

Factors affecting SMEs growth in Lesotho

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DECLARATION

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

Liteboho Christina Ramosoou

Signed at Johannesburg

On the 05th day of October 2023

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Ethical Clearance

ABSTRACT

Orientation: SMEs are considered the main drivers behind the economic systems in both developing and developed economies. However, SMEs are prone to the factors that preclude their growth. These factors include the challenge of access to finance, which is renowned to threaten SMEs continued growth and long-term sustainability.

Motivation of the study: Likewise, in Lesotho, SMEs are considered crucial drivers towards achieving socio-economic objectives. However, according to the World Bank, the SMEs in Lesotho fail to contribute to the socio-economic objectives as per the expectations, hence the motivation to determine the challenges faced by SMEs, and how they preclude their growth.

Purpose of the study: The objective of this study is to determine the impact of the challenge of access to finance on the growth and profitability of SMEs in Lesotho.

Methodology: The study adopts a quantitative approach and utilises a survey questionnaire for data collection. A sample of 400 SMEs was selected using a simple random sampling technique from a population of 76 000 SMEs in Lesotho. The data collected was analysed using Multiple Linear Regression Analysis.

The key findings: The study findings revealed that there is an insignificant negative relationship between collateral security requirement, interest rates and SMEs sales growth, and a significant negative relationship between the business plan requirement and SMEs sales growth. It also showed that there is a significant negative relationship between collateral security requirement and SMEs profitability, and an insignificant negative relationship between the business plan requirement, interest rates and SMEs profitability.

Keywords: Access to Finance, Business Plan, Collateral Security, Interest Rates, Small and Medium Enterprise, Sales Growth, Profitability

LIST OF ABBREVIATIONS

BEDCO	Basotho Enterprise Development Corporation
GoL	Government of Lesotho
IFS	Inclusive Finance Strategy
LNDC	Lesotho National Development Corporation
PCGs	Partial Credit Schemes
SMEs	Small and Medium Enterprises

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1. INTRODUCTION AND BACKGROUND

1.1. Introduction

Small and Medium Enterprises (SMEs) play a significant role in the global economies, and their role and contribution towards economic growth and development cannot be over-emphasized. The role and contribution of SMEs towards economic growth and development contrasts from one country to another depending on several economic factors (Kennedy and Hobohm 2012). Majority of the countries, especially in the Sub-Saharan Africa, such as Lesotho are leveraging on the concept of SMEs for economic thrust. Similarly, the developing, as well as the developed economies divert their efforts towards strengthening their SMEs sector in a quest for sustainable economies (Hidayet, Canan, Onur and Hakan 2010). As such, SMEs and their role towards economic growth and development have gained currency amongst both scholars and practitioners, and different views are discussed in this regard.

Ayandibu, Ngobese Ganiyu and Kaseeeram (2019) opined that majority of the African countries leverage on SMEs for job creation and poverty reduction. In the same vein, Sitharam and Hoque (2016) posits that SMEs have a strong positive bearing on job creation, balanced and sustainable economies and contribution towards better standards of living in a country. The similar sentiments were also shared by Bureau of Economic Research (2016), which discovered that SMEs are the main driving forces for economic systems as they contribute significantly towards poverty reduction, employment creation and economic growth. According to the World Bank (2022), SMEs constitute 90% of the businesses worldwide, and consequently contribute more than 50% towards employment globally. The importance of SMEs is further portrayed in the findings of Hidayet et al. (2010), who discovered that, in the low-income countries, SMEs contribute over 60% and over 70% towards the National Gross Domestic Product (GDP) and the national employment respectively.

Despite the discussed, SMEs are confronted by the challenge of access to finance which threatens their continued growth and existence (Sallem, Nasir, Nori, and Kassim 2017). As provided in Yoshino and Taghizadeh-Hesary (2016), notwithstanding the challenge of access to finance, many countries are still reliant on SMEs for employment generation and economic growth. Thus, different governments and policy makers have consistently sought for interventions to strengthen the SMEs sector, as

well as striving towards creating an enabling environment for new business ventures to minimize the probabilities of SMEs failure (Rankhumise and Masilo 2018). Thus, against the foregoing introduction, this study seeks to determine the factors that limit access to finance for SMEs in Lesotho, which consequently hinder their growth. Therefore, the following section presents the background that underpins the study.

1.2. Background

There exist significant variations in the definitions of SMEs, necessitated by the fact that, the definition of small and medium enterprises is directly linked to the size of the economy. Therefore, what is regarded as small and medium in the Sub-Saharan Africa might not necessarily be the case in developed countries. Given this, in the context of Lesotho, SMEs are defined on the grounds of the number of employees and the annual revenue generated. Thus, according to the FinScope (2016) survey, small enterprises in Lesotho are considered as enterprises that employ a maximum of 20 employees, while medium enterprises employ a maximum of fifty employees.

The FinScope (2016) further draws a profile of SMEs in Lesotho and provides that there are 76 000 SMEs across the ten districts of Lesotho. According to FinScope (2016), these SMEs fulfil the Government of Lesotho's (GoL) policy thrust of fulfilling the socio-economic objectives of poverty reduction and youth empowerment. Thus, the SMEs sector in Lesotho has generated employment for the 118 000 Basotho across all the districts in Lesotho. Of the significant part of job creation generated by the SMEs in Lesotho, 37 000 comprise of Basotho aged below 30 years, which signifies the role of SMEs towards youth empowerment in Lesotho (FinScope 2016).

Like any other country which acknowledges the role of SMEs in economic growth and development, the GoL has also implemented several initiatives to support SMEs for resilience in a quest for sustainable economy in Lesotho. These initiatives encompass both advisory and financial assistance for SMEs, enacted by the apex institutions such as the Lesotho National Development Corporation (LNDC) and the Basotho Enterprise Development Corporation (BEDCO) through the implementation and administration of Partial Credit Schemes (PCGs) which extend financial assistance to SMEs from both the GoL, local and international donors (GoL 2012). The support for SMEs in Lesotho was further fortified through the implementation of the Inclusive Finance Strategy

(IFS), which amongst other strategic objectives, seeks to create an enabling environment for the survival of SMEs in Lesotho (GoL 2012).

Despite the significant contribution of SMEs towards economic growth and development in Lesotho, necessitated by the government's intervention to revive the SME sector, the World Bank (2018) discovered the reluctance of the SME sector to transition into large corporations, as well as the ineffectiveness of SMEs in Lesotho to contribute towards socio-economic objectives. According to the World Bank (2018), 97% of the businesses in Lesotho are SMEs. However, over 50% of employment in Lesotho is accommodated by larger firms, which constitute the 3% of the private sector firms in Lesotho. Similarly, the World Bank (2018) discovered that, of the 97% of the SMEs in Lesotho, 85% constitute small firms, while 15% are medium firms. From this growth trend, it can be deduced that despite the GoL interventions in reviving the SMEs sector, SMEs still encounter numerous challenges that obstruct their growth to transition from small enterprises to larger corporations.

As such, the World Bank's discoveries prompt the interest to determine the challenges that confront SMEs in Lesotho. Therefore, this study focuses on the challenge of access to finance and seeks to determine the factors that acts as barriers for access to finance for SMEs in Lesotho and their ultimate impact on the SMEs growth. Therefore, the following section presents the problem statement.

1.3. The Problem Statement

As provided in Yoshino and Taghizadeh-Hesary (2016), many countries rely on SMEs to fulfil their socio-economic objectives. Therefore, different governments have diverted their efforts towards interventions to ensure sustainability in their SME sector (Rankhumise & Masilo, 2018). Likewise, the GoL sought for intermediations to support SMEs in a quest for sustainable economy in Lesotho. These initiatives encompass the enactment of apex institutions such as LNDC and BEDCO to provide financial and non-financial assistance (GoL, 2012). Similarly, the GoL implemented the IFS to create an enabling environment such as low interest rates and low transaction costs for the survival of SMEs in Lesotho.

Despite the SMEs contribution and the GoL interventions towards economic development in Lesotho, the World Bank (2018) discovered the reluctance of SME growth in Lesotho. According to (Sityata, 2019), numerous key factors continue to

threaten the sustainable growth and development of the SMEs sector. For instance, SMEs are forced to finance their operations by internal funds, which pose challenges for SMEs sustainability and growth as internal funds do not meet the SMEs demands for growth and development. As a result, SMEs resort to debt financing from mainstream financial institutions where they are confronted by several factors that prohibit access to finance (Makhetha & Sebolelo, 2015).

As theorised in Osano and Languitone (2016), the challenge of access to finance is necessitated by SMEs internal factors such as lack of collateral security. Although mainstream financial institutions have adequate funds to finance capital needs, they impose collateral security requirements as a guarantee against the borrowed funds. Unlike well-established firms with large asset base, SMEs find it difficult to meet the collateral requirements, hence fail to access finance. Similarly, the challenge of access to finance is further exacerbated by the fact that mainstream financial institutions perceive SMEs as risky ventures which attract high transaction costs in credit application, hence protect their loans through high interest rates (Shipulwa, 2016). Finally, lack of access to finance for SMEs is ascribed to SMEs internal resources such as adequate managerial skills to draft viable business plans that can reasonably portray SMEs strategies and profitability to convince mainstream financial institutions to extend the required credit to them (Shikongo, 2018). In overall, the challenges of collateral security requirement, interest rates, and business plan requirement for SMEs financial access are renowned to deter SMEs from accessing finance, hence delay their growth. Therefore, this study aims to fill the literature gap by determining how these challenges affect SMEs performance in the context of Lesotho.

1.4. Research Objectives

1.4.1. Primary Research Objective

- To investigate the impact of the challenge of access to finance on SMEs performance in Lesotho.

1.4.2. Secondary Research Objectives

- To investigate the influences of collateral security on the sales growth and profitability of SMEs.
- To determine the impact of interest rates on the sales growth and profitability of SMEs.

- To establish the relationship between the requirement of viable business plan and sales growth and profitability.

1.5. Research Questions

1.5.1. Primary Research Questions

- What is the impact of the challenge of access to finance on SMEs performance in Lesotho?

1.5.2. Secondary Research Questions

- What is the influence of collateral security requirement on the sales growth and profitability of SMEs?
- What is the impact of interest rates on the sales growth and profitability of SMEs?
- What is the relationship between the requirement of viable business plan and sales growth and profitability?

1.6. The Significance of the study

As indicated in the literature, SMEs play a crucial role towards economic growth and development in different economies. This role extends towards addressing the socio-economic variables such as employment creation, equitable distribution of income, reduction in inequalities amongst societies, and sustainable economic growth (Ayandibu et al., 2019). Thus, different countries through their policy making arms extend their outreach towards helping SMEs for sustainable economic growth (Hidayet et al., 2010). Therefore, numerous factors influence the choice to determine the challenges faced by SMEs in Lesotho. To the GoI, the findings of the study will be beneficial as it provides guidance towards implementing policies that provides an enabling environment for SMEs, thus minimize their failure. To the policy making fraternity in Lesotho, the findings of this study will help in the allocation of resources in a quest to strengthen the resilience of SMEs. Finally, to the potential entrepreneurs in Lesotho, this study serves as a pre-emptive measure that provides deep insights into market-related challenges for those willing to venture into businesses in future.

1.7. The study assumptions

To appropriately interpret the findings of the study, the researcher must make certain assumptions of what is important, how things are related, and what qualifies as reliable

evidence as well as the limitations imposed by the research approach. According to Okimoto (2014), assumptions constitute facts, ideas, and beliefs that cannot be verified as factual but treated as such. They are solely based on researcher's viewpoint and are necessary for conducting the study. Of the assumptions made in this study, the researcher was of the view that the study participants will provide honest answers to the questions contained in the questionnaire, leading to reliable outcomes. Further, the researcher also assumed that the study participants (owner managers or hired managers) from different SMEs have the required knowledge and understanding of the operations the SMEs. Particularly, this includes knowledge on SMEs performance as measured by sales growth and profitability as well as the loan application process and its embedded requirements.

1.8. The limitations of the study

The limitation of the study refers to the possible weaknesses of the study that are beyond the control of the researcher (Morgado, Meireles, Neves, Amaral, & Ferreira, 2018). Dowling, Brown, Legg, and Beacom (2018) further asserts that the study limitations can arise from the study of one region geographically, limited sample sizes, and limited data availability. Therefore, the findings of this study are not free from the limitations; hence the findings need to be read and comprehended in light of the limitations. The one major limitation of the study is that the study uses a sample size of 400 SMEs from a population of 76 000 SMEs in Lesotho. It further distributes the sample of 400 SMEs across the ten districts of Lesotho. This means that only 40 responses were captured from each district. Hence 40 SMEs from a district cannot adequately represent the entire population of SMEs in that specific district, contributing to the limitation of the study. Also, the study is conducted in Lesotho, which limits the ability to be generalized in other contexts besides Lesotho.

1.9. The delimitations of the study

The delimitations of this study stems from the chosen variables. Firstly, there are numerous challenges that confront SMEs and consequently prevent their growth, including but not limited to competition, resource constraints, regulatory compliance, access to markets, lack of technology, cash flow management, brand recognition, and customer acquisition and retention. However, this study only focused on three factors that prohibits SMEs growth, including access to finance, requirement of business plan,

and interest rates. Similarly, SMEs growth can also be measured using numerous proxies such as customer acquisition, asset growth, customer retention rate, brand recognition and customer satisfaction ratings. However, for this study, only sales growth and profitability were considered for SMEs performance. Finally, in the realm of small business, there exist one dimension of micro businesses. However, this study only focuses on small and medium enterprises, thus excludes macro-businesses.

2. THEORETICAL FRAMEWORK AND LITERATURE REVIEW

2.1. The Theoretical Framework

2.1.1. The Pecking Order Theory

The pecking order theory was coined by Myers and Majluf in the mid 1980's (Ahmad & Atniesha, 2018). Given the pecking order theory, Myers and Majluf (1984) stressed that the information asymmetry in the market give rise to increased cost of financing. Thus, the pecking order theory categorises the sources of business financing into three, to include internal, debt and equity financing. According to the pecking order theory, businesses usually consider internal financing as the primary method of financing (Ogieva & Ogiemudia, 2019). When the internal funds are depleted, the pecking order theory suggests that businesses will prefer debt financing, then equity financing as the last resort (Ogieva & Ogiemudia, 2019). However, due to market imperfections and regulatory requirements, SMEs do not have an option to raise equity capital (Ogieva & Ogiemudia, 2019). This implies that, the pecking order theory is only applicable on two levels in the context of SMEs, mainly: internal and debt financing.

Based on pecking order theory, if SMEs lack sufficient internal funds to expand their operations, they will resort to external financing. This involves applying for loans from financial institutions. However, it is widely theorised that SMEs encounter numerous challenges when applying for loans from financial institutions. This assertion is further strengthened by (Fatoki, 2014), who opines that SMEs are likely to acquire debt or loan from financial institutions if they have tangible assets in their portfolio that act as collateral security (Karyadi & Rizki, 2018). Therefore, the Pecking Order theory helps understand the capital structure of SMEs or how SMEs prefer to finance their internal operations. This implies that in the case where SMEs internal funds are inadequate to drive growth, SMEs will resort to external financing. Hence, in the quest to exercise the option for external financing as per Pecking Order theory, then the study will be able to capture the challenges that confront SMEs in exercising this option, especially the challenge of collateral security, interest rates, and viable business plan. Therefore, the need for this study is justified as most SMEs have constrain in terms financial access from main financial institutions.

2.1.2. The Resource-Based Theory

The resource-based theory is a strategic management theory which focuses on the organizational internal resources in generating organizational performance, hence improved competitive advantage (Ferreira, Serra, Costa, & Almeida, 2015; Lockett & Wild, 2014). According to the resource-based theory, the organizational resources refer to anything that can contribute significantly to the strengths or weaknesses of the organization depending on how it is deployed. The main thrust of the resource-based theory is that organizational resources are anchors for high organizational performance and competitive advantage (Burvill, Jones-Evans, & Rowlands, 2017). These resources can be classified into tangible (finance and physical capital in terms of equipment and machinery) and intangible resources (owner/management competencies). However, some researchers have argued against the resource-based theory and posit that resource-based theory does not articulate in-depth how intangible resources provide an organization with competitive advantage, hence improved performance (Park, 2010). Similarly, Baker and Ahmad (2010) argue that there is no single resource-based theory or model that can address the universal needs of the organizations.

The theory of resource-based view is considered significant in this study given the fact that finance acquisition by SMEs usually require skills and capabilities to foster its realisation. On the grounds of resource-based theory, SMEs managers with sound skills, competencies and abilities are able to utilize their skills to draft bankable business plans and acquire finance from financial institutions, which translates to improved competitive advantage for such an SME. However, if managers lack these skills and competencies, they are likely not to obtain finance from financial institutions. Therefore, the resource-based theory guides the researcher to determine the core resources which act as a challenge for SMEs to access finance, hence limit their growth. Specifically, the emphasis of resource-based view in this context is on SMEs manager's competencies, skills, and abilities to draft viable business plans to access finance from financial institutions. It also relates to the skills necessary to make good decisions regarding capital generation and use. Therefore, the resource-based view informed the review of the literature.

2.2. Factors that prevent access to finance and affect the growth of SMEs

Notwithstanding the significant role played by SMEs towards economic development and job creation across several economies, SMEs still face challenges that constrain their ability to access financial resources for economic growth and development (Sallem et al., 2017). This challenge arises because of under-developed capital markets which compel owners of SMEs to raise capital through own contributions (savings), borrowing from relatives and friends (Pahurkar, 2016). Further, (Pahurkar, 2016) provides that due to capital market imperfections, SMEs are barred from raising equity capital, hence depend on short-term capital funds or debt financing from mainstream financial institutions. The failure of SMEs to access finance is in most cases, attributable to the combination of internal and external factors. On one hand, internal factors relate to the factors that are largely under the control of SMEs and include lack of adequate skills to undertake adequate market research to inform business plans, and lack of collateral security (Fatoki, 2014). On the other hand, external factors emanate beyond the SMEs control, and involve high interest rates offered by the mainstream lending institutions (Fatoki, 2014). As a result, the following section presents the literature on the key factors that are renowned to prohibit access to finance for SMEs, and consequently delay their growth and development.

2.3. The influence of collateral security requirement on SMEs sales growth and profitability

According to Osano and Languitane (2016), collateral security has a strong bearing on SMEs access to finance. This is because, as a risk mitigation strategy, mainstream financial institutions require collateral security to extend financial access to the beneficiaries (Obaji & Olugu, 2014). Osano and Languitane (2016) discovered that, the mainstream financial institutions deny and discriminate SMEs from accessing finance based on collateral security. Unfortunately, SMEs have limited asset base and ultimately fail to provide collateral security. Nkwabi and Mboya (2019) further discovered that SMEs find it difficult to provide the required collateral security to access finance for their growth and development. As a result, Chilembo (2021) argues that the mainstream financial institution's profit orientation prevents SMEs from accessing finance due to the imposed collateral requirements, and negatively impacts the sales growth and profitability of SMEs. This viewpoint is further supported by Waked (2016), who discovered that lack of collateral security prevents access to

finance, and ultimately hampers the sales growth and profitability of SMEs. On the contrary, Rahman (2016) opines that collateral security has no effect on credit access for SMEs as different banks impose different measures for credit access. As such, Henedar and Bazzana (2014) stresses that the size of the collateral security dictates the amount of credit/loan to be extended to SMEs.

H₁: *Collateral security requirement has a significant negative influence on SMEs sales growth and profitability.*

2.4. The impact of interest rates on SMEs sales growth and profitability

According to Fatoki (2014), lack of access to finance from mainstream financial institutions pose a challenge for SMEs growth and profitability. These findings put into perspective the findings of Obaji and Olugu (2014), who claims that the inability to access finance by SMEs is necessitated by the lending conditions provided by the mainstream financial institutions. As such, Awani (2020) attributes lack of access to finance by SMEs to higher interest rates which account for risk premiums on the loans offered to SMEs. Similarly, Ademosu (2022) theorizes that due to information asymmetry between SMEs and mainstream financial lending institutions, higher interest rates are imposed on SMEs as a risk mitigating strategy to bridge the information asymmetry gap. As a result, higher interest rates indirectly affect access to finance for SMEs as it reduces the demand for credit amongst SMEs. These findings are in-line with the findings contained in Nizaeva and Coskun (2019), who indicated that high interest rates negatively affect the possibility of SMEs to access finance. Similarly, Henry (2015) discovered that interest rates prolong the loan repayment period, which consequently decreases the credit appetite for borrowers, while (Maalim & Gikandi, 2016) established that fluctuations in interest rates discourages the demand for credit for SMEs. Therefore, according to Davies, Turay, and Koroma (2022) there is a positive correlation between high interest rates and lower SMEs sales growth and profitability.

H₂: *Interest rates have a significant negative impact on SMEs sales growth and profitability.*

2.5. The relationship between lack of viable business plan and SMEs sales growth and profitability

The other strand of research on the factors that prohibits access to finance for SMEs points to lack of viable business plan (Chowdhury & Alam 2017). According to Durst and Gerstlberger (2021), SMEs are considered risky ventures by the lending institutions, hence find it difficult to access credit facilities from such institutions. To overcome this barrier, Warrick (2017) suggests that, unlike larger firms, SMEs are compelled to produce viable business plans in a quest to convince mainstream financial institutions about their business strategies and reasonable profit plan to gain access to finance. However, Wachira and Musyoki (2015) discovered that, managerial business skills play a crucial role in drafting business plans, and lack thereof creates barriers for SMEs to access finance. According to Abbrey (2015), availability of business plan ensures the sustainability and going concern for SMEs, hence supports the growth and development of SMEs in the long run. This is because, Abbrey (2015) is of the opinion that, having business plan in place widens the grid for credit accessibility for business expansion and development for SMEs. However, some researchers have criticised the positive relationship between the existence of the business plan and SMEs growth on the grounds that, a viable business plan alone does not guarantee SMEs success (Musa, Bamanga, Yakubu, & Khairunnisak, 2020).

H₃: There is a significant negative relationship between lack of viable business plan and SMEs sales growth and profitability.

2.6. The empirical literature on the factors that prevents access to finance for SMEs

A wealth of empirical literature attaches the delayed growth of SMEs to lack of access to finance. Therefore, numerous studies have surfaced that attempts to determine the factors that preclude access to finance for SMEs. For instance, Wang (2016) utilised the World Bank Enterprise Survey amongst the 119 developing countries to investigate the major challenges that confront SMEs and their key determinants. The study employed probit regression model for data analysis. The findings of the study determined that amongst the five key challenges that confront SMEs in developing countries, lack of access to finance is the most significant barrier to the growth of SMEs. The study further identified that the key determinant of lack of access to finance

is the high interest rate imposed on SMEs by mainstream financial institutions to offset the high transaction costs that arise due to information asymmetry in the lending process.

Correspondingly, Do, Phong, Thuong, Tien, and Dung (2019) contributed to the body of knowledge by determining the factors affecting access to finance for SMEs in Vietnam. The study made use of survey research design and targeted 400 SMEs through stratified random sampling. The Alpha Coefficient and the Exploratory Factor Analysis were used for testing methods, while ANOVA and multivariate linear regression were considered for data analysis. The key findings from the study indicate that internal resources such as owner/manager experience and financial literacy and lack of adequate business plans negatively impacts access to finance, resulting in a delayed growth of SMEs.

Lastly, the similar results were also echoed in Her and Sengdala (2022) who sort to establish the determinants of access to finance for SMEs in Sayaboury Province in Lao People's Democratic Republic. The study considered a sample 136 SMEs from a total population of 1 492 SMEs using simple random technique. The study further employed a binary logistic regression model for data analysis to establish the likelihood of SMEs to access finance. At the statistical significance of 1%, the study established that internal resources such as collateral security and adequate business plan have a strong bearing on access to finance for SMEs, which ultimately impacts negatively on the growth of SMEs.

2.7. Performance measurement for SMEs

Performance can be measured in terms of profitability, efficiency, and effectiveness. As a result, Ahmad (2014) classifies these performance measurements into financial and non-financial. Ahmad (2014) further discovered the popular financial performance measurements to include profitability, income, percentage sales growth, and the return on investment, while the popular non-financial performance measurements include employee attrition, timely service delivery, the level of customer satisfaction and employee absenteeism. The similar views were also documented in Stojkić, Bošnjak (2019), who classified performance in terms of financial performance (profitability, growth, and market value) and strategic performance (customer satisfaction, employee's satisfaction, environmental and social performance).

Therefore, this study utilised both financial and non-financial performance measurement to measure the performance of SMEs. The financial performance measurements considered are the sales growth and the profitability of the SMEs, while the non-financial performance measures include customer satisfaction.

3. RESEARCH METHODOLOGY

3.1. The Philosophical Orientation

According to Wagner et al., (2012), the research approach to addressing the research objectives is dictated by the inherent viewpoints of the researcher. These viewpoints on how to conduct research were classified by Kuhn as research paradigms. The word paradigm derives its meaning from Greek and designates a pattern. Therefore, given the research context, paradigms denote patterns, steps, and procedures in carrying out the research. According to Kivunja and Kuyini (2017), the research paradigm implies a philosophical way of thinking, which has created the culture amongst the community of researchers by entrenching the set of commonly accepted beliefs, assumptions and views on the data collection and analysis given the nature of the research. As such, Sounders, Lewis, and Thornhill (2017) theorized the four research paradigms to include: epistemology, ontology, methodology and axiology. Sounders et al., (2017) further provides that these research paradigms constitute different beliefs, assumptions, values, and norms in conducting the research. This study is guided by epistemology, and detailed discussions and justifications are provided below.

3.1.1. Epistemology

Epistemology emanates from a Greek word “*episteme*”, which translates to knowledge. In the research context, epistemology addresses what constitute to knowledge in a specified discipline (Cooksey & McDonald, 2011). Researchers have stressed that the epistemological stance is concerned with whether the social world can be studied using principles and procedures like those used in natural science (Bryman & Bell, 2011). As such, the epistemological dimension of research philosophy is concerned with the knowledge basis and how such knowledge can be acquired, analyzed, and presented (Kivunja & Kuyini, 2017).

Therefore, the epistemological stance for this study is that there are factors that prevents access to finance, hence limit the growth and development of SMEs in Lesotho. Given the epistemological stance, the researcher believes that scientific methods can be employed to collect, analyze, interpret, and present the data to determine these challenges, hence contribute to knowledge creation. Given this viewpoint, this study embraced a positivist epistemology. According to Bryman and

Bell (2011), positivist epistemology advocates that knowledge can be obtained through the application of scientific methods. Based on this assertion, Kawulich (2012) posits that scientific approaches form the foundation of knowledge; hence positivists consider knowledge as facts that can be tested empirically to be confirmed or discarded, and ultimately be inferred to the general population. As such Kawulich (2012) further notes that positivist epistemology underscores quantitative approach, and includes surveys, causal comparative, correlational, experimental, and quasi-experimental designs, and researchers can use instruments such as questionnaires for data collection. Therefore, this study was guided by positivist epistemology as the researcher is of the view that the challenges confronting SMEs in Lesotho can be determined using scientific approaches. Accordingly, the positivist epistemology guided the study into quantitative approach. The quantitative approach further informed the data collection instrument (survey questionnaire) as well as data analysis tools, including both descriptive and inferential statistics, and an account of these aspects is provided in the subsequent sections.

3.2. The Research Design

The objective of the study is to investigate the factors that prevents access to finance and their effect on the growth of SMEs in Lesotho. Therefore, guided by the positivist epistemological position, the study draws on statistical, quantitative methods as it attempts to establish the strength of the relationships and associations between the variables of the study. Therefore, the study assumes a quantitative approach in addressing the research objectives. In line with the positivist epistemological position, the quantitative research design seeks to quantify the research problem as it generates numeric data for statistical analysis (Bhattacharje, 2012). Therefore, quantitative research design uses a larger sample size in a quest to quantify the behaviours, thoughts, attitudes of people and other variables used to measure the phenomenon under the study. There are two inherent benefits of adopting a quantitative approach in this study: 1) it will provide a structured way of collecting, analysing and interpreting data, and 2) it will be most effective as the researcher disconnects himself/herself from the research, producing numerically driven results which are free from researcher's bias.

3.3. Sampling, sampling method and sampling techniques

This study utilized probability sampling, which implies that all the SMEs in Lesotho had equal chances of being included in the study (Bryman & Bell, 2011; Sounders et al., 2019). The population for this study constituted 76 000 SMEs (FinScope, 2016). The study will employ the Yamene's formula to compute a representative sample size for the study, and the formula is provided below.

Yamene's Sample Size Standard Formula

$$n = N / [1 + N (e)^2]$$

Where, n = sample size estimate

N = total number of SMEs (76 000)

e = standard error (5%)

Using Yamene's sample size formula, a sample size of 400 SMEs was considered. These included SMEs formally registered by Ministry of Small Business Development, Cooperatives and Marketing (MSBDCM), with employment statistics of minimum of 6 employees and maximum of 50 employees. The sample size was chosen randomly from the population of 76 000 SMEs. In essence, a simple random sampling technique was used for the selection of the sample size. The sample size of 400 SMEs was considered a fair representation of the total population and sufficient to make valid statistical conclusions.

3.4. Data Collection Method

To determine the impact of the challenge of access to finance on the growth of SMEs in Lesotho, a structured closed-ended questionnaire was utilized as the primary data collection instrument. The questionnaire was designed in such a manner that it measures what it intends to measure (Price, Jhangiani, & Chiang, 2017). The structure of the questionnaire was designed to capture three sections: Section A collects the data related to the profile of SMEs in Lesotho. Section B was structured to gather data related to the challenge of SMEs financial access, and the last section, Section C collects the data related to the sales growth and profitability of SMEs in Lesotho. Both section B and C were structured on a Likert scale ranging from 1 to 5, with the following proposed meaning for each scale: 1 = Strongly Agree, 2 = Agree, 3 = Neutral, 4 = Disagree, 5 = Strongly Disagree. However, a nominal scale was used for Section A to

capture the data regarding the profile or demographics of SMEs in Lesotho. To maximize data accuracy, the survey questionnaire was structured to be filled by the owner or manager of the SMEs.

3.4.1. Administration of the data collection instrument

The researcher compiled a database of SMEs from their online presence across all the ten districts of Lesotho. The survey questionnaires were distributed through the SMEs respective emails. To minimize bias, the questionnaires were distributed evenly to SMEs across all the ten districts of Lesotho. This implies that the response rate of 40 questionnaires per district was considered ideal representation per district.

3.5. The Study Variables and Their Measurements

As previously alluded to, the aim of this paper is to determine the factors that preclude access to finance for SMEs, and the ultimate effect on the growth of SMEs. To achieve this aim, Table 1 presents the study variables, their respective items and their measurements were identified for the purpose of this study.

Table 1: Study Variables and their respective measurements

Variable Type	Variables	Items	Measurement
a) Dependent	Financial Access	Collateral Security Interest Rates Business Plan	Ordinal
b) Independent	Performance Measurement	Sales Growth Profitability	Ordinal

3.6. The Validity and Reliability of the study

3.6.1. Validity

The validity of the study refers to the extent to which the questions contained in the questionnaire or data collection instrument measures what it intends to measure (Zikmund and Babin 2010). This study employed construct and content validity. For both content and construct validity, an extant literature was consulted to develop the content and constructs for this study. The content and constructs adopted from the

literature are previously validated, hence the validity and reliability of this study was enhanced. However, there was a likelihood that the questions contained in the questionnaire will not be clear to the respondents. To mitigate this, a pilot study was conducted amongst SMEs which do not constitute the study's sample. The findings of the pilot study provided insights into the structure of the questionnaire and assisted to determine the overall flaws of the questionnaire. Firstly, the pilot study became instrumental in determining the time to complete the study to mitigate the risk of loss of work time. Based on the distributed questionnaire, it was determined that the time required to complete the questionnaire is five to ten minutes. Also, the pilot study became useful in determining the validity of the questionnaire. Initially, the questions contained in the questionnaires were ambiguous as participants could not easily comprehend them. Hence the questions were refined further to include basic English for ease of comprehension by the study participants. Finally, for reliability of the questionnaire, an iterative distribution of the questionnaire was done with participants from the identified SMEs. When comparing the findings of this iteration, it was observed that study participants provided consistent responses, which signalled reliability of the questionnaire.

3.6.2. Reliability

The reliability of the study signifies consistency. In research, this implies the reliability of the methodology to be adopted by other researchers and yields similar results. For this study, the Cronbach's Alpha was considered to measure the reliability of the study. The Cronbach's Alpha measures how close the items in a group are related. Therefore, the Cronbach's Alpha was employed for each construct contained in the questionnaire (collateral security, business plan, and interest rates) and for SMEs performance. According to Zikmund and Babin (2010), the Cronbach's Alpha ranges from 0 – 1, with 0 signifying no consistency between the items contained in a group, and 1 indicating a complete consistency between the items.

3.7. Data Analysis

Both the descriptive and inferential statistics were considered for data analysis in this study. Regarding the descriptive statistics, both the measures of central tendency (mean), the minimum and maximum statistics to determine the minimum and maximum outliers in the data. Upon determining the characteristics of the data, the study further sought to test for linearity or the relationships between the study variables

using inferential statistics. For this purpose, the Pearson Correlation test was employed. Further, the multiple regression analysis was used to determine the predictive capacity between the independent variables of collateral security requirement, interest rates and business plan requirement and the dependent variable of SMEs performance as measured in terms of sales growth and profitability. The following multiple regression model was used:

$$Y_i = B_0 + B_1COL + B_2INT + B_3VBP + \epsilon$$

Where:

Y_i = Dependent variables (SMEs performance: Where i = Sales Growth, Profitability)

B_0 = Model Constant

B_i ($i = 1, 2, 3$) = Model Coefficients

COL = Collateral Security

INT = Interest Rates

VBP = Viable Business Plan

ϵ = error term

4. RESULTS PRESENTATION

4.1. Demographics of the study participants

Based on Table 2, it can be observed that 400 study participants from different SMEs have participated in this study. Of the 400 study participants who participated in this study, 35.5% (142) were males, while 53% (212) were females, and 11.5% (46) preferred not to disclose their gender. Similarly, most of the study participants were in the age brackets of 30 – 39, and 40 – 49, as represented by 35.3% (141) and 35.5% (142) of the study participants respectively, while 12% (48) and 17.3% (69) represented the minimum number of study participants in the age brackets of 50 years and above and 18 – 29 respectively. Most of the study participants 27.5% (110) obtained a postgraduate degree/diploma, while there is a tie of 23.5% (94) between those who obtained their COSC and a PhD. On the same note, only 19.3% (77) of the study participants obtained an undergraduate degree/diploma, while 6.3% (25) were in possession of other qualifications not included above.

Regarding employment distribution, 36.5% (146) of the study participants were hired managers and 63.5% (254) were managing their own businesses. Most of the study participants 45.5% (182) had work related experience of 7 -10 years, while 29% (116), 18.8% (75), and 6.8% (27) had work related experience of 4 – 6 years, 11 years and above, and 1 – 3 years respectively. Based on the distribution of the nature of business of the study participants, 3.5% (14) were in manufacturing, 18% (72) were in retail, 14.2% (57) were in wholesale, 28.7% (115) were in service businesses, 15.8% (63) were in agriculture, 9.8% (39) were in construction, 5.3% (21) were in transport, 4.8% (19) were in hospitality, while there was no other sector representation besides the above discussed. Lastly, it can be observed that most of the businesses 35.8% (143) had 8 – 10 employees, 26.5% (106) had 11 and more employees, 26.3% (105) had 5 – 7 employees, 10% (40) had 2 – 4 employees, and lastly, 1.5% (6) employed only 1 employee. Table 2 provides a summary of the descriptive statistics of the demographics of the study.

Table 2: The descriptive statistics of the demographics of the study participants

Gender	Frequency	Percentage
Male	142	35.5

Female	212	53.0
Prefer not to say	46	11.5
Total	400	100
Age	Frequency	Percent
Between 18 and 29 years	69	17.3
Between 30 and 39 years	141	35.3
Between 40 and 49 years	142	35.5
50 years and above	48	12.0
Total	400	100
Educational Level	Frequency	Percentage
COSC	94	23.5
Undergraduate Degree/Diploma	77	19.3
Postgraduate Degree/Diploma	110	27.5
PhD	94	23.5
Other	25	6.3
Total	400	100
Employment Level	Frequency	Percentage
Hired Manager	146	36.5
Owner Manager	254	63.5
Total	400	100
Work Experience	Frequency	Percentage
1 – 3 years	27	6.8
4 – 6 years	116	29.0
7 – 10 years	182	45.5
11 years and above	75	18.8
Total	400	100
Business Sector	Frequency	Percentage
Manufacturing	14	3.5
Retail	72	18
Wholesale	57	14.2
Service	115	28.7
Agriculture	63	15.8
Construction	39	9.8
Transport	21	5.3

Hospitality	19	4.8
Other	0	0
Total	400	400
Number of Employees	Frequency	Percentage
1	6	1.5
2 – 4	40	10.0
5 – 7	105	26.3
8 – 10	143	35.8
11 and above	106	26.5
Total	400	100

4.2. The descriptive statistics

4.2.1. The financial access for SMEs

Based on the findings in Table 3, it can be observed that of the 400 study participants, majority of the study participants (58.3%) acknowledged that their businesses have applied for a credit facility from the formal financial institution in the past year. However, 41.8% (167) indicated that their businesses did not apply for loan facility in the previous year. The results are summarised in Table 3.

Table 3: The descriptive statistics on the business loan application

In the past year, has your business applied for a loan facility from any banking institution in the country?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	233	58.3	58.3	58.3
	No	167	41.8	41.8	100.0
	Total	400	100.0	100.0	

Also, Table 4 presents that, of the 233 study participants who acknowledged that their businesses applied for a loan from the formal financial institutions in the past year, 60.1% (140) did not receive the loan facility, while 39,9% (93) were successful in their loan application. All this information is presented in Table 4.

Table 4: The descriptive statistics on the business loan application

If you answered Yes to the question above, was your business successful in its loan application?	
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		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	93	39.9	39.9	39.9
	No	140	60.1	69.8	100.0
	Total	233	100.0	100.0	

4.2.2. The challenges facing SMEs

Based on the findings in Table 5, of the 140 study participants whose businesses were not successful in their loan applications, 80.7% (113), 56.4% (79), and 67.9% (95) strongly agreed that their loan application was denied due to lack of asset, cash, and adequate size of collateral security, respectively, as indicated by the minimum statistic of 1, while 19.3% (27), 43.6% (61), and 32.1% (45) only agreed on the similar grounds as indicated by the maximum statistic of 2. Both the mean statistics of 1.19, 1.44, and 1.32 suggests that on average, the study participants strongly agree that their businesses were denied access to loan facility due to asset collateral security, cash collateral security, and adequate size of collateral security to cover the desired credit amount. Table 5 provides a summary of the descriptive statistics on the challenge of collateral security.

Table 5: Descriptive statistics on the challenge of collateral security

	Strongly Agree		Agree		N	Min	Max	Mean
	%	n	%	n				
COL1	80.7	113	19.3	27	140	1	2	1.19
COL2	56.4	79	43.6	61	140	1	2	1.44
COL3	67.9	95	32.1	45	140	1	2	1.32

Also, based on Table 6, of the 140 study participants who were denied access to credit, 55.0% (77) and 67.9% (95) strongly agreed that they were denied credit due to lack of bankable business plan and lack of adequate skills to draft such business plans, as indicated by the minimum statistic of 1. Also, 45.0% (63) and 32.1% (45) of the study participants agreed on the similar grounds as indicated by the maximum statistic of 2. Lastly, the mean statistics of 1.45 and 1.32 further implies that on average, study participants strongly agreed that their businesses were denied access to credit due to lack of bankable business plan and inadequate skills to draft such business plans. Table 6 summarizes the descriptive statistics on the SME challenge of business plan.

Table 6: Descriptive statistics on the challenge of bankable business plan

	Strongly Agree		Agree		N	Min	Max	Mean
	%	n	%	n				
BP1	55.0	77	45.0	63	140	1	2	1.45
BP2	67.9	95	32.1	45	140	1	2	1.32

Lastly, 55.7% (78), 72.1% (101), and 66.4% (93) of the study participants whose businesses were denied loan facility strongly held that their businesses were denied access to loan facility due to lack of adequate cash flows to repay high interest rates, to repay interests rates over the extended period of time, and act as a buffer for fluctuations in interest rates in future as indicated by the minimum statistic of 1. On the other hand, 44.3% (62), 27.9% (39), and 33.6% (47) also agreed on the grounds as indicated by the maximum statistic of 2. Given the mean statistics of 1.44, 1.28, and 1.34 in Table 7, it can be inferred that on average, study participants strongly agreed that their businesses were denied access to credit due to lack of adequate cash flows to cover high interest rates, to repay interest rates over a long period of time, and to cover fluctuations in future interest rates.

Table 7: Descriptive statistics on the challenge of interest rates

	Strongly Agree		Agree		N	Min	Max	Mean
	%	n	%	n				
INT1	55.7	78	44.3	62	140	1	2	1.44
INT2	72.1	101	27.9	39	140	1	2	1.28
INT3	66.4	93	33.6	47	140	1	2	1.34

4.2.3. SMEs performance

Based on the study participants whose business loan applications were denied, 37.9% (53), 37.9% (53), and 32.0% (46) reported that their sales growth, customer acquisition, and customer retention has increased respectively over the past year as indicated by the minimum statistic of 1. However, 32.1% (45), 37.9% (53), and 37.9% (53) highlighted that their sales growth, customer acquisition, and customer retention has decreased, while 30.0% (42), 24.3% (34), and 29.3% (41) acknowledged that their business sales growth, customer acquisition, and customer retention has stayed the

same over the past year as indicated by the maximum statistic of 3. Nonetheless, the mean statistics of 1.92, 1.86, and 1.96 points to the fact that business sales growth, customer acquisition, and customer retention have decreased over the past year. The summary of the descriptive statistics on SMEs sales growth is provided in Table 8.

Table 8: Descriptive statistics on SMEs sales growth

	Increased		Decreased		Stayed the same		N	Min	Max	Mean
	%	N	%	n	%	N				
SG1	37.9	53	32.1	45	30.0	42	140	1	3	1.92
SG2	37.9	53	37.9	53	24.3	34	140	1	3	1.86
SG3	32.9	46	37.9	53	29.3	41	140	1	3	1.96

On the grounds of profitability of SMEs that were denied access to credit, 30.7% (43), 37.1% (52), and 26.4% (37) indicated that their returns on initial investment, operating profit, and net profit have increased respectively over the past year as denoted by the minimum statistic of 1. On the other hand, 41.4% (58), 37.1% (52), and 40.0% (56) have reported that their returns on initial investment, operating profit, and net profit have decreased respectively over the past year, while 27.9% (39), 25.7% (36), and 33.6% (47) have indicated that their returns on initial investment, operating profit, and net profit have stayed the same over the past year as indicated by the maximum statistic of 3. In overall, we can infer from the mean statistic of 1.97, 1.89, and 2.07 suggest that SMEs returns on initial investment, operating profit, and net profit have decreased respectively over the past year. Table 9 provides a summary of the descriptive statistics on SMEs profitability.

Table 9: Descriptive statistics on SMEs profitability

	Increased		Decreased		Stayed the same		N	Min	Max	Mean
	%	n	%	n	%	N				
PRO1	30.7	43	41.4	58	27.9	39	140	1	3	1.97
PRO2	37.1	52	37.1	52	25.7	36	140	1	3	1.89
PRO3	26.4	37	40.0	56	33.6	47	140	1	3	2.07

4.3. The reliability test for the study

Table 10 presents the results of the internal consistency as measured by the Cronbach's Alpha. The following alpha coefficients; 0.733, 0.741, 0.698, 0.769, and 0.707, are established between the construct of collateral security, interest rate, business plan, sales growth, and profitability, respectively. The Cronbach's Alpha is benchmarked at 0.7, with the alpha coefficient below the benchmark indicating weak internal consistency amongst the items used to measure the constructs, and the alpha coefficient above the benchmark indicating strong internal consistency (Taber, 2017). Since the lower bound of the alpha coefficients is 0.698, which is reasonably close to 0.7, while others are above the benchmark of 0.7, it implies that there is high internal consistency between the items used to measure the constructs of the study. This is further complimented by the overall Cronbach's Alpha of 0.711, which is also above the 0.7 benchmark, hence indicates a good reliability of the questionnaire used to collect the data. The summary of the internal consistency for the study as measured by the Cronbach's Alpha is presented in Table 10.

Table 10: The reliability test for the study using Cronbach's Alpha

The study constructs	Cronbach's Alpha	Number of Items (N)
Financial Access for SMEs		
Collateral Security	0.733	3
Interest Rates	0.714	3
Business Plan	0.698	2
Growth and performance of SMEs		
Sales Growth	0.769	3
Profitability	0.707	3
The Cronbach's Alpha for the study	0.711	14

4.4. Associations between the challenges facing SMEs and SMEs performance

4.4.1. The findings on the association between collateral security requirement and SMEs profitability

Table 11 presents the significant negative correlation of -0.352 between the construct of collateral security requirement and SMEs profitability. Based on the aforementioned correlation, it can be inferred that SMEs which failed to acquire financing from mainstream banks due to lack of asset and cash collateral security requirement, as well as the size of collateral security experience the challenge of generating returns to cover the initial start-up costs, the challenge of maintaining adequate operating capital to sustain daily expenses, and insufficient net-profit to sustain operations in the foreseeable future.

4.4.2. The findings on the association between business plan requirement and SMEs sales growth

Based on Table 11, there exists a significant negative correlation coefficient of -0.234 between the requirement of viable business plan and SMEs sales growth. The correlation implies that SMEs that have been denied access to finance due to the requirement of viable business plan and lack of management skills to draft viable business plan are associated with declining sales growth, characterised by declining sales over the past years, and failure to acquire and retain customers.

4.4.3. The findings on the association between interest rates and SMEs sales growth

Lastly, on the association between the construct of interest rates and SMEs sales growth, a pairwise association is given by the correlation coefficient of -0.246. This correlation suggests the existence of a significant negative association between interest rates and SME sales growth. This translates to the fact that high interest rates, the long repayment period, and the interest rate fluctuations discourages SMEs from seeking credit from mainstream financial institutions, which ultimately have led to a decline in SMEs sales growth over the past years as they find it difficult to acquire and retain new customers. Table 11 provides a summary of the Pearson correlations between the challenges facing SMEs in Lesotho and SMEs performance.

Table 11: The Pearson Correlation test between the challenges faced by SMEs and SMEs performance

		COLATERAL SECURITY	BUSINESS PLAN	INTEREST RATES	SALES GROWTH	PROFITABILITY
COLATERAL SECURITY	Pearson Correlation	1	.209*	.259**	-.124	-.352**
	Sig. (2-tailed)		.013	.002	.143	.000
BUSINESS PLAN	Pearson Correlation	.209*	1	.298**	-.246**	-.157
	Sig. (2-tailed)	.013		.000	.003	.065
INTEREST RATES	Pearson Correlation	.259**	.298**	1	-.234**	-.131
	Sig. (2-tailed)	.002	.000		.005	.123
SALES GROWTH	Pearson Correlation	-.124	-.246**	-.234**	1	.417**
	Sig. (2-tailed)	.143	.003	.005		.000
PROFITABILITY	Pearson Correlation	-.352**	-.157	-.131	.417**	1
	Sig. (2-tailed)	.000	.065	.123	.000	
*. Correlation is significant at the 0.05 level (2-tailed).						
**. Correlation is significant at the 0.01 level (2-tailed).						

4.5. Hypothesis testing

The findings in Table 12 reflect an R-value of 0.301, which shows a 30.1 percent correlation between the model regressors and the regressand. In contrast, the derived coefficient of determination (R^2) is 0.09, which implies that 9 percent of change in SMEs sales growth are due to collateral security requirement, interest rates and viable business plan requirement, collectively. This further implies that the remaining 91 percent is captured by an error term (ϵ) and relates to other factors that are not accounted by the estimated model.

4.5.1. The findings on the influence of collateral security requirement on SMEs sales growth

H_{1a}: Collateral security requirement has a significant negative influence on SMEs sales growth

The SMEs sales growth was regressed against collateral security to determine the influence between the two variables. Based on the findings in Table 12, the coefficient for collateral security is -0.072, with the corresponding t statistic of -.491 and p-value of 0.624, which is greater than the significance level of 0.05. Thus, it can be inferred that collateral security requirement bears an insignificant influence on SMEs sales growth. On the grounds mentioned above, the study does not support the claim that collateral security requirement has a significantly negative influence SMEs sales growth. These findings contradict those put forward by Nkwani & Mboya (2019); Obaji & Olungu (2014); and Osano & Languitone (2016), who discovered that SMEs are being discriminated based on collateral security by banks when extending loan facilities, which leads to minimal growth of SMEs.

4.5.2. The findings on the impact of interest rates on SMEs sales growth

H_{2a}: Interest rates have a significant negative impact on SMEs sales growth

Likewise, SMEs sales growth was regressed on interest rate to determine the impact of interest rates on SMEs sales growth. Relying on the findings in Table 12, the coefficient for interest rates is -0.299, with the t statistic of -1.905 and the p-value of 0.059, which is greater than the significance level of 0.05. Therefore, based on these findings, it can be deduced that interest rates have a negative but insignificant impact on SMEs sales growth. Therefore, the study fails to support the claim that interest rates have a significant negative impact on SMEs sales growth. Hence theorize an insignificant negative impact of interest rates on SMEs sales growth. These findings contradict those in (Ademosu, 2022), (Nizaeva & Coskun, 2019), and (Henry, 2015) who established a significant negative relationship between interest rates and SMEs sales growth.

4.5.3. The findings on the relationship between the requirement of viable business plan and SMEs sales growth

H_{3a}: There is a significant negative relationship between the requirement of viable business plan and SMEs sales growth

Finally, sales growth was regressed against the requirement of a viable business plan as presented in Table 12. Given Table 12, the requirement of a viable business plan has a coefficient of -0.285, with the corresponding t-statistic of -2.172 and the p-value of 0.032. Since the p-value is below the significance level of 0.05, the study supports the assertion that the requirement of a viable business plan bears a significant negative relationship with SMEs sales growth. These findings resonates with those put forward by (Wang, 2016), (Do, Phong, Thuong, Tien, & Dung, 2019), (Her & Sengdala, 2022) who revealed a significant negative relationship between the requirement of viable business plan for SMEs financial access and SMEs sales growth. Table 12 provides a summary of the regression model between SMEs sales growth as dependent variable and collateral security requirement, interest rates and the requirement of viable business plan for SMEs financial access as independent variables.

Table 12: Impact of collateral security, interest rates, and business plan requirement on SMEs sales growth

Model Summary						
Model	R	R Square	Adjusted R Square		Std. Error of the Estimate	
1	.301 ^a	.091	.071		.4136104	
a. Predictors: (Constant), Business Plan, Collateral Security, Interest Rates						
Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.810	.263		10.674	.000

	COLATERAL SECURITY	-0.072	.146	-0.042	-.491	.624
	BUSINESS PLAN	-.285	.131	-.188	-2.172	.032
	INTEREST RATES	-.299	.157	-.167	-1.905	.059
a. Dependent Variable: SALES GROWTH						

4.6. The findings on the impact of collateral security requirement, interest rates, viable business plan requirement and SMEs profitability

Table 13 presents the multiple regression analysis between collateral security requirement, interest rates, business plan requirement for SMEs financial access and SMEs sales growth, and together predicted a weak positive correlation between the regressor and the regressand at 36.3 percent. Table 13 further presents the coefficient of determination, R^2 , of 13.2 percent, which implies that 13.2 percent of variation in SMEs profitability is explained by collateral security requirement, interest rates, and the requirement of a viable business plan.

4.6.1. The findings on the influence of collateral security requirement and SMEs profitability

H_{1b}: Collateral security requirement has a significant negative influence on SMEs profitability

As expected, and based on the findings in Table 13, the challenge of collateral security requirement has a significant negative relationship with SMEs profitability as presented by the coefficient of -0.684, with the t-statistic of -3.940 and the corresponding p-value of 0.000. Since the p-value is below the significance level of 0.05, the study supports the statement that collateral security requirement has a significant negative influence on SMEs profitability. These findings put into perspective the results documented in (Chilembo, 2021) and (Waked, 2016), who also discovered the significant influence of the requirement of collateral security for SMEs access to finance and SMEs profitability.

4.6.2. The findings on the impact of interest rates on SMEs profitability

H_{2b}: Interest rates have a significant negative impact on SMEs sales growth profitability

As observed from Table 13, the findings indicate that interest rates have a negative (-0.047) but statistically insignificant impact on SMEs profitability. This is because the interest rates have a t-statistic of -0.254, with the equivalent p-value of 0.800. Since the p-value is greater than the significance level of 0.05, the study does not support the affirmation that interest rates bear a significant negative impact on SMEs profitability. Hence theorize a statistically insignificant negative impact of interest rates on SMEs profitability. These findings are contrary to the findings contained in (Davies, Turay, & Koroma, 2022), who established a significant negative impact of interest rates on SMEs profitability.

4.6.3. The findings on the relationship between the requirement of viable business plan and SMEs profitability

H_{3b}: There is a significant negative relationship between the requirement of viable business plan and SMEs profitability

Lastly, Table 13 exhibit a negative relationship between the requirement of viable business plan and SMEs profitability as presented by the coefficient of -0.149. However, at the given p-value of 0.338, which is greater than the significance level of 0.05, the study does not support the statement that the requirement of a viable business plan has a significant negative relationship with SMEs profitability. These findings are in contrary with those in (Chowdhury & Alam 2017) and (Warrick, 2017) who established a significant negative relationship between the requirement of viable business plan and SMEs profitability, however, are consistent with those in (Musa, Bamanga, Yakubu, & Khairunnisak, 2020), who also determined that the presence of a viable and bankable business plan alone is not a requirement for SMEs profitability. Table 13 provides the regression results on the impact of collateral security requirement, interest rates, and business plan requirement for SMEs financial access on SMEs profitability.

Table 13: Impact of collateral security, interest rates, and business plan requirement on SMEs profitability

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.363 ^a	.132	.112	.4906511

a. Predictors: (Constant), Collateral Security, Interest Rates, Business Plan						
Coefficients^a						
Model		Unstandardized		Standardized	T	Sig.
		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	3.148	.312		10.078	.000
	COLATERAL SECURITY	-.684	.174	-.329	-3.940	.000
	INTEREST RATES	-.047	.186	-.022	-.254	.800
	BUSINESS PLAN	-.149	.155	-.081	-.961	.338
a. Dependent Variable: PROFITABILITY						

5. DISCUSSIONS OF THE FINDINGS AND RESULTS

5.1. Collateral security requirements have statistically significant negative influence on sales growth and profitability of SMEs

Based on the results of the study, the pairwise associations and correlations observed between the collateral security requirement and SMEs performance imply that SMEs which are denied access to credit due to lack of asset, cash, and adequate collateral security are at the disadvantage of generating sufficient returns to cover initial investment as they lack adequate operating capital to sustain their business. Similarly, the results also suggest that SMEs which have been denied access to finance due to lack of asset, cash, and adequate collateral security find it difficult to recover their initial capital as well as to keep adequate operating capital to service daily business expenses. These findings support the literature as they put into perspective the views of (Obaji & Olugu, 2014), who posits that the mainstream financial institutions are profit oriented and they require collateral security as a risk mitigation strategy to minimize the default risk by ensuring that a certain percentage of the loan is recovered. Thus, as put forward by (Nkwabi & Mboya, 2019), SMEs do not have adequate asset base for the required collateral security, hence they are subjected to high levels of discrimination from mainstream financial institution in credit extension, which leads to lower levels of profitability as they are side-lined in credit and cannot finance the development of their business models (Waked, 2016).

Also, from the results, it can be concluded that SMEs without access to credit facility from the mainstream financial institutions due to lack of asset, cash, and adequate collateral security are associated with lower levels of sales growth, although the relationship is deemed insignificant. These findings are consistent with the findings of (Rahman, 2016), who also failed to establish a significant relationship between collateral security requirement for SMEs financial access and their respective sales growth. These findings present an interesting view as no relationships can be established between SMEs which have been denied access to finance due to lack of collateral security and their respective sales growth. This is despite the evidence of existing negative relationship between lack of access to finance due to the imposed collateral security requirement and failure to acquire and retain new customers, which all constitute indicators for sales growth. Although no relationship can be observed

between collateral security requirement and sales growth, these indicators are sufficient to infer that SMEs in Lesotho experiences difficulties in sustaining their operations for sustainable sales growth (Zizi, Oudgou, & El Moudden (2020). These prospects suggest that, should the status remain quo, majority of SMEs in Lesotho are likely to operate mainly in the short-term and fail to continue in the foreseeable future (Zizi et al., 2020).

5.2. Interest rates have statistically significant negative impact on SMEs sales growth and profitability

Conforming to the findings and results of the study, the construct of interest rates through its items of high interest rates, the extended repayment period, and the fluctuating interest rates bear an insignificant negative relationship with the performance of SMEs through the constructs of sales growth and profitability. As per the results, the high interest rates, the extended repayment period, and the high risk of fluctuating interest rates exhibit an insignificant negative relationship with SMEs sales growth rate, customer acquisition, customer retention, and SMEs returns on investment, operating profit, and overall net profit. The implication is that, although negative relationship can be established, however, the strength of the relationship is insignificant such that the current lower SMEs sales growth and profitability in Lesotho cannot be attributed to the interest rates which limit SMEs from accessing finance from banks. These observations oppose the views highlighted by Awani (2020), who claims that interest rates normally discourage SMEs from obtaining credit from banks as they incorporate the risk premium that the SMEs will default on their loan obligation. Therefore, Awani (2020) further theorizes that interest rates as a barrier to SMEs financial access often led to poor SMEs performance as reflected by lower SMEs sales growth and profitability. This viewpoint is further supported by (Ademosu, 2022); (Davies, Turay, & Koroma, 2022), and (Henry, 2015), who also established that formal financial institutions impose high interest rates on SMEs due to information asymmetry, which gives rise to the possibility of SMEs defaulting on their credit obligation.

Therefore, based on these findings, it can be safely concluded that the low SMEs sales growth and profitability in Lesotho can be attributed to other variables not considered by the study. In essence, these findings contradict the widely theorized negative relationship between interest rates and SMEs sales growth and profitability, which rest

on the underlying notion that SMEs usually realize uneven cash flows, and as a result, owners fail to commit to credit obligations as there is a possibility of default risk in future in a quest to service credit facility to its maturity, hence discourages owners from seeking credit from banks, which ultimately impact negatively on SMEs sales growth and profitability (Haviernikova, & Kordos, 2019).

5.3. Business plan has statistically significant negative relationship with SMEs sales growth and profitability

The final discussion on the challenge of access to finance and how it impacts SMEs performance dwells on the relationship between the requirement of a valid business plan for SMEs credit access and its influence on SMEs sales growth and profitability. Based on the results of the study, there exist significant negative relationship between the need for SMEs to produce bankable business plans to access finances from the mainstream financial institutions and SMEs sales growth. These findings translate to the fact that the increased barrier of access to finance through the requirement of viable business plan as well as adequate managerial skills to draft these bankable business plans lead to lower SMEs sales growth rate and failure to acquire and retain new customers. These results imply that, since financial institutions such as banks are profit oriented, their processes are congruent with their goals and objectives of maximizing profits to improve shareholder's wealth (Durst & Gerstlberger, 2021). As such, banks usually impose strict requirements such as bankable business plans to minimize credit and default risk in their operations (Warrick, 2017). As a result, since SMEs lack adequate capital to equip managers with the required skills, or hire employees with the required skills, or outsource a third party to undertake all the activities needed for drafting a bankable business plan, they are often side-lined from accessing credit from mainstream financial institutions (Wachira & Musyoki, 2015). These findings echo those contained in (Durst & Gerstlberger, 2021), who established that SMEs are considered risky ventures, hence according to (Warrick, 2017), to minimize this risk, financial institutions often require a viable business plan to assess whether an SME is profitable enough to repay the credit amount. Therefore, failure to produce a viable business plan prevents SMEs from obtaining credit from financial institutions, which negatively reflects through lower SMEs sales growth.

Lastly, an insignificant negative relationship is established between the requirement of a viable business plan and SMEs profitability. The relationship suggest that lower

SMEs profitability is not a direct reflection of lack of viable business plan or lack of managerial skills to draft bankable business plans to obtain credit from mainstream financial institutions. Thus, the lower SMEs profitability can be accounted for by other variable not considered by the study. These finding contradict those obtained in (Abbrey, 2015), but resonates with those revealed by (Musa, Bamanga, Yakubu, & Khairunnisak, 2020), who proclaims that having a viable business plan in place is not an ingredient for SMEs success. (Musa, Bamanga, Yakubu, & Khairunnisak, 2020) is of the opinion that that are a lot of variables which account for the success and failure of SMEs. Hence, based on this observation, this study also concludes that there are numerous factors that contributes to SMEs lower profitability, except the business plan requirement for SMEs financial access.

6. CONCLUSION AND RECOMMENDATIONS

6.1. Conclusion of the research

The onus of this study rests on the objective of determining the relationship between the challenges faced by SMEs in Lesotho, most specifically the challenge of access to finance from mainstream financial institutions as measured in terms of collateral security requirement, interest rates and business plan requirement and SMEs performance, also measured in terms of sales growth and profitability. At this juncture, it is of great importance to recall that SMEs in Lesotho play a crucial role towards both economic and social development in Lesotho in terms of employment creation, which translates to poverty reduction, improved economic activity and better education for Basotho in general (World Bank, 2018; FinScope, 2016).

Given the economic outlook in Lesotho, SMEs in Lesotho need to be subjected to an enabling environment to ensure sustainable operations and growth in the long term through policies that strives for success of SMEs. However, the World Bank (2018) established a contradictory view that SMEs in Lesotho are not functioning at their full potential and are ineffective towards fulfilling socio-economic objectives as per expectations. As a result, this study sought to establish the relationship between the challenges that confront SMEs in Lesotho, especially the challenge of financial access, and how it relates to the current SMEs performance to answer the question of SMEs under-performance towards fulfilling the socio-economic objectives in Lesotho.

In a quest to achieve the objectives of the study, a positivist epistemology was adopted, which suggests that the truth about a specific social phenomenon can be realized using statistical approaches (Bryman and Bell, 2011; Sounders et al., 2019). This notion informed the research design for the study; hence a quantitative research design was embraced. A sample of 400 SMEs was considered a fair representation of the total population of 76 000 SMEs in Lesotho (FinScope, 2016). The researcher compiled a database of SMEs from the ten districts using their online presence. To ensure fair representation of the districts, a sub-sample of 40 SMEs was considered for each district. Thus, a structured survey questionnaire was sent through the database to the potential participants. As a result, the selection of 400 SMEs followed a simple random sampling technique which is one arm of the probability sampling

techniques. This means that every SME in the database had an equal chance of being included in the sample.

For analysis and interpretation, the google sheet containing the responses from SMEs was extracted and transferred to Microsoft Excel for editing and coding. Finally, the edited excel was analysed using SPSS. The Cronbach's Alpha was computed using SPSS to determine the reliability of the survey questionnaire used for the study. Also, both the Chi-Square and the Pearson Correlation tests were generated using SPSS to establish the level of associations and relationships between the construct of financial access and SMEs performance.

Rather fascinating observations were drawn from the results and interpretation mechanisms employed in the study. Firstly, the study fortified the existing literature (Obaji & Olugu, 2014); (Nkwabi & Mboya, 2019); (Waked, 2016) as it discovered the existence of significant negative relationships between the construct of collateral security and SMEs profitability and between the construct of business plan requirement and SMEs sales growth. These findings imply that the SMEs which were denied access to credit facilities from mainstream financial institutions in Lesotho are experiencing lower profitability and sales growth respectively. Finally, insignificant negative relationships are also observed from the study between the construct of collateral security requirement and SMEs sales growth as determined in (Rahman, 2016), interest rates and sales growth as contradictory to the findings in Awani (2020), business plan requirement and SMEs profitability as contradictory to the findings in (Abbrey, 2015), and interest rates and SMEs profitability, which also contradicts the results contained in (Ademosu, 2022); (Davies, Turay, & Koroma, 2022), and (Henry, 2015). The implication behind these findings is that lower SMEs sales growth in Lesotho cannot safely be attributed to the collateral security requirement imposed on SMEs financial access from banks. Also, the findings suggest that the lower SMEs sales growth are not explained by interest rates that prevents SMEs from accessing finance from banks. Further, the results connote that interest rates and lack of viable business plan for financial access are not the main explanatory variables for lower SMEs profitability in Lesotho.

6.2. Study recommendations

Based on the results and findings of the study, it is believed that the implementation of the subsequent recommendations will contribute significantly to the development of SMEs sector in Lesotho. It is further believed that the recommendations will steer the sector towards optimal operation which will contribute towards attainment of socio-economic objectives such as employment creation and poverty eradication in Lesotho.

- The GoL should keep in check and continue to modify their policies that enables SMEs to access finance. For instance, as previously alluded to, numerous strides have been made by the GoL to help SMEs access finance through banks and apex institutions in Lesotho (GoL 2012). These policies have sort to increase the pool of funds and to some extent, relaxed the collateral security requirement. However, only a minority of SMEs can access these funds as bankable business plans are still required to have access to these finances. As such, through these apex institutions, the GoL need to incorporate the countrywide training and development programs that seek to impart knowledge and the required skills for SMEs owners to prepare the winning business plans. This will permit inclusion of SMEs owners who are disadvantaged in terms of literacy to draft business plans that meet the set criterion.
- Lastly, the GoL should consider subsidizing financial institutions directly involved in the lending process or extending credit to SMEs so that SMEs can benefit from reduced interest rates. The subsidy can further serve the purpose of collateral security so that SMEs can have access to the required amount that will significantly contribute towards SMEs growth and profitability. While at it, the GoL should implement sound regulatory structure and programs that will oversee the overall roll-out of this program curtail issues related to corruption while implementing the policy.

6.3. Managerial implications

- SMEs are encouraged to seek alternative forms of financing besides the traditional loans or credit from banks. These can be in a form of crowdfunding. This is despite the efforts made by the GoL to help extend credit facilities through banks or apex institutions such as BEDCO and LNDC in Lesotho. These initiatives tend to be slow as their roll-out only covers the minority of SMEs, hence a significant gap is yet to be filled, which renders the initiatives to be elusive. Most importantly, these

initiatives still play a major role in excluding SMEs from accessing finance as SMEs are requested to draft a bankable business plan to have access to finance. Generally, the concept of crowdfunding is considered the most innovative way to finance SMEs as individuals contribute minimum amounts in a pot or pool of funds as a form of share purchase into a prospective SME. Hence, SMEs can access these funds as a form of working capital.

- SMEs are also encouraged to consider raising funds through group partnering, which allows SMEs of similar venture to contribute certain amounts of money to a pool of funds. These funds can be used by members as working capital depending on the need of an individual SME at a specific point in time. This will result in strategic alliances that will extend beyond raising capital, but also, create strategic value chains that are able to counter any problems faced by SMEs.
- Lastly, managers and owners of SMEs should shift their current mind-sets towards personal development as a strategy towards their business development. In this way, managers and owners can continuously develop themselves through programs that will directly benefit their businesses in future, such as drafting viable business plans or engaging in though leadership programs.

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Appendices

Appendix A: Survey questionnaire

Dear Participants,

My name is Liteboho Christina Ramosoou. I am an MBA student at the University of Witwatersrand Business School. My contact details are as follows:

Contact Number – +266 6709 4586, Email address – 1105247@students.wits.ac.za

I am conducting this study as part of the requirements for completing my MBA at the aforementioned institution under the supervision of Dr. Jabulile Msimango-Galawe (contact number: **+2711 717 3980**, email address **jabulile.msimango-galawe@wits.ac.za**).

You are cordially invited to partake in this research, titled: Analysis of challenges affecting SMEs growth in Lesotho. The objective of this study is to assess the challenges that impact the growth of SMEs in Lesotho. Therefore, I have designed this survey to collect information from SMEs in the ten districts of Lesotho. The estimated time to complete this questionnaire is 5 to 10 minutes. As such, kindly answer the questions that follow based on what you know and understand.

The information contained in this survey is confidential, which means your identity as a responded is unknown. Also, kindly take note that, you are not obliged to participate in this study, and if you do, you have the right to withdraw your participation for any reason during the course of your participation. However, it is impractical to withdraw such participation upon submission of the questionnaire.

Yours Sincerely

Liteboho Christina Ramosoou

SECTION A – SMEs PROFILE

1. What is your gender?
 a. Female
 b. Male
 c. Prefer not to say

2. What is your age?
 a. Between 18 and 29
 b. Between 30 and 39
 c. Between 40 and 49
 d. 50 and above

3. Which is your educational level?
 a. COSC
 b. Undergraduate Degree / Diploma
 c. Post graduate Degree / Diploma
 d. PHD
 e. Other

4. What is your employment level/position?
 Hired Manager
 Owner Manager

5. What is your experience within the organization?
 1 – 3 years
 4 – 6 years
 7 – 10 years
 10 years and above

6. What is the nature of your business?
 Manufacturing
 Retail
 Wholesale
 Service
 Agriculture
 Construction
 Hotels and Restaurants
 Transport, Storage & Communication
 Other

7. Including yourself, how many people are employed in this business?
 1
 2 – 4
 5 – 7
 7 – 9
 10 and above

SECTION B – FINANCIAL ACCESS FOR SMEs

8. In the past year, has your business applied for a loan facility from any banking institution in the country?

- YES
 NO

9. If YES to the question above, was your business successful in its loan application?

- YES
 NO

10. If NO to the question above, what was the reason behind the denial of your business loan application?

Collateral security	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
11. The business did not have the required asset collateral security.					
12. The business did not have the required cash collateral security.					
13. The business did not have adequate collateral security for the required amount of loan.					
Business plan	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
14. The business did not have appropriate bankable business plan.					
15. The managerial skills to draft bankable business plans.					
Interest rates	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
16. The business did not have adequate cash flows to repay the increased cost of borrowing (interest rates).					
17. The business did not have adequate cash flows to repay the					

cost of borrowing (interest rates) over the extended period of time.					
18. The business did not have adequate cash flows to cover the fluctuations in the cost of borrowing (interest rates).					

SECTION C – GROWTH AND PERFORMANCE MEASUREMENT FOR SMEs

Sales Growth	Increased	Decreased	Stayed the same
19. In the past year, has the sales growth rate increased, decreased, or stayed the same compared to the previous year?			
20. In the past year, has the customer acquisition rate increased, decreased, or stayed the same compared to the previous year?			
21. In the past year, has the customer retention rate increased, decreased, or stayed the same compared to the previous year?			
Profitability	Increased	Decreased	Stayed the same
22. In the past year, the returns on initial investment has increased, decreased, or stayed the same compared to the previous year?			
23. In the past year, the operating profit for the business has increased, decreased, or stayed the same compared to the previous year?			
24. In the past year, the net profit for the business has increased, decreased, or stayed the same compared to the previous year?			

Thank you for your time and effort in completing this questionnaire

Appendix B: Ethical Clearance Certificate

Graduate School of Business Administration
University of the Witwatersrand, Johannesburg



Wits Business School Ethics Committee
Constituted under the University Human Research Ethics Committee (Non-Medical)

Ethics Clearance Certificate

Ethics protocol number: WBS/BA1105247/604

This certificate is only valid with a legitimate ethics protocol number and signed by the Researcher (below).

Project title	Factors affecting SMEs growth in Lesotho
Investigator / Researcher	Ms LITEBOHO RAMOSOEU
Nature of Project	MBA (Research Article)
Decision of the Committee	Approved, provided stakeholders and participants are guaranteed anonymity and confidentiality.
Issue Date of Certificate	2022-09-01
Expiry date	Date of submission of the project / research report
Chairperson	Prof Anthony Stacey ☎ +27 11 717 3587 ☎ +27 82 880 4531 ✉ anthony.stacey@wits.ac.za

A handwritten signature in black ink, appearing to read 'A Stacey'.

Declaration by Researcher

One copy must be signed by the Researcher and returned to the Chairperson of the Wits Business School Ethics Committee.

I fully understand the conditions under which I am authorized to carry out the abovementioned research and I guarantee to ensure compliance with these conditions. Should any departure to be contemplated from the research procedure as approved I undertake to resubmit the protocol to the Committee.

A handwritten signature in black ink, appearing to read 'L. L. Moseke'.

Signature

A handwritten date in black ink, appearing to read '20/09/2022'.

Date: