NELSON MANDELA UNIVERSITY

INVESTIGATING FUNDING CHALLENGES EXPERIENCED BY SMMES IN KOMANI, SOUTH AFRICA

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Investigating Funding Challenges Experienced by SMMEs
in Komani, South Africa

By

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of Master of Philosophy (Development Finance)
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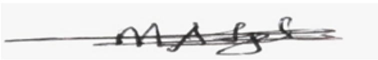 (Signature)

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ABSTRACT

All around the world there are small, medium and micro-enterprises (SMMEs) that help by creating jobs and contributing to gross domestic product. However, funding is a major problem that limits the growth and development of SMMEs. Funding challenges have increased, hence the need for research to be conducted in Komani, in South Africa's Eastern Cape Province, to see how the challenge can be overcome. This research aims at investigating the funding challenges experienced by SMMEs in Komani. The objectives of the research were to: evaluate the effect of funding challenges on the number of people employed in SMMEs; establish reasons why SMMEs fail to obtain funding from major financial institutions; to examine the avenues available for funding SMMEs; and to recommend to policymakers and SMMEs how to solve the problem of funding. However, previous research in Komani has not managed to investigate this problem with regard to the research process and the method used. This research is based on the positivistic paradigm and used the quantitative method to investigate the funding challenges. The research population was 441 SMMEs; of them 82 SMMEs were sampled using questionnaires. Data collected was analysed using Excel and Stata. Pearson Chi-square test of association from Stata and Excel Analysis ToolPak were used. The study found that most SMMEs use retained earnings and informal funding to finance their operations. It also found that most SMMEs were unaware of government support agencies like SEFA. The research recommends that more must be done to raise awareness on a regular basis to make sure that all SMMEs are aware of the financial support system that the government has for the SMMEs. Financial institutions will need to lower their requirements when SMMEs apply for finance. Finally, SMMEs are supported financially by both the government and the private sector to employ more people. However, the government could also create a guarantee scheme for SMMEs to ensure successful credit applications.

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BBBEE – Broad-based black economic empowerment

Covid19 – Coronavirus outbreak of 2019

DFC – Development Finance Corporation

DTI – Department of Trade and Industry

ECSECC – Eastern Cape Socio-Economic Consultative Council

GDP - gross domestic product

GEM – Global Entrepreneurship Monitor

IDC – Industrial Development Corporation

IFC – International Financial Corporation

MSBD – Ministry of Small Business Development

MSMEs – micro, small and medium enterprises

MTEF – Medium-Term Expenditure Framework

NDP – National Development Plan

OECD – Organisation for Economic Co-operation and Development

POT – pecking order theory

QLFS – Quarterly Labour Force Survey

RBV – resource-based view

ROSCA – rotating savings and credit association

SEDA – Small Enterprise Development Agency

SEFA – Small Enterprise Finance Agency

SMMEs – Small, medium and micro-enterprises

SPSS – Statistics Package for Social Sciences

USADF – United States-African Development Foundation

CHAPTER 1

INTRODUCTION AND BACKGROUND TO THE STUDY

1.1 INTRODUCTION AND BACKGROUND

Chapter 1 introduces the problem of funding challenges faced by small, medium and micro-enterprises (SMMEs) in Komani, in South Africa's Eastern Cape Province This chapter comprises the introduction and background, and a literature review – a theoretical and empirical review of the study. It also includes the definition of the problem, the research objectives, the research design and the methodology. It also deals with the scope of the study, ethical considerations, the structure of the study and a summary.

All businesses around the world need finance for business activities and for the purpose of growth (Mago & Modiba, 2022). This is a contentious issue when it comes to small, medium and micro-enterprises (SMMEs). This is because the banks see SMMEs as being high risk because of their lack of collateral for loans (Civelek *et al*, 2019). It has been acknowledged that SMMEs are the backbone of the South African economy (National Development Plan [NDP]). The NDP states that 90% of new jobs in South Africa will be created by SMMEs by 2030. This is true with regard to developing economies in general, because job creation and poverty are major challenges (Kongolo, 2010). South Africa's SMMEs employ more people than any other sector, in that way reducing poverty. Even though SMMEs contribute to job creation in South Africa their failure rate remains high (Abor & Quartey, 2010: 215-228). It must be noted that even though SMMEs are said to be creating jobs, most are not achieving their goals. However, most of SMMEs face an ongoing challenge of funding, which leads to a high failure rate (Global Entrepreneurship Monitor [GEM] 2017; World Bank 2017). In fact, funding is what drives businesses to implement projects and the lack of it is an issue which requires prompt attention.

The purpose of this study is to investigate the funding challenges faced by SMMEs in Komani. The research was motivated by growing complaints from businessmen and women about the lack of funding which is a major problem in South Africa. Complaints of this nature have been reported by News24 (2021). Absa's chief credit officer (SME), Henry Gachukia said: "The biggest issue facing SMEs today is funding."

1.1.1 Background to the problem

Worldwide one finds SMMEs that help in growing and developing the economy (Benedict *et al*, 2021; Hacini *et al*, 2022; Mutsonziwa & Fanta, 2021). According to a survey conducted by McKinsey and Co (2020) 98.5% of all businesses in South Africa are SMMEs. McKinsey states that 6% receive funding from the state and 9% from private sources. However, during the Covid19 pandemic, out of the R200 billion Covid19 loan guarantee scheme, only R16.7 billion was disbursed as of October 2020 (Banking Association of SA 2020). This was due to fear of taking on more debts at an uncertain time.

According to the 2019 review of the Organisation for Economic Co-operation and Development (OECD), even in the more developed economies SMMEs face challenges. GEM SA’s annual report for 2019-20 stated that out of 54 countries in the entrepreneurial ecosystem, South Africa ranked 49th. This is not good for the South African business environment. It was revealed also that the discontinuance rate of South Africa businesses dropped from 6.0% to 4.9% in 2019, which was still above the rate of business establishment at 3.5%, against a rate of 8.3% in other African regions (GEM SA report, 2019-20). Research study shows that, 42.7% of SMMEs closed because of Covid19 ((Menzies & Erwin 2020). This has also led to job losses of 60% in full-time SMMEs (SEFA annual report 2020-21).

It has been shown that SMMEs contribute to growth, development, job creation and gross domestic product (GDP) (Benzing and Chu, 2012). Despite the funding challenges faced by SMMEs in South Africa, there is legislation that supports SMME funding. The National Small Business Act defines a small business as a “separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more, including branches or subsidiaries (if any), predominantly carried on in any sector or subsector of the economy” (National Small Business Amendment Act, Act No 29 of 2004). The National Small Enterprise Amendment Bill of 2020, gazetted recently, outlines the establishment of an Ombud service that will provide legal support to SMMEs. The Medium-Term Expenditure Framework (MTEF) also highlights the vital need in developing markets for SMMEs and supporting incubators for SMMEs. The Small Enterprise Finance Agency (SEFA) was established to provide accessible finance efficiently and sustainably to SMMEs and co-operatives across South Africa. The National Development Plan (NDP) supports SMMEs as the future creators of jobs in South Africa by the year 2030. The South African government has seen the importance of SMMEs in the creation of jobs and development (DTI, 2019), so the government created the Ministry of Small Business Development (MSBD) in 2014. The initiative is aimed at promoting and developing SMMEs. This validates the state's effort towards supporting SMMEs. However, despite state support, SMMEs still face challenges. This has led to a lack of funding for SMMEs in South Africa, which are the engine of growth in the economy. The funding challenges and the inaccessibility of bank finance are a serious constraint during the formation of new ventures, as well as at later stages, as businesses require additional inflows of capital to support expansion and growth (Groenewald, Nieuwenhuizen & Schachtebeck, 2019).

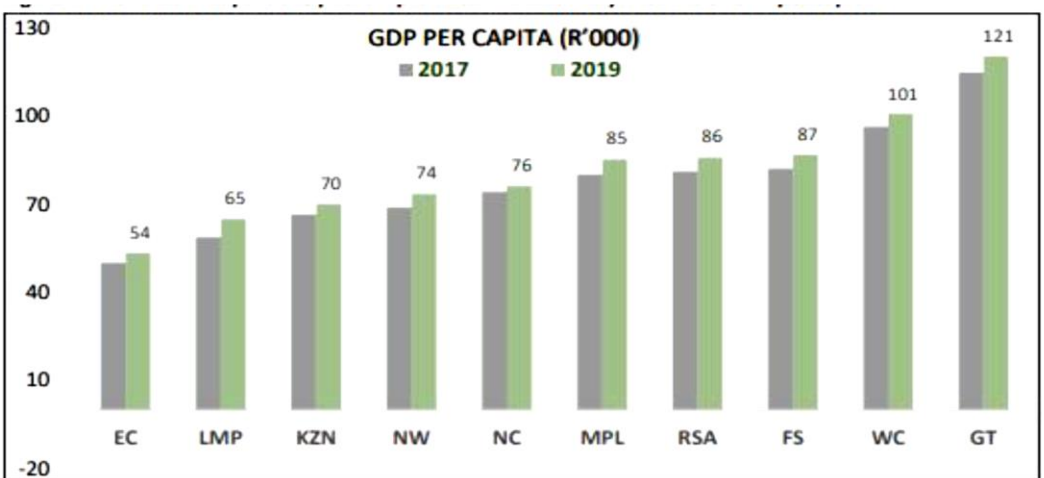
In fact, funding challenges have also been identified by Benedict *et al* (2021, cited in Mago & Modiba, 2022). They state that SMMEs in South Africa are not able to access funding to grow their businesses. This problem has also been indicated by Benedict *et al* (2021), Kasseeah *et al* (2013), Kasseeah & Thoplan (2012) and Mago (2014), all of whom state that the lack of funding is a problem identified in both developed and developing countries. In affirming this, Beck & Cull (2014), Beck and Demirgüç-Kunt (2006), Dong and Men (2014) and Jones-Evans (2015) state that in several national and regional surveys around the globe, owners and managers of SMMEs consistently rank access to funds as the No 1 constraint to the growth of their firms. The study is interested in establishing the funding challenges that businesses face in Komani.

1.1.3 The importance of funding for SMMEs in the Eastern Cape

There are two main reasons behind the need for SMME funding in the Eastern Cape:

- The province has the highest unemployment rate in the country; and
- The province is the country's poorest.

***Figure 1.1 The Eastern Cape: poorest province in the country in terms of GDP* per capita**



Source: Statistics South Africa (2020)

Figure 1.1 shows that the Eastern Cape is the poorest province and needs intervention for the funding of SMMEs so that the province can improve its performance. The province has the lowest GDP income *per capita*. The overall unemployment rate is generally higher in the Eastern Cape compared with other provinces. According to Statistics South Africa's Quarterly Labour Force Survey (2021Q4), the Eastern Cape recorded the highest official unemployment rate (45%) in the country, a drop from 47.4% in the third quarter of 2021.

Enoch Mgijima Local Municipality, of which Komani is the administrative centre, is a Category B municipality with a geographical area of 1 358km^2. This municipality is part of the Eastern Cape's Chris Hani District. Thanks to the central location of Enoch Mgijima Municipality, it has become the district's economic hub. The problem is the unemployment rate in Enoch Mgijima was 29.14% in 2016 and that of the Chris Hani District Municipality was 30.8% (Enoch Mgijima Municipality, 2020/21).

Meanwhile, SMMEs continue to contribute substantially to the economies of both developing and developed countries. SMMEs play a role in sustaining economic growth and development in developing countries (World Bank 2020). In both developed and developing countries, SMMEs account for most of the businesses and provide employment in all economies (Ayyagari, Beck & Demirgüç-Kunt, 2007; Beck & Cull, 2014; De la Torre, Peria & Schmukler, 2008). However, they are faced with variety of constraints in varying proportions. Among these, the most challenging is access to funding. Funding challenges are not new in the literature. It is noted that the most common challenge that all SMMEs face is funding, as stated by Beck and Cull (2014), Beck and Demirgüç-Kunt (2006), Dong and Men (2014) and Jones-Evans (2015). Research shows that most SMMEs that are refused funding lack a good credit record, collateral, a good business plan, good market research and viable business ideas (Financial Services Regulatory Task Group, 2007; GEM, 2014).

Funding challenges are partly attributed to financial institutions. It can be said that most financial institutions have not done much to help businesses prepare for qualifying for funding (Asah, Louw & Williams, 2020). Were they to do this, most of the businesses rejected could have qualified for funding. So it should not be surprising that SMMEs in emerging economies are still battling to survive due to the lack of finance, retarding growth and expansion (Beck & Cull, 2014; Turyahikayo, 2015; Esho & Verhoef, 2018). It is also believed that, as financial institutions are not ready to help start-ups, they intentionally institute measures that cannot be met.

1.2 LITERATURE REVIEW

1.2.1 Definition of small, medium and micro-enterprises (SMMEs)

According to South Africa's Government Gazette (2019), the new definition of SMMEs uses two proxies (total full-time paid employees and total annual turnover) and omits the original third proxy (total gross asset value) (SA Government Gazette, 110 No. 42304 15 March, 2019).

1.2.2 THEORETICAL PERSPECTIVES

It is essential to consider theories on funding challenges which explain why it is difficult for businesses to obtain funding so as to keep their enterprise running or for growth purposes. For the purpose of this chapter, these theories are discussed briefly:

1.2.2.1 The pecking order theory

The pecking order theory (POT) was first suggested by Donaldson in 1961 and modified by Myers & Majluf in 1984. This theory relates to a company's capital structure and arises from information asymmetry. The theory postulates that the cost of finance increases with asymmetric information. It states the order in which new projects should be funded: firstly the use of retained earnings; secondly debt financing; and lastly equity financing.

1.2.2.2 Trade-off theory

Unlike the pecking order theory, which does not take optimum capital structure into account, the trade-off theory assumes that there is an optimum capital structure which is a good balance between equity and debt (Chen & Chen, 2011). The trade-off theory was first put forward by Modigliani and Miller (1958) and was one of the first theories on the capital structure of firms. Chen & Chen (2011) and Lopez-Gracia and Sogorb-Mira (2008) state: "Firms will therefore prefer debt to equity because of tax advantages and will strive to trade equity with debt when possible."

1.2.2.3 Theory of the firm and SME financing

The theory of the firm indicated that the size of the firm, age and growth affect its financial structure. Du and Girma (2012) found that the size of the firm was significant in its growth. Mac an Bhaird and Lucey (2010) emphasised in their study that the size of the firm is related positively to external financial application.

1.3 PROBLEM DEFINITION

SMMEs are vital to South Africa’s economy. They create employment and also contribute massively to economic growth. They contribute 68% of all employment in South Africa and also contribute 39% to GDP (Stats SA QLFS, 2020Q3). The Eastern Cape Province is the poorest and it is where most of the people depend on government support for survival. The role played by SMMEs motivates the government to support rural entrepreneurship (Nkonde, 2012). It has been documented that many businesses battle to obtain funding (Menzies & Erwin, 2020). Menzies and Erwin (2020) report that 60% of SMMEs were not operational during the Covid19 lockdown. This is a problem with which almost all SMMEs struggle – not only in South Africa but worldwide. In the Eastern Cape, the contributions of SMMEs are crucial to the provincial economy, so serious attention needs to be paid to this funding problem. As many as 42.7% of SMMEs have closed down (Menzies & Erwin 2020). This has led to a rise in socio-economic problems like unemployment, crime and poverty.

This research evaluates the effect of funding challenges on a number of SMME employees in Komani. It looks into why SMMEs fail to obtain funding. It also examines funding avenues and makes recommendations to policymakers and SMMEs themselves. A recent survey conducted by McKinsey and Company revealed that the major problems faced by SMEs is limited access to low- and medium-cost funding (SME South Africa, 2018). It has also been noted that only 6% of the SMEs surveyed received state funding and 9% had funding from private sources. According to the Financial Services Regulatory Task Group (2007), SMMEs are less likely to be financed, especially in their start-up or later stages. This is a disturbing matter as it indicates the web in which SMMEs are caught. It was also noted that SMMEs in and around Gauteng and North West tend to be favoured by financial services institutions with regard to funding (Finmark Trust, 2010). This underlines the problems encountered by SMMEs, especially in the Eastern Cape. During the third quarter of 2020, SMMEs in the Eastern Cape contributed 19% to overall employment in the province (ECSECC, 2020). It is evident that little has been done with regard to funding challenges in Komani, as it is difficult to access research conducted on the topic in that town.

1.4 RESEARCH OBJECTIVES

The primary aim of this research is to investigate the funding challenges faced by SMMEs in Komani.

1.4.1. Primary research objective

What are the funding challenges faced by SMMEs in Komani?

1.4.2. Secondary research objectives

The primary objective of the research will be achieved through these secondary objectives:

1. To evaluate the effect of funding problems on the people employed in SMMEs.
2. To establish why SMMEs fail to obtain funding from major financial institutions.
3. To examine the avenues available for funding SMMEs.
4. To recommend to policymakers and SMMEs how to solve the problem of funding.

1.4.3. Research questions

1. What is the effect of funding challenges on employees in SMMEs?
2. Why do SMMEs fail to obtain funding from major financial institutions?
3. What avenues are there for funding SMMEs?
4. What recommendations can be made to policymakers and SMMEs?

1.5 RESEARCH DESIGN AND METHODOLOGY

1.5.1 Research paradigm

Research paradigms represent the researcher's beliefs and values about the world, the way he/she defines the world and the way they work within the world (Kamal, 2019). Rahi (2017) states that four paradigms have principally been used in information system research: positivism, interpretivism, advocacy and pragmatism. This research is based on positivism. Johnson and Christensen (2008: 33) state that a quantitative methodology has to do with occurrence, assessment, formation of models and explanation of assumptions. This study assessed the effect of funding challenges for SMMEs in Komani. It is acceptable that the quantitative method was used so that its outcome can be generalised with high reliability.

1.5.2 Research design

MacMillan and Schumacher (2001: 166) define research design as a plan for selecting subjects, research sites and data collection procedures to answer the research question(s). They state further that the goal of a sound research design is to provide results that are judged credible. For Durrheim (2004: 29), research design is a strategic framework for action that serves as a bridge between research questions and the execution or implementation of the research strategy. This research uses descriptive designs so that relationships between variables can be drawn and those relationships established. This has helped in identifying the trend and the effect of the funding challenges. So as to collect data, a questionnaire was distributed and interviews conducted in the businesses selected. The questions in the questionnaire were both open- and closed-ended.

1.6 SCOPE OF THE STUDY

This study was conducted in Komani in the Eastern Cape. It investigated the funding challenges faced by SMMEs. It identified the problems behind the funding crisis affecting SMMEs. The study was limited solely to SMMEs in the Komani area and was conducted between July and October 2022.

1.7 LIMITATION OF THE STUDY

This study will be conducted in Komani, Eastern Cape, South Africa. It is based on the funding challenges faced by SMMEs. It will examine the challenges the funding crisis brought to SMMEs. This research will be limited to SMMEs in the Komani area. Marshall and Rossman (2014) state that it is understood and accepted that no research is without limitation. However, no research has been designed to be conclusive. So it follows that this research is limited to the points in the questionnaire. It must also be acknowledged that as the research has limitations, it cannot be generalised in any form. The study's limitation is also affected by the sample size and the data analysis methods used.

1.8 ETHICAL CONSIDERATIONS

Research requires certain fundamental qualities for one to be successful. These qualities includes: integrity, honesty, rigour, and competence. Henn, Weinstein and Foard (2009: 80) pinpoint some morals which need to be taken seriously when one undertakes research. These are issues of consent, privacy, consequentiality, harm, confidentiality and anonymity. In this study, the respondent's right to confidentiality was respected and any legal requirements regarding data protection were adhered to. The respondents were informed of the aims of the survey, and gave their consent to take part in it. The researcher applied for Nelson Mandela University Ethical Clearance and followed all the guidelines it entailed. No data was collected until an ethical clearance number was received.

1.9 STRUCTURE OF THE STUDY

This research is made up of five chapters:

Chapter 1: Introduction

Chapter 1 introduces the problem of funding challenges faced by SMMEs. It comprises background to the problem, literature- problem definition, research objectives, research design methodology. It also deals with the scope of the study, limitation of the study, ethical considerations, structure of the study and a summary.

Chapter 2: Literature review

Chapter 2 provides literature on the topic "Investigating funding challenges experience by SMMEs in Komani, South Africa." This chapter dwells much more on the theoretical and empirical perspectives of the underlining the topic.

Chapter 3: Methodology

Chapter 3 specifies the kind of chosen methodology and the research design followed by the study's researcher. The chapter presents the research paradigm, research design, data collection, sampling, data analysis, validity, reliability, and rigour in research, limitation of the research, ethical consideration and chapter summary.

Chapter 4: Findings and interpretation of data

Chapter 4 provides the findings and data interpretation. The study presents the findings in the form of charts, graphs and tables. Findings are not made in isolation but linked to the literature reviewed to pinpoint comparability with theories and empirical literature relating to the topic.

Chapter 5: Conclusion and recommendations

Chapter 5 presents summary of the research findings, guided by the research objectives. The chapter addresses the link between literature and findings so that recommendations and suggestions for further research are made.

1.10 SUMMARY

Chapter 1 however, highlighted the background of funding challenges faced by SMMEs in Komani, Eastern Cape. It also outlined the background of the problem, provided a brief literature review, the problem definition, the research objectives, questions design and methodology, the scope and format of the study, ethical considerations and a summary. Studies found that, most businesses in South Africa are SMMEs and these SMMEs contribute largely towards growth and development of the economy. However, the tragedy is lack of funding. This called for an investigation to be made on funding challenges experienced by SMMEs in Komani, South Africa, which is the primary objective of the study. The study tested some theories such as: Pecking order theory, Trade-off theory, Theory of the firm and SME financing, Agency theory, Moral hazard, Resource based view theory relating to the topic. Empirical perspectives in South Africa, Eastern Cape particularly Komani and sub-Saharan Africa were looked at briefly. . Chapter 2 provides a comprehensive summary of the various literature sources that were consulted and presents a theoretical framework for the study.

CHAPTER 2
LITERATURE

2.1 INTRODUCTION

Chapter 1 provided an introduction to the study and presented an outline of the process involved. It introduced the study's problem statement and gave the background to the study. It outlined the study objectives and the research questions that needed to be answered to find a solution to the problem. Chapter 2 provides the literature on the topic, "Investigating funding challenges faced by SMMEs in Komani, South Africa."

According to Hart (1998, cited in Cronin, Ryan & Coughlan, 2008: 38), when important studies relating to a topic are being evaluated seriously to draw an objective conclusion, literature is reviewed. The purpose of the literature review is to review what has been published in relation to the topic at hand. This review will start with the definition of small, medium and micro-enterprises (SMMEs) in South Africa, a review of theories relating to funding challenges, an empirical review of literature in relation to funding challenges in Africa (and specifically South Africa), and in other developing and developed countries around the world.

2.2 THEORETICAL PERSPECTIVES

It is important to consider theories on funding challenges which explain why it is difficult for businesses to obtain funding so as to keep the business running or for its growth. It is also important to investigate theories on adverse selection, moral hazard, the resource-based view, the pecking order theory, the trade-off theory, the theory of the firm, and SME financing.

2.2.1 The agency theory – adverse selection

The agency theory came from two intellectuals, Stephen Ross and Barry Mitnick. Ross originated the economic theory of agency and Mitnick the institutional theory of agency. The agency theory is a concept used to explain the relationship between the principal and the agent. It is mostly used in carrying out financial decisions and transactions. The agency problem emerges before a contract is signed between two parties. Stiglitz and Weiss (1981) state that banks lack good information about how risky the borrower's project is. This is also referred to as information asymmetry. It is also difficult for the bank to discriminate between people or businesses seen to be risky. This position will mitigate against those who will actually turn over capital and pay it back. The charging of high interest rates also drives safe borrowers out of the market, which leads to inefficiency and imperfection in the market. However, worthy borrowers do not take part in the market because of this adverse selection

(Armendariz & Morduch, 2010). The lack of bank loans is largely attributed to information asymmetry (Vos, Yeh, Carter & Tagg, 2007; Berger and Udell, 1998). The agency theory is applicable to the study because it identifies why banks are unwilling to give financial assistance to SMMEs. The banks lack the trust they should have in their agent when it comes to SMMEs. Transparency in SMME finances, proper bookkeeping and management skill are among the reasons for its being difficult to finance SMMEs. This theory explains why SMMEs fail to obtain funding from major financial institutions.

2.2.2 Moral hazard

Armendariz and Morduch, (2010) state that moral hazard is incurred after the contract has been signed. It is the unobservable actions of the borrowers which affect profitability on the part of the lender after the loan has been granted. This is because it is believed that the lenders find it difficult to know how the borrowers are using the capital advanced to them. There is also the risk of what happens after the investors have invested the money borrowed. These are risks which made it difficult for SMMEs to access funds from financial service providers. However, it must be noted that adverse selection and moral hazard also provide tools for analysing market imperfection. So it is important to know that both adverse selection and moral hazard could be eliminated if the borrower has collateral to secure their loans. This theory emphasises that funding challenges for SMMEs are due mostly to a lack of collateral that will serve as a guarantee for the lender after the loan has been granted. This calls on policymakers and SMMEs themselves to help draft good policies to address the funding challenges of SMMEs.

Atkinson and Stiglitz (2015) state that it is important for the South African government to intervene in the credit market so as to resolve the funding challenges which are a major problem for SMMEs in South Africa. This intervention could take the form of promoting development through subsidies and incentives, the fixing of interest and foreign exchange rates, and facilitating industrial competitiveness.

2.2.3 The pecking order theory

The pecking order theory (POT) was first put forward by Donaldson in 1961 and modified by Myers and Majluf (1984). This theory relates to the company's capital structure and arises from the information asymmetry. The theory postulates that the cost of finance increases with asymmetric information, and the order in which new projects should be funded. First there is the use of retained earnings, secondly debt financing, and lastly equity financing. If the company elects to use retained earnings to fund its project, it makes it clear to the general public that the company is strong financially, relies on itself for funding and also brings share value to the company. If the company uses debt financing it makes it clear that the company is confident of meeting its obligation. Lastly, equity financing is more expensive and might signal to the market that the company cannot fund itself because of cash flow issues or that share prices are overvalued. Brealey, Myers and Allen (2008) state that this theory does not work with high-tech industries because equity is preferable due to the high cost of debt. A study conducted by Zeidan, Galil and Shapir (2018) revealed that owners of private firms in Brazil use the pecking order theory. It was also documented that the data are better explained by the pecking order theory than that of the trade-off theory (Myers & Shyam-Sunder, 1999). In relation to funding challenges in SMMEs, it is important to know that SMMEs should look at their internal source of funding since this is less costly. Conversely, it is known that SMMEs do not make enough money to invest and expand their business. However, the theory suggests that small businesses need to reinvest their profits a bit more than they do. On the other hand, SMMEs could explore taking up loans from the external providers when sourcing funds. This sums up the avenues available for funding SMMEs.

2.2.4 Trade-off theory

Unlike the pecking order theory, which does not have an optimum capital structure, the trade-off theory assumes that there is an optimum capital structure that is a good balance between equity and debt (Chen & Chen, 2011). The trade-off theory was first put forward by Modigliani and Miller (1958). This was one of the first theories on the capital structure of firms. The theory says: "Firms will therefore prefer debt to equity because of tax advantages and will strive to trade equity with debt when possible" (Chen & Chen, 2011; Lopez-Gracia & Sogorb-Mira, 2008). This was cited in the work of Esho and Verhoef (2018) titled *The Funding Gap and the Financing of Small and Medium Businesses: An Integrated Literature Review and an Agenda*. This theory states that SMMEs funding can best be addressed if businesses look at the option of loans. These are less expensive, so SMMEs in Komani can consider taking out loans from financial institutions to address funding challenges.

2.2.5 Resource-based view theory

The resource-based view (RBV) theory was put forward by Penrose (1959) and has validated growth for SMMEs. The RBV theory is a managerial framework which is used in determining the combination of strategic resources of which a firm can take advantage to achieve sustainable competitive advantage. Resources are considered strategic if they are valuable, rare, hard to imitate and organised to capture the best value position an organisation for long-term value. The RBV theory came from *Theory of Growth of the Firm* (Penrose, 1959). She was of the view that lack of critical tangible and intangible resources hindered the growth of a firm (Barney, Ketchen & Wright, 2011). The RBV theory focuses on the internal resources of an organisation. Internal resources like highly skilled personnel, goodwill, technology, geographical location, legal and organisational culture and any other strategic resources which are heterogeneous and not substitutable will be able to assist an SMME in the form of collateral for other needs if mobilised correctly. However, a culture of proper bookkeeping can give advantage to an SMME when it comes to accessing finance. The RBV theory seems to work well with the financing of SMMEs when it comes to venture capital, which provides potential growth. This is a good way of addressing the problems of SMME funding in Komani. On the other hand, venture capital is backed by skilled resources which guarantee success to managers in terms of SMME growth. The skilled resources are the assets Penrose mentioned, the lack of which is detrimental to the organisation. So access to venture capital is important and leads to growth in firms (Shanthi, 2018).

2.2.6 Theory of the firm and SME financing

The theory of the firm first appeared in the in a book titled *Behavioral Theory of the Firm* by Cyert and March (1963). The theory deals with the micro-economic approach that arose out of neoclassical economics, to the effect that firms operate so as to make profit. The book explains that the decisions made by firms are aimed at increasing their net profits. However, the theory emphasises revenue, cost, profit, and production function. In other words the theory of the firm explains the relationship of the firm to the marketplace. The theory of the firm also indicates that the size of the firm, its age and its growth affect its financial structure. Du and Girma (2012) find that the size of a firm is crucial in its growth. The study by Mac an Bhaird and Lucey (2010) emphasises that the size of the firm is positively related to external financial application. It has also been established that the size of a firm is associated with debt (Romano, Tanewski and Smyrnios, 2001). However, other studies in China on informal and formal firms established a negative relationship between the size of the firm and financing (Zhang, 2008). A study by Daskalakis, Jarvis & Schizas (2013) found that younger firms lack internal finance and also found it difficult to attract external equity. This could relate to the problems of funding among SMMEs in Komani in the sense that most of the businesses are young and were not able to mobilise internal funds to address problems.

2.3 EMPIRICAL PERSPECTIVES

2.3.1. Studies in South Africa

A study conducted using The Enterprise Survey of the World Bank, covering 100 countries over a 10-year period found that access to finance was the greatest problem facing SMMEs in Africa (Beck & Cull, 2014). Muriithi (2017), in his paper "African Small and Medium Enterprises (SMEs): Contributions, challenges and solutions", found that SMEs in Africa contribute more than 50% to GDP and on average provide 60% of employment. Despite these contributions by SMEs, governments have not taken the problems of SMEs seriously so as to address them for the purpose of sustainability (Muriithi, 2017). So it is important for governments around the world and in particular that of South Africa to adopt a supportive approach to SMMEs. It was also noted that there is a need to address the problems of SMMEs with practical approach rather than attempting to use theoretical approach. However, it must be noted that this paper was focused on the operations and profitability of SMMEs, so further studies could instead focus solely on the funding challenges of SMMEs, which might provide a different view.

A study conducted by Asah, Louw and Williams (2020) found that some factors are dominant in the willingness of formal financial institutions to grant credits. These factors include: collateral, annual business turnover, audited financial records, relationships with banks, credit profile, nature of business, economic climate, ethics, nationality, government policy, management team and valid identity documents. It was found that the factor considered most frequently was collateral in the form of land or property, investment accounts, a contract document, an investment policy and surety, which emphasise the theory of adverse selection and moral hazard. It was also found that lack of investment capital was a major problem on the part of the formal financial sector in assessing and approving loan applications. Quartey, Turkson, Abor and Iddrisu (2017, cited in Asah *et al*, 2020), state: "A lending institution is more confident in providing credit to a business where there is sufficient collateral and the owner's contribution is extensive." However, it is recommended in that study that the government should introduce a points model in lending. This would help any formal financial institution that extends credit to enjoy tax rebates as a motivational strategy. The government could also help develop sponsorship packages together with formal private sector financial institutions to help SMMEs. Quartey *et al* (2017) also state that there could be alternatives to property as collateral in the form of sales contracts and personal guarantees. Nevertheless, that study comes with certain limitations as it is limited to the head offices of eight selected formal financial institutions in South Africa's Gauteng Province. So the findings are limited and cannot be generalised. A further study in the Eastern Cape will need to use the quantitative method in analysing data to close the gap.

Another study, conducted by Pillay (2018), was submitted to the Gordon Institute of Business Science in a bid to understand the influence of Broad-Based Black Economic Empowerment (BBBEE) on access to funding for SMEs in South Africa. In that study it was established that it was difficult to achieve high ratings due to high cost requirements. Other limiting factors included the application process, ineffectual staff, the lead time, asymmetric information, collateral and compliance requirements. However, that research has also emphasised information asymmetry, which is a common factor in research conducted in connection with funding for SMMEs or SMEs. The Industrial Development Corporation (IDC, 2018) states: "BBBEE has come with good intentions to South Africa but has put a high financial burden on South Africans". For instance, the BBBEE codes are inhibitors when it comes to accessing funds for SMEs, because it is costly to attain higher ratings. However, Pillay's study is limited to Durban and Johannesburg, and cannot be generalised. It also has a limitation in its sampling technique since the participants chosen are part of the researcher's business network, making for a high possibility of lack of independence.

A study conducted in South Africa titled "Factors influencing SMEs' access to finance in South Africa" (Serame, 2019) uses both the quantitative and qualitative methods of approach. The study made use of 25 respondents out of 52 interview questionnaires sent successfully. The study chose mixed methods for the purpose of reliability. However the study was limited by the number of respondents, which is clearly low. Serame found multi-dimensional reasons why SMMEs find it difficult to access finance. These were: the strict risk attitude of banks, leading to a high cost of finance, and a lack of financial literacy on the part of SMMEs in maintaining proper bookkeeping. Serame (2019) further stated that there is the need to expand how to evaluate creditworthiness of SMMEs rather than keeping the old ways of doing things. The study recommended, however, that: 1) SMMEs be educated in terms of basic financial literacy skills so that they are in a better position to understand credit affordability and be able to handle financial matters better, especially the ability to differentiate between business and personal finance; 2) the use of innovative methods of credit assessment. This is in line with the findings of Finfind (2018) that, SMMEs that are three years old find it difficult to access credit because of a lack of innovation in credit assessment; 3) The use of credit guarantees helps to de-risk SMMEs when it comes to accessing finance. The credit guarantees help when a loan is denied and sometimes prevents the banks from denying credit. 4) Collaboration with government agencies and development finance institutions in solving finance problems is vital, since there is a need for the private sector and government to come together to solve developmental problems. Finally, the gap identified indicates the need for a further study into banking models for lending to SMMEs. So investigating the funding challenges faced by SMMEs in Komani will help in a small way to bridge the gap.

A study conducted by Marimo and Chimedza (2022) titled “SME credit risk modelling in South Africa” evaluated the access of SMEs to finance through credit risk modelling. The study looks at the factors involved in the successful funding of SMEs. The study identified lack of collateral, information asymmetry, moral hazard and lack of financial records as being among the reasons for the refusal of finance. However, the government has put mechanisms in place to assist SMEs, due to their important role in creating jobs and growth. With this in mind, the Ministry of Small Business Development was established in 2014 (SEDA, 2016). The study used credit scorecards using customers’ historical data to determine their access to finance. Research data used for the study was collected from just one financial institution, which was also a limitation of the study. The sample size was the number of overdraft requests made to the bank over seven years, ending in January 2018. Among the variables used were default status, the time elapsed since the last transaction, the number of credit inquiries. According to the findings, out of 73 247 approved applications for finance, 44.29% were not taken by the SMEs selected and 54.71% were taken. This selection model was based on a technique called cold scoring. However the use of this technique saw the financier make the application on behalf of the SME. So SMMEs have the right to accept an offer or decline it. Marimo and Chimedza also found that about 3.85% of SMMEs default on their overdraft after 18 months (Marimo & Chimedza, 2022). The application scorecard was aimed at reducing the rate of defaults and delinquencies among new applicants. Further research on secure and unsecured lending, amortising and revolving products for SMEs will no doubt throw further light on the accessibility of finance.

Another study, titled “Optimising access to external finance by small and medium-sized enterprise start-ups: Toward the development of a conceptual framework”, by Bamata and Phiri (2022), was conducted in Pietermaritzburg, KwaZulu-Natal. The study aimed at an experimental analysis of the awareness of start-ups, management skills and requirements put in place by financiers of SMMEs when accessing finance. The researchers used the quantitative approach to analyse data collected. Data analysis used the Statistical Package for Social Sciences (SPSS) Version 24. Data were collected from 253 SMMEs sampled out of a targeted population of 678. It is established that most SMEs know about external funding sources. However the main constraint is how they should access the funding, which for several reasons might be complex. The researchers pointed out that a finance framework that took into account management skills and providers of finance would help SMMEs in accessing external finance for start-ups. It was noted that the lack of general managerial skills and poor financial management skills would lead to the failure of SMMEs. Bamata and Phiri (2022) state that the funding framework developed in the study would be useful to business advisory companies and small entrepreneurs. The study suggested that African governments, with the help of other credit providers, should offer financial assistance to those SMMEs with the potential of becoming successful. However the study was limited to SMEs in Pietermaritzburg, so the results cannot be extrapolated. Further study on the similar topic will need to expand the sampling size and use a different approach to data collection. This study is important because it details how SMMEs can access external sources of finance.

2.3.2 Studies in the Eastern Cape, particularly Komani

A study by Sityata (2019) on SMEs in the Eastern Cape's Mnquma Municipality reported that the Eastern Cape provincial government had identified SMEs as a driver of employment. It was noted that most SME managers are faced by intense competition and a lack of access to finance, which threatened the sustainability of SMEs. A lack of financial management skills was also a contributing factor. As a result, local and district municipalities have been called on to play a role in funding SMEs. Sityata's study used a qualitative approach. A further study using a quantitative method would have revealed more detail about SME funding problems challenges, which could then be generalised. External factors were identified as field for further study.

A quarterly performance and development update by the Eastern Cape Socio-Economic Consultative Council (ECSECC, 2020), published in January 2021, shows that funding challenges are the most critical problem faced by Eastern Cape SMMEs. The paper revealed that SMMEs contributed 19% to total employment in the province. The study is, however, limited due to the sparse data provided. It was aimed only at contributing to building a bigger picture regarding SMMEs. The study focused on matters like the number of jobs created by SMMEs (which is important for this study), and the marital status and educational levels of SMME owners. This has left a gap that needs to be filled in respect of investigating SMME funding challenges in Komani.

The literature revealed that some research has been conducted on this topic. But due to the pandemic, more limitations on funding might have emerged, and this needs to be investigated and addressed. Most businesses used their limited funds on addressing Covid19 challenges which created more financial problems for SMMEs (Rajagopaul, Magwentshu & Kalidas, 2020). This meant that they were hindered in dealing with their core business because of limited resources. So it is necessary that the challenges to funding be overcome so as to enable growth.

At the same time, some businesses were able to access funding. Some were given interest-free loan holidays and several other packages that amounted to funding. But it must be noted that this is insignificant within the bigger picture. It was also learned that, because of government criteria, most SMEs did not qualify for state assistance in coping with the difficulties raised by the Covid19 epidemic (SEFA annual report, 2020-21).

It has been identified that a number of SMMEs are credit-rationed. This is common in developing countries like South Africa (Makina, Fanta, Mutsonziwa, Khumalo & Maposa 2015). This is largely because SMMEs cannot access financial or capital markets, and must rely solely on intermediaries as their source of external financing. These intermediaries ration credit. This is also due to lack of asymmetry of information on the part of SMMEs. However, financial institutions use lending technologies to assist in delivery of service. According to a study conducted by Mbedzi and Simatele (2020) on SMME financing and the cost of lending technology in the Eastern Cape, it was learnt that the size of the bank, the type of bank and operational structures were characteristics that influence the choice of technologies used (Bartoli, Ferri & Murro 2013; Aysan, Disli & Ozturk 2016; and Shen, Shen, Xu & Bai 2009; as cited in Mbedzi and Simatele, 2020). However large banks tend to finance large businesses while small banks also finance small businesses (Aysan *et al*, 2016). It has been found that financial gaps always show that private developmental finance organisations cannot fill the finance gap properly without government involvement (Mac an Bhaird & Lucey, 2016).

A study by Mago and Modiba (2022) titled "Does informal finance matter for micro and small businesses in Africa?" stated that informal finance in Africa plays a vital role in the operation life and growth of SMMEs. This paper looked into informal finance matters for SMMEs. The study also pointed out that the informal finance is able to take care of the "unbankable". The "unbankable" are the people viewed by the formal finance providers as high risk. The study also confirms theories including principal agency, pecking order theory and resources-based view theory. These were among the theories that underpinned the study of finance challenges faced by SMMEs in Komani. Mago and Modiba (2022) recommend the systematic literature review (SLR) research methodology because of its strength. Boland *et al* (2017) single out this method because it is deemed to achieve the best results from literature sources. In addition, Aliaga-Isla and Rialp (2013), emphasise that the SLR approach produces reliable, valid and unprejudiced outcomes because of its careful nature. However, out of the 30 articles reviewed, none of them used the SLR approach which on the other hand emphasised the choice of SLR. However the study shows that informal finance is vital for the survival of SMMEs in Africa and it is a workable alternative for this type of enterprise. In addition the study shows that informal finance plays an important part in the creation, growth and operations of business, the livelihoods of business owners and the communities where SMMEs operate. The study is limited by the selection of primary papers, including grey literature. It is a limitation because grey papers are not peer-reviewed. It is suggested that future studies be more focused on African countries and to engage in more research on informal finance. This suggestion lends significance to the present study of funding challenges for SMMEs in Komani.

2.3.3 Studies in sub-Saharan Africa

The World Bank Enterprise Survey for 2017 indicated that access to finance is one of the severest constraints that retard the growth of SMMEs. Evidence from other studies indicate that SMMEs' access to finance is a severe constraint (Beck & Cull, 2014; Beck & Demirgüç-Kunt, 2006; Dong & Men, 2014) and this has also been noted by Esho and Verhoef (2018), and White, Steel and Larquemin (2017). It has been noted that transaction costs, the opaqueness of SMMEs, collateral requirements and weak legal framework and institutions are among the causes of the financial problems facing SMMEs.

The fixed nature of credit assessment, processing and loan monitoring makes it expensive for SMMEs because of their small size (Beck & Demirgüç-Kunt, 2006; Esho & Verhoef, 2018). Because of the inability of the SMMEs to provide credible financial statements and the lack of information at credit bureaus makes it difficult for finance to be granted (Esho & Verhoef, 2018). Also, financial institutions usually demand collateral to safeguard their credit. However, it at times becomes difficult for SMMEs to obtain collateral, since ownership documents are not in their name (EIB, 2018). Lastly, banks are unwilling to grant credit because of a legal framework that is not strong enough to protect the creditor in the case of an insolvency (Galindo & Micco, 2004; Ramalho *et al*, 2018).

Disse & Sommer (2020) report that digital finance has become one of the innovations that will provide Africa SMMEs with financial solutions. The use of mobile money technology and crowd funding are some examples of financial technology aimed at improving the provision of finance for SMMEs. In Africa, digital financial instruments in general are limited, compared with the portfolio of outstanding SMME financing from banks or capital raised by similar technological instruments in other parts of the world. Several studies show that around the world SMMEs are more likely to be excluded from having access to external finance (Quartey, Turkson, Abor & Iddrisu, 2017). Access to finance for financially excluded

SMMEs is best when digitalisation is implemented. Digital advances ameliorate the problem of opaqueness and asymmetric information. Better ways of credit checking improve the access of SMMEs to finance and also helps reduce the risk of default (Demertzis, Merler & Wolff, 2018).

According to the International Finance Corporation (IFC, 2017), digital finance reduces information asymmetry as well as providing better service to SMMEs when combined with new algorithms that exploit alternative data. With digital finance, online loan applications can be made in no time and even by telephone. This reduces the long hours usually taken up when making loan application using paper-based methods and shortens the time required for approval (Mills & McCarthy, 2017). According to Arner *et al* (2015), Demertzis *et al* (2018), digital applications are simpler, which suits SMMEs with their shortage of managerial skills. Kenya has seen a sharp increase in the use of digital technology in recent years. Sub-Saharan Africa has been in the forefront when it comes to the use of mobile money (EIB, 2018). Worldwide, sub-Saharan Africa accounts for almost half the mobile money technology used. Nguena (2019) confirms that studies on digital finance across 49 sub-Saharan African countries show positive correlation.

Notwithstanding the positives of digital finance, it also comes with some concerns: criminal activity by hackers, taking advantage of vulnerable users, has become a serious concern. These concerns have led FinTech to spend more on updating its security software (International Finance Corporation, 2017; Maino *et al*, 2019). Besides this, the rise in the use of digital technology in resolving SMME financing has also led to an increase in non-performing loans (EIB, 2018). However, further research needs to be conducted on the interconnections between digital financial markets and social cohesion.

In a study titled "The role of micro, small and medium enterprises (MSMEs) to the sustainable development of sub-Saharan Africa and its challenges: A systematic review of evidence from Ethiopia", Endris and Kassegn (2022) emphasise that access to finance is a considerable problem for MSMEs. They mentioned that for SDG goals to be addressed, it is necessary to encourage entrepreneurial activities. EDFI (2016) states that the continued success of the SME sector depends on public services, good corporate law and access to finance. SMEs also contribute to the national economy (White, 2018), making up of 50% of GDP in African countries and 60% of employment (Muiruri, 2017). Other studies have discovered that entrepreneurship and new venture creation in South Africa and the rest of sub-Saharan Africa absorbs a large proportion of the labour force (Diao *et al*, 2018). However, it is acknowledged that entrepreneurial activities in sub-Saharan Africa are due to lack of employment and people are forced to think out of the box (Doran *et al*, 2018). The challenges of lack of finance, weak entrepreneurial acumen, and government policies and regulations are making the development of SMEs difficult in sub-Saharan Africa (Achtenhagen & Brundin, 2016; Herrington & Coduras, 2019). There is, however, a low financial inclusion index in sub-Saharan Africa (Ofori-Abebrese *et al*, 2020). Leke and Signé (2020) state that 75% of SMEs were financed internally and 10% used bank loans while in South Africa, only 21% used bank loans. In Tanzania, 30% have access to finance (Ishengoma, 2018) and access to debt and equity markets is a problem in South Africa (Fatoki, 2014). The study found that 15% of financially constrained SMEs are less efficient than those that are unconstrained (Amos & Zanhouo, 2019). The study also found that the effect of Covid19 was devastating to SMEs (Guo *et al*, 2020; Liguori & Pittz, 2020).

The study used a systematic literature review method which is said to be trustworthy, minimises bias and more reliable (Sniazhko & Muralidharan, 2019). The study concluded that lack of access to finance, poor infrastructure and the attitudes of entrepreneurs were the main challenges to MSMEs in sub-Saharan Africa. The study also recommended a multi-sectoral approach to address the financial problems of MSMEs. Future studies need to address ways in which MSMEs are hindered. Finally, it can be said that the review of this study has given the researcher further encouragement to pursue the study since it reveals a gap in the literature indicating the need for this study.

2.4 OVERVIEW OF SMME FINANCING

2.4.1 SMME financing in sub-Saharan Africa

Financing SMMEs in sub-Saharan Africa is faced with two major constraints: the accessibility and affordability of finance. When it comes to accessibility, I refer to the ability of SMMEs to access finance for growth and for developmental purposes (Runde, Savoy & Staguhn, 2021). This is because most SMMEs in Africa are informal, which means they are not formally registered to be able to access finance from financial institutions. This is their greatest stumbling block. However, some SMMEs are formally registered but still cannot access funding. Runde *et al* (2021) revealed that a third of SMMEs in sub-Saharan Africa have access to bank loans. It is estimated that 28.3% of SMMEs in sub-Saharan Africa are constrained financially (Kuntchev, Ramalho, Rodriguez-Meza & Yang, 2013, cited in Runde *et al*, 2021).

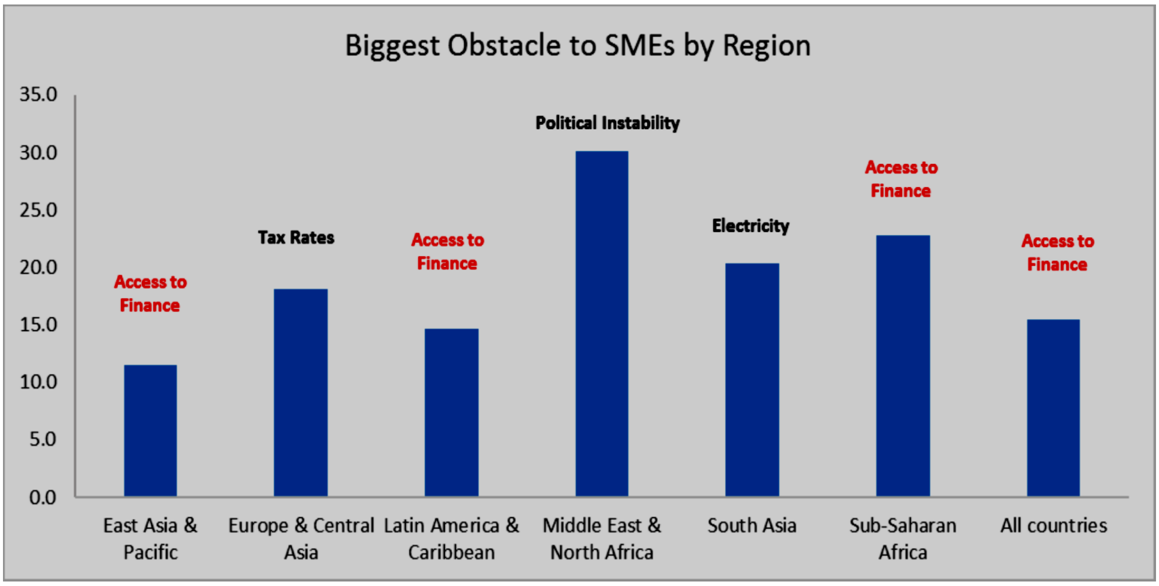
When it comes to the affordability of funding, this refers to the cost of capital. It is the ability of the business to be able to afford the cost of borrowing. The cost of capital is high because of high interest rates are charged in the absence of collateral. This brings in the theory of adverse effect and moral hazard. According to Beck and Cull (2014), high interest rates deter SMMEs from applying for finance, which prevents SMME growth and development.

Covid19 has increased the cost of capital because of high demand and limited supplies. The pandemic made it difficult for the SMMEs to afford capital because at the time of the pandemic, financial institutions were not ready to lend in general because of uncertainties. This has made an existing problem worse. The World Bank (2020) estimated the loss of output in sub-Saharan Africa at $115 billion while GDP contracted 3.3%. This will have a devastating effect on the continent if financial support is not sought and could lead into extreme poverty in this continent (World Bank, 2020).

Ousmane Diagana, World Bank vice-president for Western and Central Africa, said: “As Covid19 continues to put substantial pressure on Western and Central African economies, it is important for policymakers to create the infrastructure necessary for rapid recovery”. Strong policies create the critical cornerstone for sustained, inclusive recovery and improved resilience to shocks Zeufack et al. (2021).

“According to Oumar Seydi, regional director for Sub-Saharan Africa at the International Finance Corporation (IFC), the formal SMME sector in Africa has an estimated annual financing shortage of more than US$136 billion, according to his estimates. His statement emphasises the fact that small, medium and micro-sized enterprises (SMMEs) account for 90% of all firms in Africa”.

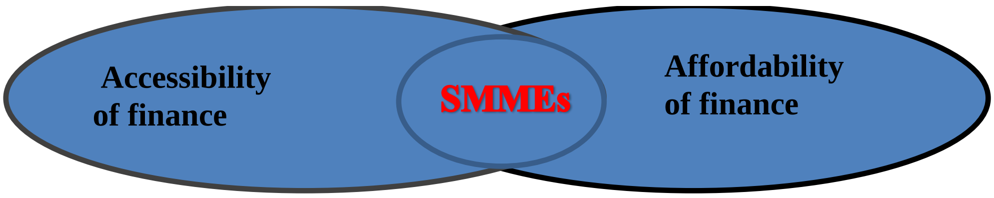
Figure 2.1 Biggest obstacles to SMMEs by region



Source: World Bank Enterprise Surveys (2010-2016), Enterprise Surveys (http://www.enterprisesurveys.org), The World Bank.

Figure 2.1 indicates the extent of the problem of SME access to finance in sub-Saharan Africa. The same lack of access is also present in East Asia and the Pacific, Latin America and the Caribbean. The graph also indicates that, apart from sub-Saharan Africa, all other countries also find access to finance to be a pressing obstacle.

Figure 2.2 Major problems faced by SMMEs in sub-Saharan Africa



Source: Own compilation from Runde, Savoy and Staguhn (2021).

Enterprise finance access in Ethiopia

In Ethiopia, financial institutions are not ready to give credit to relatively new SMEs since they are seen as being high risk (Nega and Hussein, 2016). The high cost of credit, the demand for collateral and the inadequacy of finance for all existing SMEs are great challenges (Tadesse, 2014). However, the financial constrain has made it difficult for businesses to create job opportunities for Ethiopians. Figures 2.3 and 2.4 illustrate these constraints.

Figure 2.3 Obstacles to business for firms in Ethiopia

Fig. 2.3 Financial challenges across enterprise size. Source Author calculation from World Bank Enterprise survey (2015)

Figure 2.3 shows obstacles to business for firms in Ethiopia. The graph shows that out of all the constraints on business in Ethiopia, access to finance leads at 40.4%. This underlines the fact that one of sub-Saharan Africa's most pressing problems is business access to finance.

Figure 2.4 below shows access to enterprise finance in Ethiopia with regard to micro, very small, small and medium enterprises. The graph shows that micro, very small and medium enterprises have the highest rate of major financial barriers – respectively 40%, 44% and 50%. On the other hand, small and medium enterprises in Ethiopia have the most access to credit, at 57% and 80%. Micro and very small enterprises have the highest rate of loan rejections, respectively 22% and 33%. Clearly small start-ups struggle to obtain finance.

Figure 2.4 Small businesses' access to finance in Ethiopia

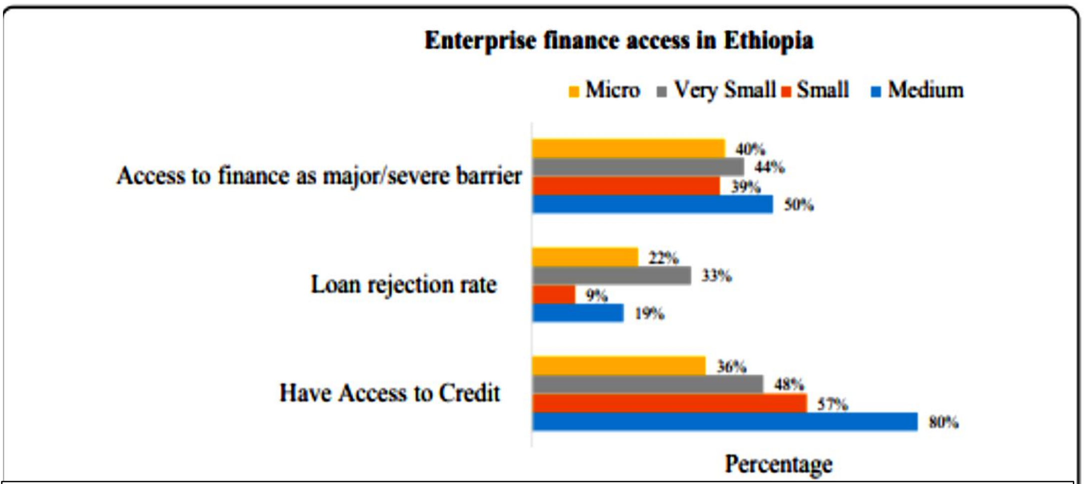


Fig. 2.4 Financial challenges across enterprise size. Source: Author's calculation from IFC database (2019)

Addressing the problem of SMME finance in sub-Saharan Africa

Financing SMMEs is a major problem in sub-Saharan Africa. However, it is vital to study how this problem is being addressed by governments and formal financial institutions. The US African Development Foundation (USADF) and the US Development Finance Corporation (DFC) both state that blended finance is one way out of the problem of lack of finance. Blended finance is defined as "the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets" (World Economic Forum, 2015). Blended finance directs private investment to where it is needed most for development purposes, seeking leverage, influence and returns. The providers of blended finance actors include private sector capital providers, development and philanthropic funders, and financial intermediaries. Blended finance helps reduce the funding gaps by supporting SMMEs. This is because Africa is full of political risks, while the informality of the market makes it difficult for investors, hence the need for blended finance (Peter Wamicwe, 2020). According to the World Bank Group (2018), 51% out of 44 million formal SMMEs in sub-Saharan Africa need finance, and an estimated \$331 billion in funding is needed to address funding gaps in Africa.

A report compiled by the London Stock Exchange African Group on the topic "The challenges and opportunities of SME financing in Africa" revealed some of the problems faced by African SMEs. These are:

Capital market inefficiency

The capital market is proposed for providing funds of all types to SMEs. However, the lack of finance is creating awareness that capital markets are failing on their duties (Bakhshi, 2018). Capital markets are there to provide capital to all businesses. It is noted that SMEs lack an awareness of where they can source finance for growth purposes. Venture capital and private equity are just two possible avenues. This lack of awareness contributes to a lack of liquidity in domestic capital markets (Bakshi, 2018).

It is known that most SMEs like to seek finance from banks, a traditional recourse for short-term debts which is overburdened. But it must be noted that this type of financing depends on the development stage of the business (Bakhshi, 2018). According to Bakhshi, 2018, business environment poses further obstacles to SMEs including:

a) Restrictive credit checks from foreign banks aimed at preventing SMEs from having access to debt finance because of sophisticated scoring methods.

b) Relationship-based lending leads to non-performing loans.

c) The use of negative reinforcement tools results in SMEs which have missed a single payment being blacklisted.

Absence of government SME strategy to develop the ecosystem

The government is aware of the importance of SMEs but has not placed SME development at the heart of state policies, for example:

a) Tax regulations that do not support SME development.
b) Administrative hindrance to SME growth.
c) Lack of transparency and corruption.

2.4.2 SMME financing in South Africa

Small, medium and micro-enterprises (SMMEs)

There is no single accepted definition of an SMME; definitions vary around the world. Some countries define SMMEs according to their policies and legal concepts. Some define it according to the number of employees and the total revenue generated. This makes it somewhat difficult for one to make a clear definition of an SMME. According to the Organisation for Economic Co-operation and Development (OECD 2013), small enterprises in developed countries are those with a turnover of up to $5.5 million, but in developing countries turnover up to $14.5 million. Medium-sized enterprises are capped at a turnover of $28 million for developed countries and $14.5 million for developing countries. Meanwhile, for the purpose of the study, SMMEs will be limited to the legal definition provided by policymakers in South Africa.

According to South African *Government Gazette* (2019), the new definition of SMMEs uses two proxies (total full-time paid employees and total annual turnover) and taking away the original third proxy (total gross asset value) (*Government Gazette*, 110 No. 42304, 15 March, 2019).

Table 2.1: Definition of SMMEs by number

Enterprise category	Total full-time equivalent of paid employees	Total annual turnover
Small	11 - 50	Varies with the sector
Micro	0 - 10	Varies with the sector
Medium	51 - 250	Varies with the sector

Source: Own compilation from SA *Government Gazette, 110 No. 42304, 15 March*, 2019.

Table 2.1 shows the SMMEs with the total full-time equivalent of paid employees. It also indicates that the annual turnover varies from sector to sector. This serves as a guide for easy identification of the category of SMME referred to.

Table 2.2 Definition of SMMEs by sectors and sub-sectors (SA Government Gazette 2019).

Column 1	Column 2	Column 3	Column 4
Classification of industrial sectors	Enterprise size	Paid employees	Total annual turnover
Agriculture	Medium	51-250	≤35.0 million
	Small	11-50	≤17.0 million
	Micro	0-10	≤7.0 million
Mining and quarrying	Medium	51-250	≤210.0 million
	Small	11-50	≤50.0 million
	Micro	0-10	≤15.0 million

Manufacturing	Medium	51-250	≤170.0 million
	Small	11-50	≤ 50.0 million
	Micro	0-10	≤ 10.0 million
Electricity, gas and water	Medium	51-250	≤180.0 million
	Small	11-50	≤ 60.0 million
	Micro	0-10	≤10.0 million
Construction	Medium	51-250	≤170.0 Million
	Small	11-50	≤75.0 million
	Micro	0-10	≤10.0 million
Retail, motor trade and repairs services	Medium	51-250	≤80.0 million
	Small	11-50	≤25.0 million
	Micro	0-10	≤7.50 million
Wholesale	Medium	51-250	≤220 million
	Small	11-50	≤80.0 million
	Micro	0-10	≤20.0 million
Catering, accommodation and other trade	Medium	51-250	≤40.0 million
	Small	11-50	≤15.0 million
	Micro	0-10	≤5.0 million
Transport, storage and communications	Medium	51-250	≤140.0million
	Small	11-50	≤45.0 million
	Micro	0-10	≤7.5 million

Finance and Business Services	Medium	51-250	≤85.0 million
	Small	11-50	≤35.0 million
	Micro	0-10	≤7.5 million
Community, social and personal services	Medium	51-250	≤70.0 million
	Small	11-50	≤22.0 million
	Micro	0-10	≤5.0 million

Source: (SA *Government Gazette* 110 No. 42304, 15 March, 2019).

Table 2.2 shows the definition of SMMEs with regard to sectors, sub-sectors and total annual turnover applicable in South Africa.

Lending infrastructure

In finance, lending infrastructure is viewed as the regulations governing financing. How regulations and policies are made determines how flexible or rigid finance will be. According to Thampy (2010, as cited in Msimanga, 2017), lending infrastructure is explained as a system comprising information as well as legal, bankruptcy, tax regulatory and social environments. If the laws of a country protect financial institutions, many will be ready to lend to the SMMEs and *vice versa*. However, it is important for nations to structure their financial environment in such a way that all parties to a trade will benefit from it.

Funding defined

Funding is also known as financing. It is the act of contributing resources of various sorts and from various sources to finance a programme, a project and a need. Funding can be either long- or short-term depending on the need. Sources of funding include retained earnings, debt capital and equity capital (Corporate Finance Institute 2022).

Challenges faced by South African banks in financing SMMEs

According to a study conducted by the Banking Association of South Africa on hurdles faced by financial institutions in financing SMMEs during 2010, published on 6 November 2018, these were identified:

a) SMMEs are often not able to repay loans. This is due to the irregularity of their cash flows. This is one of the concerning factors with regard to SMME financing. Weak financial information supplied for finance applications is one of the reasons behind

SMMEs struggling to secure loans, the study reports. Low credit scores, red tape, weak cash flow and insufficient collateral are among the reasons for this.

b) It has been identified that some SMME staff need up-skilling. Where this has been done, it has had a positive effect on funding. However, post-financing support has been a problem faced by banks.

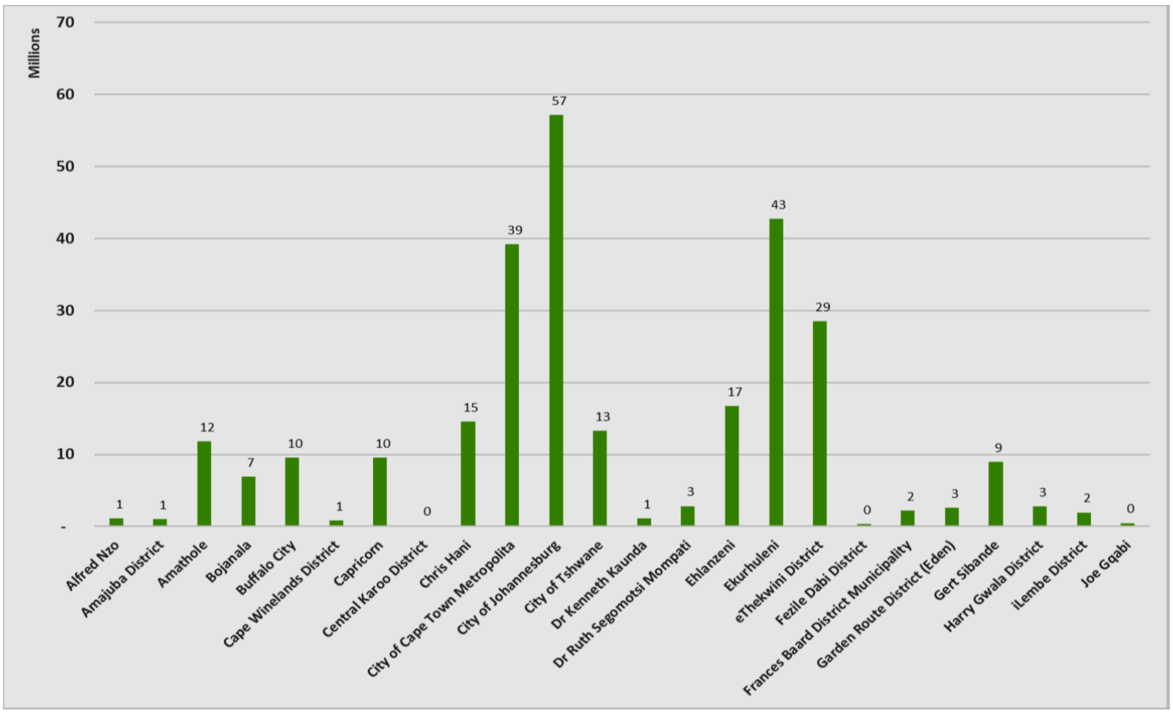
c) It has been identified that most financial institutions were not fully working together with SMMEs, the research found. So it is advisable for both parties to work together to overcome the problems of funding.

d) There is a significant gap with regard to the provision of finance for SMMEs. Collaboration is needed between all stakeholders in the financial industry for good finance to be provided to SMMEs (Banking Association of SA, 2018).

2.4.3 SMME financing in the Eastern Cape and specifically Komani

The Eastern Cape is one of South Africa's poorest provinces (see Figure 1). It is important to note that the SMME sector is a significant provider of employment. However, SMMEs remain underdeveloped. The Department of Trade and Industry (2017) states: "Only 40% of South African adults have income-generating work, compared to almost 60% in other upper-middle-income economies excluding China."

Figure 2.5 SEFA's financial disbursement by district



Source: SEFA second quarter performance report for 2020-21.

Figure 2.5 shows financial disbursement by the Small Enterprise Finance Agency for the 2020-21. It shows that SMMEs in the Chris Hani district were given a total of R15 million in financial support. This is a drop in the ocean when one considers the number of SMMEs in the Chris Hani district, of which Komani is part, since SMMEs struggle to find external support for a variety of reasons. It would be best if the government were to expand its financial assistance to help lift SMMEs out of position.

2.5 SUMMARY

Chapter 2 summarised the theories that underpin this study, like the pecking order theory, the agency theory, adverse selection, moral hazard, the trade-off theory, the resource-based view and the theory of the firm and SME financing. The study also looked at empirical views related to SMME financing in the Eastern Cape, South Africa, and sub-Saharan Africa. It also included an overview of SMME financing on the continent, in the country and in the province. The study also took a critical look at problems faced by South African banks in financing SMMEs. It cannot be ignored the effects of covid-19 on SMMEs. Most SMMEs closed because they used their limited funds on addressing Covid-19 related challenges. Because of the devastating effects of Covid-19 cost of capital has increased due to high demand and limited supplies. On the other hand some SMMEs fear taking more debts due to the uncertainties of Covid-19. Finally, the study reviewed graphs setting out the effect of lack of finance for SMMEs in South Africa. Chapter 3 will set out the methodology.

CHAPTER 3
RESEARCH METHODOLOGY

3.1 INTRODUCTION

Chapter 2 provided an overview of scholarly literature on funding problems faced by SMMEs around the world. Chapter 2 reviewed literature on South Africa, sub-Saharan Africa, Asia, and the United States as a member of the Organisation for Economic Co-operation and Development (OECD). The previous chapter also looked at best practices for mitigating the funding disabilities of SMMEs. It also outlined the viewpoint of the Banking Association of SA with regard to SMMEs.

Chapter 3 specifies the methodology chosen and the research design followed by this study and outlines the approach used by the researcher. This chapter presents the research paradigm, research design, data collection, sampling, data analysis, and research rigour. Schwardt (2007:195) explains research methodology as the act of making an inquiry in such a way that analytical explanation can be made based on research assumptions and principles. The limitations of the research and ethical considerations are discussed, followed by a chapter summary. According to McNabb (2017), a research method is the approach used by the study in acquiring information used in the study.

3.2 PRIMARY RESEARCH

3.2.1 Research paradigm

A research paradigm constitutes the studies, trust and international principles, how the world is explained and how work is carried out (Kamal, 2019). Rahi (2017) states that four paradigms are in use: positivism, interpretivism, advocacy and pragmatism. The positive paradigm is also called scientific method and was proposed by August Comte (1798-1857). Positivists believe that different scientists can reach similar results when the same research method is used in investigating large samples. This can lead to generalisation (Wahyuni, 2012). This research will be based on the positivistic paradigm because it has large samples and the outcome can be generalised. Positivists believe in the existence of only one true reality (Ponterotto, 2005). The positivistic researcher's belief is that the social world is a solid and unalterable reality which can be quantified objectively. Also, the researcher and the subject are independent and there is no influence from the researcher. "Positivism relate on the importance of what is given in general, with more strict focus to consider pure data as well as facts without being influenced by interpretation of bias of human" (Scotland 2012; Saunders *et al*, 2012). This study will assess the effects of funding limitations experienced by SMMEs in Komani, Eastern Cape. It is acceptable to use the quantitative method as its outcome can be generalised with high reliability.

3.3 RESEARCH DESIGN

MacMillan and Schumacher (2001: 166) explain research design as an objective by which answers to research questions are provided through the collected data from various research sites. In addition, the aim of a good research design is to provide trustworthy outcomes. Durrheim (2004: 29) explains research design as a planned structure of action which links research questions and the accomplishment of the research strategy. This research will use descriptive designs to allow for relationships between variables to be drawn and those relationships to be established. This will help identify the trend and the effect of the funding limitations. To collect data, a questionnaire will be sent out and interviews conducted in the businesses sampled. In the case of the questionnaire, questions will be both open- and closed-ended.

This research uses a quantitative methodology to investigate the funding limitations of SMMEs. This is because the quantitative method selects research participants randomly from the study population in an unbiased manner. "Quantitative research relates to measuring quantity with application to a specific phenomenon, and this is expressed in terms of quantity. Furthermore, quantitative research is used often to test existing theories" (Creswell, 2002). This study will test the agency theory, moral hazard and the pecking order, trade-off and resource-based view theories, as well the theory of the firm and SME financing relating to the problems of funding SMMEs in Komani. However, the choice of the quantitative over the qualitative method in this study relates to the data collected, instruments used and generalisability of the findings. On the other hand, Lincoln and Guba (1985) mention that qualitative research approaches are more natural, and the researcher interprets his observation in his own way when drawing conclusions. Quantitative research emphasises social behaviour, which is quantifiable compared with the interpretation of its meaning. The quantitative method has these advantages: 1) the findings are likely to be generalised due to the use of large samples; 2) the quantitative method is less time-consuming when sampling and analysing data, compared with the qualitative method; 3) it is based on the positivist paradigm of measuring variables; 4) the quantitative method allows easier comparison of data; and 5) the quantitative method enables the development of quantitative valuation indicators ((Martin & Bridgmon, 2012). The quantitative approach is also characterised by the use of questionnaires and of advance statistical tools (Goertz & Mahoney, 2012). Johnson and Christensen (2008:33) assert that a quantitative methodology has to do with the occurrence, assessment and formation of models and the explanation of assumptions. This is in line with the researchers' belief.

3.3.1 Data collection

The study will make use of data that is collected from the questionnaires administered. Saunders, Lewis and Thornhill (2009) assert that a research instrument is a measurement tool for research which has been reliable and valid. They also state that a questionnaire gathers exact and objective information. The questionnaire will be developed from the literature review and scored using the Likert scale. The data will be collected using a paper-based questionnaire. The questionnaire will be used because it is more manageable. The survey will be distributed inside business premises. Although it takes only 10 to 15 minutes to complete, respondents will be given enough time to think about their responses and not be distracted during working hours. They will be asked to return the completed surveys to the research assistant within the following two or three days. The list of those sampled will be used to track the returning completed surveys as well as other staff members who might not have received the survey because they were either on leave or not at work when the questionnaires were distributed.

Babbie (2008) states that one needs to know how questionnaires can be designed appropriately so as to answer the research questions related to the study. The flow of the questions is important in obtaining accurate responses. For easy response, coding and analysis to take place, the questionnaires need to be both closed- and open-ended. A five-point Likert scale will be used to allow the respondents to reflect their agreement or disagreement.

The survey will be pilot-tested with selected respondents. Most of them will be management or those directly connected with the finance department. The pilot study will help improve the instrument and check the reliability of the constructs to be used. Saunders, Lewis and Thornhill (2007: 386) state that a test before the study is conducted qualifies the researcher to ascertain the validity of some of the questions as well as the likely trustworthiness of the data to be gathered. The sample size will comprise selected managers and the questionnaires will be distributed to them.

3.3.2 Sampling

Sampling is a process by which a reasonable portion of the population is investigated to enable the researcher draw valid conclusions about the population. (Altinay & Paraskevas, 2008: 89). The advantage of sampling is that the researcher needs not study the entire population – handfuls are enough for drawing conclusions. This will help the researcher in terms of cost, time and efficiency. Saunders *et al* (2003:151) state that researching the entire population of the study is difficult. So working with the sample is good for generalising findings with regard to the larger population. McMillan and Schumacher (2006: 119) assert that a population represents variables with unique elements of interest which can be used in a study to draw a conclusion. Fraenkel and Wallen (2009) state that when samples are selected from a larger group, that group can be called a target population. The study's population is management personnel of various SMMEs in Komani. The sample size of the study will comprise 82 selected managers plus people in the finance sections of the SMMEs selected. Those picked represent 10% significance level and 90% level of confidence from a population of 441 SMMEs in Komani that are on the database of Department of Economic Affairs (2022). These comprise 121 informal and 320 formal SMMEs. The sample size was arrived at using Yamane's formula for calculating sample size: $n = N/1+N(e)^2$. The questionnaires will be distributed to 82 respondents. The study will use the probability sampling design called stratified sampling. Babbie (1995: 210-212) states that stratified sampling ensures that the sample takes into account the heterogeneity of the population. Stratified sampling also helps ensure that the sample includes small, medium and micro-enterprises. This will help the study deal with the various categories of SMMEs in addressing the funding challenges they face in Komani. However, the sample comprises only SMME management and financial managers. It is limited to participants aged between 18 and 60. Participants who are willing to take part will be given a recruitment letter, a covering letter for participants and an informed consent form to complete. Participants need to be aware that their participation is voluntary and that withdrawal from the study is acceptable when desired. They will be informed that they will remain anonymous and their right to privacy will be guaranteed. This study will be conducted in Komani, Eastern Cape, South Africa.

3.3.3 Data analysis

Data analysis is explained as assembling, conditioning and converting data with the objective of calling attention to information (Andèr, Mellenberg & Hand, 2008: 236). Connaway and Powell (2010: 262) state that the categorisation and coding of data and statistical calculations are vital for data analysis. Data analysis will be conducted using the Data Analysis ToolPak on Microsoft Excel and Stata software. The use of Excel will involve data preparation, descriptive statistics and Pearson's Chi-square test which was tabulated using Stata.

3.3.3.1 Pearson chi-square test of association

Lomax and Hahs-Vaughn (2012) write: "The chi-square test of association is used to test the relationship between two categorical (nominal or ordinal, or combination of the two) variables." The test can also be referred to as the chi-square test of independence. Either is acceptable; however the difference in terminology stems from whether the null or the alternative hypothesis is being referenced. The Pearson chi-square test is chosen over other statistical methods because it is a non-parametric tool created in such a way as to analyse group differences when the dependent variable is measured at a nominal level. It is a significant statistic. Chi-square is robust with respect to the distribution of data, and is a way to illustrate a relationship between two categorical variables.

3.3.3.2 Advantages and limitations of Pearson chi-square test of association.

Advantages of the chi-square test include its robustness in terms of data distribution, its ease of calculation, the extensive knowledge that can be obtained from the test, its use in studies for which parametric assumptions cannot be met, and its versatility in managing data from two or more group studies. Limitations of the chi-square test include sample size criteria, the complexity of analysis when the independent or dependent variables contain large numbers of categories (20 or more and the propensity of Cramer's V to generate relatively low correlation measurements, except for highly significant results).

3.3.3.3 Assumptions of the chi-square test

1) The data in cells must be frequencies.

2) The categories of the variables are mutually exclusive. That is, a particular subject fits into one and only one level of each of the variables.

3) At least 50 observations are needed before performing the chi-test.

4) No cells should have fewer than one 5 observations. The violation of this assumption should make one run a Fisher's exact test (McHugh, 2013).

3.3.3.4 Null hypothesis and alternative hypothesis:

A null hypothesis states that there is no relationship between two variables.

An alternative hypothesis states that a non-zero relationship exists between two variables in the population. The test shows whether there are significant differences between the observed and expected variables in the population. When one rejects the null hypothesis, one is saying there is a relationship between variables in the population.

3.3.3.5 Hypotheses to be tested in this study:

a) H_o = There is no association between difficulty of funding access and red tape.
   H_1 = There is an association between difficulty of funding access and red tape.
b) H_o = There is no association between difficulty of funding access and turnover.
   H_1 = There is an association between difficulty of funding access and turnover.
c) H_o = There is no association between difficulty of funding and employment loss.
   H_1 = There is an association between difficulty of funding and employment loss.
d) H_o = There is no association between an application for credit and informal funding.
   H_1 = There is an association between an application for credit and informal funding.

3.3.4 Validity

Validity relates to the subject if the research is really measuring what was aimed at. Gravetter and Forzano (2009: 157) state that the validity of a study is said to determine the level of precision achieved when answering a question. To achieve content validity, the questionnaire includes a variation of questions to cover the topic. Information gathered in the literature review will be used in designing the questions. Validity can be measured by comparing the consistency of the course of action used in data analysis and the results. All data must be input, coded correctly and the right test carried out to ensure validity of the data collected. Various statistical methods should be used to analyse the same data for the purpose of ensuring that accurate conclusions are reached.

3.3.5 Reliability

Reliability is the consistency or reproducibility of a response (Thomas & Nelson 2001). The credibility of the study is also important. So it is vital for the study to eliminate all biases that will render the research not credible. Cooper and Schindler (2003: 378) state that bias mostly takes these forms in a study: gender, race, ethnicity, stereotyping or language. This type of profiling was avoided in the study so as to eliminate bias. Because of these elements of bias, biological information was eliminated on the questionnaire. The choice of language and the quantitative method is meant to eliminate bias by making the questionnaire easy to follow and understandable.

3.4 RIGOUR IN RESEARCH

Rigour can refer to how robustly a study uses its method so that the result is dependable. Strict adherence to the assumptions of the method allows one to believe in the outcome (Armour *et al*, 2009: 102). To ensure rigour, quantitative research must be strict and rigid, and follow the pre-designed format. Data collected must ensure that the methodology arrives at the same outcome. The questionnaire is made up of questions that assess the same concept in different areas. This method re-examines the uniformity of the participants' responses (Babbie, 2010: 151). The reliability of a research instrument refers to its uniformity and the quantification of some phenomena.

To establish rigour in the research questionnaire in terms of appropriateness, usefulness and lucidity, a field test will be conducted. Five people will be picked to take part in a field test to review the instrument for lucidity and phrasing. The characteristics of the people being re-examined must be same as those targeted. The questionnaire must be designed in a way that will produce the same outcome so that one can measure trustworthiness. This assists in reassessing respondents' answers (Babbie, 2010:151).

3.5 LIMITATIONS OF THE RESEARCH

This study will be conducted in Komani, Eastern Cape, South Africa. It is based on the funding challenges faced by SMMEs. It will examine the challenges the funding crisis brought to SMMEs. This research will be limited to SMMEs in the Komani area. Marshall and Rossman (2014) state that it is understood and accepted that no research is without limitation. However, no research has been designed to be conclusive. So it follows that this research is limited to the points in the questionnaire. It must also be acknowledged that as the research has limitations, it cannot be generalised in any form.

3.6 ETHICAL CONSIDERATIONS

Research requires certain fundamental qualities for one to be successful. These qualities includes: integrity, honesty, rigour, and competence. Henn, Weinstein and Foard (2009: 80) pinpoint some morals which need to be taken seriously when one undertakes research. These are issues of consent, privacy, consequentiality, harm, confidentiality and anonymity. In this study, the respondent's right to confidentiality was respected and any legal requirements regarding data protection were adhered to. The respondents were informed of the aims of the survey, and gave their consent to take part in it. The researcher applied for Nelson Mandela University Ethical Clearance and followed all the guidelines it entailed. No data was collected until an ethical clearance number was received.

3.7 SUMMARY

Chapter 3 highlighted the research paradigm, research design, data collection, sampling, data analysis and research rigour, limitations of the research and ethical considerations, and provided a chapter summary. The study used the quantitative approach in data collection and analysis. The survey method was used, and a questionnaire was administered for data collection. A sample of 82 participants from various SMMEs in Komani was selected. Participants were management of SMMEs and managers in the finance sections of SMMEs selected. The research is limited to the sampled number. It is also limited to SMMEs in Komani. Ethical guidelines were taken seriously during the data collection process. POPI Act was also not neglected as it is a component of ethics. Pearson Chi-square test of association was used due to its suitability. Hypotheses were developed and tested. Validity was dealt with because questions were in variation so that all part of the topic is covered. Reliability was also measured in such a way that bias is removed from all sides. This research is dependable because it adhered to methods that underline this research believes. In Chapter 4, the findings of the study are presented.

CHAPTER 4
FINDINGS AND INTERPRETATION OF DATA

4.1 INTRODUCTION

Chapter 3 provided details of the research methodology and the research process used in the study. This chapter presents the empirical findings of the study into funding challenges faced by SMMEs in Komani, in the Enoch Mgijima Local Municipality. The study sought to investigate funding challenges faced by SMMEs in Komani. These findings are presented in the form of graphs and charts to create an image of the situation regarding SMME funding challenges in Komani. The type of data collected is both ordinal and numerical, so data is analysed quantitatively. In the interpretation, the findings will be linked to the literature, theoretical and empirical, discussed in Chapter 2. Excel software was used for analysis. Descriptive statistics were used to summarise the information so as to answer the study's research questions. Eighty-two respondents returned completed questionnaires. Section 4.2 presents demographics and SMME characteristics, Section 4.3 presents funding challenges, Section 4.4 presents causes and variables of funding challenges, and 4.5 presents avenues for funding.

4.2 DEMOGRAPHIC AND SMME CHARACTERISTICS

This section presents a description of the demographic and SMME characteristics. The description takes the form of charts based on the responses obtained from the questionnaire. It should be noted that certain questions were not answered by some participants.

a. Role in business

The demographic of the SMMEs includes the role of the respondent, the form of business, the industry in which it operates, its age, the number of employees, professionalism and education, business plan, average monthly turnover and experience.

Figure 4.1 Role in business

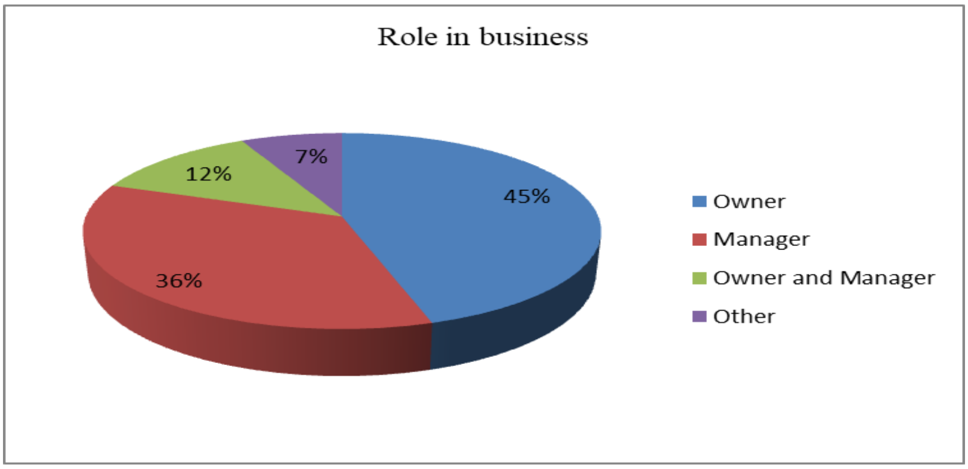


Figure 4.1 shows the various roles played by respondents. Forty-five per cent of the respondents are owners of the businesses they work in, 36% are managers, 12% are both owners and managers, and 7% of the respondents are neither managers nor owners. It has been noted that most SMMEs in Komani are run by their owners, with certain duties delegated to a manager.

b. Forms of business ownership

SMMEs in Komani are registered under various forms of business ownership: sole trade, partnership, closed corporation and private company. The categorisation of businesses stipulates their responsibilities in terms of regulations. Figure 4.2 shows the breakdown of these categories.

Figure 4.2 Business ownership

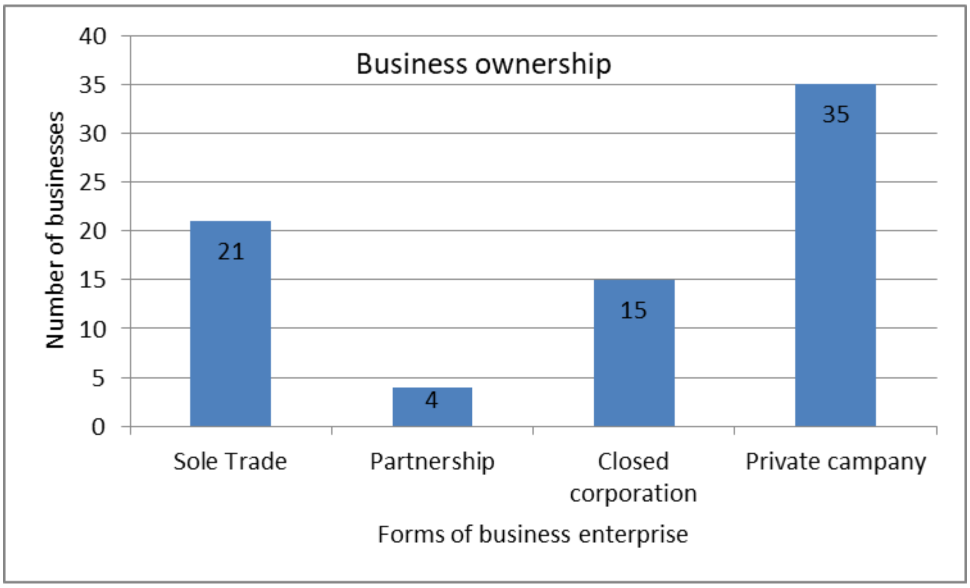


Figure 4.2 shows that 43% (35/82) of the SMMEs that took part in the research are private companies, 26% (21/82) are sole traders, 18% (15/82) are closed corporations, 5% (4/82) are partnerships and 9% did not respond. Figure 4.2 shows that most of the participating SMMEs

are registered as private companies and partnerships make up the smallest group among them. The large number of private companies may be a result of the discontinuation of registering new businesses as closed corporations. However, any form of ownership that has legal identity is a private company and only one person is needed for it to be incorporated.

c. Business industry

According to the study, SMMEs in Komani fall mainly into three groups: manufacturing, retail and services. Manufacturers produce goods to satisfy consumer needs and wants. Retail concerns the distribution of manufactured products to consumers, while the services sector provides a variety of services to consumers.

Figure 4.3 Industry

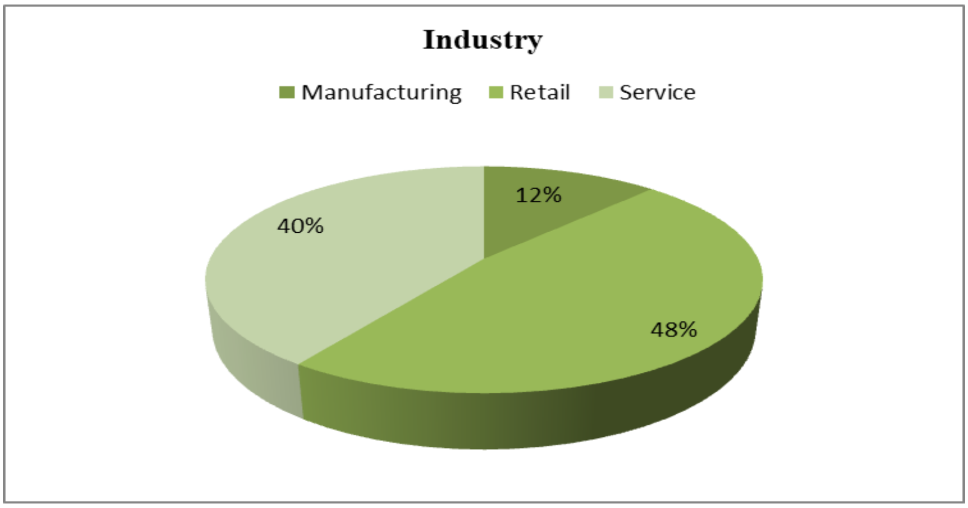


Figure 4.3 shows the sectors in which Komani SMMEs are involved. The pie chart shows that 39 out of 82 SMMEs in Komani are retailers; 33 of them are in the service sector and 10 are manufacturers. So most of the SMMEs are involved in retail, while manufacturing makes up the smallest grouping. This could be because of the higher capital investment needed for manufacture. This could be a result of lack of access to finance, a phenomenon that is pushing businesses away from manufacturing, which in turn has contributed to the Eastern Cape's high unemployment rate. As a result competition in retail is more intense than in manufacturing. This is in line with the finding of GEMSA (2019), which states that the wholesale and retail sector represents almost half (46.1%) of all early stage entrepreneurship activity, while the manufacturing sector makes up 13%. This is also because of low barriers to entry in terms of skills and capital in the wholesale and retail sector (GEMSA 2019). However, well-established businesses will be able to push out the less established through competition. Leboea (2017) states that industry becomes less attractive to investors as competition intensifies.

d. Age of business

Business age is the number of years that an enterprise has been operational. This is vital in determining the viability of the business. Businesses less than five years old are said to have a high risk (70% to 80%) of closing down (Friedrich, 2016). Since SMMEs play a major role in providing employment, it is important to know whether one is dealing with a going concern.

Figure 4.4 Age of business

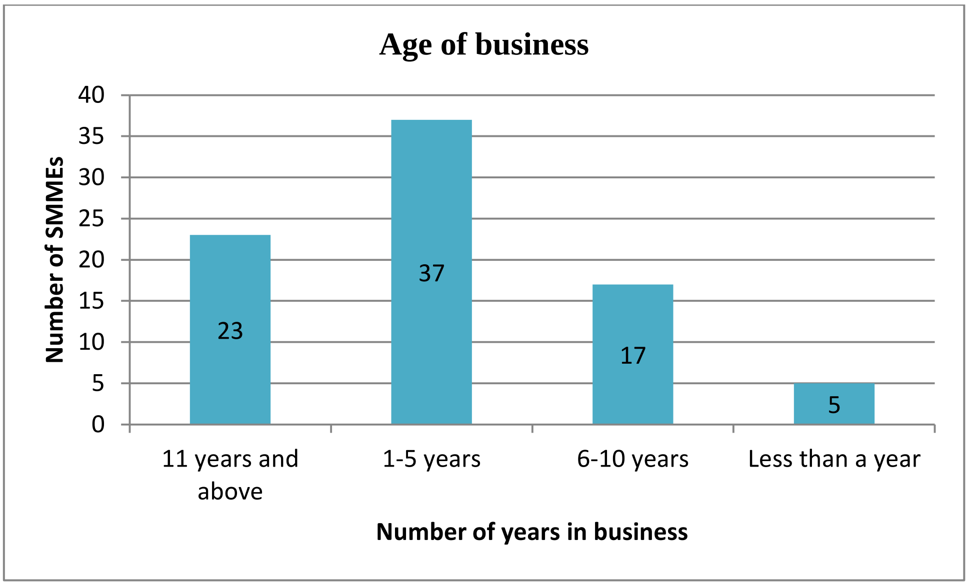


Figure 4.4 shows the length of time that SMMEs in Komani have been in business. It shows that 45% (37/82) of the SMMEs have been in operation for between one and five years, 28% (23/82) of them have been in operation for 11 years and more, 21% (17/82) have been in operation for between six and 10 years and 6% (5/82) have been in operation for less than a year. So most of the SMMEs (66% of them) have been in operation for between one and 10 years. Fifty-one per cent of the SMMEs have been in operation for less than six years, a critical period in the life of an SMME. During this period businesses have a high possibility of shutting down. The theory of the firm states that the age of a business affects its financial structure.

e. Number of employees

Figure 4.5 Number of employees

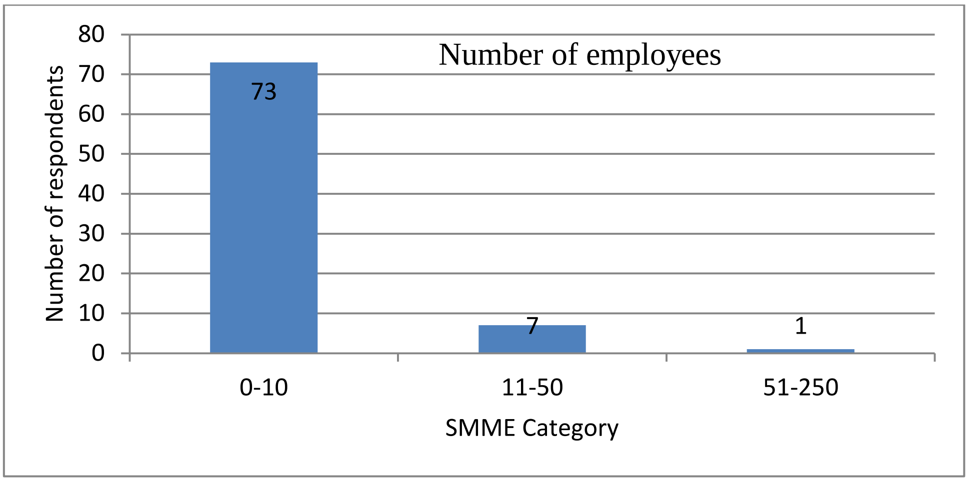


Figure 4.5 shows the number of employees in the SMMEs that responded. Micro-enterprises employed 89% (73/82) of the employees; small enterprises employed 9% (7/82), and medium enterprises took up 1% (1/82). One out of the 82 did not respond (1%). The graph shows that micro-enterprises employ a significant proportion of the population. This finding is in line with a study conducted by SME South Africa (2018). However, it is important for the government and other stakeholders to make funding available for micro-enterprises to enhance their efforts in employing the population. Micro-enterprises employ fewer than 11 people.

The number of people employed by SMMEs is vital to all stakeholders. Employment in South Africa is a major problem. Data from Statistics South Africa's Quarterly Labour Force Survey revealed: "The unemployment rate was 63,9% for those aged 15-24 and 42,1% for those aged 25-34 years, while the current official national rate stands at 34,5%" (Stats SA, 2022). In a study from GEM (2014), South Africa had the lowest rate of established businesses. SME South Africa reports that 39% of SMEs employ one person, 47% employ two to five people and 13% employ more than five people (SME SA, 2018). This rate is low compared with the NDP goal for 2030, which states that SMMEs will generate 90% of 11 million jobs in South Africa. These rates raise doubts as to whether the goal is achievable. On the other hand, in the Association of South East Asian Nations (ASEAN) SMEs account for 89% and 99% of all establishments and contribute between 52% and 97% of total employment. However, the ability to employ more is crucial. Figure 4.6 shows the rate at which SMMEs employ in Komani with regard to various sectors of manufacturing, retail and service.

f. Professional

Figures 4.6 and 4.7 show the percentage of respondents who are professionals and their levels of education. Businesses managed by skilled individuals are more likely to gain the attention of formal financial institutions. The level of education level among entrepreneurs can be associated with good governance which manifests into a successful business.

Figure 4.6 Number of respondents who are professionals

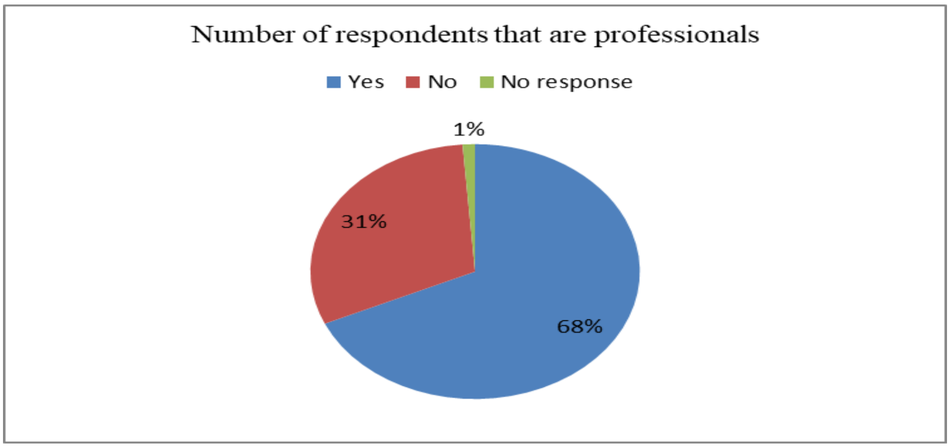


Figure 4.6 shows the percentage of respondents who are professionals in their various fields. Sixty-eight per cent of the respondents said they were professionals in their fields of work; 31% of the respondents said they were not professionals, while 1% did not answer the question. It has been shown that most of the respondents have the skills necessary for the running and survival of their businesses. According to the resource-based view theory, internal resources like highly skilled human resources can be used as collateral (Barney, Ketchen & Wright, 2011). This is in line with the study's finding that most of its respondents are professionals. However, the use of skill as collateral might not be applicable to SMMEs in this regard, as most had not applied for credit because of the high interest rate and the requirement of collateral, among other factors.

g. Years of education
Figure 4.7 Level of education

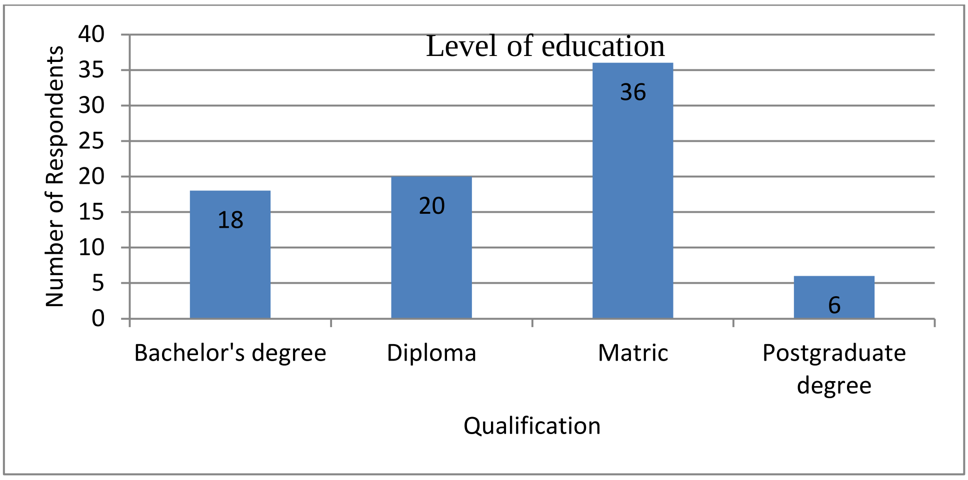


Figure 4.7 shows the respondents' levels of education. Forty-four per cent of the respondents have only a matric certificate; 24% have diplomas; 22% have bachelors' degrees; and 7% have postgraduate degrees, while 2% did not respond to the question. This finding is in line with Stats SA's QLFS (2020) which indicates that 92% of SMME owners are educated, but among them the greatest proportion of SMME owners have matric as their highest level of education.

h. Turnover
Figure 4.8 Turnover

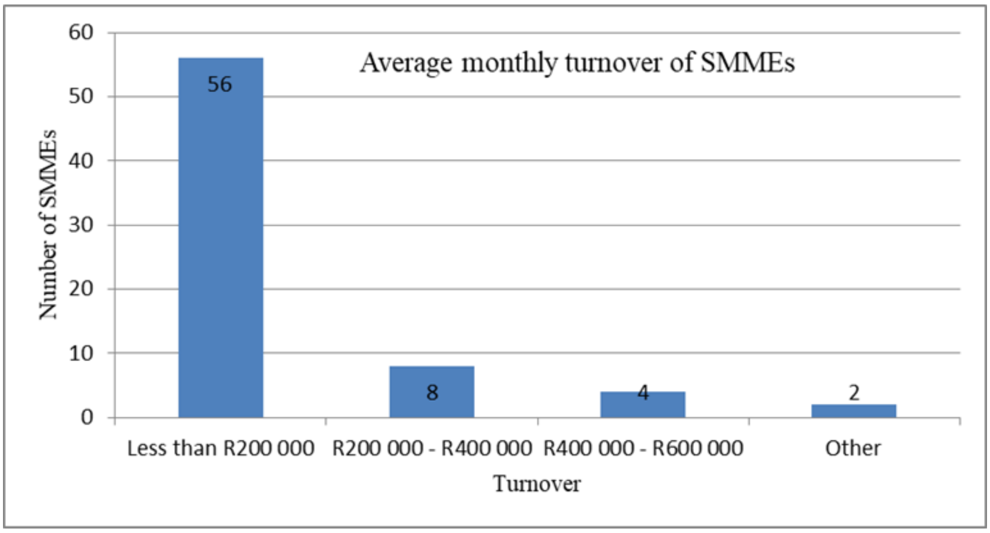


Figure 4.8 shows the average monthly turnover of SMMEs that responded. It shows that 68% (56/82) of the SMMEs make on average less than R200 000 a month; 10% (8/82) of them average R200 000 to R400 000 a month; 5% (4/82) of them make an average of R400 000 to R600 000 a month; 2% (2/82) of them reported a monthly average of more than R600 000; and 15% (12/82) of them did not respond to the question. The lack of a response is likely due to the sensitive nature of the question.

i. Previous experience

Figure 4.9 Previous experience

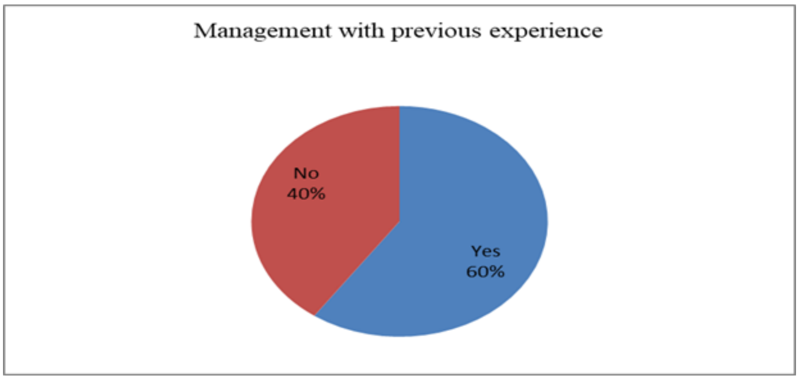


Figure 4.9 shows the previous managerial experience of the various respondents at the SMMEs polled. The pie chart shows that 60% of respondents have previous managerial experience and 40% had no experience. Bushe writes: "The next prominent SMME failure cause after poor planning is the lack of industry experience by an entrepreneur such that when an entrepreneur enters into a business for which he or she is least qualified to execute, then it becomes vulnerable to competition leading to its eventual collapse" (Bushe, 2013a). So most of Komani's SMMEs should be successful thanks to the previous experience of their owners and managers.

4.3 FUNDING CHALLENGES

This section presents the findings on the effects of funding challenges on SMMEs. It detailed funding challenges under these headings:

a. Has the business applied for credit?

Knowledge of whether an SMME has applied for credit is crucial. This will highlight the requirement for SMME funding and also show whether an SMME is confident of obtaining funding from the formal financial sector. Figure 4.10 shows whether a credit application was made.

Figure 4.10 Credit application

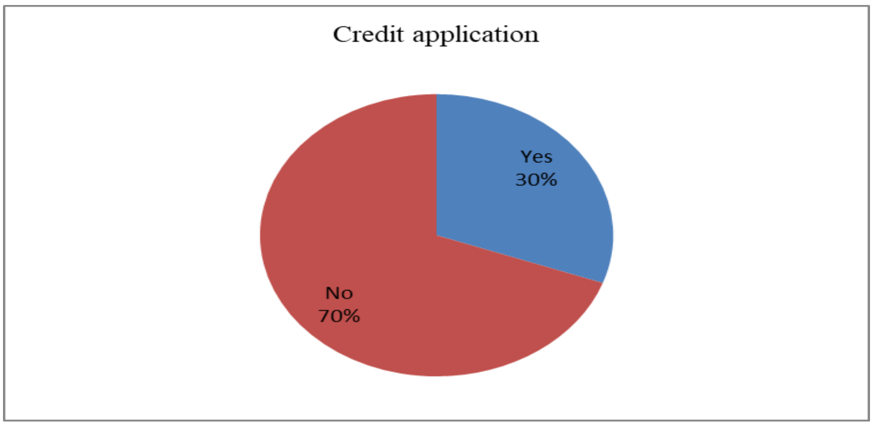


Figure 4.10 shows the credit application level of Komani's SMMEs. Seventy per cent of the respondents said they had not applied for credit, while 30% said they had applied. This is an indication that more of the SMMEs failed to apply for credit, largely because they believed they would not be granted it. This could be a result of lack of information on the part of the SMME. The lack of a business plan will be seen by financial institutions as a lack of managerial skill, which may lead to the refusal of a credit application. Banks are interested in taking calculated risks, so they tread carefully when granting finance. This means that asymmetry of information is of considerable importance. This is in line with De Vos *et al* (2007), who found that the dearth of bank loans was due to information asymmetry. However, some worthy borrowers do not enter the market because of the adverse process of selection (Armendariz & Morduch, 2010).

b. Why has the business not applied for credit?

SMMEs fail to apply for credit because of high interest, lack of collateral, dislike of credit agreements and other private reasons relating to SMMEs. These can be regarded as obstacles to credit application.

Figure 4.11 Why SMMEs do not apply for credit

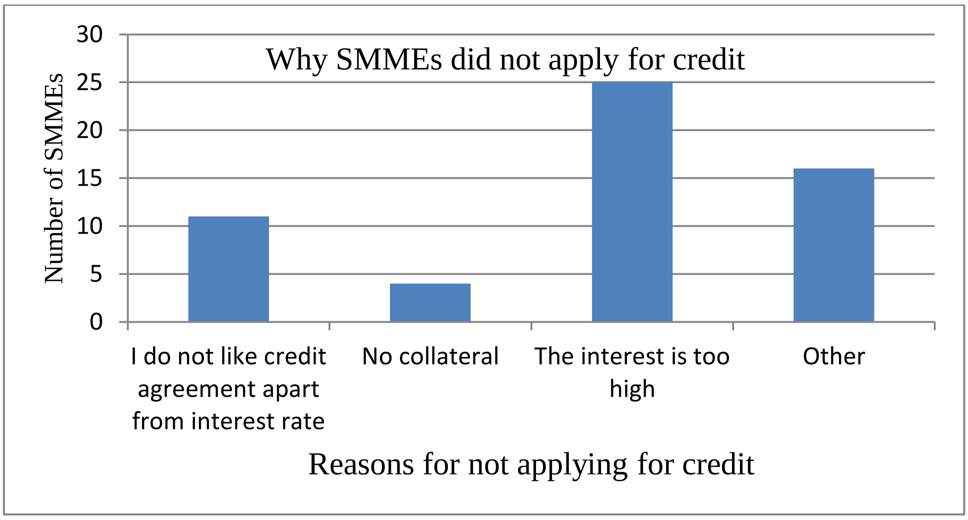


Figure 4.11 shows that 31% (25/82) of SMMEs said they did not apply for credit due to the high interest charged; 20% (16/82) said they had other reasons for not applying; 13% (11/82) said they had not applied for credit because of the credit agreement apart from the interest rate; and 5% (4/82) said they had not applied for credit because of a lack of collateral. According to this study, high interest rates, terms of credit and other reasons could be the main problems holding SMMEs back from obtaining funding from the formal financial sector. Mole and Namusonge (2016) state that banks charge high interest rates when lending to SMMEs because they see them as high risk and anticipate high finance costs for servicing SMMEs. However, "informal finance becomes attractive to micro and small businesses due

to relatively high processing speed, ease of access, lower or no administrative fees, and in some cases, no collateral requirements" (Nguyen & Canh, 2021). Despite the high interest rate, informal finance may be attractive due to its ease of access.

c. Is access to funding difficult?

Figure 4.12: Is access to funding difficult?

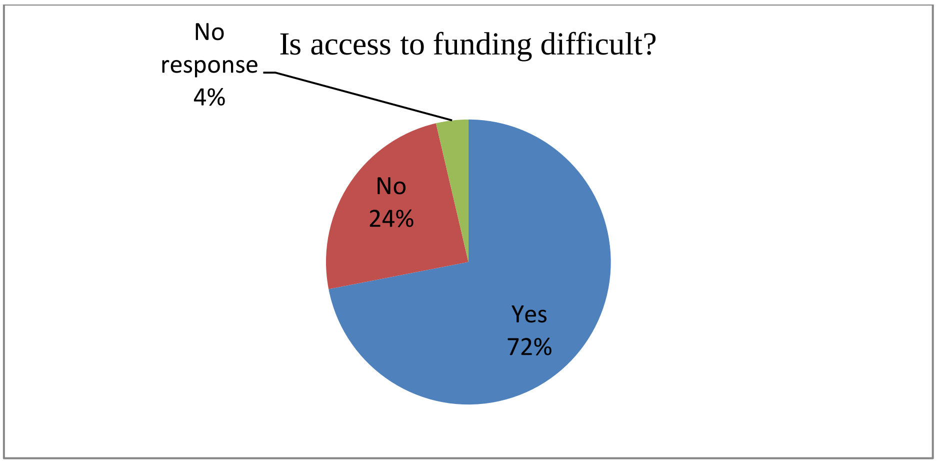


Figure 4.12 shows that 72% of the SMMEs found access to funding difficult; 24% of them said it was not difficult; and 4% of the SMMEs failed to respond. This means that most of the SMMEs face funding difficulties. This situation is not good for business growth and employment. This is in line with a study conducted by FinScope (2010) which rates access to finance as the greatest constraint to growth.

d. Pay reduction due to funding challenges

Figure 4.13 Pay reduction

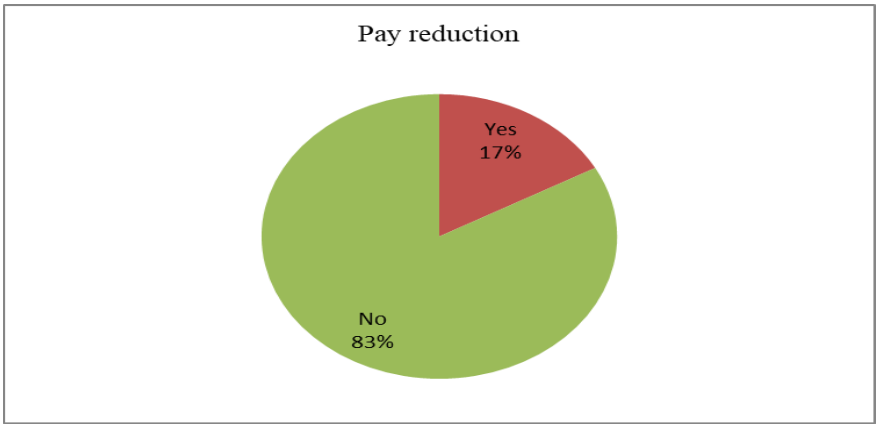


Figure 4.13 shows that there was not much reduction of employees' pay due to lack of funds. The pie chart shows that 17% of the SMMEs reduced employee's pay due to lack of funds; while 83% did not cut pay due to lack of funds. One might also say that lack of funds from the formal financial sector does not lead to cuts in pay on the part of most SMMEs. This

could be a result of financial support from the informal sector, which is financed by family and friends.

e. Employment loss due to funding challenges

Figure 4.14 Employment loss

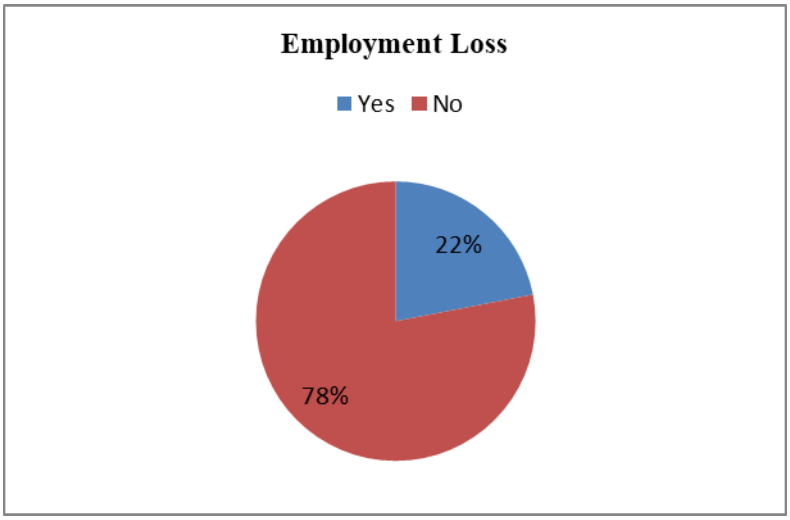


Figure 4.14 shows the number of employee losses due to shortages of funds. The pie chart reveals that despite the problem of funding, the actual job losses are low. Twenty-two per cent of the respondents reported an employment loss due to lack of funds, while 78% said there had been no job losses due to lack of funds. The question refers specifically to formal funding. Nonetheless job losses were not high. It can be deduced that a flow of finance from the informal finance sector prevented a massive loss of jobs. The informal finance sector has been of great assistance to SMMEs in the absence of funding from the formal sector. “[The] informal sector of the economy hosts informal financial activities, with loans coming from friends, relatives and neighbours, thus creating an array of financial relationships that are informally influenced” (Benedict *et al*, 2021; Bouman & Moll, 2019). Ullah (2019) underlines that the informal sector mainly services micro and small enterprises worldwide.

f. Increase employees if funding was available

Figure 4.15 Increase the number of employees with additional funds

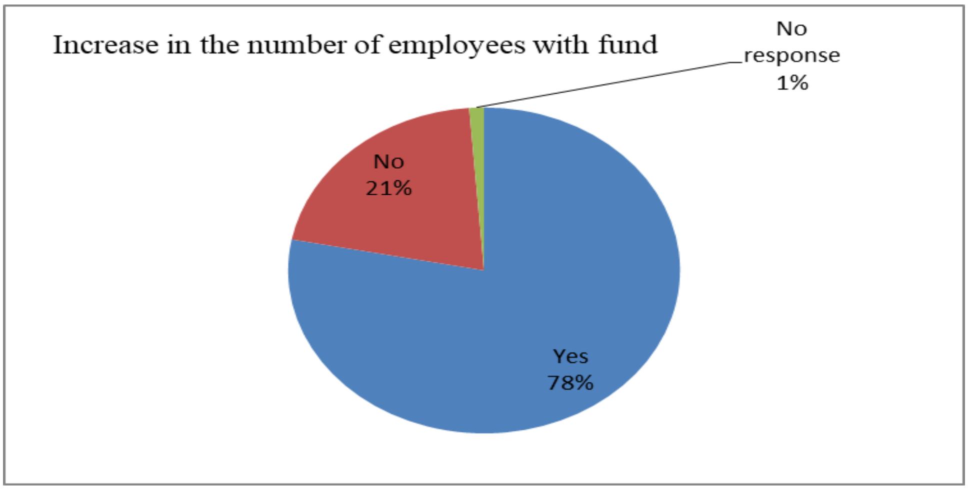


Figure 4.15 shows that 78% of the respondents said they would employ more people if they had the funds, while 21% of the SMMEs said they would not increase employee numbers even if they had the funds. One per cent of the respondents did not answer this question. Access to funding will lead to business growth, which in turn will lead to a rise in the number of people employed, which is vital for economic growth and development.

g. Awareness of agencies

Figure 4.16 shows the level of awareness among SMMEs about government agencies like the Small Enterprise Finance Agency (SEFA) which provide funding for SMMEs in South Africa.

Figure 4.16 Knowledge of SEFA

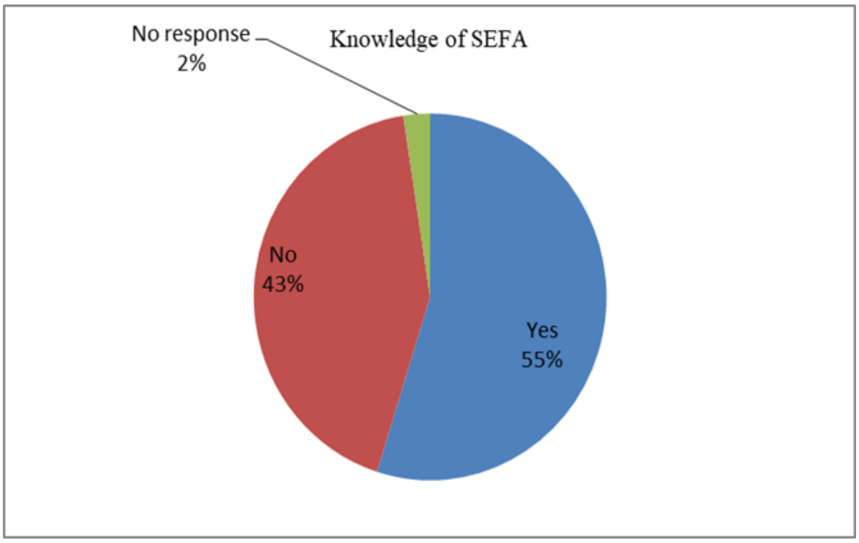


Figure 4.17 shows that 55% of the SMMEs that were involved in the study were aware of the government agency SEFA. Forty-three per cent said they were not aware of SEFA, while 2% did not answer. The figure shows that the level of awareness about obtaining SMME funding

from the government needs to be raised. This lack of awareness could be a significant reason for the inability of SMMEs to secure funds. It is of great importance that the government informs SMMES of the financial assistance it is capable of giving to SMMEs. According to the SME Growth Index Data (2013), cited in Bhorat *et al* (2018), 81% of SMME owners were unaware of government support programmes and did not make use of them. This is similar to the findings of this study, although by a lower percentage.

h. Red tape hindering funding

Figure 4.17 Red tape hindering funding

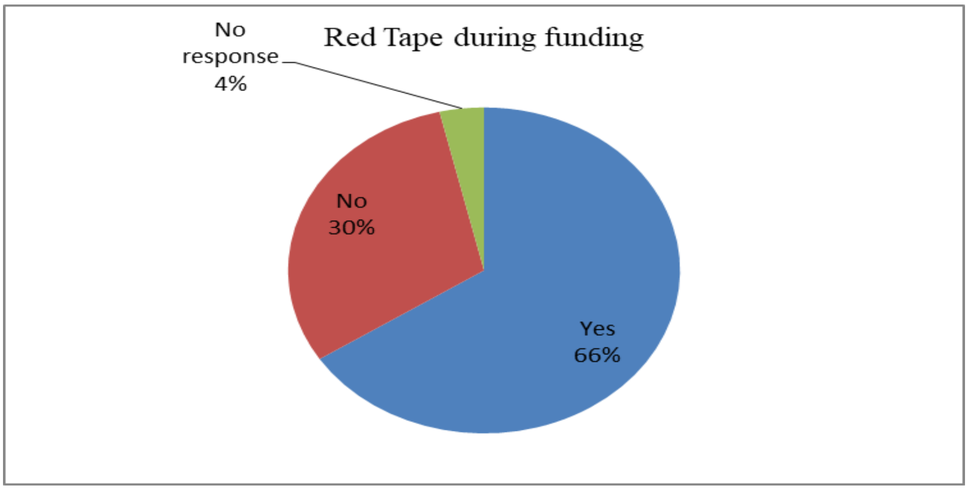


Figure 4.17 shows that 66% of the SMMEs experienced red tape (bureaucratic obstruction) while attempting to access funding; 30% of them did not experience red tape over funding; and 4% of the SMMEs did not respond. This is not good for business growth because in the environment where there is red tape surrounding finances this could lead to delays in accessing funding.

4.4 VARIABLES AMONG CAUSES OF FUNDING CHALLENGES

This section provides results of the Pearson chi-square test of association between certain variables in the study. Specifically, the section will highlight the causes of funding challenges faced by SMMEs. The results presented here are the significant associations between the variables. Other results of the Pearson tests are insignificant and the results are shown as tables in the appendix.

Table 4.1 Pearson Chi-square association test

Test	Df	Pearson chi-square	P-value
Association between difficulty of funding access and red tape	1	49.6912	0.000
Association between difficulty of funding access and turnover	3	7.3006	0.063
Association between difficulty of funding and employment loss	1	4.8145	0.028
Association between applied for credit and informal funding	1	4.3617	0.037

a. Association between difficulty of funding access and red tape

Table 4.1 above shows that there is a significant association between difficulty of funding access and red tape. This means that red tape is making funding availability difficult for SMMEs. Red tape in the form of bureaucracy and overly strict adherence to rules and formalities are not good for business growth. Dealing with government processes can be time-consuming and a cost to businesses, especially small ones. Small businesses will have to sacrifice the time of the owner or the manager. Meanwhile large businesses can hire someone to take care of bureaucracy. Some businesses might not be able to expand beyond the informal sector because of inability to comply with regulations. According to the World Bank Enterprise Survey (2007), red tape in the form of tax administration, business licences and permits are a major constraint for SMMEs. This is in line with this study's findings of a significant association between funding access and red tape. Other government requirements like the number of hours worked, legally mandated notice periods and mandatory severance pay are among the rigidities that prevent some SMMEs from qualifying for government assistance.

b. Association between difficulty of funding access and turnover

Table 4.1 above shows that, because the p-value is more than the 5% level of significance, there is enough evidence to reject the null hypothesis, meaning that there is no significant association between difficulty of funding access and turnover. However, the result suggests that the association between the variables is weakly significant (significant at 10% level). That an SMME encounters funding difficulties does not mean that it will have a problem with making a decent turnover. Larger SMMEs are able often able to generate higher profit from their sales and re-invest the profit as capital. On the other hand, smaller SMMEs are not able to make that much profit which would otherwise be re-invested in the business to foster growth and development.

c. Association between difficulty of funding and employment loss

Table 4.1 shows that there is a significant association between difficulty of funding and employment loss. This is because the p-value is less than the level of significance. This means that SMMEs' funding challenges contribute to the loss of jobs. According to data from Stats SA's Quarterly Firm Survey (2016), employee costs to SMMEs range from 12% to 17% of turnover. This is high for SMMEs, and lack of funding from the formal financial sector can lead to job losses. Employee costs are continuously rising and are worsened by minimum wage labour legislation. The minimum wage constrains very small businesses that will not be able to pay employees at that rate. This frequently leads to job losses, as businesses cannot afford to pay the minimum wage. This situation normally deters informal businesses from becoming formal (Bhorat *et al*, 2018).

d. Association between having applied for credit and informal funding

Table 4.1 shows that there is an association between having applied for credit and informal funding. Because the p-value is less than the level of significance, the null hypothesis is rejected. In other words, if an SMME has applied for credit this affects informal funding negatively.

Informal finance emerged because SMMEs are not able to acquire finance from formal financial institutions. Informal financiers include moneylenders, rotating savings and credit associations (ROSCAs), and landlords and relatives (Quartey *et al*, 2017). Informal finance is vital to SMMEs. It serves financially excluded businesses (Mutsonziwa & Fanta, 2021). It involves interest-free loans from friends and family which are good for SMMEs growth and development. Informal finance is a global phenomenon and SMMEs use it widely to service their operational needs (Ulla, 2019). This study is in line with the resource-based view and pecking order theories.

4.5 AVENUES FOR FUNDING

a. Avenue for funding

Funding of SMMEs can be vital to stakeholders. SMMEs can be funded through retained earnings, debt and equity. Figure 4.18 shows how SMMEs are funded in Komani according to data from the study.

Figure 4.18: Avenues for funding

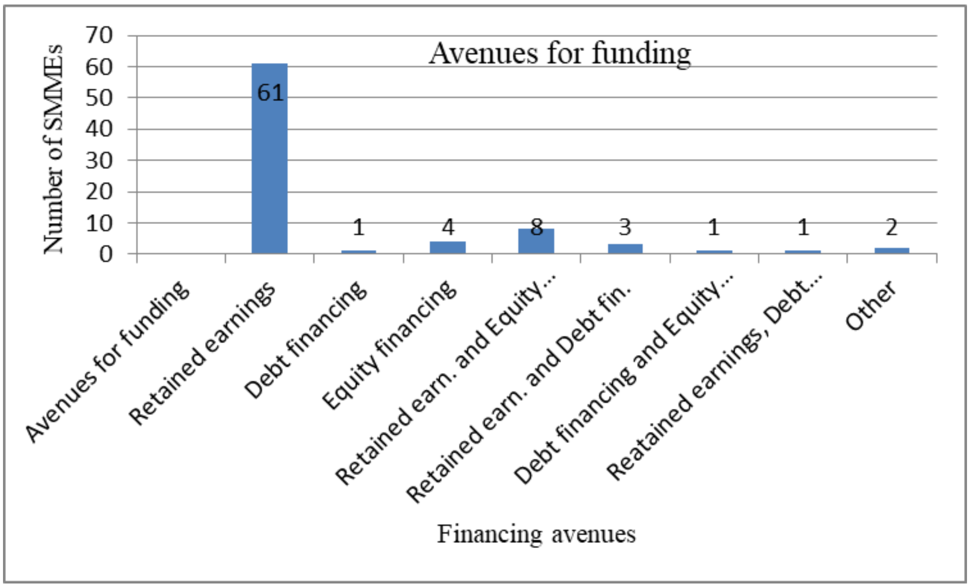


Figure 4.18 shows that 74% of SMMEs said they funded their businesses through retained income; 10% said they funded their firms through retained earnings and debt financing; 5% said their businesses were financed through equity financing; and 4% are financed through retained earnings. Two per cent said they financed their businesses by other means, and 1% said their business was financed through retained earnings and debt equity. One per cent did not respond. It is evident that the SMMEs which responded largely use retained earnings to finance their businesses, compared with the few that use a combination of debt equity, retained earnings and debt financing. It is clear that since most SMMEs use retained earnings, applying for finance from the formal finance sector is no longer an option. This finding is underlined by Figure 4.15 which indicates that 70% of SMMEs do not apply for formal funding. This is why Figure 4.18 shows that SMMEs finance their operations with retained income. The most consistent way in which business is financed across all forms of business ownership, according to the study, is the use of retained earnings. This is in line with the application of the pecking order theory. It also demonstrates that most SMMEs see themselves as financially vibrant and so depend on their retained earnings to finance new projects. Zeidan, Galil and Shapir (2018) state that owners of private firms in Brazil use the pecking order theory. This finding is similar to what has been seen in this study, as most SMMEs rely on retained earnings.

b. Informal funding

Figure 4.19 Informal funding

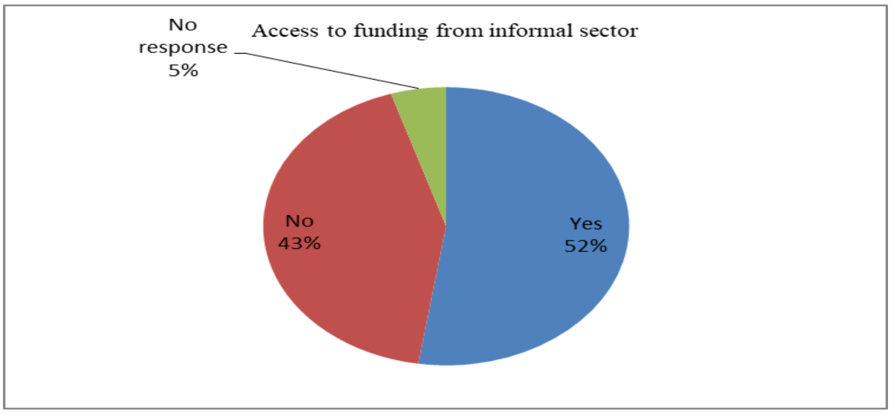


Figure 4.18 shows that 52% of the SMMEs said they had access to funding from the informal sector; 43% of them said they could not access funding from the informal sector; and 5% did not respond. Figure 4.19 may point to the fact that there is a higher likelihood that SMMEs obtain funding from the informal finance sector. However, this could also mean that the informal sector is more enticing to SMMEs than the formal sector. This could have led to a shift to the informal sector for financial assistance.

4.6 SUMMARY

Chapter 4 presents the findings from the data collected through the use of Excel and the Stata software programme. It was found that lack of funding does not necessarily have much effect on the number of people employed in a business. It also shows that SMMEs do not always cut employees' pay because of lack of funds. However there is a significant association between difficulty of funding and job loss. Also, there is a significant association between difficulty of accessing funding and red tape. On the other hand, SMMEs also said they would employ more workers if they had sufficient funds. This shows that even though the number of employees and pay cuts are not significant in relation to funding challenges, more people would be employed if funding was adequate. Most of the SMMEs did not apply for credit because of high interest rates, lack of collateral and the complexity of the application form. SMMEs use informal funding in the form of loan from friends and family which does not attract interest in most cases and sometimes loan from informal money lenders which comes with high interest. Most SMMEs are not aware of government agencies that offer financial support to SMMEs. Finally, it was shown that most of the SMMEs depend more on their retained earnings and informal funding to finance their businesses. In Chapter 5 the research recommendations and concluding remarks are offered to science, policy, industries, and society.

CHAPTER 5
RECOMMENDATIONS AND CONCLUSION

5.1 INTRODUCTION

In Chapter 4 the data collected during this study was processed using Excel analysis, ToolPak and the Stata software. The data analysed was presented in a form of tables and figures to create a mental picture of the situation. Chapter 5, the final chapter of this study, presents a summary of the research findings, guided by the research objectives as outlined in Chapter 1. The study addresses the link between the review of literature and the findings of the research so that recommendations can be made. These recommendations are available for science, policy, industries and society in general to help find lasting solutions to the funding problems experienced by SMMEs in Komani, Eastern Cape.

5.2 SUMMARY OF THE RESEARCH CHAPTERS

This section provides us with a brief outline of the content of each chapter of the study.

5.2.1 Chapter 1: Introduction and background to the study

Chapter 1 introduced the problem of funding challenges experienced by small, medium and micro-enterprises (SMMEs) in Komani. This chapter introduces the topic and provides the background, and includes a literature review of the theories underlying the study and an empirical review of it. It defines the problem and outlines the research objectives, design and methodology. It also discusses the scope of the study, ethical considerations, the structure of the study and a summary.

Businesses around the world need finance for business activities and for growth (Mago & Modiba, 2022). This is a highly contentious issue when it comes to SMMEs. This is because the banks view SMMEs as being high risk because of their lack of collateral for loans (Civelek *et al*, 2019). It is acknowledged in the National Development Plan (NDP) that SMMEs are the backbone of South Africa's economy. The NDP also predicts that by 2030, 90% of new jobs in South Africa will be created by SMMEs. This is generally true of developing economies, because job creation and poverty are major challenges (Kongolo, 2010). The purpose of this study was to investigate the funding challenges faced by SMMEs in Komani, in South Africa's Eastern Cape Province.

5.2.2 Chapter 2: Literature review

According to Hart (1998; cited in Cronin, Ryan & Coughlan, 2008:38), when important studies relating to a topic are evaluated seriously to draw an objective conclusion, the literature is reviewed. Its purpose is to review serious literature in relation to the topic at hand. Chapter 2 was divided into theoretical and empirical perspectives. Theories examined were the agency theory, moral hazard, the pecking order theory, the trade-off theory, the resource based view, the theory of the firm and SME financing. The empirical perspectives covered included methods that are used, variables, and the gaps that exist in the literature.

The study looked further at some empirical views related to the study in the Eastern Cape, in South Africa and in sub-Saharan Africa. It was found that funding challenges are a major problem faced by SMMEs in Africa. These need to be addressed by all stakeholders. Finally, the study provided a critical review of graphs illustrating the effects of the lack of finance for SMMEs in South Africa.

5.2.3 Chapter 3: Methodology

Chapter 3 discussed the chosen research design used in the study. It examined the research paradigm, the research design, data collection, sampling, data analysis and the rigour of research. Chapter 3 also discussed limitations on the research and ethical considerations, and finally summarised the chapter. Chapter 3 introduced Pearson's chi-square test of association, went into reasons for the choice of this test, its advantages and its mechanics. The chapter also stated the hypothesis and the null hypothesis.

The study found that the use of the chi-square test of association was justified because it was able to present associations between the variables. This helped in outlining the difficulty of access to funding and the aspects of red tape, turnover, job loss and informal funding.

5.2.4 Chapter 4: Data analysis

Chapter 4 discussed the analysis of the data collected using Excel's analysis ToolPak. The data analysed were collected from 82 respondents, allowing the researcher to answer the research questions. The data analysis chapter is divided into two sections: demographics and the analysis of the data using statistical methods. The demographics section looks at: roles in business, forms of business ownership, the industries of the businesses, the age of the businesses, number of employees, professionalism and education, average monthly turnover and experience.

Empirical analysis showed that most of the SMMEs used retained earnings and informal funding, and were mostly unaware of the assistance that can be obtained from government agencies like SEFA. These were some of the reasons behind SMMEs' not applying for credit.

5.3 ACHIEVEMENT OF RESEARCH OBJECTIVES AND QUESTIONS

The primary objective of this research was to investigate the funding challenges experienced by SMMEs in Komani, Eastern Cape. This objective of the research arose because the SMMEs in Komani faced obstacles to their funding. SMMEs play an important role in the economy by creating jobs and also making a considerable contribution to GDP. SMMEs provide as much as 68% of all employment in South Africa and also contribute 39% to GDP (Stats SA QLFS, 2020Q3). In the Eastern Cape, SMMEs contribute 19% to overall employment (ECSECC, 2020). However, SMMEs face huge financial challenges that require rapid intervention. This research aimed at finding a better way of ameliorating the challenges to SMMEs.

This study showed how SMMEs in Komani are funded. It also showed the percentage of SMMEs that had applied for credit and the percentage of them that had not applied. The research reveals a low awareness on the part of SMMEs with regard to the various government funding avenues available. It also showed that most SMMEs have access to informal credit and prefer to use it because of the speed of obtaining it. It is important to know that most of the SMMEs that took part in the study are in retail and the service industry, while few of them are in manufacturing. Most of the SMMEs in Komani are less than 10 years old, while a large proportion of them are less than six years old.

5.3.1 Achievement of research objectives

Table 5.1 provides a link between the various research objectives as outlined in Chapter 1 and the chapters that aim at addressing that objective.

Objective		**Chapter addressing the objective**
1	To evaluate the effect of funding challenges on the number of people working in SMMEs.	Chapter 4, pages 50-52 and Chapter 5 page 61
2	To establish why SMMEs fail to obtain funding from major financial institutions.	Chapter 4, pages 49-55 and chapter 5 page 61-62
3	To examine the avenues available for funding	Chapter 4, pages 55-57 and

	SMMEs.	chapter 5 page 62
4	To recommend to policymakers and SMMEs how to solve the problem of funding.	Chapter 5 pages 63

Source: Own compilation.

5.3.2 Answering of research questions

Chapter 1 introduced four research questions based on the aim and the primary objective of the study. The findings addressing the research questions are:

a) What is the effect of funding challenges on employees of SMMEs?

Research Question 1 tried to measure the effects of funding challenges on SMME employees. It was shown from the data analysis that employee losses among SMMEs in Komani did take place, a minimal rate, as shown in Figure 4.14. The pie chart showed that 22% of the SMMEs reported loss of jobs. However, one would expect a steeper rate of unemployment at SMMEs faced with funding challenges. This was not the case. Figure 4.13 also shows that only 17% of SMMEs implemented pay cuts. Data on the number of SMMEs that obtained credit from formal financial institutions (Figure 4.10) showed that 70% of SMMEs had not applied for credit. One can infer from this that SMMEs obtain funding from the informal sector. Using the Pearson Chi-square association test to show the strength of the effect of funding challenges on employee losses. Table 4.1 shows that there is no significant association between difficulty of funding and job losses.

b) Why do SMMEs fail to obtain funding from major financial institutions?

The study has shown that the major financial institutions fail to provide finance for SMMEs. The data analysis showed that most SMMEs that took part had not applied for finance, while Figure 4.10 showed that 70% of SMMEs that took part in the study had not applied for credit; only 30% had done so. So it can be said that most SMMEs did not obtain funding from formal financial institutions because they did not apply to them. Figure 4.11 showed that 31% of SMMEs did not apply for credit because of high interest rates, 5% because they could not offer collateral, and 13% because of credit agreements, which SMMEs dislike. Twenty per cent failed to apply, but for other reasons. So it can be said that SMMEs did not obtain funding from financial institutions because of their unfavourable conditions. The data also shows that most SMMEs have access to informal credit, perhaps from family and friends. This could be the main reason why most SMMEs did not apply for credit. Finally, the lack of funding can be attributed to a lack of awareness of government agencies like SEFA that help provide finance to qualifying SMMEs. According to the data analysed in Figure 4.16, only 55% of SMMEs are aware of funding assistance from government agencies. However, the

Pearson chi-square test of association result showed that the p-value is higher than the level of significance; so there is not enough evidence to reject the null hypothesis. This means that awareness of government agencies like SEFA does not have an effect on funding.

c) What are the avenues for funding SMMEs?

The data analysed showed that SMMEs have more than one avenue for funding. The data showed that SMMEs which took part were funded mainly from retained earnings, partly from equity. Figure 4.18 showed that retained earnings accounted for 74%. SMMES also make considerable use of informal credit. Figure 4.19 showed that 52% of SMMEs have access to informal funding. Despite the high rates of interest attached to informal finance, it seems that most SMMEs prefer it. The informal finance appears to be from family and friends. However, apart from private sources of finance, SMMEs also have opportunities of obtaining funding from the government through agencies like SEFA.

5.4 FINDINGS AND RECOMMENDATIONS BASED ON RESULTS

Beyond adding to the knowledge base on the subject, these findings were made:

1. The study found that most SMMEs use retained earnings and informal funding to finance their operation. With regard to retained earnings, one used undistributed profit. It must be noted that SMMEs do not by nature make much profit that can be reinvested in their operations. This is because of their minuscule size and the amount of capital they can raise. However, when businesses reinvest their savings, this brings about growth and development. Also, informal funding in the form of loans from friends and family do not attract interest, which is good for SMMEs. It must also be emphasised that most friends and relatives cannot raise substantial amounts of capital for business operations.
2. It was found that most SMMEs are unaware of government support agencies like SEFA, which provide financial support to deserving SMMEs. Public education is needed regarding agency mandates and how SMMEs can benefit.
3. Most SMMEs do not apply for credit from formal financial institutions because of high interest rates, collateral requirements, dislike of credit agreements and especially red tape. These factors kill investment and need to be attended to urgently. Red tape can discourage the drive to invest. It can also generate corruption, as people will ask for money so as to provide speedy service. High interest rates and collateral requirements hinder SMMEs from applying for credit.

4. Lack of funding does not necessarily have much effect on the number of people employed by SMMEs. Also, most SMMEs do not implement pay cuts because of lack of funds. Finally, most SMMEs would be willing to hire more staff were it not for funding challenges.

Recommendations

1. This research recommends that, SMMEs be motivated to increase their savings since most of them rely heavily on retained earnings. Government can also support this by granting SMMEs tax exemption of some sort so that they can maximise their savings.

2. It is recommended that more awareness campaigns be conducted regularly to ensure that all SMMEs are aware of government financial support systems for their sector. So it is vital for the government to create awareness of its agencies so that deserving SMMEs can benefit from funding so as to create jobs for the population. The creation of awareness could take the form of social media campaigns in which most young entrepreneurs can be engaged. Awareness can also take the form of community forum where SMME owners can be engaged in meaningful discussions. Creating awareness in the form of business visits cannot be omitted.
3. It is recommended that financial institutions lower their requirements when SMMEs apply for finance. This will help encourage SMMEs to apply for credit if they know that the probability of being granted funding is high. This can only be achieved when the government de-risks SMMEs by providing financial institutions with debt guarantees. Such a guarantee scheme can take the form of guarantees for total credit or partial credit. This would give the financial institutions the security needed for granting credit for SMMEs. However, credit guarantees can also be provided by private philanthropic funds. Development finance institutions could also come on board to invest in businesses that traditional financial institutions see as having high risk.
4. Finally, since most SMMEs are ready to employ more people, the idea of collateral could also be broadened to include other non-traditional assets which could be used by SMMEs to secure funding from financial institutions. This will enhance economic growth and development.

5.5 CONTRIBUTION OF THE STUDY

When one considers the purpose of this study, a number of benefits are evident, especially in the area of contributions to knowledge regarding the existing evidence on SMME funding challenges. This study will contribute to public policy so that better facilities can be provided and existing policies reviewed to help structure and direct funding to where it is needed most. This study will make a contribution to science and also help society to grow through job creation when funding challenges are resolved.

5.6 LIMITATIONS OF THE STUDY AND FUTURE RESEARCH

The contributions of the study, however, need to be contextualised along with these limitations:

1) The study was limited by the number of participants consulted,
2) It was limited by the methodology and research instrument used, and
3) Its findings were limited to funding challenges experienced in the Eastern Cape's Komani.

5.7 FUTURE RESEARCH AREAS

The prospect for future research is critical, as the study has various limitations. It is recommended that future research cover the entire Eastern Cape. It is also recommended that future research consider different research methodologies and research designs. Finally, future research should consider the use of a different statistical approach, since more data will be considered.

5.8 SUMMARY

The objective of the study was to demonstrate the importance of financing SMMEs. This study was aimed at investigating the funding challenges faced by SMMEs in the Eastern Cape's Komani. The objectives of the study were to evaluate the effect of funding challenges on people employed in SMMEs, to establish why SMMEs fail to secure funding from major financial institutions, to examine the avenues available for funding SMMEs and to recommend to policymakers and SMMEs how to solve the problem of funding.

This study has shown that funding challenges to SMMEs are the way they are because of unattractive terms of finance and conditions required by major financial institutions. The study again saw that most of the SMMEs do not apply for finance because they have access to finance from the informal sector. It also revealed that most SMMEs are unaware of government financial assistance available to qualifying SMMEs through agencies like SEFA. It was also shown that most SMMEs prefer to use retained income and informal funding to finance their operations than to incur debt with uncomfortable conditions which have the potential of being devastating.

It was also identified that lack of funding has a negative effect on the ability of SMMEs to employ and retain staff. It was shown that funding challenges caused some SMMEs to reduce the number of employees. This is a blow to the NDP goal of SMMEs creating 90% of the forecast 11 million jobs to be created by 2030.

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NELSON MANDELA UNIVERSITY

Appendix 1: Request for permission to conduct research

• PO Box 77000 • Nelson Mandela University
• Port Elizabeth • 6031 • South Africa •

05/09/2022

Ethics Number: H22-BES-DEV-101

REQUEST FOR PERMISSION TO CONDUCT RESEARCH ON YOUR PROPERTY

Dear Sir/Madam,

My name is Daniel Korku Doku, and I am a Master of Development Finance student at the Nelson Mandela University in Port Elizabeth. The research I wish to conduct for my Master's treatise involves '**INVESTIGATING FUNDING CHALLENGES EXPERIENCED BY SMMES IN KOMANI, SOUTH AFRICA'.** This project will be conducted under the supervision of Dr Clement Zibusiso Moyo of Nelson Mandela University, South Africa and Professor Stephen Mago as primary responsible person (PRP) of Nelson Mandela University, South Africa.

I am hereby seeking your consent to recruit management or manager of finance department of the business for the purpose of survey. After receiving your permission and the consent of participant, a questionnaire will then be completed. The completed questionnaire will be collected in two or three days' time. I have provided you with a copy of my treatise proposal which includes copies of the measure and consent forms to be used in the research process, as well as a copy of the approval letter which I received from the Nelson Mandela University Research Ethics Committee (Human). The research takes the POPIA seriously and will not access personal information without the approval of the participants.

Upon completion of the study, I undertake to provide the Nelson Mandela University library with a bound copy of the full research report. If you require any further information, please do not hesitate to contact me on +27663983836, and adjeteydk@gmail.com. Thank you for your time and consideration in this matter.

Yours sincerely,

…………………….

Daniel Korku Doku

(Nelson Mandela University)

Appendix 2: Draft Research Instrument (e.g. questionnaire to respondents)

Ethics Number: H22-BES-DEV-101
Questionnaire on Funding Challenges of SMMEs in Komani

Dear Respondent,

This is an academic survey questionnaire which is aimed at collecting primary data about the challenges faced by small, micro and medium enterprises (SMMEs) in accessing finance from the financial institutions at Komani in the Eastern Cape of South Africa. Your sincere response in the collection of this vital information will help us understand why SMMEs face funding challenges in Komani so that solutions can be found.

Please note that the collection of the data will be for the purposes of academic exercise and no data will be used for any other purpose. Your consent is therefore needed. Hence by completing the questionnaire you have given your consent. It is important to know that you can withdraw from the study at any time.

Instruction: Answer each question by a tick in the box provided or write your answer in the space provided.

Section A: Information from owners of businesses interested in the study

1. What is your position in the business?

Owner	
Manager	
Both	
Other (specify)	

2. Which form of business ownership do you have?………..
3. What is the nature of your business?

Retail	
Manufacturing	
Service	
Agriculture	
Other (specify)	

4. How long has the business been operating?

Less than a year	
1 to 5 years	
6 to 10 years	
11 years and above	

5. How many people are employed in your business?………………………………

6. Are there any professionals in the business?

Yes	
No	

7. What is the highest qualification of your management team?……………………

8. Do you have a business plan?

Yes	
No	

9. What is the average monthly turnover of the business?

Less than R200 000	
R200 000 – R400 000	
R400 000 – R600 000	
Others (specify) R	

10. Have you ever had a previous entrepreneurial experience before this business?

Yes	
No	

Section B

The following questions evaluate the impact of funding challenges on number of people employed in SMMEs.

11. Have you ever terminated employment of an employee because of lack of fund?

Yes	
No	

12. Have you reduced employee’s salary/wage because of lack of fund?

Yes	
No	

13. Do you wish to increase the number of employees if you have enough funds?

Yes	
No	

14. What percentage of turnover is your wage bill?

1% - 5%	
6% - 10%	
11% - 15%	
Other (specify)	

15. Do you think entrepreneurs and employees need training?

Yes	
No	

Section C

Reasons why SMMEs fail to obtain funding from the major financial institutions.

16. Have you ever applied for credit?

Yes	
No	

17. If No why?

I do not like the credit agreement apart from interest rate	
No collateral	
The interest is too high	
Others (specify)	

18. Which type(s) of credit have you applied for?

Credit card	
Business loan	
Asset finance loan	
Others (specify)	

19. Which of the following obstacles have you experienced in the application process for financial assistance?

Complexity of application forms	
Too many forms to fill in	

Time frame of feedback was long	
Ability of bankers to inform and assist in the entire application process	
Other (specify)	

20. What was the requirement for the loan (tick if applicable)

Bank statement	
Collateral	
Audited financial statement	
Others (specify)	

21. What was the purpose of the loan?

Business expansion	
Working capital	
Start-up capital	
Other (specify)	

22. How long did it take for the financial institution to give you a feedback on your loan application?

Immediately	
Within 24 hours	
Within 2 days	
Other (specify)	

Section D

Examining avenues available for funding SMMEs

23. What kind of avenues do you use to finance your business?

Retained earnings	
Debt financing	
Equity financing	
Other (specify)	

24. Is there any red tape when looking for avenues for funding?

Yes	
No	

25. Access to financing is difficult.

Yes	
No	

26. Apart from the formal financial institutions, is there any possibility of you having access to finance from the informal sector?

Yes	
No	

27. Are you aware of government agencies like Small Enterprises Finance Agencies (SEFA) providing funding for SMMEs?

Yes	
No	

I thank you for your participation in this research intervention.

Appendix 3: Draft Covering Letter

Ethics Number: H22-BES-DEV-101

DRAFT COVERING LETTER TO PARTICIPATE IN A STUDY

This survey is part of a research effort for a better understanding of the funding challenges experienced by SMMEs in Komani. The questionnaire is intended only for management of businesses and people working in the finance department. The survey which takes 10-15 minutes to complete, asks about your opinion on different aspects of funding challenges of SMMEs in Komani. Please complete your survey and return it within the next 3 days to the same person at the same location.

Instructions:

- Do not write or sign your name on the questionnaire.
- Answer each question by selecting the response that best applies to you or best represents your opinion.
- If for any reason you do not want to answer a question, leave it blank.

Important!

- No other staff member or the manager will ever see or have access to your questionnaire.
- Questionnaire will be kept safe as determined by the Nelson Mandela University Research Policy.
- Data will be presented in such a way that neither individuals nor small groups will be identified.

The scientific value of the survey:

- Depends upon the reliability and accurate representation of individual views of management and people in the finance department.
- Requires a high participation rate to be scientifically meaningful.

Therefore, your participation is very important and greatly appreciated.

Thank you in advance for your participation in this important study.

Yours Sincerely	**Supervisors' Details**
………………….	Dr Clement Zibusiso Moyo
Daniel Korku Doku	Nelson Mandela University
(Nelson Mandela University)	(Department of Development Studies)

Appendix 4: Consent Form

NELSON MANDELA UNIVERSITY

INFORMATION AND INFORMED CONSENT FORM

RESEARCHER'S DETAILS	
Title of the research project	Investigating Funding Challenges Experienced By SMMEs in Komani, South Africa.
Ethics Reference number	H22-BES-DEV-101
Principal investigator	Daniel Korku Doku
Address	22 Joubert Street, Komani, Eastern Cape
Postal Code	5319
Contact telephone number (private numbers not advisable)	0663983836

A. DECLARATION BY PARTICIPANT		Initial
I, the participant and the undersigned	(full names)	

A.1 HEREBY CONFIRM AS FOLLOWS:		Initial
I, the participant, was invited to participate in the above-mentioned research project		
that is being undertaken by	Daniel Korku Doku	
from	Department of Development Studies	
of the Nelson Mandela University.		

THE FOLLOWING ASPECTS HAVE BEEN EXPLAINED TO ME, THE PARTICIPANT:					Initial
2.1	Aim:	The primary aim of the research is to investigate the funding challenges of SMMEs in Komani, Eastern Cape, South Africa The information will be used for academic research purpose.			
2.2	Procedures:	I understand that, procedures are not harmful to me.			
2.3	Risks:	Low risk			
2.4	Possible benefits:	As a result of my participation in this study, a better current way for funding SMMEs may be found for the purposes of growth and job creation.			
2.5	Confidentiality:	My identity will not be revealed in any discussion, description or scientific publications by the investigators.			
2.6	Access to findings:	Any new information or benefit that develops during the course of the study will be shared as follows: through physical contact.			
2.6	Voluntary participation / refusal / discontinuation:	My participation is voluntary	YES	NO	
		My decision whether or not to participate will in no way affect my present or future care / employment / lifestyle	TRUE	FALSE	

3. THE INFORMATION ABOVE WAS EXPLAINED TO ME/THE PARTICIPANT BY:	Initial
(name of relevant person)	

in	**Afrikaans**		**English**		**Xhosa**		**Other**	
and I am in command of this language, **or** it was satisfactorily translated to me by								
(name of translator)								
I was given the opportunity to ask questions and all these questions were answered satisfactorily.								

4.	No pressure was exerted on me to consent to participation and I understand that I may withdraw at any stage without penalisation.	

5.	Participation in this study will not result in any additional cost to me.	

A.2 I HEREBY VOLUNTARILY CONSENT TO PARTICIPATE IN THE ABOVE-MENTIONED PROJECT:		
Signed/confirmed at	on	20
Signature or right thumb print of participant	Signature of witness:	
	Full name of witness:	

B. STATEMENT BY OR ON BEHALF OF INVESTIGATOR(S)									
I,	(name of interviewer)			declare that:					
1.	I have explained the information given in this document to			(name of patient/participant)					
	and / or his / her representative			(name of representative)					
2.	He / she was encouraged and given ample time to ask me any questions;								
3.	This conversation was conducted in	**Afrikaans**		**English**		**Xhosa**		**Other**	
	And no translator was used <u>OR</u> this conversation was translated into								
	(language)	by		(name of translator)					
Signed/confirmed at		on		20					
Signature of interviewer		Signature of witness:							
		Full name of witness:							

Appendix 5: Recruitment Letter

Ethics Number: H22-BES-DEV-101
Faculty of Business and Economic Science
Nelson Mandela University
Tel: +27 (0)41 504-1111 Fax: +27 (0)41-504-2574
E-mail Faculty Chairperson: FA-Business@mandela.ac.za
Date 05/09/2022

Recruitment Letter

Dear Sir/Madam,
You are being asked to participate in a research study. We will provide you with the necessary information to assist you to understand the study and explain what would be expected of you (participant). These guidelines would include the risks, benefits, and your rights as a study subject. Please feel free to ask the researcher to clarify anything that is not clear to you.

To participate, it will be required of you to provide a written consent that will include your signature, date and initials to verify that you understand and agree to the conditions.

You have the right to query concerns regarding the study at any time. Immediately report any new problems during the study, to the researcher. Telephone numbers of the researcher are provided. Please feel free to call these numbers.

Furthermore, it is important that you are aware of the fact that the ethical integrity of the study has been approved by the Research Ethics Committee (Human) of the university. The REC-H consists of a group of independent experts that has the responsibility to ensure that the rights and welfare of participants in research are protected and that studies are conducted in an ethical manner. Studies cannot be conducted without REC-H's approval. Queries with regard to your rights as a research subject can be directed to the Research Ethics Committee (Human), Department of Research Capacity Development, PO Box 77000, Nelson Mandela University, Port Elizabeth, 6031.

If no one could assist you, you may write to: The Chairperson of the Faculty Postgraduate Studies Committee, PO Box 77000, Nelson Mandela University, Port Elizabeth, 6031.

Participation in research is completely voluntary. You are not obliged to take part in any research. If you do partake, you have the right to withdraw at any given time, during the study without penalty or loss of benefits.
This informed consent statement has been prepared in compliance with current statutory guidelines.

Yours sincerely
……………………………
Daniel Korku Doku
(RESEARCHER)

Supervisor's Details
Dr Clement Zibusiso Moyo
Nelson Mandela University
(Department of Development Studies)

Appendix 6: Pearson Chi-square Test of Association: Causes of funding challenges variables (association between variables).

Table 4.1 Pearson Chi-square association test with 5 percent level of significance;

Test	Df	Pearson Chi-square	P-Value
Association between difficulty of funding access and red tape	1	49.6912	0.000
Association between difficulty of funding access and turnover	3	7.3006	0.063
Association between difficulty of funding and employment loss	1	4.8145	0.028
Association between difficulty of funding and business plan	1	0.1393	0.709
Association between difficulty of funding and experience	1	0.3369	0.562
Association between difficulty of funding and Agencies	1	2.6738	0.102
Association between difficulty of funding and industry	2	1.9249	0.382
Association between difficulty of funding and years in business	3	0.2440	0.970
Association between difficulty of funding and informal funding	1	1.0596	0.303
Association between Applied for credit and informal funding	1	4.3617	0.037
Association between Applied for credit access and red tape	1	1.4720	0.225
Association between Applied for credit access and Turnover	3	2.4561	0.483
Association between Applied for credit and employment loss	1	2.1197	0.145
Association between Applied for credit and Business plan	1	0.1050	0.746
Association between Applied for credit and	1	1.0164	0.313

Experience			
Association between Applied for credit and Agencies	1	0.2179	0.641
Association between Applied for credit and Industry	2	0.6686	0.716
Association between Applied for credit and Years in business	3	1.6966	0.638

Appendix 7: Chi-square tabulations with measures of association

```
. do "C:\Users\clement\AppData\Local\Temp\STD2e0c_000000.tmp"

. tabulate Difficulty Years,  chi2 column row

+-------------------+
| Key               |
|-------------------|
|     frequency     |
|  row percentage   |
| column percentage |
+-------------------+

            |                     Years
 Difficulty | 1-5 years  11 years   6-10 year  Less than |
Total
------------+--------------------------------------------+----
------
         No |        10          5          4          1 |
20
            |     50.00      25.00      20.00       5.00 |
100.00
            |     27.78      23.81      23.53      20.00 |
25.32
------------+--------------------------------------------+----
------
        Yes |        26         16         13          4 |
59
            |     44.07      27.12      22.03       6.78 |
100.00
            |     72.22      76.19      76.47      80.00 |
74.68
------------+--------------------------------------------+----
------
      Total |        36         21         17          5 |
79
            |     45.57      26.58      21.52       6.33 |
100.00
            |    100.00     100.00     100.00     100.00 |
100.00

          Pearson chi2(3) =   0.2440   Pr = 0.970

. tabulate Difficulty Businessplan,  chi2 column row

+-------------------+
| Key               |
|-------------------|
|     frequency     |
|  row percentage   |
| column percentage |
```

```
+-------------------+

           |     Businessplan
Difficulty |        No        Yes |     Total
-----------+----------------------+----------
        No |         7         13 |        20 
           |     35.00      65.00 |    100.00 
           |     28.00      24.07 |     25.32 
-----------+----------------------+----------
       Yes |        18         41 |        59 
           |     30.51      69.49 |    100.00 
           |     72.00      75.93 |     74.68 
-----------+----------------------+----------
     Total |        25         54 |        79 
           |     31.65      68.35 |    100.00 
           |    100.00     100.00 |    100.00 

          Pearson chi2(1) =   0.1393   Pr = 0.709
```

. tabulate **Difficulty Industry,** chi2 column row

```
+-------------------+
| Key               |
|-------------------|
|     frequency     |
|  row percentage   |
| column percentage |
+-------------------+

           |              Industry
Difficulty | Manufactu     Retail    Service |     Total
-----------+---------------------------------+----------
        No |         2         12          6 |        20 
           |     10.00      60.00      30.00 |    100.00 
           |     22.22      32.43      18.18 |     25.32 
-----------+---------------------------------+----------
       Yes |         7         25         27 |        59 
           |     11.86      42.37      45.76 |    100.00 
           |     77.78      67.57      81.82 |     74.68 
-----------+---------------------------------+----------
     Total |         9         37         33 |        79 
           |     11.39      46.84      41.77 |    100.00 
           |    100.00     100.00     100.00 |    100.00 

          Pearson chi2(2) =   1.9249   Pr = 0.382
```

. tabulate **Difficulty Informal,** chi2 column row

```
+-------------------+
| Key               |
|-------------------|
|     frequency     |
|  row percentage   |
| column percentage |
+-------------------+

           |       Informal
Difficulty |        No        Yes |     Total
-----------+----------------------+----------
        No |         7         13 |        20
           |     35.00      65.00 |    100.00
           |     20.00      30.23 |     25.64
-----------+----------------------+----------
       Yes |        28         30 |        58
           |     48.28      51.72 |    100.00
           |     80.00      69.77 |     74.36
-----------+----------------------+----------
     Total |        35         43 |        78
           |     44.87      55.13 |    100.00
           |    100.00     100.00 |    100.00

          Pearson chi2(1) =   1.0596   Pr = 0.303


. tabulate Difficulty Agencies,  chi2 column row

+-------------------+
| Key               |
|-------------------|
|     frequency     |
|  row percentage   |
| column percentage |
+-------------------+

           |       Agencies
Difficulty |        No        Yes |     Total
-----------+----------------------+----------
        No |        12          8 |        20
           |     60.00      40.00 |    100.00
           |     34.29      18.18 |     25.32
-----------+----------------------+----------
       Yes |        23         36 |        59
           |     38.98      61.02 |    100.00
           |     65.71      81.82 |     74.68
-----------+----------------------+----------
     Total |        35         44 |        79
           |     44.30      55.70 |    100.00
           |    100.00     100.00 |    100.00

          Pearson chi2(1) =   2.6738   Pr = 0.102
```

. tabulate **Difficulty Redtape,** chi2 column row

```
+-------------------+
| Key               |
|-------------------|
|     frequency     |
|  row percentage   |
| column percentage |
+-------------------+

            |        Redtape
 Difficulty |        No        Yes |     Total
------------+----------------------+----------
         No |        19          1 |        20 
            |     95.00       5.00 |    100.00 
            |     76.00       1.85 |     25.32 
------------+----------------------+----------
        Yes |         6         53 |        59 
            |     10.17      89.83 |    100.00 
            |     24.00      98.15 |     74.68 
------------+----------------------+----------
      Total |        25         54 |        79 
            |     31.65      68.35 |    100.00 
            |    100.00     100.00 |    100.00 

          Pearson chi2(1) =  49.6912   Pr = 0.000
```

. tabulate **Difficulty Employees,** chi2 column row

```
+-------------------+
| Key               |
|-------------------|
|     frequency     |
|  row percentage   |
| column percentage |
+-------------------+

            |                   Employees
 Difficulty |      0-10      11-50     51-250         NA |
Total
------------+--------------------------------------------+----
------
         No |        18          1          0          1 |
20
            |     90.00       5.00       0.00       5.00 |
100.00
```

```
             |     25.00      20.00       0.00     100.00 |
25.32
-------------+--------------------------------------------+----
------
         Yes |        54          4          1          0 |
59
             |     91.53       6.78       1.69       0.00 |
100.00
             |     75.00      80.00     100.00       0.00 |
74.68
-------------+--------------------------------------------+----
------
       Total |        72          5          1          1 |
79
             |     91.14       6.33       1.27       1.27 |
100.00
             |    100.00     100.00     100.00     100.00 |
100.00

          Pearson chi2(3) =   3.3675   Pr = 0.338
```

```
. tabulate Difficulty Turnover,  chi2 column row

+-------------------+
| Key               |
|-------------------|
|     frequency     |
|  row percentage   |
| column percentage |
+-------------------+

             |                    Turnover
  Difficulty | Less than      Other  R200000-R  R400000-R |
Total
-------------+--------------------------------------------+----
------
          No |        14          2          3          0 |
19
             |     73.68      10.53      15.79       0.00 |
100.00
             |     25.45     100.00      37.50       0.00 |
27.54
-------------+--------------------------------------------+----
------
         Yes |        41          0          5          4 |
50
             |     82.00       0.00      10.00       8.00 |
100.00
             |     74.55       0.00      62.50     100.00 |
72.46
```

```
------------+--------------------------------------------+----------
      Total |        55          2          8          4 |
69
            |     79.71       2.90      11.59       5.80 |
100.00
            |    100.00     100.00     100.00     100.00 |
100.00

          Pearson chi2(3) =   7.3006   Pr = 0.063
```

```
. tabulate Difficulty Experience,  chi2 column row

+-------------------+
| Key               |
|-------------------|
|     frequency     |
|  row percentage   |
| column percentage |
+-------------------+

            |      Experience
 Difficulty |        No        Yes |     Total
------------+----------------------+----------
         No |         7         13 |        20
            |     35.00      65.00 |    100.00
            |     21.88      27.66 |     25.32
------------+----------------------+----------
        Yes |        25         34 |        59
            |     42.37      57.63 |    100.00
            |     78.13      72.34 |     74.68
------------+----------------------+----------
      Total |        32         47 |        79
            |     40.51      59.49 |    100.00
            |    100.00     100.00 |    100.00

          Pearson chi2(1) =   0.3369   Pr = 0.562
```

```
. tabulate Difficulty Employmentloss,  chi2 column row

+-------------------+
| Key               |
|-------------------|
|     frequency     |
|  row percentage   |
| column percentage |
+-------------------+
```

```
           |    Employmentloss
 Difficulty |        No        Yes |     Total
-----------+----------------------+----------
        No |        19          1 |        20 
           |     95.00       5.00 |    100.00 
           |     31.15       5.56 |     25.32 
-----------+----------------------+----------
       Yes |        42         17 |        59 
           |     71.19      28.81 |    100.00 
           |     68.85      94.44 |     74.68 
-----------+----------------------+----------
     Total |        61         18 |        79 
           |     77.22      22.78 |    100.00 
           |    100.00     100.00 |    100.00 

          Pearson chi2(1) =   4.8145   Pr = 0.028
```

```
.
. tabulate Credit Years,  chi2 column row

+-------------------+
| Key               |
|-------------------|
|     frequency     |
|  row percentage   |
| column percentage |
+-------------------+

           |                    Years
    Credit | 1-5 years  11 years   6-10 year  Less than |
Total
-----------+--------------------------------------------+-----
-----
        No |        28         14         12          3 |
57 
           |     49.12      24.56      21.05       5.26 |
100.00 
           |     75.68      60.87      70.59      60.00 |
69.51 
-----------+--------------------------------------------+-----
-----
       Yes |         9          9          5          2 |
25 
           |     36.00      36.00      20.00       8.00 |
100.00 
           |     24.32      39.13      29.41      40.00 |
30.49 
-----------+--------------------------------------------+-----
-----
     Total |        37         23         17          5 |
82 
```

```
           |     45.12      28.05      20.73       6.10 |
100.00
           |    100.00     100.00     100.00     100.00 |
100.00

          Pearson chi2(3) =   1.6966   Pr = 0.638



. tabulate Credit Businessplan,  chi2 column row

+-------------------+
| Key               |
|-------------------|
|     frequency     |
|  row percentage   |
| column percentage |
+-------------------+

           |     Businessplan
    Credit |        No        Yes |     Total
-----------+----------------------+----------
        No |        18         39 |        57
           |     31.58      68.42 |    100.00
           |     72.00      68.42 |     69.51
-----------+----------------------+----------
       Yes |         7         18 |        25
           |     28.00      72.00 |    100.00
           |     28.00      31.58 |     30.49
-----------+----------------------+----------
     Total |        25         57 |        82
           |     30.49      69.51 |    100.00
           |    100.00     100.00 |    100.00

          Pearson chi2(1) =   0.1050   Pr = 0.746



. tabulate Credit Industry,  chi2 column row

+-------------------+
| Key               |
|-------------------|
|     frequency     |
|  row percentage   |
| column percentage |
+-------------------+

           |             Industry
    Credit | Manufactu     Retail    Service |     Total
-----------+---------------------------------+----------
        No |         8         26         23 |        57
```

	14.04	45.61	40.35	100.00
	80.00	66.67	69.70	69.51
Yes	2	13	10	25
	8.00	52.00	40.00	100.00
	20.00	33.33	30.30	30.49
Total	10	39	33	82
	12.20	47.56	40.24	100.00
	100.00	100.00	100.00	100.00

Pearson chi2(2) = 0.6686 Pr = 0.716

. tabulate **Credit Informal,** chi2 column row

Key
frequency
row percentage
column percentage

	Informal		
Credit	No	Yes	Total
No	21	35	56
	37.50	62.50	100.00
	60.00	81.40	71.79
Yes	14	8	22
	63.64	36.36	100.00
	40.00	18.60	28.21
Total	35	43	78
	44.87	55.13	100.00
	100.00	100.00	100.00

Pearson chi2(1) = 4.3617 Pr = 0.037

. tabulate **Credit Agencies,** chi2 column row

Key
frequency
row percentage
column percentage

```
+-------------------+

           |       Agencies
    Credit |        No        Yes |     Total
-----------+----------------------+----------
        No |        24         33 |        57 
           |     42.11      57.89 |    100.00 
           |     68.57      73.33 |     71.25 
-----------+----------------------+----------
       Yes |        11         12 |        23 
           |     47.83      52.17 |    100.00 
           |     31.43      26.67 |     28.75 
-----------+----------------------+----------
     Total |        35         45 |        80 
           |     43.75      56.25 |    100.00 
           |    100.00     100.00 |    100.00 

          Pearson chi2(1) =   0.2179   Pr = 0.641
```

```
. tabulate Credit Redtape,  chi2 column row
```

```
+-------------------+
| Key               |
|-------------------|
|     frequency     |
|  row percentage   |
| column percentage |
+-------------------+

           |        Redtape
    Credit |        No        Yes |     Total
-----------+----------------------+----------
        No |        20         36 |        56 
           |     35.71      64.29 |    100.00 
           |     80.00      66.67 |     70.89 
-----------+----------------------+----------
       Yes |         5         18 |        23 
           |     21.74      78.26 |    100.00 
           |     20.00      33.33 |     29.11 
-----------+----------------------+----------
     Total |        25         54 |        79 
           |     31.65      68.35 |    100.00 
           |    100.00     100.00 |    100.00 

          Pearson chi2(1) =   1.4720   Pr = 0.225
```

```
. tabulate Credit Employees,  chi2 column row
```

```
+-------------------+
| Key               |
|-------------------|
|     frequency     |
|  row percentage   |
| column percentage |
+-------------------+

           |                  Employees
    Credit |      0-10      11-50     51-250         NA |
Total
-----------+--------------------------------------------+-----
-----
        No |        52          3          1          1 |
57
           |     91.23       5.26       1.75       1.75 |
100.00
           |     72.22      42.86     100.00     100.00 |
70.37
-----------+--------------------------------------------+-----
-----
       Yes |        20          4          0          0 |
24
           |     83.33      16.67       0.00       0.00 |
100.00
           |     27.78      57.14       0.00       0.00 |
29.63
-----------+--------------------------------------------+-----
-----
     Total |        72          7          1          1 |
81
           |     88.89       8.64       1.23       1.23 |
100.00
           |    100.00     100.00     100.00     100.00 |
100.00

          Pearson chi2(3) =   3.5019   Pr = 0.321
```

```
. tabulate Credit Turnover,  chi2 column row
```

```
+-------------------+
| Key               |
|-------------------|
|     frequency     |
|  row percentage   |
| column percentage |
+-------------------+

           |                  Turnover
    Credit | Less than      Other  R200000-R  R400000-R |
Total
```

```
-----------+--------------------------------------------+-----
-----
        No |        43          1          5          2 |
51
           |     84.31       1.96       9.80       3.92 |
100.00
           |     76.79      50.00      62.50      50.00 |
72.86
-----------+--------------------------------------------+-----
-----
       Yes |        13          1          3          2 |
19
           |     68.42       5.26      15.79      10.53 |
100.00
           |     23.21      50.00      37.50      50.00 |
27.14
-----------+--------------------------------------------+-----
-----
     Total |        56          2          8          4 |
70
           |     80.00       2.86      11.43       5.71 |
100.00
           |    100.00     100.00     100.00     100.00 |
100.00

          Pearson chi2(3) =   2.4561   Pr = 0.483
```

. tabulate **Credit Experience,** chi2 column row

```
+-------------------+
| Key               |
|-------------------|
|     frequency     |
|  row percentage   |
| column percentage |
+-------------------+

           |      Experience
    Credit |        No        Yes |     Total
-----------+----------------------+----------
        No |        25         32 |        57
           |     43.86      56.14 |    100.00
           |     75.76      65.31 |     69.51
-----------+----------------------+----------
       Yes |         8         17 |        25
           |     32.00      68.00 |    100.00
           |     24.24      34.69 |     30.49
-----------+----------------------+----------
     Total |        33         49 |        82
           |     40.24      59.76 |    100.00
           |    100.00     100.00 |    100.00
```

```
          Pearson chi2(1) =   1.0164   Pr = 0.313


. tabulate Credit Employmentloss,  chi2 column row

+-------------------+
| Key               |
|-------------------|
|     frequency     |
|  row percentage   |
| column percentage |
+-------------------+

           |    Employmentloss
    Credit |        No        Yes |     Total
-----------+----------------------+----------
        No |        47         10 |        57 
           |     82.46      17.54 |    100.00 
           |     73.44      55.56 |     69.51 
-----------+----------------------+----------
       Yes |        17          8 |        25 
           |     68.00      32.00 |    100.00 
           |     26.56      44.44 |     30.49 
-----------+----------------------+----------
     Total |        64         18 |        82 
           |     78.05      21.95 |    100.00 
           |    100.00     100.00 |    100.00 

          Pearson chi2(1) =   2.1197   Pr = 0.145
```

Appendix 8: Faculty Ethics Approval Letter

NELSON MANDELA UNIVERSITY

PO Box 77000, Nelson Mandela University, Port Elizabeth, 6031, South Africa mandela.ac.za

Chairperson: Faculty Research Ethics Committee (Human)
Tel: +27 (0)41 504 2906

Ref: [H22-BES-DEV-101/ Approval]

31 August 2022

Prof S Mago
Department: Development Studies

Dear Mago,

TITLE OF STUDY: INVESTIGATION FUNDING CHALLENGES EXPERIENCED BY SMMEs IN KOMANI, SOUTH AFRICA (MASTERS) (H22-BES-DEV-101)

PRP: Prof S Mago
PI: D Doku

Your above-entitled application served at the *Faculty Ethics Committee of the Faculty of Business and Economic Science,* (22 August *2022)* for approval. The study is classified as a negligible/low risk study. The ethics clearance reference number is **H22-BES-DEV-101** and approval is subject to the following conditions:

1. The immediate completion and return of the attached acknowledgement to Lindie@mandela.ac.za, the date of receipt of such returned acknowledgement determining the final date of approval for the study where after data collection may commence.
2. Approval for data collection is for 1 calendar year from date of receipt of above mentioned acknowledgement.
3. The submission of an annual progress report by the PRP on the data collection activities of the study (form RECH-004 to be made available shortly on Research Ethics Committee (Human) portal) by 15 December this year for studies approved/extended in the period October of the previous year up to and including September of this year, or 15 December next year for studies approved/extended after September this year.
4. In the event of a requirement to extend the period of data collection (i.e. for a period in excess of 1 calendar year from date of approval), completion of an extension request is required (form RECH-005 to be made available shortly on Research Ethics Committee (Human) portal)
5. In the event of any changes made to the study (excluding extension of the study), completion of an amendments form is required (form RECH-006 to be made available shortly on Research Ethics Committee (Human) portal).
6. In the event of any changes made to the study (excluding extension of the study), RECH will have to approve such amendments and completion of an amendments form is required PRIOR to implementation (form RECH-006 available on Research Ethics Committee (Human) portal).
7. Immediate submission (and possible discontinuation of the study in the case of serious events) of the relevant report to RECH (form RECH-007 to be made available shortly on Research Ethics Committee (Human) portal) in the event of any unanticipated problems, serious incidents or adverse events observed during the course of the study.
8. Immediate submission of a Study Termination Report to RECH (form RECH-008 to be made available shortly on Research Ethics Committee (Human) portal) upon unexpected closure/termination of study.
9. Immediate submission of a Study Exception Report of RECH (form RECH-009 to be made available shortly on Research Ethics Committee (Human) portal) in the event of any study deviations, violations and/or exceptions.
10. Acknowledgement that the study could be subjected to passive and/or active monitoring without prior notice at the discretion of Research Ethics Committee (Human)

Please quote the ethics clearance reference number in all correspondence and enquiries related to the study. For speedy processing of email queries (to be directed to Lindie@mandela.ac.za), it is recommended that the ethics clearance reference number together with an indication of the query appear in the subject line of the email.

We wish you well with the study.

Yours sincerely

Dr A van den Berg
(secundus)

Cc: Department of Research Capacity Development
Faculty Research Co-ordinator: Lindie van Rensburg

ACKNOWLEDGEMENT OF CONDITIONS FOR ETHICS APPROVAL

I, **Prof S Mago** (PRP) of the study **INVESTIGATION FUNDING CHALLENGES EXPERIENCED BY SMMEs IN KOMANI, SOUTH AFRICA (MASTERS) (H22-BES-DEV-101)**do hereby agree to the following approval conditions:

1. The submission of an annual progress report by myself on the data collection activities of the study by 15 December this year for studies approved in the period October of the previous year up to and including September of this year, or 15 December next year for studies approved after September this year. It is noted that there will be no call for the submission thereof. The onus for submission of the annual report by the stipulated date rests on myself.

2. Submission of the relevant request to Faculty RECH in the event of any amendments to the study for approval by Faculty RECH prior to any partial or full implementation thereof.

3. Submission of the relevant request to Faculty RECH in the event of any extension to the study for approval by Faculty RECH prior to the implementation thereof.

4. Immediate submission of the relevant report to Faculty RECH in the event of any unanticipated problems, serious incidents or adverse events.

5. Immediate discontinuation of the study in the event of any serious unanticipated problems, serious incidents or serious adverse events.

6. Immediate submission of the relevant report to Faculty RECH in the event of the unexpected closure/discontinuation of the study (for example, de-registration of the PI).

7. Immediate submission of the relevant report to Faculty RECH in the event of study deviations, violations and/or exceptions.

8. Acknowledgement that the study could be subjected to passive and/or active monitoring without prior notice at the discretion of Faculty RECH.

Signed: SMago ______________________ Date: 01/09/2022

Appendix 9: Turnitin Report

turnitin

Digital Receipt

This receipt acknowledges that Turnitin received your paper. Below you will find the receipt information regarding your submission.

The first page of your submissions is displayed below.

Submission author:	Daniel Korku Doku
Assignment title:	Turnitin 2023 Part 1 (Moodle TT)
Submission title:	Treatise final copy
File name:	100301_Daniel_Korku_Doku_Treatise_final_copy_549551_2037...
File size:	2.81M
Page count:	114
Word count:	32,092
Character count:	181,767
Submission date:	10-Mar-2023 12:41AM (UTC+0200)
Submission ID:	2033363562

ABSTRACT

All around the world there are small, medium and micro-enterprises (SMMEs) that help by creating jobs and contributing to gross domestic product. However, funding is a major problem that limits the growth and development of SMMEs. Funding challenges have increased, hence the need for research to be conducted in Komani, in South Africa's Eastern Cape Province, to see how the challenge can be overcome. This research aims at investigating the funding challenges experienced by SMMEs in Komani. The objectives of the research were to: evaluate the effect of funding challenges on the number of people employed in SMMEs; establish reasons why SMMEs fail to obtain funding from major financial institutions; to examine the avenues available for funding SMMEs; and to recommend to policymakers and SMMEs how to solve the problem of funding. However, previous research in Komani has not managed to investigate this problem with regard to the research process and the method used. This research is based on the positivistic paradigm and used the quantitative method to investigate the funding challenges. The research population was 441 SMMEs; of them 82 SMMEs were sampled using questionnaires. Data collected was analysed using Excel and Stata. Pearson Chi-square test of association from Stata and Excel Analysis ToolPak were used. The study found that most SMMEs use retained earnings and informal funding to finance their operations. It also found that most SMMEs were unaware of government support agencies like SEFA. The research recommends that more must be done to raise awareness on a regular basis to make sure that all SMMEs are aware of the financial support system that the government has for the SMMEs. Financial institutions will need to lower their requirements when SMMEs apply for finance. Finally, SMMEs are supported financially by both the government and the private sector to employ more people. However, the government could also create a guarantee scheme for SMMEs to ensure successful credit applications.

v

Appendix 10: Turnitin Similarity Report Overview

Treatise final copy

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Appendix 11: Language Certificate

26 Redwing Drive

Westering

Port Elizabeth

6025

7 December 2022

TO WHOM IT MAY CONCERN

I hereby confirm that I have proofread and edited the following treatose and provided comments and suggested corrections for the author to action to produce a clean copy:

Investigating funding challenges experienced by SMMEs in Komani, Eastern Cape, South Africa **by Daniel Korku Doku.**

In addition to the suggested changes I have made, the dissertation contains language and formatting issues that the student is required to address, but as editor I will not see nor verify the final copy of the article.

M E Oettle (BA Hons [History])

professional editor

e-mail: mike.oettle@gmail.com / oettle@aerosat.co.za

cell: 073 168 5714

Disclaimer: Although I have made comments and suggested corrections, the responsibility for the quality of the final document lies with the **student** in the first instance and not with me as the editor.