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2022

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https://hdl.handle.net/10539/38859

Tjabadi, Jazzino. (2022). Access to finance by black-owned small and medium enterprises operating in the South African agro- processing sector [Master's dissertation, University of the Witwatersrand, Johannesburg]. WireDSpace.

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Access to finance by black-owned small and medium enterprises operating in the South African agro-processing sector

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A research article submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Business Administration

Johannesburg, 2022

Protocol number: WBS/BA679819/363

DECLARATION

I, **Kgolane Jazzino Tjabadi**, declare that this research article is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the Graduate School of Business Administration, University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.



Kgolane Jazzino Tjabadi

Signed at **Centurion**

On the **31st** day of **August 2022**

ACKNOWLEDGEMENTS

Firstly, I would like to thank my wife and kids for their unwavering support in this journey. They encouraged and allowed me space to undertake this mammoth task.

Sincere appreciation and gratitude to my Supervisor, Dr Nomusa Mazonde, for her guidance and patience throughout this journey. She stood by me when the going got tough and encouraged me to preserve. Her insight and expert advice made a significant difference.

This research project would not have been possible without the participants in this study who sacrificed their valuable time to meet with me and share their experiences and perspectives.

Lastly, to all my friends, thank you for always asking, checking, encouraging and motivating me.

SUPPLEMENTARY INFORMATION

Project format:	Research article
Nominated journal:	The Southern African Journal of Entrepreneurship and Small Business Management
Supervisor:	Dr Nomusa Mazonde
Email address:	tjazzino@gmail.com
Date of report submission:	31 August 2022
Word count:	15 900
Supplementary files:	Research instrument (interview questionnaire)
	Participant information sheet
	Ethics clearance certificate
	Supervisor evaluation form

ABSTRACT

Keywords: SMEs, entrepreneurship, financing, access, growth, agro-processing

Small and medium enterprises (SMEs) make a meaningful contribution to economic growth, job creation and poverty alleviation. Despite this, there is a low creation and high failure rate of new small businesses in South Africa. Access to finance is considered the main contributing factor, particularly amongst black-owned SMEs. South Africa has identified agro-processing industry as a sector with high potential to spur growth and create jobs because of strong linkage with primary agriculture. Against this background, this study sought to investigate the factors that hinder access to finance by black-owned SMEs operating in the agro-processing sector in South Africa and explore other key factors that threaten their long-term survival. This research contributes to solutions aimed at addressing the root causes attributable to SMEs' inability to access funding from the formal financial institutions and government agencies. Using qualitative research method, data was collected from black SME entrepreneurs through semi-structured, in-depth interviews and analysed using content analysis. Purposeful sampling was used to identify and select the participants. The insights gained from the research highlights that black-owned SMEs are severely impacted by funding and market access issues, amongst others. The findings revealed that black SME entrepreneurs prefer to use own capital and/or funds from family and friends to start and grow their businesses. Complex processes, unsuitable financial products, high interest rates, unfavourable repayment terms and favouritism in government schemes were found to be amongst the key factors that discourage SMEs from applying for formal institutional finance. Other factors such as limited access to information about available funding sources and access to market opportunities significantly influence the long-term success of black-owned SMEs. To develop a sustainable, long-term financing model for SMEs, it is recommended that government, in partnership with the private financial institutions, establish a small business financing institution for SMEs in the agro-processing industry. To avoid the major deficiencies plaguing the existing government schemes, this should be a private**,** stand-alone entity funded by the government and private financial sector. The new institution should introduce new, innovative financing solutions that are tailored for start-up and early-stage SMEs.

INTRODUCTION

Purpose of the study

The purpose of this qualitative research was to investigate the factors that hinder access to finance for black-owned small and medium enterprises (SMEs) that operate in the agro-processing sector in South Africa, and to explore other key factors that influence their long-term survival. The focus of the study was on the demand side, i.e. SME entrepreneurs with capital needs to start or grow a business in the aforementioned sector.

Context of the study

While the demand for start-up funding in South Africa is very high due to a relatively large number of people who wish to establish new businesses, access to start-up capital and development finance is a significant challenge for new ventures. Despite several funding sources available for small businesses, financial access is a major constraint for many SMEs. It is inherently difficult for new small businesses in South Africa to access external finance due to several factors ranging from lack of assets to pledge as collateral, lack of knowledge and financial expertise as well as lack of credit history and financial records, amongst other things.

Global Entrepreneurial Monitor (GEM) (2017) report asserts that measures should be introduced in South Africa, as a matter of priority, to foster a more enabling business environment, particularly for SMEs which contribute immensely to employment. In many developing economies, small businesses have been shown to contribute substantially to job creation, economic growth and more equal income distribution. A weak job-creating capacity that has led to chronically high unemployment has been a critical contributory factor in the country's persistent poverty and inequality (Herrington et al., 2017).

According to van Lin et al. (2018), the South African agro-processing industry is highly concentrated and dominated by a few large companies. It is estimated that the 10 largest companies control 70% of the market share. Locally, large food and beverages companies own multiple brands and are "backward integrated into the

value chain". This enables them control production, branding/packaging and distribution. As a result, the big players exert market power to the smaller producers and suppliers as well as new entrants.

The authors further observe that big foreign companies own production facilities or outsource to big local producers. Therefore, agro-processing SMEs who want to enter the industry face market access constraints.

Although there is a pertinent challenge of access to funding for start-up entrepreneurs in emerging markets, entrepreneurship in emerging economies like that of South Africa goes beyond its place as the driver of economic growth, and it could be seen as part of the solution to major social issues (Xavier et al, 2012).

Research problem

Serame (2019) observes that SMEs' role in "driving economic growth through innovation and job creation" has become critical given the unemployment rate and equality gap in the country (p. 2). Therefore, an enabling business environment that is conducive for SMEs is required to stimulate their growth and long-term survival.

Small and medium enterprises (SMEs) make a meaningful contribution to economic growth, job creation and poverty alleviation. Despite this, there is a high failure rate of new small businesses in South Africa. Access to finance is considered the main contributing factor, particularly amongst black-owned SMEs. This research sought to investigate the factors that contribute to SMEs' inability to access funding from the formal financial institutions and government agencies.

Asah et al. (2020) indicate that despite their contribution to the economy, the failure rate of SMEs in South Africa, at 75%, is the highest of all "efficiency-driven economies". Considering the high failure rate, the availability of funding from the formal sources is reported to be the primary factor impacting the performance and survival of SMEs in South Africa.

According to the study performed by Preisendörfer et al. (2012), limited financial resources of black South Africans is an important barrier to their participation in

entrepreneurship. Most aspiring black entrepreneurs have no collateral which makes it more difficult to obtain funding from the formal financial sector.

Thus, the objective of this research was to investigate the factors that hinder access to finance for black SMEs operating in the agro-processing sector and explore other key challenges that influence their long-term survival.

Research objectives and questions

Small businesses play a critical role in the economic development of the country. Despite this, the failure rate of new small businesses in South Africa is very high. Access to funding is central to the survival of new SMEs in the country (Asah et al., 2020). The main objectives of this study were:

- To investigate factors that hinder access to finance for black-owned SMEs operating in the agro-processing sector, from a demand-side perspective; and
- To explore other key external factors that influence the long-term success of these SMEs.

The objectives of this research were achieved by answering the following questions:

- From a demand-side perspective, what are the factors that hinder access to finance by black-owned SMEs operating in the agro-processing sector?
- From a demand-side perspective, what other key external factors influence the long-term survival of black-owned SMEs operating in the agro-processing sector?

Significance of the study

Smith et al. (2018) note that SMEs are a mechanism to create new jobs. They are the “backbone of the economy”, contributing significantly to economic growth and creating most of the jobs. In South Africa, the National Development Plan (NDP) envisioned that SMEs will contribute between 60% and 80% to the GDP and create 90% of the 11 million new jobs by 2030 (Smith et al., 2018).

While the demand for start-up finance in South Africa is very high due to a relatively large number of people who wish to establish new businesses, access to start-up

capital and development finance is a significant challenge for new ventures (Mavirate, 2014). Despite several funding sources available for small businesses, financial access is a major constraint for many SMEs. It is inherently difficult for new small businesses in South Africa to access external finance due to several factors ranging from lack of assets to pledge as collateral, lack of knowledge and financial expertise, lack of financial records, and limited products available for SME and entrepreneurial financing (Fatoki, 2014).

Whilst several research studies have been conducted on SME and entrepreneurial finance, there is still a need to assess the case of SME finance within the agro-processing sector as a potential economic driver and its contribution to employment, particularly black SMEs, in the South African context. In addition, much of the research on small business finance has focused on the difficulties in the supply of SME finance, whereas access to finance on the demand side (i.e. SME owner perspective) has been given less attention.

This study contributes to the existing body of knowledge by providing insight into the factors hindering access to entrepreneurial finance for black-owned SMEs, from a demand-side perspective, to start or grow agro-processing businesses in South Africa. Research on improving access to formal institutional finance by SMEs can contribute to the success rate of small businesses which, in turn, boosts economic growth.

Delimitations of the study

This study focused on black SME entrepreneurs in the agro-processing sector, particularly those in the food and beverages category. Current SME owners' experiences and perceptions formed the findings of this study.

Due to the unique set of challenges faced by black entrepreneurs in the South African economic context, only black SME entrepreneurs operating in the agro-processing sector formed part of the study.

Assumptions

The following assumptions underpinned the research: (1) the economic success of black-owned SMEs in South Africa is critical for the future stability and sustainability of the country; and (2) availability of entrepreneurial finance for SME businesses is a key determinant of success or failure.

APPLICATION OF PRIOR RESEARCH

Introduction

This chapter comprises the literature reviewed pertaining to the variables in the study: small and medium enterprises (SMEs), entrepreneurship, SME and entrepreneurial finance as well as the agro-processing sector. The subject, SME and entrepreneurship in the South African economic context is discussed followed by the literature review on the existing major funding sources and key challenges faced by the SMEs and entrepreneurs, particularly black-owned businesses. The agro-processing sector is unpacked, and finally the research questions are formulated.

This research sought to investigate the factors that hinder access to funding for black-owned SMEs operating in the agro-processing sector in South Africa, and to explore other key factors that influence their long-term survival. The focus of the study was on the demand side of the SME finance. This study has the potential to assist policy-makers, funders and other interested stakeholders in understanding the key factors that affect access to finance from SME perspective, particularly black SMEs operating in the agro-processing sector.

Definition of concepts and terms

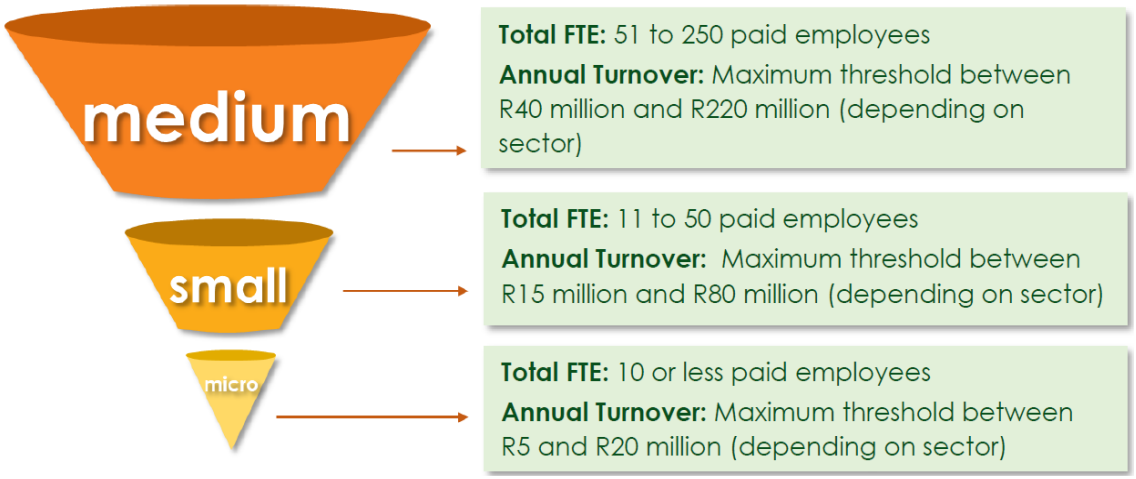
Small, medium and micro enterprises (SMEs):

The National Small Business Act of South Africa of 1996, as amended in 2003, describes an SME as *"a separate and distinct entity, together with its branches or subsidiaries, including cooperative enterprises, partnerships and close corporations managed by one owner or more, including its branches or subsidiaries, if any, and is predominantly carried out in any sector or sub-sector of the economy, and can be classified as an SME"*. SMEs are normally "privately-owned corporations, partnerships or sole proprietorships" (SEDA, 2020, p. 8).

The Act further categorises businesses into distinct groups, namely "survivalist, micro, very small, small and medium" resulting in the abbreviation "SMME" for "small, medium and micro-enterprises". The most common classification of SMEs uses the number of employees, annual turnover and gross assets (Sophocleous, 2019, p. 1).

The below graphic illustrates the classification of SMEs using the number of full-time employees (FTE) and annual turnover as per Act (Small Enterprise Development Agency (SEDA), 2020):

Figure 1: classification of SMEs as defined in the National Small Business Act.



Source: SEDA (2020)

Entrepreneurship:

Based on the various literature reviewed, there is no clear consensus on the definition of entrepreneurship. Numerous universally accepted definitions of entrepreneurship and related theories have been developed to explain the different aspects of entrepreneurship (Simpeh, 2011). The various definitions show the complexity of entrepreneurship as a subject of study.

Stevenson and Jarillo (1990) referred to entrepreneurship as the pursuit of opportunity regardless of resources under control. Entrepreneurship is seen as identifying and seizing an opportunity to start a business, taking risks and managing the available resources creatively (Gough and Langevang, 2016). According to Acs (2006) entrepreneurial activity involves the discovery, evaluation and exploitation of opportunities within the framework of an “individual-opportunity nexus”.
Sahasranamam and Sud (2016) explain that there is another variation of entrepreneurship which involves individuals who seek entrepreneurship due to a necessity to earn a living. This is especially the case in low-income countries with high entrepreneurship rates.

Overview of the SME landscape in South Africa

According to a study conducted by the Small Business Institute (SBI), 98.5% of South Africa's economy is made up of SMEs, yet they only deliver 28% of all jobs. The report further shows that 56% of jobs in South Africa are created by the 1,000 largest employers, including the government. As a result, the National Development Plan's goal of small businesses creating 90% of jobs by 2030 will not be realised unless there is appropriate focus on this vital segment of the economy (Smith et al., 2018).

SEDA (2020) report indicate that the number of SMEs grew by 2.5% year on year from 2.55 million in 2019 to 2,61 million in 2020. At the same time, employment in the SME sector declined by 4%. The report further notes that there are 2.6 million SMEs in South Africa, of which 755 265 (29%) are formal SMEs and 1,748,031 (71%) are informal SMEs. The report further indicates that the SME sector employed 10.4 million people in 2020 compared to 10.8 million people in 2019 representing a decline of 4%. The 10.4 million employed in the SME sector represents 61% of all jobs in South Africa.

Despite the considerable contribution of SMEs to economy and job creation in South Africa, the country has one of the lowest creation rates of successful SMEs. 70% to 80% of SMEs fail in the first year and only 50% of those that survive last for five years (OECD, 2020).

According to the SEDA (2020) report, the proportion of black and white owned SMEs was 83% and 17% respectively as at Quarter 1 of 2020. In terms of age, the majority of SMEs were owned by those in the 35 – 39 age group at 16%.

The state of entrepreneurship in South Africa

Globally, SMEs make up 99% of all businesses. In many countries, SMEs have been the main drivers of job creation, and often contribute to the identity and social cohesion of local communities. As the predominant form of business and employment, they play a key role in promoting inclusive and sustainable growth, economic resilience and social cohesion (Herrington & Bowmaker-Falconer, 2020).

The Global Entrepreneurship Monitor (GEM) measures entrepreneurial activity through “total early-stage entrepreneurial activity (TEA)”. According to GEM (2019), South Africa has persistently low TEA levels compared to other countries (Bosma & Kelley, 2019).

According to the GEM (2020) report, South Africa’s TEA is only 10.8%. Whilst this is an improvement compared to the 6.9% in 2016, the country’s TEA is below the average of 12.1% for Africa. Overall, South Africa’s entrepreneurial activity is ranked 25th out of 50 countries (Herrington & Bowmaker-Falconer, 2020). The GEM (2018) report indicates that South Africa should have a TEA rate in the region of 20%.

On the positive side, Herrington and Bowmaker-Falconer (2020) indicate that there has been an increase in the rate of established business ownership in South Africa from 2.2% in 2017 to 3.5% in 2019. This is the percentage of the adult population (aged between 18 and 64 years) who own or manage a business that have been in operation for more than 42 months. The authors, however, caution that this is still far below the African average.

According to Herrington and Bowmaker-Falconer (2020), only 11.9% of respondents have “entrepreneurial intentions”, i.e. “latent entrepreneurs intending to start a business within the next three years” (p. 8). In terms of race, the white population has seen the biggest increase in entrepreneurial activity between 2017 and 2019 (an increase of 2.6%) than the black population.

Major sources of entrepreneurial finance in South Africa

A business’s capital structure is a mix of equity and debt which are used to finance business operations. Equity funding can be raised internally or externally. Internal equity is the entrepreneur’s own funds or funds obtained family members and/or friends (Sophocleous, 2019). External equity refers to capital obtained from external sources (Fatoki, 2014). The primary sources of debt for SMEs are banks, trade credit, leasing, bootstrapping and government agencies. Abdulsaleh and Worthington (2013) observe that in the early stages of a business lifecycle, equity is preferred over debt financing. As the business grows and develops, a good credit history is established and the ability to provide collateral increases.

Despite the many sources of external funding, access to external equity continue to be a major constraint for new SMEs. SMEs face several barriers to access funding, which include resource constraints; lack of collateral; lack of financial expertise and knowledge; lack of financial records; limited products available for SME and entrepreneurial financing (Fatoki, 2014).

According to the SME survey conducted by OECD in South Africa, the single most likely source of funding is own capital as indicated by 57% of the respondents. The next most preferred source of funding was from business partners and family members (28% of respondents) (OECD, 2020). Most SMEs use own personal savings and funds obtained from family or friends in the start-up and early stage of business. According to the FinFind (2018) survey, 87% of new SMEs were self-funded, 8% by family, 2% through angel funding; 2% through bank loans; 1% through development finance institutions (Smith et al., 2018).

Banks and financial institutions

Turner et al. (2008) note that, in general, banks prefer borrowers with "good track records of performance, some degree of longevity, longer-term banking relationships, and assets that can be used as collateral" (p. 46). If these are not in place, the borrower may be deemed high risk with high probability of default. To mitigate the perceived higher risk, banks charge higher interest rates which is called pricing for the risk.

Njeru et al. (2017) explain that when evaluating business loan applications, the banks assess "character (willingness to repay); capacity (ability to repay); capital (wealth of borrower); collateral (security); and conditions (external and economic)" (p. 114). This is commonly referred to as 5C's of credit used by the banks to determine the creditworthiness of the borrower.

Sophocleous (2019) notes that when lending to SMEs, banks are confronted with top five challenges including lack of collateral, inadequate proof of income, high default rates amongst SMEs, and high administration costs. Smith et al. (2018) agreed that banks face obstacles when lending to SMEs due to high risk and high failure rates, lack of collateral, high transactional costs, limited or no business experience and poor financial literacy. At the same time, the authors are critical of the banks'

continued use of traditional credit scoring models. They argue that the existing lending models were developed for established medium/large businesses and therefore are “prejudicial” for many SMEs (Smith et al., 2018).

Venture Capital

According to the South African Venture Capital Association (SAVCA), venture capital (VC) is a type of equity financing that investors provide to businesses in the start-up and early growth phases, that they believe have long term, high growth potential. For start-ups without access to capital markets, venture capital is an essential source of funding. Risk is typically high for investors. The need for VC funding stems from the specific requirements of such businesses, and from the value-add role that experienced VC fund managers can play in structuring, supporting and nurturing those businesses (SAVCA, 2020).

Da Rin et al. (2013) explain that acquiring funds from VCs has many benefits. Venture capital does not require repayments on the funding provided. Also, VCs normally help SMEs with “strategic planning and decision-making” of the business. They may also enable access to new suppliers and customers. They also allow the SME “access to support structures and experts such as taxation, accounting, legal and technical experts” (Da Rin et al., 2013, p. 586)

Jones and Mlambo (2013) observe that VC provides the necessary financing that enables businesses to bring ideas to market and expand. At the early-stage, businesses are unlikely to have tangible assets or revenue track records making them unattractive for typical bank financing. In addition, VC funds add more value to investee companies by bringing their own expertise, networks of contacts, suppliers, financing expertise and key personnel (Jones & Mlambo, 2013).

According to the Southern African Venture Capital Association (SAVCA), the value of venture capital investments in 2020 was R1.39 billion compared to R372 million in 2015 (SAVCA, 2020).

Angel Investors

An angel investor can be described as “wealthy individuals or small investment groups of people that have vast business experience who invest in businesses by way of an equity” (Abdulsaleh & Worthington, 2013, p. 42). Mason and Harrison (2015) define business angels as “diverse group of high net worth individuals who invest part of their assets in high-risk / high-return entrepreneurial ventures” (p. 48). Often this are wealthy investors with appetite to invest in start-up SMEs with great potential for a stake in the business.

There is limited accurate information in the literature and in public domains about the angel investors available in South Africa as well as the value of investments made by business angels.
According to Fatoki (2014), VCs and angel investors are generally not available as a source of funding to SMEs in South Africa.

Crowdfunding

According to Collins (2014), crowdfunding provides funding for businesses through multiple individual investors at a smaller scale. Crowdfunding is increasingly becoming a popular source of funding for small businesses with limited or no access to other forms of finance. The author argues that, as a source of funding, crowdfunding can “circumvent many of the limitations of traditional funding models” (Collins, 2014, p. 20).

Crowdfunding entails collecting money using social networks on the Internet to invest in a new business. “Instead of raising the money from a very small group of investors, the idea of crowdfunding is to obtain it from a large audience where each individual will provide a very small amount” (Lambert & Schwienbacher, 2010, p. 1). Therefore, raising funds from the public (the crowd) is what defines crowdfunding.

In recent times, some start-up SMEs have used the Internet to seek business funding from the general public (the crowd). The concept of crowdfunding has made it possible to obtain funding capital for SMEs (Fatoki, 2014).

Bootstrapping:

Bootstrapping is used by new start-ups who find it difficult to obtain internal or external funding. New businesses with limited or no access to formal capital can creatively obtain funds through other means. It involves “finding creative ways to avoid the need for external finance through creativity, ingenuity, thriftiness and cost-cutting” (Winborg, 2008, p. 247).

Tomory (2010) defines bootstrapping as “highly creative ways of acquiring the use of resources without borrowing money or raising equity financing from traditional sources”. Schofield (2015) notes that bootstrapping allows SME owners to create new financial resources or stretch existing resources without using debt or external equity.

Government support initiatives for SMEs:

Lack of access to finance has been acknowledged by the South African government as one of the major issues constraining SME development. Consequently, the government is committed to addressing the “structural constraints” in the SME sector to ensure that the formal credit market is more accessible (OECD, 2020). The focus is on increasing financial and non-financial support for SMEs and reducing SME regulatory constraints (Sophocleous, 2019).

Ayandibu and Houghton (2017) argue that various government initiatives established to provide financial and non-financial support for SMEs have not been effective in achieving the desired results. Some of the major deficiencies prevalent in the government schemes providing support to SMEs include: “gaps between the SME needs and the type of support offered by the government; programmes do not develop entrepreneurial culture; tendency to focus on potentially viable businesses; tendency to serve larger and medium businesses more than smaller ones; cumbersome administration processes; and no after support” (Ayandibu & Houghton, 2017, p. 136).

There is a range of government agencies and development finance institutions that exist in South Africa to provide financial and non-financial support to SMEs according

to size and these include, amongst others, the following (Sophocleous, 2019; Serame, 2019):

Table 1: Government institutions and agencies providing support to SMEs:

Name	Purpose
National Youth Development Agency (NYDA)	Provides grants of up to R250 000 to young people between the ages of 18 and 35 years to start a new business or to grow existing business.
Small Business Development Agency (SEDA)	SEDA provides small business funding to help SMEs start up and grow. It offers loans, grants and relief options for various types of qualifying businesses. It also provides non-financial support to SMEs to help them operate more effectively and sustainably.
The Small Enterprise Finance Agency (SEFA)	Financial assistance to SMEs include bridging finance, revolving and term loans, working capital and asset financing up to a limit of R3 million.
Small Enterprise Manufacturing Support Programme	Aims to build a manufacturing sector for an improved industrial base targeted sectors include food and beverages manufacturing, furniture manufacturing, clothing and textiles, green/digital technology, metal and steel manufacturing, etc.
AgriBEE Fund	Aims to support black-owned agribusinesses and promote enterprise development through value-add and agro-processing infrastructure. Provides grants between R1 million and R5 million.
Agro-Processing Support Scheme	The scheme aims to stimulate investment by the agro-processing enterprises and provides 20%-30% cost-sharing grant capped at R20 million.
Micro Agricultural Financial Institutions of South Africa	Established to provide financial support to smallholder farmers and agribusinesses, providing capital loans up to R500 000 at 8% interest per annum.
Strategic Partnership Programme	Aims to encourage large private companies, in partnership with government, to support, nurture and develop SMEs within the partner's supply chain or sector to become manufacturers of goods and suppliers of services in a sustainable manner. Provides cost-sharing grants up to R15 million based on 50:50 cost-sharing support.
Black Economic Empowerment (BEE) Enterprise and Supplier Development	This refers to a form of funding made available by the private sector to earn points on their BEE scorecard for assist black-owned entities to develop as sustainable businesses that contribute to the economy of South Africa as an operating business.
Black Business Supplier Development Programme (BBSDP)	Provides cost-sharing grants to a maximum of R1 million to black-owned SMEs to help improve their competitiveness and sustainability.
Khula Enterprise Finance	Provides seed loans, credit guarantees, capacity building, and equity funding to SMEs.
The Gauteng Enterprise Propeller (GEP)	GEP provides financial and non-financial support to SMEs in Gauteng Province.
The National Empowerment Fund (NEF)	NEF offers financial and non-financial support for empowerment of black businesses.
Department of Trade and Industry (DTI)	There are a range of business grants and incentives offered by DTI to small businesses.

Factors hindering SME access to finance

In their study, Saah and Musvoto (2020) reveal that only 27% of start-up SMEs in South Africa expect to obtain formal institutional finance and/or receive financial support from several government departments and agencies. Inability to access external sources of capital means many SMEs depend on family, friends and other acquaintances for start-up funding which is not sufficient to grow and sustain their businesses.

Many studies show access to finance as one of the major challenges faced by SMEs. Accessibility to funding by SMEs is vital in the growth and success of the small businesses (Noreen & Junaid, 2015). Ayandibu and Houghton (2017) also identified inability to access funding as the main challenge faced by SMEs in South Africa. The lack of access to funding is the regarded as the main contributing factor to low creation and high failure rate of SMEs in South Africa.

There are several reasons that impact SMEs' ability to access formal finance, and these include: inadequate collateral, poor or lack of credit history, poor financial literacy, inadequate business plans and limited product market access. Lending to SMEs is considered high risk by the financial institutions. As a result, the banks need collateral to mitigate the risk of default (Smith et al., 2018).

Availability of collateral

Keown (2013) defines collateral as the assets ceded as security to obtain credit. It is also commonly referred to as "security" and is usually in the form of an asset (land or property), investment account, contract letter, investment policy and surety (which is worth the size of the credit). This is to provide comfort to the lender or credit provider in the event that the borrower is not able to repay the amount owing. In the event that the borrower defaults on the debt obligation, the lender has some recourse to realize the security and apply it to the outstanding amount (Keown, 2013).

In their research, Asah, Louw and Williams (2020) reveal that collateral is the most important requirement considered by the formal financial institutions when granting credit to SMEs. Formal lenders have resorted to holding collateral as a means to reduce the amount of risk in lending to SMEs. Holding collateral is a way of

protecting the lender's interest and the absence of collateral increases the credit risk, which formal lenders are not willing to take on. As a result, SMEs without collateral are denied credit (Asah et al., 2020).

Smith et al. (2018) argue that many SMEs have limited or no collateral to enable easy access to finance. Majority of SMEs do not own assets nor have the necessary support networks able to meet surety requirements by the banks. Sophocleous (2019) found that businesses with large proportions of tangible fixed assets to total assets often access funding more readily than businesses with low collateral assets. The author further notes that lack of adequate collateral is a substantial barrier to obtaining credit for many SMEs.

Fatoki (2014) agreed that lack of collateral is one of the most important reasons why funding is not available to new SMEs from formal lenders. Serame (2019) further agreed that collateral plays a critical role in easing SMEs' access to credit.

Credit history and financial records

Sophocleous (2019) explains that credit history is about repayment of current debt obligations on time and within the contractual payment period, conduct of existing cheque accounts, any dishonours, returned debit orders or stop payments, and exceeding of existing limits. This includes payment profile, debt structures, adverse information, loan defaults and total number of loans successfully paid back (Sophocleous, 2019).

The general belief by formal lenders is that if an applicant has paid their debt timeously in the past, the chances are that the applicant will pay the new debt in a similar manner. Therefore, lenders look at quantitative measures such as the past credit history by drawing credit bureau enquiries on the applicant and bank statements to obtain a view of how the applicant conducts their accounts (Minnis & Sutherland, 2017).

Sophocleous (2019) notes that personal credit history of SME owners is highly predictive of the loan repayment prospects of the business. However, the author argues that there are many people that do not have credit bureau scores. According to Berg et al. (2020), the requirements for historical financial and/or credit information

is a huge barrier for SMEs' access to credit. Serame (2019) agrees that the absence of financial transparency caused by the lack of formal bookkeeping records is as an added factor to SMEs' limitations in securing funding.

According to Sophocleous (2019), it is difficult for formal lenders to do a proper credit risk assessment due to the limited or unreliable financial information available for SMEs, and insufficient credit history, more so for start-ups. It can be particularly challenging to collect information about SMEs, more so for start-ups, due to unavailable or unreliable financial information and limited or no credit history.

High cost of borrowing

According to Berg et al. (2020), formal lenders generally prefer borrowers with good track records of profitability, some degree of longevity and assets that can be used as collateral. In the absence of these, SMEs may be considered as high risk which means greater uncertainty of repayment. To mitigate the perceived higher risk, lenders raise the interest rates charged to price for the risk. This then leads to high cost of credit due to the higher perceived risk of the SMEs and higher interest rates are charged.

Research conducted by Sophocleous (2019) found that high interest rates are barriers to accessing funding from formal financial institutions. High interest rates discourage small businesses from applying for credit. Msomi and Olarewaju (2021) argue that providing loans at concessional interest rates to small businesses improved their access to finance, thereby boosting their efficiency.

Serame (2019) notes that due to the high costs that banks carry in servicing SMEs, banks tend to price too high to cover the costs of servicing SMEs, and that, coupled with the high default rates amongst SMEs, further exacerbates the challenge. The author further explains that high transaction costs have been a challenge to both SMEs and lenders. The costs associated with assessing the SMEs' creditworthiness are extremely high, mainly because the banks apply the same treatment to SMEs as they do to large businesses. The author argues that the use of traditional lending methods is a hindrance to SMEs securing funding. Lenders need to find innovative ways of assessing risk on SMEs and not rely on traditional credit assessment

methods. SME lending methods need to be adjusted and customised to the unique characteristics of SMEs.

Other external factors influencing SMEs' long-term success

In addition to inadequate access to funding, Sophocleous (2019) mentions other key reasons that contribute to the failure of SMEs in South Africa which include inadequate knowledge, skills and experience; many "necessity-driven" entrepreneurs; robust tax, administrative and legislative requirements; poor market access; and limited logistical infrastructure.

Furthermore, Rungani and Potgieter (2018) observe that many small businesses and entrepreneurs have limited or no access to support networks that can provide guidance and awareness about opportunities such as funding avenues, market opportunities, mentorship and sources of information. The authors further indicate that inadequate guidance in the form of business mentors is a challenge for many SMEs.

Access to market:

Rogerson (2013) argue that there are "three key dimensions of market access" that need to be addressed in South Africa. The first issue is "sectoral disadvantage" due to over-concentration of many SMEs in business activities and economic sectors with low growth potential, especially in urban areas. For instance, there is saturation in retail sector and therefore returns are limited. As a result, majority of SMEs operate at "meagre survival levels".

The second issue is the location of SME businesses. Many SMEs providing goods and services face limited market access opportunities because of their geographical location. Market access limitations imposed by a business location is a "spatial disadvantage" resulting in many SME entrepreneurs from peripheral locations, thus constraining their product market access (Rogerson, 2013).

The third issue relates to the competitiveness of SMEs that supply goods and services. This should also be addressed to enable black-owned SMEs to enter and

participate in supply chains both in private and public sectors. SMEs should be able to participate in global supply chains and not only in local (Rogerson, 2013).

Shelton and Minniti (2018) assert that access to product market is one of the major "building blocks" necessary to launch a small business. Consequently, limited access is a key barrier to the growth and survival of SMEs. The authors explain that "product market access consists of the opportunity to buy and sell goods and services with customers and suppliers" (p. 489). SMEs with wider access to product markets have a broad range of opportunities to consider. Those with constrained access face a more reduced range of options (Shelton & Minniti, 2018).

Knowledge, skills and experience:

Many emerging entrepreneurs are under-skilled and lack business experience, with the result that they cannot gain access to capital. Sophocleous (2019) argues that a competent entrepreneur with viable business is bound to fail if they lack an "appreciation of business fundamentals" (p. 41). Hove and Tarisai (2013) further explain that for business to grow and thrive, it requires sound business operations to achieve "maximum level of outputs in the most cost-effective manner" (p. 62). Therefore, performing operations haphazardly and in an ad-hoc fashion may lead to the downfall of SME business (Hove & Tarisai, 2013).

According to Smith et al. (2018), many SMEs lack funding knowledge. They lack information about potential funders, different types of funding available or type of funding suitable to their needs and the qualifying criteria. The authors are critical of the SME eco-system in South Africa in terms of raising the skill levels of start-up SME businesses and equipping them to build successful businesses: i.e. businesses that are "better managed; have viable business models; maintain up-to-date financial records; understand how to manage their cashflow; can articulate their funding need; can prepare a business plan and develop the trading history and track record necessary to secure funding" (Smith et al., 2018, p. 4).

Business support networks:

According to SEDA (2020) report, many SME entrepreneurs face difficulties with regards to both institutional and social support. Lack of awareness and limited

access to entrepreneurial support are some of key factors inhibiting SME development and growth (SEDA, 2020). Lack of proper business mentors and advisors is a reality faced by the majority of SME entrepreneurs (Rungani & Potgieter, 2018).

In addition, the SEDA (2020) report indicate that small business owners and entrepreneurs, particularly those in disadvantaged communities, do not have business role models to look up to or business networks that can advise and motivate them. According to Herrington, et al. (2016), SMEs find it difficult to create and maintain business networks due to lack of experience and awareness.

Enabling environment (policy and regulatory framework):

Acs (2006) observe that for potential entrepreneurs, the decision whether to start a business is influenced by variety of conditions within the existing business environment including a country's capacity to encourage start-ups, combined with the skills and motivations of those who wish to go into business.

According to GEM (2017) report, SMEs have indicated "restrictive regulations, policy instability and inefficient government bureaucracy (red tape) as aspects that pose challenges to business start-up and business growth. SMEs feel that the current regulatory environment is better suited to large private companies" (p. 6).

Small Business Institute (2019) in South Africa further highlights that there are divergent and siloed approaches at play across government in terms of identifying and supporting SMEs. There is no policy or regulatory coordination, no harmonisation across laws and no coordination across government to understand the impact of its interventions.

Theoretical Framework: the pecking order theory

The pecking order theory explains the capital structures and financing decisions of businesses (Serrasqueiro & Caetano, 2015). The theory is considered in the context of how SMEs make decisions in relation to funding sources. The pecking order theory, as suggested by Myers (1984), argues that businesses prefer to use internal finance first before seeking external finance (Fatoki, 2014). If the internal funding is

insufficient, then debt financing is preferred over equity financing when using external sources of funding. Debt financing involves borrowing money, whereas equity financing involves selling a stake in the business. Under the pecking order theory, equity is the last option for funding (Mole & Namusonge, 2016).

Because access to finance, debt or equity, is a major challenge faced by the majority of SMEs, it is important to evaluate the factors that hinder access to funding for SMEs. Access to funding is the most significant aspect of very business. For this reason, the pecking order theory underpins this study.

Serrasqueiro and Caetano (2015) indicate that the pecking order theory is a useful tool to analyse the financing behaviour of businesses along the lifecycle. The theory explains that mature businesses have a greater capacity to accumulate retained profits, and therefore the need to resort to external sources of finance to fund their operations will be less compared to start-up and early-stage SMEs. The likelihood of more mature businesses to retain earnings over time is considerable, so the need for external debt is older businesses. Retained earnings tend to grow with the age of the business, which diminishes the recourse to debt (Serrasqueiro & Caetano, 2015).

According to the authors, the pecking order theory dictates that businesses with high growth opportunities must undertake major investment projects to generate greater need for finance. When internal finance is exhausted, businesses should obtain debt financing over equity financing to fund growth opportunities. Businesses with good growth opportunities increase debt when internal funds are insufficient (Serrasqueiro & Caetano, 2015).

Agri-processing sector in South Africa

Definition:

Food and Agriculture Organisation of the United Nations (FAO) defines agro-processing as a subset of manufacturing that processes raw materials and intermediate products derived from agriculture, forestry and fisheries. It encompasses both food and non-food products, including leather, textiles, and paper and pulp (FAO, 1997). According to the United Nations International Standard Industrial

Classification System (ISIC, 2013) agro-processing is comprised of the following components: food and beverages; tobacco products; paper and wood products; textiles, footwear and apparel; leather products; rubber products; and furniture. It involves the “transformation of products that originate from the agriculture, forestry and fisheries sectors” (Van Lin et al, 2018, p.8).

Agro-processing in South Africa is comprised of upstream and downstream industries. Upstream industries refer to the initial processing of agricultural commodities and downstream industries are involved in more complex processing of intermediate products made from agricultural materials (Shafi et al, 2022).

Overview of the sector:

According (Shafi et al, 2022), the agro-processing sector has the potential to substantially contribute to economic growth, job creation, transformation, and infrastructure development, all of which are consistent with the government’s objectives of inclusive growth.

In addition, the Industrial Policy Action Plan (IPAP) identifies the agro-processing industry as a sector with potential to spur growth and create jobs, because of its strong linkage with the primary agricultural sector. Agro-processing has a “high propensity to create rural jobs and encourage rural economies through targeted investment and development” (Van Lin et al, 2018, p. 21).

According to van Lin et al. (2018), the South African agro-processing industry is highly concentrated and dominated by a few large companies. It is estimated that the 10 largest companies control 70% of the market share. Locally, big food processing companies own multiple brands and are “backward integrated into the value chain”. This enables them control production, branding/packaging and distribution. As a result, the big players exert market power to the smaller producers and suppliers as well as new entrants (van Lin et al., 2018, p. 22).

The authors further observe that big foreign companies own production facilities or outsource to big local producers. Therefore, agro-processing SMEs who want to enter the industry face market access constraints (van Lin et al., 2018).

Agro-processing sector contributes a significant component of total manufacturing value added as well as employment. In 2014, agro-processing industry contributed R78 billion to grow domestic product (GDP) and employed 362,000 people (McKinsey, 2015). This is an indication that the processing of agricultural products can offer a new base for economic growth amid the fall in mineral commodity prices and can also promote inclusive industrialisation (ITAC, 2016). Manufacturing (including agro-processing) has the potential to drive economic growth through the potential for higher productivity, scale economies and linkages (Thirlwall, 2015).

Conclusion of the literature review

While SMEs are considered drivers of economic growth and job creation, the external factors continue to hinder accessibility to funding and threaten their long-term survival. Black-owned SMEs in South Africa are severely impacted by funding and product market access issues coupled with unconducive business operating environment. These issues inhibit SME development and growth potential.

The literature highlights that collateral requirements, high interest rates, inadequate credit history and financial records are barriers to accessing credit for small businesses in South Africa. It also highlights that this position is not improving, coupled with the finding that most of the funding to establish a business is obtained from own savings or from family and friends. It also highlights that access to credit for small businesses remains a challenge.

Other key factors such as access to information and awareness about available funding sources as well as access to market opportunities significantly influence the long-term success of black-owned SMEs.

DATA COLLECTION AND ANALYSIS

The literature review discussed indicates that a qualitative approach was the most suited methodology to conduct this research. There is no strong analytical premise to evaluate the funding and other challenges faced by black SMEs and entrepreneurs within the agro-processing sector, therefore a quantitative approach was not favourable.

This chapter considers various research methods and outlines the ones best suited for this research topic.

Research approach

Qualitative research strategy was applied for this study. This was done through interviews and interactions with black SME owners and entrepreneurs in the agro-processing sector to gain an understanding from their own perspective.

According to Cooper and Schindler (2011), the qualitative method helps the researcher to obtain in depth understanding of the situation. It is ideal for understanding social realities as it “involves feelings, emotions, motivations, perceptions, self-described behaviour and the interactions between the social actors involved” (p. 125). This approach enabled the researcher to elicit perceptions, views and opinions from the participants (Cooper & Schindler, 2011).

Qualitative research method helps explore the richness and nuances of the detail gathered during the study. Because it is based on interpretation as opposed to measurements, it brings sensitivity to the investigation (Silverman, 2013). As a result, this research applied a qualitative method with a view to understand how respondents “interpret their experiences, how they construct their worlds and what meaning they attribute to their experiences” (Merriam, 2009).

Since there is an emphasis on the entrepreneurs’ experiences and understanding, this defines a qualitative study. Also, the essential variables to examine were not known because the research was exploratory in nature, and this further reinforced the appropriateness of the qualitative approach.

The benefit of the qualitative approach was that an in-depth knowledge of the SME entrepreneurs' experiences and perspectives was obtained which achieved the research purpose.

Research design

Yang and Miller (2008) defines research design is a framework that is created to seek answers to the research questions which results in revealing particular understanding on the matters being researched. It is the blueprint of the study and defines the study type and sub-type, research questions, independent and dependent variables, experimental design and if applicable, data collection methods and statistical analysis plan. It creates a plan for how data will be "measured, collected, and analysed". In terms of research design, the objective is to validate the evidence collected and confirm if it reasonably addresses the research objectives (Yang & Miller, 2008).

Bryman (2012) mentions five generic research designs which are cross-sectional, longitudinal, case study, comparative and experimental. Even though generic research designs have been described above, qualitative research has research designs that are unique to it. These research designs are case studies, grounded theory, ethnography, content analysis and phenomenology (Williams, 2007).

Qualitative research was deemed appropriate on the basis that the study seeks to assess entrepreneurial financing challenges from an SME owner's perspective. This approach aimed to provide a more concrete and vivid experience of the targeted SME owners and entrepreneurs as we explored the issues they faced in accessing finance. The advantage of the qualitative approach for this study was that the researcher was be able to get a deeper understanding of the SME entrepreneurial finance and related challenges.

Population and sample

Population

Blair and Blair (2015) indicate that the first step in defining a research population is to define the units (households, behaviours, institutions, etc). The research topic and

objective define the nature and type of population. For this study, the target population was defined as black-owned SME entrepreneurs operating in the agro-processing sector regardless of age, gender or level of education.

Sampling

Newbold et al. (2013) defines a sample as a practical portion or subset of a population with the size of the sample given as ‘n’. Sampling involves ensuring that the questionnaire is administered to the targeted population (Slavec & Drnovsek, 2012).

Purposeful sampling is a commonly used sampling method (Palinkas et al., 2015). Purposeful sampling is applied in qualitative studies where respondents are identified and selected based on their experience in the situation being tested, their accessibility, availability and eagerness to take part in the research (Palinkas et al., 2015).

For this study, purposive sampling was used to identify and select the respondents because SMEs entrepreneurs of a specific race and operating in a specific sector were targeted. They must be black SME entrepreneurs and they must be operating in the agro-processing sector.

According to Vasileiou et al. (2018), the samples in qualitative research tend to be small in size to collaborate the depth of case-oriented analysis which is fundamental to qualitative research. There is no consensus among qualitative research experts regarding what sample size is appropriate as “it is contingent on various factors relating to epistemological, methodological and practical issues” (Vasileiou et al., 2018, p. 7). According to Saunders et al (2016), the minimum sample for semi-structured interviews is five, and for in-depth interviews, the recommended sample size is ten. The aim was to exceed the minimum sample size of 10 by interviewing 15 SME entrepreneurs to yield fruitful and applicable findings, however only seven were obtained as most of the SME entrepreneurs who were conducted did not respond to emails or return telephone calls. The sample size of this research, therefore, consisted of seven black SME entrepreneurs who were operating in the agro-processing sector.

Research instrument

According to Trigueros (2017), the commonly used instruments in research are observation, survey and the interview. The observation and interview instruments are those that are used in qualitative research (Trigueros, 2017).

An interview schedule was used as a primary instrument to gather information for this research because an extensive understanding of the views and experiences of black SME entrepreneurs on funding constraints they face was discovered. The main aim of the interview was to understand the funding constraints and related challenges faced by the black SMEs and measure the likelihood of success against principles identified from the literature review.

The interview instruments can be subdivided into structured, semi-structured or unstructured, in-depth, clinical, history stories and life stories (Trigueros, 2017). Semi structured interviews have “characteristics of both structured and unstructured interviews” (p. 2). They consist of questions that helps direct the interviewer to the aspects to be explored and allow for elaboration. For this research, semi-structured interviews were used because greater flexibility was provided in achieving the research purpose, i.e. identifying factors influencing access to finance for black-owned SMEs and exploring related challenges that influence their own long-term success.

The advantage of the interview schedule is that any ambiguity regarding the questions or answers is clarified whilst the questionnaire is being completed (Bryman, 2012). In addition, there are no delays in sending back the questionnaire as it is completed and collected by the researcher after the interview. The disadvantage is that respondents may feel that there is no confidentiality with the interview schedule. This may result in them not disclosing any sensitive or confidential data.

A pre-designed questionnaire with open-ended questions was used as a guide to allow for flexibility and more insight into the respondents’ views (Bryman, 2012). The interview instrument with the guiding questions was developed based on the literature review.

Data collection

The questionnaire for the semi-structured interview was used for data collection. The interviews were a combination of face-to-face and virtual interviews with the targeted SME entrepreneurs, with the objective of gaining a deeper understanding around the nuances of entrepreneurs' experiences as well as formulate guidance on how to deal with such situations. Virtual interviews were used for participants who could not attend face-to-face interviews.

Data analysis and interpretation

The main objective of data analysis is to unpack the factors hindering access to finance for black SME entrepreneurs based on the literature review. Thematic analysis was employed based on the responses received to identify key themes and assess whether they are related to the critical success factors developed from the literature (Bryman, 2012). Where new themes were discovered, these contributed to the literature related to the subject matter under review. The interviews were recorded, and trends and themes were identified from these recordings. The following criteria adopted from Merriam (2009) and Bryman (2012) were applied as a guideline for identifying trends and themes in the responses:

- Repetition: This applies to the same discussion being discussed continuously.
- Similarities and differences: Distinct features in how questions were answered were noted.

Watling and James (2012) explain that data analysis for qualitative studies entails six steps. The first step is to define and identify data. The researcher needs to have "clarity on the data required to meet the research objectives" (p. 155). Once the data required to conduct the study has been amplified, the process to gather the data collection commences. For this qualitative research, the data was collected using a recording device and supported by written notes.

The next step in the data analysis process is "data reduction". The data that is considered irrelevant to the study is identified and reduced to saturation. Then follows the process to identify keywords, similarities and themes from the interview results. Once trends and themes have been identified, the data is "coded and

clustered into themes and theory is built on the outcomes and is tested" (p. 220). In building the theory, analysis of the participants' responses is performed to ensure that they match or to identify any deviations (Watling & James, 2012).

In qualitative research, the practice that is central is a transcription. Davidson (2009) defines transcription is the process that translates or transforms sound or image from recording to text. For this study, it took an average of two to three hours to transcribe one interview recording. The procedure for transcribing followed "an iterative process that involved listening to the recordings again and revisiting personal notes" (Sekeleni, 2014).

Limitations of the study

In this study, the limitation was the small sample size of participants interviewed. The intended target was to interview at least 15 SMEs. However, many of the SMEs conducted did not respond to emails or return telephone calls. Of those that responded, only seven (7) were successfully interviewed as some of the SMEs did not avail themselves for the set interviews. The lack of a reliable SME database in South Africa with valid contact information contributed to this limitation.

Validity and reliability

Qualitative studies aim to provide a vertical analysis of the respondents' viewpoints however this can be compromised by inaccurate reporting (Bryman, 2012). To ensure that the findings are reliable and consistent, the same questionnaire was used for all the respondents. The respondents gave an original account of their own experiences and understanding, as guided by the interview questionnaire.

Hammarberg et al. (2015) cited "trustworthiness, credibility, applicability, and consistency to prove reliability and validity of qualitative results. To prove trustworthiness, the steps taken to collect data have been clearly outlined, and it is easy for an independent reviewer to follow and justify the methods used" (p. 499).

Qualitative results are deemed credible if the participants' experiences are relatable to others who may share similar experiences (Hammarberg et al., 2015). To test for credibility, the results from the interviews were compared to the literature review. To

give credibility to the results of this study, verbatim quotation marks were used, where applicable.

Hammarberg et al. (2015) further highlighted “applicability as a test for the validity of qualitative results. Applicability criterion is met when a study can be related outside the situation in which it was conducted. A test for consistency in testing the reliability of the results is suggested” (p. 500). To test applicability, the results from the interviews in this research were compared to the insights from the literature review.

Research ethics

Ethical principles were followed in the process of collecting and analysing the data. Research participants received a clear statement of the research objective and the impact of their participation. Participants were also made to confirm voluntary participation before completing the questionnaire and anonymity was be guaranteed.

The research was not conducted on underage children (i.e. below the age of 18). Research participants were not coerced into taking part in the interviews and were given the option to withdraw from participating whenever they wished to do so.

The interviews were restricted to the target sample and people who did not meet the sample criteria were allowed to participate.

The researcher was ethically cleared by the University’s Ethics Committee to gather data for the purpose of this research.

PRESENTATION OF RESEARCH FINDINGS

This section provides the findings of the data collected during the interviews and answers to the research questions. Furthermore, this section is structured according to the themes emanating from the interview results. The description of the findings was underpinned by the direct quotes from the participants as corroborating evidence.

Introduction

As highlighted in the literature review, accessibility to funding enables meaningful contribution of SMEs to economic growth, job creation and poverty alleviation. The literature review identified access to finance as the main challenge faced by SMEs in South Africa. The lack of access to funding is considered the main contributor to low creation and high failure rate of SMEs in South Africa. The objectives of this study were to investigate factors that hinder access to finance for SMEs operating in the agro-processing sector, from a demand-side perspective, and to explore other key external factors influencing their long-term success. In this chapter, the findings from the qualitative study are presented. The findings are based on qualitative data obtained through interviews conducted with black-owned SMEs in the agro-processing sector, mainly those processing food and beverages.

In total, seven (7) black-owned SMEs participated in the research interviews either in person or virtual means such as Zoom and Microsoft Teams. The intended target was to interview at least 15 black-owned SMEs using a semi-structured interview questionnaire. SMEs were identified and selected using internet searches and then conducted telephonically and/or by sending emails to request interviews. Many of the SMEs conducted did not respond to emails or return telephone calls. Of those that responded, only seven (7) were successfully interviewed as some of the SMEs did not avail themselves for the set interviews. The sample size of this research, therefore, consisted of seven (7) black-owned SMEs who operated businesses in the agro-processing sector, mainly those processing food and beverages.

The biographical information shown in Table 2 includes the business owner's ethnicity, gender and highest qualification, age and type of business, number of employees as well as amount and source of start-up capital.

Table 2: SME biographical information

SME Code Name	Owner Ethnicity & Gender	Owner Highest Qualification	Age of business	Type of business	Number of employees	Start-up capital amount	Source of start-up capital
SME1	African, Male	Diploma	3 years	Manufacturing of alcoholic spirits	4	R51,000	Family/ friends
SME2	African, Female	Degree	5 years	Pastry products	8	R500,000	Own capital
SME3	African, Female	Degree	5 years	Artisanal dairy-free ice cream	4	R10,000	Family/ friends
SME4	African, Female	Diploma	4 years	Winemaking	5	R200,000	Own capital
SME5	African, Female	Degree	6 years	Indigenous African foods	5	R450, 000	Family/ friends
SME6	Coloured, Female	Matric	5 years	Juice manufacturing	20	Cannot Remember	Bootstrapping / own capital
SME7	African, Male	Matric	8 years	Farming livestock and vegetables, and packaging	6	Cannot Remember	Own capital / family

The findings, aligned with addressing the research objectives, are presented in the following sections.

Results pertaining to research question 1

Research question 1: *From a demand-side perspective, what are the factors that hinder access to finance for black-owned SMEs operating in the agro-processing sector.*

A total of seven SME owner participants were interviewed for the study. Of the seven interviewed, six (6) or 85% were African and one (1) or 15% was Coloured as depicted in *Figure 2*. In terms of gender, four (4) or 57% were male and three (3) or 47% were female as shown in *Figure 3*.

Figure 2: Ethnic status of SME owner participants

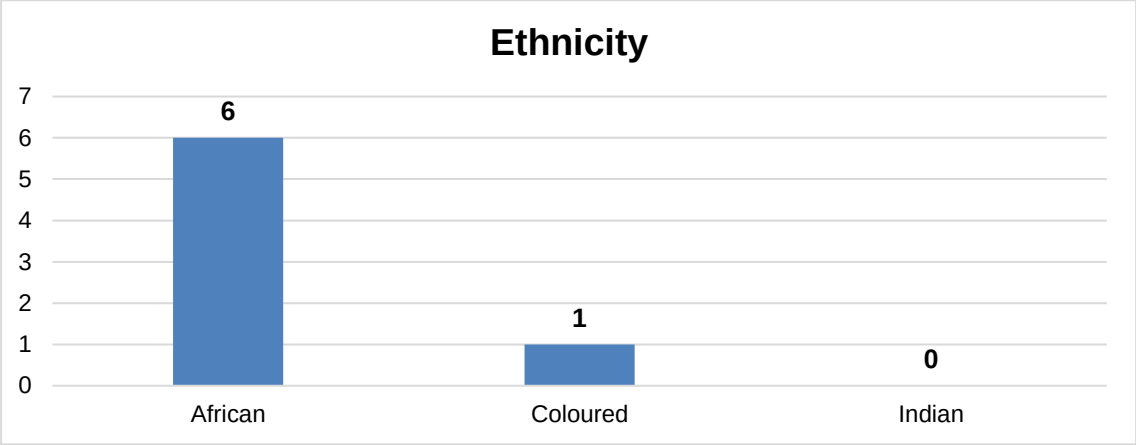
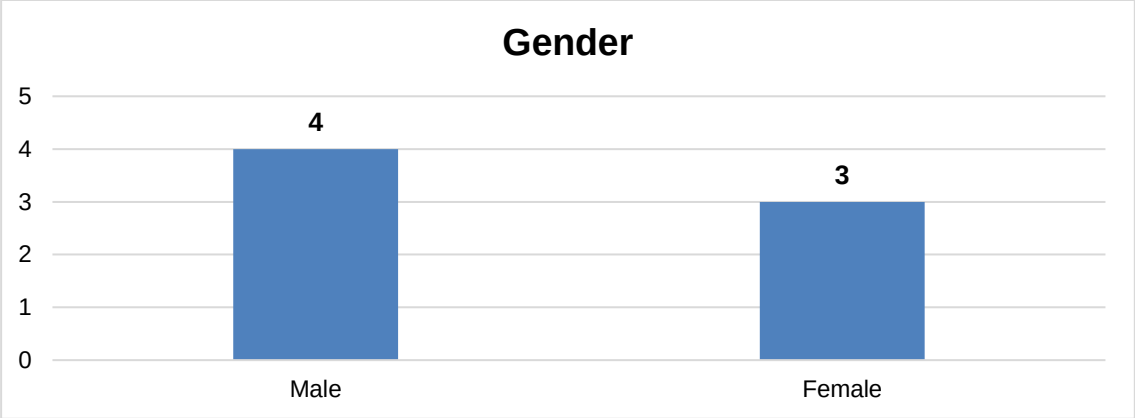
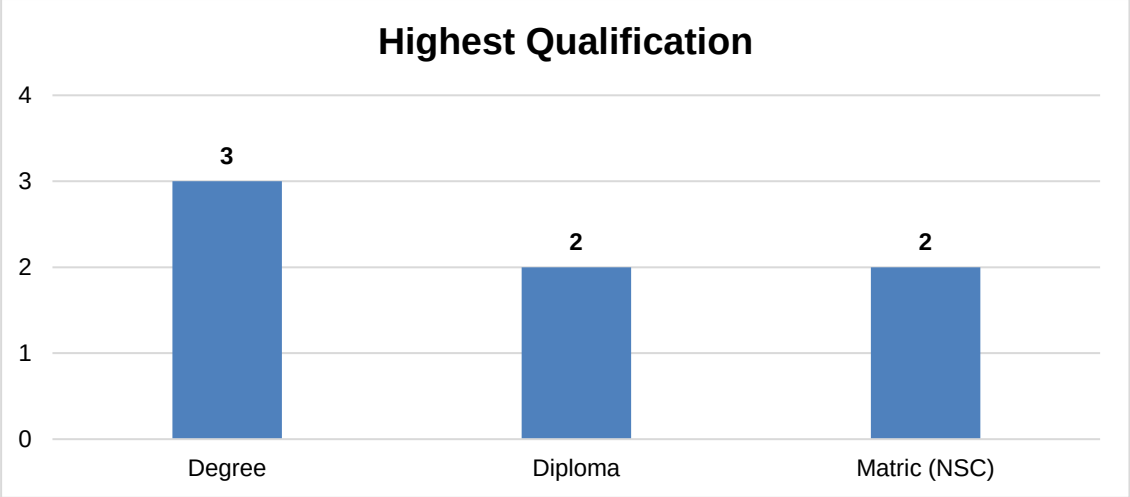


Figure 3: Gender status of SME owner participants



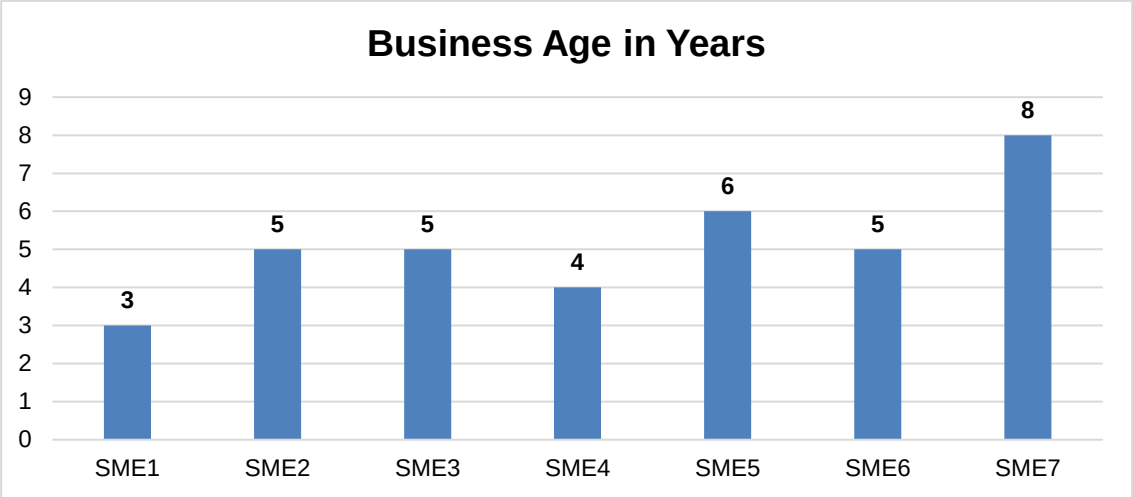
In terms of the highest qualification, three (3) of the SME owner participants had a degree, two (2) had a diploma and another two (2) had a national senior certificate (matric / grade 12) as the highest qualification as shown in *Figure 4*.

Figure 4: Highest Qualification



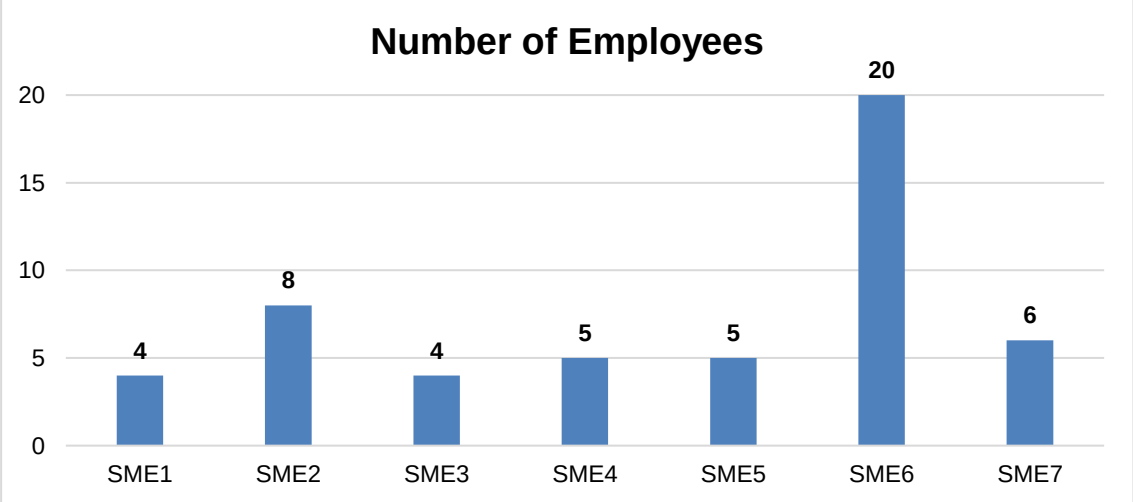
The average age of the seven SME businesses surveyed is 4.5 years with the youngest being 3 years and the oldest being 8 years. *Figures 5* depicts the age of the SME businesses.

Figure 5: Business age in years



All seven SME businesses surveyed were operating in food and beverages sector of the agro-processing industry. On average, these businesses employed seven employees each with some employees employed on a part-time basis. *Figure 6* illustrates the number of employees per SME.

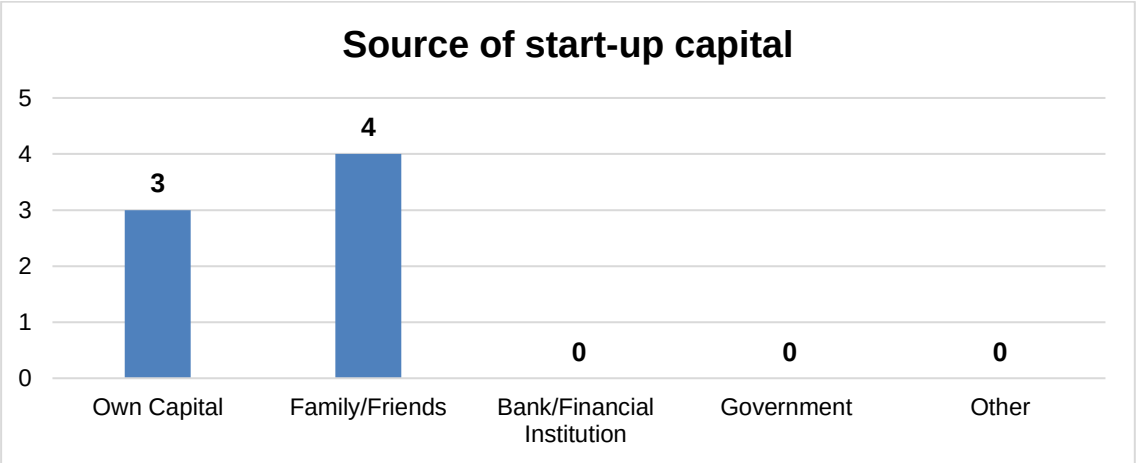
Figure 6: Number of employees



In terms of start-up capital, all seven SME businesses had either raised their start-up capital from their own savings or from family and friends. As depicted in *Figure 7*,

none of the SME participants had approached a financial institution or government agency for funding when the business was established.

Figure 7: Source of start-up capital



In the course of growing the business, only two of the seven participants interviewed had applied for finance at formal financial institution and their respective applications were successful. Two were in the process of applying for funding from two different government sponsored agencies with the applications already submitted, namely SEDA and NYDA respectively. Although another SME had received business grants from a few institutions, these were small amounts and did not have to be repaid. All seven SME entrepreneurs but one indicated that they had plans to apply for formal funding in the near future from a financial institution and/or government agency. Two had already initiated the process and submitted application forms accompanied by the required information and documentation.

As explained above, none of the participants had applied for funding during start-up and early stage of their businesses. Only two had applied for funding during the growth phase of their businesses. Majority of the participants indicated that they use their own personal funds and profits from the business to run and grow their businesses. The participants cited the following reasons for not approaching the financial institutions, banks in particular, and/or government agencies for funding.

Table 2: Reasons for not applying for formal institutional finance

Reason	SME1	SME2	SME3	SME4	SME5	SME6	SME7
Own capital or obtained from family / friends	●	●	●	●	●	●	●
The process is too long and complex	●	●	●		●	●	
High interest rates and unfavourable repayment terms	●			●	●		
Financing solutions not fit for purpose	●				●		
Favouritism in government agencies	●		●				●

Long, complex process

When asked about the reasons for not applying for formal institutional finance, five (5) of the seven (7) participants interviewed perceived the process to be too long and unnecessarily complex for the size of their businesses. They felt this was a hindrance in applying for a loan and they find it easier to borrow from family and friends.

One of the participants (SME3) noted, *My experience so far is that it is a long tedious process and if you do not know anyone in the institution, you are bound to wait forever. This is a problem if you want to get your business going now, so it is not the best way to go about raising funding for your business because it takes too long and it is complex.*

Another participant stated (SME2), *"I wanted to apply for DTI funding but their processes are so lengthy and time is of essence as I wanted to the get business off the ground now.* The participant added, *"I have also applied for funding from SEDA three months ago and the process is taking forever and busy following up with them".*

High interest rates and unfavourable repayment terms

In addition to long, complex process being a hindrance for applying for formal institutional finance, three (3) of the seven participants mentioned high interest rates and unfavourable loan repayment terms as a discouraging factor.

One participant (SME1) stated *"The pressure of paying back the loan is immense. Instead of the owner focusing on running the business, I must also stress about repaying the loan and constantly monitor business cashflow.. Loans can be detrimental to a small business unless the business is in production and have off-takers that buy the product for a year or two allowing the business to produce and sell enough to meet its obligations."*

Another participant (SME5) added, *"I find the loan repayment turnaround times offered by banks unfavourable for a small business, especially when the business needs capital for growth and not to fund purchase orders. I am in the process of trying out government funding through agencies such as SEFA and NEF as I am in desperate need of capital to grow my business and I really hope that their repayment terms will be more favourable than banks and other similar financial institutions."*

Another participant (SME4) noted, *"I have previously applied for a small business loan at VodaLend Financial Services and although my application was successful, the interest rates were extremely high for a small business and if I had any other choice, I would not have taken it. Recently I needed funding for my business but applied for a loan at Old Mutual in my personal capacity to avoid paying high interest rates, and the funds were invested in my business."*

Financing solutions not fit for purpose

Two participants further cited the fact that the funding solutions offered by most financial institutions and government agencies are not structured to suit SMEs and their specific conditions and circumstances.

One participant (SME1) observed "*The current funding model applied by the banks and government agencies such as SEFA, NYDA and others is flawed and not forward thinking. The funding solutions are not tailored for small businesses and the application process is too long and unnecessarily complex for a small business."*

Another participant added (SME5), *"I have just started to apply for funding at a bank and I find the process quite frustrating as they also request personal information that has little to do with my business and it is as if I am borrowing in my personal capacity.*

It looks like these institutions do not have loans that are specifically made for small businesses such as mine.

Favouritism in government agencies

What was also highlighted from the results is the perception about favouritism that exists in some of the government agencies that are meant to provide financial support to small businesses. Three of the seven participants observed that it is difficult to obtain government funding without knowing someone in the relevant government agencies.

One participant (SME1) noted, "*Those who know people or have access to people inside the government institutions are the ones who get to know about opportunities or support available and get favours. For example, it is well known amongst many small businesses that the DTI grant system is riddled with corruption and only favours those who are known to people inside the DTI."* Another participant (SME3) added, *"I am currently in the process of applying for government funding through NYDA and my experience so far is that it is a long, tedious process and if you do not know anyone in the institution, you are bound to wait forever.*

Two of the participants (SME1 and SME4) interviewed were in the business of producing alcoholic spirits and winemaking respectively, and for them the issue of favouritism is exacerbated by the fact that, as a policy, the government does not make funding available for businesses that produce or sell alcohol.

One participant (SME1) noted, *"Unfortunately government does not fund alcohol and cigarette businesses. As a result, the opportunities for funding in government institutions are very limited, especially for alcohol businesses.*

Another participant (SME4) confirmed, *"I run a winemaking business and therefore do not qualify for government funding as alcohol producers do not qualify for government grants. However, my plan is to apply for funding from government using my wine tasting room which qualifies as a tourism business instead of using the name of my winemaking business which is a liquor business and therefore does not qualify.*

Another participant (SME7) stated, *"I have made several attempts to apply for funding at government agencies and received no response or feedback.."*

Lack of funding is a hindrance for SME growth

Some of the participants explained that the inability to raise sufficient funding to grow their businesses has an adverse impact on the SMEs' future growth prospects and this means that their businesses are highly unlikely to break out of the SME bracket to become large businesses and compete at the global stage. They further observed that they have plans to tap into the export market as they believe their products can compete globally but cited lack of capital funding as the main barrier.

One participated (SME5) stated, *"Unfortunately for most SMEs, lack of funding means their businesses cannot scale fast enough and therefore end up throwing in the towel. I believe if I had sufficient capital resources to hire great sales and marketing teams and set up my own production and distribution facilities, my business would have been far more successful than it is today."*

Another participant (SME4) further explained, *"Due to lack of expansionary capital, it is extremely difficult to acquire equipment, machinery and infrastructure to build my own production facilities and therefore end up having to outsource production and rely on contract manufacturing which comes at a high cost to the business, which in turn affects pricing for my product and limits competitiveness from pricing perspective. This scenario is a reality and puts a lot of aspiring SMEs out of business because they simply cannot compete with the bigger players. The playing field is certainly not level."*

As a result of the above, securing shelve space at major retailers becomes a big challenge for small businesses due to an already highly priced product. This means that the retailers have little or no room to manoeuvre in adding their mark-up to the price that has already been inflated by the costs associated with outsourced manufacturing component.

The participant (SME4) added *"This is the main reason why the big retailers are reluctant to sell products from SMEs because they are already highly priced and*

therefore there is little room to move to ensure the product is well priced and will sell when factoring the retailer's margin."

The participant further explained that capital resource constraints limits access to skilled and competent personnel resulting in SME owners having to do almost everything by themselves ranging from admin, marketing to sales and distribution.

The participant (SME4) stated, *"I have to do many things myself including sales, marketing and admin as I cannot afford people with expertise in these areas."*

Reasons for successful credit applications

The two SMEs that applied for formal funding were both successful (SME1 and SME4). SME4 was successful because the business had a good cashflow at the time of loan application. SME1 was successful due to maintaining good financial records.

SME1 observed, *"Developing a business plan and maintaining accurate and reliable financial records is a difficulty for many SME businesses. Even where the financial records have been prepared for them and are available, they have a difficulty in interpreting and explaining them to potential funders.*

The participant further observed that the small businesses should seriously consider outsourcing the preparation of financial records to someone else if they are not able to do it themselves. This is critical if the business would look to obtain business funding from the formal sector in the future.

Table 3: Reasons for loan application being successful

Reason	SME1	SME2	SME3	SME4	SME5	SME6	SME7
Maintaining good financial records	●						
Business generating good cashflow				●			

Results pertaining to research question 2

Research question 2: *From a demand-side perspective, what other key external factors influence the long-term survival of black-owned SMEs operating in the agro-processing sector.*

Access to market and supply chains

Five of the seven participants interviewed, which represents 71%, were of the view that access to market is the second biggest challenge faced by the SME businesses after access to finance. The insights from the interviews show that it is difficult for SME businesses to access the market at a larger scale to ensure long-term survival. In turn, this limits opportunities to scale the business. Some of the participants felt that having to secure shelf space at major retailers to sell their products to mass market at an acceptable and sustainable price is a challenge.

One participant (SME1) explained, *"Although selling my product through big retailers such as Makro would give me access to mass market and possibly boost the brand and growth, however if I had to sell through Makro this would make my product more expensive and less profitable as Makro would have to lower my original price to allow them to add their own markup, which is between 15% and 20%. This arrangement is not sustainable and does not work for a growing small business."*

Another participant (SME3) stated, *"To get a shelve space and supply to the big retail grocery stores is another challenge as this process involves testing your product, barcoding, etc which means extra cost for a small business. Also, the process to get your product tested by government takes too long."*

Another participant (SME2) further explained, *"My baking business is right next to Spur but due to their existing franchise agreements, they cannot buy rolls from me and only buy in accordance with the existing franchise agreements. There are only few black-owned SME businesses in the baking industry due to lack of market access and competition from big players."*

The insights from the interviews also show that the food industry is dominated by a few big players with massive capital budgets and having to compete with these industry giants is one of the biggest challenges faced by black-owned SMEs.

One participant (SME5) observed, *"The food industry is a typical oligopoly with only a few big players like Tiger Brands, Famous Foods, etc. which are massive and have large budgets."*

Another participant (SME4) elaborated and summed up the dire impact on small black-owned SMEs owing to lack of market access, *"I know for certain that the marketing is craving for my wine. If I had wider distribution network across the country with the right people who could promote and sell the brand on the ground and in the stores, I would be able compete successfully in this industry and accelerate the growth of the brand.*

The participant further observed that many black businesses have tried to enter the wine industry before (e.g. House of Mandela) and they could not make it due to lack of industry and government support in opening up the industry and creating a level playing field. This could be a discouraging factor to many aspiring small businesses that are interested in this sector. However, the participant equally acknowledged that the wine market is overpopulated with many competing wine brands which creates a challenge for new entrants who are then forced to look at the export market before they could even establish themselves locally.

Aligned to factors associated with access to market is the issue of supply chain. Three of the seven participants interviewed mentioned various supply chain factors as challenges that could potentially constrain business growth.

One participant (SME4) explained, *"Black winemakers still struggle to acquire adequate and suitable land for farming which is critical for long-term success in the winemaking sector, i.e. having a fully integrated supply chain. If I do not have land, I will need to rely on other grape farmers for key product ingredient (grapes) and what their prices are just not affordable for the size of my business."*

Another participant (SME5) added, *"The other challenge for us food producers is the fact that the suppliers always insist on a minimum volume for orders, and this is*

unaffordable for many SMEs because this could lead to capital locked up in stock or inventory."

It was clear from the interviews that the abovementioned market access issues are exacerbated by the fact the food industry in South Africa is highly regulated and often the process to get the product tested by the government takes too long and involves additional costs to SMEs.

One participant (SME5) explained, *"Because the food industry is highly regulated, I must incur additional costs to ensure compliance with the applicable regulatory requirements by outsourcing capabilities to businesses that are already established to run my production line. This, in turn, exposes my intellectual property."*

Access to knowledge and information

Although most of the participants interviewed indicated that they had sufficient information about funding options available for their respective types of business start-ups, this knowledge was only limited to the more common and traditional forms of business funding such as financial institutions and government agencies. Furthermore, some of the participants indicated that they had acquired the information through their own rigorous research or through business acquaintances and this information is hard to find and not readily available. It appears the knowledge and information about SME funding improves as SME owner accumulates business experience and their business networks widen.

One participant noted, *"I did not have all the information about the funding opportunities or options available out there for my type of business and therefore I had to go to a lot of places asking questions about funding opportunities as well as processes involved for one to apply. The main reason I did not apply for funding much earlier than I should have, is because I did not have all the necessary information about funding opportunities and the processes involved.*

It would seem this information is not readily and publicly available or easily accessible to early start-ups and it takes some time for them to finally get the information they need to initiate the process. Most SME owners have to do a lot of research and dig deeper to find the required information.

Another participant added, *"I believe the information about SME funding in South Africa is available but only a few know what to make out of it. For instance, those who know people or have access to people inside the government agencies are the ones who get to know about funding opportunities or support available."*

Interestingly, one participant stated that a few government agencies have approached her business to encourage her to apply for government funding but had to decline the offer because her business was profitable enough to fund itself. In contrast, another participant indicated that whilst they had the necessary information about the possible funding options available, none of the institutions could finance his communal farming business.

However, most of the participants interviewed were not aware of the new emerging and alternative forms of SME funding such as venture capital funds, angel investors, crowdfunding, etc. It is evident that the most common methods used to raise funding for business start-ups is bootstrapping (personal savings and loans or equity from family and friends). Only two of the participants interviewed could demonstrate sufficient knowledge and information about the existence of the alternative and non-traditional forms of business financing such as VCs, angel investors, crowdfunding, etc. One of the two participants had already approached an angel investor for business fundraising and the discussions were ongoing at the time of this research.

Availability of support networks and entrepreneurial mentors

All the participants interviewed stated that they had access to business networks which include fellow entrepreneurs, business forums as well as business mentors and other acquaintances that they could reach out to for any business advice or guidance whenever needed. Two of the participants were part of or have been through one or more business incubation programmes.

One participant (SME3) noted, "*I am currently part of the Riversands Innovation Hub and that is where I would go for any business advice, although their approach is hands-off, and one would have to reach out to them for any advice. Unlike other innovation hubs I have been exposed to previously, I find the Riversands Innovation Hub to be more helpful.*

Another participant added (SME2), *"I am fortunate to have met people in my life that are willing to help or guide me whenever I have issues to navigate in my business. It is even better to have people outside of a formal set up that you can reach out to anytime for any business advise.*

One more participant (SME4) confirmed, "*my business affiliations provide me with access to people and business networks that I can bounce off business matters and issues. I have various industry memberships which exposes me to a variety of information about the industry."*

Another participant seemed to view the lack of collaboration amongst black-owned small businesses as inhibiting their growth prospects and not helping grow the ecosystem because some would rather go at it alone instead of leveraging each other's resources and capabilities to produce more and scale at much faster pace.

The participant (SME1) observed, *"Even though I have access to several business support networks, generally our industry does not have many black business role models and mentors. Also, black businesses generally work in silos and seldom think about collaboration.*

Summary of the findings

The findings from the research highlights that black-owned SMEs prefer to use own capital and/or funds from family and friends to start and grow their businesses. The entrepreneurs cited several reasons for not applying for and using funding from the formal sector which included the following: (1) the process to obtain formal institutional finance is complex and takes too long; (2) interest rates are too high and loan repayment terms are unfavourable for small businesses; (3) existing financing solutions are not SME fit for purpose; and (4) favouritism in government agencies established to fund and support small businesses.

Furthermore, black SMEs face a variety of other challenges that influence their long-term survival including limited access to market opportunities as well as inadequate information about the availability of business funding options in the private and public sectors. However, in contrast to the literature review, the participants interviewed for this study indicated that they have adequate access to business mentors and other

business support networks such as incubation programmes, business forums, industry associations, etc.

DISCUSSION OF RESEARCH FINDINGS

Introduction

A qualitative approach was employed for this research to investigate factors that hinder access to formal finance for black-owned SMEs operating in the agro-processing sector as well as to explore other key external factors that influence their long-term survival. Data was collected using semi-structured interviews with seven SME entrepreneurs in the agro-processing sector, particularly food and beverages. The sample size was slightly more than the minimum number of interviews proposed by Saunders et al (2016) for semi-structured qualitative research. The authors indicate that a minimum of five interviews is necessary for qualitative studies. The interviews were conducted either face-to-face or virtually where it was not possible to meet in person.

Rigour and credibility of the findings were ensured by taking several steps such as conducting the participants after the interview to confirm the accuracy of the data after it was transcribed and the significant concepts that emerged to ensure consistency and credibility of the data (Neupane, 2018).

This chapter discusses the findings that emanate from the interviews conducted with black SME owners who agreed to be interviewed. The chapter concludes by highlighting the key insights from this research.

Demographic profile of respondents

The sample size of this research consisted of seven (7) SME entrepreneurs. Of the seven entrepreneurs interviewed, four were African female, two were African male and one was a Coloured female. The average age of the seven SME businesses surveyed was 4.5 years with the youngest being 3 years and the oldest being 8 years. All seven SME businesses surveyed were operating in the agro-processing sector, food and beverages in particular. On average, these businesses employed seven employees each with some employed on a part-time basis.

Discussion pertaining to research question 1

Research question 1: *From a demand-side perspective, what are the factors that hinder access to finance for black-owned SMEs operating in the agro-processing sector.*

The insights from the interview results indicate that black-owned SMEs prefer to use own capital and/or funds from family and friends to start and run their businesses. None of the entrepreneurs interviewed had used formal institutional finance to start the business and only two had applied for and used formal institutional finance in the course of running the business.

The entrepreneurs interviewed for this research cited several reasons for not applying for and using funding from the formal sector and these include the following: (1) the process to obtain formal institutional finance is complex and takes too long; (2) interest rates are too high and loan repayment terms are unfavourable for small businesses; (3) existing financing solutions are not SME fit for purpose; and (4) favouritism in government agencies established to fund and support small businesses.

Own capital or obtained from family and friends

In their study, Saah and Musvoto (2020) reveal that only 27% of start-up SMEs in South Africa expect to obtain formal institutional finance and/or get access to funding available from several government departments and agencies. Inability to access external sources of capital means many SMEs depend on family, friends and other acquaintances for start-up funding which is not sufficient to grow and sustain their businesses.

The authors note that the main sources of finance for new SMEs is personal savings as well as funds from family and friends or a combination of both. This is consistent with findings of this study. Saah and Musvoto (2020) observe that majority of the SMEs are deprived of external financial support from government departments and agencies that have been established with the sole purpose of supporting the SMEs. As a result, many SME entrepreneurs continue to rely on private sources such as

personal savings, family and friends to fund their businesses (Saah & Musvoto, 2020).

The process is too long and complex

A World Bank (2007) survey revealed that it takes twice as long to process an SME loan application compared to a large business loan application. This was attributed to the quality of information submitted by the SME applicants, which results in reworks and more information being requested by the lenders. According to Serame (2019), this is indicative of SMEs not being fully unaware of banks' credit granting processes, and therefore, not producing sufficient documentation required to make the loan application process easier.

In her research, Serame (2019) found that SMEs do not borrow from formal lending institutions because they perceive the processes to be too long and therefore a hindrance in applying for credit. The author further observes that this could be indicative of banks' requirements being too complicated and a hindrance to SMEs who urgently need funding. In addition, SMEs cited complex product designs by the formal lenders as one of the factors hindering access to financing.

High interest rates and unfavourable repayment terms

Berg et al. (2020) explain that SMEs are generally considered high risk by the formal lending institutions due to inadequate track records of profitability and lack of assets to use as collateral. As a result, SMEs are charged higher interest rates to mitigate and price for the perceived higher risk. This, in turn, makes formal credit unaffordable for SMEs. Msomi and Olarewaju (2021) argue that providing loans at concessional interest rates to SMEs improves their access to finance, thereby boosting their efficiency.

Serame (2019) observes that the use of traditional lending methods is a hindrance to SMEs securing funding. The author argues that lenders need to find innovative ways of assessing risk on SMEs and not rely on traditional credit assessment methods. SME lending methods need to be adjusted and customised to the unique characteristics of SMEs.

Financing solutions not fit for purpose

Smith et al. (2018) are critical of the banks' continued use of traditional credit scoring models. They argue that the existing lending models were developed for established medium/large businesses and therefore are "prejudicial" for many SMEs. The authors argue that a few SMEs have access to adequate collateral to enable easy access to finance, and majority do not own assets to meet collateral requirements by the banks.

Bartlett et al. (2014) explain that the SME financing issues arise from the quality of service from the formal financial sector. The authors argue that "the terms on which these services are provided are fundamental to the success of SMEs" (p. 369). It is argued that there is enough credit being made available by the formal sector, but the terms and conditions to access funding are not favourable for the SMEs intended for.

Favouritism in government agencies

Ayandibu and Houghton (2017) argue that various government initiatives established to provide financial and non-financial support for SMEs have not been effective in achieving desired outcomes. Some of the major deficiencies plaguing the government schemes created to support SMEs include: "gaps between the SME needs and the type of support offered by the government; programmes do not develop entrepreneurial culture; tendency to focus on potentially viable businesses; tendency to serve larger and medium businesses more than smaller ones; favouritism and corruption; cumbersome administration processes; and no after support" (Ayandibu & Houghton, 2017, p. 136).

World Bank (2006) report notes that high interest rates, insufficient collateral, poor credit history, and complex application processes are considered to be major cause for the low utilisation of formal credit. The report further observed that black-owned businesses were also "less likely to have applied for or have a credit facility and were more likely to have been rejected for a loan and tended to pay higher interest rates" (World Bank, 2006).

It is evident that, in general, black-owned SMEs in South Africa struggle to obtain formal institutional finance. It can also be inferred that SMEs have no confidence in

applying for funding from the financial or government institutions for the reasons explained above.

Discussion pertaining to research question 2

Research question 2: *From a demand-side perspective, what other key external factors influence the long-term survival of black-owned SMEs operating in the agro-processing sector.*

Access to market and supply chains

The insights from the interviews with the entrepreneurs that participated in this research indicate that access to market is the second biggest challenge facing SME businesses after access to finance. It is evident that many SMEs find it extremely difficult to access the market and supply chain, particularly in the food and beverages sector which was the focus of this study. Two main issues with regard to access to market, as informed by the insights from the interviews, were: (1) difficulties in securing shelf space at major retailers due to price, competition and other factors; and (2) inability to control vertical integrated supply chain due to lack of capital resources resulting in contract manufacturing or outsourced production at high cost.

According to van Lin et al. (2018), the South African agro-processing industry is highly concentrated and dominated by a few large companies. The 10 largest companies control 70% of the market share. Big food processing companies own multiple brands and are “vertically integrated into the value chain”. This enables them control the entire value chain from production to distribution. As a result, agro-processing SMEs who want to enter the industry face market access constraints (van Lin et al., 2018).

Shelton and Minniti (2018) assert that access to product market is one of the major “building blocks” necessary to launch a small business. Consequently, limited access is a key barrier to the growth and survival of SMEs. The authors explain that “product market access consists of the opportunity to buy and sell goods and services with customers and suppliers” (p. 489). Expanded access to product market translates into more diversified supply chains for SMEs (Shelton & Minniti, 2018).

Rogerson (2013) argue that there three main issues that contribute to market access challenges for many SMEs. These include over-concentration of many SMEs in activities and sectors with low growth potential; SMEs' geographical location limiting the ability to supply a more diversified market; and competitiveness of SMEs that supply goods and services (Rogerson, 2013).

Access to knowledge and information

Although most of the SME entrepreneurs felt that they had sufficient knowledge and information about the various funding options available for them, this knowledge was mostly limited to the traditional forms of funding such as financial institutions and government agencies established to provide financial and non-financial support to SMEs. Most of the participants were not aware of the new emerging and alternatives forms of fundraising such as venture capital funds, angel investors, crowdfunding, etc.

In their study, Saah and Musvoto (2020) reveal that majority of SME owners are largely ignorant about existing funding avenues and argue that this is one of key reasons why many SMEs are not benefitting from the available funding sources. Many SMEs are not just aware of the available funding sources but also they do not where to get the information about funding.

Shelton and Minniti (2018) further explain that, in general, black SME entrepreneurs have limited or no information about the business world including knowledge about market access opportunities. The authors note this SME cohort are not aware about existence of certain types of product markets, and this limited exposure arises from lack of professional business networks.

Smith et al. (2018) emphasise that many SMEs lack funding knowledge. They lack information about potential funders, different types of funding available or type of funding suitable to their needs and the qualifying criteria. The authors are critical of the SME eco-system in South Africa in terms of raising the skill levels of start-up and early-stage businesses and equipping them to build successful businesses (Smith et al., 2018).

Availability of business support networks and entrepreneurial mentors

All the entrepreneurs that participated in this research felt that they had access to business support networks which included fellow entrepreneurs, business and industry forums as well as business mentors and other acquaintances that they could reach out to for any business advice or guidance whenever needed. Some of the entrepreneurs have been through a number of business incubation programmes which helps in managing successful businesses. The fact that most of the entrepreneurs interviewed have been running the same business for more than five years could also be an indication of having good business support networks.

Schøtt, et al. (2015) explain that social networks for entrepreneurs is a combination of private sphere of family and friends and the public sphere of the workplace, professional and industry bodies, the market and the global environment. The authors further explain that the networks in the public sphere are built over time and mature enterprises often have the advantage of networks that are wider and more diverse (Schøtt et al., 2015).

The authors argue that entrepreneurs with extensive business networks are exposed to better opportunities and therefore able to grow their businesses. They are able to use their networks to access opportunities, get business advise and use them for business referrals. Broad social networks could be a source of knowledge and guidance, used a word-of-mouth marketing and could attract financial and non-financial opportunities (Schøtt et al., 2015).

According to Rungani and Potgieter (2018),many small businesses and entrepreneurs have limited or no access to support networks that can provide guidance and awareness of opportunities such as funding avenues, market opportunities, mentorship and sources of information. The authors further indicate that inadequate guidance in the form of business mentors is a challenge for many SMEs.

In contrast to the literature review, all the respondents to this study indicated that they have adequate access to business mentors and other business support networks such as incubation programmes, business forums, industry associations, etc.

Conclusion

The findings from the research as well as the literature review indicate that small businesses, particularly black-owned SMEs, have little or no confidence in borrowing and obtaining business funding from the formal financial sector including government institutions. There are a number of perceptions that inform their continued trend to avoid formal institutional finance. Complex processes, unsuitable financial products, high interest rates, unfavourable repayment terms and government corruption are amongst the key factors that discourage these SMEs from approaching the banks and government agencies for funding.

Other key issues that influence the long-term success of the black-owned SMEs, include constrained market access opportunities due to over concentration and strong competition from big players in the food and beverages sector. Limited access to information and awareness about suitable sources of funding available was found to be a key factor impacting SMEs.

CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter summarises and concludes on the research findings and provides recommendations for policymakers and financiers. The chapter further provides suggestions and directions for future research.

The objective of this study was to investigate factors that hinder access to finance for black-owned SMEs operating in the agro-processing sector, from a demand-side perspective. The secondary objective was to explore other key factors that influence the long-term survival of black-owned SMEs.

Conclusions regarding research objective 1

Research objective 1: *To investigate factors that hinder access to finance for black-owned SMEs operating in the agro-processing sector.*

As per the literature review, the ability to access funding can enable meaningful contribution of SMEs to economic growth, job creation and poverty alleviation. The literature review identified financial access as the top challenge faced by SMEs in South Africa. The lack of financial access is the considered to be a major contributor to low creation and high failure of SMEs in South Africa.

The findings from this research revealed that black-owned SMEs prefer to use own capital and/or funds from family and friends to start and grow their businesses. Evidently, SMEs, particularly black SMEs, struggle to obtain formal institutional finance during the start-up phase and to an extent, in the course of growing their businesses. This is supported by the literature review which indicated that equity finance from personal savings, family and/or friends is preferred over debt finance (loans) in the early stages of a business lifecycle.

This research revealed several reasons hindering SMEs to apply for finance from the formal sector which include the following: (1) the process to obtain formal institutional finance is complex and takes too long; (2) interest rates are too high and loan repayment terms are unfavourable for small businesses; (3) existing financing

solutions are not SME fit for purpose; and (4) favouritism in government agencies established to fund and support small businesses.

According to the literature review, the problem of SME access to finance stems from the quality of service on the supply side. Bartlett et al. (2014) argue that there is sufficient funding available in the formal sector, but the terms and conditions to access this funding are unfavourable for the majority of SMEs.

Conclusions regarding research objective 2

Research objective 2: *To explore other key external factors that influence the long-term survival of black-owned SMEs operating in the agro-processing sector.*

It is evident that, in addition to financial access constraints, black-owned SMEs face other key challenges that threaten their long-term survival. As identified in this research, these include limited access to market opportunities as well as inadequate knowledge and information about the availability of business funding options offered by both the private and public sectors.

Consistent with the insights from the literature review, this research identified access to market as the second biggest challenge facing SME businesses after access to finance. It is evident that many black SMEs find it extremely difficult to access the market and supply chains, particularly in the food and beverages sector. This research identified two main issues regarding product market access. This first issue involves difficulties in securing shelf space at major retailers due to price, competition and other factors such as regulatory requirements. The second issue is the SMEs' inability to control vertical integrated supply chains due to lack of capital resources resulting in contract manufacturing or outsourced production which is costly.

According to van Lin et al. (2018), the South African agro-processing industry is highly concentrated and dominated by a few large companies. Big food processing companies own multiple brands and control the entire value chain from production to distribution. This exerts marker power on smaller players and limits their market access opportunities (van Lin et al., 2018). Inadequate access to market opportunities is a major cause of high rate of failure amongst the SMEs (Timm, 2011).

Furthermore, limited access to information and awareness about suitable sources of funding available was found to be a key factor impacting many SMEs.

In contrast to the literature review, all the respondents to this study indicated that they have adequate access to business mentors and other business support networks such as incubation programmes, business forums, industry associations, etc.

Recommendations

Based on the findings in this study, the recommendations outlined below are suggested to enhance the funding model for black-owned SMEs operating in agro-processing sector to improve access to finance. It is evident that the existing government initiatives and interventions implemented to support and maintain the growth of the SME sector have not yield the desired outcome. As a result, the government needs to take drastic measures and explore new strategies to help promote SME development and growth.

It is, therefore, recommended that the government, in collaboration with the private sector, implement initiatives aimed at developing sustainable, long-term financing model for novel and established SMEs, particularly black-owned SMEs, because this cohort struggle to access funding opportunities as highlighted in this research.

The recommended strategy is to establish a small business financing institution for SMEs operating or entering the agro-processing industry. To mitigate for the pervasive deficiencies and weaknesses plaguing the existing government funding schemes, the proposed institution should be a **separate, stand-alone entity** funded by the government and the private financial sector. This would entail coordinating and mobilising efforts and resources from the government and private financial sector.

To encourage private sector participation, the participating private financial institutions should earn annual points that can be used for company tax rebates and as contribution towards their BBBEE level status. The private institutions must be prepared to forego some margin with the aim to invest in the development and growth of SMEs in the country.

Any existing government financing schemes that are similar in nature and structure to the proposed institution should be integrated and consolidated into this new initiative. This specifically applies to those government schemes that are already in place to fund and support agro-processing SMEs, for example, Agro Processing Support Scheme (APSS), AgriBEE Fund, Micro Agricultural Financial Institutions of South Africa (MAFISA), etc.

The institution should offer improved, innovative financing solutions which consist of both equity and debt financing tailored for SMEs' varying needs and circumstances. The equity financing would involve creating a link between SMEs and venture capital funds and angel investors with keen interest to invest in viable small businesses. This means that the new institution would act as a formal link between equity funders and SMEs that could benefit more from equity financing than debt financing.

The credit/debt financing would entail developing and providing lending solutions that cater for the specific needs of the targeted SMEs. The participating financial institutions should assist in setting it up considering their track record, but this should not copy any of the existing credit models applied by the financial institutions. The existing models were thought to be complex and unsuitable by the SME entrepreneurs who participated in this study.

Some of the recommendations for establishing the small business financing institution for agro processing SMEs include, but limited to, the following:

- Develop a variety of innovative credit lending solutions that are tailored to suit different conditions and circumstances faced by the targeted SMEs.
- Relax collateral requirements for SMEs and introduce a repayment model that is based on future cashflow projections. SME owner presents a detailed business plan which is thoroughly interrogated for viability.
- The credit facilities should be offered at special, affordable interest rates with flexible repayment terms that are favourable to SMEs. Allow for delayed payments or grace period to enable the SME to reach a break-even point and profitable position.
- Stage-by-stage and interest free loans should be considered for start-up SMEs.

- A relationship-based approach is suggested where SME applicants and decision makers in the institution can easily have contact.
- Simplify and customise the credit application process characterised by user-friendly documentation and simple language as well as reduced red tape.
- Partner with incubators, business accelerators and SME forums to provide incubation and after-support services to the SME owners including mentorship as well as training programmes.
- Encourage SMEs to collaborate when opportunities present themselves and leverage each other resources and capabilities to drive cost and operational efficiencies.
- Create an online platform that serves as a link between SMEs and professional service providers with expertise to meet SMEs' varying needs such as accountants, tax practitioners, etc.
- Facilitate discussion groups, networking forums and seminars where SMEs can meet to share knowledge, form networks and address specific issues.
- Enable access to production and distribution facilities to open access to market and supply chains for the targeted SME cohort.
- Provide assistance to identify and develop new export markets for products manufactured and distributed by the targeted SME cohort.
- Partner with large agro-processing companies to develop and empower SMEs by affording them access to market and supply chains as well as opportunities to supply to government and large corporates. This could be achieved through the existing BBBEE preferential procurement legislation.
- Effective marketing campaigns to educate and inform SMEs about financial literacy, access to capital and market access opportunities.
- Establish branches and centres across the country to ensure a wider reach and accessibility to the targeted SMEs.

Limitations

The qualitative approach provided a rich and comprehensive insights about the SME entrepreneurs' experiences regarding access to finance and other key challenges they face. However, the limitation to this research is that the data was obtained from a relatively small sample (n=7).

In addition, the study was restricted to black SME entrepreneurs operating in the agro-processing sector, food and beverages in particular. The data collected may be biased and represent only the opinions and perceptions of the participants in the study. Therefore, care should be taken in extrapolating the findings of the research.

Suggestions for further research

This study investigated the factors that hinder access to formal institutional finance by black-owned SMEs operating in the agro-processing sector and those that influence their long-term survival, from the entrepreneur's perspective. This study could be further extended to other economic sectors and racial groups.

In addition, as part of this study, favouritism in government funding agencies was identified as a potential issue compounding funding access issues faced by SMEs. Research focusing on this might provide a deeper understanding to confirm or dispel the perceptions.

Furthermore, this research identified limited market access opportunities to be the second biggest challenge constraining SME development and growth in South Africa and it would be interesting to ascertain the extent of the issue in other economic sectors. There is limited literature on this subject matter in the South African context.

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APPENDIX A: RESEARCH INSTRUMENT

Research Instrument (Interview Questionnaire)

1. Please confirm race

2. What is your highest level of education completed?
    a. Matric / High School
    b. Undergraduate
    c. Post-graduate

3. Are you an SME owner and/or entrepreneur operating in the agro-processing sector (i.e. SME as defined by the National Small Business Act)? If so, what is the nature or type of your business in this sector?

4. How many people do you employ including yourself?

5. What is the length of time that your business has been operating in this sector?

    a. Less than one year
    b. One to three years
    c. More than 3 years

6. How much was the amount of capital invested when you started the business?

7. How did you raise funding for your business during early start-up phase and what funding sources are/were you using to finance the growth of your business?
    a. Own capital
    b. Family or friends
    c. Venture capital or angel investor
    d. Bank or similar financial institution
    e. Government support programme

8. Have you ever applied for finance from a bank, financial institution or any government credit support scheme? **Yes or No**

   If the answer is “No”, what are/were the reasons for not applying for a formal institutional finance?

   a. Lack of information
   b. The process is too long and complex
   c. Lack of assets to pledge as collateral (security)
   d. Poor credit record or financial records
   e. Own capital or obtained from family / friends
   f. Other (please specify)

   If your answer is **“Yes”**, were you successful in getting approval for your finance application? If so, which of the following factors do you believe contributed to your success?

   a. Good credit record or financial records
   b. Adequate collateral (security)
   c. Good business plan
   d. Good business networks
   e. Other (please specify)

   If your application was not approved, which of the following factors do you believe contributed your application being declined?

   a. Lack of collateral (security)
   b. Poor credit record or financial records
   c. Poor business plan
   d. Age of the business or poor business performance
   e. Lack of business skill and experience
   f. Other (please specify)

9. Do you or did you have all the sufficient knowledge and information about the various funding options available for your type of business including government support programmes for SMEs? **Yes or No**

   If the answer is **“yes”**, how did you access this information?

   a. Own research or initiative
   b. Business support networks or mentor(s)
   c. Local government support for small businesses

d. Other (please specify)

If the answer is **“No”**, what do you believe are the reasons for lack of access to information?

10. Do you have access to social support networks or mentor(s) who guide in managing your business? **Yes or No**
    Please provide reasons for your answer

11. How easy was it for you to start your business in the agro-processing sector?

12. What other challenges do you face as a small business owner or entrepreneur operating in the agro-processing sector?