study as explained in the information sheet. I have had sufficient opportunity to ask questions and am prepared to participate in the study. I understand that my participation is voluntary and that I am free to withdraw at any time without penalty (if applicable). I am aware that the findings of this study will be anonymously processed into a research report, journal publications and/or conference proceedings.

I agree to be interviewed as a method of data collection.
I furthermore agree that the researcher can make an audio recording of the interview to enable the researcher to transcribe the answers provided by me during the interview.

I have received a signed copy of the informed consent agreement.

Full Name of Participant: ____

Signature of Participant: ____________________________________ Date: ____________________

Full Name of Researcher:____

Signature of Researcher:_____________________________________ Date: ____________________

ANNEXURE J

Semi-structured interview schedule

Part. no.			

Sales consultants working with small business or retail business banking services and credit provision at branch level – Matjhabeng area

ACCESS TO FINANCE OF SMMEs FROM FORMAL LENDING INSTITUTIONS IN THE FREE STATE GOLDFIELDS

Dear Participant

Thank you for your willingness to partake in this interview. The purpose of the interview is to determine how commercial banks enable access to finance to SMMEs and to establish reasons preventing financial access to micro, very small businesses and small businesses from the views of the commercial bank. The interview will take one hour. This is an anonymous and confidential interview. You will not be identified and the answers you provide will be used for academic research purposes only. You may stop the interview at any stage if you do feel uncomfortable with the questions.

SECTION A: GENERAL INFORMATION

E1 What type of involvement do you have with SMMEs?

SECTION B: BANK INVOLVEMENT WITH SMMEs

F1 What are the criteria used by your division to define an SMME?

F2 What type of lending products and services do you offer SMMEs?

F3 What type of services and products do you provide for SMMEs start-up?

F4 How are your loans structured to meet the specific needs of SMMEs?

F5 What type of initiatives is the bank involved in to serve the lower-income segments of the market – whom might aspire to start a business or to expand an existing one?

SECTION C: PROCESSES USED AND FACTORS INFLUENCING SMME LOANS

G1 What kind of supporting documentation do you require when SMMEs approach your bank for a loan?

G2 Indicate how the loan pre-screening process typically takes place with SMME lending.

G3 What procedures do your bank follow to process the loan application?

G4 How important is a prior relationship between the bank and the SMME owner/owners?

G5 What does the bank in terms of financial statement information regard as important to the extent that has an influence on the success of the loan?

G6 Indicate at which level (branch/regional office) and in which way the final loan approval for SMME lending is considered.

G7 What is the procedure followed to inform SMMEs that the loan application has been either successful or unsuccessful?

G8 What, in your opinion are the main or most common reasons for SMME loans being unsuccessful?

G9 Which procedures are in place to monitor the loan repayment of an SMME?

G10 Has the success rate of applications of loans to SMMEs in your opinion changed in the past three years and if so, in which way?

Exit question

I1 Are there any other aspects that you feel are important to point out regarding SMME lending provided by your bank?

END

Thank you for taking the time to discuss SMME lending in this interview.
If you would like to receive a report on the findings, please e-mail the researcher, as it will be provided on request in 2020.

Henine Jordaan hjordaan@cut.ac.za

SECTION D
PERSONAL INFORMATION OF THE PARTICIPANT

Mark the box that describe the facts applicable to you with an X. Choose only one option. If necessary, furnish the additional information requested.

D1	**In which age group do you fall?**	16-24	25-34	35-44	45-59	60+
		(01)	(02)	(03)	(04)	(05)

D2	**Indicate your gender.**	**(X)**	
	Male		(01)
	Female		(02)

D3	**Indicate your race.**	**(X)**	
	Black African		(01)
	White		(02)
	Coloured		(03)
	Indian		(04)
	Asian		(05)
	Other: (Please specify)		(06)

D4	**Indicate your highest academic qualification.**	**(X)**	
	Completed Grade 12		(01)
	Post matric Certificate		(02)
`	Post matric Diploma		(03)
	University Degree		(04)
	Post graduate Degree		(05)

D5	In which area is the bank situated where you are employed in Matjhabeng?	(X)	
	Welkom		(01)
	Odendaalsrus		(02)
	Virginia		(03)
	Hennenman		(04)
	Ventersburg		(05)

D6	What is the bank position that you currently occupy?

D7	How many years have you been working in the banking sector?

D8	How many years have you been involved in providing services to SMMEs?

UNIVERSITY OF THE FREE STATE
UNIVERSITEIT VAN DIE VRYSTAAT
YUNIVESITHI YA FREISTATA
UFS UV

ANNEXURE K

Semi-structured interview schedule

Resp. no.			

Regional credit risk managers/ Regional managers responsible for small business or retail business banking (SMME loans)

ACCESS TO FINANCE OF SMMEs FROM FORMAL LENDING INSTITUTIONS IN THE FREE STATE GOLDFIELDS

Dear Participant

Thank you for your willingness to partake in this interview. The purpose of the interview is to determine how commercial banks enable access to finance to SMMEs and to establish reasons preventing financial access to SMMEs. The interview will take two hours. This is an anonymous and confidential interview. You will not be identified and the answers you provide will be used for academic research purposes only. You may stop the interview at any stage if you do feel uncomfortable with answering the questions.

SECTION A: GENERAL INFORMATION AND BANK INVOLVEMENT WITH SMMEs

J1 What is your involvement with SMME credit provision?

J2 Are your loans structured to meet the specific needs of SMMEs and if so, in which way?

SECTION B: PROCESSES USED AND FACTORS INFLUENCING SMME LOANS

K1 What processes are used by your bank to consider the loan application once it reaches the regional office?

K2 How important is a prior relationship between the bank and the SMME owner/owners?

K3 How is the creditworthiness of the SMME loan applicant determined and what is the importance of creditworthiness in eventual approval of the loan?

K4 How important is the existence of a business plan for the SMME loan applicant in securing a loan? If important, must such a business plan be in writing and is it beneficial to the applicant if the same was drafted by a professional person?

K5 In terms of financial statement information – what does the bank view as important information that has an influence on the success of the loan?

K6 What is the importance of the ability of the SMME owners to provide an equity contribution from the viewpoint of the bank?

K7 What is the requirements, importance and influence of collateral in terms of securing a loan?

K8 In your opinion how does the structural formality of the business entity influence the final approval of the loan?

K9 In your opinion how does the education level/managerial competencies and the skills of the labour force influence the final loan approval?

K10 In your opinion how do the age and the size of the business influence the final loan approval?

K11 In your opinion are the economic climate and the sector in which the SMME operates in the area taken into account in the loan approval?

K12 What is the procedure followed to inform SMMEs that the loan application has been either successful or unsuccessful?

K13 In your opinion what are the main or most common reasons for the rejection of SMME loans?

K14 What procedures are in place to monitor the loan repayment of an SMME?

K15 Which procedures are in place to manage this risk of default?

K16 In your opinion has the success rate of loans to SMMEs changed in the last three years? If so, in which way with specific reference to the percentage and the number?

K17 In your opinion has regulation and legislation influenced the granting of loans to SMMEs and if so, in which way?

K18 In your opinion has the expectations of government for the private sector to contribute in creating national economic growth influenced the criteria of granting credit to SMMEs. If so, what do such changes entail?

Exit question

L1 Are there any other aspects on a practical level you consider important to mention in terms of SMME lending provided by your bank?

Thank you for taking the time to discuss SMME lending in this interview.

If you would like to receive a report on the findings, please e-mail the researcher, as it will be provided on request

In 2020. Henine Jordaan hjordaan@cut.ac.za

SECTION D
PERSONAL INFORMATION OF THE PARTICIPANT

Mark the box that describe the facts applicable to you with an X. Choose only one option. If necessary, furnish the additional information requested.

D1	**In which age group do you fall?**	16-24	25-34	35-44	45-59	60+
		(01)	(02)	(03)	(04)	(05)

D2	**Indicate your gender.**	**(X)**	
	Male		(01)
	Female		(02)

D3	**Indicate your race.**	**(X)**	
	Black African		(01)
	White		(02)
	Coloured		(03)
	Indian		(04)
	Asian		(05)
	Other: (Please specify)		(06)

D4	**Indicate your highest academic qualification.**	**(X)**	
	Completed Grade 12		(01)
	Post matric Certificate		(02)
`	Post matric Diploma		(03)
	University Degree		(04)
	Postgraduate Degree		(05)

D5	What is the bank position that you currently occupy?

D6	How many years have you been working in the banking sector?

D7	How many years have you been involved in determining credit risk or overseeing the management of SMMEs?

UNIVERSITY OF THE FREE STATE
UNIVERSITEIT VAN DIE VRYSTAAT
YUNIVESITHI YA FREISTATA

UFS UV

ANNEXURE L

INFORMATION LEAFLET AND CONFIDENTIALITY AGREEMENT INTENDED FOR THE PERSONS CAPTURING AND THE STATISTICIANS ANALYSING THE DATA

PILOT STUDY and MAJOR STUDY

DATE

January 2019

TITLE OF THE RESEARCH PROJECT

Access to finance of SMMEs from formal lending institutions in the Free State Goldfields

PRINCIPLE INVESTIGATOR / RESEARCHER(S) NAME(S) AND CONTACT NUMBER(S):

Ms Henine Jordaan *2006130260* *083-490-7958*

FACULTY AND DEPARTMENT:

Faculty of Economic and Management Sciences
Department of Economics and Finance

STUDY LEADER(S) NAME AND CONTACT NUMBER:

Dr Johan Coetzee
051-401-9266

WHAT IS THE AIM / PURPOSE OF THE STUDY?

The objective if this survey is to gather information pertaining to the sources of finance of your business, obstacles in seeking and obtaining finance for your business, and the main challenges – if any - preventing your business from growing. As such the primary and secondary objectives are as follows:

Primary objective

To explore the obstacles hindering access to finance of SMMEs.

Secondary objectives

The objectives of this study are to:

- *establish whether access to finance is perceived as a priority obstacle to micro, very small and small businesses; and*
- *determine the relationship between access to finance and the nature or general characteristics of micro, very small and small businesses.*
- *to determine how commercial banks, enable access to finance to SMMEs;*
- *to establish reasons preventing financial access to SMMEs from the views of the commercial bank;*

WHO IS DOING THE RESEARCH?

I, Henine Jordaan, am currently doing research with Dr J Coetzee - a senior lecturer in Banking and Finance of the Department of Economics and Finance at the University of the Free State - being my study leader. The information gathered will be used solely for academic purposes, specifically and primarily enabling the researcher to obtain a PhD (Economics), but also to publish articles in academic journals and to advise commercial banks and policymakers locally, at provincial and national level, in supporting SMME access to finance, development and growth in South Africa.

UNDERSTANDING THE QUESTIONNAIRE

To enable the researcher to reach the intended objectives of the research project it is required that the business owner complete the questionnaire. A comprehensive questionnaire intended for small businesses was compiled to gather data intended for the quantitative section of the research. According to Zikmund (2003), a self – administered questionnaire including closed-ended questions is accommodating, reduces costs and saves time and is convenient for the respondents to complete as questions are structured in a standardised format.

The structured questionnaire contains only closed-ended questions. The questionnaire was based on an extensive literature study and consist of five sections. The structure of the questionnaire is as follows:

- ***Section A: Personal information of the business owner***

Section A of the questionnaire includes demographic questions related to the age, gender, race and academic qualifications of the small business owner.

- ***Section B: The nature, operations and formality of the business***

Section B of the questionnaire includes questions related to the town or township in which the business is situated in Kroonstad and Maokeng or the Mathjabeng district, the ownership and legal structure, whether or not females share in the ownership of the business, sources of knowledge obtained to manage the business, the formality of the business in terms of registration, the path of *ownership, years of experience in running the business, the industry and main markets to which the products or services are provided, the number of operating years, the life cycle of the business, employee number, ownership of movable and immovable property, formality in terms of financial record keeping and whether or not the business has a business plan and the subsequent assistance acquired to compile the business plan. Section B includes 20 questions.*

- ***Section C: Business and operational obstacles***

Section C includes questions related to the severity of obstacles perceived by the business owner including access to finance, the regulatory environment and laws governing the business, the education and skills of the workforce, access to technology and infrastructure, market demand and the economic environment and crime, theft and corruption. Section C includes 12 questions in total.

- ***Section D (i): Financial inclusion***

Section D (i) of the questionnaire intends to establish whether or not the small business is financially included. This is established by determining whether the business do have a designated bank account or not and was further explored by including questions related to the types and extent of the usage of certain transaction activities and e-banking services. Section D consists of 9 questions.

- ***Section D (ii): Financial access***

Section D(ii) furthermore includes questions with the aim to determine financial access. Questions related to whether or not the business does have access to lines of credit and loans, the types of loan products used by the business, sources used to fund working capital and fixed assets are included into the questionnaire. Section D(ii) subsequently includes questions related to whether or not the business has applied or has access to funding provided by the government. Although not part of determining access to finance Section D(ii) concludes with a question related to the turnover of the business. This question was placed at the end of the questionnaire as it is perceived to be sensitive in nature and might discourage respondents to continue with the questionnaire if it was placed in Section B. Section D(ii) consists of 18 questions.

Section A in which the personal information of the business owner was established closed-ended questions with alternative options were used being mutually exclusive and collectively exhaustive. Therefore, only one answer can be provided by the respondents. Section B in a similar fashion includes closed-ended alternatives and dichotomous (Yes or No) questions. Closed-ended questions are less complicated to answer compared to open-ended questions. The physical and mental effort it takes to complete the questions is also less as predetermined possible answers are provided. The respondents could furthermore respond in brief. Closed-ended alternative questions and dichotomous questions were also included to a lesser extent in Section D(i) and D(ii) in the questionnaire.

In order to gather data from the small businesses owners questions, a five-point Likert-scale was used in section C, D (i) and D(ii). A five-point Likert-scale is the most common scale used to collect quantitative data and is a valuable component of survey research (Losby & Wetmore, 2012). Likert-

scales have numericals attached to each response category and therefore allows for statistical analysis. Two, five-point Likert scales were used in the questionnaire to determine frequency in section C, D (i) and D(ii). In order to determine obstacles or challenges influencing the businesses perceived by the business owner obtained in Section C of the questionnaire, the following Likert-scale was used for each question related to a potential obstacle namely no obstacle, minor obstacle, moderate obstacle, major obstacle and very severe obstacle. The respondents are ultimately required to rank the order of the three most important obstacles at the end of section C. This question was included to cross- reference check the responses provided by the respondents related to obstacles indicated. In Section D (i) and D (ii) of the questionnaire pertaining to financial inclusion and financial access frequency were determined by the following Likert-scale categories namely to no extent, to a minor extent, to a moderate extent, to a large extent and to a very large extent. In both the five-point Likert scales used in either Section C, D(i) or D(ii) of the study the frequency is determined by 1 starting with a negative end implying to no extent or no obstacle and subsequently progresses through to 5 the positive end of the scale indicating a very severe obstacle or to a very large extent. In section D in which financial inclusion is determined, question D3 relates to reasons for not having a bank account a negative wording was used for this purpose. The same principle was used for question E6 in which reasons are established for not having a loan or lines of credit and E8 in which possible reasons for the rejection of a loan application is established from the respondents. Question E17 similarly used negative wording to determine reasons for not have applying for funding from the government. According to Hartley (2014:84), it is common to have some items in a scale that are negatively worded as this entices the respondent to reverse their thinking pattern.

THE GOAL OF THE PILOT STUDY

A pilot study is undertaken to gather information related to the suitability of the format of the questionnaire, the clarity of the questions and concepts. As such it is required from the fieldworker assisting with the pilot study to motivate the business owners to indicate which of the questions they found difficult to answer or could not understand during the completion of the questionnaire. The respondents should also be motivated to provide suggestions on the layout of the questionnaire. The main point considered in a pilot testing is to exclude biased wording in questions, to eliminate inappropriate demographic data required from the respondents, to exclude the overlapping of scales and options to choose from, to correct missing instructions and to include definitions in cases were the technical definitions are found to be unfamiliar to the respondents. The pilot study furthermore attempts to establish how long it will take to complete the questionnaire. This will provide the researcher with an opportunity to adjust the structure of the questionnaire and in doing so improving the measuring tool (questionnaire).

After the pilot study has been concluded and the aforesaid mentioned suggested improvements have been incorporated the major study will follow.

WHEN WILL THE DATA BE COLLECTED FOR BOTH THE PILOT AND MAJOR STUDY?

It is the intention of the researcher to start with the pilot study during the month of July 2018. After the data of the pilot study is analysed and adjustments to the questionnaire are made, the major study will commence and proceed from August 2018.

ENSURING CONFIDENTIALITY OF THE CAPTURING OF DATA

The responses recorded during the process of data capturing must be held in strictest confidence. The recorded data obtained from the questionnaires should not be discussed with anyone outside Osmoz Consulting, except with the researcher Ms H Jordaan.

The researcher is required to protect the confidentiality of the respondents. For the pilot study 41 questionnaires were completed by business owners operating in Kroonstad and in Maokeng. Sharing information about the respondents with anyone outside Osmoz Consulting is in direct violation of the confidentiality agreement that would have been established with the respondents.

CONTACT DETAILS OF THE RESEARCHER

Please contact the researcher, H Jordaan, 057-910-3582 or 083-490-7958, hjordaan@cut.ac.za. Should you require any further information or want to contact the researcher about any aspect of this study please feel free to do so.

CONFIDENTIALITY AGREEMENT WITH DATA CAPTURERS OF OSMOZ CONSULTING

I, ____________________________________ (name of the data capturer), agree with the following statements:

I have read the information leaflet intended for the capturing of data and understand the study as explained in the information sheet.

I fully comprehend the legal consequences that might follow from the unauthorised sharing of the information that I have captured on the computer in terms of the responses from the business owners; I am not allowed to divulge any of the data collected with any other person outside Osmoz Consulting, except for the researcher (Ms H Jordaan)

Any violation in terms of the confidentiality agreement will result in the immediate termination of the working relationship between the researcher and Osmoz Consulting. I accept full responsibility of the legal consequences forthcoming from not adhering to this agreement.

Full Name of the data capturer:____

Signature of the data capturer:________________________________ Date: ____________________

Full Name of Researcher: ***Henine Jordaan***

Signature of Researcher: H Jordaan *Date: 27 July 2018*

OSMOZ CONSULTING
The hub for productive research solutions

Tel: +27 110 716 993
Email: Info@osmozconsulting.co.za
Website: www.osmozconsulting.co.za

ANNEXURE M

Osmoz Consulting
351 Ontdekkers Road
Roodepoort, Johannesburg
1709
28 May2020

CONFIDENTIALITY AGREEMENT

Osmoz Consulting has been briefed by the Lead Researcher in the **Access to finance of SMMEs from formal lending institutions in the Free State** study.
The company has clarified everything that needed clarification with the researchers' team.
Osmoz Consulting shall abide by the Central University of Technology's research ethics conditions strictly. Osmoz Consulting is aware of its obligations to maintain the strictest confidentiality in terms of any information that it may be privy to in the course of its work and for the need for strict controls to ensure that confidentiality is not breached.
Osmoz Consulting will not disclose, not sell the information that it will be granted access to in good faith, to anyone.

Yours sincerely

Dr Paul Issock
(Senior Research Consultant)

351 Ontderkkers Road, Roodepoort-Johannesburg, South Africa
Reg: 2015/026062/07

ANNEXURE N

ANTHONY SPARG

Freelance language practitioner

MA *cum laude* in African Languages (isiXhosa), MA *cum laude* in Linguistics

English language editing, isiXhosa-English and Afrikaans-English translation, and transcription

14 Nahoon Valley Place
Nahoon Valley
East London, 5241
South Africa
Tel.: +27 43 735 4397
Cell: +27 79 106 8179
Email: p.a.sparg@telkomsa.net

21 November 2020

To whom it may concern

ENGLISH LANGUAGE EDITING DECLARATION

I, Anthony Edward Sparg, freelance language practitioner, hereby declare that I did technical editing and information checking of the reference list and language editing of chapters 1 to 3 and 7 to 9 of the PhD (Economics) thesis titled "Access to finance of SMMEs from formal lending institutions in the Free State Goldfields" for Mrs Henine Jordaan.

Thank you.

Yours sincerely

………………………………

Anthony Edward Sparg

ANNEXURE O

LINGPRO LINGUISTIC REVISION SERVICES

(Trading as Laurika's Photography)

24 Years' experience

20 November 2020

Attention: H Jordaan

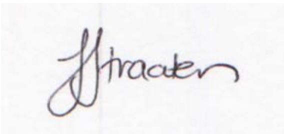
Lecturer: Department of Business Management

Faculty of Management Sciences

Welkom Campus

I, Dr Laurika van Straaten, hereby declare that I am a qualified and professional language practitioner, and that I have linguistically revised chapters 4,5,6 and 10 of the research thesis of Ms H Jordaan, student number 2006130260, titled *Access to finance of SMMEs from formal lending institutions in the Free State Goldfields*.

Yours sincerely



DR L VAN STRAATEN

LINGUIST

BA (Languages)(UNISA)(1995); BA Hons (Translation Studies)(UNISA)(1999); MA (HES) (UFS)(2014); PhD (UFS)(2019)