Analysing the Role and Impact of Public and Private Supporting Institutions Interventions on SMMEs Access to Funding: A Comparative Study between Lesotho and South Africa

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Abstract: Lesotho and South Africa have both put in place public and private supporting institutions to assist SMMEs in accessing funding. However, previous studies indicate that SMMEs are still struggling to access funds at both the start-up and growth phases. Hence, using a mixed method approach, this paper investigates the nature and impact of supporting institutions interventions in the Maseru and Pietermaritzburg cities of Lesotho and South Africa respectively. The mixed method study was conducted with the aim of depicting the state of SMMEs support to access funding within the Southern African context and the perceived barriers to accessing funding. On one hand, interviews with six (6) supporting institutions' representatives conveniently sampled from each country reveal commonality of interventions such as the provision of start-up capital, additional funding and referral services. On the other hand, data collected by means of a questionnaire from 270 and 210 SMMEs owners/managers in Maseru and Pietermaritzburg respectively reveal that SMMEs owners in both countries face similar challenges such as high interest rates and the inability to meet the collateral requirements. The paper concludes that notwithstanding the interventions, SMMEs still face challenges related to accessing funding. Thus, the paper suggests that interventions that seek to enhance SMMEs access to finance need to be designed to suit SMMEs idiosyncratic nature to be relevant and appealing to SMMEs owners.

Keywords: SMMEs; supporting institutions; funding; barriers

JEL Classification: M19

1. Introduction

Institutions such as the World Bank, have acknowledged SMMEs (Small, Medium and Micro Enterprises) contribution to economic growth, especially in the developing countries context. (Small Business Promotion (SBP) Alert, 2014) In addition, Döckel and Ligthelm (2005) allude to the fact that small businesses provide

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employment opportunities, as they grow faster compared to large businesses. Döckel and Ligthelm (2005) further opine that the SMMEs sector deserves more attention due to the preponderant role that SMMEs play. Although Molapo, Mears and Viljoen (2008) also support the fact that small businesses create jobs which reduces the unemployment rate, they add that such businesses do not always grow to the expected level. At the start-up level, SMMEs growth is hindered by regulatory, cultural, social, economic and financial barriers. (Martins, 2004) Mahembe (2011) attests that SMMEs owners tend to rely on their personal savings or loans from friends and families to collate start-up capital and only rely on bank loans for funding when their businesses are in the stable stage.

Chetty (2009) points out that globally, public and private supporting institutions provide diverse kinds of assistance to SMMEs either at the start-up phase or growth phase or both. However, it is worth noting that public and private supporting institutions interventions might impose a positive or negative impact on SMMEs development. It is in this context that this paper assesses the role of supporting institutions interventions that assist SMMEs to access funding and the perceived barriers toward accessing funding from these institutions. It is expected that the findings from this paper will shed light on the challenges that SMMEs still face to access funding in the midst of the available public and private interventions.

2. Literature Review

The literature below highlights the role that supporting institutions play at the start-up and growth stages of SMMEs. It further highlights factors that enhance or hinder SMMEs from accessing funds at various stages of their lifecycles.

2.1. Role of Supporting Institutions in SMMEs Business

Mbonyane (2006) argues that, although entrepreneurs might have valuable business ideas, sometimes they lack resources for these ideas to materialise. Renawat and Tiwari (2009) postulate that newly established businesses sometimes need assistance in terms of licensing procedures, funding, appropriate business premises, training and networking support, among others. Mahembe (2011) on the other hand, stresses that entrepreneurs mostly depend on their own start-up capital to run their businesses and often have limited knowledge of the procedures to follow when applying for a loan. In addition, in some cases, entrepreneurs are not aware of the available financial institutions that could assist them. The start-up stage is a very crucial period in the development cycle of small businesses. (Wright & Marlow, 2012; Herrington & Kew, 2014) Hence, SMMEs at the start-up phase need special care, including the provision of funding support. The need for assisting SMMEs at their early stage has called for interventions by public and private supporting institutions. (Sule, 1986; Ngcobo & Sukdeo, 2014) At the start-up phase, generally, supporting institutions provide business advisory services, training, networking services, and access to finance. (Renawat & Tiwari, 2009) Supporting institutions also provide counselling and consulting services, with the aim of raising the performance and the potential of new firms and encouraging a higher SMME's business start-up rate and growth. (Khoase, 2015) Some of these services aim to reduce the costs of information and transactions at the start-up and growth phases of small firms. (Chetty, 2009; Olufisayo, 2014)

However, when creating a conducive business environment, governments can either encourage or discourage business-related activities. (Khoase & Govender, 2013) The suggestion is that, governments should have an understanding of the sector and the specific challenges with which entrepreneurs are faced. (Finscope, 2010) Mbedzi (2011) concurs, stating that one of the reasons why government interventions fail, is the uneven distribution of services. In most cases, services are solely concentrated in metropolitan areas. This implies that services may not be accessible to entrepreneurs who might need such services in the rural areas.

2.2. SMMEs Access to Finance

There are formal financial institutions in both Lesotho and South Africa, which assist businesses with financial resources. In Lesotho, organisations such as Moliko Micro-Credit Trust, Post Bank and BEDCO (Basotho Enterprises Development Corporation) amongst others, are established to assist SMMEs with funding. (Khoase, 2011) In South Africa, Absa Small Business Development, the Industrial Development Corporation and SEFA (Small Enterprise Finance Agency) amongst others, have been established to assist SMMEs with funding. (Khoase, 2015) Despite these efforts, access to finance generally seems to be easier only for older businesses than for the newly established ones. (Beck &Demirgüç-Kunt, 2006)

Small, Medium, and Micro Enterprises access to finance largely depends on the development of financial markets and the regulatory environment within which financial institutions operate. (Chetty, 2009) Mbedzi (2011), opine that economies with highly developed financial systems can contribute greatly to the start-up and growth of small businesses. Conversely, economies with undeveloped financial systems experience low accessibility to finances (Beck, Demirgüç-Kunt and Maksimovic, 2005; World Bank, 2014). In developing countries, small businesses rely on funding from family and friends because banks and other financial institutions demand high interest rates and collateral requirements. (Cull & Xu, 2005; Siringi, 2011) Fatoki and Asah (2011) postulate that the extent to which SMME meets the financial institutions' collateral requirements is a significant determinant of credit access in the South African context. Thus, SMMEs should invest early in business or personal assets to meet the collateral requirements of banks and other financial institutions. Richard (2006) on the other hand, argues that entrepreneurs should be informed on the requirements to access funding. Fatoki and Asah (2011) further state that although there are diverse kinds of public interventions in South Africa, it is equally important that these interventions are effective and meet the needs of SMMEs.

According to Quan-Baffour and Arko-Achemfuor (2009), SMMEs' exclusion from accessing financial sources from funding agencies such as banks, makes it very difficult for entrepreneurs to expand their businesses. According to the Organisation for Economic Co-operation and Development (OECD), there are other available opportunities that SMMEs owners can consider in funding their businesses. (OECD, 2006) For instance, micro-credit and micro-finance schemes play an important role in developing countries. These avenues for funding assist entrepreneurs with soft loans that are paid back in instalments at lower interest rates, and they do not require collaterals. The OECD, therefore, encourages developing countries to put more effort into boosting the effectiveness of these schemes. In contrast, Dalberg's Survey (2011) demonstrates that the loans amount provided through micro-finance schemes is generally too little to meet SMMEs' capital needs. Mahembe (2011) further adds that micro finance institutions charge high interest rates that most small businesses cannot afford. The OECD recommends that SMMEs should diversify their sources of funding by tapping into alternative funding opportunities. (OECD, 2015)

Mazanai and Fatoki (2011) investigated the effectiveness of Business Development Services Providers (BDS) in improving access to finance by start-up SMMEs in South Africa. Their findings revealed that, most start-up SMMEs were not aware of the services provided by the BDS which hindered the effectiveness of such services. They concluded that there is a need for partnership between the public and private sectors to market BDS services. In addition, SMMEs should join trade associations in order to be informed of the funding opportunities provided by the BDS. (Mazanai & Fatoki, 2011) Furthermore, relying on government financial support is not sustainable in the long run. Small, Medium and Micro Enterprises owners should therefore invest in their business skills development such as acquiring knowledge on entrepreneurship, business planning and financial management to improve their prospects of qualifying for external funding (Mazanai & Fatoki, 2011)

Trade credit is an important alternative source of financing SMMEs start-ups. (Berger & Udell, 2006) Huyghebaert, van de Gucht and van de Hulle (2007) define trade credit as the purchase of goods and services on credit. Trade credit does not involve financial institutions, but rather is an arrangement between the buyer and the seller to acquire goods and services to be paid within a stipulated timeframe and with interests. Trade credit eliminates the need to obtain finance from the banks. (Frank & Maksimovic, 2004) Fatoki and Odeyemi (2010) found that trade credit is an important potential source of funding to SMMEs within the South African context. They also found that having a property (that one can present as a collateral) is not significantly related to accessing trade credit. However, there are other factors that determine the granting of trade credit such as managerial competency (including being educated and having business experience), being able to produce a business plan and belonging to trade associations. (Fatoki & Odeyemi, 2010) In addition, businesses located in urban areas are more likely to get access to trade credit than those in rural areas and insured SMMEs start-ups are more likely to be successful in their applications for trade credit than those that are not. (Fatoki & Odeyemi, 2010) Also, the size of the SMME matters as medium-sized enterprises are more likely to get trade credit than smaller ones. (Fatoki & Odeyemi, 2010)

Mahembe (2011) recommends that, policy makers should focus on designing an efficient way of providing financial assistance to meet the needs of SMMEs, rather than focusing on increasing the amount of credit available to the SMMEs sector. Furthermore, monitoring and evaluating public and private supporting institutions' interventions on a regular basis would assist in keeping abreast of the relevance of the interventions.

Binks, Ennew and Reed (1992); Orford, Wood, Fisher, Herrington and Segal (2003) and Cronje, Du Toit, Marais and Motlatla (2006) caution that although there is a need to assist SMMEs financially, the ultimate success lies on how SMMEs' finances are managed. They assert that proper financial management skills are necessary for the entrepreneurs to monitor their financial position and take advantage of funding opportunities and reduce the risk of failure.

3. Research Methodology

The study used the descriptive research design coupled with qualitative and quantitative data collection methods to assess the role and impact of supporting institutions on SMMEs access to funding. The target population for this study is the public and private supporting institutions and owners or managers of registered SMMEs. From a sample size of 379 SMMEs from Maseru in Lesotho and 384 SMMEs from Pietermaritzburg in South Africa, a survey was conducted by means of a questionnaire to collect SMMEs owners' perceptions pertaining to accessing funding through supporting institutions and the current barriers that they face when requesting funding from these institutions. A total of 270 and 210 questionnaires (in Maseru and Pietermaritzburg respectively) were collected from the respondents, representing 71% and 55% response rates respectively. The questionnaire was designed with closed-ended questions using two five-point Likert-scales (1=Very difficult to 5=Very easy and 1=Strongly disagree to 5=Strongly agree). In addition, interviews were held with managers within representatives of twelve institutions that provide support to SMMEs in Maseru and in Pietermaritzburg (six institutions in each city). The two cities are capital cities of Lesotho and the KwaZulu-Natal Province of South Africa respectively. These two locations were chosen because, as capital cities, they are expected to have diverse SMMEs and public and private supporting institutions. In both cities, the snowball sampling technique was used to identify such institutions while convenient sampling was used to select SMMEs owners or managers that would be willing to participate in the study.

4. Data Analysis and Discussion

Data analysis was carried out in two phases. Firstly, the qualitative data analysis entailed performing a content analysis, while the quantitative data analysis entailed performing descriptive statistics as well as inferential statistics. The following sections provide a detailed analysis and subsequent discussion within each phase.

4.1. Qualitative Data Analysis

4.1.1. Demographics of Interviewees

In Maseru, interviews were conducted with representatives of two public, one parastatal and three private institutions. In Pietermaritzburg, interviews were conducted with representatives of three public and three private institutions. In Maseru, five males and a female were interviewed, while in Pietermaritzburg interviewees comprised of three males and three females. For confidentiality purposes, respondents from Maseru are referred to as interviewee 1a, 1b, 1c, 1d, 1e and 1f, while respondents from Pietermaritzburg are referred to as interviewee 2a, 2b, 2c, 2d, 2e and 2f.

4.1.2. Assistance to Access Funding

In Maseru, out of the six interviewees, five provide assistance related to accessing funding either directly or indirectly. Out of the five supporting institutions, two provide funding such as start-up capital and additional funds directly to SMMEs.

"We provide soft loans to entrepreneurs who have registered with us online. In case of areas where Internet is not accessible, we have opened offices to assist such entrepreneurs. However, the organisation sometimes run out of funds. To address this, the organisation has signed a memorandum of understanding with the Lesotho Highlands Development Authority (LHDA)." (Interviewee 1a)

"We support SMMEs with start-up capital and additional funding, however, the challenge is that entrepreneurs sometimes run businesses without keeping records, meaning their funds are not appropriately spent. In this case, we advise the entrepreneurs to associate themselves with institutions that can equip them with necessary skills as to how to run their businesses." (Interviewee 1c).

One institution provides non-financial assistance which equips SMMEs owners with skills that will help them to qualify for funding from financial institutions, while the other two connect SMMEs with relevant financial institutions.

"We provide counselling, advisory services and training to guide entrepreneurs as to how to raise funds or qualify for funding from financial institutions. Entrepreneurs can register for training which may equip them in terms of meeting the requirements to qualify for loans from other supporting institutions." (Interviewee 1b).

"The organisation does not offer funding to SMMEs. However, businesses that have been operating for at least one year and can prove that they are growing, are referred to a financial institution if they need financial assistance, … SMMEs are referred to the relevant financial institutions after a thorough assessment of their business plans." (Interviewee 1d).

"…, one must register as a member. The organisation does not provide funds, SMMEs are only linked with the appropriate financial institutions." (Interviewee 1f).

In Pietermaritzburg, five of the six interviewees, helps SMMEs (directly or indirectly) to access funding. Out of the five, one supporting institution indicated that they provide start-up capital and additional funds.

"We provide start-up capital and additional funding to entrepreneurs. The challenge experienced is that, there is a gap between the start-up and established businesses in terms of experience in business. We think that provision of extensive training programmes would greatly assist in filling this gap. Anyone who is willing to start a business qualifies for our financial services. Such SMME first registers with the institution before being assisted." (Interviewee 2c.

The other four mentioned that they assist SMMEs access funding indirectly.

"… In addition, we assist entrepreneurs in accessing funds. However, we do not offer funding to entrepreneurs, but we link the entrepreneurs with the relevant financial institutions." (Interviewee 2a)

"We provide non-financial support to SMMEs. Normally our organisation is approached by people who want to start businesses without knowledge of running a business. We link such potential entrepreneurs with relevant institutions or stakeholders to equip them with the necessary information…. however, businesses already in operation also come back to us looking for assistance such as funding. Such entrepreneurs are referred to funders such as Industrial Development Corporation and SEFA in Durban." (Interviewee 2b)

"…. The needs of the SMMEs are firstly assessed, then they are referred to the relevant financial institutions." (Interviewee 2d)

"Our organisation is not an avenue for funding, therefore, SMMEs are referred to relevant financial institutions." (Interviewee 2f)

4.2. Quantitative Analysis

4.2.1. Descriptive Statistics

In Maseru, 49.3 percent of respondents were males and 50.7 percent were females. In Pietermaritzburg, 51.4 percent of respondents were males while 48.6 percent were females. The target population was owners or managers of SMMEs. In the case where owners or managers were not available, staff members were recruited as potential respondents. In Maseru, most respondents were SMMEs owners (27.3%); 20.6 percent were managers and 8.3 percent were staff members. Most respondents (30.4%) were aged between 20 and 39 and 20.6 percent of respondents were aged between 40 and 59. In Pietermaritzburg, like in Maseru, most respondents were SMMEs owners (21.9%); 14.8 percent were managers and 7.1 percent were other staff members. Most respondents (22.9%) were aged between 20 and 39 and 18.8 percent of respondents were aged between 40 and 59.

4.2.2. Accessibility to Supporting Institutions' Funding

Table 1 below indicates that most of the respondents in Maseru (60.4%) and Pietermaritzburg (57.6%) used their personal savings to start their businesses. The table also shows that not many SMMEs owners are accessing funding from supporting institutions when starting their businesses in both locations. The findings are in accordance with numerous studies such as Cull and Xu (2005) and Siringi (2011) that indicated that most entrepreneurs rely on their personal savings or loans from friends, as they find it a challenge to access finance from financial institutions. This may be ascribed to banks and other financial institutions demanding high interest rates and collateral requirements. (Dalberg Survey, 2011) This exclusion from accessing certain financial sources makes it very difficult for entrepreneurs to expand their businesses. (Quan-Baffour & Arko-Achemfuor, 2009)

Table 2. Access to funding from supporting institutions

Source of funds for starting business	Location			
	Maseru		Pietermaritzburg	
	Frequency	Percentage	Frequency	Percentage
When establishing the business most of the funds came from personal savings	163	60.4%	121	57.6%
When establishing the business most of the funds came from a loan from a friend	17	6.3%	36	17.1%
When establishing the business most of the funds came from a bank	6	2.2%	22	10.5%
When establishing the business most of the funds came from a business supporting institution	18	6.7%	42	20.0%

4.2.3. Difficulty in Accessing Funding from Supporting Institutions

Table 2 indicates that only 35.9 percent and 18.1 percent of the respondents (percentages of those who find it easy and those who find it very easy combined) in Maseru and Pietermaritzburg respectively find it easy to access funding (on a Likert scale of 1=Very difficult to 5=Very easy) from supporting institutions. This implies that it is generally difficult for SMMEs from both locations to access funding from the supporting institutions. Chetty (2009) asserted that accessing finance is a huge challenge for SMMEs especially at the start-up phase. Fatoki and Odeyemi (2010) also state that trade credit as an alternative means of funding SMMEs is not easily accessible to SMMEs within the South African context as SMMEs owners must meet certain requirements in terms of managerial competency (being educated and having business experience); being able to produce a business plan; and belonging to trade associations. It is imperative that SMMEs owners are acquainted with funding opportunities and the requirements thereof. Such an awareness will assist them in evaluating these opportunities, considering what they can afford (as far as the requirements are concerned). It is also equally important that SMMEs work on meeting the requirements to qualify for funding in the future.

Table 3. Difficulty in Receiving Funding from Supporting Institutions

Difficulty in getting funding		Frequency Distribution				
		Very difficult	Difficult	Not sure	Easy	Very easy
		Maseru				
How difficult is it to get funding from supporting institutions?	Freq	88	52	33	85	12
	%	32.6%	19.3%	12.2%	31.5%	4.4%
		Pietermaritzburg				
	Freq	68	58	35	37	12
	%	25.2%	21.5%	13.0%	13.7%	4.4%

The one-way ANOVA test of variance was undertaken to determine if there is a significant difference in the perceptions of how difficult it is to access funding (based on the types of institutions that were approached for funding). Table 3 indicates that in Maseru, there is a significant difference in the perceptions of how difficult it is to access funding from various institutions (F=2.75, df1=4, df2=265, p-value=0.029). The respondents who find it difficult to access funding from both government and parastatal had the lowest mean=2.00, while those who sought funding from the parastatal alone scored 3.47. There is also a significant mean difference between those who sought funding from government and parastatal, and those who sought from private or parastatal institutions alone. In Pietermaritzburg, there is also a significant difference in the perceptions on how difficult it is to access funding from various institutions (F=21.49, df1=3, df2=206, p-value=0.000). Those who sought funding from the private institutions scored 2.48 while the mean for those who sought funding from the government institutions is 3.53. This reflects that in Maseru and Pietermaritzburg, there is a significant difference in the perceptions of the difficulty of accessing funding depending on the type of institution that was approached for funding.

Table 4. Significant differences in perceptions on how difficult it is to access funding

Maseru	Descriptive statistics				ANOVA Tests			
	Institution	N	Mean	Std. Dev.	F	df1, df2	p-value	Comment
How difficult is it to access funding from supporting institutions?	Government	20	2.70	1.26	2.75	4, 265	0.029	Significant differences at 0.05 confidence level
	Private	10	2.30	1.70				
	Parastatal	19	3.47	1.26				
	None	217	2.49	1.32				
	Government and Parastatal	4	2.00	0.82				
Pietermaritzburg	Descriptive staistics				ANOVA Tests			
	Institution	N	Mean	Std. Dev.	F	df1, df2	p-value	Comment
How difficult is it to access funding from supporting institutions?	Government	19	3.53	1.17	21.49	3, 206	0.000	Significant differences at 0.05 confidence level
	Private	61	2.48	1.22				
	None	121	1.98^{a}	1.06				
	Government and Private	9	4.33^{c}	.500				

4.2.4. Barriers to Funding

Table 4 below indicates that most businesses in Maseru and Pietermaritzburg agree that collateral requirements are barriers to accessing funding from the supporting institutions (64.4% and 82.9% respectively). In addition, SMMEs in Maseru (63%) and in Pietermaritzburg (81.4%) agree that high interest rates are barriers to accessing funding from the supporting institutions. Lastly, 61.5 percent of SMMEs from Maseru and 76.7 percent of SMMEs in Pietermaritzburg agree that absence of a lease is a barrier to receiving funding from the supporting institutions. High interest rates and collateral requirements were previously found to hinder SMMEs access to funding. (Cull & Xu, 2005; Siringi, 2011; Dalberg Survey, 2011) A previous study by Khoase (2011) identified that absence of lease was a barrier to SMMEs access to funding in Lesotho.

Table 5. Barriers to funding

Location	Funding barriers	% Agree/ Strongly Agree
Maseru	High interest rates	63.0%
	Collateral requirements	**64.4%**
	Absence of lease	61.5%
Pietermaritzburg	High interest rates	81.4%
	Collateral requirements	**82.9%**
	Absence of lease	76.7%

5. Conclusion and Recommendations

This paper identified specific public and private interventions geared towards assisting Small, Medium and Micro Enterprises at the start up and growth level in two cities within the Southern Africa region. In Maseru and Pietermaritzburg, although some of the supporting institutions do not provide funding to SMMEs, their range of interventions is intended to equip entrepreneurs to meet the necessary requirements for qualifying for funding. However, in the midst of these efforts SMMEs still find it difficult to access funding. Although South Africa has a better economic development posture compared to Lesotho, the findings reveal that in both countries, these businesses face similar challenges to accessing funding due to high interest rates and collateral requirements amongst others. Hence, this raises the question on how such institutions are designed to meet the demands of SMMEs taking into consideration the nature of such businesses. This is an important point that needs to be evaluated especially because the challenges identified in this paper have been recurring in many peer reviewed publications over many years. Hence, as Mahembe (2011) recommended, policy makers should focus on designing an efficient way of providing financial assistance to meet the needs of SMMEs. It is worth noting at this point that, small businesses owners also have a role to play in this regard. They need to keep themselves informed of the requirements to access funding and seek ways they may qualify. Particularly, as cautioned by Orford *et al.* (2003) and Cronje *et al.* (2006) small businesses' owners need to ensure that they seek to improve their managerial competencies (through various supporting institutions programs for instance) so that they may not mismanage the acquired funding. Entrepreneurs need to be cognisant of other sources of funding besides the traditional ones (loans from banks, family and friends) and ways they may qualify for such funding. These include trade credit as it has been identified by Fatoki and Odeyemi (2010) as an important potential source of funding to SMMEs within the South African context. In both countries (Lesotho and South Africa), there is a need for continued monitoring and evaluation of supporting institutions interventions to ensure that adequate mechanisms are put in place to increase the prospects of small businesses' access of funding.

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