EFFECTIVENESS OF FINANCIAL SUPPORT INSTITUTIONS IN ORGANISING AND DEVELOPING SMALL, MEDIUM AND MICRO ENTERPRISES FINANCE IN KWAZULU-NATAL

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ABSTRACT

This research work maps out financial support institutions' contribution in developing and organising finance for Small, Medium And Micro Enterprises (SMMEs) in KwaZulu-Natal (KZN). It recognises the role played by financial support institutions and it questions the effectiveness of these institutions in delivering services to SMMEs. A literature review as directed by the research objectives and main research questions revealed the role of SMMEs in job creation, not only in developing countries, but also in developed countries. The theoretical framework of credit rationing theory underpinned this study. This research's philosophical orientation resides in the interpretive paradigm as it satisfies both the criteria and characteristics of this research. The study used interviews to collect data and followed a qualitative research approach. The findings revealed that while there were successes in financing of SMMEs in KZN, there were also shortfalls emanating from various challenges such as financial options available, process used, policies and legislation barriers as well as performance monitoring of SMMEs. The study recommends that composite finance data for SMMEs be established and published quarterly and finance allocations should consider all categories of SMMEs.

Keywords: Finance, SMME, Business, Credit, Legislations Performance, Process.

INTRODUCTION

Different countries across the globe put more effort into the development of Small, Medium and Micro Enterprises (SMMEs) when developing their countries because of their significant economic impact (Fatoki, 2016). SMMEs play a vital part in discovering innovative ways of doing things. In that way, they creatively contribute to economic development, growth sustainability and inclusivity (OECD, 2015).

In South Africa, there are a great number of financial provisions, institutions and programmes specifically designed to support SMMEs financially. Despite the enormous support received from different supporting structures, the mortality rate is alarming, as the majority of small businesses fail in their early years of operation (Herrington, 2017). SMMEs fail due to a lack of finance, amongst other factors, which include a lack of access to the market, government bureaucracy, the shortage of skills and high crime rates (GEM, 2015). Furthermore, entrepreneurial activity declined by 1.8% in 2012 from 9.1%, below a benchmark of 14.3% compared with other countries (Malebana, 2014).

SMMEs are important economic players, assisting South Africa in her developmental agenda (Fatoki, 2015). The South African Government came up with initiatives and established institutions to support and develop small businesses. These initiatives can be clearly traced back to 1995 in a white paper on SMME development policy which matured into an Integrated Small

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Business Development Strategy. After the development of the policy, a new Act was promulgated, known as the Small Business Act no. 29 of 2004. In 2014, this Act was amended to provide for the establishment of the Department of Small Business Development (DSBD), which came into effect in 2015 (Fatoki, 2017).

There are various programmes, through national and provincial departments, municipalities and other government entities, that financially support small businesses. State Owned Enterprises (SOEs), Multi-National Corporations (MNCs) and other local corporates also have programmes to support SMMEs. Government further extended a call for corporates to support SMMEs through encouraging legislation such as the Broad-Based Black Economic Empowerment (BBBEE) Act no. 46 of 2013. Traditional financial institutions, developmental financial institutions, Angel Investors and venture capitalist institutions are also available to assist SMMEs with funding (Chalera, 2017).

According to a comprehensive report published by the Department of Trade and Industry (2015), SMMEs contribute significantly to the Gross Domestic Product (GDP) and are an important contributor to job creation in South Africa (DTI, 2018). SMMEs contribute 27% to 34% of the GDP and 72% to employment (Statistics South Africa, 2015). It is therefore important to support SMMEs as an important vehicle to address unemployment, as a significant contributor to economic growth and to stimulate an equal distribution of income.

Acquiring finance is a challenge for SMMEs. It is a major reason why SMMEs fail at a start-up level, as they cannot get funding from the financial support institutions for a number of reasons, which include asymmetric information, higher financial risk and a lack of security in the form of collateral (Herrington, 2017).

There is a strong relationship between SMME failure and the manner in which financial support for SMMEs is structured. KwaZulu-Natal (KZN), as part of South Africa, is experiencing the problems highlighted above. This study focused on KZN, looking at support structures and programmes related to business finance available to SMMEs in the province and exploring their effectiveness in the challenges faced by SMMEs.

LITERATURE

The International Finance Corporation (IFC) Report (2013) states that 90% of global employment comes from the private sector, and SMMEs contribute more than 50% of that. However, access to finance seems to be a challenge as 70% of SMMEs do not use any external funding from traditional financial institutions and an additional 15% of SMMEs are underfinanced. For this reason, financing of SMMEs is one of the major priorities of Group of Twenty (G20) countries.

According to the Organisation for Economic Co-operation and Development (OECD) (2015), the SMME finance scoreboard reports declining access to finance in 24 out of 25 countries participating in a survey. This is confirmed by the European Small Business Outlook (2016) as it also reports a decline in the overall business environment for SMMEs.

The International Labour Organisation (ILO) (2015) reports the absence of finance to SMMEs as one of the challenges that affect business growth that could lead to job creation. The IFC (2013) reports an increase in the SMME finance gap from two trillion dollars to about four trillion dollars between 2010 and 2012.

The China Enterprise Survey System data (2015) argues that 40% of SMMEs that participated in a survey had the problem of being underfunded, while 66% of SMMEs experienced challenges in accessing finance. It further argued that capital finance is even harder, as traditional financial institutions only recorded 4.7% of the capital expenditure allocated to SMMEs (Wignaraja, 2015).

In China, informal finance is not illegal, therefore most SMMEs are dependent on it. Informal finance institutions in China are called quasi-regulated institutions. This means that they

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are not regulated by the Central Banking Regulatory Commission (CBRC). The only difference between banks and informal financial institutions is that the latter are not allowed to take deposits. Lending institutions are not allowed to charge more than four times the repo rate (Yuan, 2015).

In Brazil, access to finance for small businesses is also a challenge, however there has been some effort from the Government to incentivise SMMEs. The National Deliberative Council of Brazil co-ordinated enterprises that support SMMEs. The Serviço Brasileiro de Apoio às Microe Pequenas Empresas (SEBRAE) (a SMME support service), which comprises about 350 members from Government, the private sector and academic institutions, is funded by a 0.3% contribution of payroll of each of these institutions (Antoldi, 2017).

According to the Survey on Access to Finance of Enterprises (SAFE) 2016, one of the challenges facing SMMEs is their difficulty in accessing finance. However, some efforts are being made by the European Commission to improve the availability of funding for SMMEs by collaborating with financial institutions to make loans and other funding structures accessible, using financial instruments such as the Competitiveness and Innovation Programme (CIP), the Horizon 2020 Programme, etc. (Kwaak, 2017).

According to Statista 2019, the United States of America (USA) is different from the rest of the world as out of ten challenges businesses face, securing finance is at the bottom, at 17%, while attracting customers is on top at 75% (McNair, 2019).

In Russia the majority of SMMEs are not registered, an effect of a doubled obligatory social tax for small businesses to contribute to pension funds and medical insurance funds. According to the SME Bank of Russia Report (2015), financial support increased by 58% and non-financial support increased by 47%. However, financial support is still cited as a challenge, although much less so than in other developing countries (Safonov, 2014).

According to Statistics SA's Quarter 2 report (2015), there were 2 251 821 SMMEs in South Africa, of which 1 497 860 (70.36%) were informal SMMEs and 667 433 (29.64%) were formal SMMEs. This paper focuses on KZN and it is therefore important to look at the provincial statistics compared to the rest of the country. About 50% of formal SMMEs in South Africa are operating in Gauteng province (46%) and the Western Cape province comes in second. Gauteng province is also leading in the informal sector with 31%, while the KZN province is coming in second in the informal sector with 19% (Statistics SA Quarter 2, 2015). Overall, when analysing the number of small businesses that existed in 2008 and those that existed in 2015, there has been a slight improvement of 3%. This is bad when being compared with the fact that South Africa's GDP improved by 14% in the same period. In KZN over the same seven years, the number of SMMEs has decreased by 11% (Statistics South Africa Quarter 2, 2015).

There has been a significant increase of 17,86% in SMMEs between 2015 and 2019. The number of SMMEs in 2019 increased to 2 653 424. In KZN a number of SMMEs increased from 373 434 to 413 636, an improvement of 10,77%. This is a recovery when comparing the number of SMMEs between 2008 and 2015, which decreased by 11%. The contribution of SMMEs to the GDP has increased by 10% to 37% between 2015 and 2020. Although this looks like a good picture, about 47% of SMMEs have been in operation for less than five years, indicating there is still a high failure rate of SMMEs at their infancy stage (Statistics South Africa Quarter 3, 2019).

Formal SMMEs are similar to those in developed countries, however formal SMMEs in South Africa are a very small percentage of about 30%, as discussed above. The bigger percentage of SMMEs is made up of informal businesses. These informal businesses are operating at the lower end of SMME categories, where street vendors, informal manufacturing and services businesses and home-based businesses are found (BER Commissioned Research, 2016). Most of these businesses are what is defined as workers in their own account in terms of recommendations 204 of the ILO (ILO, 2015).

A World Bank report (2016) estimated that there would be an increase in the demand for employment in Africa. This demand is projected at about 122 million new jobs by 2020 so that the increasing number of people looking for employment can be reduced. Africa is contributing only

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1% of all the goods manufactured in the world, while it is the second-largest continent in the world with 27% of the world's arable land. This poses opportunities for SMMEs in Africa as they constitute about 95% of businesses in Africa (World Bank Group, 2016).

There is also a challenge in accessing finance in Africa. Financial support for SMMEs is regarded as one of the fundamental obstacles to job creation, as 71% of countries in Africa perceive financial support as a problem. This is confirmed by more than 20% of SMMEs across Africa which also view financial support as a problem (Worku, 2015). Formal financial institutions find it difficult to finance SMMEs. This is confirmed by information from Zambia, where 95% of SMMEs have business accounts but only 16% of those have access to finance (Worku, 2019).

The static trade-off theory argues that there are pros and cons when using debt to finance a business. The advantage of financing a business using a loan is that a business will benefit from tax incentives. On the other hand, when financing a business using a loan, it can result in interest payments and financial distress. The pecking order theory suggests that when a loan finances a business the costs incurred are related to asymmetric information. This theory is in favour of entrepreneurs who use their own finance as the first choice to fund a business. When comparing loans and external investors, this theory favours loans as the best choice, and external investment in the form of equity as the last choice (Atiyet, 2017).

Traditional financial institutions (banks) have problems providing adequate loans to SMMEs due to their lack of collateral. In response to that, Government established a credit guarantor called the Khula Guaranteed Scheme. However, banks still did not use that 90% credit guarantee as only 50 SMMEs were assisted under this scheme with only R20 million (Stegmüller, 2013).

(Schwienbacher & Larraide 2012) argue that SMMEs have two choices when looking for traditional financial support: loans and selling part of the business to the financer in the form of equity. They outline the financing options under equity as those raised by other businesspeople who are interested in the same line of business. They can also look for funding from their own family members or consider financial support institutions looking to offer equity rather than debt, such as angel investors and venture capitalists. Those institutions which 'offer' debt are banks and micro-lending businesses, companies that provide leasing agreements over asset leasing companies, government agencies, trade-credits and bootstrapping. Equity and debt combined are called 'capital structure'.

The business life-cycle theory proposes that when a small business is starting up, it uses its own funding. As the business ages, outside investors can observe a creditworthiness record (Chepkemoi, 2017).

It is also argued that SMMEs should look for external equity funding, such as business angels, which are usually wealthy investors willing to invest in a promising business while bringing expertise and skills when needed, or venture capitalists, which are formal businesses that can also provide an oversight role in the business they invest in (Harrison, 2013). External equity finance in the form of 'angel investing' and venture capitalists are most likely to be available to SMMEs with strong growth prospects.

There may be various options for external equity, but access to it remains a major constraint for SMMEs. It is a well-known phenomenon as most SMMEs have the problem of raising funding when the business is still in the first phase of the business life-cycle. This then forces businesses to rely on debt financing (Baldock & North, 2015).

Commercial banks still remain the traditional source for individuals, corporates and even some government institutions. Therefore, SMMEs also rely on commercial banks for different types of loans. These services are accessible through a strong network of branch support services and state-of-the-art technological platforms. However, the policy research working paper published by the World Bank on bank financing of SMMEs suggests that financial support received by SMMEs from commercial banks is only 8% of the total bank lending, while SMMEs

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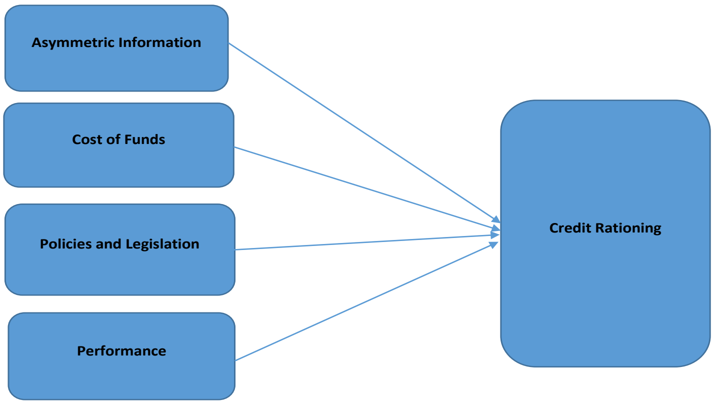
contribute 15% to the banks' net income - 73% of this is from transactional costs and account management fees and 27% is from credit. This indicates that SMMEs are a very profitable portfolio for commercial banks (Berg & Fuchs, 2013).

In KZN, SMME development is considered one of the important pillars in the province's overall development. It forms part of the 2035 Provincial Growth and Development Srategy's seven strategic objectives under inclusive economic growth. Strategic objective number 1.5 clearly outlines the provincial government's willingness to facilitate access to finance for SMMEs to reduce mortality rate and create employment.

This research work is reinforced by and based on the credit rationing theory. The major contributors to this theory are (Joseph & Andrew, 1981), who developed a model to illustrate how credit rationing can affect equilibrium in the market. (David & David 1987) argued the perspective of over-investment. (Bengt & Tirole, 1998) further looked at credit rationing as the moral hazard. Credit rationing is a state in which more people are looking to fund their businesses through loans at the usual market rate. Credit rationing can be divided into two parts: pure rationing occurs when some businesses or entrepreneurs are able to get funding, while other similar businesses or entrepreneurs, who are also looking for funding on similar terms and conditions at the same institutions, are not able to secure funding. Redlining occurs when a certain group of entrepreneurs cannot get funding regardless of the interest rate; they are willing to pay because of the shortage of supply, however when there is an increase in the supply they are considered. In other words, they are not a preference (Ekpu, 2016).

The basic elements of this theory are presented in the figure below:



Source : Harvie (2011, p.22)

FIGURE 1
BASIC ELEMENTS OF CREDIT RATIONING THEORY

METHODOLOGY

A qualitative research methodology was used in this research. Qualitative research allows researchers to produce new perspectives in understanding a phenomenon through the eyes of someone involved, thereby getting a perspective of important local conditions (Sanders, 2016).

This study was conducted in Durban and Pietermaritzburg, as all the headquarters of the financial support institutions in KZN are located in these two areas. Pietermaritzburg is the capital city of the province of KZN, while Durban is the largest economic hub in the province. KZN is a province of South Africa, located in the south-east part of the country, and providing a gateway to the three countries of Swaziland, Lesotho and Mozambique. It is the second-largest province in terms of its population and its contribution to the GDP, at 16%, after Gauteng with its GPD at 34% (Provincial Treasury, SERO, 2019).

KZN was selected based on its economic importance and the significant participation of SMMEs in this area's economic activities. Research into effectiveness of financial support

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institutions in organising and developing finance for SMMEs is therefore relevant, and it can be related to the rest of the SMMEs in the country.

(Creswell, 2015) describes a target population as the group of elements or individuals possessing particular qualities that are relevant toa study to be undertaken. The target population for this research is all financial support institutions within KZN. In this study, 15 institutions were targeted.

This research was conducted using a qualitative research methodology, therefore non-probability sampling was used to select institutions to be included in the sample. Purposive sampling was employed in this study. Purposive sampling is when units or people are selected for inclusion in the sample by a researcher with a purpose in mind (Rubin, 2020). The researcher used 10 respondents from five financial support institutions from a population of 15 institutions in KZN.

Data collected through the in-depth interview was analysed using the thematic analysis method. This method includes recognising themes within information and reporting findings (Stringer, 2017). Thematic analysis is deemed appropriate to analyse the information collected in this research work, as the method arranges information and then describes the information groups in detail.

DATA PRESENTATION

1st Construct: Asymmetric Information

Participants explained that there are a number of documents required by financial support institutions when assessing SMMEs requiring access to finance. It was clear that financial support institutions require these documents for two main reasons:

- To collect information to evaluate the viability and feasibility of the business and its ability to generate profit and a positive cash flow;
- To collect information to evaluate the legality, ability and willingness of the business and its owners to repay the loan required. This is to ensure that the financial support institution complies with the statutory requirements expected of lending institutions. It is also done to ensure that the risk of default is minimised.

Participants mentioned the following documents as required by financial support institutions: personal identity documents, proof of residence, BBBEE compliance, lease or mortgate agreements, business registration documents, financial statements, management accounts, tax compliance, letter of good standing, cashflow projections, business plan, personal statement of income and expenditure, personal credit check, business credit check, projected personal income, project plan persona surety, collaterals and franchise agreements.

Participants explained that the other challenge is the risk of default. The only way to achieve a low default rate while growing the client base is if a financial lending institution can manage the risk of default. The participants mentioned various ways in which financial support institutions manage the risk of default. These include checking credit profiles, post-investment monitoring and support, security, credit insurance and factoring, short payment terms and lending small amounts. A research study revealed that 40% of participants check the credit bureau and use it for pre-screening, while the other 40% check the credit bureau but do not use it as a final judgment. The remaining 20% of participants argued that they do not check the credit bureau at all.

2nd Construct: Cost of Funds

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Participants explained the processes SMMEs have to go through when applying for funding for their institutions. Participants noted that SMMEs differ in terms of their understanding about how financial support institutions function.

Participants noted that financial support institutions' lending of funds to SMMEs is governed by the banking system's framework. Therefore, there are some processes that may be confidential and not disclosed to applicants. For this reason, some participants were of the view that their processes will never be transparent enough.

The participants expressed concern that the majority of applications received are rejected by financial support institutions because of bad paying habits and uncorrected defaults on payments and judgements. Some applicants failed to explain their businesses in a business plan and businesses are assessed based on that information, so they cannot qualify.

Participants noted that most SMMEs are not hands-on in the administration of their businesses and finances and therefore find it difficult to submit documents such as financial statements when applying for funding. Participants stated that this is a serious issue as SMMEs find themselves falling behind with payments to SARS, simply because they have no idea how much they need to pay in order to be up to date with their payments.

Participants stated that most SMMEs do not have access to collateral, whereas some funding products require that applicants should have a form of security, or surety, in order to access funding.

3rd Construct: Policies and Legislations

Participants argued that legislation has impacted on the speed of assisting SMMEs applying for funding, as financial support institutions have to ensure that they comply with a number of laws such as the Financial Intelligence Centre Act (FICA), the Financial Advisory Intermediate Service (FAIS), the Financial Services Board (FSB), the National Credit Regulator (NCR), the South African Reserve Bank (SARB) requirements, etc. Participants from financial support institutions that receive funding from government mentioned that, on top of complying with already mentioned legislation, they still need to comply with government instructions, preferences and legislation, the Public Finance Management Act (PFMA), the Supply Chain Management Act, etc.

4th Construct: Performance

Financial institutions need to monitor the performance of businesses post-investment. This is to ensure that their interests are protected. It is very difficult to monitor a small business's performance because of the informal manner in which these businesses are run. SMME performance is very volatile, while the risk of failure is much higher. A research study revealed that 70% of participants do not provide post-investment monitoring and support while 30% argue that they do provide post-investment monitoring and support.

Participants that do provide post-investment monitoring and support stated that the profitability of the organisation is an important indicator to measure the performance of the organisation. However, what is more important is that a business should be operating within its strategy and planning because a new business venture cannot post profits as it takes off. Participants stated that a business should also know when it is expecting to break even.

Participants identified cash as an important pillar in the business. They argued that most businesses fail, not because they are not profitable, but because they have run out of cash to continue with their operations. Participants mentioned that what is important is to check whether funded SMMEs compare their cash projections with actuals. When SMMEs compare actuals with projections, they can see if there are major deviations on cash-impacting activities.

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Participants appreciated the fact that the business world is constantly changing, therefore decisions have to be taken as soon as possible. They also mentioned that it is expected that a submitted business plan will not be implemented as is. What is important is that there should be a paper trail on important decisions taken by the business. A business's targets according to its business plan must be broken down into daily activities. This exercise will enable the business to assess whether they are achieving the planned results as early as possible and taking appropriate action before it is too late. Participants mentioned that waiting for monthly reports is too late. A business needs to have the ability to make appropriate decisions within one to three hours if it affects operations severely, or within one to three days if it is not so urgent.

Participants mentioned that it is difficult to understand all types of businesses they are dealing with. It is for that reason that they focus on certain sectors for which they have in-house experts. Some participants argued that it is not that necessary to understand all the sectors that they are dealing with because they use their financial tools to assess whether a business is fundable or not, and they apply this across all sectors.

FINDINGS

Customer relationships arise between financial support institutions and SMMEs in the process of lending. This study has demonstrated that SMMEs that are not in a position to explain information to financial support institutions in a manner that promises credible future prospects, may elicit an unfavourable decision. This is a problem, because banks may lose an investment opportunity which would otherwise be more profitable than the one selected; while on the other hand a very promising entrepreneur may lose a chance to be funded because of a lack of understanding of the business by the financial support institution. Asymmetric information is a result of failure by a borrower and a lender to give each other complete, correct and accurate information. Asymmetric information is one of the situations that leads to credit rationing, where financial support institutions may not give a loan or may give a smaller amount than the one that the SMME requires.

Those SMMEs that manage to get funded by financial support institutions face an additional challenge, which is the high cost of borrowing, as well as providing collateral, deposits, high interest rates, securities, high service fees and shorter payment terms resulting in higher repayments.

This research revealed that financial support institutions rely more on the individual's credit profile to make decisions about a business. Furthermore, it was observed that lending to SMMEs in South Africa is still concentrated, with few role players, and is still governed by traditional credit models, using traditional financing scorecards as the one-size-fits-all approach. With concern, it was noted that even those financial support institutions that are said to be developmental in their approach turned out to be more similar to traditional finance institutions, which then raises the question of what is actually developmental about them. In some instances, participants from traditional financial support institutions gave more financial support to SMMEs than those from developmental finance institutions. This indicates that there is still a lot of progress to be made in improving the cost of borrowing and removing the hurdles that SMMEs need to jump over to secure funding.

Policies and legislation play an important role in regulating and organising the practise of lending and borrowing in South Africa. Different policies and legislation were discussed on data analysis and interpretation. Drawing from participants' views, many conclusions were reached regarding policies and legislation and their role in organising and developing finance for SMMEs in KZN. Firstly, it must be emphasised that it has played an effective role in protecting borrowers and ensuring fairness. However, unnecessary duplication has been observed, which creates more of a burden for lenders in trying to comply with all of this legislation. This poses a problem, as it was observed that the whole lending process for financial support institutions ends up being more

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of a compliance exercise. This may be one of the reasons why developmental finance institutions have become more similar to traditional financing institutions, as the same sections of legislation govern them. It becomes worse for developmental finance institutions as the majority of developmental finance institutions are government-owned. This means that developmental finance institutions owned by government still need to comply with legislation, such as the PFMA no. 1 of 1999, the Supply Chain Management Framework, etc. Developmental finance institutions that government does not own are owned by Multi-National Corporates (MNCs) and large local corporates. They have been established, mostly, to comply with BBBEE. Lawmakers play an important role of improving operational processes in financial support institutions without compromising on important aspects of the legislation.

Past performance of SMMEs is important in determining their prospects. Participants' views on performance show that it is the most important factor in reaching a decision of whether to fund an SMME or not. It was noted that financial support institutions mostly use documents in order to assess past performance. This is a challenge, because participants expressed concerns about the credibility of documents submitted by SMMEs when applying for funding. Documents that were of most concern were financial statements and business plans. Participants argued that SMMEs have different sets of financial statements, for example, the one submitted to SARS is prepared to show lower profits, while the one submitted to banks is prepared to show more profit. This at times may not be deliberate, because SMMEs use consultants to prepare financials as when required and have no idea how to interpret them.

The above gives a clear picture that the past performance of SMMEs may be assessed based on misleading information. It was further noted that there is not much analysis and assessment of future prospects for the business; rather more focus is on current cash-flow and security.

The study further suggests that even businesses that access finance from financial support institutions lack sufficient post-investment support from financial support institutions. In those financial support institutions that offer post-investment support, support is more administrative and supervisory rather than operational. This is a concern, because SMMEs experience more challenges during daily operations. A concern expressed by financial support institutions is that their entities may not have the skills necessary to support operational businesses.

RECOMMENDATIONS

The following are the recommendations deduced from this research that can help organise and develop financial support institutions in KZN.

It was noted that the definition of SMME is too broad, as it includes businesses that are worlds apart and are assessed in the same way when they want to access finance. It is further noted that the definition of an SMME is in line with developments around the world, as discussed under the literature review. It is recommended that, in terms of access to finance for SMMEs, financial allocation can be categorised according to SMMEs definition categories. This will ensure that SMMEs at the lower end of the definition are also accommodated and given a fair consideration when applying for finance.

To be able to analyse improvements in the effectiveness of financial support institutions in organising and developing finance for SMMEs in KZN, it is important that composite SMME finance data is kept and published quarterly. Similar to what has been discussed above, a report on SMME finance should consider how SMMEs are defined in South Africa and should also show the demographics of SMMEs funded to ensure that the developmental goals of the KZN province, as outlined in the 2035 Provincial growth and Developmental Plan (2018), are addressed.

The number of documents required by financial support institutions was noted as one of the challenges faced by SMMEs when trying to access finance. Government portals such as the National Treasury Central Supplier Database (CSD) can be used to access information and

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therefore reduce the documents required from SMMEs. National Treasury requires that all businesses that intend to do business with government register online and upload documents on a CSD platform. These documents include most of the documents required by financial support institutions. Likewise, with bank statements, SMMEs can sign consent and give power to financial support institutions to access financial information and share it.

Financial support institutions should work with sector specific institutions and other non-financial support institutions in developing a diagnostic tool to assess SMMEs applying for funding that will not rely on secondary data such as financial statements, business plans and in some cases even credit profiles.

Policies and legislation on SMME finance should be reviewed and relaxed. Where possible, these should be consolidated in order to speed up the process of assessing and funding SMMEs. As mentioned above, some of the legislation duplicates the same information, which makes the process of lending more of a compliance exercise than utilising the time in value-adding activities for SMMEs.

There needs to be a clear process understood by both SMMEs and financial support institutions to eliminate unnecessary expectations and make things simple for both parties.

CONCLUSION

As a background, the research outlined the importance of SMMEs and their role in creating job opportunities. The failure rate of SMMEs was highlighted and access to finance was viewed as one the major reasons for this. A brief summary of the rationale that informs a research methodology and design employed was given.

The theoretical framework of credit rationing theory underpinned this research on the effectiveness of financial support institutions in organising and developing finance for SMMEs in KZN. Themes under credit rationing theory were discussed as a framework to guide the research study.

The information collected using research interviews as a research instrument was summarised and presented based on credit rationing theory themes. Views raised by participants during the interviewing process were discussed and elaborated upon.

An analysis revealed the challenges in the processes that SMMEs have to go through in order to access funding, if they happen to be successful at all. It also highlights challenges experienced by financial support institutions in rendering a service of financial support to SMMEs.

The research findings revealed some important aspects regarding the effectiveness of financial support institutions. From that background, recommendations were made as a contribution to the body of knowledge. Role players can use them in developing financial support for SMMEs and research in future studies. The findings met all research objectives.

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