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## OBSTACLES FACED BY OWNERS OF TOWNSHIP MICRO, SMALL AND MEDIUM ENTERPRISES TO ACQUIRE FUNDS FOR SURVIVAL AND GROWTH (2010-2020)

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**Abstract.** It is the belief of many governments that the development of micro, small and medium enterprises (MSMEs) will stimulate economic growth, create jobs and assist in the obliteration of poverty. However, the achievement of these envisaged benefits is dependent on healthy and growing MSMEs as well as the provision of funds to facilitate and stimulate growth. Despite various interventions by the SA government, many MSMEs have failed due to a lack of support from the financial institutions tasked with providing capital and funding to these enterprises. This article focuses on the obstacles that restrain business growth and identifies the challenges that owners of township MSMEs face and need to overcome to acquire funds from financial institutions and government support programmes. Exploratory research, conducted among 498 MSMEs located in South African townships, revealed that the obstacles, which are restraining growth relate to the economic climate, business environment, personnel and finances. The challenges to access funds can be grouped into three possible constructs: institutional requirements, administrative aspects and perceptions of financial institutions. Despite the many obstacles in the path to acquiring funds for their survival and growth, MSMEs have continued to operate on a small scale. However, the reality is that, without much needed funds and financial support, it will be difficult for MSMEs to grow and reach their full potential, which will hinder their ability to bear the envisaged fruits of economic growth and the obliteration of poverty.

**Keywords:** MSMEs; finance; obstacles restrain growth; financial institutions; acquiring funds; South Africa; challenges to access funds

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## 1. Introduction

The role and importance of micro, small and medium enterprises (MSMEs) is widely valued and acknowledged. In South Africa, it is a stated objective of the government to support and develop MSMEs, especially as these businesses are seen as a key element of the South African government's economic rejuvenation programme to stimulate economic growth, alleviate poverty and create jobs (Mpahlwa, 2008; Beck & Demirguc-Kunt, 2006). In order for government to achieve the aforesaid, a number of financial and non-financial support programmes have been developed and launched, with the specific aim of making capital more accessible to MSMEs. Typical institutions that are tasked to support MSMEs with funding include the GEP, SEFA, SEDA, DTI and Ntsika (Booyens, 2011). Institutions such as Ntsika, Khula and SEFA were specifically created to offer financial support to MSMEs (Mago & Toro, 2013), as well as a number of other government support programmes, including the following: Small Enterprise Development Agency; Centre for Small Business Development (CSBD); National Empowerment Fund; Industrial Development Corporation (IDC); National Development Agency (NDA); Umsobomvu Youth Fund (UYF); Community and Development Association (CEDA); and South African Microfinance Apex Fund (Agwa-Ejon & Mbohwa, 2015; Rogerson, 2004; Botha, Smulders, Combrink & Meiring, 2020).

Even though these programmes are available, there seems to be a reluctance or a wariness to participate on the part of the MSMEs (NCR, 2011; Mago & Toro, 2013). This can, to some extent, be attributed to a lack of awareness on the part of the MSMEs with regard to the services provided by these programmes and support organisations (*FinScope*, 2010).

To compound this situation, research have indicated that, even though there may be some awareness of the programmes, there is a lack of understanding about how these programmes work (Mago & Toro, 2013). This was, in part, again attributed to a lack of proper communication to MSME owners regarding the qualification criteria for the programmes and a consequent rejection of applications, where such applications for funding were attempted. In some instances, it was also found that the applicants did not clearly understand what was required from them, how to complete the forms or in what format supporting documentation should be submitted. The lack of the needed infrastructure, for example, an inadequate number of support centres, the cost of services, lack of knowledgeable service providers, excessive red tape, poor government services and support, and poor business support to assist MSMEs in the application process were identified as challenges when acquiring funds (Agwa-Ejon & Mbohwa, 2015; Mago & Toro, 2013; NCR, 2011). The rejection rate for bank loans, according to the NCR (2011), is very high - as high as 75 to 80% of applications - with the primary reasons being lack of a properly construed business plan and cash flow projections, applicants having no collateral or unable to make a personal contribution, presentation of a poor business idea or lack of a formal business structure (Chimucheka & Rungani, 2011).

According to the various authors, the obstacles that MSME owners faced in acquiring funds, which has been highlighted in the preceding section, reflected the situation about a decade (pre-2010) ago. Various support programmes were developed and implemented to assist MSME owners in dealing with these obstacles. The key question however remains:

*Over the past decade (2010–2020), to what extent has the government's focus on the development of MSMEs and the availability of support programmes assisted in eradicating the obstacles that have restrained growth as well as the challenges that township MSME owners had to face when acquiring funds from financial institutions?*

The objectives of the research are to explore the obstacles that restrain the growth of township MSMEs and the challenges faced by MSME owners when acquiring funds from financial institutions and government support programmes.

This article sets out to explore the challenges faced by MSME owners when applying for funds from financial institutions and government support programmes. It commences with a literature study followed by a brief outline of the methodology used in this study, the empirical results, a discussion and, finally, the conclusion.

## **2. Literature study**

The literature study, for a common understanding, will start by defining MSMEs, in a South African context, followed by a brief discussion of township economies and funding of MSMEs.

### **2.1. Micro, small and medium enterprises (MSMEs) defined**

As the acronym for micro, small and medium enterprises (MSMEs) differs from country-to-country, so does the definition. In the absence of a universally acceptable definition, it is vital to define MSMEs by referring to the policies of the country. In South Africa, a MSME refers to a separate and distinct business entity, including any branches or subsidiaries that might exist, as well as cooperative enterprises, that is managed by one owner or more, operating in any sector or subsector of the economy (Department of Small Business Development, 2019). According to the revised schedule 1 of the national definition of small enterprise in South Africa, two criteria, namely number of employees and annual turnover, are used to define a MSME. Regardless of the industry, the number for employees for micro- enterprises is 1 to 10, for small-sized enterprises it is between 10 to 50, and for medium-sized enterprises the number is capped at 250 employees. The annual turnover differs between industries and varies between R5 million and R220 million (+/- \$0.33 and \$14,7 million; exchange rate 15:1) (Department of Small Business Development, 2019; De Wet, 2019).

MSMEs operate in the formal as well as informal sectors of the economy. Informal MSMEs operate in an unofficial and undocumented format due to the cost of doing business in the formal sector such as collateral requirements as well as the multiplicity of regulators and prudential regulations that do not support MSMEs (Ramakrishnan, 2018; BER, 2016, p.5; Imbadu, not dated, p.2). On the other hand, a formal MSME, is an officially recognised and documented entity that is highly regulated and taxed (Charman et al., 2017, p.36). Formal as well as informal businesses operate in diverse locations, from demarcated commercial areas to residential areas and street corners. Apart from the distinction between formal and informal businesses, MSMEs can be further classified into four categories, according to their development (Bvuma & Marnewick, 2020; Malefane, 2013, p.673):

- A survivalist enterprise: The income that survivalist enterprises receive is usually below the minimum income standard (Marnewick, 2014, p.2). Owners of these businesses are often those that cannot find paid employment and include, among others, street vendors and subsistence farmers (Njiro, Mazwai & Urban, 2010, p.8). Survivalist enterprises are strongly linked to the informal economy (Malefane, 2013, p.673) and usually form a large percentage of economic activity in developing countries (Ligthelm, 2013, p.59). A survivalist enterprise, per definition, is classified as micro.
- A micro-enterprise: These businesses are usually unregistered informal businesses and they generally generate a turnover lower than the registration threshold of R1 million (\$66 667; exchange rate 15:1) for value added tax (VAT) (Njiro et al., 2010, p.8). Examples include businesses such as minibus taxis, household

industries and spaza shops (a camouflaged or hidden shop in a township) (Marnewick, 2014, p.3), and they also usually have up to 10 employees (De Wet, 2019).

- A small enterprise: These businesses operate in the formal sector, with 10 to 50 employees (De Wet, 2019) and have more complex business practices in comparison to preceding categories. They are usually better established and tax registered (Njiro et al., 2010, p.8; Marnewick, 2014, p.3), with a maximum annual turnover that ranges between R17 million to R80 million (+/- \$1.13 million to \$5.33 million; exchange rate 15:1) (De Wet, 2019).
- A medium enterprise: These businesses employ a maximum of 250 people and operate in commercial areas (Malefane, 2013, p.673). These businesses have multiple management levels within their organisation (Njiro et al., 2010, p.8) and their turnover is between R6 million and R25 million (+/- \$2.33 million to \$14.66 million; exchange rate 15:1) (De Wet, 2019).

In the context of South Africa, the majority of MSMEs are seen to be informal, survivalist enterprises, regarded as having very little growth potential and the owners usually do not employ a lot of staff (BER, 2016, p.5).

## **2.2. Township economies**

Defining a township is the first step in understanding the township economy. A township in South Africa is highly populated urban settlement usually on the outskirts of towns and/or cities, away from the centres of commercial and industrial activities. During South Africa's apartheid era, the townships were developed as dwellings for non-white workers, with no logical economic and infrastructure layout, and limited social services (CITIES, 2018a). The residents were barred from owning businesses (Marnewick, 2014, p.3). Even years after South Africa became a democracy (in 1994), the townships still suffer from neglect, isolation, overcrowding, lack of investment, poor infrastructure and unemployment (Wiid & Cant, 2021).

The term, "township economy", refers to business entities and markets based in a township. Township entrepreneurs manage and operate these entities, which are diverse in nature and mainly informal. The township economy is consumer-driven with the primary aim to provide products and services to meet the needs of the township's residents and beyond. These entities operate mainly in the economic sectors of manufacturing, transportation and services including business, personal and household services, agriculture as well as retail (Wiid & Cant, 2021; McGaffin et al., 2015; Infrastructure Dialogues, 2015; Gauteng Province Economic Development, 2014).

## **2.3. Access to funding**

While the government is focused on the establishment and growth of MSMEs, Schaefer (2019) reported that in South Africa, on average, half (50%) of all start-up businesses cease to exist within the first two years (24 months) after the business was established.

Traditionally a small business is established to provide income for an individual, family or small group of employees. As a small business grows, it moves through four main growth phases, namely the start-up, growth, stable and exit phases (for external investors, in the case of big companies). In the start-up phase, the small business relies mainly on insider finance - monies sourced from the owner, family and friends. According to Noko (2019), 66% of MSMEs' funds come from self-funding in the form of personal savings and loans, 20% of the monies are investments from family and friends, while 12% of the monies come in the form of loans and investments from private entities.

In the growth phase, when trading is established, the business requires more external funding in the form of asset-backed finances such as bank debt and trade credit. In the stable phase, the business should be in a position to reimburse part or all of its debt. In the last phase, when external investors (in the case of a big company) exit, the business has direct access to public markets (Maroela Media, 2021).

In many Third World countries, more and more attention has been given to the relevance and importance of MSMEs in the creation of jobs (Rogerson, 2004). However, these MSMEs face a myriad of challenges, which include, among others, a lack of available funds or access to funds that further complicate their ability to survive and exist (Maphalla, Niewenhuizen & Roberts, 2009; Rogerson, 2008; Booyens, 2011). A study by the Small Business Survey (Agwa-Ejon & Mbohwa, 2015) ranked lack of access to finance (8,7%), competition (12,6%) and lack of space to operate (16,2%) as key obstacles to the growth of MSMEs. This ranking is based on the fact that there is an unwillingness by formal institutions to provide credit to smaller companies due to the perceived risk involved (Falkena, Abedian, von Blottnitz, Coovadia, Davel, Madungandaba, Masilela & Rees, not dated).

This state of affairs and the associated problems encountered by MSMEs have led governments, private institutions and even international aid organisations to start a number of financial and non-financial support programmes, with the specific aim of making capital more accessible to MSMEs. However, even though these programmes are available to MSMEs, there seems to be a reluctance or wariness to participate. This may be attributed to government institutions, which are supposed to make the acquiring of funds easier, but, instead, have become stricter and more focused on collateral from small businesses, much in the same way as banks. To compound this situation, it was also found (Ramnath, 2010) that, even though there may be some awareness of the programmes, there is a lack of understanding of how these support programmes for MSMEs work. This was, in part, again attributed to a lack of proper communication regarding the qualification criteria for the programmes and, consequently, the rejection of applications, where applications for support were submitted (Mago & Toro, 2013). It seems that there is a gap regarding the access of funding due to the fact that many MSMEs are not aware of support programmes or not properly equipped, from a business educational point of view, to capitalise on these programmes.

Based on the literature, it seems that government support programmes are moving closer to mirroring the financing criteria of commercial banks, which negates the advantage or purpose of government support programmes (Chimucheka & Rungani, 2013 Maphalla et al., 2009).

From the financial institutions' point of view, for instance commercial banks, the applications from MSMEs for funds are rejected primarily due to a lack of a properly constructed business plan and formal business structure, insufficient collateral or inability to make a personal contribution or provide personal guarantees from the applicant or the enterprise is considered a poor business idea (Chimucheka & Rungani, 2011). Many more do not qualify due to lack of a consistent cash flow, debt income ratio, insufficient credit, an insufficient operating history and inexperienced management team (Goldin, 2014).

It has been pointed out by a number of authors that MSMEs are in a less fortunate position than larger companies to acquire the needed finance for their business. Previous research emphasised the fact that MSMEs have a serious lack of financial management skills, which has a negative impact on their ability to secure loans for their businesses. This situation is further exacerbated by the fact that many qualified employees in small businesses tend to move on to other bigger businesses, once they have gained some skills in the field of business and financial management. To manage an MSME is not regarded as overly complicated, but it is generally accepted, by both financial and governmental institutions, that it requires a basic understanding of the fundamentals of business to stand a chance of success (Choi & Nazareth, 2014). The fundamentals of business include the management of debt, cash flow, supply and demand of the business services and products, marketing and public

relations, and so forth. MSMEs do not have the luxury of a large and skilled staff complement to manage the various business functions and it is therefore left to the owner, who is, in many instances, poorly equipped to do so. The lack of an experience and well-equipped management team is one of the reasons mentioned as to why financial institutions reject MSME funding applications. Due to this, it would be a challenge for the poorly equipped owner of the MSME to acquire funding.

In South Africa, MSMEs find it particularly difficult to secure any type of funds. This can be attributed to the social, economic, financial, legislative, political and banking systems of the previous dispensation, which, combined, have created an adverse financial environment for the MSME sector (Beyers & Ndou, 2016; Maphalla et al., 2009).

### **3. Research methodology**

The study followed an exploratory approach using a self-administered questionnaire to gather data during the fourth quarter of 2019 from the owners of township MSMEs located in Gauteng, which is regarded as the economic hub of South Africa. Convenience sampling was used, as township MSMEs are mainly informal and not documented (Bureau for Economic Research, 2016; Gauteng Province Economic Development, 2014). Trained fieldworkers hand delivered and collected the questionnaires. On delivery, the fieldworker explained the aim of the study, informed the owner of the MSME that participation is voluntary and he/she can withdraw at any stage. They were also informed that by handing in the completed questionnaire, they agree that they were informed and have given consent to participate to the study. A total of 498 of the initial 500 questionnaires, a response rate of almost 100%, were answered and handed back to the fieldworkers. A limitation of the research is the fact that the researchers were reliant on the respondents that they could find as no data base existed where the respondents could be drawn from. It is however not assumed that the responses would have been much different from what was received.

Content analysis was performed on the open-ended questions to extract items. Text that on first impression and meaning appeared to represent an item were grouped together. Basic descriptive analysis was performed to calculate frequencies and percentages to construct tables for data presentation.

#### **3.1. The profile of the sample**

The overall sample for the study consisted of 498 respondents (n=498), with the majority being African (n=377, 75,7%). In terms of gender, 60% (n= 299) were male and 37,1% (n=185) female, with 2,9% (n=14) missing responses. The majority, 41,6% (n=210) of the respondents were between 31 to 40 years of age and 27,7% (n=138) were 30 years or younger. The sample consisted predominantly (89,4%, n=445) of micro-sized enterprises, with a staff complement of less than 10 employees (ave 5.5) per establishment. Less than one percent (n=1) could be classified as a medium enterprise, having more than 50 employees.

The main businesses sectors identified are services, retailing and food. About a third (37.3%; n = 186) of the respondents operate a service-related business such as vehicle maintenance and repairs, transportation, furniture repairs and upholstery; metalwork such as welding, gardening, day care, hair and beauty salons, funeral services and the provision of business services such as communication technologies, accounting and printing. Almost a fifth 20.2% (n = 101) of the MSMEs are involved in retailing by operating general and electronic retail stores, as well as tuck-shops and spaza shops. 15,7% (n=78) of the MSMEs operate businesses in the food industry such as catering and restaurants as well as taverns and pubs. A few respondents are involved in construction (2,8%; n = 14); manufacturing (2,6%; n = 13); entertainment (1,6%; n = 8); and accommodation (1,6%; n = 8).

The response regarding the obstacles that restrain growth in townships and ease of access to funding and financial support are reported on in the findings below.

#### 4. Findings

In the section that follows, the focus is on the views of township MSME owners regarding obstacles that restrain growth and access to funding.

##### 4.1. Obstacles that restrain the growth of townships MSMEs

With regard to obstacles that restrain growth in township MSMEs, the respondents were asked to indicate all the obstacles that restrain the growth of their businesses from a list of possible obstacles. They were also required to respond to an open-ended question that would enable the respondents to indicate unlisted obstacles that restrain growth. The findings are indicated in table 1 below.

**Table 1:** Greatest obstacles that restrain growth of MSMEs located in townships

| Themes  | n   | Percentage |
|---|-----|------------|
| High levels of unemployment                   | 380 | 76.3       |
| Shortage of finance & credit                  | 286 | 57.4       |
| Lack of business training                     | 284 | 57.0       |
| Inadequate infrastructure                     | 251 | 50.4       |
| Shortage of qualified staff                   | 242 | 48.6       |
| Lack of managerial, business and admin skills | 238 | 47.8       |
| Inadequate levels of service delivery         | 237 | 47.6       |
| High levels of competition                    | 217 | 43.6       |
| Shortage of reliable supply sources           | 212 | 42.6       |
| Poverty and lack of buying power              | 202 | 38.8       |
| Legal requirements                            | 197 | 37.8       |
| Tendering                                     | 193 | 37         |
| Distance and access to market                 | 189 | 36.3       |
| Other   | 14  | 2.8        |

\*Respondents indicated indicate all relevant options thus total n > 498 & total percentage > 100%

In terms of the obstacles that restrain the growth, “high levels of unemployment” emerged as the main obstacle, with 76,3% (n=380) of the respondents highlighting this as an obstacle. High levels of unemployment means that the spending power of consumers is limited, which adds to funding needs and sustainability of MSMEs. “Shortage of finance & credit” emerged as the second most important factor, with 57,4% (n=286) of the respondents highlighting this factor, followed closely by “Lack of business training for MSMEs” (n=284, 57%).

Although many other obstacles were identified by the respondents, it is clear that “Shortage of finance & credit” constitutes one of the main obstacles that restrain growth of small businesses in the townships.

The next section will focus on the ease of accessing funding that will enable a township MSME to deal with the obstacles that restrain growth of small business.

#### **4.2. Access to funding and financial support**

In order to assess the history and use of outside funds in their business, the respondents were asked whether they had used outside funds previously and at which institution they had received these funds:

The results show that 31% (n=155) of the respondents have utilised outside funding previously to finance their business, with 65,5% (n=326) of the respondents not having used outside funding. A total of 3,4% (n=17) of the respondents did not answer the question.

The majority of respondents (n=75, 48,4%), who have utilised outside funding previously, indicated that they received this funding from the banks, with 25,2% (n=39) of the respondents indicating that they have used a combination of institutions in order to secure finance for their business. About a quarter 26,5% (n=41) of the respondents, who indicated that they made use of outside funding previously, did not answer the question.

With regard to the ease of access to funding and financial support, the perceptions of respondents were examined by firstly asking whether they agree with the statement, “MSMEs find it easy to get financing”. The results show that 84,5% (n=421) of the respondents indicated that it was not easy, with only 11,6% (n=58) indicating that they were of the opinion that it was easy, while the missing responses totalled 3,8% (n=19). Based on these findings, it is clear that the majority of the respondents were of the opinion that accessing funds or financial support for their business is not an easy endeavour.

In order to further investigate the opinions of the respondents regarding the ease of accessing funds, the respondents were also required to provide a reason for their answer to the above statement.

The main themes that emerged from the responses of the respondents, who indicated that they did find accessing funds easy, included “banks/government” (n=10, 17,2%) and “good business plan and business administration” (n=5, 8,6%), while half (n=29, 50%) of the respondents did not provide reasons for indicating that obtaining funds is easy. The reasons offered by the respondents – who aligned with these themes - centred on the notion that it was easy to access funds if you approached banks and the government and qualified for financial assistance, and that gaining access to funds is easier if you have a good business plan and vision for your business. The latter was described by the respondents as a critical element to ensure ease of access to funds.

In order to further investigate the opinions of the respondents in regard to the notion that it is not easy to access funds, the respondents were required to provide a reason for their answer. Almost two-thirds (58,7%; n=267 out of 421) of the respondents who indicated that obtaining a loan is not easy did not provide any reason as to why they indicated that accessing funds is not easy. It can be speculated that these respondents have not applied for any funds to assist in growing their businesses. Their initial responses are based on negative stories they have heard and/or read about regarding obtaining funds.

Table 2 below captures the reasons provided by those respondents (41,3%; n=174 out of 421) who indicated that obtaining funds are not easy, to further clarify their response to the question.



**Table 2:** Reasons to support the opinion that it is not easy to access funds

| Response                                      | Frequency (n) | Percent (%) |
|---|---------------|-------------|
| Meeting requirements & No security/collateral | 54            | 31.0        |
| Long/Complicated process                      | 48            | 27.6        |
| Lack of willingness                           | 24            | 13.8        |
| Legal aspects                                 | 14            | 8.0         |
| Lack of knowledge                             | 13            | 7.5         |
| Corruption & nepotism                         | 12            | 6.9         |
| No faith in small businesses                  | 9             | 5.2         |
|   | 174           | 100         |

With regard to respondents who indicated that they did not think accessing funds or financial support was easy, the main theme that emerged centred around the difficulties associated with meeting the criteria and necessary requirements for loans and financial support (“Don’t meet requirements”). The results show that 31% (n=54) of the respondents indicated that the reason they were of the opinion that accessing funds was difficult was because of all the criteria and requirements they had to adhere to in order to qualify for loans or financing (see table 2). This included lacking the necessary security to receive a loan, lacking credit worthiness and the strict legal requirements. The following responses were recorded:

“Credit worthiness is what makes it not easy”; “Criteria for funding very difficult”; “Too many legally documents required”; “Need too much security. Nobody wants to give money without surety”; “No security, no loan”; “We must provide financial statements which we don’t have”; “You need to meet certain requirements to qualify for funds (e.g., bank loan)”

Furthermore, 69% (n = 120) of the respondents indicated reasons other than institutional requirements which, in their opinion, made it difficult to obtain funds. These minor themes included the following: a lack of knowledge as to where to acquire funds; the processes and a lot of paperwork; too much red tape; the impact of corruption and nepotism on accessing funds; and investors’ unwillingness to invest in the business, along with a lack of belief in the business by investors. Respondents also highlighted the high costs associated with paying back loans and the difficulty in obtaining funds or financing for non-South African citizens. On these themes, the following comments were recorded:

“No support structure. Don’t have knowledge; don’t understand what I have to do”; “We don’t know where to go in the first place, to who must we talk to”; “Corruption is too high”; “Because you have to be connected to get funds”; “One needs to be in a political group to have access to funds”; “Nobody wants to give money to new businesses”; “It’s hard to find someone who believes in your dream and actually funds it”

## 5. Discussion

The article focused on obstacles that restrain the growth of township MSMEs and the challenges faced by MSME owners when applying for funds from financial institutions and government support programmes. In the theoretical discussion, reference was made to the reasons as to why MSMEs find it difficult to acquire funds. The data suggest that the obstacles that restrain the growth of MSMEs in townships can be grouped in four areas: the economic climate; the business environment; finance and personnel.

- The economic climate relates to unemployment and inadequate infrastructure. Unemployment is a macro economic indicator and affects the buying power of consumers. An indicator of economic growth and activity is the construction of infrastructure and, therefore, the lack thereof in the townships indicates a poor or weak economy.

- The business environment is reflected by high levels of competition, a shortage of reliable supply sources and poor levels of service. Levels of service refers to services received from other businesses.
- Personnel relates to training; the shortage of qualified staff; lack of skills on the part of the owner, staff and management.
- Shortage of finance and credit bears reference to the topic of finance.

The areas, described above, wherein obstacles are encountered, tie in with the reasons highlighted by the authors, Falkena et al. (n.d.), Choi and Nazareth (2014) and Noko (2019), as to why MSMEs find it difficult to acquire funds. The findings also support the research of Maphalla et al. (2009), Beck and Demirguc-Kunt (2006), Maphalla et al. (2009), Tsoabisi (2014) and Botha et al. (2020)

The data revealed that, while some MSMEs may find it easy to access funds and financial support, the majority find this difficult, predominantly due to the stringent requirements associated with obtaining funds or financial support for businesses, which MSMEs are not able to adhere to, as well as the complexity and length of time associated with obtaining finances for the business. This seems to be exacerbated by notions of the process being tainted with elements of corruption as well as a general lack of knowledge, on the part of MSME owners, as to the sources and processes associated with obtaining financing for the business. This confirms the research findings by Kushnir, Mirmulstein and Ramalho (2010), who stated that corruption is a challenge for MSMEs in obtaining funds.

The data suggests that the reasons why it is not easy to acquire funds can be divided into three possible constructs. The first construct relates to the risk associated with lending money or the institutional requirements. These requirements include aspects such as lacking security to receive a loan, lacking credit worthiness and adherence to strict legal requirements. The research by Chimucheka and Rungani (2011), as well as Goldin (2014), into the reasons why banks do not approve loans is thus supported. The findings support the research findings by, among others, Beck and Demirguc-Kunt (2006), Maphalla et al. (2009), Tsoabisi (2014) and Botha et al. (2020).

The second and third possible constructs focuses more on the challenges related to the MSME owners, rather than the institutional requirements for funding or financial support.

The second possible construct relates to administrative aspects that the respondents find difficult to deal with. These include aspects such as long and complicated processes, specifically related to the lack of information and knowledge with regard to application and approval process to acquire funds as well as the amount of paperwork and excessive red tape. This construct is supported by the research conducted by Mago and Toro (2013) and IOL (2019).

The third possible construct deals with MSMEs' perceptions of financial institutions and these include aspects such as the impact of corruption and nepotism on accessing funds, a lack of willingness to invest in the business from investors, along with a lack of belief in the business by the investors.

Previous research revealed various reasons as to why it is not easy to acquire funds, the research does not only confirm the reasons but goes further to identified MSME owner specific (personal) aspects that affect the acquisition of funds such as the ability to complete a form by him or herself. While it is easy to blame financial institutions or the government for the lack of funding, the MSME owner should do introspection and acknowledge his or her own personal short comings to which can be addressed through support programmes.

The study at suggests that the identified reasons can be grouped in constructs and opines that it would be possible to measure the proportions amongst the identified constructs.

## **6. Conclusion**

It is clear that MSMEs in townships face a myriad of obstacles that restrain their growth, ranging from high levels of unemployment within their client base to inadequate infrastructure and lack of business training as well as high levels of competition. The lack of financing and financial support permeates this environment, which is exacerbated by a lack of business training in financial management and culminating in an expressed need for financial support. In line with this, the difficulties associated with gaining access to funds and financial support and the factors that hinder ease of access to financing may play a pivotal role in hampering the growth and survival of MSMEs in townships. Township MSMEs will need to focus on raising the skills levels of owners, managers and staff; have the ability to develop and produce a viable business model and well-formulated business plan; and maintain good business and office administration practices such as keeping record of trading and financial records/statements.

About 5% of the MSMEs are involved in value-adding businesses such as construction and manufacturing. Unless policymakers focus on the growth of these types of businesses, the township economy will remain consumer-driven.

It is evident that over the past decade (2010–2020), and even before plans were made and programmes announced to develop and support township MSMEs, nothing had changed for the MSMEs. The MSME owners experience the same challenges such as inadequate infrastructure, lack of business training, unattainable legal requirements to qualify for funding, distance and access to markets, unemployment, and so forth, and, therefore, funding remains problematic. Local authorities and policymakers need to address those issues that are under their control such as the inadequate infrastructure, the stringent legal requirements and corruption, if they want to change the conditions within the township economy and accelerate growth and development of township MSMEs.

People in power, i.e., the authorities and policymakers are elected to office by the residents of the area to serve the people. Office bearers who are prepared to walk the talk should be elected and not on the basis of popularity. The focus of office bearers and policymakers should be on improving the economic climate and external business environment such as construction of infrastructure, trade associations, and mentorship programs. The residents and business owners in townships are trying to move forward, but they need demonstrable support from authorities, policymakers and other stakeholders to excel.

MSME owners on the other hand have to attend to the internal environment such as management and staff development. Support and development are available and should be utilised and the knowledge gained needs to be applied to the business and ploughed back into the community.

The research was of an explorative nature and convenience sampling was used to select MSMEs within townships. Due to this limitation, the findings of the research cannot be generalised. It is recommended that the topic be researched further to ascertain the effect that these challenges have on the MSME and the scope of the various challenges.

Despite the many obstacles in the path for growth and the many hindrances to acquire funds, the township MSMEs are still surviving and operational. These MSMEs might continue to operate on a small scale, but, without much-needed funds and financial support, it will be difficult for MSMEs to grow and reach their full potential. Without this much-needed assistance, MSMEs will not reach their full potential and their efforts will not bear the fruit, that is, the envisaged economic growth and the eradication of poverty.

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