The value-added services of Development Finance Institutions in providing non-financial support to Small, Micro and Medium Enterprises (SMMEs) in South Africa

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ABSTRACT

Globally, Development Finance Institutions (DFIs) provide financial and non-financial services to small and medium enterprises (SMMEs). Do these services add value and how effective are these interventions? This report investigated the role of DFIs in providing non-financial value-added activities, specifically to SMMEs in South Africa.

The research was qualitative and perception-based; two questionnaires were designed; one to capture views of the 20 purposively-selected SMME recipients of the non-financial services, and the other of the, also convience-selected five DFIs who provide the offering.

Perceptions of both the SMME recipients and DFIs were very similar and their general view was that non-financial services added value not only to the SMME, but the funding institutions as well. However, the perceived impact of the value-added services was different between the two groups; with some services being considered helpful and others not. The successful DFIs benefited as their portfolio performance improved greatly through higher SMME loan repayment rates and increased revenue, which improved their stated overall performance and success rate.

DECLARATION

I, Christopher Thompson, declare that this research report 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 University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Signature CHRISTOPHER THOMPSON

Signed at WITS BUSINESS SCHOOL

On the 31st day of March 2016

LANGUAGE EDITING CERTIFICATION

This is to certify that the English language editing of this research report by Mr Christopher Thompson was done by Mx Germaine de Larch.

Mx De Larch has completed an Honours in English, has taught English at a secondary and tertiary level and has been an editor of theses, dissertations and journal articles for over 15 years.

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DEDICATION

In memory of Olivia Thompson, who did not live to enjoy the fruits of her MBA.

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I wish to acknowledge everyone whose support helped me to pull through, especially Prof Terri Carmichael, my supervisor, and my daughter, Gertrude, who has been overwhelmingly supportive as we travelled this path together.

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CHAPTER 1. INTRODUCTION

1.1 Purpose of the Study

The purpose of this research is to investigate the effectiveness of non-financial assistance provided by publicly-funded finance institutions in South Africa. The report gives insight into the perceptions of the impact the interventions have on the SMMEs and what the effects are on the results achieved that could be attributed to the non-financial assistance. This is done through data collected through telephonic interviews with SMMEs in South Africa during the year of 2015.

1.2 Context of the Study

Key concepts include: SMMEs in South Africa, DFIs, non-financial development services, SMME performance, funding agencies and failure of SMMEs.

After the elections in 1994, South Africa emerged as a fractured nation, characterised by wide income and wealth inequality with millions unemployed and lacking basic services (Mathibe, 2010:2). The government identified the Small and Medium Enterprises (SMMEs) sector as a vehicle for job creation, economic growth and increased equity. This vision was captured in the “The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa” presented in parliament by Minister Trevor Manuel on the 20th March 1995 (DTI, 1995). This paper highlighted the potential that was held within the SMME sector that could be tapped in order to address the social and economic ills named above of the new state of South Africa.

Despite this new strategy, efforts to participate in the growth of the economy or create jobs for themselves, especially by those from the previously disenfranchised communities, were hampered by challenges in access to capital and lack of entrepreneurial experience (Boone, Kurtz, Delauro, Brace, &

Press, 1996; Ladzani and Van Vuuren, 2002; Rogerson, 2004). To mitigate these constraints and level the playing field, the Government of South Africa introduced policies and affirmative action incentives, including the Broad Based Black Economic Empowerment (B-BBEE) (DTI, 2004). Evidence, however, suggests that B-BEE has not been that successful. In a study with 500 respondents from SMMEs conducted by Kruger (2011:232), the dominant perceptions were that the transformation efforts mainly had a negative impact on overall domestic and global competitiveness. Another public critic of the B-BBEE is Moeletsi Mbeki who states that “it strikes a fatal blow against the emergence of black entrepreneurship by creating a small class of unproductive but wealthy black crony capitalists made up of ANC politicians, some retired and others not, who have become strong allies of the economic oligarchy” (Mbeki, 2009:61).

In 2006, the government introduced the Department of Trade and Industry Strategies (2006), named *Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises*, which represented a major shift in policy from a fragmented to a more integrated approach that encouraged co-operation between different partners and included restructuring, setting up and funding of targeted development finance institutions (DTI, 2004). Over time, several agencies have been established with the purpose of providing non-financial support directed towards the SMME sector in South Africa. These agencies include the Small Enterprise Finance Agency, which was birthed from the consolidation of a number of Development Financial Institutional (DFI) firms and provides pre- and post-loan services as well as finance, Incubation Support Programme (ISP), focused on start-ups in the first three years (SEFA, 2015; ISP, 2015). Awethu Project is a private-owned DFI that has been publicly funded by the DTI to assist in the disbursement of finance as well providing non-financial assistance (Awethu Project, 2015), for example business mentoring and coaching, marketing, business planning, business development, training and several other business support services.

Despite the existence of all these DFIs created to improve the status quo in the SMME sector, chairperson of SEFA, Dr Mangwetshu-Rensburg (2015:10) stated that the South African economy is performing lower than expected. In an effort to address issues related to poverty, inequality and unemployment SMMEs need to be able to contribute 90% of jobs by 2030, but at present this number sits at 60%, which is below the international average of 77% argued by the ministry of Small Business (SEFA, 2015:1). Dr Mangwetshu-Rensburg (2015:10) also puts forward that with the fast growth of disbursements, there have also been high default rates of these loans, currently at 99%, which is a major concern for the funding agencies (SEFA, 2015:25). This is despite the DFI's efforts to increase loan mentoring and added-value non-financial services (NFS). Based on these numbers, Figure 1 illustrates the problem at hand, which is similar for DFIs in South Africa in general.

DFI: Small Enterprise Funding Agency illustrated by author

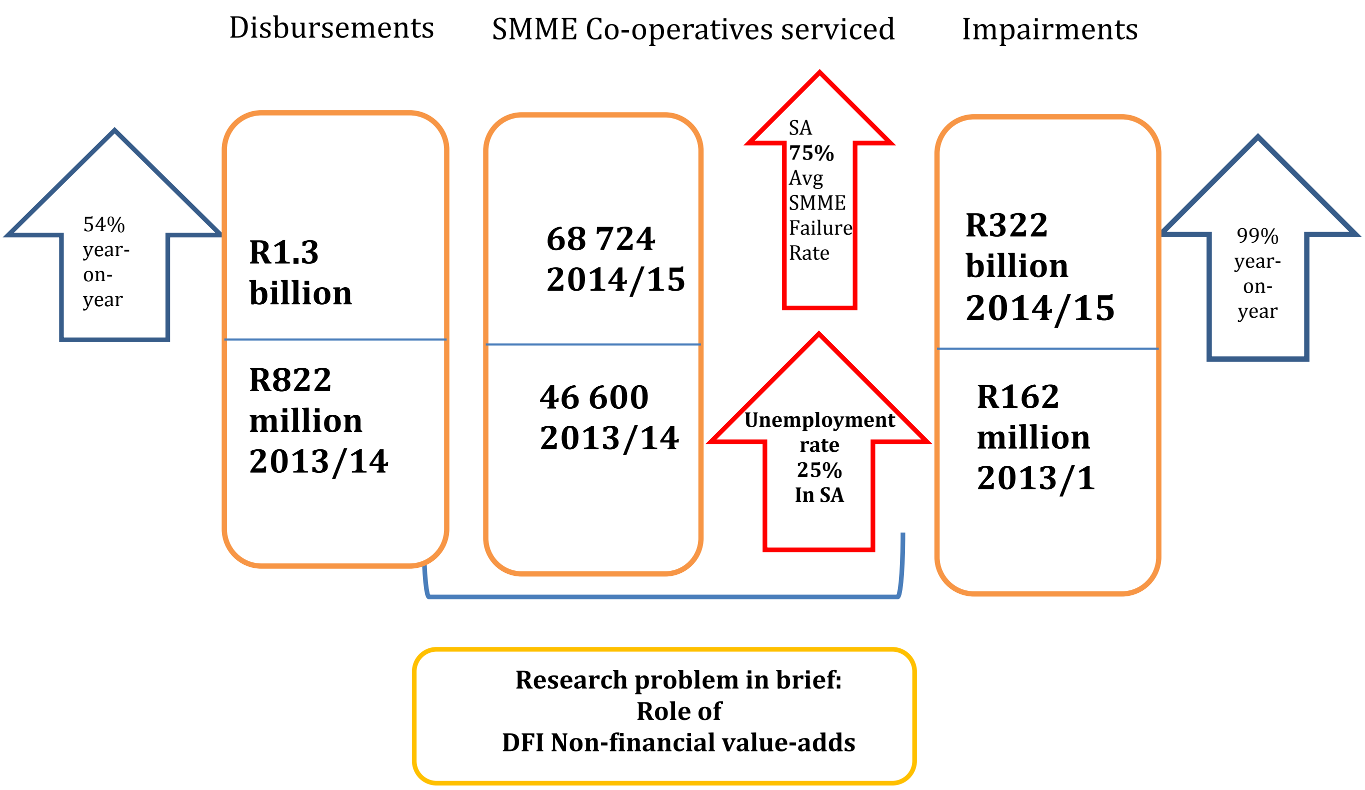


Figure 1. The DFI example of SEFA's cash disbursements, SMMEs serviced and impairments

This research seeks to construct a case that helps to explain and hopefully apply pressure to the business community, government and private-funded DFI's to interrogate their current status quo as well as the issues related to the SMME sector. The issues related to the increase in SMME disbursements, the cause of the high default rate of the DFI's added-value non-financial services and their effectiveness, as well as the success rate of the SMMEs. The success rate of these SMMEs is directly linked to the unemployment rate that is currently at 25%, yet they are expected to create 90% of the jobs in South Africa by 2030.

1.3 Problem Statement

1.3.1 Main problem

South Africa has long suffered a high unemployment rate, eg 24.7% in 2013, so it has fallen to the small business and informal employment sectors to provide a living for much of the growing population (Fatoki, 2014). Whilst public funds have seen an increase in disbursements, indicating that although more SMMEs are receiving funding, there is still a high failure rate for many small and microenterprises (Fatoki, 2014), with a reported 80% failing in the first year (Panday, 2013:20; Bisseker, 2014; SEFA, 2015:10). There is also a low level of awareness of the types of non-financial assistance offered by government (Fatoki, 2014). This report examines and evaluates the perceived effectiveness of the value-added non-financial services provided by DFIs for South African SMMEs.

The findings may provide insights for policy makers and DFIs as to why there are still high failure rates despite the efforts to increase value-added non-financial services. This report first evaluates the role and mechanisms of DFIs as a vehicle to provide value-added non-financial services and identifies the role of DFIs in providing non-financial value-add activities to SMMEs in South Africa. The second aspect is the perceived importance of non-financial support provided by DFIs to SMMEs. This is examined to establish the nature of the relationship between the provision of these services and the perceived performance of the supported businesses; that is, do their non-funding activities complement their funding activities?

1.3.2 Sub-problems

1.3.2.1 Sub-problem 1

The first sub-problem is to identify the role of DFIs in expanding provision and effectiveness of value-added non-financial services.

1.3.2.2 Sub-problem 2

The second sub-problem is to establish the ways in which these services complement their own financing activities, including the perceived performance and success of the supported SMMEs.

1.4 Significance of the Study

Several studies have been conducted to assess the impact of development finance and business development institutions on the performance of SMMEs. These include the efficient use of allocated resources, the impact on the reasons for setting up the programmes, including that of financial inclusion, growth, equity, redistribution, employment creation and sustainable benefit to the local community (Chalera, 2007; Kongolo, 2010; Rogerson 2004). The studies found that SMMEs mainly fail as a result of lack of post-mentoring services related to management skills, marketing, training and cash-flow management, to name a few (Chalera, 2007; Kongolo, 2010; Rogerson 2004). Mathibe (2011:101) adds that lack of awareness of support programmes as well as the level of incompetence of the staff that provide the non-financial support programmes waters down the quality of these value-add services to the SMMEs.

This report acts as a study that follows up on the more recent role of these DFIs in the provision of value-add non-financial services and the effectiveness thereof in relation to profitability and expansion of the SMMEs. At present there is limited data that speaks to this. The report outcomes may prove to be useful for DFIs that are responsible for delivering these services, as well as to other consulting firms in the market. The report is significant as it may also encourage the business community and government to generate innovative solutions on ways that can improve these services to aid in the reduction of impairments and better risk management related to non-performing loans.

1.5 Delimitations of the Study

This report is limited to publically-funded DFIs and the support they provide to SMMEs within South Africa and their perceived impact as measured against growth with equity and economic redistribution. This also includes privately run DFIs that receive funding from the DTI, such as the Awethu Project. Further limitations include that the study does not include the financial assistance DFIs provide to SMMEs, that the study is mainly based on perceptions of the respondents and no financials were analysed. Another delimitation is that the study was limited to the Gauteng region. As previously stated, there is limited research in the area of the effectiveness of the non-financial services and their direct on performance and profitability (Musara, 2011). Whilst there are a number of journals that motivate the need for business support services, there aren't a great number that are specific to the topic at hand, so it is hoped that this research will contribute to the field.

1.6 Definition of Terms

1.6.1 Development Finance Institutions (DFIs)

Development Finance Institutions (DFIs) are post-colonial developments designed to provide focused financial support to national and regional development efforts and to bolster economic growth. Development finance is that set of financial flows, largely of a capital nature, that involves investments in development projects or ventures, in income-generating activities, public or private, that operate on the basis of commercial profitability and full cost recovery (Gantsho and Karani, 2007; Musasike, 2004). Within the DFI field there are a range of stakeholders that are involved in design and delivery of non-financial support services.

1.6.2 Impaired loans

A record on which a consumer and/or any of their accounts are classified when they are three or more payments or months in arrears, or which has an “adverse listing”, or that reflects a judgement or administration order (NCR, 2014).

1.6.3 Small business / Small Medium and Micro Enterprises (SMMEs)

According to *The National Small Business Act (102 of 1996),* "Small business" means “a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy and which can be classified as a micro-, a very small, a small or a medium enterprise” (Government Gazette of the Republic of South Africa, 2003). *The National Small Business Amendment Act (26 of 2003)* further defines business according to five categories established by the original act, namely, standard industrial sector and subsector classification, size of class, equivalent of paid employees, turnover and asset value – excluding fixed property (Banking Association of South Africa, 2016).

1.6.4 Non-financial services

These are services provided to SMMEs at different stages of the business cycle and vary according to the business type and need. The typical approach to these business development services include, but are not limited to, business coaching, mentoring, marketing consulting and advisory services, accounting and financial planning, business linkage promotion, technology development and transfer, human resources management, risk management and business club models (IFC, 2012:13; Musara, 2010).

1.7 Assumptions

i. It is assumed that normal perspectives and experiences apply to the respondents

ii. It is assumed that delivery of non-financial support will be beneficial to organisations receiving financial support

CHAPTER 2. LITERATURE REVIEW

2.1 Introduction

SMMEs are viewed as a vital source of jobs in South Africa and as a result the ANC government has invested a great amount of resources in the sector (Tengeh, 2013). The potential of the SMME sector is yet to be realised but it has been identified as the key to reduction inequality and alleviating poverty (Mutyenyoka and Madzivhandika, 2014). In order to create a sustainable SMME sector built to succeed and further the South African economy, the SMMEs have to be able to overcome their socio-economic challenges (Cant, 2014). DFIs are instrumental in assisting with the construction of sustainable SMMEs and have committed themselves to providing financial and non-financial services (Tiriki and Fay, 2013:15). These services are perceived to add value to the enterprises and in turn are expected to create SMMEs that are capable of weathering the socio-economic challenges they face (Muiruri, 2014:259).

This literature review provides an overview of SMMEs and proceeds to elaborate on their role in the South African context, as well as the challenges they face. Thereafter, it looks at the role of DFIs in South Africa, and third, it discusses what benefits DFIs bring to SMMEs in the country. Penultimately, the non-financial services are discussed in terms of the effectiveness of such services on the firm’s performance. The literature review ends with research questions that the research will attempt to provide answers to.

2.2 Small, Micro and Medium Enterprises: SMMEs

As previously mentioned, the official South African definition of SMME according to the *National Small business Act*, as revised by the *Small Business Amendment Act of 2003 and 2004* is:

> A separate and distinct business entity, including cooperative enterprises and non-governmental organizations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy and which can be classified as a micro-, a very small, a small or a medium enterprise (Government Gazette of the Republic of South Africa, 2003:2).

The criteria for an SMME, established for the *National Small Business Act*, and revised by the *National Small Business Amendment Act of 2003 and 2004*, was: number of employees (full time equivalent of paid employees), total turnover and total gross asset value, excluding fixed property (Government Gazette of the Republic of South Africa, 2003). Ayyagari, Beck, & Demirguc-Kunt, (2007) concur with this set of criterion and add that as long as the business, a formal enterprise, has fewer than 250 employees, then it is deemed to be an SMME. Luckas (2005) reiterates the criteria of the number of employees and either their turnover or balance size.

These figures are seen in Table 1, which shows the different criteria for SMMEs, and it further breaks down the requirements for the various tiers ranging from micro-enterprises to medium enterprises, which is based on a complex set of thresholds for the various subsectors. They appear to be complex as it is not entirely clear how, for instance, the micro-enterprise can have larger turnover values that than the small enterprises. The different threshold could help with differentiation that could be used for monitoring, evaluation and tailoring of services to each subset as opposed to a one size fits all approach.

Table 1: Thresholds for the classification for micro, very small, small and medium enterprises in SA

Sectors or sub-sectors in accordance with the Standard Industrial Classification (SIC)	Site or Class	Total full-time equivalent of paid employees (Less than)	Total annual turnover (Rm) (Less than)	Total gross asset value (fixed property excluded) (Rm) (Less than)
Agriculture	Medium	100	5.00	5.00
	Small	50	3.00	3.00
	Very small	10	0.50	0.50
	Micro	5	0.20	0.10
Mining and Quarrying	Medium	200	39.00	23.00
	Small	50	10.00	6.00
	Very small	20	4.00	2.00
	Micro	5	0.20	0.10
Manufacturing	Medium	200	51.00	19.00
	Small	50	13.00	5.00
	Very small	20	52.00	2.00
	Micro	5	0.20	0.10
Electricity, Gas and Water	Medium	200	51.00	19.00
	Small	50	13.00	5.00
	Very small	20	5.10	1.90
	Micro	5	0.20	0.10
Construction	Medium	200	26.00	5.00
	Small	50	6.00	1.00
	Very small	20	3.00	0.50
	Micro	5	0.20	0.10
Retail and Motor Trade and Repair Services	Medium	200	39.00	6.00
	Small	50	19.00	3.00
	Very small	20	4.00	0.60
	Micro	5	0.20	0.10
Wholesale Trade, Commercial Agents and Allied services	Medium	200	64.00	10.00
	Small	50	32.00	5.00
	Very small	20	6.00	0.60
	Micro	5	0.20	0.10
Catering, Accommodation and Other Trade	Medium	200	13.00	3.00
	Small	50	6.00	1.00
	Very small	20	5.10	1.90
	Micro	5	0.20	0.10
Transport, Storage and Communications	Medium	200	26.00	6.00
	Small	50	13.00	3.00
	Very small	20	3.00	0.60
	Micro	5	0.20	0.10
Finance and Business Services	Medium	200	26.00	5.00
	Small	50	13.00	3.00
	Very small	20	3.00	0.50
	Micro	5	0.20	0.10
Community, Social and Personal Services	Medium	200	13.00	6.00
	Small	50	6.00	3.00
	Very small	20	1.00	0.60
	Micro	5	0.20	0.10

(Source: Schedule 1 to the National Small Business Act 1996,
as reviewed by the National Small Business Act of 1996 amended in 2003 and 2004)

Briefly described, the SMME thresholds in Table 1 are as follows:

Micro-enterprise: These have between 5–10 employees and have a turnover of up to R52 million and a total gross asset value of up to R2 million.

Small enterprise: These usually hire a minimum of 5 and a maximum of 50 individuals and the expected turnover is a maximum of R13 million per year with a gross asset value ceiling of R5 million.

Medium enterprise: These firms can have up to 200 employees and have a turnover of a maximum of R64 million per annum. The ceiling for the gross asset value for this band is R23 million.

When one compares these to the developed country standards, the South African thresholds are lower. A lot of the American and European enterprises that are regarded to be small or medium are actually the size of a large South African enterprise (DTI, 2008). This is the result of the different strength of economies, currencies as well as the exchange rates.

Bourie et al. (2011) describe SMMEs as a wide range of businesses that are different in several ways, including their structure, their technological capabilities and their risk appetite. Whilst many of them have not achieved stability in terms of technology, market and sales, others have advanced technically, filling crucial product or service niches. Others can be dynamic but high-risk, high-tech “startups” (Bouri et al., 2011; Musasike 2004). Researchers and practitioners agree that SMMEs are crucial contributors to job creation and economic growth in both high- and low-income countries (Bouri et al., 2011). In a 2013 report prepared by the Southern African Development Community (SADC), they put forward that SMMEs make up a substantial component of the industrial sector and that they are the backbone of most SADC economies. SMMEs are expected to produce for national markets and, to a limited extent, regional markets, but even so they face a myriad of challenges related to capital and other business related support, including quality infrastructure (SADC, 2013). In South Africa, SMMEs make up 34% of GDP and contribute 60% to the labour force (Banking Association of South Africa, 2016). This is indeed a critical role for the sector.

2.2.1 The perceived role of SMMEs in South Africa

This section of the literature review considers the economic role of SMMEs and relates this to the current role of SMMEs in South Africa's economy in relation to the Government's new integrated strategic framework for SMME development (DTI, 2004). In particular, this includes the role of business linkage programmes to further SMME development in the country (Fatoki, 2014).

According to Berry et al. (2002), the economic contribution of SMMEs to a national economy's gross product includes adding value through manufacturing or providing services to consumers or other businesses. At the same time, enterprises also contribute to consumption by purchasing inputs and services that in turn, generate demand within the national economy (Berry et al., 2002; Cofie, 2012; Gumede and Rasmussen, 2002).

Investment by SMMEs affect both supply and demand in the economy by creating more demand for industrial goods and creating more supply through increased production from upgraded equipment, for example (Ahiawodzi and Adade, 2012). There are opportunities for additional income generation for SMMEs from both consumption and capital investments (Ahiawodzi and Adade, 2012; Berry et al., 2002; Cofie, 2012).

It is believed by policy makers and the general public that the mandate of SMMEs in South Africa is to reduce unemployment, alleviate poverty and minimise inequality (Bruwer and Smit, 2015; SEFA, 2015). These three key pillars have been reinforced by policies such as the National Development Plan (NDP) that stipulates that the SMME sector is expected to deliver 90% of the employment opportunities in South Africa by 2030. Furthermore the South African economy is expected to grow by at least 5.4% per year in the next 14 years as per the targets set out by the NDP. This policy plan singles out the SMME sector as a critical source of the growth needed (NDP, 2012). At present the GDP growth rate has not performed to expectation as it has averaged at the 2.97% mark from 1993 to 2015 and the highest GDP percentage being in 1994 at 7.60 and a record low of -6.10% in 2009 (Statistics

South Africa, 2016). This presents a less than ideal environment for the South African SMMEs to operate in, and builds more pressure for them to perform.

The South African case is also complex in that the country has a modern economy that has a declining employment intensity (Fourie, 2013). This is seen in the high unemployment rates that SMMEs are meant to drive down. By definition, unemployment has two strands whereby one is the strict definition and the other is the broad definition. The narrow definition, where they can also be referred to as the searching unemployed, proposes that an individual is only considered to be unemployed if they have attempted to find work or start a business in the last four weeks from the time they are interviewed (Stats SA, 2016:). On the other hand, the broader definition includes discouraged job seekers who want to work but have lost hope of finding work that suits their skill set and as a result have stopped searching (Stats SA, 2016).

The current unemployment rate as per Statistics South Africa (2016) is 24.5% using the narrow definition and 33.8% using the broad definition. Professor Fourie (2013) of the University of Free State argues that in South Africa, economic growth does not always result in employment creation and the current unemployment rates do not tell a different story. In fact, this decline in employment intensity is expected as a function of trends in technology, cost management techniques, rigid labour laws and hostile markets that result in high numbers of retrenchments (Fourie, 2013; Tengeh, 2013; Mutyenyoka and Madzivhandila, 2014).

This high level of unemployment has an effect on income inequality as a significant percentage of the population earns nothing. Income inequality is measured by the Gini coefficient index that relays the extent the income distribution in any country is equal or unequal (World Bank Group, 2016). A Gini index of 0 represents perfect inequality and an index of 100 implies perfect equality. South Africa, according the World Bank Group (2016) has one of the highest indices in the world at 0.69 and as a result the country is ranked 8th out of the top 10 countries with the worst unemployment and inequality rates (International Labour Organization, 2015). Empirical evidence from the Household Report (Statistics South Africa, 2016) states that of the employed population, 46% earn R1200 per month, which is below the poverty line, and supports the ILO's Gini coefficient index of 0.69 (Stats SA, 2014).

SMMEs in South Africa play a part in eliminating poverty, reducing unemployment and reducing inequality (Hendricks et. al., 2015). Fourie (2013) concurs when he mentions that SMMEs are a promising segment in which both self-employment and employment can be grown and they can be used as a training ground for business development and artisanal skills. Upon acquiring such skills, these individuals are able to enter the formal economy should they wish to (Fourie, 2013). It has also been suggested that SMMEs, more especially the micro-enterprises, play a key role in providing employment to formally disenfranchised individuals and more specifically women that make up a greater part, 58% (8.8million) of the discouraged economic inactive population (Tengeh, 2013; Mutyenyoka and Madzivhandila, 2014; Stats SA, 2016). SMMEs have the potential to absorb some of this labour force and help with adopting their skill set to the current economic reality (Lloyd, 2002).

To mitigate the issue of declining employment intensity, a change in both the sectors and types of companies in the economy may be needed. SMMEs need to operate in more labour-intensive areas that create additional employment and skill development opportunities (Berry et al., 2002; Chalera, 2007). Further to that, small and medium enterprises are less mechanised and require more labour to offset mechanisation, have lower fixed and operating costs and are more adaptive to changes in the environment (Kongolo, 2010).

A study by the Global Entrepreneurship Monitor (GEM) in 2004, identified entrepreneurship as a key source of economic transition, job and income-creating growth that can play an important role in creating jobs and income. SMMEs are using new technology, products and services that can lead to increased economic self-determination (Orford et al., 2003). One solution large corporates use to cut costs is to sub-contract production and services to SMMEs who have a low cost structure and are more efficient (Fassin, 2008).

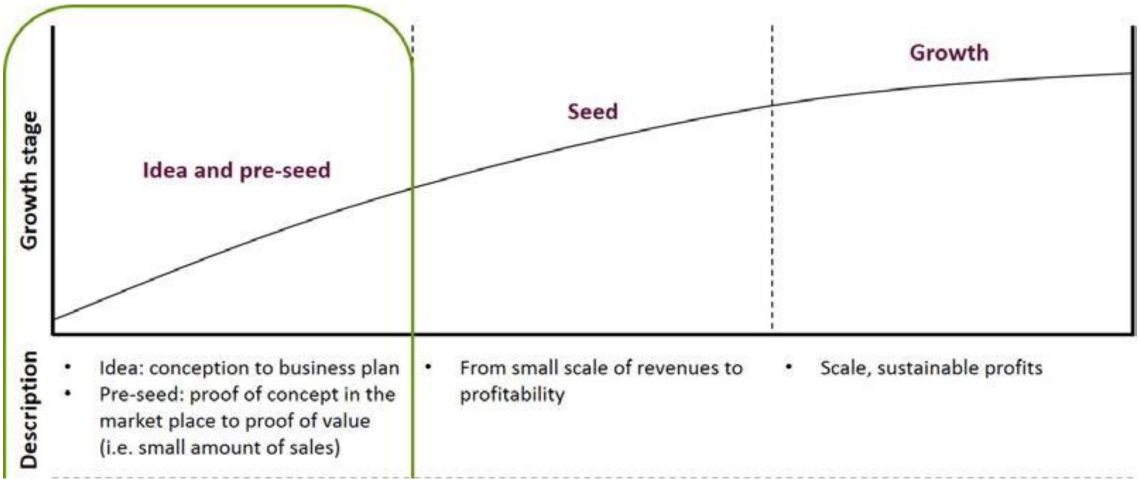
Whilst the general consensus is that SMMEs play a critical role in the reduction of unemployment, there is literature that suggests that this is not the case.

Tengeh's (2013) review of the anti-SMME debate challenges the pro-SMME stance and states that the enterprises are an insufficient source of employment creation as they fail too quickly to actually make a difference. With regard to income inequality, Biggs (2001) challenges the belief that SMMEs reduce inequality, and argues that irrespective of the employee's level of qualification, they have a better chance of earning a better salary at a larger firm as SMMEs do not pay as well (Tengeh, 2013). Empirical evidence from a study conducted in 18 developing countries also found that the positive association between SMME development and economic growth is not strong enough to support the argument about the effect SMMEs have on poverty reduction (Luetkenhorst in Tengeh, 2013). These are some of the thoughts on why SMMEs do not have a critical role in reducing poverty, unemployment and inequality. Whilst these may hold some truth, the individuals that are economically inactive, for instance, would still be better off in a low-paying job than being economically inactive and discouraged.

2.2.2 Challenges of SMMEs

Despite their significant importance and contribution to economic growth globally, SMMEs are still faced with numerous challenges that inhibit entrepreneurial growth (Cofie, 2012; Mahembe, 2011; Olawale and Garwe, 2010). Apart from SMME funding and access to finance, another criticism of the South African SMMEs is that they suffer from poor management skills, which are a result of a lack of adequate training and education, and general exposure to entrepreneurship, as the country prior to 1994 had a dual economy and artificial barriers of entry (Mahembe, 2011). The lack of education, work or business experience, among other obstacles, results in high rates of business failure, which is why South Africa has one of the lowest SMME survival rates in the world (Aigbavboa, Tshikhudo and Thwala, 2014; Ladzani and Van Vuuren, 2002). These are briefly discussed in this section.

SMMEs are confronted with a number of challenges and this is why they are known to fail in the early stages of their livelihood, as seen in Figure 2, which illustrates the business cycle of a venture and how a reported 76% of these enterprises fail within the first three years and the probability of these newly established ventures managing to exist beyond 42 months is even lower (Hendricks et al., 2015).



Source: DTI, (2014:13).

76% SMMEs FAIL IN 1–3YRS

Figure 2. Stage of SMME Growth and failure rate

SMME challenges can be grouped into two main categories, being economic and management issues. Hendricks et al., (2015:89) state that indeed, there are a myriad challenges that an SMME can face but the key factors tend to be the following:

- interest rates,
- inflation rates,
- market conditions (economic environment),
- supply of goods and/or services,
- demand for goods and/or services,
- crime,
- government legislation,
- access to finance,
- management competency,
- staff competency,
- availability of performance measures, and
- taxation.

Mutyenyoka and Madzivhandila (2014) propose that some of the chief challenges faced by SMMEs are the lack of financial resources that can boost the business investments such as inventory, technology and training. In pursuit of growth, for SMMEs the challenges are more human resources oriented. The DTI (2016) also concur with this, suggesting that managerial skills, training skills and a sense of competitiveness are deficient in the SMME sector. Rogerson (2012) is of the belief that the enterprises are in a constant battle against larger firms, which could be avoided if they specialised their goods and services. This would allow them to attract a different set of clients or provide a different offering than that of the larger firms (Rogerson, 2012). Mutyenyoka and Madzivhandila (2014) indicate that when the larger firms do contract SMMEs, the relationship is generally despotic, with the larger firms draining cash flows of SMMEs. They also force SMMEs into supplying goods at exploitive prices that are not sustainable for the firms.

The Small Business Project (SBP) (2014:2) identifies regulatory burden as the main challenge that small business face. The report states that the constant changes and existence of overlapping and very often conflicting regulatory requirements mean that SMMEs are hampered down with repetitive administration tasks which can result in a loss of income. Challenges faced by SMMEs also include high barriers to market entry and a weak entrepreneurial culture (Agwa-Ejon and Mbohwa, 2015).

For the immigrant-owned business owners the challenges (Tengeh, 2013) present in the form of:

- lack of business space,
- lack of appropriate residence permits as a major business start-up obstacle,
- insufficient demand as a start-up obstacle,
- lack of expertise in the concerned business area,
- lack of information on business-related matters as an apparent business start-up obstacle and,
- lack of skilled employees

A recently escalating barrier for foreigners running small enterprises in South Africa is that of xenophobia (Gordon, 2015), in which individuals are harmed or killed, and businesses burned down or otherwise destroyed by locals. This is not something that can be addressed in this study, but may be a topic for future research.

Bruwer and Smit (2015) add to this by listing factors such as the morale of staff, the infrastructure of the organisation and state that a critical factor to overall sustainability is the effectiveness and the relevance of the SMME accounting information system(s). Panday (2013) identifies marketing, compliance, poor business knowledge, financially illiterate owners, rigid labour laws and ignorance to business risk as some of the challenges to SMMEs. The Global Entrepreneurship Monitor (GEM) (2015) reported that the percentage of South African adults that are participating in establishing a new venture has lost traction in the last decade and has experienced negative growth of 34%. The key reason that was cited for leaving business was access to finance (GEM, 2015:21).

If the theoretical assumptions above related to the SMME's role and their challenges are accepted, it is acknowledged that the upgrading of skills in the labour force is pivotal to a prosperous SMME sector. It becomes equally clear that the overall economic success of a country like South Africa depends on the nature and effective implementation of its SMME support policies (Chalera, 2007). This section has reviewed literature related to what SMMEs are in the South Africa and their role as well as challenges they are faced with. In order for the sector to be able to deal with and overcome these challenges, the Department of Trade and Industry in South Africa responded with an integrated strategic framework for the promotion of small enterprise economy with more specific focus in skills development and training (DTI, 2004). This will be reviewed in the next section.

2.3 Development Finance Institutions

The establishment of the Bretton Woods institutions was a landmark in the reshaping of the finance system and the development finance system in particular. This led to the formation of regional economic and political groups who, in turn, established their own development institutions in the 1960s, such as the African Development Bank (Musasike, 2004).

According to Musasike (2004), as more and more countries gained independence and nationhood from Western nations, a number of these institutions were created for political reasons to address the development challenges related to the provision of basic services, creation of jobs, promotion of foreign exchange earnings, the building of better infrastructure and the transfer of technology. In most African countries, South Africa included, the governments inherited a post-colonial infrastructure and service delivery model which had been designed to cater for less than 10% of the population (Frye, Farred and Nojekwa, 2011). The challenge they faced is how to upscale and achieve growth with equity and redistribution while keeping abreast of local global pressures.

The capital flows of DFIs are positioned to provide focused financial support to national and regional development efforts and to bolster economic growth (Gantsho and Karani, 2007; Musasike, 2004). It is intended that the investments go into development projects or ventures, into income-generating activities, either public or private, which generate profit (Gantsho and Karani, 2007; Musasike, 2004). DFIs address market, political or bureaucratic imperfections and asymmetry arising from perceived or actual financial risk by delivering a structured package of support to their clients (Musasike, Stillwell and Makhura, 2004). They seek to address the capital market inefficiencies where private capital is unwilling or unable to bear the risk of providing capital to countries, projects or clients that are considered not credit worthy or fail to qualify for any other reason that can be mitigated (Falkena, Abedin and Blottnitz, 2002). They further seek to fill the fiscal gap between capital for pure public good provided by the state and commercial projects where there is cost recovery (Gantsho and Karani, 2007; Musasike, 2004).

2.3.1 Development Institutions in South Africa

Development Finance Institutions (DFIs) in South Africa go back to 1940, with the establishment of the Industrial Development Corporation (IDC) under the apartheid government to channel fiscal transfers from the South African central government to the so-called ‘homeland’ governments or Bantustans (Musasike, 2004). In 2005, the DTI selected a group of agencies that would provide support to small business in South Africa. These were set up in Eastern Cape, Limpopo, Mpumalanga and Western Cape at the outset and then later expanded into other provinces thereafter. The key national agencies to support Small, Medium and Micro Enterprises that were identified by the DTI in the National Directory at the time were Khula Enterprise Development Fund (Khula), the National Youth Development Agency (NYDA), the Small Enterprise Development Agency (SEDA) and the Tshumisano Trust (NCR, 2011).These institutions were created in the hope that they would help SMMEs that were not recognised under the apartheid government. The agencies were established with a mandate of assisting entrepreneurs to start their businesses, while also creating jobs (Mathibe, 2010; Mathibe & Van Zyl, 2011). Musara (2010:68) relays how several changes have been made over the last decade in the public agency space as a result of underperformance and inappropriate use of state resources by management. The consolidation produced entities such as Small Enterprise Funding Agency (SEFA), which was created in 2012 by merging the South Africa Micro Apex Fund, Khula enterprise Finance Ltd as well as the small business activities of the IDC (SEFA, 2016).

At present, some of the DFIs that exist are the Department of Trade Industry (DTI), National Empowerment Fund (NEF), National Youth Development Agency (NYDA), Industrial Development Corporation (IDC), KZN Growth Fund, Isivande Women’s Fund, Small Enterprise Funding Agency (SEFA), Technology Innovation Agency (TIA), Incubation Support Programme (ISP), and Support Programme for Industrial Innovation (SPII) (Mogashoa, 2015; Funding Connection, 2015). Aside from the IDC, most of the publicly-sponsored programmes are funded by the Government and this in itself has historically created governance issues, among these, exposures by the Mail & Guardian on

Luminance (Donnelly, 2013), where DFIs such as the National Empowerment Fund came under scrutiny for misusing crucial state resources that were allocated outside the mandates of the DFIs to the undeserving candidates (Donnelly, 2013). The role of the DFIs as laid out by the DTI (2014) is to provide services related to business development services, provision of physical space where possible, and funding as per Figure 3. This report will primarily focus on the business development services also known as non-financial services.

2.3.2 Challenges of DFIs

There are a number of challenges that DFIs are faced with and these challenges can impact both the SMMEs as well as the long-term sustainability of the funding agencies themselves.

These challenges include: the

- capability to increase finance for special segment such as black women and young people,
- maintaining a consistent level of service because at present there are long turnaround times for loan applications,
- balancing the strain of tough economic conditions,
- appropriately managing the disbursements,
- managing impairments that increase in tough economic conditions (SEFA, 2015).

On the demand side, evidence from the GEM report (Maas and Herrington (2006), suggests that one of the key causes of failure in the support of small businesses is poor service delivery and, more specifically, the incompetence of the individuals that deliver government support (B. Mahembe, Engelbrecht, & De Kock, 2013; Mathibe, 2010). Another issue that has been difficult for the DFIs that were merged has been seeing the restructuring of the human compliment (SEFA, 2015).

Table 2. Services offered by DFIs

TYPE	DESCRIPTION	EXAMPLES
BUSINESS DEVELOPMENT SERVICES	• Services aimed at strengthening the business acumen of entrepreneurs and the business systems and strategic focus of their enterprises	• Business Strategy Support • System Support • Access to Markets • Access to Finance • People Training and Development • Mentorship and Networking
PROVISION OF PHYSICAL SPACE AND RESOURCES	• The provision of space in which SMEs can conduct operations • Incubators offer various combinations of basic office space, sector-specific resources and meeting facilities	• Office Space • Technical Equipment and Specialized Facilities • Meeting Facilities and Conference Rooms
FUNDING	• The provision of actual financial capital to SMEs or the facilitation of access to financial resources.	• Grants • Equity • Debt/Loans

Source: DTI, (2014 p.13)

This section has reviewed DFIs and their role as well as the challenges in providing services to SMMEs in South Africa. The following section will discuss the non-financial services or business development services that are deemed crucial to create sustainable SMMEs.

2.4 Value-Added Non-Financial Services (NFS)

As previously discussed, DFIs provide financial and non-financial services to SMMEs which are deemed to be of critical important to the sector. Non-financial services can also be referred to as business development services or support. Mago and Toro (2013) define non-financial services as a package of services offered by governments, intermediaries and donor agencies at different stages of a project’s life. Non-financial services comprise training, advice, supply of information, and networking beneficiary enterprises into interactive relationships (Mago & Toro, 2013) as well as leadership interventions, financial literacy education and business development (Biosca, Lenton, & Mosley, 2014). This enables entrepreneurs to expand their operations and deal effectively with the market (Mago & Toro, 2013). C. M. Rogerson (2008) defines key themes as finance, regulatory environment, training and skills acquisition as key factors towards developing smart entrepreneurs capable of competing in a fast changing and highly competitive global market. In most of the emerging nations, the line between public finance and development finance are blurry as a government uses DFIs as key drivers for fiscal transfers and uses them as agents of funding budgetary scarcities (Bouri et al., 2011; Musasike, 2004). South Africa is no different in this case. The IFC (in Musara, 2011) defines business development services as those non-financial services and products offered to entrepreneurs at various stages of their businesses. These non-financial services are necessary as they aim to improve the business operations and strategic directions of SMMEs (Biosca et al., 2014). As previously mentioned, 80% of the businesses fail in the first five years and these business development services hone in on a particular issues being combination of pitiable business strategy and a lack of access to finance (DTI, 2014). Historically, non-financial services excluded the financial aspect, but these services usually come on confirmation of credit (Brinjal, 2008 in Mazanai and Fatoki, 2012). They proceed to mention that government has invested a considerable amount in these programmes.

Otieno, Olomi and Kiraka (2015) define business development as a wide range of non-financial services provided to SMMEs to increase operational efficiency and help them expand their businesses with the broader purpose of contributing to economic growth, employment generation and poverty alleviation. Miehldradt and Me Vay (in Otieno et al., 2015:2) list these services as consultancy, training, counselling marketing support, provision of technology, policy advocacy, infrastructure and access to finance. According to the work of the International Labour Organisation (ILO) and United Nations Development Program (UNDP), non-financial services for SMMEs fall into three broad categories: Advisory services directed towards providing long-term development services to the enterprises in matters relating to strategic management, knowledge transfer, supply of information (Fatoki, 2014). The second category involves advocacy aimed at improving the business environment through policy and infrastructure development at industry level and are usually taken up by Development Finance Institutions (DFIs), public and trade bodies. Lastly, operational services targeted at individual enterprises and including short-term support and hand holding services on matters relating to accounting, financial management, labour, management, legal and regulatory matters (Hallberg, 2000).

2.4.1 Provision of non-financial services

Non-financial services have over the years transformed (Otieno et al., 2015), especially around how they were provided to SMMEs as they were initially Non-Government Organisation (NGO) run organisations funded by foreign donors. However, this saw a rise in corruption and the top-down programmes that were being implemented were inefficient and lacked reach and impact. With the failure of the supply side approach, a demand side paradigm came into place and this saw the SMMEs themselves seeking out the type of assistance they required from the institutions that provided them in their states (Caniels and Romjin in Otieno et al., 2015).

This is the current model in South Africa, whereby the non-financial services are provided by DFIs, where the DFIs are trying to make them a core part of the funding process with pre- and post-loan services to accompany the credit (SEFA, 2015). The provision of such services, however, has not been without its issues.

According to Chalera (2007), there is no doubt that SMMEs can be the engine of growth and employment creation, but that this has not been the case for South Africa. He argues that the failure of the intervention lies within the poor implementation at the hand of DFIs. Execution of the strategy has not been integrated but has rather been a multitude of independent and uncoordinated programmes at the national, provincial and local government levels. Similarly, Kesper (2000) and Bulelwa (2008) criticised the government’s one-size-fits-all approach towards SMME development instead of different segments with separate strategies. There was scope for a combined approach for SMMEs as their needs were similar, and solutions were very different from those of micro enterprises. Bulelwa (2008) gives an example of Ntsika, which had standardised its training programmes for SMMEs. This, however, backfired as the solution did not suit its diverse constituencies. Micro finance enterprises (MFEs) had different training needs to those of small and medium enterprises (SMEs). Chalera, (2007) argues that the co-ordination unit in the DTI, the Centre for Business Promotion had failed in its role as the strategy appeared leaderless and this had resulted in too many programmes, multiplication of development finance and business development service providers at all levels of government whose efforts were uncoordinated, resulting in duplication of efforts. As previously mentioned, the DTI set up the following as key national programmes to support SMMEs, Khula Enterprise Development Fund (Khula), the National Youth Development Agency (NYDA), the Small Enterprise Development Agency (SEDA) and the Tshumisano Trust (Mahembe, 2011; NCR, 2011; Rogerson & Visser, 2007). Some of the above agencies, however, proved unsuccessful in fulfilling their mandate.

Subsequently, with each DTI Annual Review of the DFIs and SMME development, strategic and tactical changes have been made to improve the efficient use of resources and industry performance. Evidence suggests that one of the key causes of failure in the support of small businesses is poor service delivery and, more specifically, the incompetence of the individuals that deliver government support (B. Mahembe et al., 2013; Mathibe, 2010). This failure can manifest itself in many forms, including institutional, capacity, origination, information or failure to facilitate strategic partnerships.

Gumede, Govender and Motshidi (2011) and Agupusi (2007:6), propose that mentors can play a critical role in supporting small enterprises, as part of a highly successful loan programme and this is only possible if the mentors have the relevant expertise (Berry, Von Blottnitz, Cassim, Kesper, Rajaratnam and Van Seventer 2002:36). Otherwise, they bring no value to the process and the programmes use a lot of resources with a poor or non-existent return on investment (Ferreira, 2007; Mathibe & Van Zyl, 2011). Kesper (2007) cites that another issue raised often by female entrepreneurs is that in the provision of these services, they feel that the facilitators are not sensitive to gender and challenges unique to women. The IFC (2006) concurs with this when they state that women have a different set of challenges in the entrepreneurship environment which are as a follows:

- Women are not taken seriously by the business environment and by business finance institutions – “we live in a male dominated society”;
- Women tend to be more empathetic than men and this is perceived as being less business-like, whereas men think that one should be confrontational to succeed “in a man's world”;
- Women tend to be conservative – “men still do the radical stuff” (this from a technology-based incubator programme) – women are not adventurous enough;
- Women lack confidence because of their life experiences;
- Men's perceptions of women – women have to prove themselves all the time;
- Women are, however, perceived as very passionate about their business, which is a key factor of success (IFC, 2006: 53).

In another case, the lending institutions, mainly commercial banks, were very risk averse and in difficult times had tightened their lending criteria whereas one of the ways in which DFIs in countries in Latin America and Asia had been successful was that they provided counter cyclical finance to mitigate market failures, which resulted in limited disbursements (Gumede, 2011). From this we can see that whilst the need for non-financial services is deemed necessary, the provision thereof is not always successful.

2.4.2 Effectiveness of non-financial services

There have been many questions around the effectiveness of non-financial services. Mahembe and Crojin (2003) found that the non-financial services were not effective and this was because programmes created for large numbers of SMMEs only reached a minority of entrepreneurs. According to Otieno et al. (2015), business development services are more successful in the world of donors but for SMMEs there seems to be little perceived value. Mazanai and Fatoki (2012) surveyed 315 SMME respondents in South Africa and they found that there was uncertainty around the benefits and relevance of the business development services. It was also found that there was a high level of neutrality when it came to the experience of SMMEs with business development services. For those who had gone through training, the SMME respondents believed that there were too few business development suppliers, which reinforces the notion that there is a lack of awareness related to these suppliers.

The IFC (2006) undertook their own study that focused on women entrepreneurs. They found that the respondents on the whole believed that some of the services provided were “very good” and these were mainly the training options, however, there was a poor follow-up from the service providers which diluted the benefit (IFC, 2006). There are some businesses that are believed to be effective as a function of their ability to reduce costs in a business. The training and use of accounting information systems (ACI) in SMMEs is one such service Bruwer and Smit, 2015:43) state how the use of ACIs is undoubtedly beneficial to the firm, regardless of its size. ACIs reduce administrative costs, increase the effective collaboration with external parties and improve customer service through greater efficiency. Another issue identified is that non-financial services fail to be effective because the development approach used by the DFIs is too market-optimistic and miscalculates the degree of failure in developing countries (Otieno et al., 2015).

Effectiveness is also only possible if the mentors have the relevant expertise. This was not the case for the Khula Mentorship Programme, as most of the mentors lacked business acumen and failed to understand basic accounting concepts. As a result, they brought no value to the process and the programmes used a lot of resources but the return on investment was poor or non-existent (Ferreira, 2007; Mathibe and Van Zyl, 2011).

2.4.3 Research question 1

What is the role of DFIs in expanding provision and effectiveness of value-added non-financial services?

2.5 Complementarity of Non-Financial and Financial Services

The primary purpose of non-financial support activities is to go as far as possible to ensure survival and success of the small businesses (Mulu-Mutuku, Namusonge, & Odhuno, 2014). In this way, the non-financial support mechanisms go hand-in-hand with the financial support one, in that both are intended to foster the long-term maintenance of the enterprise. Financial services refer to “a wide range of services that are intended to improve and access facilitate access to finance” (Musara, 2011:72). The non-financial services are believed to be helpful and can help reduce the number of impaired loans (SEFA, 2016). In a study done by Musara (2011), the results portrayed these non-financial services as a critical component of improving access to finance for SMMEs. This is found to be the case because SMMEs that make use of the non-financial services are viewed as knowledgeable about how to run their business effectively. The IFC (2006) state financiers should try to make their non-financial offerings more responsive to SMME business challenges and not have a mass appealing offering. To achieve this, senior account managers should often conduct meetings and focus groups with their clients to gain an understanding of their needs (IFC, 2006). The relevance of non-financial services that are created to complement financial services should also be monitored (IFC, 2006). In South Africa, a development strategist, Dr Kate Phillips, challenged the relevance of the content disseminated through DFIs in relation to market constraints that confront that structure of the economy (Bisseker, 2014). Phillips states that in order to rectify or reduce these issues, the “role of SMMEs needs to be integrated into strategic thinking on trade and industrial policy, on participation in value chains and on the levers that exist to shift to a more inclusive growth path” (Bisseker, 2014).

Earlier, Chalera (2007) stated that the failure of the intervention lies within the poor implementation at the hand of DFIs. Execution of the strategy had not been integrated, but was rather a multitude of independent and uncoordinated, irrelevant and non-complementary programmes at the national, provincial and local government levels. Similarly, Kesper (2000) and Bulelwa (2008) criticise the Government's one-size-fits-all approach towards SMME development instead of different segments with separate strategies. There was scope for a combined approach for small and medium enterprises as their needs were similar, and solutions for SMEs were very different from those of micro enterprises. Bulelwa (2008) gives an example of Ntsika, which had standardised its training programmes for SMMEs, but this backfired as the solution did not suit its diverse constituencies. Micro finance enterprises (MFEs) had different training needs to those of small and medium enterprises (SMEs).

Chalera (2007) argues that the co-ordination unit in the Department of Trade and Industry, the Centre for Business Promotion had failed in its role as the strategy appeared leaderless and this had resulted in too many programmes, multiplication of development finance and business development service providers at all levels of government whose efforts were uncoordinated, resulting in duplication of efforts.

2.6 Perceived Effectiveness of Non-Financial Services on Firm Performance

Research has demonstrated a relationship between the *perceived* performance of an SMME, its success and the value-adding services provided by the DFI (Page and Söderbom, 2015). The value-adding services assist with risk management by identifying challenges faced by the SMME and assisting with developing strategies to mitigate same (Dreyer, 2015). Many of the entrepreneurs, especially in the previously disadvantaged majority, are uneducated, are mainly first generation entrepreneurs and have no business experience (Chinomona and Maziriri, 2015). In such cases, DFIs assist with bridging the knowledge gaps through basic training in preparing business plans, monitoring operations and reduction of capital by providing subsidised services including training, equipment in incubation centres, marketing through exhibitions, shows and infrastructure (Dreyer, 2015). By addressing these challenges, the DFIs build capacity in the SMMEs to reduce risk, increase their ability to repay loans and improve performance, and improve business practices and the success of the supported enterprises (Dreyer, 2015; Musara, 2011; IFC, 2006).

Musara (2011) argues that whilst there is a vast amount of literature on non-financial services, their effectiveness in delivering services that help SMMEs overcome obstacles that hinder their expansion and survival has remained questionable. The IFC (2006) also found that banks that offer these non-financial services are unable to calculate their return on investment for the value-adding services that they provide to their clients. They also did not have quantitative measurements of determining the effects of non-financial services on their own profitability or on their SMME clients' business profitability (IFC, 2006). Musara (2011) states that there is no study that has empirical evidence that show if Government's non-financial services for SMMEs are actually able to alleviate the problem of failure. This early stage failure is largely due to two issues: a combination of poor business strategy and skills and lack of access to finance (DTI, 2014).

2.6.1 Research question 2

What are the ways in which the non-financial services complement their own financing activities, including the perceived performance and success of the supported SMMEs?

2.7 Conclusion of Literature Review

In conclusion, this literature review has provided an assessment of the role of SMMEs as well as the challenges they face within the South African economic landscape. Policy makers and the general public believe that the mandate of SMMEs in South Africa is to reduce unemployment, alleviate poverty and minimise inequality (Bruwer and Smit, 2015; SEFA, 2015). This chapter went on to explore the DFIs and their role in relation to the SMMEs, and their challenges laid out by the DTI (2014), which is to provide services related to business development services, provision of physical space where possible, and funding. This report focuses primarily on the business development services also known as non-financial services and the question of whether there is complementarity between the financial services and the non-financial services. It was found that non-financial services are perceived to be beneficial and can help lessen the high prevalence of compromised loans (SEFA, 2016; Musara, 2011; IFC, 2006). In a study done by Musara (2011), the results portrayed these non-financial services as a critical component of improving access to finance for SMMEs. Finally, it explored value-added non-financial services provided by development agencies and their role in supporting the SMMEs. It has been observed and noted by scholars such as Musara (2011) and IFC (2006) that there is no empirical evidence that suggests that non-financial services really do have a positive effect on the performance and profitability of a business.

2.7.1 Research question 1:

What is the role of DFIs in expanding provision and effectiveness of value-added non-financial services?

2.7.2 Research question 2:

*What are the ways in which the non-financial services compliment their own financing activities, including the perceived performance and success of the supported SMMEs**?***

CHAPTER 3. RESEARCH METHODOLOGY

Chapter three outlines the basis for the research design and methodology, aimed at obtaining information that addresses the research question and objectives of the report. The data collection, data presentation, analysis, sample size and selection methods are discussed in this section.

3.1 Research Design

The qualitative approach answers questions about the ‘what’, ‘how’ or ‘why’ of a phenomenon rather than ‘how many’ or ‘how much’, which are answered by quantitative methods (Brick & Palia, 2007). This research report adopts a qualitative approach and attempts to understand the ways in which non-financial services offered by DFIs can support SMMEs. According to Babbie and Mouton (2001, 2004), qualitative research attempts to understand human action from the perspective of the actors who are the subject of research, in this case the Development Finance Institutions and the SMMEs who receive funding and support from them. It allows for a fuller understanding and explanation of the role of DFIs in expanding the provision and effectiveness of value-added non-financial activities, as well as the design and delivery of their services (E. Babbie & Mouton, 2001; E. Babbie, Mouton, J. , 2004).

Unlike quantitative research, qualitative methods take the researcher's communication with the field and its members as an explicit part of knowledge instead of deeming it an intervening variable. The subjectivity of the researcher *and* of those being studied becomes part of the research process (Flick, 2009). Researchers' reflections on their actions and observations in the field, their impressions, irritations, feelings, and so on, become data in their own right, forming part of the interpretation (De Vos, 2005). It was not an exhaustive report as it adopted non-probability sampling, so generalisations cannot be made beyond the organisations and individuals that filled out the questionnaires. The choice of a qualitative research design has inherent limitations in that it relies on a great deal of subjectivity (Marshall and Rossman, 2014). However, although the findings did not reflect a wide population, they may present insights into the non-financial value-adding services provided by Development Finance Institutions as well as their relationships with SMMEs, which may assist these, or other DFIs to provide even more value to SMMEs, and thus help them to become more sustainable.

3.2 Research Methodology

This section outlines the sampling approach, the data collection and the data analysis strategy that was used in the report.

3.2.1 Population and sample

3.2.1.1 Population

A population is a group of well-defined objects or individuals with specific characteristics relevant to the research being undertaken (Stewart and Shamdasani, 2014). In this research the target population includes actors involved in public funding by DFIs to SMMEs in South Africa. The sample frame was DFIs and recipeint SMMEs and the final sample was made up of five (5) purposively selected DFIs and 20 SMMEs. The total count of SMMEs has not been done recently; however in March 2007, the Stats SA Integrated Business Register listed 1.87 million enterprises of which 536 000 were SMMEs. However, this number did not include those operating in the informal sector (DTI, 2007). Both groups were included to give an idea of the congruency between the benefits perceived by each of the groups relative to the non-financial components of the relationship.

3.2.1.2 Sample and sampling method

Sampling is a process of making choices on research subjects, their location and how research will be conducted, meaning the method is linked to the end result (Marshall and Rossman, 2014). This also means there is no “one size fits all” method as this will depend on research context and objectives. The researcher conducted interviews, mainly telephonic, with the purposively selected sample of five DFIs and 20 SMMEs as respondents did not wish to have face-to-face conversations, which they felt tended to be time consuming. Patton (1990) describes purposive sampling, which may be referred to as judgement, selective or subjective sampling as a non-probability sampling method that is considered to be a deliberate effort to gain representative samples by including groups or typical areas in a sample. Also, in this case the researcher relied on his own judgement to select sample group members, which is a key characteristic of purposive sampling (De Vos, 2005). Whilst the South African standard states that a minimum of 40 respondents is needed to make a sound sample, Burmeister (2012) and Sandelowski (1995) argue that there is no commonly accepted sample size for qualitative studies because the best sample depends on the purpose of the study, research questions and richness of the data. Notes were taken instead of recording the interviews at the request of respondents. There was use of item rating and open ended questions, emailed prior to the calls. The results provided the necessary exploratory evidence on the role of DFIs in the provision of value-adding non-financial activities and perceived impact on the performance of the portfolio and indicate areas for further research. Purposive research typically uses small sample sizes to gain in-depth views, and there is no intention to draw statistical generalisations from of the results (Bazeley, 2004).

The particular stakeholders in this research were chosen because they had a direct role in designing, allocating, receiving or administering the programmes that provide non-financial services (Palys, 2008; Peter, 2010).

3.3 The Research Instrument and Data Collection

Specific selective groups, in this case DFI staff and SME owners, participated in the survey. The questionnaire was emailed to the respondent and later used as a template to capture data from telephone interviews. There was a low initial response to the email request, so the researcher followed up with telephone calls, and as a result 15 of the interviews were carried out over the phone with the researcher capturing responses by taking down notes. The use of a non-probability sampling approach does not allow for generalisation (Davis, 2015). However, the purpose of the study was not to generalise, but was exploratory with the intention to begin to gather perspectives and opinions from the samples, on which future research could be based. After contact was established with the group of respondents, item rating and open ended questionnaires were sent to the DFIs and SMMEs to be completed within two weeks. This was followed up by calls to encourage respondents. Once they had filled out the questionnaire, they were asked to email them to the researcher for analysis. Out of the 20 SME questionnaires mailed, only three responded by email and the rest of the respondents were interviewed telephonically (see comment on results). However, 80% of the Development Finance Institutions responded to the e,ail requests, with one unable to participate due to company policy.

3.4 Data Analysis and Interpretation

Information gathered was manually coded into main themes, categories and sub-categories. These were linked to the broader objectives of the report and surveyed groups. All responses gathered from email and telephone interviews from DFIs and SMMEs were reviewed to get a sense of the whole and drew out key ideas which formed the basis of the concepts, themes and categories. These were reviewed by linking them to the literature review.

Tesch’s (1990) approach was used for first stage analysis.

Steps included:

1. Reading through all the questionnaires returned and phone responses to get a sense of the whole.
2. The researcher then drew out key ideas in the questionnaires which formed the basis of the concepts, themes, categories and sub-categories. This was done manually.
3. The findings were discussed in the context of the literature and the conceptual framework provided by the literature review (Tesch, 1990).

3.5 Ethical Considerations

In terms of ethical considerations, a researcher needs to have appropriate training and preparation for conducting research (De Vos, 2005). De Vos (2005) further highlights that privacy, anonymity and confidentiality should be considered. The interviewees' names are not used in the report. The questionnaire was approved by the ethical committee and respondents were informed prior to the research of the goal or purpose of this research report. Information obtained from the questionnaires was to be used only for the purposes of this research and no names would be published.

3.6 Limitations of the Study

There were some limitations that presented themselves in the study. Firstly, there was a limitation when it came to DFIs not wanting to release relevant data in relation to the number of SMMEs that have received non-financial services and what the outcome has been. Several DFIs and consulting firms such as SADL, who provide non-financial services on behalf of DFIs, were approached for statistical data that could have been used for the literature review and none of them wished to comment or release factual data related to this issue. The researcher also had a limited number of responses from the SMMEs with only 20 respondents and five DFIs being telephonically interviewed. The sample size therefore works as a limitation and the results, whilst useful, cannot be generalised in South Africa where 40 is the general minimum useful for statistical purposes (Marshall, 1996; Statistics South Africa, 2015). Another limitation pertaining to the sampling technique was that purposive sampling can make it difficult for the reader to judge the trustworthiness of sampling if full details are not provided (Elo et al., 2014).

3.7 Validity and Reliability

When it comes to reliability and validity, the key question to be asked is whether the findings of an inquiry could be repeated if it were replicated with the same or similar participants in the same context (Lincoln and Guba, 1985; Polit and

Beck, 2012 in Elo et al., 2014). The criteria these scholars require for establishing credibility is that researchers should make sure that the population and sample are clearly identified and described accurately (Lincoln and Guba, 1985; Polit and Beck, 2012 in Elo et al., 2014). In this case the study would be able to yield the same results as for the same participants or a similar study. According to Moretti et al. (2011), the advantage of qualitative research is the richness of the collected data and such data need to be interpreted and coded in a valid and reliable way

CHAPTER 4. PRESENTATION AND DISCUSSION OF RESULTS

In this chapter the findings of the surveys are examined, together with the value-added activities and the perception of the importance of same by Development Finance Institutions and Small, Medium and Micro enterprises.

4.1 Introduction

In the methodology section, the researcher highlighted limitations in the sample size which had to be small and convenient and a response rate which was initially very low, necessitating the need to conduct interviews over the phone; this, as stated above, has an impact on the quality of the research. Further, the researcher cross referenced the results with literature pertaining to the DFIs and the impact of value-add activities on SMMEs enterprises in South Africa.

4.2 Research Question 1: Results and Discussion Pertaining to the Role of DFIs

In relation to the profile of the DFI respondents, they held very senior position in the respective DFIs and the results indicate lack of experience, a partial reason for the limited success as the advisors themselves were learning on the job and at most possess theoretical and very limited practical experience.

Table 3. Respondent profiles

DEVELOPMENT FINANCE INSTITUTION	RESPONDENT'S WORK EXPERIENCE
DBSA	15 Years
IDC	2 Years
SEFA	2 Years
NEF	5 Years
SEDA	2 Years

On average, the officials are 33 years old with five years' job experience, but if we remove the outlier from the DBSA, this drops to 2.7 years as seen in Table 3. Lack of experience has affected both the performance of the DFIs and their beneficiaries in long-standing institutions like the IDC due to its inexperienced staff. It has performed well and is self-sufficient and can independently source funds from capital markets. Work experience has an impact on the performance of the DFI's ability to discharge its mandate. Areas affected include selection of clients, evaluation of proposals which affects the risk management aspects of the business and its capacity to dispense advice, loans and monitor the SMME thereafter.

In relation to Section B of the questionnaire, the respondents, as seen in Table 3 (above), were asked eight questions pertaining to their perceptions around the role they play, challenges they experience, success and failures, SME development and whether the organisations were demand or supply oriented.

4.2.1 Institutional mandate and poverty alleviation

When asked what the mandate of their organisation was, three out of five DFIs referred to empowerment (of SMMEs) as part of their core mandate. Three mentioned employment creation, two stated community stabilisation and working through local government authorities, as well as providing funds to other DFIs. The NEF mentioned upliftment of youth as part of their mandate, whilst SEDA mentioned advocacy as part of their mandate. When asked if they were of the impression that their offering contributed towards poverty alleviation, all five respondents believed they were doing so to a great extent.

The DFI respondents' answers were slightly in line with literature as they mentioned financial support and reinforcement of economic growth by investing in development projects (Gantsho and Karani, 2007; Musasike, 2004). The respondents did not mention that their mandate is to address market, political or bureaucratic imperfections and any other issues that may arise by delivering structured packages as mentioned to be the role of DFIs (Musasike et al., 2004; Falken et al., 2002). In light of the economic outlook of the country, it may be that employment creation and empowerment should be considered to be part of the remit of the DFIs.

4.2.2 Services offered and non-financial services offered

When it comes to services offered by the DFIs, SEDA listed the most number of services: leverage networks, infrastructure, information, incubation centres, information kiosks, finance, advocacy and financial inclusion. SEFA stated theirs to be post-loan mentorship, infrastructure, network of partnerships and finance. DBSA and IDC were brief and mentioned that they offer technical support, strategic outlook and funding to other DFIs. The NEF reported providing mentorship, finance and network partnerships.

For the non-financial services provided, SEDA mentioned infrastructure, financial education, training, advocacy and financial inclusion. SEFA simply stated that it had a holistic integrated approach whilst the IDC listed indirect support through funding other DFIs as well as infrastructure. NEF mentioned finance and mentorship. The mention of finance as a non-financial service by four DFIs is peculiar and is perhaps an indication of not knowing the difference between financial and non-financial services.

When relating back to literature, SEDA was the only DFI that had a robust understanding of the general services a DFI should provide when compared to the rest (SEFA, 2015). As far as non-financial services, the respondents failed to mention services such as consulting, supply of information, counselling, and marketing support, provision of technology, policy, strategic management, knowledge transfer, accounting, labour, and management, legal and regulatory matters which are deemed important by scholars such as Miehldradt and Me Vay (in Otieno et al., 2015) and Hallberg, (2000). This is not to say these DFIs explicitly do not provide these services, but the results may be a function of the limited knowledge of the respondents. However, from the literature review, SEFA (2015) did state that the current model in South Africa is one that prioritises the provision of funding as well as non-financial services.

4.2.3 Success, failures and ongoing challenges of DFIs

When asked what the successes, failures as well as ongoing challenges of the DFIs were, the researcher was hoping to gain insight into some of the reasons why there may be problems that stop the DFIs from performing their role in expanding provision and effectiveness of value- added non-financial services to SMMEs.

With regard to successes, the IDC mentioned that overall it had a good track record and had created a successful model that other nations revered. SEDA believed their success was in the form of the ongoing support they received from the National Treasury as well as their holistic approach to the provision of the integrated services. SEFA was successful in their ability to disburse a great amount of funds to SMMEs, which has seen continuous growth since the consolidation.

In terms of failures, the NEF was the only DFI that acknowledged the fact they were supply-driven as a form of failure. SEDA and SEFA both reported that they suffered with poor performance and were struggling in terms of their loan repayments and return on investments in that respective order. SEFA stated that there was political interference in their organisation which they deemed a failure for the funding agency.

In relation to the perceived challenges, SEDA, SEFA and the NEF found political interference to be a major challenge, whilst corruption was only seen as a challenge by two DFIs. Other factors were volatility of the markets (SEFA and IDC) and governance, tax and infrastructure (DBSA and IDC). SEFA raised the issue of high loan impairment rates as well as the ongoing efforts to smooth the consolidation process of a group of DFIs that became SEFA. None of the DFIs mentioned adequate or competent human resources as a challenge.

When compared to the literature, the key themes that the DFI respondents picked out were poor loan repayments and the issue of restructuring that led to a fractured human compliment, although this was not mentioned in totality (SEFA, 2015). On the other hand, none of the DFI's responses mentioned the key causes of support of failure of SMMEs being chalked up to poor service delivery and the incompetence of the people that deliver services (Maas and Herrington, 2006; (B. Mahembe et al., 2013; Mathibe, 2010).

4.2.4 Role of State and the demand/supply approach

The perceived role of the Government was to provide a conducive environment for DFIs and SMMEs to operate in, as well as providing funding, health and safety support and driving financially inclusive policies. Lastly, three out of the five DFIs viewed themselves as supply driven whilst the larger two, IDC and DBSA, viewed themselves as demand driven. The findings related to the demand and supply orientation confirm that view that there isn't a consumer-driven approach; instead the DFIs tend to roll out programmes that have a one size fits all approach and are not tailored to the needs of the SMMEs (Kesper, 2000).

Table 4. DFI responses to questionnaire section B

NAME OF DEVELOPMENT FINANCE INSTITUTION	MANDATE OF INSTITUTION	SERVICES OFFERED	SUCCESS AND FAILURES	MAJOR CHALLENGES	ROLE OF GOVERNMENT	POVERTY ALLEVIATION	SME DEVELOPMENT	DEMAND OR SUPPLY DRIVEN
SEDA	Empowerment	Leverage network	Poor performance	Political interference	Conducive environment	Great extent	Infrastructure	Supply
	Advocacy	Infrastructure	Treasury support	Corruption	Funding	Grassroots	Finance	
	Employment creation	Information	Holistic approach	Low return on income	Health, safety and environment	Broad representation	Training	
	Community stabilisation	Incubation centres	Integrated services			All eight	Advocacy	
	SMME exhibitions	Information kiosks					Financial inclusion	
	Trade shows	Finance						
	Road shows	Advocacy						
	Awareness campaigns	Financial inclusion						
SEFA	Empowerment sustainability networks	Mentorship	Poor performance	Volatile markets	Financial inclusion	Great extent	Holistic integrated approach	Supply Developmental intervention
	Employment creation	Infrastructure	High disbursements of funds	Political interference	Developmental approach			
	Community stabilisation	Network of partnerships	Political interference	Loan repayments	Funding			
		Finance	Tailored services	DFI consolidations				

NAME OF DEVELOPMENT FINANCE INSTITUTION	MANDATE OF INSTITUTION	SERVICES OFFERED	SUCCESS AND FAILURES	MAJOR CHALLENGES	ROLE OF GOVERNMENT	POVERTY ALLEVIATION	SME DEVELOPMENT	DEMAND OR SUPPLY DRIVEN
IDC	Empowerment of Small, Medium and Micro enterprises and communities they reside in	Technical support and broad strategy	Integrated services	Governance	Framework	Great extent, infrastructure	Indirect support through funding funders	Demand Developmental approach on a profitable basis
	Works through local Government authorities	Fund/Funders	Augment areas of need or perceived weakness	Infrastructure	Intervention via sustainable DFI		Infrastructure	
	Fund of funders		Successful model of DFI for BRICS	Tax, market volatility	Sustainable policies			
DBSA	Works through local Government authorities	Technical support and broad strategy	Augment areas of need or perceived weakness	Infrastructure	Conducive environment	Great extent, infrastructure	Indirect support through funding funders	Demand Supply Developmental approach
	Fund of funders	Fund/Funders		Tax, health and environment	Framework		Infrastructure	
				Governance	Funding			
NEF	Youth	Mentorship Finance networks	Supply side driven	Corruption political interference	Conducive environment funding	Great extent	Finance Mentorship	Supply

4.3 Research Question 2: Results and Discussion Pertaining to Perceived SMME Performance and Non-Financial Services

The questions answered by the SMME respondents interviewed covered the type of business the enterprise conducted, location, and the challenges that resulted in them approaching the DFI for their services. In terms of performance of the business, profitability and expansion were the key factors measures. The SMMEs also rated the level of involvement with the DFI as well as whether the DFI had met their needs as seen in Table 5 (below).

4.3.1 SMME sector and location

In terms of the variety of SMME respondents, there was a different range of businesses ranging from medical, retail, manufacturing and construction, in different locations. However, at the researcher's convenience, most Johannesburg-based businesses were approached. There were also respondents from Umlazi, Pretoria, Parys, Ladysmith and Durban. The variety of the businesses approached aligns itself to the literature that businesses are generally different in their structure, products, services, technological capability, markets, sales and risk appetite (Bouri et al., 2011; Musasike 2004). This means that the challenges these SMMEs face will also be different and the solutions provided will need to be tailored to each business.

4.3.2 Challenges

When asked what challenges the SMMEs experienced, the respondents were given eight services from three broad categories, being advocacy, advisory and finance to choose from. These categories cover the type of service they received from the DFI and are in line with Hallberg's categories (2000).

When it came to the SMMEs using the DFIs as a sounding board, there were seven firms that had approached the DFIs for assistance in this regard. The medical consulting rooms, for instance, mentioned how they had previously expanded but with too many “teething” issues. They were looking to expand yet again but sought assistance related to business planning, cash flow management and budgets. The owner mentioned that whilst she was a good medical professional, she lacked business acumen. The beauty therapist also wanted to expand, however, she did not like the DFI’s suggestion that she get a loan. She felt that as a micro entity, they should have considered giving her a grant. Her business has been running profitably since August 2012 but she has not expanded her capacity beyond two employees in a salon that could accommodate at least six employees. The business had also sought mentoring with regard to rent negotiation. Her business is based in Randburg, but away from the crowded Randburg CBD and she had managed to secure a good location for her business in a prime location. The owner’s challenge came to when the landlord would unpredictably increase the rent on a monthly basis and create reasons as to why this was the case. The DFI coached her through what the legal process of such a matter would be and she has since used this approach to negotiate her rent. The traditional food outlets, retail liquor store, and the property business all wanted advice regarding franchising of their business. The manufacturing company and the cleaning firm required assistance with their expansion plans and the florist in Fieldshill also sought mentoring services on how to run a business.

When compared to literature, the services sought by these firms were not different from those deemed to be non-financial services in the literature. Financial assistance was also added to the list as this was required by at least three of the 19 firms. Each of these firms had different problems and sought solutions offered by DFI that were suitable to their business life cycle (Mago and Toro, 2013). The non-financial services that were sought are necessary as they aim to improve the business operations and strategic directions of SMMEs, especially for the owners planning to expand and increase operational efficiency (IFC, 2006; Otieno et al., 2015).

Each of these participants approached the DFI for some form of assistance and as the medical professional mentioned, she lacks business acumen which is why she had so many obstacles in her previous expansion. It is simple things such as this that results in high SMME failure rates (Aigbavboa et al., 2014; Ladzani et al., 2002). The printers brought up the issue of struggling for business against competition, which echoes Rogerson (2007) who believes that SMMEs are constantly struggling to compete with larger firms and for this reason face profit loss and possible closure, as is the case with the printer. Mahembe (2011). Also points out that poor management skills are also a major issue apart from SMME funding and access to finance.

4.3.3 Profitability, expansion and DFI involvement

In relation to profitability, of the 20 businesses, 16 stated that they were profitable, while two managed to break even and one was still too new to report. The printing firm was the only business that wasn't profitable. The SMMEs were asked if they had experienced growth in the business and the type of expansion it had led to. Three types of expansion they chose from were: the employment of more people, increased revenue or the opportunity to increase capacity by either getting a new branch or franchising the business. The only business that did not expand was the printing firm that was hoping to move premises to increase their chances of surviving. Eleven enterprises stated increased revenue, while four cited expansion through new branch development and three SMMEs linked their growth to an increase in the number of employees they now had.

When asked to rate the degree of involvement the SMME had when working with the DFI, the respondents were also asked if their expectations had been met by the DFI. The respondents were asked to rate between 0–5, where 0 was poor and reflected a poor level of involvement and 5 reflected an excellent level of involvement. The beauty therapist gave a rating of zero and answered that the DFI had not met her expectations. The manufacturing company that needed guidance related to an acquisition was also of the opinion that there was a poor level of involvement and the DFI failed to meet their expected outcomes. In total, eight firms gave a poor rating (between 0–2) and six of these eight felt the DFI did not meet their expectations. Three firms gave the DFI's involvement an average rating (3) and all of them were of the belief that the DFI had met their needs. Eight firms felt that their degree of involvement with the DFI was above average (4–5) and all eight felt the DFI had met their needs.

Literature states that there is little perceived value for business development for SMMEs and that usually non-financial services fail because they are too market optimistic. As such, effectiveness is only possible if the mentor has relevant experience (Otieno et al., 2015), otherwise they bring no value to the process and the programmes use a lot of resources but the return on investment is poor or non-existent (Ferreira, 2007; Mathibe and Van Zyl, 2011).

The majority of the respondents felt the DFIs met their expectations in relation to the non-financial services they required. However, this does not imply that there was a direct effect on the interventions to the business but may just mean that they may have been informative. This is in line with literature that states that while there is a vast amount of literature on non-financial services, their effectiveness in delivering services that help SMMEs overcome obstacles that hinder their expansion and survival has remained questionable (Musara, 2011).

Another issue in this instance was that the questions were not directly linked and therefore correlation could not be drawn. The interesting correlation was between the high number of individuals that felt their needs were met and those running profitable businesses. One might argue that this is in line with literature which states that these services are in fact useful for mitigating risk by identifying challenges faced by the SMME and assisting with developing strategies to mitigate same (Dreyer, 2015). An example of this would be the medical consulting rooms that was hoping to reduce the number of obstacles in their upcoming expansion and the beauty therapist that finally overcame the issue of the rent negotiation.

Table 5. SMME responses to questionnaire

SME Sector	Location	Pofitability	Expansion	Expansion type	Sound Board	Developing Cashflows/ Profit Budgets Business Plans	Coaching Mentoring	Seeking Additonal Finance	Evaluating Business Proposals	Identifying Partners BEE or Technical	Management Recruitment	Personal Institutional Network	Needs met by DFI	Deg of involvement with DFI
Beauty/Therapy	Randburg	Yes	Yes	Revenue		CFP/PB	Rent negotiation						No	0
Retail Energy	Northcliff Corner	Breakeven	Yes	Revenue							Management		No	2
Medical Consulting Rooms	Greenside	Yes	Yes	Revenue	Expand to polyclinic	Business plan/CFP/PB							Yes	4
Traditional Food Outlet	Umlazi	Yes	Yes	Employees	How to franschise	Business plan				Technical			Yes	4
Construction	Krugersdorp	Yes	Yes	Revenue						BEE partner			Yes	3
Bakery	Pretoria North	Yes	Yes	New branch	Expand to townships			Funding		BEE partner			Yes	4
Manufacturing	Gauteng	Breakeven	Yes	Revenue	Expansion				Acquisition				No	0
Retail Food	Parys	Yes	Yes	Revenue		Business plans		Funding					No	1
Veterinary	Johannesburg	Yes	Yes	Increased capacity					Disposal				Yes	2
Retail Liquor	Ladysmith	Yes	Yes	New branch	Export /Franchise	Business plans		Funding			Capacity		Yes	5
Retail Tyre/ Tyre Fit	Northcliff	Yes	Yes	Revenue					Disposal				Yes	5
Fast Food Franchise	Harrismith	Yes	Yes	New branch					Expansion				Yes	5
Property	Soweto	Yes	Yes	New branch	How to franschise								Yes	3
Printing	Pretoria	No	No	None		Marketing Plan							No	2
Cleaning	Durban	Yes	Yes	Employees	BP for expansion								Yes	3
Retail florist	Fieldshill	Yes	Yes	Revenue			How to run the business						No	1
Butchery	Brixton	Yes	Yes	Revenue and employees					Merger or Acquisition				Yes	4
Pharmacy	Mamelodi	Yes	Yes	Revenue								Access to doctors	Yes	4
B & B	Soweto	New	Yes	Revenue						Technical			No	2

4.4 Summary of the Results

The purpose of the research was to investigate the effectiveness of non-financial assistance provided by publicly funded development finance institutions and the impact of these interventions on SMMEs, as well as the consistency in the results achieved as a result of the non-financial assistance. In this chapter we sought to look at the results of the research and literature review and the conclusion was that they have a role to play in advocacy, business development and provision of space and resources. Secondly, in both successful and less successful models, there is a link between the services offered, DFI and SMME skills levels and performance of both the parties.

The IDC and DBSA have built capacity and track record. IDC has a commercially profitable and self-sustainable model that enables it to operate independent of state funding and instead tap global development capital. On the contrary, the rest of the public-funded DFIs have become more dependent on state funding and are unsustainable. Key differences are experience (length of service), management capacity, a combination of lack of experience, political appointments and instead of placing emphasis on the DFIs as catalysts, which are critical for employment creation, poverty alleviation and reduction in income equality they have become an end instead of a means to an end. This success has not been the same with the other DFIs, as due to low levels of experience, staff are learning on the job and are limited in terms of the quality and knowledge of the advice they impart. Secondly, due to the size of most of the enterprises supported and loan disbursements, because of the shear volumes they deal with their capacity is stretched in terms of portfolio size, technology to track and monitor and post loan support. Also, unlike the IDC and DBSA who can attract high quality talent to represent them on company boards, with the small and micro enterprise this model has not been successful.

Strategies at national level have in the past seen a fragmented approach with multiple layers of players from national to the local levels, duplications and often unhealthy competition, and inefficient use of resources even though funded by the same source. The creation of SEFA is the latest attempt to improve efficiency, streamline activities and increase funding. One of the key criticisms of Government's efforts has been its one-size-fits-all approach –Khula's failure, among others, was its singular training for all SMMEs as these segments had very different training needs, and while small and micro finance enterprises had similar needs, these were not the same as the needs of medium sized enterprises.

When looking at results we can also see that there appears to be a disconnect and poor level of knowledge of what the organisations are about and what their offerings are. This was reflected in some of the answers where DFI respondents referred to finance products as non-financial services.

In relation to the second research question, seven broad value-add activities were identified as having impact and the first four were deemed to have greater impact as per demand by small and medium enterprises. These seven activities were a sounding board for the entrepreneur, mainly in developing businesses and marketing strategies, developing business plans, identifying business partners, coaching, mentorships, and network and management recruitment. These services mitigated the challenges faced by SMEs, especially those run by first generation entrepreneurs. There seems to a positive perception of the role that the DFI plays among the respondents. While most firms were profitable and were seeking expansion, the link between non-financial services and performance is still questionable.

CHAPTER 5. CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The focus of this chapter is research outcomes, areas of further research and comparisons.

5.2 Conclusions of the Study

This research set out to increase the understanding of the role played by DFIs in the SMME sector, in particular the value added by non-financial services provided by public funded DFIs and the perception by both parties of its importance. The literature review and research explored the role of DFIs and indicated development areas in expanding the provision and effectiveness of value-adding non-financial activities.

While there is no one size fits all approach to the role played by DFIs, the literature review and research conducted illustrated the relationship between the DFIs, SMMEs, the non-financial services and the performance of the enterprises. The DFIs play a critical role and there is the perception that they are able to meet the needs of SMMEs. However, this has not brought down the failure rates in the SMME arena and the unemployment rates in South Africa and one is forced to ask why these these perceptions are positive?

For some SMMEs, the quality of the service provided and outputs in performance of the SMME has dispelled the perception that DFIs were capable of meeting their needs. Whilst results show that DFIs have an understanding of what their role is, there is a possibility that the stakeholders within them are not aware of the actual content and the differences of the programmes.

5.3 Recommendations

Generally, both parties agree that DFIs have a critical role to play in the development of the SMEs and that the above activities have an impact on the performance of the portfolio as they mitigate key challenges faced by the SMEs. While affirmative action is officially aimed at opening up space for the previously disadvantaged, many corporates could do well to develop second tier suppliers to their long-term advantage along the model of the Anglo Zimele – the symbiosis between the ox and the ox-pecker. The ox-pecker is a bird seen following or often perched on cattle or buffaloes. It feeds on ticks and other parasites, which, if left unattended, would cause infection and disease to the buffalo. There is a symbiotic relation between the two). This type of relationship would augment the efforts of DFIs, many of whom are hampered by a lack of operational experience in the sector they are trying to support. Further, these relationships have a mutual interest as their success bodes well for both. In its 2015 reports SEFA cited failure in its role as a wholesale funder. In this role it provided guarantees to banks to facilitate lending to the SMMEs. However, the threat to their interest and the banks' interest was not as extensive as banks were cushioned by the guarantee and so had very little incentive to invest in post loan monitoring and were quick to call the guarantee at the first sign of trouble.

In practice, Anglo through its internal DFI/venture capital firm, Zimele, promotes SMEs who in many cases offer services to the group. Run internally, these services would be inefficient and costly but instead are provided efficiently through outsourcing. Zimele not only co-funds these activities through equity participation but also provides the business discipline and support services from its operations to ensure success.

This model is similar to the DFIs/SMEs relationship, however it has better results as it is run on commercial lines and the parties are largely dependent on each other with mutual interest in success. The SME is incentivised to perform as, in most cases, the group is its large customer and failure would result in loss of contract and revenue while the large corporate is incentivised to do the same as failure would result in costly loss of production and political capital. Diversity on the board and advice from tried and tested executives tends to produce very good results and both the funder and borrower meet their mandates for growth, equity and redistribution. The results were in line with the literature, however, irrespective of this, the researcher would recommend a larger sample and quantitative statistical analysis for credibility.

5.4 Suggestions for Further Research

This report has explored certain relationships between DFIs and SMMEs in South Africa, and these may find larger, statistical studies of value. The research found that most SMMEs prefer a franchise arrangement or outsourcing to a large corporate as it brings similar support services as from a DFI plus bulk purchase along efficient commercial lines. The tender processes are more transparent than is the case with government spend which is often in favour of a select few with connections to the ruling party, and in addition, large corporates provide skills and experience SMMEs need to bridge the gap.

This report suggests the following areas for further investigation, among them:

1. How the country can benefit from white skills displaced by affirmative action, not only for economic growth and job creation, but to realise the dream of our founding father, Nelson Mandela, to have a rainbow nation in which all will play a role to the best of their ability and not be measured by the colour of their skin, race or religion. In short, level the playing field and achieve growth with equity.
2. Explore factors that influence the performance of the sector and what can be done to extend and grow financial inclusion and the opportunities it offers to entrepreneurs. These could include use of university students who either adopt a project as part of their course or are attached for a year to gain practical experience, or use of retired executives – a proven concept for mentorship, even in big business. This would be their contribution to the nation, a “national service”.
3. The history of most state-controlled DFIs indicate major leakages and inefficiencies in some DFIs, among them SEFA, NEF and very high

performance in others like IDC, even though they all report to the same authority. Is there a case for cross-fertilisation of ideas or mentoring to enhance the performance of the poor performers?

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APPENDIX A

Actual Research Instrument

<u>MBA Research Questionnaire</u>

Topic: Value-adding non-financial support activities of Development Finance Institutions to Small and Medium Enterprises in South Africa.

My name is Christopher Thompson, an MBA Final Year Student with Wits Business School. As part of the requirements of the degree programme, I am currently conducting a research research project on value-adding non-financial support activities of Development Finance Institutions to Small and Medium Enterprises in South Africa.

Kindly spare some time to answer this questionnaire. There are no wrong or right answers: it is only your factual response that matters. All information you provide will be treated as confidential. You will notice that your name and address will not appear on the questionnaire and that there is no identification number. This questionnaire is purely for academic research and all the information received will be treated in the strictest of confidence. Please note that you also have the right to pull from this study at any time should you wish to do so.

If you have any questions you wish to ask or there is anything you wish to discuss, please do not hesitate to telephone the researcher on the following numbers +27832836509 or email christopher.thompson@rocketmail.com. Thank you in advance for your assistance in this matter.

Christopher Thompson

QUESTIONNAIRE

INSTRUCTIONS

IMPORTANT INSTRUCTIONS

a) Your name will not be used in any of the research documents.

b) All answers provided will be in confidence and will only be used for purposes of this research.

QUESTIONNAIRE FOR DFIs

Table 1. DEVELOPMENT FINANCE INSTITUTION RESPONDENT PROFILE

SECTION A				
DEVELOPMENT FINANCE INSTITUTION	DESIGNATION	MALE/FEMALE	AGE	EXPERIENCE

SECTION B

1. What is the mandate of your institution?
2. What services do you offer?
3. Can you elaborate further on non-financial support provided?
4. What do you perceive your successes and failures to be?
5. What do you perceive your major challenges to be?
6. What do you perceive the role of the state in SME and DFI development to be?
7. Based on your offering, do you think you are contributing to poverty alleviation?
8. Would you say that your organisation's support is driven by demand?

SECTION C

SMME Respondent

1. What is your type of business?
2. Where is business located?
3. Which value add provided by DFI as seen in table below have you used?
4. Rate the degree of involvement of the DFI you are working with for the value using a scale of 0 -5 for the options you picked in the table below
5. To what extent is your business profitable or not?
6. Has your business grown and why do you say so? Income/ Employees/ New branch/
7. Does the DFI meet your needs?

SMME Respondent

Which Value-add provided by Development Finance Institution have you used?

Network (personal or institutional)	
Advice	
Business plans, cash flows and profit targets	
Providing general business knowledge	
Coaching and mentoring	
Sourcing additional funding	
Evaluating business plans acquisitions, mergers and disposals	
Identifying Partners BEE /Technical	
Talent identification and acquisition	