UNIVERSITY OF KWAZULU-NATAL

The significance of microfinance in the growth of Small and Medium Enterprises in Pietermaritzburg, South Africa

By

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DECLARATION

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DEDICATION

This dissertation is dedicated to my father, Gommaire Makekita wa Makekita, and my mother, Audile Ntumpi Kingongo. you did everything for me, dad, and mom. I will be eternally grateful to you for making me someone useful in society. I love you.

ABSTRACT

Despite the recognised potential of South African small and medium sized enterprises (SMEs) in addressing the socio-economic issues, access to microfinance services has always been one of the major challenges faced by most SMEs in the country, which hinders their growth and development. To determine the financial and nonfinancial options provided by microfinance institutions and how they influence growth of SMEs in Pietermaritzburg, South Africa. The study focuses on the microfinancing options available for the development of SMEs in Pietermaritzburg, South Africa. The study adopted a descriptive research approach. A quantitative survey was conducted on a sample of 153 SMEs' owners and managers, identified randomly. Statistical Package for the Social Sciences (SPSS) version 21 were used to analyse data. The Pearson Chi-Square test was used to test for independence or association of categorical variables to determine the relationship between variables that form the basis of the study. The study revealed that a significant number of SMEs are not gaining access to microfinance whilst a limited number do and are experiencing growth. SMEs obtained financial assistance in the form of loans to start-up their businesses. Significant nonfinancial assistance accessed by SMEs from microfinance institutions included business plan writing and business governance. SMEs faced challenges of lack of awareness, employment formality and nationality constraints in accessing microfinance services. The chi-square test results reveal that significant growth is influenced by age, level of education, type of business, motivation of opening business, and access to MFIs.

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LIST OF ACRONYMS

SME	Small and medium enterprises
GDP	Gross domestic product
MFIs	Microfinance institution sector
MFI	Microfinance institution
KZN	KwaZulu Natal
PMB	Pietermaritzburg
CBD	Central business district
SA	South Africa
GEAR	Growth employment and redistribution
SMME	Small, micro, medium enterprises sector
NSB	National small business
dti	Department of trade and industry
APS	Adult population survey
NES	National expert survey
NDP	National development plan
DSBD	Department of small business development
NSBA	National small business association
SEDA	Small enterprise development agency
SEFA	Small enterprise finance agency
EAS	Enterprise Estonia
TDAF	Technology development association fund
FINCA	Foundation for international community association
POS	Point of sale
ASGISA	Accelerated and shared growth initiative for South Africa

CHAPTER ONE
BACKGROUND AND CONTEXT OF THE STUDY

1.1 Introduction and background of the study

Small and Medium-sized Enterprises (SMEs) play a vital role in the economy by creating employment, promoting income redistribution, alleviating poverty, and promoting socio-economic development (Sitharam and Hoque, 2016). SMEs have low start-up costs, and a small number of employees can sustain them, according to Hamdar, Najjar, Karameh (2017), the private sector contributes to about 90% of new jobs in the global economy. The contribution of SMEs has promoted a high employment rate, community development, and the betterment of lifestyles (Susman, 2017). In high-income countries like China, with a 60% contribution of SMEs, Germany with 54%, Japan with 55.3%, and Korea, with 50%, these countries have their SMEs contribute over 55% of their gross domestic product (GDP) and over 65% of total employment (Zafar and Mustafa, 2017). In low-income countries, SMEs contribute over 60% of their GDP and over 70% of total employment. In middle-income countries, SMEs contribute over 95% of total employment and about 70% of their GDP (Zafar and Mustafa, 2017). Access to microfinance (MFI) significantly impacts the SME sector's growth (Siddiqui, 2018). Several countries have improved their economic productivity with the provision and access to microfinance. Beneficiaries of microfinance, especially SMEs, have been able to generate sufficient income to ensure the sustainability of the businesses in the long run (Rathnayake *et al.,* 2019).

Although SMEs have low-cost startups, it has been reported that over 70% of small enterprises in South Africa fail within their first 5-7 years of inception (Brushe, 2019). The high failure rate of small enterprises in South Africa had been ascribed to entrepreneurs' difficulty adapting their businesses to a sustainable infrastructure (Leboea, 2017). Some of the common challenges of SMEs include the need of industry experience, financial difficulties, lack of business management and entrepreneurship skills. These factors have tended to deter the growth and development of SMEs. However, SMEs are having one major problem and that is growth. The literature review has pointed out that many SMEs fail to develop as they are affected by the above-mentioned factors. Therefore, this study aims to contribute to reduce SMEs' failure rate and promote their growth. Amongst other solutions suggested, researchers have provided an adequate governance

policy that will allow SMEs to thrive and make access to financial institutions more effective for small businesses. However, in terms of access to finance, they have yet to approach financial access from a Microfinancing perspective. Considering this background, the current research seeks to identify financing options available for SMEs, factors that stimulate SMEs growth and challenges SMEs to face in accessing Microfinance for growth. Furthermore, the present research also determines the influence of Microfinance on the growth of SMEs in Pietermaritzburg. It determines whether the South African government needs to develop intervention strategies to increase SMEs' growth. The inaccessibility to finance by many small businesses has resulted in them not making it through the first twelve months (Fielden, Davidson, and Makin, 2000). Thus, the provision for SMEs through microfinancing can yield adequate support and sustainability in the sector.

1.1.2 Problem statement

Kwa-Zulu Natal (KZN) is a high contributor to the South African Gross Domestic Product (GDP) as it is the second largest contributor to the country's economy by 16% of the national GDP after Gauteng. Furthermore, Pietermaritzburg (PMB) is also the capital of KZN, which has the potential to contribute more (Prinsloo, 2008). However, PMB's SMEs, just like other parts of South Africa, have, in most cases, a lack of skills; limited financial knowledge; lack of business management training; technological incompetency; lack of financial assistance; crime and corruption; infrastructure and regulations as existing challenges (Cameron and Hoque, 2017). One of the main challenges SMEs faces is accessing microfinance (Chiyah and Forchu, 2010). According to Balogun, Agumba and Ansary (2015), for SMEs to obtain loans from formal institutions, SMEs must have a bargaining chip that the business owners do not have. However, financing businesses in these distinct settings is influenced by a variety of factors, the most important of which is the entrepreneurs' understanding of the formalities involved in running their businesses. In urban settings, SMEs have greater access to financial institutions and a more extensive network of potential customers, suppliers, and collaborators. This enables SMEs to reach a broader market and cater to specific target segments, increasing their potential for growth and profitability. In terms of Networking and collaboration opportunities, Urban environments foster a culture of collaboration, where businesses, entrepreneurs, and professionals from various industries converge. SMEs located in urban areas have greater opportunities for networking, partnerships,

and knowledge sharing. This can lead to valuable collaborations, joint ventures, and access to expertise, enhancing the competitive advantage of SMEs. Furthermore, entrepreneurs in urban areas are generally more aware of the legal and regulatory frameworks governing their businesses and have a higher level of business acumen, thereby increasing their chances of securing financing (Fatoki and Asah, 2011).

Conversely, SMEs in rural areas may face significant challenges in accessing capital, as financial institutions are often concentrated in urban centers, leaving them with limited options for financing. Additionally, rural entrepreneurs may have less knowledge of the legal and regulatory frameworks, leading to difficulties in navigating the bureaucratic processes involved in securing financing. According to Lekhanya (2016), the vast majority of rural business owners are unskilled. Lack of skill is also an impediment to accessing funds because they are unfamiliar with the bureaucratic procedures required to secure financing. As a result of difficulties in obtaining financing, the business investment strategy suffers. Furthermore, the local market for selling rural SMEs' products is very small (Lekhanya ,2016). The lack of collateral is not favourable, as many business starters need something to bargain with the banks. Entrepreneurs instead seek informal financial assistance, which is easy to access but comes with high instalment rates and the risk of affecting the growth of the business (Banerjee, Breza, Duflo and Kinnan, 2017).

1.1.3 Aim of the study

Through their daily operations, small and medium-sized businesses helped to sustain household income. The autonomy and revenue of small businesses have significantly contributed to South Africa's economy (Rajagopaul, Magwentshu and Kalidas, 2020). However, due to numerous challenges affecting the sector, including access to financial assistance from formal institutions, small businesses are experiencing slow growth. Because the participation of SMEs is so important in South Africa, the aim of this study is to identify the factors that hindering the growth of small and medium-sized enterprises (SMEs) in Pietermaritzburg, as well as to implement access to microfinance as a promising source of improving SMEs' development.

1.1.4 Research objectives

To achieve the aim of this research which is to investigate how microfinance influences the growth of small and medium enterprises, the following specific study objectives will be pursued.

- To characterize the SMEs operating in PMB, SA
- To determine the financial options provided by MFIs and how they influence the growth of SMEs in PMB.
- To identify barriers to SMEs access to MFIs
- To investigate the factor that stimulate the growth of SMEs.

1.1.5 Research questions

The research questions in this study are:

- How would you characterize SMEs operating in PMB, SA?
- To what extent does Microfinance influence the growth of Pietermaritzburg SMEs?
- What challenges does Pietermaritzburg face in accessing microfinance?
- What factors stimulate the growth of SMEs?

1.1.6 Rationale of the study

The relatively high unemployment, poverty, and inequality rate attests to the developmental challenges still faced by the country. This study maintains that SMEs and the promotion of an entrepreneurial culture in the country can serve as a panacea to some of these challenges. The supposition here is that SMEs are key players in a country's economic progress. This study is motivated by a desire to understand factors that hinders the success of SMEs and what can be done to address such obstacles as it mainly relates to access to microfinance. The implementation of these analyses will result in strategies and skills to improve the chances of survival and growth, well as shed light on the role of microfinance on the sustainability of SMEs and recommend possible policy implications in financing SMEs.

1.1.7 Overview of research methodology

This study intended to investigate how microfinance influences the growth and sustainability of small and medium enterprises in the province of KwaZulu Natal in the city of Pietermaritzburg.

This is a descriptive study. Therefore, quantitative data were gathered to respond to the research objectives of this study. The aim of using descriptive research design is to understand a specific situation in an identified population (Rockinson-Szapkiw, 2012). Using descriptive research design enables the researcher to measure the results rather than explore them (Rudison and Rudison, 2015). The quantitative research design was chosen to establish the possible relationships between the dependent and independent variables and to find out whether the supporting institutions' interventions significantly impact SMEs' growth. This research adopted a quantitative approach to understand the research problem better and to gain greater confidence in the conclusions generated by the study. The study used primary data collection methods to address the objectives of this study. For primary data collection, a questionnaire was used to collect data from registered SMEs in Pietermaritzburg. The study used closed-ended questions handed directly to business's owner or the manager to validate the relationship between microfinancing and the growth of SMEs in South Africa. In addition, a Likert scale ranging from strongly disagree to strongly agree was used to formulate questions contained in a questionnaire.

This study used a probability sampling design. A probability sampling method, known as the random sampling, was used to select and identify the participants in the target population. Random sampling was applied to ensure that the participants were chosen based on the established characteristics of the target population. Data collected from the completed questionnaires were captured and statistically analysed using SPSS version 21. Descriptive statistics was used to describe quantitative data's basic features (demographics). The Pearson Chi-Square test for independence or association analyses for categorical variables was used to understand the relationship between variables that form the basis of this study.

1.1.8 Delimitation of the study

This study was carried out in Pietermaritzburg, in the KwaZulu Natal Province. To avert time and financial constraints, the researcher used only owners and managers of SMEs in Pietermaritzburg as participants of the study. The main aim of this study is to investigate how microfinance influences the growth of small and medium enterprises. The study was conducted between 2021 and 2022.

1.1.9 Study limitations

The first limitation of the study is the absence of all other variables that influence SME growth and are not addressed in this study. The study focuses on microfinancing as one of the factors influencing the growth of SMEs. Using more variables, such as entrepreneurial orientation, managerial skills, strategy, and networking, could have broadened the study and provided more insight and diversity in terms of opportunities for developing small businesses. The second study limitation included time and financial constraints. It is more difficult to obtain information from the informal sectors in Pietermaritzburg's province, even though they contribute as much to the local economy as the formal sectors in alleviating poverty. The fact that informal sectors are not registered makes tracing the relationship between credit and informal sectors more difficult. Due to the COVID-19 pandemic, it was difficult to reach the various owners or managers for questionnaire administration. Most questionnaires were completed and returned late, which affected the data analysis process.

1.2 Structure of the dissertation

This dissertation is made up of six chapters.

1.2.1 Chapter 1: Introduction, Background Context of the Study

This chapter is an introductory chapter that introduces the study, contains the background and context of the study, the research problem statement, the research objectives, and questions that underpin the study. Moreover, an overview of the research methodology is provided, along with the study delimitation, and limitations, and then concludes with the structure of the dissertation.

1.2.2 Chapter 2: Literature Review

This chapter contains a comprehensive literature review, which starts by defining the main concepts guiding the study: SMEs, microfinancing, growth, and establishment of SMEs. Correspondingly, the chapter highlights the context of access to microfinance in South Africa and Pietermaritzburg CBD. Further, it discusses the various poverty alleviation government policies and initiatives and the role of MFIs in the growth of SMEs. Also, it provides a discussion of the theoretical and conceptual frameworks that underpin the study.

1.2.3 Chapter 3: Research Methodology

Chapter three discusses the research paradigm, philosophy, and design. Thereafter, the chapter provides the study site and target population of the study, study sample size, and method of sampling. It further offers a discussion of the data collection methods and the analysis of data. Lastly, it provides ethical considerations.

1.2.4 Chapter 4: Data Analysis and Presentation of Results

This chapter presents and analyses the study findings. It provides the response rate; descriptive and inferential statistics are also included in this chapter; moreover, an analysis of each objective of the study is presented.

1.2.5 Chapter 5: Discussion of Research Findings

Chapter five examines the findings of the study using both descriptive and inferential statistics; it further discusses and provides conclusions based on the study's findings.

1.2.6 Chapter 6: Conclusions and Recommendations

In chapter six, conclusions are drawn, and recommendations are provided based on the empirical findings; the chapter also provides the limitations of the study and offers suggestions for future research studies.

1.3 Summary of the chapter

This chapter covered the study's introduction, background and context, research problem statement, research objectives, research questions, and study rationale. Furthermore, this chapter discussed the study's limitations and delimitation, the structure of the dissertation, and an overview of the study's research methodology. The following chapter will conduct a literature review on the main points of this study with the hope of gathering information that will help the researcher determine the study's objectives.

CHAPTER TWO
LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1. Introduction

This chapter intends to draft the literature review concerning research objectives. This chapter present an overview of SMEs, including the definitions, categories and evolutions of SMEs, their importance, and the challenges they face. Besides, it discusses the concept of "credit access" in connection with SMEs. The last part of the chapter discusses the theoretical and conceptual framework underpinning the study and the business establishment in an attempt to promote SME growth.

2.1.1. Conceptual definition

The main conceptual definitions found in the research are provided in this section of the study.

2.2. Definition of SMEs

The small and medium enterprise sector (SMEs) has actively contributed to countries' economies (Ayandibu and Houghton, 2017). Countries like Taiwan, Japan, and Columbia have experienced high economic thrive with the support of fast SME growth (Pandya, 2012). The impact of attached to small businesses' development enhances them as the source of job creation and community progress (Mayer and Mayer, 2017). According to Prinsloo, Walker, Botha, Bruwer, and Smit (2015) the National Small Business Act No 102 of 1996 describes the small business as an autonomous entity, cooperative enterprise, and non-governmental organization. The entity is administered by a single individual or may have multiple owners if there are subsidiaries (Prinsloo *et al.,* 2015). SMEs have established themselves in different sectors or sub-sectors of the economy, which can be micro-enterprises, very small, small, or medium-sized enterprises (Luiz, 2002). Definitions have been offered or presented in defining SMEs (Dar, Ahmed, and Raziq, 2017). The analyses of business behaviour, structure, and component brought about 75 definitions to elucidate small and medium enterprises concepts. However, researchers have not found a standard accepted definition for SMEs (Saidi, Uchenna, and Ayodele, 2019). According to Muriithi (2017), most SMEs' characteristics rely on a quantitative nature, with the number of employees, the size, the assets, and the business's revenue acting as an element of comparison. Therefore, the description of a small business in developed countries differs from that one in developing countries (Muriithi, 2017). In countries like Germany and the United States, businesses with less than 500 employees

refer to as SMEs; in German, small businesses comprise 250 employees, and in Belgium, SMEs have less than 100 employees (Gray, 2016). In the retail sector SMEs are different from SMEs in the manufacturing industry in terms of turnover, the number of employees, and total gross asset value (Fatoki et al., 2009). Also, Dar *et al.,* (2017) state that the sales, weight of the output, and the sectors or types of businesses are also considered criteria for defining SMEs. Moreover, besides the above criteria, Gibson and Vaart (2008) mentioned capital investment as a further indicator to define SMEs. Small firms in low and middle-income nations have less than 50 salaried employees. The business is not presided over directly by the business owner but rather by a secondary coordinator like the manager. Medium-sized enterprises can engage a maximum of 200 employees in companies like the mining sector and others like electricity. Others can hire a maximum of 100 employees in the agricultural, transport, storage, and communication sectors (Hillary, 2017). The characteristics of SMEs differ according to different industries. Table 1 summarizes the SMEs' classification in South Africa according to the national small business Act 102 of 1996.

Table 1: classification of the SMEs according to the national small business Act 102 of 1996

Sector or sub-sectors by the Standard Industrial Classification	Size of class	The total full-time equivalent of paid employees Less than:	Total annual turnover Less than:	Total gross asset value (fixed property excluded) Less than:
Agriculture	Medium	100	R4.00 m	R4.00 m
	Small	50	R2.00 m	R2.00 m
Mining and Quarrying	Medium	200	R30.00 m	R18.00 m
	Small	50	R7.50 m	R4.50 m
Manufacturing	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R3.75 m
Electricity, Gas, and Water	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R3.75 m
Construction	Medium	200	R20.00 m	R4.00 m
	Small	50	R5.00 m	R1.00 m

Sector or sub-sectors by the Standard Industrial Classification	Size or class	Total full-time equivalent of paid employees Less than:	Total annual turnover Less than:	Total gross asset value (fixed property excluded) Less than:
Retail and Motor Trade and Repair Services	Medium Small	100 50	R30.00 m R15.00 m	R5.00 m R2.50 m
Wholesale Trade, Commercial Agents and Allied Services	Medium Small	100 50	R50.00 m R25.00 m	R8.00 m R4.00 m
Catering, Accommodation and other Trade	Medium Small	100 50	R10.00 m R5.00 m	R2.00 m R1.00 m
Transport, Storage and Communications	Medium Small	100 50	R20.00 m R10.00 m	R5.00 m R2.50 m
	Very small Micro	10 5	R2.00 m R0.15 m	R0.50 m R0.10 m
Finance and Business Services	Medium Small	100 50	R20.00 m R10.00 m	R4.00 m R2.00 m
Community, Social and Personal Services	Medium Small	100 50	R10.00 m R5.00 m	R5.00 m R2.50 m

Source: Umngeni SMMEs and cooperatives strategy, 2019

In addition to the size, turnover, and gross value of the company's assets, SME establishment requires appropriate management skills and business operations. The fact that SMEs, although managed by their owner, benefit from the assistance of their family; has their business decisions influenced. The ability to thrive in the business will depend on the executives' personal determination (Ayandibu and Houghton, 2017). Mupani and Chipunza (2019) highlight that the inclination to employ friends, family, or church members in the low firm has repercussions on the realisation of rentable outcomes. To ensure the firm's competitive advantage, it is necessary to implement a resourcing strategy for hiring new employees. In addition to Mupani and Chipunza (2019), skill scarcity and inadequate operations in organisation management contribute to SMEs' failure. Efficient operations competency and technical knowledge will make factors that will

stimulate comparative advantage and business performance (Urban and Naidoo, 2012). SMEs have a simple structure and straightforward management; their services and production capacity are limited. Thus, small businesses that do not benefit from corporate budgetary advantages or external funds such as government assistance cannot achieve economies of scale (Ayandibu and Houghton, 2017). Purchasing inputs are costly, making it difficult to benefit from the market's opportunities, which requires higher production, a constant standard, and a steady supply (Markelova, Meizen-Dick, Hellin, Dohrn, 2008). Besides, executives must manage business meticulously and avoid risk due to the scarcity of safety shields for the employees and shareholders (Ayandibu and Houghton, 2017).

2.3. Entrepreneurship

Entrepreneurship is the initiative that stimulates a person's ability to recognise and capitalise on a given opportunity. It is an essential source of job creation that follows three simple rules: identify a viable and feasible business opportunity, develop an executive plan by gathering the necessary resources to launch the business, and manage the business so that it grows and survives (Frese and Gielnik, 2014). The entrepreneur innovation is about delivering what is needed to fill the current demand gap in the marketplace. Entrepreneur can therefore contribute to business continuity as they maintain the flow of goods and services and thus build the trust of other business owners (Doern *et al.,* 2019). However, Kimmitt and Dimov (2020), emphasise that SMEs turned to microfinance when faced with severe financial challenges. In today's digital era, social media has emerged as a powerful tool for entrepreneurs to promote their businesses and establish meaningful connection with co-entrepreneurs. Social media enables entrepreneurs to reach a wide audience and build brand recognition. They can create engaging content, share updates about their product or services., and showcase their expertise to attract potential customers. Social media has revolutionised way entrepreneurs market their businesses and interact with their co-entrepreneurs. By leveraging social media platforms, entrepreneurs can effectively promote their brand, engage with their customers, and tap into collaborative opportunities. Additionally, social media provide a virtual space for entrepreneurs to connect, share knowledge, and seek mentorship, contributing to the growth and success of the entrepreneurial ecosystem. As social media continues to evolve, it presents even greater possibilities for entrepreneurs to expand their reach and nurture thriving business networks. Through groups, communities, and industry-specific forums, entrepreneurs can

exchange ideas, seek, advice, and form valuable partnerships (Olanrewaju, Hossain, Whiteside and Mercieca, 2020).

2.4. The Evolution of SMEs

SMEs in urban areas and township locations cater to many people because most families create such small businesses for sustenance (Ladzani, 2010). According to Kimanzi (2019), economies are dominated by the retail and services sectors, with the retail sector accounting for the most significant portion of SMEs at 25.8%. The establishment of SMEs in countries is brought about by the desire to improve the country's economic status (Luiz, 2002). The South African government has been recently trying to implement policies that support and promote the creation of SMEs to improve the wavering, suffering economy. The highest percentage of unemployed youths in South Africa is also triggers the push for SME creation (Ladzani, 2010). During the era of the new democracy, the South African government saw entrepreneurship as a form of structure that would bring about economic empowerment and equity among South Africans (Mahadea and Kaseeram, 2018). After South Africa (SA) gained its independence, job creation was a form of economic empowerment that South Africa needed to come out from the history of the wealthy minority. Implementing policies that promoted the creation of small businesses was the right path for the much-needed poverty elevation structure (Ladzani, 2010).

2.5. South Africa's policy formation for economic empowerment/growth

During the post-apartheid era, when the new government was just into play, it faced several constraints that led to the introduction of the macroeconomic policy framework called the Growth Employment and Redistribution (GEAR) strategy in 1996 (Lyons *et al.,* 2001). This strategy was formulated to stimulate for faster economic growth necessary to meet social investment needs. The policy evolved most on the social objectives of the Reconstruction and development programme. However, it was also aimed at reducing fiscal deficits, lowering inflation, maintaining exchange rate stability, decreasing trade barriers, and liberalizing capital flows (Lyons *et al.,* 2001). After the implementation of the GEAR policy, "fiscal deficit, inflation, and government consumption targets were all slightly met, reporting figures of 2.2%, 5.4%, and 18% respectively by the end of 2000" (Enaifoghe, 2019), bringing about more excellent macroeconomic stability, better reporting, and increased accountability. However, private investment, job creation, and GDP growth

indicators were disappointing despite all these achievements. Low levels of economic growth and private investment were insufficient to reduce unemployment, and the policy achieved very little success with the distribution of wealth (Sibiya and Kele, 2019). The GEAR strategy was sufficient for the achievement of macroeconomic objectives. However, it seemingly failed with the social challenges of the country, especially with poverty reduction and employment creation as was predicted. After the shortfalls of "GEAR, it was replaced in 2005 by the accelerated and shared growth initiative for South Africa (ASGISA)" (Mawonde and Togo, 2019). This was the new initiative taken by the government after the first two developmental strategies since the post-1994 (Sibiya and Kele, 2019).

After the acknowledged challenges Juggernath *et al.,* (2011) discussed the following vision of ASGISA "poverty reduction by 2010, reducing unemployment by 2014 from 28% in 2004 to 14%" which also recognised that the policies implemented to address these issues needed to be at the forefront of economic policy decision making (Munyeka, 2014). Plagerson *et al.,* (2018) deliberated on the flaws of the organisations that were in charge of the implementation of these government policies put in place to elevate the economy through the growth of SMEs. The instability of social programs is due to a lack of professionalism in the public sector agencies and their lack of insulation from clientelism compromises (Masocha and Fatoki, 2018). Ngota *et al.* (2018) discussed the government's involvement in institutional models that support immigrants' small businesses. The initiative intended to provide peace amongst immigrants and South Africans involved in small business enterprises. The South African government has introduced several initiatives to support SMMEs. However, those initiatives are often not tailored for businesses of different sizes and primarily focus on the larger SMMEs (Sithole,2014). Sibiya (2019) affirms that SMEs often need more funding to invest in the much-needed resources and the capacity to enhance market expansion performance. Another hiccup in the progress of government policies is that government policies relating to taxes and business regulations often affect entrepreneurial activities (Faloshode *et al.,* 2018). Given all the correct intentions, developed and implemented policies and regulatory frameworks can either enhance or impede SMES market expansion (Du pre',2006). SMEs have not produced the intended results for several reasons ranging from corruption the ineffectiveness of public institutions and poor implementation. This is a necessary stimulus for this research I am conducting today on micro-financing for SMEs.

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2.6. Strategy, Programmes, Policies, Institutions that support SMEs (Supporting Institutions Intervention for SMEs)

The South African government put some strategies for the sole benefit of small and medium enterprises; these strategies and policies exist to support and help establish small businesses (Chimucheka, 2013). The government hoped to achieve economic empowerment goals through the National Small Business Act (NSB) of 1996 (Chimucheka, 2013). The NSB Act 102 of 1996 provides SMEs' regulatory and support framework. Several factors are contributing to the hindrances faced by SMMEs in developing countries such as South Africa (Sitharam and Hoque, 2016). Mazanai and Fatoki (2011) have pointed out access to finance, and Chimucheka (2013) mentioned the infrastructure for business establishment; the SA government established these institutions and designed them to give small businesses a fighting chance in an already struggling economy. The National Development Plan (2012), The Department of Trade and Industry (dti) and the Small Business Ministry as well as the Department of Small Business Development in 2014 maintained that the regulations and legislations placed by the government on SMEs are the major constraints for the growth and success of SMEs in most developing countries like South Africa (Nieuwenhuizen, 2019). SMEs cannot grow when they are burdened by rules and regulations that do not grant them the liberty to gather valuable resources needed for their establishment or growth.

Herrington and Kew's (2017) research findings show that 60% of the respondents argued that government regulations contribute to hindering the growth of small and medium businesses. In contrast, 80% of the respondents from the study conducted by Cant and Wiid (2013) stated that 'red tape is one of the common causes of struggling and failures of SMEs. This binary opposition is due to the authors' differing sites chosen for the research. Herrington and Kew's research were conducted in the Western cape region using the Adult Population Survey (APS) and the National Expert Survey (NES). In contrast, Cant and Wiid's research focused on the Tshwane region using a questionnaire and the judgment sampling method. In 2019, Nieuwenhuizen assessed that as entrepreneurs, there is a need for government support through lenient rules and regulations for small businesses and industries. The Department of Trade and Industry (dti) focuses on implementing strategies and programs to promote the development of small businesses and

encourage entrepreneurship for economic empowerment. The organisation's structure was based on three strategic pillars, which intended to reduce regulatory constraints inhibiting SMEs. The strategy aims to increase the supply of financial and non-financial support services; increase for small enterprises (dti, 2003; Ladzani, 2010). The Department of Trade and Industry (dti) is a platform for SMEs' healthy progress and expansion. It is arming SMEs with the knowledge for future economic trends, strategy to increase access to finance, and developing appropriate business regulations to survive (Rogerson, 2008). The Ntsika Enterprise Promotion Agency offers various non-financial services to local service delivery groups on a 'wholesale' foundation. That is the delivery of resources to local providers working directly with the SMEs (Ladzani, 2010). The National Development Plan (NDP) represents an agenda for South Africa, targeting 11 million new jobs by 2030 (Umngeni SMMEs and cooperatives strategy, 2019). The NDP project aims to achieve economic growth and social change by 2030 using a developmental state framework. The entire approach is based on a sustenance state where the population has a solid structure that enables them to execute its constitutional mandate.

According to the NDP, if the individuals, the community, and the state, have adequate knowledge and necessary skills, they will propel economic flourishment. The NDP, therefore, has focused on an endogenous strategy to strengthen the country's economy by increasing employment through faster economic growth; improving the quality of education, skills development, and innovation; and strengthening the capacity of the state to play a transformative role. Succeeding in implementing the NDP's objective will ensure a country that can resist external economic threats and create social cohesion (Zondi, 2017). The Department of Small Business Development (DSBD) emphasises more activities that generate jobs and encourage an entrepreneurship mindset. Their role is to create a prosperous economic environment to support palpable SMEs' productivity. Thereby the DSBD and NDP can expect to realise their agenda of getting six million jobs by 2030, as planned, which will lead to a constructive contribution to economic growth and poverty alleviation (Ngwenya, 2018). Likewise, the DSBD manages the accessibility and improvement of entrepreneurship, small businesses, and co-operatives via legislation and policy environment to help them grow and be sustainable (Final_DSBD, 2020; Zulu, 2017).

The National Small Business Chamber Act of 1996 (NSBA) consists of improving and encouraging small businesses in their sustainability and growth. Likewise, the Small Enterprise Development Agency (SEDA) exists as an entity that helps localise financial assistance for small businesses; provide business guidance and development skills, which are crucial for small enterprise. The SEDA programs for business development targeted by the government included:

- Business plan assistance.
- Assistance with links to finance providers.
- Course, seminar, and workshop.
- Networking events.
- Assistance with marketing plans.
- Mentorship programmes; and
- Online publication and annual reports (Zulu, 2017).

The co-operative development Act, N0. 14 of 2005, is in place to assist the start-up business with formation and registrations. Small Enterprise Finance Agency (SEFA) supports SME development and sustainability in South Africa by providing financial assistance (Final_DSBD, 2020). Masutha and Rogerson (2014) pointed out that the contribution of SEDA's activities enabled the establishment of 42 new SMMES in 2013 using business incubators' performance. Harthenko and Sauga (2013), found that the Estonian government has developed a program to promote business and regional improvement called Enterprise Estonia (EAS). Through EAS, the government has assigned funds for SME empowerment which has significantly impacted Estonia's economy with an increase in productivity. According to Doh and Kim (2014), South Korea implemented the technology development assistance fund (TDAF) to enhance small enterprises' capacity through technical innovation.

Results revealed in 2009 that TDAF occasioned cost savings due to SME employment and sales growth through new technological development allocated in the local SMEs. Despite the potential contribution of SMEs to economic growth, their response to government institution aid differs in developed and developing countries. In developed countries, SMEs have a great chance of being exposed to funds than SMEs in developing countries. Kamala (2010) argued that SMEs needs more fund allocated to develop the sector. The respondents specified, for instance, with SEDA,

SMEs hardly receive funds to start up their commerce. In case finances are given to support the project, more than the amount of money perceived is needed to appropriately capitalise on the business. The institutions mentioned above have been partaking in in developing and developing countries' development. Therefore, the government's responsibility is therefore to create policies that will elevate institutions that support the existence of SMEs.

2.7. A comparison between South African context and the experiences of business owners in other countries

South Africa is one of the countries placing great importance on the SMME sector for economic growth and development. SMEs are the positive effectors of economic growth and skills development as well as job creation. Mullineux (1997) stated that SMEs are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines. Even in the developed industrial economies, it is the SME sector rather than the multinationals that is the largest employer of workers (Mullineux, 1997). SMEs across African countries not excluding international countries have been given much recognition on the effect they have on the economic growth of a country. The following comparison of South Africa and Ghana will shed some light on the differences and the similarities of SMEs in these African countries. According to Steel and Webster, 1991; Aryeetey, 2001 "Small enterprises in Ghana are said to be a characteristic feature of the production landscape and have been noted to provide about 85% of manufacturing employment of Ghana". SMEs are also believed to contribute about 70% to Ghana's GDP and account for about 92% of businesses in Ghana. Similarly, in the Republic of South Africa, it is estimated that 91% of the formal business entities are Small, Medium and Micro Enterprises (SMMEs) (Berry et al., 2002). According to an Roopchund (2020) SMEs produce about 25% of OECD exports and 35% of Asia's exports.

However, many scholars are of the belief that developed countries are better at having much better growing economies. The last few decades have seen significant growth in the African continent compared to the rest of the world. For instance, since in the ten years, while the rest of the world economies struggled with economic growth, African growth averaged more than 5% far above America, Europe, and South America. Though uniformed growth was experienced across the continent with some countries like Angola, Rwanda and Malawi doing well, other like Zimbabwe

continue to struggle. Fisher and Reuber (2000) enumerate a number of characteristics of SMEs in developing countries under the broad headings: labour characteristics, sectors of activity, gender of owner and efficiency. Given that most SMEs are one-person businesses; the largest employment category is working proprietors. In Ghana, SMEs can be categorized into urban and rural enterprises. The former can be subdivided into "organized" and "unorganized" enterprises. The organized ones mostly have paid employees with a registered office, whereas the unorganized category is mainly made up of artisans who work in open spaces, temporary wooden structures, or at home, and employ few or in some cases no salaried workers (Auzzir, Haigh, and Amaratunga, 2018). They rely mostly on family members or apprentices. Rural enterprises are largely made up of family groups, individual artisans, women engaged in food production from local crops. The major activities within this sector include soap and detergents, fabrics, clothing and tailoring, textile and leather, village blacksmiths, tin-smithing, ceramics, timber and mining, bricks and cement, beverages, food processing, bakeries, wood furniture, electronic assembly, agro processing, chemical-based products, and mechanics (Auzzir, Haigh, and Amaratunga, 2018).

In terms of activity, they are mostly engaged in retailing, trading, or manufacturing (Fisher and Reuber, 2000). While it is a common perception that the majority of SMEs will fall into the first category, the proportion of SME activity that takes place in the retail sector varies considerably between countries. Majority of SMEs are female-owned businesses, which more often than not are home-based compared to those owned by males; they are operated from home and are mostly not considered in official statistics. programs are designed without sufficient consideration of the needs of businesses owned by females. These female entrepreneurs often get the impression that they are not capable of taking advantage of these credit schemes, because the administrative costs associated with the schemes often outweigh the benefits. Prior empirical studies in Ghana have shown that female-owned SMEs often have difficulty accessing finance. Governments at all levels have undertaken initiatives to promote the growth of SMEs (Ayyagari, Kunt and Maksimovic, 2008).

The South African government has been one filled with corruption and a complicated transition into democracy, after the dawn of democracy there were government programs created to help with the social development initiatives. The National Development Programs (NDP) places

importance on small business and entrepreneurship development. The NDP focusses on the following areas with regard to entrepreneurship development(Olson and Riordan, 2012): Ensure that entrepreneurship training among the youth cohort is improved in order to identify opportunities; Ensure that South Africans form a unity to enhance fertile conditions for entrepreneurship; Transform ownership to include previously disadvantaged groups by creating an enabling environment for Black owned small businesses; Promote entrepreneurship in schools; Promote skills development within new and underutilized sectors of the economy; Ensure that Education and Training (FET) colleges identify scarce skills and introduce entrepreneurship training programs; Improve and promote entrepreneurial skills development in sectors such as agriculture and tourism; Provide financial support, Ensure better coordination of government agencies.

Many other policies surrounding entrepreneurship also exist, emanating from the Department of Trade and Industry, the Department of Economic Development and the Department of Small Business Development. Although many of these policies and initiatives are aimed at traditional entrepreneurial development, many have the aim to resolve a social issue and the basic principles of these policies also align with social entrepreneurial activities. South Africa has several purely social entrepreneurship initiatives and international support organizations of which some of these include: SAB Foundation Social Innovation Awards (an annual competition acknowledging innovative and impactful social entrepreneurs); US Ashoka Foundation; Schwab Foundation; Skoll Foundation (which provides established social enterprises with funding to scale their venture and increase reach); African Diaspora Network (which provides a knowledge-sharing platform for investors; Social Enterprise Academy Africa (which provides learning and development for social entrepreneurs); The South African Social Investment Exchange (SASIX) (South Africa's first online social investment stock exchange that connects social enterprises with interested investors) (McGee,2016). These are some of the government and foreign agencies that are investing in the country's businesses. According to Bosma et al. (2015), social entrepreneurs are inclined to be rather optimistic in their future growth ambitions. Being optimistic about future growth is important as this could have a very positive effect on intention to grow and future investment possibilities (Danso, Lartey, Amankwah-Kwah, Lu, Adomako, and Uddin, 2019). However, as with traditional for-profit entrepreneurs, social entrepreneurs also face a myriad of challenges. Of

these challenges, probably the most mentioned one, or the highest reason for failure, is chronic financial constraints.

2.8. Growth of SMEs

Behind any business activity, the intent is to thrive in the development made. Thus, business growth is evident when there is a tangible improvement, such as increased business assets, revenue, capital, labour, investment opportunities, and appropriate management (Ogah-Alo *et al.,* 2019). Obtaining credit is a valuable factor in increasing the growth of SMEs, the link between SMEs and large companies has proven to offer opportunities to facilitate financial flows to SMEs. The financial flows strengthen SMEs' capacity to obtain credit due to their link with large companies. Thus, large firm influence leads to their reputational effects or a reduction of information asymmetry in SMEs, financial situation. SMEs with links to large companies have the advantage of group loans (Wasiuzzaman et al., 2020).

2.9. Challenges facing SMEs

SMEs are a vital catalyst to a country's economic growth, especially in developing countries (Cant and Wiid, 2013). The incredible potential of increasing jobs persuaded South Africa into believing that SMEs could solve the unemployment problem. Although the promptness of job creation, SMEs still struggle to live up to the country's expectations and bring about economic growth (Cant and Wiid, 2013). The small businesses, however, need to establish and sustain themselves to the level of job sustenance. Some obstacles interfere with the development of SMEs, and these obstacles either be internal or external challenges. External difficulties refer to a problem that the small enterprise cannot solve within the entity in a short period. This constraint occurs as the company has no control over them. The internal challenges are problems the small business can solve within its entity by itself (Zondi, 2017). The success of a business does not depend on financial support only. The managerial skills provide the insight to deal with the staff, clients, and logistics in a way that will ensure the business's success in the long run (Van Scheers, 2011). As an owner, you need to know how to pay your staff/employees, handle disputes, and manage financial crises (Van Scheers, 2011). According to Brink, Cant, and Ligthelm (2003), other authors also emphasised the extreme seriousness of internal challenges, inadequate management skills, and expertise, in function. In terms of expertise the owner lists marketing, human resources, and

financial knowledge as the major causes of SME failures. Marketing skills are of great importance to the success of many SMEs. Marketing the business reasonably determines the success of the SMEs (Cant and Wiid, (2003); Cant, (2012). After establishing the small business, it is the sales manager's duty or the owners to ensure good advertisement of their business nature to society. The fact that customers are unaware of the business's existence hurdle its capacity to generate profit. Thereby endorsing a positive correlation between a lack of marketing skills and business failure (Van Scheers, 2011). Organising training in marketing skills for business owners could lower the level of loss for a start-up enterprise. Thus, Business owners will learn how to operate successfully within the firm.

Microfinance awareness positively affects the success and growth of SMEs, as access to finance is also a fragile ankle that limits the supply of entrepreneurial activities ((Makorere, 2014). Business owners need to pay more attention to challenges such as the lack of skills in technological machinery; the hired employees are mostly low-skilled and have little/no educational background (Cant, 2012). This lack of skill can be costly to the business because employees may perform poorly or make mistakes that cause loss. Statistics in South Africa (2014) reported that out of the entire black African workforce, only 15% were skilled and 42% semi-skilled, which means the remaining 43% were low-skilled (Zondi, 2017). This is one of the challenges hindering SMEs' success in South Africa. Ngidi (2019) added that the need for more information or the lack of communication technology concerning doing business with other nations is an internal challenge for SMEs that need to be raised. Exposing small enterprises to the knowledge of information and communication technology will allow international expansion to take place. Small businesses are confronted with difficulties while addressing the aspect of external financial assistance. Banks and other financial institutions must provide funds to trade with bargaining collateral (Mather, 2005). The challenge of gaining funds to support and sustain SMEs is holding SMEs growth, which would benefit country's economy. Although the business has existed for over 2-3 years, it is still not eligible for bank loans. SMEs remain with options like requesting assistance from institutions put into place by the government for business ventures, such as the National Youth Development Fund (Gwija, Eke, and Iwu, 2014).

Most businesses need loans to expand and grow into other endeavours; however, such opportunities are rare to none (Mather, 2005). One of the external challenges faced by SMEs is harsh legislation regulations. The South African government may have established institutions that provide financial assistance and business advice to small businesses, but owners still face legislative challenges (Mazanai, 2011). These regulations are also what keep international investors away. Another external challenge South Africa's small and medium enterprises face is political uprisings. The strikes or political unrest in the country significantly affect small businesses. Small businesses are easy targets of angry mobs because they are very exposed to the public. In recent years businesses have been targets of these mobs (Zondi, 2017). Owners lost most of their goods, while others lost everything and were bound to see the closure of their businesses. These were the factors that these owners had no control over and could not prevent. External environment factors such as interest rates, crime, unemployment, inflations, and technological advancements are also external challenges preventing SMEs from thriving (Mahadea and Pillay, 2008). The external factors that are always critically and constantly changing are economical; social; political; technological, and international environment states (Brink, Cant and Ligthelm, 2003).

2.10. Finance options available for SMEs

The different nature of SMEs demands different types of financing for their various operations, which results in the banking sector and financial institutions launching broader types of products to fulfil the needs of SMEs. According to Bamata (2018), the financing needs of SMEs are at three stages, the start-up stage: expansion, and rehabilitation. A formal finance sector exists for the sole purpose of financing micro-enterprises that do not stand a chance of getting financial support from big banks. According to Fatoki (2014), there are some informal finance sectors that most SME owners opt for when starting their business or expanding, borrowing from friends; relatives; cooperatives; money lenders (Mashonisa); if not any of these, there are also personal savings. Like in most developing countries, SMEs in Ghana generate funds to finance their business as that remains the cheaper source of finance as proposed by the pecking order theory introduced by Myers and Majluf (Gbandi and Amissah, 2014). Other countries have been considering factoring as a way of financing their SMEs, Klapper (2005) defined factoring as a source of external financing for corporations and small and medium-sized enterprises. What is unique about factoring

is that the credit provided by the lender is explicitly linked to the value of a supplier's accounts receivable and not the supplier's overall creditworthiness (Mensah,2004). Factoring allows high-risk suppliers to transfer their credit risk to their high-quality buyers. However, factoring may be useful in countries with weak judicial enforcement and imperfect records of upholding seniority. Factored receivables are not part of the estate of a bankrupt SME. Research has shown that factoring is prominent in countries with more significant economic development and growth and developed credit information bureaus (Duricin and Beraha, 2012). Factoring is not a loan since there are no additional liabilities on the firm's balance sheet, however, it provides working capital financing.

2.11. Source of financing for SMEs

2.11.1. Equity financing

Equity financing is an endowing that targets investing in newly formed businesses that are restricted from accessing proper credit. At the start-up level, it is unlikely that SMEs quickly access funds, the lack of collateral and financial distress are factors affecting SMEs' success (Gompers and Lerner, 2003). The desire to sustain commercial activity has created the need among business owners to seek different sources of finance that could accommodate new businesses.

Equity capital has proven to be the best option for SMEs to substitute traditional banks (Coleman, Cotei and Farhat,2016). Equity capital is easy and quick to access compared to traditional banks in terms of requirements. It comprises twofold cases: internal equity which is from family, friends, and the owner-manager of the firm; or from retained earnings while external equity is a source of capital that excludes existing partners or their relatives (Gompers and Lerner,2003). Equity offers long-term financing with minimum cash outflow in the form of interest. Through equity capital, new businesses are shielded by the approval of an established entity which increases its credibility. Despite the great opportunity of equity for small businesses, some business owners, however, are reluctant to receive equity financing to avoid the inconvenient of change of ownership. At the same time, some owners will allow financial help to share the At the same time, with less risky-averse investors (Coleman *et al.,*2016).

2.11.2. Venture capital

Venture capital is a financial institution that raises funds from lenders to later borrow from high-risk enterprises like start-ups/young firms. Investment is monitored from the moment it is released as the institution plans when the transaction needs to be conducted, and also on the category of the fund to provide depending on the business (Cochrane,2005). As venture capital finances are collected from investors, there is a strict procedure to ensure that the funds are carefully managed. The investors contribute to running the business along with the owner to lower the level of information. The business could benefit from a financial shield offered by other financial channels, such as banks and insurance companies (Darin *et al*.,2013). Through venture capital, businesses increase financial flexibility and gain strategic access to new suppliers, new partners, and clients lowering the risk caused by asymmetry information and the rate of business failure (Gompers and Lerner,2001).

2.11.3. Business Angels

Business Angel is categorised as an informal source of finance that supports new enterprises. With a business angle, the enterprise targeted interacts directly with the source meant to fund the activity. Angels represent wealthy individuals that invest in SMEs without any previous relationship with the business. Even though a business angel represents a single person, financing could also be organised like a group investment to oblige different SMEs (Andrew, 2011). Three benefits lead to business angels being regarded as an appropriate source of funds for SMEs. Business angles intervene at the very beginning of the business. Most SMEs feel comfortable applying for it due to the high guarantee of a triumphant return. Moreover, business angle turns their interest on the local community where a significant part of SMEs operates (Ramadani,2009).

2.11.4. Debt financing

When it comes to financing for SMEs or any business, debt and equity are the sources that best explain capital structure decisions. The issue of existing asymmetry information has challenged SMEs' access to funds. With the risk of losing ownership of the company, business owners are hesitant to conduct more equity financing and will instead opt for debt financing. Unlike large corporations, SMEs seeking debt financing contact commercial lenders to obtain short-term debt financing that can be converted to long-term debt. Because of the opacity of information affecting

SMEs, obtaining a long-term debt contract that can later act as a provision for collateral is critical (Campello,2006).

2.11.5. Micro-Financing

The microfinance institution (MFIs) is an innovative and sustainable tool for poverty alleviation and incomes generating activities (Milana and Ashta 2012). Microfinance contributes to facilities such as small loans, micro-leasing, savings, micro-insurance, and money transfers to a small business that seeks establishment (Ngugi and Kerogo, 2014). Also, MFIs offer financial services such as microcredit products and business plans to help micro-entrepreneurs (Epstein and Yuthas, 2017). Microfinance is a very operative and beneficial credit tool; the credit microfinancing provides is free of collateral and other financial assets and insurance services to the poor segment of society to improve their standard of living. Microfinance flourished through the non-government organizations that private sponsors and some government officials funded. The few microcredit institutions are the Foundation for International Community Assistance (FINCA) and ACCION International's likes, like the rural units of Bank Rakyat Indonesia (Nieto *et al*., 2007). According to Milana and Ashta (2012), microfinance is the most booming credit sector in the impact investing world. It brings about financial autonomy through self-employment. It eradicates asymmetric information to reduce the traditional bank's biased relationship between the lenders and borrowers (Galariotis *et al.,* 2011).

The first microfinance revolution occurred in the 1970s, with the first loan delivered to poor rural communities. The program intends to lend $ 100 to the people as they have no support to access traditional bank credit. The financial development of underserved people is a part that most banks were avoiding; however, Muhammed Yunus, a professor in Bangladesh, indicates that poverty could be elevated if people would stop underestimating human capacity and make proper use of microfinance. In (1973) Professor Yunus founded one of the most famous microcredit institutions, ACCION, and he also created the Grameen Bank, which he used to start his first project, a project that earned him the Nobel Peace Prize. The project focused on lending money to a few businesses that needed endowments but did not have collaterals or were not qualified for traditional bank credit. The Grameen bank started with a loan of US$27, and without wasting time, they adjusted

the investment to a large scale which produced spectacular returns; the profit generated entitled 2005, the year of microfinance (Milana and Ashta, 2012).

2.11.5.1. Influence of Microfinance in the growth of SMEs in Pietermaritzburg

Microfinancing's objective is to improve the welfare of the poor due to better access to small loans that formal financial institutions do not offer. Microfinance is a development tool used to create access for the economically active poor to financial services at an affordable price (Bamata, 2018). Wilson and Silva (2013) pointed out three factors that influence the availability of financing options in South Africa: the age of the SME's owner, the availability of resources, and the growth potential of SMEs. Microfinance credit has a significant effect on entrepreneurial business diversification, and this significant effect of microfinance has a positive effect on entrepreneurial productivity (Afrane,2002). Microfinance as a primary variable cannot significantly contribute to SMEs' growth. The study argues that gaining access to microcredit alone cannot lead to small business growth but rather a combination of other important variables such as education and business experience are essential for the full utilisation of the microcredit which may result in the growth of SMEs (Bateman,2019). The essential requirements of lending microfinance institutions do not precisely match the ability of SMEs by making it tougher to get financing with appropriate and affordable terms and conditions. Although the SMEs that are fortunate enough to get access to microfinance attest positive outcomes for their enterprises.

2.11.6. Bank Financing (Commercial bank funding) for SMEs

Following the microfinance institutions available for South African SMEs, the South African banks also have loan schemes that are available for start-up SMEs as well as those under expansion. Apart from the standard requirements for bank business financing, each bank has its specific requirements. In the present research, different requirements of Standard bank, Nedbank, FNB, ABSA, Capitec, Bidvest bank, and Old Mutual have been focused.

Standard bank

Standard bank has the following requirements for a business loan application. For SMEs to be granted funding, they must meet the requirements of the type of business they are starting. The bank must know if the business is seasonal or not in order to grant u the loan applied for. (Standard

bank, 2017). The environmental risks of the business venture a person wants to start play a decisive role in the loan. The environmental risks such as high-risk industry, the competition in the industry, the suppliers in that sector as well as the functionality of the business. If there is high risk in the type of business that is intended to do the bank is highly unlikely to grant loan application as the bank will be at a loss if the business does not do well. The high level of competition in the business world determines the survival of the business that is started. The higher the competition, the higher the risk of failure. The bank management also checks whether the type of business is seasonal, or it can survive all types of economic changes as well as political impacts. The organogram of the business is important as the skills and education of its employees can influence the survival strategies of the business.

The second determinant for a business loan with standard bank is the financial risk of the business (Standard bank, 2017). The business's financial state must be stable form to be considered for a loan; this is the main reason start-up SMEs are denied loans. For start-up SMEs, the owner must have another source of income that will be contributing to the business. However, the capital must not be coming from another loan. After the proof of available finances, the bank wants to see the projection of how the cash flow will be distributed for the next 24 months. The business cash flow projection should be 20% to 50%, depending on the type of business and set-up costs. The bank also needs to know backup plans if the sales don't meet expectations (Loans Find, 2017). The final determinant for the bank to grant this type of business loan for SMEs is the management risk (Standard bank, 2017) through a thorough inspection of the business management risk by inspection of the skills, commitment, and abilities of the owners or management team. If the business is a franchise, do the franchisors give management training, as it ensures a high success rate of franchise. The technical, financial, and marketing skills to run the business are vital to the loan application. The business must also be insured; this is vital as it acts as a safety key for any hazardous risks that could affect the business.

Nedbank

Nedbank has a small business service division, which was voted South Africa's best SME bank in 2022. Nedbank not only guarantees finance and investment solutions but also equips the business owners/management team with the tools and services to grow the business beyond banking. When

checking the loan application, the cash flow of the business is essential; this is because the cash flow of the business is the lifeblood of every business. Before approving the loan, it is crucial to have a bridge for the cash flow cycle through additional cash flow or put in place facilities to cater for unforeseen events. Nedbank also gives small business credit cards to qualifying owners. The small business credit card provides a cost-effective and flexible payment solution for everyday business expenses (Nedbank, 2017). The credit card provides a revolving balance with a monthly minimum payment option which assists in improving cash flow and earning greenbacks on business spending. The bank also provides Gap access (Merchant Cash Advance). As a point of sale (POS) user, the business can get a cash advance with flexible repayment terms. One can qualify for between 30000 and 1.5 million Rands depending on the turnover through the business POS device. The repayments occur daily and are paid back as an agreed percentage of the card POS transactions over six or nine months (Bamata, 2018).

ABSA

ABSA helps to realize the business's ambitions with SMEs' funding minimum qualifying criteria. The applicant must be a previously disadvantaged individual (PDI) and the business must be 100% black owned (Bamata, 2018). The business applying for loan for must have a valid contract or purchase order and valid quotations. ABSA SMEs funding scheme focuses on small to medium-sized enterprises as defined by the Department of Trade and industry, including start-ups and existing businesses. Being a permanent resident in South Africa is the first criteria that gives a chance for a loan approval. ABSA can finance business expansion or the next business venture at flexible terms and interest rates. The applicant must apply for a loan of between R50 000 and R3 million with a Maximum loan term of five years. The economic benefit realized through the Finance application resides in the province where the business is located (Fields and Bamata, 2018). According to Bamata (2018), ABSA does not only finance the business; it offers risk management services under crucial person insurance. The crucial person insurance protects the business from any direct revenue loss if the crucial person is lost. It ensures the business is sustainable over the long term and protects business goodwill.

Capitec bank

Capitec offers business owners or business members credit; it may not be categorically classified as the option for SME funding, however, Capitec offers a loan of up to 250 000 to self-employed clients who earn a monthly salary from their business (LoansFind, 2017). The business owner is eligible to apply for credit in their capacity rather than as a business. Capitec does grant credit to informally self-employed individuals, including freelancers and sole traders. The documents needed for the application are as follows, a South African Identity document, the latest 3 months' salary slip, latest 3 months' bank statement (Loans Find, 2017). To apply for business owner's credit, the business must be registered as one of the Association, not for gain, Close corporation (CC), Incorporated (Pty Ltd), and Public (Ltd) Private company (Pty Ltd).

First National Bank

The First National Bank approves loans or overdraft amounts based on how accounts and turnovers are managed (FNB, 2017). If an applicant is interested in applying for a loan, the business's current account must be with the FNB bank for over six months. The information needed from the applicants who do not have an account with the bank, a six-month business bank statement must be presented to bank to disclose the financial background of the business and the management accounts (Bamata, 2018). The applicant must submit a business plan detailing the nature of the business, product offering, market environment, and current management skills, as well as a Personal statement of assets and liabilities for all partners, members, or directors. A detailed proposal of the offered collateral must be submitted along with the required documents. When buying a business, the requirements differ from when starting the business must produce a copy of the deed of sale or the draft deed, the draft or signed lease agreement for the premises or the proposed or draft agreement (FNB, 2017). When are applying for a loan with FNB whilst banking with another bank would need the business's financial statements, a three-month bank statement, a facilities letter from the bank and the details of collateral held by your bankers (FNB, 2017). Sole proprietors can apply online, over the phone, in-branch, or at our Auto Plus ATMs. Private companies, partnerships, and CCs must apply in-branch and complete a suretyship form (FNB, 2017).

Bidvest bank

Bidvest is one of the banks that does not have an SME division that solely focuses on small business financing. However, it does offer loans to businesses. Their business lending covers commercial property finance, equipment finance, and vehicle finance. Commercial property finance offers business lending, which covers office, retail and industrial properties for developers, investors, and owner-occupiers, and loans for businesses purchasing premises (LoansFind, 2017). Equipment finance offers finance for all equipment essential to business growth. From computers and printers to warehouse infrastructure and material handling equipment. Vehicle finance offers finance for all business vehicles, including commercial, industrial, or passenger vehicles. The bank offers a full range of finance, maintenance, and fleet management offerings. They also offer off-balance sheet finance such, as full maintenance leasing, for situations where expenses are better handled as monthly expenses (Bamata, 2018).

Old Mutual

SME is an online funding platform that helps small and medium-sized businesses to find and apply for funding and grants (LoansFind, 2017). This old mutual funding platform assists SMEs in finding funders for their business, there are terms and conditions to follow, such as having a well-planned and structured business plan. The evidence of cash flow projection that the bank needs to present for a loan application to be approved. The business must be ensured with the old mutual platform.

SME

Under SMEgo, there is the SME e-market; this is the latest offering from Old Mutual. It aims to digitally connect you to buyers and sellers in the construction and manufacturing industry to help increase your business revenue and get discounts, this can be achieved through registering business with an old mutual (LoansFind,2017). The benefits of SME e-market are the perfect customized marketplace to advertise and sell the products, platform is safe and secure. When using the SME e-market, connect with the buyers and sellers across South Africa.

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General observation

Funding can be a contentious issue: start-ups want it, but funders want to see established businesses with a track record, and banks require collateral. It is unlikely that this system will change, but a change of mindset could help to sidestep these challenges and get the resources you need to get your business off the ground. Funding is not free; it must be paid back in some form, whether it is reimbursement, giving away equity in the business, or having to meet specific criteria. It is essential to consider the need to repay the money and its effect on the business. Upon applying for funding, they will need to show revenue projections and prove that they can pay back the money and in what timeframe. If the start-up does not perform well and does not generate (enough revenue), it could prove challenging to meet these repayment terms.

2.11.6.1. Challenges in accessing bank finance.

According to Angela (2011), one of the contributing factors must be met for a business to establish and grow. Financing is a crucial factor used for the needs of the business, such as production processes and development of the business. The challenge of SMEs' access to credit is not only due to the issue of the availability of debt finance but also concerns the inefficiencies of the product range, the service provided to SMEs and the cost of debt finance (Bamata, 2018). Banks have created a valued service under controlled risk, which is the reason why banks usually pay at most attention to a loan application. Before approving a loan application, they evaluate the risks involved and find ways to reduce them (Benkraiem and Gurau, 2013). Banks have many factors they consider when going through a loan application, which are the deciding factors of whether the loan is approved. According to Bamata (2018), there are several reasons why banks are reluctant to lend to SMEs, and the study will discuss those reasons briefly below.

2.12. Information Asymmetry

The lack of financial information backup and the systematised financial statements, cause information asymmetry in small businesses (Daskalakis *et al.,*2013). The lack of such information means that the bank will have little to no information concerning the company, leaving the credit provider with the challenge of accessing such information about the entrepreneur's business. The absence of information then leaves the bank unable to differentiate between the worthy borrower and the sloppy business project. This imbalance does not make an efficient selection of the loan rather, it gives rise to the interest of the loan to increase the bank credit portfolio with risky loans, which is mostly known as an adverse selection (Benkraiem and Gurau, 2013). After granting the loan, the bank has no control over the use of the loan, which in turn creates a phenomenon known as the moral hazard (Daskalakis *et al.,* 2013). Most business owners or managers never use the loan for its intended purpose. Analysis the risks and opportunities connected to the loan is a concerning problem because the loan can be used for different purposes (Bamata, 2018). To reduce the risks involved, banks are inclined to require collateral such as the borrower assets or personal goods and receivables.

2.13. Risks in lending to SMEs

According to Badulescu (2010), when comparing SMEs with larger firms, financial institutions tend to conclude the SMEs environment to be competitive and uncertain, which in turn means that there is a great variability of new business formations of SMEs that eventually leads to high rates of failed SMEs. Investors perceive the high risk of failure as the result of the limited power in the market and the need for relevant financial and commercial records (Bamata, 2018). Amongst borrowers, intangible assets and insufficient circulating or fixed assets seem to exist (Badulescu, 2010). The insufficient collateral presented by SMEs in return for the creditor's request to compensate for the risks concerning the moral hazard is the significant contributing factor to SMEs' inability to access credit (Benkraiem and Gurau, 2013). In the beginning, every small and medium enterprise may encounter challenges in bringing forth the financial proof of its existence and the day-to-day survival of its functionality. That is an issue of concern for South African small business owners.

2.14. Growth and Establishment of SMEs

It is recorded that most of the SMEs established in South Africa only survive up to five years; they mostly fail due to financial constraints or the high-interest rates they pay for the loans taken out for the business expansion. The SMEs eligible for a loan with microcredit institutions still face high-interest rates. When an individual or a group of peers embark on a business journey, they have faith and believe that their business will grow; that is the hope and objective of every business owner to have a flourishing business (Needle and Burns, 2010). A growing company is generating more income and having large-scale production (Bailey, 2018). A flourishing SME can meet the possibilities of expansion; it can meet the supplies of its product. Once an SME fails to meet its customer's demands, it is failing in its growth (Bailey, 2018). If not all SMEs, most of the SMEs need financial support to grow and expand nationally or internationally; that is where microfinance institutions come in. Their existence becomes very helpful to SMEs as they give them the financial backup they need (Bailey, 2018). However, when they meet financial strains, most SMEs stay in business to survive, not for growth. When experiencing cash flow problems, SMEs are more likely to cut down on future investments to stay afloat, impacting growth opportunities (Bailey, 2018). Companies cannot invest, expand into new areas, and take advantage of new business opportunities. The above context raises another challenge that many SMEs face while growing their small businesses (Beisland and Djan, 2020).

2.15. The theory underpinning the study

The financing of SMEs at a start-up and growth level requires the functioning of the skills of the capital structure theory, a theory developed by Modigliani and Miller in 1958-1963 (Rahman, 2019). The theory of capital structure brings together the benefit that debt and equity contain to finance a firm operation. Three theoretical principles are attached to the capital structure: the trade-off theory, the agency theory, and the pecking order theory (Bylo and Cankaya, 2019). The study will use the Pecking order theory and the Trade-off theory to test the effect on SMEs and how their chance of accessing Microfinancing will increase. It is determined by the Pecking order theory, which also explains how SMEs have to rely on their savings, family, and friends to start up their business due to the internal factors that prevent them from obtaining proper financial assistance sufficient to sustain the business. In turn, making the business worthy of external financing, which is very well explained by the Trade-off theory.

2.16. The Trade-off theory

The trade-off theory is formed on the assumption of a perfect market where the value of a firm is determined by its tangible assets. However, with interest allocated to the tax benefit on debt, it is fostered that borrowers-built tax savings as the interest on the debt are tax-deductible. Thereby, there will be less capital cost for firms and shareholders are shielded with more profit by using debt (Bylo and Cankaya, 2019).
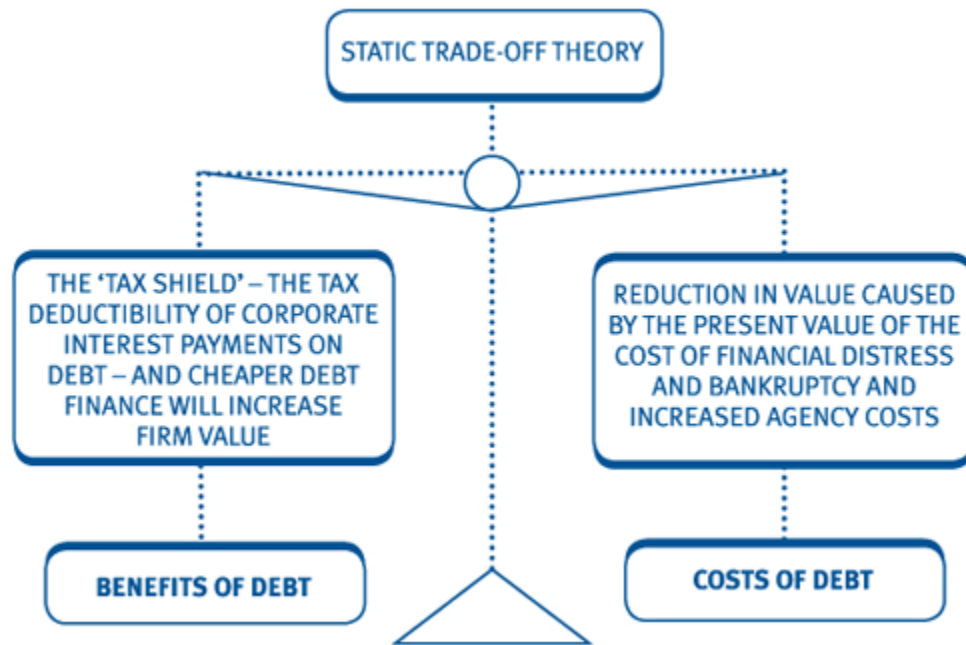
Figure 1.1: Trade-off theory framework

Source: www. kfknowledgebank.kaplan.co.uk (2012), section 1.5.1

2.16.1 Application of the theory

1st *Construct: Benefit of debt:* Most SMEs start with their fund and contract debt to improve their business performance, which leads to the establishment and growth of the firm. Debts are valuable as loans contribute to the increases of the tax shield, which also have tax-deductible interest (Basti and Bayyurt, 2019).

2nd *Construct: Cost of debt:* The investor uses the cost of debt as a unit to measure whether to invest or not in a firm. The higher the company's liability, the higher the investor's interest rate

will be. Access to credit would mean a tax shield leading to more loss than gain, additionally, it takes debt to make a profit (Dhaliwai *et al.,* 2011).

2.16.2 Pecking order theory

The pecking order theory argues that management prefers internal financing to external financing, to avoid risk. However, when the manager has no other option than to use external financing the least risky form is considered. There is a preference for debt issuance rather than new equity (Basti and Bayyurt, 2019).
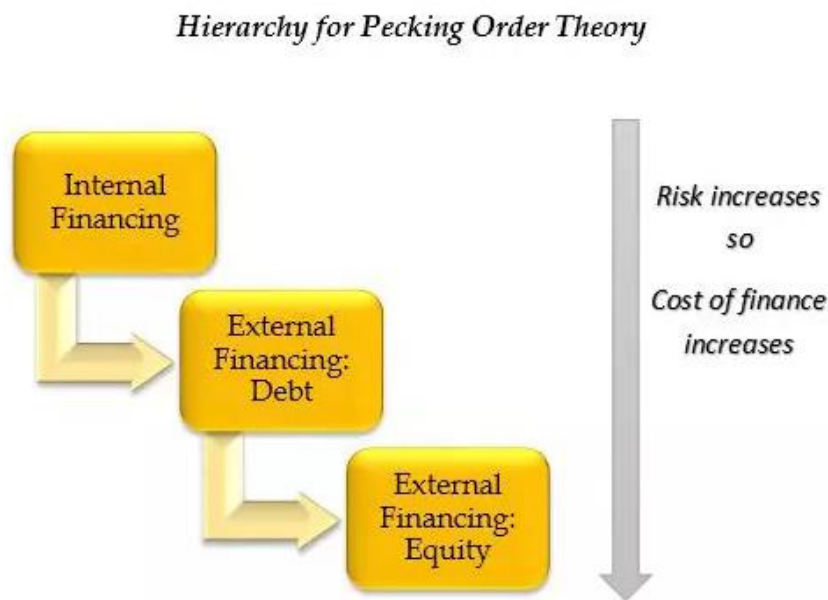
Figure 1.2: Pecking Order theoretical framework.

Source: eFinance Management, (2019)

2.16.3 Application of the theory

1st *Construct internal financing:* This source of finance is the most preferable because of its cheapest cost, and it is easily arranged on short notice. This procedure is easy and straightforward for the owners to protect their revenue and not seek funding from external sources such as Banks or investors. Internal sources of finance come from personal savings, profits, the sale of assets, and savings from reduced capital (Nyanamba, 2018). Besides, the manager increases the scale of business investment, reduces underinvestment, and promotes overinvestment. When a company is

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reliant on its resources, it is limited to what it has. However, the expense of using internal capital has a no-interest fee (He *et al.,* 2019).

2nd *Construct: External financing: Debt*: The needed capital is obtained from outside the company. Investors such as bank loans, corporate bonds, and leasing provide funding for a start-up. External financing cost is higher than internal financing due to the loan's accumulated instalment rate. However, external financing exposes the business to a great speed of growth and development. A statistic of 70.2% of respondents in the study by Kamunge *et al*. (2014) shows that by the mean of financial access, enterprises have significantly improved their performance (Nyanamba, 2018).

2.17. Chapter summary

This chapter reviewed the concept of SMEs from international and national perspectives. The importance of SMEs in South Africa was also outlined. The SME sector is strongly considered the most significant employment sector across countries. Disadvantaged people engaged in small business activities to sustain their households and family (Ligthelm, 2010). The success of the sector has encouraged governments to implement supporting institutions that will promote business thrive. SMEs significant contribution has earned the merit to solve economic growth problems, employment creation, and poverty alleviation in South Africa (Fiseha and Oyelana, 2015, Fatoki, 2014). However, despite the role SMEs play in the South African economy, small and medium enterprises face different challenges that cause their failure. The chapter underlined the crucial factors influencing the SME failure rate in South Africa. Lack of access to finance was disclosed as a primary factor restricting SMEs from thriving in South Africa (Olawale and Garwe, 2010). The concept of microfinance was also raised as a tool for poverty alleviation and incomes generating activities. The services provided by microfinance has enabled small businesses to benefit from financial support to start up their business regardless of their lack of collateral (Quaye, Abrokwah, Sarbah, and Osei, 2014). FINCA and ACCION are among the microcredit institutions that support entrepreneurship empowerment. Scholar paper shows that the initiative of ACCION and the Grameen bank occasioned the establishment, sustainability, and development of self-employment through the success of SMEs' yield. Lastly, the chapter examined the concept of growth and SME establishment. Financial distress and high-interest rate are the giants standing

against a promising economic shield. Even though the business has managed to qualify for a loan, it's still experienced a problem of a high- interest rate for the credit. Unable to reach a larger production scale and increase income, SMEs need financial aid to grow and expand nationally and internationally. Thereby, it is more than necessary to stop the trend that limits the strength of SMEs. The small business entity needs to alter from the stage of survival entity and grab the multiple opportunities available to them to foster their growth.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter illustrates the methodology used to solve the research question related to achieving the research's goal and objectives. The research methodology is the basic rule and principle of organising a research activity (Muhaise, Ejiri, Zake, and Kareyo, 2020). It is the researcher's methodical strategy, process, and technique to address the study issue (Rajasekar, Philominathan, and Chinnathambi, 2013). In addition, Research methods display a frame that incorporates ideas, instruments, and models likely to demonstrate how proper research is conducted (Sreejesh, Mohapatra, and Anusree, 2014). Following the nature of the study headings, a brief description of the research philosophy and explanation of the sampling and data collection methods will be provided. This chapter also discusses the measuring instrument's validity and reliability, as well as the administration of the questionnaire. In the final chapter, statistical data analysis will be described.

3.2 The Nature of the study

Research is divided into three main types, descriptive, exploratory, and causal or explanatory (Casula *et al.,* 2021). Exploratory research is a study in which very little information about the topic is provided (Sreejesh *et al.,* 2014). The research seeks to address the question of "why "and identify the cause and reason behind the investigation. As a result, as the research progresses, a better understanding of the subject emerges (Casula *et al.,* 2021). Descriptive research focuses on a situation that interests the researcher and describes the variables therein (Hair *et al.,* 2016; Sekaran and Bougie, 2016). Causal research, also known as explanatory research, identify the cause-and-effect relationship between variables, which determine whether or not one variable influence the change of another (Sreejesh *et al.,* 2014; Sekaran and Bougie, 2016). This study adopted a descriptive research plan and procedure to meet the research objective. Descriptive research is a scientific way of collecting data by observing and accurately describing the subject (Gathogo, 2014). Using a descriptive research strategy enables the researcher to measure results rather than only exploring them (Rudison and Rudison, 2015). Through descriptive research, the study will provide insight into microfinance's contribution to small business growth. Thus, it will

measure the result of microfinance over the growth of small businesses. A descriptive study will enable us to determine with confidence the relationship between the independent variable (growth) and the dependent research variables, which are the factors hindering SME's growth.

3.3 Research Philosophy

Research philosophy is the combination of subjective reflection and knowledge received by means of assumptions and beliefs. It allows the development of new knowledge that may lead to new theories (Zukauskas, Vveinhardt, and Andriukaiiene, 2018). The research philosophy applies concepts such as ontology, epistemology, and axiology. The ontology concept is about the nature of reality; it is enabled to have a better structure of the research objective, while the epistemology concept is about human knowledge, what is acceptable, valid, and legitimate and how that knowledge can be transferred to others. The concept of axiology deals with the role of ethics and the value system of the researcher (What do we believe is true?) (Saunders *et al.,* 2016; Sekaran and Bougie, 2016). According to Al-Zefeiti and Mohammad (2015), researchers in their studies opt for research philosophy to express their view and understanding of the world through assumption. There are different types of philosophy of research. The five main research philosophies in the field of business studies include interpretivism, critical realism, positivism, pragmatism, and postmodernism (Sauder *et al*., 2016).

Positivism

philosophy uses information from social reality to restore the original truth about the research that has been dissipated, known as the law of generalisation (Muhaise *et al.,* 2020). Positivists believe that science is objective and is the source of actual knowledge, claiming that true knowledge is derived from scientific research and objective reality. (Chilisa and Kawulich, 2012). When a researcher is objective, any information gathered is independent of their own opinion. Positivism studies are deductive and have a quantitative research approach; it aims to test theories that determine the strength of the relationship between variables or a cause and- effect relationship Park *et al.,* (2020)

Interpretivism

philosophy is based on idealism, whereby the investigator's understanding contributes to research development (Nickerson, 2022). Contrary to positivists, who claim that knowledge is objective, information is subjective because it is based on the researcher's perception and understanding of the observed situation. Human reflection is more complex than physical phenomena, they generate meanings, and those meanings are the focus of interpretive research (Muhaise *et al.,* 2018). Interpretivism argues that interpreting the social world objectively is a difficult task. As a result, researchers use a subjective approach to incorporate their appreciation to reveal people's experiences (Zukauskas *et al.,* 2018). The interpretivism research philosophy is typically inductive and uses a qualitative approach.

Pragmatism

Philosophy emphasises the problem of developing applicable theories meant to reveal the truth of the environment. Moreover, it is described as the practical consequence of ideas that explain reality (Ramlal, 2020). According to Kaushik and Walsh (2019), pragmatists have a reputation for focusing on a matter that affects the real world and believe that true theories and knowledge are those that effectively contribute to society. The question and the problem of the research represent important determinants in pragmatism research. The researcher analyses the current issues before he can assume the truth and suggest a solution (Kaushik and Walsh,2019). Pragmatism offers specific liberty on how the research should be conducted. The researcher is free to select the technique, methods, and procedure of analysis that is adequate to meet the need of the survey and achieve a scientific goal. Researchers begin by analysing a problem to generate a practical solution, and multiple theories and diverse knowledge are bound to emerge (Moises,2019). Therefore, pragmatism, adopts a mixed data collection approach, helps the pragmatist interpret the world, and carries out research in various respects. Pragmatist selects the best way, according to the research problem, with a wide range of options regarding the methods or technology to use, to produce reliable and relevant research data (Kaushik and Walsh, 2019).

Critical realism

Philosophy has an objective structure and causal mechanism (Koopmans and Schiller, 2022). The researcher explains what he observes around, but tries, by all means, to be as objective as possible (Saunders *et al.,* 2019). According to the critical realist, the researcher must have hindsight and

question the pre-existing structure for improvement (Ryan, 2018). According to Howell (2013), the critical theory point of view is tainted by the fact that researchers and society are influenced by their perception and experience. They are influenced by the way things have been done in culture, politics, race, gender, class, and the mass media. The critical realist employs sensation and mental processing to underhand the environment. For them, our sight can be deceitful; what is observed might not be the actual truth but rather an illusion of what we believe it to be (Ryan, 2018). Critical realism is often regarded as a mixed-method study approach.

Postmodernism

Philosophy emphasises the role of language and the power of relationships. It is questioning the way of thinking and acknowledging the voice of marginalised viewpoints. Postmodernism refers to many things in the arts and humanities, it signifies recent aesthetic developments that challenge conventional modernist conceptions of structure, meaning, and truth. According to Denzin *et al.* (2014), Postmodernism is defined as the "philosophy that is based on historical era, theoretically in terms of the emergence of multinational forms of late capitalism which have introduced a new cultural logic with new forms of communication and representation into the world system" (Denzi *et al.,* 2004). It focuses on a new form of society, one that has been radically transformed by the invention of film and television into a visual culture. Postmodernism addresses issues of crucial significance to the humanities and social science (Boyne and Rattansi, 2017). Postmodernism is typically a qualitative study (Saunders *et al.,* 2019). According to Olsen (2012), in human behavioural research, the positivist approach should be limited to what can be observed and measured objectively and independent of personal opinion and feelings. The study will conduct a positivist research philosophy. There is a need to collect data objectively to determine the relationship that exists between microfinance and the factors hindering small business growth. The choice of the positivist approach was pursued because it is related to the research methodology of the study. The method of the research was quantitative in nature and so was the data analysis. Through quantitative method the study will be able to quantify the challenges that SMEs encounter in South Africa, especially in Pietermaritzburg.

3.4 Research method

The research method represents the procedure used by the researcher to collect, analyse, and interpret data. Data can be collected using a quantitative method like closed-ended questions that are later converted into numeric data and statistically analysed to interpret the overall results. Alternatively, researchers may employ qualitative methods, in which data is gathered through interviews or open-ended questions and analysed using text or graphic images to interpret of the results. Finally, research can be conducted in a mixed method, in which different methods are applied for data collection, analysis, and interpretation (Abutabenjeh and Jaradat, 2018; Chih-Pei and Chang, 2017). Numbers and precision distinguish quantitative research; the study converts variables into numerical forms and analyses them to obtain precise results (Ruberg and Bouikidis, 2018). Quantitative research is associated with the positivist philosophy; it necessitates numerical data and employs statistical techniques to answer the research question (Moise, 2019). It is also stated that the study develops hypotheses to predict the research question's expected result, relationship, or outcome (Ruberg and Bouikidis, 2018). Survey, correlational, experimental, and causal-comparative research are all types of quantitative research (Apuke, 2017). According to Azorín and Cameron (2010), quantitative methods can use a mono-method quantitative study or a multi-method quantitative study. The mono method involves applying a data collection technique, such as a questionnaire, and a corresponding quantitative analytical procedure. In contrast, the multi-method involves more than one quantitative data collection technique and corresponding analytical procedure. This study adopted the quantitative method, particularly the mono-quantitative research method. The quantitative method was chosen to determine the possible relationship between the dependent and the independent variables. Thus, this will determine whether the contribution of microfinance institutions has a significant impact on the growth of SMEs. The quantitative approach was adopted in the research to understand the research problem better and gain greater confidence in the conclusions generated by the study.

3.5 Research strategy and time horizon

Gathering information for study purposes requires adequate strategies that offer fewer biased results. Researchers collect data through different channels like surveys, observation, experiments, case studies, grounded theory, and mixed research (Datt and Sudeshna, 2016). The choice of strategy corresponding to the study is related to more than just the research objective or the type

of research question. The research perspective and other factors limiting the work within the time frame set and any other difficulties in accessing data sources, must be considered (Sekaran and Bougie, 2016). This study used a survey research strategy to gather data from the participants and describe their behaviour and knowledge. Through the survey strategy, the researcher can easily collect massive data from the target population while being structured and uniform to enable the researcher to draw a general conclusion about the entire population (Saunders *et al.,* 2016). With the survey, quantitative data are gathered and analysed using inferential and descriptive statistics. This study used a cross-sectional survey as data was collected at one point.

3.6 Study Site

The study site was the location where the research was carried out. This study was carried out in Pietermaritzburg, the capital city of KwaZulu-Natal province in South Africa, the second largest city after Durban. The Msunduzi Local Municipality governs the city of Pietermaritzburg. Due to the size and the number of SMEs registered in PMB, the researcher found it convenient to conduct the study in Pietermaritzburg city as research data in Pietermaritzburg is more available and easier to access. Figure 4.1 depicts the map of the study site.

Figure 2: Map of the study site

Source: Maps (2018)

3.7 Sampling design

Sampling is the process by which a researcher chooses a subset of the population whose characteristics correspond to what is being studied rather than working on the entire population (Cash *et al.,* 2021). Reducing the whole population into a significant sample allows for more time allocated to tasks that contribute to more accurate results. Therefore, the researcher can implement the project within time and budget constraints (Ragab and Arisha, 2018). However, sampling design identifies the various steps that structure data collection by describing the target population, selecting the sampling frame, selecting the sampling method, and determining the sample size (Ragab and Arisha, 2018).

3.7.1 Target population

The target population represents the individuals from whom the sample is intended to be selected (Greener and Martelli, 2015; Lohr, 2021). Furthermore, the study population is a large group of people or persons, things, or events with specific characteristics from which the researchers select a random sample (Taherdoost, 2016). The study focused on the formal sector due to the preference for registered businesses when applying for funds. Unlike in the informal sector, SMEs can access various business development services that meet the minimum and legal requirements of South African government agencies (Nieman and Nieuwenhuizen, 2014; Moises, 2019). To gather information about the target population, the researcher approached the Pietermaritzburg CBD municipality. The Municipality office database was used because it gave the researcher the ability to correctly locate and identify the study's target population participants. As a result, the study's target population included 153 SMEs registered with the Pietermaritzburg local municipality. The researcher chose to target registered SMEs because they would provide specific information that aligned with the study's objectives. More specifically, questionnaires were distributed to business owners or managers to be completed.

3.7.2 Sample frame

In the sampling frame, the researcher displays the type of sample that will be collected, how the sampling unit is selected as the representative of the entire population, and also precisely the location the samples have to be collected (West, 2016; Mooney and Garber, 2019). The sampling frame allows a researcher to create a structure to reach the population unit required for the study's

sampling size. This study sampled a database of 236 registered SMEs operating in the town of Pietermaritzburg from the municipality of Msunduzi.

3.7.3 Sample size

The sampling size determines the numerical sample representing the entire population (Miller *et al.,*2010). To constitute the sampling size of a study, researchers include different factors that are receptive to reliable results. Therefore, the sample size relies on the research objective, the target population, the sampling frame, and time and cost constraints (Singh and Masuku,2014). The sample size was determined using a sampling frame of 236 registered SMEs obtained from the Msunduzi Municipality database in Pietermaritzburg. The sample size was calculated using an online sample size calculator (Survey system,2012). With a target population of 236 SMEs, a margin of error of 5%, and a confidence level of 95%, this study included 147 registered SMEs (final sample size).

3.8 Sample technique/method

The sampling method is the procedure of developing adequate strategies that would answer the research question. The process involves collecting, analysing, interpreting, and discussing data (Berndt, 2020). It can be challenging to undertake research in the Pietermaritzburg CBD that is aimed at SMEs and expects to obtain data from every existing business. As the research study excludes informal businesses, the study is also affected by registered businesses' reluctance to participate. Therefore, the sample will select segments of businesses in each category that address the research question and use sections with similarity respectively to conduct data analysis. Sampling techniques include probability and non-probability sampling methods. Probability sampling chooses its samples randomly, which is why it is also known as the random sampling method (Miller *et al.,*2010). The researcher uses mathematical rules to select the sample and ensure an equal chance of inclusion for every participant (Berndt, 2020). According to Miller *et al*. (2010), probability sampling produces an effective result in a quantitative study. However, it is a time-consuming and costly technique, especially if the sample size is large. The time attributed to investigating each case enables the researcher to reduce the sample's bias and improves the study's generalization (Vehovar *et al.,* 2016). Non-probability sampling is a subjective sampling method.

Instead of using a random selection, the study relies heavily on the researcher's opinion to select the samples (Etikan and Bala, 2017).

The participants also be referred to the researcher or can be self-selected to participate in the study (Buelens *et al.,* 2018). As a result, the researcher saves time and works within the budget to gather data. Non-probability sampling is more cost-effective and convenient; however, it causes sampling bias, limits generalisation, and jeopardises research validity as it often needs to fully represent the target population (Vehovar *et al.,* 2016). For this reason, non-probability sampling does not allow the researcher to extend the results of the study to a general population. The high risk of bias related to the reliability of the researcher's subjective choice limits the relevance of this method (Etikan and Bala,2017). The non-probability sampling does not determine the sampling error. Information is collected within the specific sample group created by the researcher. Any data outside of the participant group is not part of non-probability sampling (Buelens *et al.,*2018). Non-probability sampling can be used in both qualitative and quantitative research. The quantitative study uses non-probability sampling for its convenience, time management, and the fact that it is cost-effective. In comparison, the qualitative study opts for non-probability sampling to identify similarities within the target population for further theory development (Miller *et al.,*2010). Because the samples are not chosen randomly, this method is also known as non-random sampling. Furthermore, the options for selecting the sample are unknown and not specified. Non-probability sampling can be used in exploratory or descriptive research (Brick,2014).

The non-probability sampling method is used in this study because it is simple to apply and enables the researcher to obtain results within the time frame and budget constraints. There are four distinct strategies for the non-probability sampling method: Quota sampling, purposive sampling, self-selected sampling, and snowball sampling strategy. Each strategy has its particularity, like quota sampling segmenting the sample according to similarities or common characteristics and selecting people about the study objective. Purposive sampling primarily relies on the personal judgment of the researcher to select a suitable sample for the study. Purposive sampling includes maximum variation, expert, and typical case sampling. While self-selected or convenience sampling requires the criteria of exclusion/inclusion, and participants must voluntarily provide information related to the study. The fact that participant cooperate to contribute to timesaving and there is a

commitment to providing reliable data. However, self-selection may also contain bias in terms of exaggeration or misleading findings or can produce a non-representative sample. Snowball sampling works in terms of chain where the first participant referred the next one and so forth. This strategy is applied when there are difficulties in finding the study population. As the random selection is not used, sampling error cannot be calculated, and the degree of confidence in interpretation cannot be determined. Convenience sampling is used in this study to gather data due to time constraints and other issues like access and locating of respondents. To fulfil the submission dates for the dissertation, convenience sampling enables the researcher to disseminate a large number of survey questionnaires. Additionally, a different approach than administering a questionnaire will put the researcher and respondents at risk of contracting COVID-19 due to its present restrictions.

3.9 Data collection

The study utilised both primary and secondary data collection methods to obtain a comprehensive understanding of the research questions. Primary data was collected through the use of structured questionnaires administered to the research participants, while secondary data was obtained from a variety of sources such as books, government publications, journal articles, and newspapers. It is imperative to note that the structured questionnaire was selected as the primary data collection tool for the study. This questionnaire was specifically designed to capture the relevant information required to answer the research questions in a clear and concise manner. The questionnaire was structured into six distinct sections, each tailored to elicit specific information from the research participants. The use of a structured questionnaire enabled the researcher to collect data in a consistent and standardized manner, thereby increasing the reliability and validity of the study's findings.

The questionnaire consisted of six sections which are:
Section A: Demographics and background information
Section B: The nature of Small and Medium Enterprises
Section C: Microfinance institution (MFIs) on business growth
Section D: The benefits of accessing MFIs.
Section E: The influence of microfinance on the sustainability of the SMEs

Section F: Challenges to accessing assistance from supporting institutions.

3.9.1 Administration of the questionnaire

The researcher distributed questionnaires from one business to another. Conveniently, the owner-managers of the SMEs were selected to answer the questions. Owner-managers of SMEs who might respond to the survey were approached by the researcher and requested to complete it. While some SME owner-managers agreed to participate in the study, others declined because they were not interested in it or needed assistance from the government or other organisations. They were not interested in the study since they ran their firms independently and relied on their efforts. The SME respondents filled out the surveys at their own pace. Respondents received personal reminders from the researcher to finish the questions. The questionnaires took two weeks to complete for the majority of respondents. Over seven weeks, data was collected.

3.10 Data quality control

Phillips and Pugh (2016) state that the research instruments used to collect data must be valid and reliable. For this study, questionnaires were used. May (2016) further contends that for meaningful considerations to be drawn, the research should produce proper knowledge on the one hand, and repeatable on the other hand. These depict validity and reliability, respectively. The concepts of validity and reliability are discussed separately as the context in which they were found to be applicable in this study.

3.10.1 Reliability

Jhangiani *et al.* (2015) define reliability as the level of critical consistency and stability of measure. McHugh (2012) also defines reliability as the extent to which the same data would be collected each time repeated observations of the same phenomenon are made. Thus, reliability is concerned with the accuracy and consistency of the measuring instruments when repeated measurements are made. To ensure the reliability of the data collected in this study, the researcher self-administered the questionnaire to business owners/managers and ensured that the questionnaires were filled in within a considerable period and then returned for data analysis.

3.10.2 Validity

The significance of research components is concerned with validity. When researchers assess behaviour, they are concerned about whether they measure what they intended to measure (Drost,2011). Validity has to do with the accuracy or correctness of the analysed results of the research (Moss,1994). There are three major types of validity: criterion, content, and construct.

Construct validity: Construct validity is explained as the degree to which a research instrument measures the intended construct. This type of validity affirms how well the intended results from using the measure correspond with the theories on which the tests were designed. Construct validity is evaluated through quality, convergence, or the evidence of the theory. Different forms of construct validity can be established, such as correlational and factor analysis (Drost, 2011).

Content validity: Content validity is explained as the precision with which research instruments measure all aspects of a construct. Content validity guarantees that the measure covers satisfactory and descriptive items that tap the concept. A subsection of content validity is referred to as face validity, wherein the opinions of qualified professionals are requested on whether a research instrument measures the concept it is intended for (Drost,2011).

Criterion validity: Criterion validity is explained as the magnitude of the research instrument related to other instruments that are supportively meant to measure the same variables. Criterion validity is exempted when the measure differentiates people on a standard it is meant to predict. There are three ways that criterion validity may be measured in convergent validity; divergent validity, and predictive validity (Moss,1994).

3.11 Pilot testing

Pilot testing gives the researcher the platform to recognise and resolve the matters concerning the clarity of the questions within the questionnaire, the quality of the answers given from the questionnaire, and assess whether resolute analysis can be performed after reasoning on the set of data that is obtained during the data collection process (Schroder *et al.,* 2011). A pilot study is rather essential to improve scales, formats, and questions as well as to determine the content of scores on a research questionnaire. The questionnaire was pre-tested before the start of data

collection (Schroder *et al.,* 2011). The pilot tests were used to regulate the respondent' answers accuracy and consistency. The pilot test was carried out by eight SME owners in Pietermaritzburg City in South Africa who were not part of the sampling frame. SMEs were registered and operated, while respondents were chosen for convenience in the pilot study. The respondents' characteristics during the pilot were comparable to the sample of the study. Errors and uncertain questions would be noted and rectified to improve clarity. The final data analysis does not include the answers attained during the pilot study.

3.12 Measurement and scaling

The research comprises two sets of variables, the dependent and the independent variables. The dependent variable was growth, and the independent variables were all the factors influencing SMEs growth. The dependent variable that was under investigation in the study was growth. The independent variables evaluated in this study included gender, race, age, level of education, type of business, motivation, and access to MFIs.

3.13 Data analysis and interpretation

The data that was collected through closed-ended questions were recorded, examined, and interpreted differently. The data that was collected from the managers or owners of the SMEs in Pietermaritzburg was interpreted through bar graphs and pie-chart. At the same time, the specific SMEs are classified through a summary table. The data were interpreted using inferential and descriptive statistics. Descriptive statistics applied in this research include frequency analysis and cross-tabulations, while the inferential statistics used included Chi-square. Following the descriptive statistics applied in this research, we will further discuss the frequency analysis; cross-tabulation with Chi-Square analysis.

3.14 Ethical considerations

The ethical approval for the research was granted by the University of KwaZulu Natal ethics committee and the gatekeeper's letter from the office of the register at the University of KwaZulu Natal. To preserve human dignity throughout the research period, the researcher required informed consent from the respondent to say that they are allowing the researcher to use the information they are giving. According to (Smith *et al.,*2005), the researcher must ensure that participants and

the data collected are protected. In this study, the research's aim was explained to the participants. All the respondents signed an informed consent letter as an indicating that they voluntarily agreed to participate in the study. The researcher applied for an ethical clearance from the University of KwaZulu-Natal before the data collection process commenced. The University of KwaZulu Natal's committee for Research Ethics granted the ethical clearance approval letter. The ethical clearance approval letter included clauses that stipulated that the study would not harm the respondents and that the responses and interpretation thereof will be handled ethically. A copy of the ethical clearance approval letter is attached in Appendix Q. Anonymity and confidentiality were both maintained. There were no risks associated with participating in this study because the information obtained was only used for this study and the participants remained anonymous because their responses were aggregated data.

3.15 Summary

The chapter presented the methodology used to answer the research questions. The nature of this study is descriptive. The methodology employed was based on the research framework. The chapter discussed the research philosophy or paradigm, the research approach, the research method, the research strategy, and the time horizon. The study used positivism as the research philosophy or paradigm, deduction as the research approach, and mono-quantitative method research as the research method. The study was conducted in Pietermaritzburg city, South Africa. The target population involved owners-managers of registered SMEs operating in Pietermaritzburg, South Africa. Convenience sampling was used as the sampling method. Data were collected from a survey questionnaire. A pilot study was conducted before data collection. Data were analysed using Microsoft Office Excel 2013 and SPSS version 24. Lastly, the chapter highlighted the ethical considerations. The following chapter presents and interprets the research findings.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF RESULTS

This chapter will cover the data analysis and the interpretation of the results of the study flowing the different and relevant step of the questionnaire.

4.1 Response rate of the participants

A total of 114 respondents participated in the quantitative survey translating to an 81% response rate of the participant. The key participants were either the owners of the business or the managers running the business entity.

According to the sample collected, most of the SMEs operating in the Pietermaritzburg CBD are dominated by males with a contribution of 54.4 % while the female is 45.6% - Table 4.1. These are either in the managerial position or the owner of the SMEs.

Table 4.1. Demographic information

Description of Demographic Attributes	Attributes	Frequency (N)	Percentage (%)
Gender	Male	62	54.4
	Female	52	45.6
Age	18-25	12	10.5
	26-35	50	43.9
	36-45	38	33.3
	46 and above	14	12.3
Race	Black	63	55.3
	White	19	16.7
	Indian	16	14.0
	Asian	5	4.4
	Coloured	11	9.6
High-Level of Education	No formal education	28	24.6
	Some/primary school	8	7.0
	Some/all high school	42	36.8
	Degree/diploma	36	31.6

The segregation by age shows that the majority were in the age group of 26 to 35 years, followed by age group of 36 to 45 years. However, low percentages were recorded by those below the age group of 25 and those above 46 years. SMEs according to the sample were dominated by the Black

race (55.3%), followed by the White who accounted for 16.7%, and the Indian (14.0%) respectively. Very few are from Asian and coloured communities. Regarding education for those owning or running SMEs, the majority only have a high school qualification (36.8%), followed by those with a Degree/Diploma (31.2%). It is, however, a cause of concern because almost a quarter of the people interviewed have yet to formal education while they are either the owners or individuals managing the SME entity.

4.2 Characterisation of SMEs

The motivation behind most SME creation was based on opportunities available that the owner identified in the market and decided to grab, which accounted for 29%. Others were motivated to start their own business out of passion (28%), and very few were inherited (13%). The reason that motivates these business owners represents an essential trend toward business growth. Therefore, whilst discussing the nature of SMEs and their different types of business, there was also a need to correlate to their years in business and the number of personnel employed by the business as demonstrated in Figures 4.1; 4.2; and 4.3 respectively.

Figure 4.1. Presents the frequencies of the different types of SMEs in the Pietermaritzburg CBD. Tuck shops are the most dominant businesses existing in Pietermaritzburg (17%), followed by the restaurant/takeaway, which accounted for 14%, student accommodation (12%), and hair salons (11%). However, low percentages were attributed to vehicle repair (9%), wholesaler business (9%), and business retail (7%), while general dealer, dressmaker, and supermarket businesses accounted for 6% as individual entities. The least of the SMEs operating are those involved in the auto spares business, accounting for only 2%.
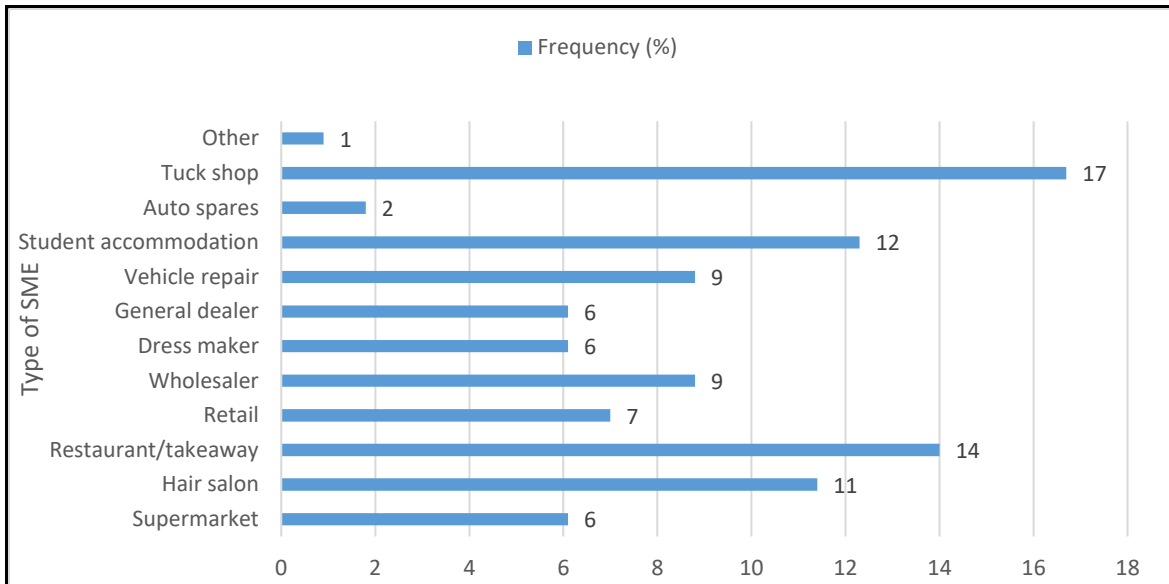
Figure 4.1. Summary of Different Types of SMEs in Pietermaritzburg

Figure 4.2. Represents the duration of the SMEs being in operation. Most of these SMEs have been in business for between 2 - 4 years accounting for a total of 43%, followed by over 5 years or more (34%) and those less than 2 years (23%). The dressmaker, although being a company with low percentage of attribute, has been in operation for over 5 years (71%), while the most dominating tuck shops have been in business for two to four years. The dynamics involved in the long period of existence in the business by SMEs such as dressmaker, retail, or supermarket is the sustainability of the business over the years.
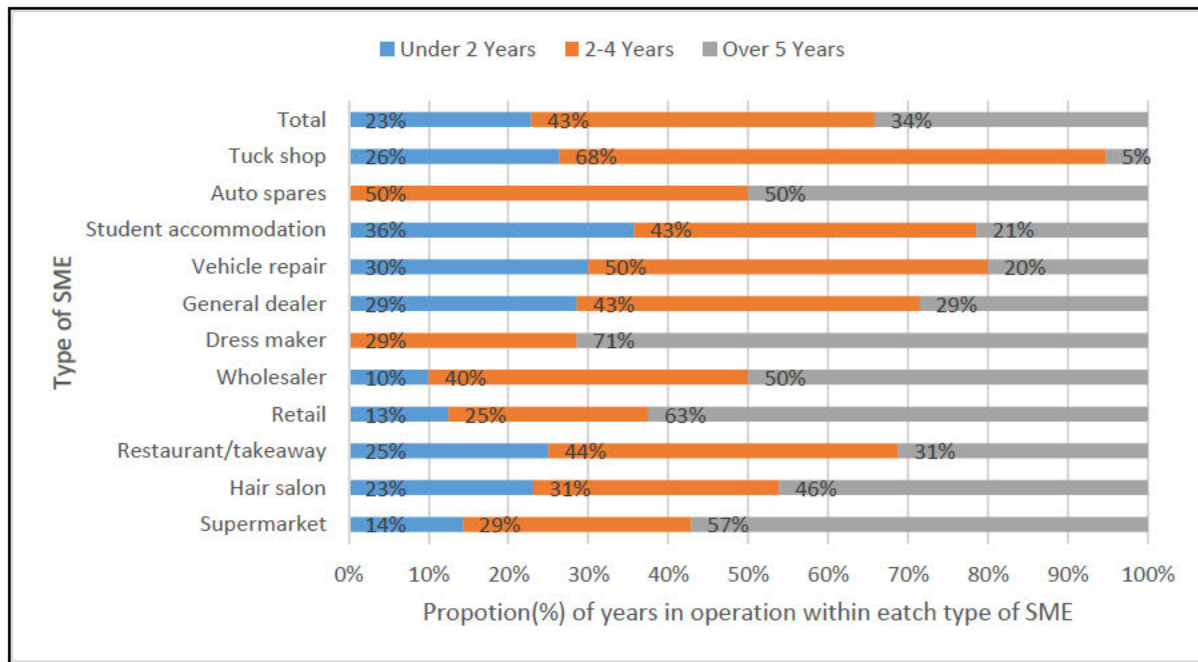
Figure 4.2. summary of the years of operation within each type of SME

Figure 4.3. Represents the number of people employed per each type of business. Most SMEs are employing between 1-5 people (66%), followed by 6-10 people (22%), respectively. Few SMEs employ between 11-20 people (10%) and only 3% account for 21-50 people. Tuck shops, general dealers, student accommodations, and hair salons mostly employ between 1-5 people in the institution. On the hyper side, the supermarket is the only type of SME employing a greater proportion (14%) employing above 21 people, and this applies to restaurant and vehicle repair SMEs. The nature of their businesses may inform these trends.
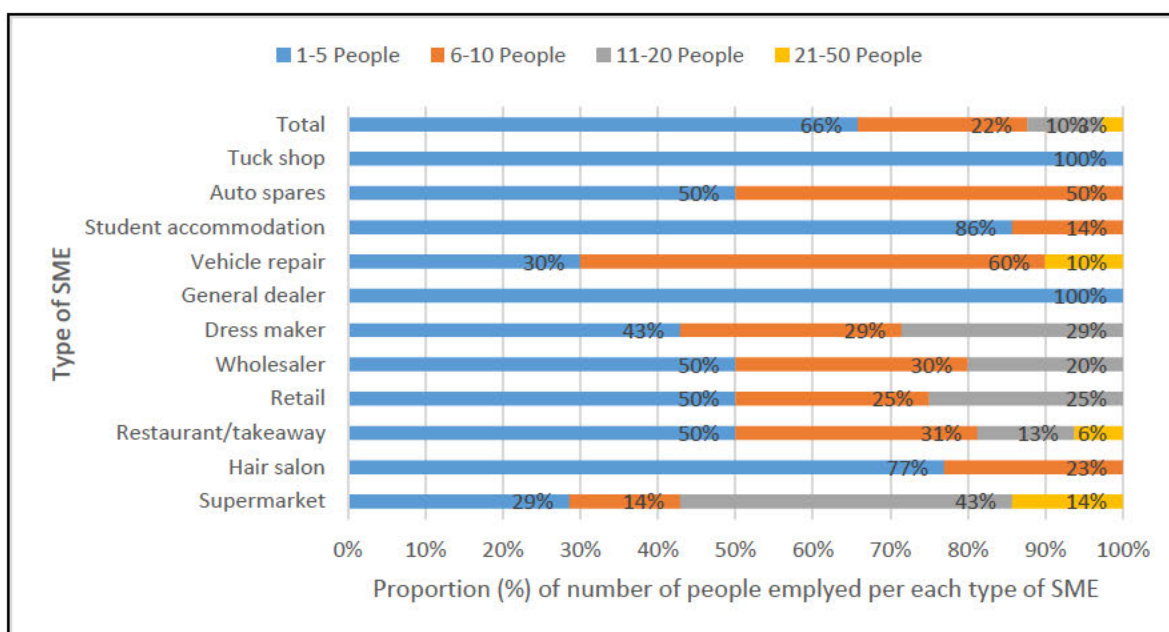
Figure 4.3. Summary of the number of people employed per each type of SME

These aspects discussed above (type of business, years of operation and number of people employed) are key indicators of growth in one way or the other regarding SMEs. It is important to further explore how these have influence in stimulating growth of the SMEs.

4.3 Influence of Microfinance institutions (MFIs) on business growth

It is interesting to note that most participants have heard of MFIs. However, a significant number, approximately 37%, have never heard of MFIs. It was necessary to investigate if they heard about these MFIs, did they proceed to be granted. Sixty-three percent of those who heard about MFIs proceeded to access financial services from the MFIs, as summarized in Table 4.2.

Table 4.2. Exposure and access to MFIs

	Has your enterprise been granted access to MFIs?		
Have you ever heard about MFIs?	Yes	No	Total
Yes	63%	37%	100%
No		100%	100%
Total	43%	57%	100%

It is interesting to note that those who had never heard of MFIs did not apply at all for any financial services. As a result, exposure to information is an important factor in gaining access to MFIs. Therefore, there is a need to market and educate business owners or managers in the SME industry about these MFIs and the wide range of services they offer. Otherwise, access is restricted in the absence of information. It was then necessary to comprehend and state that, among those granted access to MFIs, the contribution of microfinance to the growth of SMEs was significant. Most SMEs (35%) reported a 3 - 9% growth, followed by 19% reporting less than 2% growth and approximately 10% of the SMEs reporting more than 10% growth, respectively – Figure 4.4.
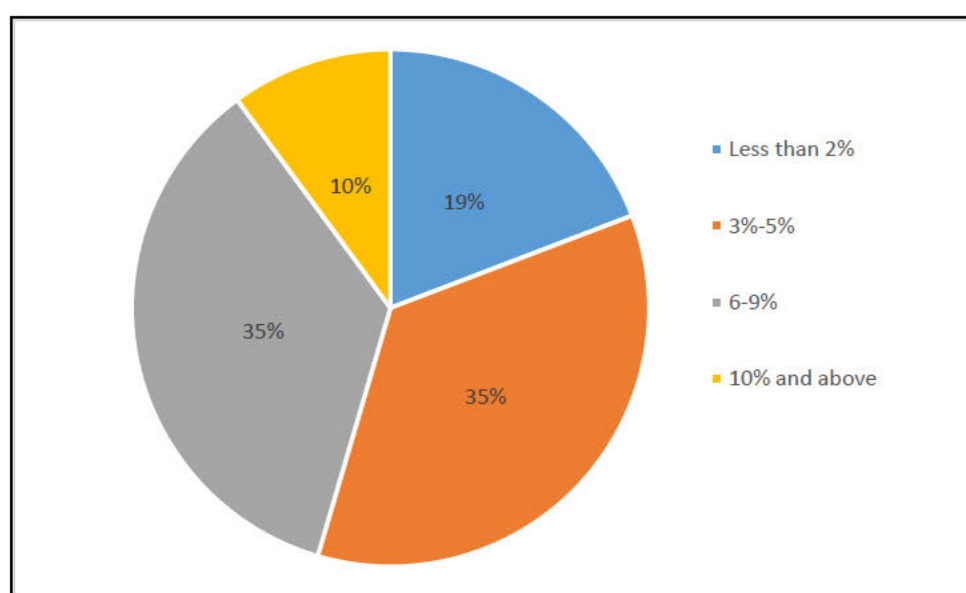
Figure 4.4. Contribution of MFIs on SMEs growth

4.4 Barriers to SMEs' access to MFIs

Because of the reported growth of SMEs due to access to financial services offered by MFIs, it is evident that microfinance institutions play a significant role in this intended outcome. However, there are still SMEs who reported growth of less than 2%, and it was also interesting to investigate why those who applied for financial services with MFIs were denied access. Although those who had access to MFIs reported that it led to growth, those who have not benefited or had no access to MFIs have been limited by various barriers. The most common reason was that candidates never applied for MFIs because of unawareness. A candidate must be aware of the existence of MFIs to be able to apply or gain access to them. Approximately 58% of the participants did not apply for

MFI services. These were followed by those who claimed they could not access funds because they were self-employed (15%). Another significant contributor to non-access to MFIs has been nationality (10%). By implication, it is also indicated that most SME sectors are dominated by non-South Africans. Therefore, barriers to MFI access are mainly due to lack of awareness, nationality, and employment formality.
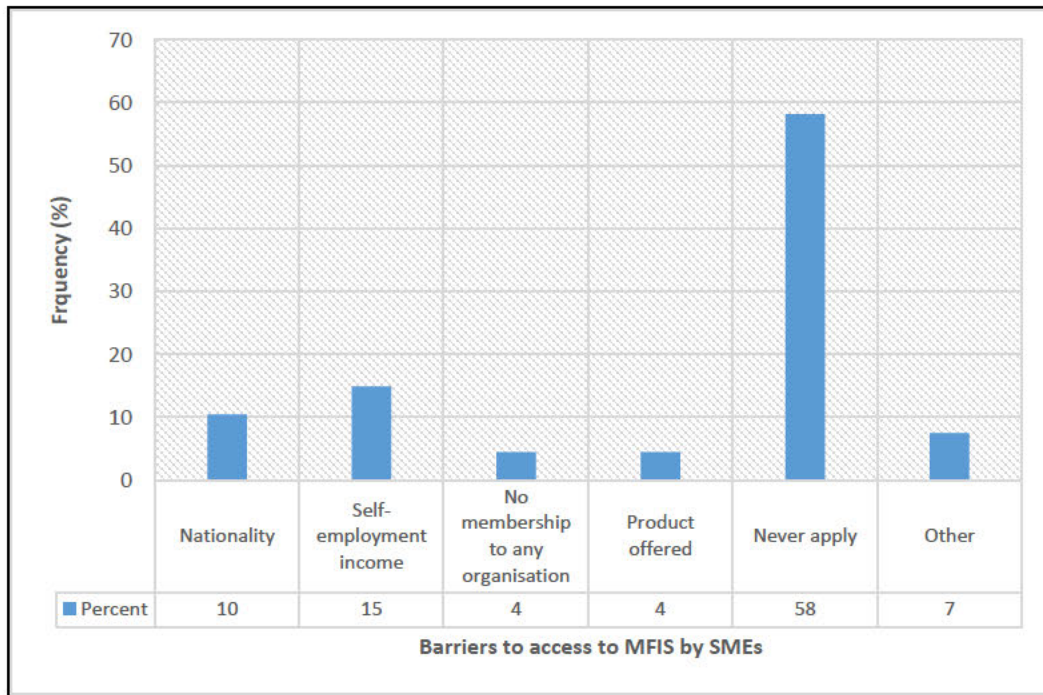
Figure 4.5. Barriers to access to MFIs services by SMEs

4.5 How the existence of MFIs is playing a role in providing financial aid to the SMEs

The assistance of microfinance institutions is not only limited to assisting SMEs in financial services, but also offer business owners various other assistance or services. Most participants claimed to have benefited from loan access (40%), providing funds for the establishing their businesses (29%), while 25% reported services that are not necessarily financial. Since micro financial services primarily deal with credit rather than savings, very few SMEs reported access to savings services (6%) from the MFIs – Figure 4.6.
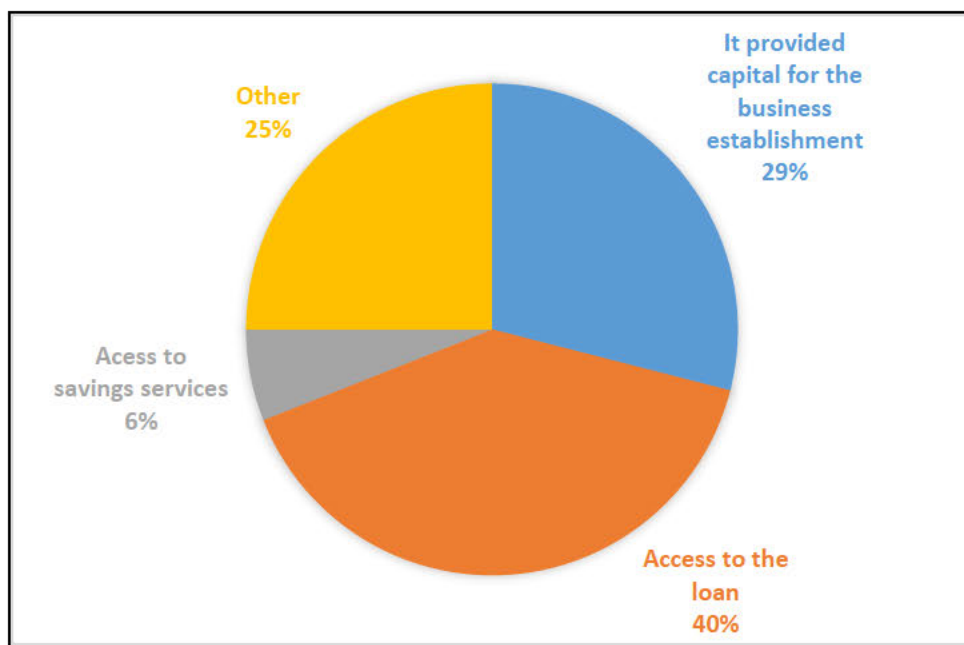
Figure 4.6. MFI's role in providing financial aid to SMEs.

The perception among the SMEs is that MFIs offer skills and less strict repayment terms. However, it was important then to investigate the forms of non-financial assistance being rendered to these specific SMEs.

4.6 What other support did SMEs get from MFIs

The majority reported that it was more to do with business governance (42%) and business plan writing (34%), as summarized in Figure 4.7. Though reported by a few SMEs, other aspects included the importance of saving (6%) and improving business confidence (6%).
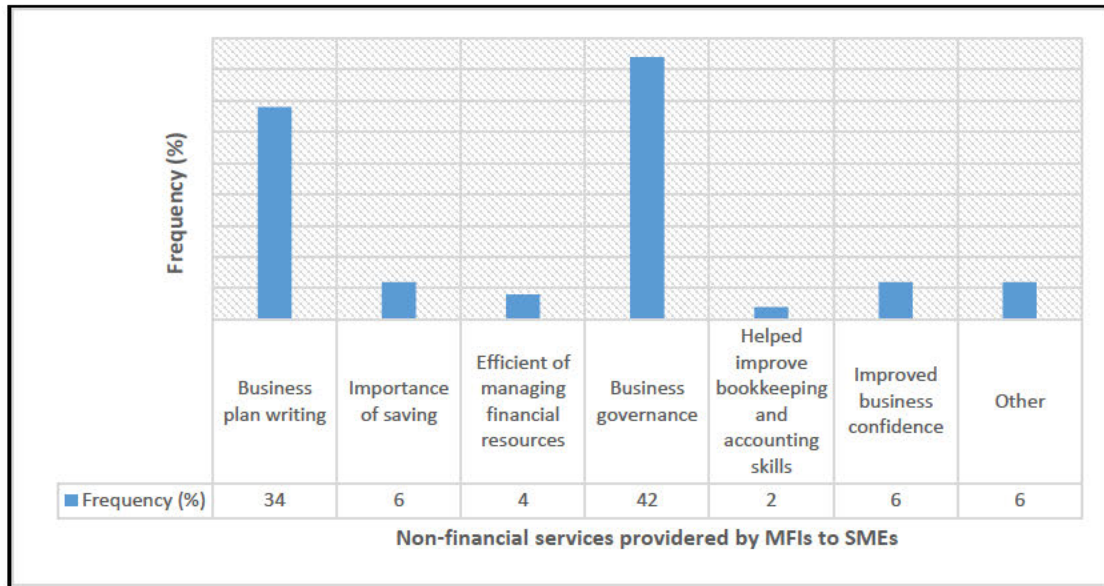
Figure 4.7. Non-financial services offered by MFIs to SMEs

4.7 Investigating factors that stimulate growth of SMEs

This section will concentrate on the relationship between each variable and growth to draw any inferential deduction. To investigate the relationship of growth between two variables, chi-square test was used. The null hypothesis, while using the chi-square test, indicates that H_0 represents a no association between the two variables (the variables are independent of each other), In contrast, the alternative hypothesis H_1 indicates that there is an association between the variables (the variables are dependent). If the p-value is less than 0.05 at a 5% level of significance, we reject the null hypothesis and conclude that there is an association between the two variables. When there is no association, the results indicate that the two variables are independent. When there is an association, the two variables depend on one another. There was a need to identify factors that stimulate growth in our study.

Therefore, few variables were identified, namely: age, gender, motivation to start the business, level of education, type of business, and access to MFIs services. Regarding exposure, the researcher realized that it was preferable to discuss access to finance rather than exposure. Therefore, access to finance will define exposure (awareness's) impact on business growth. Furthermore, it explains how effectively SMEs can thrive if more business owners or managers are aware of the importance of MFIs. The test will help determine whether there was a growing

relationship between businesses that had access to MFIs and those that did not. Growth was recorded as either low or high. For low growth, the researcher used categories 1 to 3, implying that 0 to 9% growth is considered low, and 10% and above is considered high. To test the hypothesis, the researcher used the Pearson Chi-Square test.

4.7.1 Gender and growth

Table 4.3 and Table 4.3.1 are summaries of results for testing the association between gender and growth.

Table 4.3. The association between gender and growth

	A1: Gender		
	Male	Female	Total
Low Growth	22	21	43
High Growth	40	31	71
Total	62	52	114

Table 4.3.1. Chi-square test of gender and growth

Chi-Square Tests					
	Value	df	Asymptotic Significance(2sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	.289[a]	1	0.591		

The Chi-Square test statistic value (p = 0.591) is greater than 0.05, therefore, we fail to reject the null hypothesis and conclude that there is no association between growth and gender.

4.7.2 Age and Growth

Table 4.4 and Table 4.4.1 are summaries of results for testing the association between age and growth.

Table 4.4. The association between age and growth

	A2: Your Age				
	18-25 Years	26-35 Years	36-45 Years	46 and above	Total
Low Growth	7%	56%	35%	2%	100%
High Growth	13%	37%	32%	18%	100%
Total	11%	44%	33%	12%	100%

Table 4.4.1. Chi-Square test of age and growth

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	8.697[a]	3	0.034

The Chi-Square test statistic value (p = 0.034) is less than 0.05 (5% level of significance). Therefore, we reject H_0 and conclude that there is an association between growth and age, and within the desired output of high growth, the majority are middle-aged owners/managers (26-35 years). However, growth is reported to be low in the age groups of 46 years and above (2%) and in the age group of 18 - 25 years (7%).

4.7.3 Level of education and growth

Table 4.5 and Table 4.5.1 are summaries of results for testing the association between the level of education and growth.

Table 4.5. The association between High-level of education and growth

A4: Your highest-level of education

	No formal education	Some/ Primary school	Some/ all high school	Degree/ Diploma	Total
Low Growth	44%	9%	30%	16%	100%
High Growth	13%	6%	41%	41%	100%
Total	25%	7%	37%	32%	100%

Table 4.5.1. Chi-Square test of High level of education and growth

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	17.276[a]	3	0.001

The Chi-square p-value, which is equal to 0.001 is less than 0.05, the level of significance. Therefore, we reject H_0 and conclude that there is an association between the level of education and growth. There is a noticeable trend among the desired outcome of high growth that the higher you go in terms of the level of education, the more growth is reported. However. It is a matter of concern that almost a quarter (25%) of our business owners or managers indicated no formal education. Moreover, it is reported that growth is low, with a percentage of 44% among those with no formal education, which indirectly influences how the entity is likely to thrive.

4.7.4 Type of business and growth

Table 4.6 and Table 4.6.1 are summaries of results for testing the association between the type of business and growth.

	Supermarket	Hair salon	Restaurant/ takeaway	Retail	Wholesaler	Dress maker	General dealer	Vehicle repair	Student accommodation	Auto spares	Tuck shop	Total
B1: Indicate which of the following type of business your SMEs is engaged in												
Low Growth	2%	9%	9%	9%	7%	5%	7%	12%	5%	5%	30%	100%
High Growth	9%	13%	17%	6%	10%	7%	6%	7%	17%		9%	100%
Total	6%	12%	14%	7%	9%	6%	6%	9%	12%	2%	17%	100%

Table 4.6. The association between type of business and growth

Table 4.6.1. Chi-Square test of type of business and growth

Chi-Square Tests			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	18.871[a]	10	0.042

The Chi-square p-value (p = 0.042) is less than 0.05, the level of significance. Therefore, we reject H_0 and conclude that there is an association between the business type and growth. When we look at the desired high growth, it is evident that businesses that have a higher level of growth are Restaurants/takeaway (17%), student accommodation (17%), and Hair salons (13%).

4.7.5 Motivation of opening business and growth

Table 4.7 and Table 4.7.1 are summaries of results for testing the association between the motive of setting up a business and growth. The Pearson Chi-Square test is significant at a 5% level of significance (p = 0.022). Therefore, we reject H_0 and conclude that there is an association between motivation and growth. Since the motive behind creating a business entity can be driven by so many factors, some out of passion, others out of opportunity, and some through inheritance. it is likely that those who create these SMEs out of identifying opportunities have higher chances of achieving higher growth than those who create business out of passion.

Table 4.7. the association between motivation and growth

	B4: What are/were your motives for setting up your own business?			
	I wanted to establish myself in the business I was passionate about	I saw an opportunity/ gap in the market	Inherited the business from family	Total
Low Growth	60%	20%	20%	100%
High Growth	31%	51%	18%	100%
Total	40%	41%	19%	100%

Table 4.7.1. Chi-Square test of motivation and growth

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	7.647[a]	2	0.022

4.7.6 Access to MFIs and growth

Table 4.7 and Table 4.7.1 are summaries of results for testing the association between the motive of setting up a business and growth.

Table 4.8. The association between access to MFIs and growth

	C2: Has your enterprise been granting access to MFI?		
	Yes	No	Total
Low Growth	100%		100%
High Growth	8%	92%	100%
Total	43%	57%	100%

Table 4.8.1. Chi-Square test of access to MFIs and growth

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	91.587[a]	1	0.000

The Chi-square p-value, which is equal to 0.000, is significant at a 5% level of significance. Therefore, we reject H_0 and conclude that there is an association between access to MFIs and Growth. As most SMEs turn to MFIs when facing financial distress and difficulties sustaining their businesses, this suggests that established enterprises don't need to request funding, which accounts for the 92% growth rate for those who did not use MFIs. To increase growth for their business, some SMEs did access MFIs but still exhibited a low percentage (8%) of the desired high growth. Thus, there is a need for more support to be rendered to them to ensure that they are successful and remain sustainable in the future.

4.8 Summary of the chapter

In conclusion, this chapter has provided the presentation and interpretation of the study's empirical findings. The chapter began by reporting on the response rate of the survey and reliability test. Subsequently, the demographic data of the respondents was analysed through descriptive statistics. In addition, the chapter presented the analysis of the empirical findings of the research, which followed the study's research objectives. Moreover, the inferential statistical analysis of the data was provided. The following chapter discusses the research findings regarding the significance of MFIs in the growth of SMEs in PMB.

CHAPTER FIVE
DISCUSSION OF FINDINGS

5.1 Introduction

The previous chapter presented and interpreted the empirical results of the study. This chapter examines, explains, and discusses research findings in conjunction with reviewed literature and the research objectives. Research findings are discussed in connection to the questionnaire design. The findings were obtained from the questionnaires administered to the 114 SME owners in Pietermaritzburg CBD. The focal point of this study was to investigate the significance of MFI in influencing SME growth.

5.2 Results in relation to research objectives

The results emanated from the specific questions that were asked in relation to the research objectives. The researcher chose these questions because they give insight into how MFIs contribute to SMEs' growth.

5.2.1 Research objective 1:
To characterise the SMEs operating in PMB, SA.

The primary purpose of research objective one was to characterize the SMEs operating in Pietermaritzburg. The research findings indicated that tuck shops are the most dominant businesses in Pietermaritzburg with (17%), followed by the restaurant/takeaway (14%), student accommodation (12%) and hair salon (11%). The results indicated above align with the idea of Ladzani (2010) wherein he stipulated that small businesses cater to a large number of people, such as in town ships. Kimanzi (2019) added that Pietermaritzburg's economy is dominated by the retail and service sectors, with the retail sector accounting for 25.8% of the SMEs.

Gender in our findings indicates that although males are the most dominant in SMEs, with 54.4%, the 45.6% of businesses run by females also significantly contribute to the existence of SMEs. These results concur with Kumar (2017), that women-owning SMEs have become one the fastest growing categories by gender. However, contrary to the Kumar (2017) approach, Nhleko (2017) emphasizes that lower level of entrepreneurship activities results from women not being able to

considerably thrive as intrapreneurs. Chinomona and Maziriri (2015) stated that Men are still considered wage earners, while women are expected to fulfil household and family responsibilities. Moreover, according to Turton and Herrington (2012), "males are slightly more likely than females to be involved in established business activity (3% of the total population versus 2%)." It would be interesting in our study to further investigate how gender influences the growth of these SMEs.

Age has also been characterized as a potential contributor to the SME's existence, as our findings indicate that the majority of the businesses are owned by young entrepreneurs. It was observed that 43.9% of owners were in the age group of 26 to 35 years, followed by those between the age of 36 to 45 (33.3%). These findings were supported by Kumar (2017), who stipulated that the development of new businesses and start-up endeavors is significantly influenced by youths.

There is variety in the level of education and our findings show that some of the SME owners or managers only have primary education (36.8%), while others have a degree/diploma (31.2%). These findings were supported by Batisa (2019) who postulated that educational background significantly impacts on the growth of youth SMEs. However, our finding also indicates that almost a quarter of the business owners do not have formal education. Therefore, there is a need to discuss policies to implement programs to lift up business owner's level of education.

SMEs contribute to the national economy through the possibility of employment generation and community advancement. Given that the black race in our data dominates the SME sector by 55.3%, race has an impact on the survival and growth of SMEs, followed by the White who accounted for 16.7%, and the Indian (14.0%), respectively. Very few are from the Asian and colored communities. This is supported by the findings of Farrell et al., (2020), that Black and Hispanic Americans comprise a substantial and growing share of small business owners in the US economy. Therefore, in any given context, race has a bearing on the active participation in SMEs.

Data revealed that most SMEs existing in PMB resulted from entrepreneur's motivation to start their personal rentable activity. The highest percentage of entrepreneurs where business were created due to the opportunities identified on the market (29%), while some went into business out

of passion (28%), and others inherited business (13%). In agreement with our findings, a study was done in SA on the competencies and entrepreneurial success of female South African SME operators by Irene B.N.O. (2017) mentioned that SMEs are created out of opportunity and necessity. In addition, the Richmond local municipality (2018) also supported the statement that many SME owners were motivated by the gap found in the market and used that opportunity as a springboard to start their businesses. It is interesting that the majority of SMEs created out of opportunities have more chances to survive and grow as they follow the rules of supply and demand in the market.

The study's findings reveal that, namely 43% of SMEs has been in operation for 2 to 5 years, followed by those operating for over 5 years (34%), and those operating for less than 2 years (23%). The results revealed that business's long-term existence dynamics in business by SMEs such as dressmakers, retail, or supermarket is the sustainability of the business over the years.

According to the study's findings, consistent with how SMMEs are portrayed in the literature as contributing to job creation, micro and small businesses play a significant role in the municipality. Our findings indicate that most SMMEs typically employ less than 10 employees, more specifically, between 1-5 employees. These results concur with Hassan and Ahmad (2016), that Micro enterprises employ to 4 – 5 persons per micro entity. Thus, the micro-enterprises are more labour intensive.

5.2.2 Research objective 2:
To determine the financial options provided by MFIs and how they influence growth of SMEs in PMB

The findings displayed in table 4.1 indicates that a lack of awareness has restricted business owners from applying for MFIs. Approximately 37% of SMEs did not apply for loans because they were unaware of the MFI facility. Therefore, it is an everyday phenomenon that most people who are in the SME sector need more knowledge and at the end they have less access to this MFIs. These results are supported by research done by Negash (2022), who says that 70.3% of the businesses did not benefit from MFIs out of ignorant. Another study by Omondi and Jagongo (2018) mentions in their recommendation that FMIs awareness will improve the financial' performance of SMEs.

Makorere (2014) stated that educating small and medium-sized businesses about microfinance can increase their chances of success and growth, as access to finance is also a weak ankle that limits the supply of entrepreneurial activities. Microfinance made a significant contribution to the growth of SMEs among those who were granted access to MFIs. The research's findings indicate that most of SMEs (35%) reported a 3 - 9% growth, followed by 19% reporting less than 2% growth and approximately 10% of the SMEs reporting more than 10% growth, respectively – Figure 4.4. Therefore, it is interesting to pick up that at all levels, there is evidence of small or sizeable potential growth. Negash (2022) provided similar evidence, stating that 92.5% of MFI beneficiaries saw an increase in the capital due to the loan, compared to a meaner, 7.5%, who did not.

MFIs play an essential role in assisting SME's growth, over 40% of the participants claimed to have accessed loans, while the 29% remaining were providing funds to establish their businesses. These findings were consistent with those of Omondi and Jagongo (2018), who stated that women, who account for approximately 74% of the world's poorest people, were granted MFIs in order to improve the status of their businesses. Their excellent management and consistent loan repayment encouraged the idea of lending to the poor and women, promoting self-sufficiency. Microfinance institutions' assistance is not limited to providing financial services to SMEs. Approximately 25% of participants were reported to have used MFI services that were not necessarily financial. These findings have been proved by Rizk and Khalil (2022) that providing non-financial services to clients reduces SME's liability as the repayment ratio rises, increasing MFI return on assets. SMEs can attract potential donors, create financial stability for the business, improve loan quality, and reduce operational costs.

Moreover, Van Scheers (2011) added that business success does not solely depend on financial support. Regarding other support offered by MFIs, 42% of the SMEs stated that they received guidance on business governance, and only 6% were focused on other aspects, such as the importance of saving and improvement on business confidence. These findings are supported by a study on corporate governance in emerging markets by Claessens and Yurtoglu (2012), who stipulate that through corporate governance, Firms could easily access financing, lower their cost of capital, and improve their performance while receiving favorable treatment from stakeholders.

The study also recorded that 34% of SMEs were assisted in business plan writing. These findings agree with Epstein and Yuthas (2017) that MFIs offer financial services such as microcredit products and business plans to help micro-entrepreneurs.

5.2.3 Research objective 3:

Barriers to SMEs access to MFIs

Due to various business obstacles, the study indicates a large percentage of SMEs that did not benefit from MFIs. About 58% of the participants didn't request any MFI services out of ignorance, while 15% of business owners did not access MFIs as they were self-employed. These findings align with Jegatheesan et al. (2011), who stipulate that MFIs provide services to low-income people who struggle to access financial services such as credit, savings, micro insurance, remittances, and leasing, including customers and self-employed who traditionally lack access to banking and related services. Following the previous reflection, unawareness being the cause for most SMEs not accessing microfinance as owners/managers don't involve themselves in something they don't know, could be the reason behind the reluctance of self-employed applying for MFIs. The study also exhibits 10% of owners/managers being denied access to MFIs due to nationality. These findings are supported by the study of Asah and Louw (2021), revealing that some South African formal financial institutions do not finance foreign owned as part of their institutional policy.

5.2.4 Research objective 4:

Investigating factors that stimulate growth of SMEs.

Several factors were investigated on whether they affect growth and among them included: gender, age, level of education of owner/manager, type of business, reason or motivation of opening for the SME and access to MFI. A chi-square test was conducted at a 5% significance to assess whether there was an association between each of the factors and growth. Among these factors investigated, only gender had no association with SME 's growth. There was an association between the age of the owner or manager of SME and growth. The majority that reported high growth are middle-aged owners/managers (26-35 years). However, growth is reported to be low in the age groups of those that are 46 years and above (2%) and in the age group of 18 - 25 years (7%) These results are strongly supported by (Saunders et al., 2009; Sekaran and Bougie, 2009)

wherein they revealed that the younger you are, the innovative you will be, however, the more older you are, the greater chances of a high rate of experience which brings about growth.

There was an association between the level of education of the owner or manager of SME and growth. There is a noticeable trend among the desired outcome of high growth that a higher level of education correlates with more growth. Rothaermel (2015) stated in his study of strategic management that there is a particular influence that the educational exposure a business manager or owner has on the growth of the business. However, it is a matter of concern that almost a quarter (25%) of our business owners or managers still need formal education. Also, growth is low, with a percentage of 44% among those with no formal education, and this indirectly influences how the entity is likely to thrive. These findings were supported by Soni (2014), who greatly delved into the matter of educational influence on the performance of a business.

There was an association between the type of business and growth. When we considered the desired high growth outcome, it is evident that businesses that have higher levels of growth are Restaurants/takeaways (17%), student accommodation (17%), and Hair salons (13%). These types of businesses are closely related to the growing number of educational institutions in PMB and cater mainly to the student daily needs. Therefore, the growth is guaranteed when opportunity exists and is sustainable for an extended period. According to Smorfitt (2008), the type of sector you venture into contributes significantly to the survival and growth of the business, this is because some other business types may be in need but with fewer opportunities.

There was an association between motivation or reason for opening an SME and growth. Results indicated that so many factors could drive the motive behind creating a business entity, some out of passion, others out of opportunity, and some through inheritance. According to Burch (1986), Family inheritance businesses dominate in society, while others are businesses built out of the experience. As per the stud's result, those who create SMEs by identifying opportunities higher chances of achieving higher growth than those that create a business out of passion. These results agree with Smorfitt (2008), who advocated that entrepreneurial drive and spotted opportunities were the highest responses with a high rate of business growth.

An association was between access to MFI and growth. Results indicate that most SMEs turn to MFIs when facing financial distress and difficulties sustaining their businesses. This suggests that established enterprises don't need to request for funding, which accounts for the 92% growth rate for those who did not use MFIs. In order to increase growth for their business, some SMEs did access MFIs but still needed to exhibit a higher percentage (8%) of the desired high growth. Thus, there is a need for more support to be rendered to them to ensure that they are successful and remain sustainable in the future. These findings are supported by Quaye et al. (2014) MFIs play a significant role in the growth of any SME's business. However, getting access to funding is the obstacle to this growth. The SMEs that need funding to survive are mostly left stranded due to the strict qualifying criteria.

5.3 Summary of the chapter

In conclusion, this chapter has discussed the results of the empirical part of this study. The data discussions were mainly based on bar charts, frequency tables, inferential statistics and percentage analysis. As established earlier by the research findings, the key participants in the SME sector of Pietermaritzburg are into tuck shops, restaurants/takeaways, student accommodation, and hair salons. The study results broadly reveal that SMEs are accessing MFIs and experience some form of growth. Moreover, the most active age group in the formal SME sector is between the age group 26 to 35 years, and most of the respondents have primary education. A substantial number of these SMEs have been operating for between 2 - 4 years.

Additionally, the results revealed that the primary motive for setting up the business was due to the market opportunity. The results also indicated that growth was significantly associated with age, level of education of owner/manager, type of business, reason, or motivation of opening the SME, and access to MFI. Findings indicate that lack of awareness has restricted business owners from applying for MFIs. The study also exhibits that owners/managers are denied access to MFIs due to nationality and, in other cases where they are self-employed. The next chapter will conclude the study based on the expressed problem statement and provide recommendations based on the conclusions after contributing to the body of knowledge, the study's limitations, and areas for future research.

CHAPTER SIX
CONCLUSION AND RECOMMENDATION

6.1 INTRODUCTION

The previous chapter conversed with the findings of the study. This chapter concludes the study based on of the stated problem statement. This chapter as well offers recommendations that contribute to the body of knowledge and limitations of the study and concludes with the contribution of future research areas.

6.2 CONCLUSIONS

The following conclusions are regarding to the empirical findings of the study, which aimed at determining the study's specific objectives.

6.2.1 Research objective 1:

To characterize the SMEs operating in PMB, SA.

The study aimed at characterizing the SMEs operating in Pietermaritzburg, it can be concluded that the most dominant businesses in Pietermaritzburg are tuck shops and restaurants/takeaways. The motivation behind most SME creation was based on opportunities available that the owner identified in the market and decided to grab. Others were motivated to start their own business out of passion, and only some were inherited. The research findings indicate that most SMEs typically employ less than 5 employees: more specifically, between 1-5 employees. Most of them have been in operation for less than 5 years, specifically between 2 to 4 years.

6.2.2 Research objective 2:

To ascertain the financial options provided by MFIs and how they influence the growth of SMEs in PMB

This objective was aimed at the financial options provided by MFIs and how they influence the growth of SMEs in PMB. Negash (2022) states that 70.3% of the businesses did not benefit from MFIs out of ignorance. This is the same with Pietermaritzburg SMEs; approximately 37% of the

owners needed to be made aware of the existence of MFIs. SME owners who were aware of such financial institutions were not qualified due to nationality or the high rates of the loans.

6.2.3 Research objective 3:

Barriers to SMEs access to MFIs

The focus of this objective was to explore the barriers that hinder SMEs from having access to microfinance institutions, 15% of business owners from the research did not get access to MFIs because they were self-employed and did not fit the qualifying criteria. The study also shows that 10% of owners/managers are denied access to MFIs due to nationality. Asah and Louw (2021) stated that some South African formal financial institutions do not finance foreign owned as part of their institutional policy.

6.2.4 Research objective 4:

Investigating factors that stimulate the growth of SMEs.

The focus of this objective was to investigate the factors that stimulate the growth of SMEs, the factors that were found to have a significant effect on the growth of SMEs were age; the level of education; the type of business one intends to establish; the reason or the motivation of opening the SME as well as the access to MFIs amongst these factors only gender did not affect the growth of SMEs.

6.3 Recommendations

Based on the conclusions of the study, the researcher proposes the following recommendations:

The SME sector's major problem is related to growth, which is closely related to the inaccessibility to finance, and non-finance services offered by MFIs for SMEs businesses to thrive. One of the main barriers that were discovered is related to the problem of need for more exposure to MFI services on offer. With exposure, candidates are aware of the existence of MFIs, resulting in them not applying for the available financial and non-financial services. Therefore, lack of exposure is a factor that led to non-access to microfinance in the study. The government should run awareness programs targeting SMEs through radio, television, road shows, workshops, and other social media platforms to create awareness amongst SMEs on the existence of MFIs and the services they offer.

This can be done as a collaboration of line ministries. Besides unawareness, SMEs are restricted from accessing funds due to their nationality of owner and employment formality. This is in line with the government legislation restriction for SMEs operating under such circumstances. Therefore, there is a need to lobby for the Government to relax such restrictions to increase equitable and inclusive access to MFIs by all SMEs actors. A low level of education has also played an essential role in the owner's/manager's performance. The skills gap has affected the owners/managers of the business to benefit from loan approval. The age of the owners/managers also impacted the growth of their business as only the younger business owner could sustain their entity. Therefore, it is necessary to help the elderly and the youth running businesses to create a sure steadiness. The gap between skills, age, and growth shows a need to reinforce SMEs with non-financial support like management skills, bookkeeping, proposal writing, loan application requirements, and procedure.

6.4 Limitations of the study

The main limitations of this study are as follows:

- It is more challenging to get information from the informal sectors even though they contribute to the local economy as much as the formal sectors to alleviate poverty.
- The study drew its participants from only the formally registered SMEs in the database of the LED office of the Pietermaritzburg local municipality; hence, the results of the study cannot be generalized across all the SMEs in the Pietermaritzburg local municipality.
- The study used non-probability sampling techniques (purposive and convenience sampling) to select participants. Therefore, the results of this study do not reflect the responses of the entire population.
- Limited academic and recent literature exist in South Africa on the influence of MFIs on the growth of SMEs in Pietermaritzburg, including literature on local municipalities.
- The findings cannot be generalized to all SMEs as they focused on the role of MFIs in the growth of SMEs in the Pietermaritzburg local municipality.

6.5 Significance of the study and contribution to the body of knowledge

The significance of the results generated from this study is premised on the fact that from the results themselves, it can be deduced that having access to MFIs greatly impacts on the growth of SMEs in Pietermaritzburg. The results are an indication to the government, both locally and at a national level that the policies of microfinancing institutions need to be revisited and re-amended in order to accommodate the much-needed economic elevating small businesses that are heavily burdened by government restrictions to access financial assistance that would ultimately help in the growth and expansion of SMEs. The study contributes to the general body of knowledge around the significant activities of SMEs in not only the role of MFIs in the growth of SMEs but also contributing to the country's overall economic improvement.

6.6 Areas for future research

Future research studies could explore the role of MFIs in the growth of SMEs in Pietermaritzburg and adopt a different research approach, such as qualitative or mixed methods, in doing so. Future research could explore the SMEs role using other constructs, such as the overall economic role in the Pietermaritzburg local municipality. Future research can also explore a similar study in another local municipality using different constructs. Furthermore, future research can explore what motivates individuals to establish their small businesses to create job opportunities.

6.7 Summary of chapter

This chapter presented the summary of the study, study limitations, recommendations, outlined research contributions based on the study's specific research objectives highlighted the study's significance and contribution to the body of knowledge and then provided areas for further research.

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QUESTIONNAIRE FOR SMEs

The focus of this questionnaire is to explain the significance of Microfinance in the growth of small and medium enterprises (SMEs) in Pietermaritzburg. This questionnaire will take no longer than 10 minutes of your time to complete. Please answer the questionnaire to the best of your knowledge. Mark your answer by placing a tick in the appropriate block. Your participation in this study is greatly appreciated.

SECTION A – Demographics and Background Information

(Please place an X in the appropriate box; only one answer is possible unless stated otherwise).

1. Gender

1. Male	X	2. Female	

2. Your Age

1. 18 – 25 years	2. 26 – 35 years	3. 36 – 45 years	4. 46 and above
	X		

3. Your Race

1. Black	2. White	3. Indian	4. Asian	5. Colored	6. Other
X					

4. Your highest-level education

1. No formal education	2. Some/Primary school	3. Some/all high school	4. Degree/Diploma
			X

SECTION B – The nature of Small and Medium Enterprises.

1. Indicate which of the following type (s) of business your SMEs is engaged in (Tick all that apply)

Business type	Tick
a. Supermarket	
b. Hair salon	
c. Restaurant/takeaway	
d. Retail	
e. Wholesaler	
f. Dress maker	
g. General dealer	
h. Vehicle repair	
i. Student accommodation	
j. Auto spares	
k. Tuck shop	
l. Other (please specify	IT

2. What is the total number of people (including yourself) employed in the business?

a.1-5	b.5-10	c.10-20	d.20-50	e.50-100	f.100 and above
			X		

3. How long have you been operating in Pietermaritzburg?

a. Under 2 years	b. 2-4 years	c. over 5 years
		X

4. What are/were your motives for setting up your own business? (Tick all that apply)

Motivations	Tick
1. I wanted to establish myself in the business I was passionate about	
2. I saw an opportunity/gap in the market	X
3. Inherited the business from family	
4. Other (please specify)	

SECTION C: Microfinance institution (MFIs) on business growth

1. Have you ever heard about MFIs?

a. Yes		b. No	X

2. Has your enterprise been grant access to MFI?

a. Yes		b. No	X

3. If yes, in terms of percentage, what was the contribution of MFI to the growth of your business?

	Tick
a. Less than 2%	
b. 3%-5%	
c. 6%	
d. 10%	
e. Others (specify)	

4. If No, what was the reason for the unsuccessful application?

	Tick
a. Nationality	
b. Self-employment income	
c. No membership to any organisation	
d. Product offered	
e. Never apply	X
f. Other (Please specify)	

SECTION D: The benefits of accessing MFIs

1. How much was the start-up capital for your business?

……………… R10 000…………………………………………………

2. What was the percentage of your capital increasement?

	Tick
a. No change	
b. Less than 1%	
c. 2 – 4 %	X
d. 4 – 8 %	

3. What were the hindrances in the loan requirement?

	Tick
a. Strick terms	
b. Long procedure	

c. Heavy demands for bargaining chip	X
d. Lack of collateral	
e. Credit score	
f. Other (please specify)	

4. Apart from financial services, what other assistance does the MFI offer to your enterprises?

	Tick
a. Business plan writing	
b. Importance of saving	
c. Efficient of managing financial resources.	
d. Keeps track of household expenses	
e. Business management skills	
f. Business governance	
g. Helped improve bookkeeping and accounting skills	
h. Improved business confidence	
i. Other (please specify)	
j. Business plan writing	

5. Which of these challenges have hindered your loan repayment capability?

a. Business not making enough profit	
b. High interest rates	
c. Strick repayment terms	
d. Other (please specify)	

6. What type of help MFIs has provided for you?

	Tick
a. It provided capital for the business establishment	
b. Access to the loan	
c. Access to savings services	
d. Other (please specify)	

7. In terms of business management, do you have any shortage of skills?

a. Yes		b. No	X

8. How is the MFI's existence playing a role in providing financial aid to the SMEs in Pietermaritzburg?

	Tick
a. Favourable interest rates	
b. Less strict repayment terms	
c. Skills provision for the SMEs entrepreneurs	
d. Other (please special)	

9. What other ways can improve MFI financial assistance towards SMEs growth?

....
....
....
....

10. To what extent do you agree or disagree on the following question:

		Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	MFIs contribute to employment r human capital					
2	The requirement to apply for MFIs loan was easy to be met					
3	MFIs help address the shortage of skills in SMEs					
4	MFIs assistance has increased your capital					
5	MFIs helped in developing your business					

SECTION E: The influence of microfinance on the sustainability of the SMEs.

1. Have you ever taken out or applied for a loan from MFIs?

a. Yes		b. No	X

2. What was the purpose of applying for the loan?

	Tick
a. Capital to establish the business	
b. Family emergency	
c. Personal relief fund	
d. Other (please specify)	

3. Was the applied loan approved?

a. Yes		b. No	

4. If yes, did the loan help in establishing and sustaining your business?

a. Yes		b. No	

5. Has the loan improved your monthly business income?

a. Yes		b. No	

6. Do you manage to repay the loans taken on time?

a. Yes		b. No	

7. What are the consequences of failing to repay your loan on time?

	Tick
a. Debt collectors	
b. other (please specify)	

8. Are the interest rates charged favourable for the development of your business?

a. Yes		b. No	

9. In your own opinion, what should be done to make MFI loan applications approved and granted to small and medium enterprises?

As a foreigner business owner, the MFI mostly doesn't apply to us.

10. Were the government schemes funds available to you where you applied for assistance?

a. Yes		b. No	

11. As a business in Pietermaritzburg, has an MFI grant helped improve your enterprise?

a. Yes		b. No	

12. To what extent do you strongly agree or disagree on the following question :

		Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	MFIs has played an important role in elevating status of your enterprise.					
2	MFIs helped in establishing and sustaining your business					
3	The government scheme fund was available to me when I applied for assistance					
4	The interest rate of the MFIs loans was favourable to develop my business					

F. Challenges to accessing assistance from supporting institutions

13. Please specify to what extent do you agree or disagree with the following statements:

No	Challenges	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
13.1	I am not aware of supporting institutions assistance					
13.2	I don't appreciate the assistance offered by supporting institutions					
13.3	The available support is not appropriate to the need of my business					

13.4	I do not have enough resources to access business development services					
13.5	I do not have sufficient information about the availability of business development services to make a rational choice					
13.6	I do not have sufficient information about the cost of business development services to make a rational choice					
13.7	I fear that my business idea may be stolen					
13.7	I assume that supporting institutions will not be able to handle my request					
13.8	The supporting institutions do not deal with request professionally					

13.9 Please specify other challenges you are facing in accessing assistance from supporting institutions to develop your Business:

……

……

……

Thank you for participating in this research project.

APPENDIX B: ETHICAL CLEARANCE REPORT

UNIVERSITY OF KWAZULU-NATAL ™
INYUVESI YAKWAZULU-NATALI

04 May 2021

Miss Renate Ntumpi Makekita (215079972)
School of Man Info Tech & Gov
Pietermaritzburg Campus

Dear Miss Makekita,

Protocol reference number: HSSREC/00002449/2021
Project title: The significance of microfinance in the growth of SMEs in Pietermaritzburg, South Africa
Degree: Masters

Approval Notification – Expedited Application

This letter serves to notify you that your application received on 05 February 2021 in connection with the above, was reviewed by the Humanities and Social Sciences Research Ethics Committee (HSSREC) and the protocol has been granted **FULL APPROVAL**.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number. PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.

This approval is valid until 04 May 2022.
To ensure uninterrupted approval of this study beyond the approval expiry date, a progress report must be submitted to the Research Office on the appropriate form 2 - 3 months before the expiry date. A close-out report to be submitted when study is finished.

All research conducted during the COVID-19 period must adhere to the national and UKZN guidelines.

HSSREC is registered with the South African National Research Ethics Council (REC-040414-040).

Yours sincerely,

Professor Dipane Hlalele (Chair)

/dd

**Humanities and Social Sciences Research Ethics Committee**
Postal Address: Private Bag X54001, Durban, 4000, South Africa
Telephone: +27 (0)31 260 8350/4557/3587 **Email:** hssrec@ukzn.ac.za **Website:** http://research.ukzn.ac.za/Research-Ethics

Founding Campuses: ■ Edgewood ■ Howard College ■ Medical School ■ Pietermaritzburg ■ Westville

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APPENDIX C: ETHICAL CLEARANCE REPORT AMENDMENT

UNIVERSITY OF KWAZULU-NATAL ™
INYUVESI YAKWAZULU-NATALI
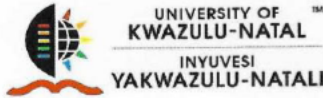
14 July 2023

Renate Ntumpi Makekita (215079972)
School Of Man Info Tech & Gov
Pietermaritzburg Campus

Dear RN Makekita,

Protocol reference number: HSSREC/00002449/2021
Project title: The significance of microfinance in the growth of SMEs in Pietermaritzburg, South Africa
Amended title: The significance of microfinance in the growth of small and medium enterprises in Pietermaritzburg, South Africa
Degree: Masters

Approval Notification – Amendment Application

This letter serves to notify you that your application and request for an amendment received on 09 July 2023 has now been approved as follows:

- Change in title

Any alterations to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form; Title of the Project, Location of the Study must be reviewed and approved through an amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number.

PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.

HSSREC is registered with the South African National Health Research Ethics Council (REC-040414-040).

Best wishes for the successful completion of your research protocol.

Yours faithfully

....
Professor Dipane Hlalele (Chair)

/dd

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