

FINANCIAL AND REGULATORY OBSTACLES EXPERIENCED BY SMALL, MICRO AND MEDIUM-SIZED ENTERPRISES

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**Abstract** – The objective of study was to assess and evaluate factors that affect the quality of services that are provided by microfinance institutions to operators of Small, Micro and Medium-Sized Enterprises (SMMEs). The study was conducted by drawing a stratified random sample of size 374 microfinance institutions. Data was collected by using a structured, pretested and validated questionnaire of study. Data analyses were conducted by using methods such as frequency tables, cross-tab analyses and binary logistic regression analysis. By the standards of Barry and Tacneng (2014: 1-20) set out for assessing the quality of microfinance services that are provided to operators of Small, Micro and Medium-Sized Enterprises (SMMEs) in Sub-Saharan African countries, about 21% of operators of the 374 SMMEs in the study were satisfied with the quality of services provided to them by microfinance institutions, whereas the remaining 79% of operators were not satisfied with the quality of services that were provided to them by microfinance institutions. Results obtained from cross-tab analyses showed that the quality of microfinance services that were provided to operators of SMMEs was significantly influenced by 9 variables of study. These 9 variables of study were: Country of operation, Duration of service, Perception on benefits of microfinance institutions, Highest level of education, Past history of bankruptcy, Extent to which business has improved by taking loan, Extent of difficulty in securing loan, Ability to meet requirements for securing loan, and Year of registration of business, in a decreasing order of strength. Results obtained from ordered probit regression analysis showed that 3 of the 9 variables of study were significant predictors of the ability of microfinance institutions to provide efficient services to operators of SMMEs at the 0.1% level of significance. These 3 predictor variables of study were: Country of business operation, Extent of benefits realised by SMMEs, and Highest level of formal education, in a decreasing order of strength. Similar results were obtained from factor analysis and log-linear analysis.

**Keywords:** Access to finance, Survival, SMME, Ordered probit regression

**Introduction and background**

The main purpose of the study was to identify and quantify key predictors of efficiency in the microfinance industries of three Sub-Saharan African countries (South Africa, Nigeria and Kenya). The Small and Medium Enterprises (SMEs) has been considered as a pivotal of the economic engine that can promote the growth and development of any of the underdeveloped economy (Barry & Tacneng, 2014: 1-20). However, most of these enterprises suffer from financial inadequacy among other problems; as a result, the government of South Africa set up modalities to establish microfinance institutions (MFIs) to provide grass root assistance to help these ailing enterprises. Hence, this study intends to assess the quality of microfinance services provided to small micro and medium-sized Enterprises (SMMEs) in South Africa, with regards to norms and standards that are commonly used for the assessment of quality services to SMMEs all over the world (Chakrabarty & Bass, 2013). The economies in South Africa, Nigeria and Kenya are all developing economies. In all three countries, access to finance is a key requirement for entrepreneurial activities and the alleviation of poverty among the masses and the unemployed youth. In all three countries, microfinance institutions (MFIs) do not adhere strictly to guidelines that are recommended by national governments and central banks. As a result, entrepreneurs with the potential for sustained growth are denied access to credit by MFI institutions. The study was conducted against the background of lack of accurate empirical evidence and scientific studies that could be used for identifying and quantifying key predictors of efficiency in the provision of microfinance services to SMMEs in South Africa, Nigeria and Kenya.

According to Okpara (2010), the quality of microfinance services provided to SMMEs in most Sub-Saharan African countries is quite poor. Kemboi and Tarus (2013) have conducted a study in Kenya, and have found that the quality of services provided to Kenyan SMMEs is often unreliable and poor. Regulation is required in order to ensure service quality standards, fairness and adequate compliance with relevant guidelines and regulations. There is a shortage of studies conducted in this area of research in South Africa, Nigeria and Kenya (Newman, Schwarz & Borgia, 2014). Based on a study conducted in Pakistan, Jaffaris, Saleem, Abideen, Kaleem, Malik and Raza (2011) have shown that microfinance institutions need to be strictly regulated and monitored as a means of ensuring fairness and objectivity in the disbursement of funds to SMMEs. The study aimed to fill the gap by collecting empirical data from microfinance institutions operating in South Africa, Nigeria and Kenya.

### Objectives of study

The aim of study was to assess and evaluate the quality of microfinance services that are provided to SMMEs in South Africa, Nigeria and Kenya by the standards of Barry and Tacneng (2014).

### Literature review

#### South African SMMEs and access to finance

Access to microfinance services in South Africa is still quite costly and difficult (Newman, Schwarz & Borgia, 2014). The main reasons are the demand for collateral, high service charges and high interest rates. The economy of South Africa is one of the developing economies in Sub-Saharan Africa. The South African national economy is viewed as a combination of first world and third world economies in which overall economic growth is often undermined due to massive unemployment, rural and urban poverty, poor municipal services, corruption, and lack of good governance (Rose-Ackerman & Palifka, 2016). South Africans are heavily indebted with financial loans. Microfinance services are provided by micro-enterprise lenders, salary-based micro lenders, co-operative financial institutions, primary banks, alternative banks, affordable housing finance suppliers, and retailers. Bazilian, Nakhouda and Van de Graaf (2014) have shown that South Africans borrow money heavily for purchasing goods and services, and do not do well in terms of saving money in comparison with Japan, Malaysia, Singapore, South Korea and China.

Since April 1994, new policies have been introduced in South Africa with a view to enable operators of SMMEs to have easy access to finance needed for conducting business and entrepreneurial activities. Government agencies such as the Small Enterprise Development Agency (SEDA), the Small Enterprise Foundation Agency (SEFA), KHULA Enterprise, the South African National Department of Trade and Industry (DTI), and the National Youth Development Agency (NYDA) have been tasked by the South African Government with the goal of enabling SMMEs operated by black indigenous South Africans profitably. However, these institutions have failed to produce tangible results for the unemployed youth due to key obstacles such as difficulty in securing finance, the acute shortage of entrepreneurial, technical, managerial, vocational and artisan skills, poor municipal service delivery, too much bureaucracy related to license applications and tax assessment, red tape, corruption, and lack of leadership and good governance (Edoho, 2015; Henrekson, 2014; Khale & Worku, 2015; Worku, 2016).

According to Crane and Matten (2016), about 58% of South Africans save money for an emergency. About 47% of South Africans save money as a provision in the event of death. About 41% of South Africans save money for funerals. Credit card holders have increased in number significantly since April 1994. A study conducted by Edoho (2015) shows that about 21 million South Africans have credit cards. Credit cards require regular repayment at relatively higher interest rates and additional service charges. However, South Africans depend heavily on credit cards. Crane and Matten (2016) have reported that about 74% of the credit market is serviced by formal banks and credit card companies, whereas stokvels and family and friends serve as source of credit to about 26% of South Africans.

#### Nigerian SMMEs and access to finance

In Nigeria, SMMEs play a key role in extending loans needed for economic development, job creation, and the alleviation of poverty. These firms typically account for more than 90% of all firms outside the agricultural sector,

constitute a major source of employment and generate significant domestic and export earnings. As such, SMME development emerges as a key instrument in poverty reduction efforts. SMMEs drive growth in DDP and create employments. The evidence suggests that SMMEs are vitally important for economic health, in both high-income and low-income economies, worldwide. According to Filmer and Fox (2014), SMMEs operating in Nigeria's largest commercial cities such as Lagos are routinely exposed to unfavorable assessment by microfinance institutions in areas related to the demand for collateral and fixed assets as a requirement for the approval of loans from commercial banks and microfinance institutions. The situation in Kenya, Tanzania and Uganda is not so different from the situation in Nigeria according to the research conducted by Julian and Ofori-Dankwa (2013: 1314-1330). The study conducted by Kolk, Rivera-Santos and Rufin (2014) has singled out the demand for collateral as the biggest obstacle to access to finance in Nigeria. Oni (2012) has argued that urban and rural people should be encouraged and supported to borrow money needed for development projects from formal money lending institutions such as commercial banks as a means of alleviating abject poverty and unemployment. In this regard, the key problem has been the demand for collateral and fixed assets by commercial banks and microfinance institutions. Commercial banks and microfinance institutions in most Sub-Saharan African countries demand collateral and fixed assets as a requirement for loan approval, and that newly established SMMEs often struggle to meet this stringent requirement. According to Haneef, Pramanik, Mohammed and Muhammad (2014), the demand for collateral and fixed assets cannot be met by most newly established SMMEs in Sub-Saharan African countries. The authors argue that there is a need for intervention by the national government with a view to ensure fairness and objectivity. Filmer and Fox (2014) have argued that microfinance institutions must be encouraged to lend out money to the unemployed youth as a means of helping them to get a livelihood. The authors have pointed out that a critical aspect of such help would be to provide skills-based training programmes to all beneficiaries of such youth development programmes. Fosu (2015) points out that such development and assistance programmes must be accompanied with strict monitoring and evaluation programmes and mechanisms. Guerin, Morvant-Roux and Villarreal (2013) have provided an example from the USA in which strict monitoring and evaluation programmes have minimised default rates among borrowers. Cramm and Nieboer (2011) have outlined norms and standards for efficient microfinance services in Sub-Saharan African countries. Bruton, Ketchen and Ireland (2013) have listed down key obstacles that undermine the quality of services provided by microfinance institutions and commercial banks in Sub-Saharan African countries.

Biosca, Lenton and Mosley (2014) have argued that microfinance services should be modelled after what has been done by the Grameen Bank of Bangladesh. The model from Bangladesh has successfully alleviated abject poverty among unemployed rural women. The key to the success achieved in Bangladesh is the provision of loan guarantee by the national government and the implementation of a comprehensive monitoring and evaluation programme by Grameen Bank.

In Nigeria, loans needed for business operation are provided to SMMEs by the Ministry of Finance, the Central Bank of Nigeria (CBN), commercial banks, and other financial institutions such as the Nigerian Stock Exchange (NSE). The informal sector extends microfinance services to operators of SMMEs in manners that suit lenders and borrowers. There is enough demand for both formal and informal loan services. However, it is not so easy to regulate and compare the quality of microfinance services that are provided by formal and informal microfinance service providers. The quality of microfinance services extended to SMMEs varies depending on residential area (rural or urban), economic sector, the financial capacity of microfinance service providers, and the degree to which regulations are enforced by the Nigerian Government.

### **Kenyan SMMEs and access to finance**

In Kenya, microfinance institutions are routinely used for the creation of start-up SMMEs and for the alleviation of poverty among the masses. Since independence, microfinance institutions have played a major role in the alleviation of poverty among men and women as well as the unemployed youth. According to the Kenyan Government, poor and unemployed Kenyans can improve their low socioeconomic status by taking microfinance. Microfinance banks have alleviated poverty in Kenya. The majority of the poor do not access microfinance services loans because they lack guarantors, assets, businesses, salaried employment, savings account in banks, ability to make pre-loan weekly deposit on Special Savings Account which are required as collaterals. The key problem in Kenya has been lack of capacity among microfinance institutions. Examples of some of the key obstacles are lack of capacity, improper regulations, inability to enforce the law, stiff competition with commercial

banks, failure to produce innovative and diversified products, lack of profitability, lack of stability, and lack of monitoring and evaluating services to micro finance institutions (MFIs).

Wijesiri and Meoli (2015) have shown that formal money lending institutions as well as traditional microfinance agencies such as commercial banks, the Kenyan Equity Bank, K-Rep Bank, Family Bank and the Kenyan Co-operative Bank, Faulu Kenya, Kenya Women Finance Trust Limited, SMEP, Kadet and Jamii Bora provide loans to operators of SMMEs. However, the loan criteria imposed on SMMEs by formal money lending institutions such as commercial banks is quite stringent. According to the authors, the key obstacle is the demand for collateral and a proven track record of paying back loans. The relatively higher interest rates imposed by microfinance agencies and stringent loan repayment conditions are a major deterrent to SMMEs. Microfinance agencies operating in Kenya are ranked as the best in the entire East African region according to studies conducted by Segun and Anjugam (2013). The study conducted by Taiwo, Onasanya, Yewande, Edwin and Benson (2016) has shown that Kenyan microfinance institutions provide a relatively more significant assistance to SMMEs operating in Kenya in comparison with commercial banks although microfinance agencies are relatively more costly in terms of interest rates. The study conducted by Sila (2014) has shown that microfinance institutions have managed to provide badly needed loan services to Kenyan women who conduct entrepreneurial activities in the eastern Nyanza region of Kenya.

Kenya is well known for its several microfinance agencies that offer loan services to operators of SMMEs in almost all economic sectors. In the East African region, Kenyan microfinance agencies provide the best and most professional loan services to operators of SMMEs (Siwale & Ritchie, 2012; Roitch, Lagat & Kogel, 2015). The study conducted by Schwitay (2014) has found that there are 25 large microfinance institutions in Kenya that extend loans to SMMEs to the tune of about 2 Billion American Dollars to about 2 million operators of SMMEs. Shisia, Marangu and Omwario (2014) have pointed out that the Equity Bank of Kenya controls about 74% of the microfinance market in Kenya. The Equity Bank of Kenya has about 716, 000 active customers on its database. The Kenya Women Microfinance Bank has a market share of about 12% and about 334, 000 customers. K-Rep Bank has a market share of 6.39% and about 82, 000 active customers. The microfinance company FAULU has a market share of about 4% and about 102, 000 active customers. The Kenyan microfinance company Jamii Bora has a market share of about 1% and about 80, 000 customers. The company Kenya Women Finance Trust (KWIFT) provides loans to about 334, 000 customers.

Rottenburg, Merry, Park and Mugler (2015) have shown that Kenyan microfinance agencies play a vital role in the Kenyan national economy by providing loan money needed for business activities, education, medical treatment, construction, agriculture, and construction projects. They also extend personal and emergency loans although such loans are provided at very high interest rates and stringent loan repayment conditions (Mori, Golesorkhi, Randoy & Hermes, 2015). Kenyan microfinance institutions offer loan services to individual applicants as well as groups of applicants. A group could have between 2 and 30 members. Loan services are extended to both men and women. Examples of microfinance agencies that extend loan services to the majority of Kenyans are the Equity Bank of Kenya, K-Rep Bank and Jamii Bora (Rolffs, Ockwell & Byrne, 2015; Roodman, 2013).

According to Otieno and Moronge (2014), microfinance agencies in Kenya have failed to exploit the education section of the economy fully to their own advantage. They are quite reluctant to lend money to applicants who seek loan services. Musamali and Tarus (2013) have pointed out that microfinance agencies are heavily involved in the services sector of the economy, and that they are only marginally interested in the education sector for financial reasons. The microfinance agency KADET has only 220 customers. The microfinance agency ECLOF has only 211 customers. The microfinance agency SISDO has only 202 customers. The agency Adok Timo has only 173 customers. Nega and Schneider (2014) have pointed out that about 35% of Kenyans have difficulty in securing loans at affordable rates, mostly due to high interest rates imposed on loans by microfinance institutions. The authors have pointed out that about 30% of Kenyans have no access to banking services. Most of these Kenyans live in rural areas. Further, one million Kenyans are reliant on informal groups for receiving financial aid.

### Methods and materials of study

The design of study was descriptive and cross-sectional. The sample size of study was equal to 374 (128 from South Africa, 166 from Nigeria and 80 from Kenya). Stratification was done by country. The study had a total of

35 socioeconomic variables that were related to efficiency in the provision of microfinance services to SMMEs in Sub-Saharan African countries. Efficiency was measured by the standards of Barry and Tacneng (2014: 1-20) set out for assessing the quality of microfinance services that are provided to operators of Small, Micro and Medium-Sized Enterprises (SMMEs) in Sub-Saharan African countries. Frequency tables, crosstab analyses (Hair, Black, Babin and Anderson, 2010), ordered probit regression analysis (Hosmer and Lemeshow, 2013), and factor analysis (Weiss and Weiss, 2012) were used for performing data analyses. Efficiency in the quality of microfinance services was measured by using a composite index defined by Barry and Tacneng (2014: 1-20) for assessing the quality of microfinance services provided to SMAMEs in Sub-Saharan African countries.

**Results of data analyses**

Based on the criteria set out by Barry and Tacneng (2014: 1-20) for the quality of microfinance services that are provided to SMMEs operating in Sub-Saharan African countries, the results showed that 80 of the 374 SMMEs that were selected for the study (21.39%) were satisfied with the quality of services provided to them, whereas remaining 294 of the 374 SMMEs (78.61%) were not satisfied with the quality of microfinance services that were provided to them. The general socioeconomic characteristics of the 374 participants of study are shown in Table 1 below. The table shows actual frequency counts and percentages for the various attributes of the participants of study.

**Table 1: General characteristics of respondents (n=374)**

Variable of study	Frequency (Percentage)
Overall satisfaction with the quality of microfinance services provided to SMMEs	Satisfied: 80 (21.39%) Not satisfied: 294 (78.61%)
Country of business operation	South Africa: 128 (34.22%) Nigeria: 166 (44.39%) Kenya: 80 (21.39%)
Economic sector of SMME	Agriculture and mining: 128 (34.22%) Manufacturing: 16 (4.28%) Oil and gas: 12 (3.21%) General services: 120 (32.09%) Trade and commerce: 94 (25.13%) Others: 4 (1.07%)
Type of business activity	Franchise: 36 (9.63%) Solely owned: 218 (58.29%) Partnership: 100 (26.74%) Others: 20 (5.35%)
Economic sector of SMME	Consulting: 64 (17.11%) Distribution and sales: 222 (59.36%) Production: 72 (19.25%)



	Others: 16 (4.28%)
Gender of respondent	Male: 190 (50.80%) Female: 184 (49.20%)
Age category of respondent	Below 20 years: 36 (9.63%) 20 to 30 years: 122 (32.62%) 31 to 40 years: 180 (48.13%) 41 to 50 years: 24 (6.42%) 51 years or more: 12 (3.21%)
Highest level of formal education	Primary level or less: 45 (12.03%) Secondary level: 165 (44.12%) Certificate: 40 (10.70%) Diploma: 40 (10.70%) Bachelor's degree: 76 (20.32%) Master's degree or above: 8 (2.14%)

Table 2, below, shows frequency counts and percentages of businesses that were registered before the year 2000. The table also presents frequency counts and percentages for the type of ownership of businesses that were selected for the study. It can be seen from the table that about 50% of businesses were never registered. The percentage of businesses that were registered before 2000 was about 6%.

**Table 2: Operation of business in central business district (n=374)**

Variable of study	Frequency (Percentage)
Year of establishment of business	Before 2000: 24 (6.42%) Between 2000 and 2010: 72 (19.25%) After 2010: 92 (24.60%) Never registered: 186 (49.73%)
Type of ownership of business	A single owner: 218 (58.92%) Family or group: 100 (27.03%) Shareholders: 36 (9.73%) Others: 16 (4.32%)
Type of business activity conducted	Agriculture: 78 (20.86%) Manufacturing: 72 (19.25%)

	Wholesale or retail: 160 (42.78%) Others: 64 (17.11%)
Operation of business in central business districts	Yes: 170 (45.45%) No: 204 (54.55%)
Operation of business inside a shopping mall	Yes: 170 (45.45%) No: 181 (48.40%)
Number of employees employed by SMME	Fewer than five: 262 (70.05%) Five to twenty: 72 (19.25%) Twenty one or more: 40 (10.70%)
Duration of operation of business	Less than a year: 6 (1.60%) One to two years: 21 (5.61%) Three to five years: 267 (71.39%) Six years or more: 80 (21.39%)
Conformity with standard operating procedures	Never: 0 (0.00%) Rarely: 16 (11.85%) Sometimes: 47 (34.81%) Often: 46 (34.07%) Always: 26 (19.26%)

Table 3 shows the amount of turnover generated by the 374 businesses that were selected for the study. It can be seen from the table that about 86% of businesses were capable of generating turnovers of R500, 000 or less. Only about 7% of 374 businesses were able to generate turnovers of R500, 001 to R1, 000, 000.

**Table 3: Turnover generated by businesses (n=374)**

Variable of study	Frequency (Percentage)
Turnover generated by business	R500, 000 or less: 322 (86.10%) R500, 001 to R1, 000, 000: 28 (7.49%) R1, 000, 001 to R5, 000, 000: 16 (4.28%) R5, 000, 001 to R10, 000, 000: 8 (2.14%)
Factors that undermine profitability	High cost of rental: 18 (4.81%) Lack of capital: 329 (87.97%) Wrong location: 9 (2.41%)

	Poor demand: 18 (4.81%)
In what way are microfinance institutions helping out your business?	By training and capacity building: 56 (14.97%) By hiring and purchasing: 48 (12.83%) By providing loan: 96 (25.67%) None of the above: 162 (43.32%) Others: 12 (3.21%)

Table 4 shows frequencies and percentages for challenges experienced by SMMEs in the course of applying for loans from microfinance institutions. It can be seen from the table that about 59% of the 374 businesses that were selected for the study experienced significant problems in the course of seeking loan from microfinance institutions.

**Table 4: Problems related to securing loans (n=374)**

Variable of study	Frequency (Percentage)
Extent of problems experienced in the course of seeking loans from microfinance institutions	As expected: 40 (10.70%) Easier than expected: 40 (10.70%) Harder than expected: 222 (59.36%) Not difficult at all: 12 (3.21%) Extremely difficult: 60 (16.04%)
Extent of improvement realised by taking loan from microfinance institutions	As expected: 64 (17.11%) Less than expected: 96 (25.67%) More than expected: 28 (7.49%) Extremely low: 166 (44.39%) Extremely high: 20 (5.35%)
Benefit experienced by business after taking loan from microfinance institutions	Growth in innovation: 20 (5.35%) Growth in capital base: 118 (31.55%) More competitive business: 36 (9.63%) Improved investment and production capacity: 192 (51.34%) Other benefits: 8 (2.14%)
Extent of profit realised by business after taking loan from commercial banks	As expected: 40 (10.70%) Less than expected: 144 (38.50%) More than expected: 20 (5.35%)



	Extremely low: 158 (42.25%) Extremely high: 12 (3.21%)
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Table 5 shows frequency counts and percentages for benefits realised by businesses as a result of taking loan from microfinance institutions. It also shows frequency counts and percentages on requirements imposed on businesses by money lending institutions as a condition for extending business related loans.

**Table 5: Assessment of benefits and requirements for loan (n=374)**

Variable of study	Frequency (Percentage)
Benefit experienced by business after taking loan from microfinance institutions	Increased knowledge through training: 20 (5.35%) Added value to personality: 12 (3.21%) Experiential training on loan application: 48 (12.83%) Increased financial net worth: 48 (12.83%) No significant benefit: 246 (65.78%)
Requirement imposed on business as a condition for loan approval by microfinance institutions	Current audit report: 36 (9.63%) Proof of collateral: 170 (45.45%) Proof of fixed asset: 48 (12.83%) Proof of steady income: 32 (8.56%) Proof of tax compliance: 56 (14.97%) Proof of valid license: 32 (8.56%)
Degree of adherence by microfinance institutions to national legislative acts and guidelines in the course of granting loans to applicants	Good: 20 (5.35%) Above average: 44 (11.76%) Average: 188 (50.27%) Below average: 101 (27.01%) Poor: 21 (5.61%) Always: 4 (2.96%)
The extent to which businesses cope with interest repayment arising from loans taken from microfinance institutions for business operation	Easily enough: 3 (0.80%) Fairly well: 117 (31.28%) As expected: 48 (12.83%) With minor difficulties: 18 (4.81%) With major difficulties: 188 (50.27%)
The extent to which businesses cope with loan repayment arising	Easily enough: 6 (1.60%)

from loans taken from microfinance institutions for business operation	Fairly well: 156 (41.71%) As expected: 76 (20.32%) With minor difficulties: 12 (3.21%) With major difficulties: 124 (33.16%)
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Table 6 shows frequency counts and percentages on defaulting on loans taken from microfinance institutions. The table shows that about 36% of applicants defaulted on loan repayments at least once in the past.

**Table 6: Defaulting on loans taken from microfinance institutions (n=374)**

Variable of study	Frequency (Percentage)
Experience of defaulting on loan repayment at least once in the past	Defaulted at least once: 136 (36.36%) Never defaulted: 238 (63.64%)
Experience of bankruptcy at least once in the past	Bankrupt at least once: 88 (23.53%) Never bankrupted: 286 (76.47%)
Preferred choice for loan application	Commercial bank: 166 (44.39%) Microfinance institution: 144 (38.50%) Others: 64 (17.11%)
Ability to draw up a business plan	Yes: 232 (62.03%) No: 142 (37.97%)
Perception on how helpful microfinance institutions are for SMMEs	Helpful: 160 (42.78%) Not helpful: 214 (57.22%)

Table 7 shows frequency counts and percentages for ways and means in which national governments can assist SMMEs. It can be seen from the table that valuable suggestions were made by operators of SMMEs. The most popular suggestion was that Central or Reserve Banks in South Africa, Nigeria and Kenya should be enforcing regulations on microfinance institutions and loan applications by SMMEs with enough vigour (39%). The second most popular suggestion was that trade restrictions, heavy bureaucracy and red tape should be eased by national governments as a means of supporting start-up and newly established businesses (22%). The third most popular suggestion was that regular training on entrepreneurial and managerial activities should be provided to operators of SMMEs with adequate monitoring and evaluation mechanisms (20%). The fourth most popular suggestion was that tax waiver should be granted to start-up and newly established businesses at their infant stages (11%). The fifth most popular suggestion was that there must be a policy on promoting local content and diversity of business operations (7%).

**Table 7: Ways and means in which national government can assist SMMEs (n=374)**

Variable of study	Frequency (Percentage)
Central or Reserve Banks in South Africa, Nigeria and Kenya should be enforcing regulations on microfinance institutions and loan applications by SMMEs with enough vigour	144 (38.50%)
Trade restrictions, heavy bureaucracy and red tape should be eased by national governments as a means of supporting start-up and newly established businesses	84 (22.46%)
Regular training on entrepreneurial and managerial activities should be provided to operators of SMMEs with adequate monitoring and evaluation mechanisms	76 (20.32%)
Tax waiver should be granted to start-up and newly established businesses at their infant stages	42 (11.23%)
There must be a policy on promoting local content and diversity of business operations	28 (7.49%)

Table 8 shows 9 highly significant two-by-two associations obtained from Pearson’s chi-square tests of associations. At the 5% level of significance, significant associations have large observed chi-square values and P-values that are smaller than 0.05. All in all, 35 two-by-two tests of associations were performed. Nine of the 35 two-by-two associations were highly significant at the 0.1% level of significance. Associations that are significant at the 0.1% level are indicated by \*\*\*.

**Table 8: Results obtained from cross-tab analyses (n=374)**

List of 9 variables significantly associated with the ability to provide efficient microfinance services to operators of SMMEs	Observed chi-square value	P-value
Country of operation	374.0000	0.000***
Duration of service	373.9999	0.000***
Perception on benefits realised by SMMEs from microfinance institutions	347.0109	0.000***
Highest level of education	335.9385	0.000***
Past history of bankruptcy	330.7483	0.000***
Extent to which business has improved by taking loan	329.0663	0.000***
Extent of difficulty in securing loan	324.0443	0.000***
Ability to meet requirements for securing loan	317.9273	0.000***

Year of registration	311.9432	0.000***
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**Legend:** Significance at \* P<0.05; \*\* P<0.01; \*\*\* P<0.001 levels of significance

Results of data analysis obtained from cross-tab analyses showed that 9 of the 35 variables of study were highly significant predictors of efficiency in microfinance institutions at the 0.1% of level of significance. These 9 predictor variables of study were: Country of operation, Duration of service, Perception on benefits of microfinance institutions, Highest level of education, Past history of bankruptcy, Extent to which business has improved by taking loan, Extent of difficulty in securing loan, Ability to meet requirements for securing loan, and Year of registration, in a decreasing order of strength. Table 9 shows regression coefficients estimated from ordered probit regression analysis along with P-values and 95% confidence intervals.

**Table 9: Regression coefficients estimated from ordered probit regression analysis**

Predictor variable	P-value	Regression coefficients and 95% Confidence Intervals
Country of business operation	0.000***	3.59 (2.84, 7.01)
The perception that the benefits realised by SMMEs from microfinance institutions are insignificant	0.001**	3.54 (2.02, 6.30)
Low level of formal education	0.004**	2.89 (1.94, 5.82)

Results of data analysis obtained from ordered probit regression analysis showed that 3 of the 9 variables of study were significant predictors of the ability of microfinance institutions to provide efficient services to operators of SMMEs at the 0.1% level of significance. These 3 predictor variables of study were: Country of business operation, Extent of benefits realised by SMMEs, and Highest level of formal education, in a decreasing order of strength. Data analysis was performed by using log-linear analysis (Agresti, 2016:27-28) in order to identify key predictor variables that were significantly associated with each other. Log-linear models are hierarchical in nature. In general, there could be an interaction of order k. At k successive steps, interactions of order k (the highest order), k-1, k-2... 3, 2 and 1 (the main effects) are tested for significance step by step. The most useful order is k=2.

**Table 10: Results obtained from log-linear analysis**

Interactions of order k=2	P-value
Country of business operation	0.0000
The perception that the benefits realised by SMMEs from microfinance institutions are insignificant	0.0000
Low level of formal education	0.0000

The above results were tested on interactions of order k=2. The results show that the provision of poor microfinance services to SMMEs is significantly associated with country of business operation, the perception that

the benefits realised by SMMEs from microfinance institutions are insignificant, and low level of formal education, at the 5% level of significance. Table 11 shows Eigen values estimated from factor analysis.

**Table 11: Estimates obtained from factor analysis**

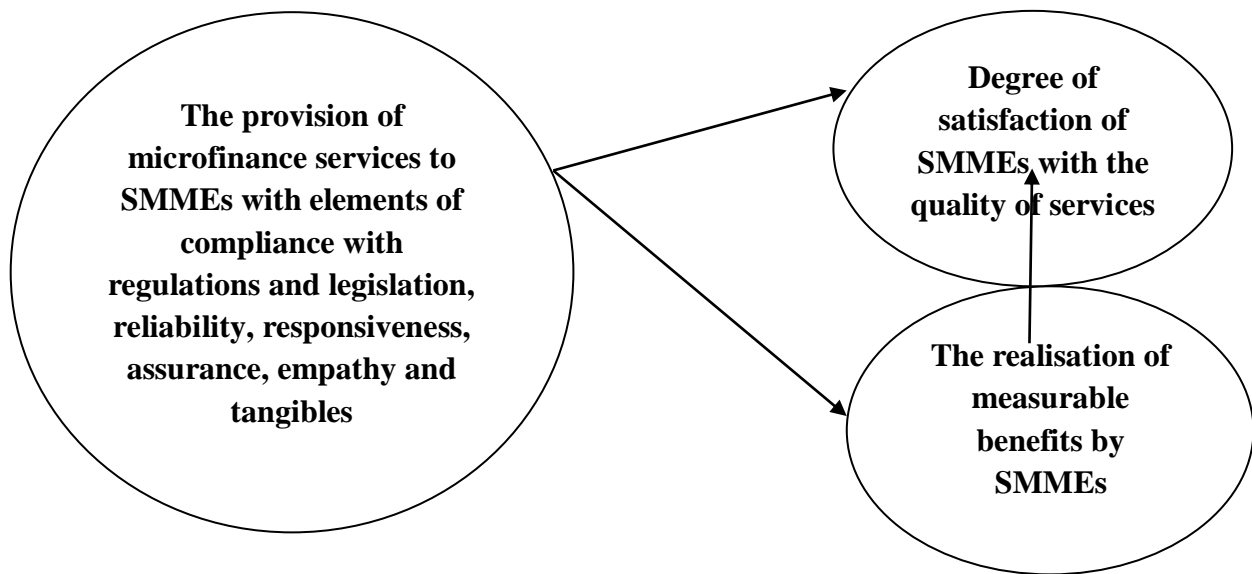
Extracted factor	Eigen value	Percentage of explained variance in viability	Cumulative percentage of explained variance
Country of operation	2.809	31.359	31.359
Duration of service	2.746	24.172	55.531
Perception on benefits realised by SMMEs from microfinance institutions	2.635	12.505	68.081
Highest level of education	2.557	10.228	78.309
Past history of bankruptcy	2.419	6.331	84.640

Results shown in Table 11 provide estimates for the percentage of variance explained by the 5 factors that were extracted by using the principal axis factoring method. Each of the 5 extracted factors has an Eigen value of magnitude greater than 1, thereby indicating its level of importance in terms of accounting for viability in business. The 5 extracted factors collectively account for 80.854% of the total variability in overall performance (the dependent variable of study). Based on the estimates shown in Table 11 above, it can be concluded that overall performance in the management of essential medicines is significantly and adversely affected by country of operation, duration of service, perception on the value of potential benefits, level of education, and past history of bankruptcy. The 5 factors listed above have accounted for 84.640% of the total variation in the ability of microfinance institutions to provide quality services to SMMEs. This figure is above 75%.

**Discussion of results of study**

The objective of study was to identify and quantify key predictors of efficient services that are provided to SMMEs by microfinance institutions in South Africa, Nigeria and Kenya. The study has found that the quality of microfinance services provided to SMMEs was significantly influenced by country of business operation, Extent of benefits realised by SMMEs, and highest level of formal education. The results indicate that micro finance is important for the society but there is some challenges faced by micro finance institutions in all three countries (South Africa, Nigeria and Kenya). These challenges include inadequate donor funding, insufficient support from governments, improper regulations, lack of leadership, lack of capacity, corruption and failure to follow regulations and guidelines set out for lending out money to clients. The key finding of study is that MFIs need to be closely supported, monitored and evaluated in order to ensure adequate compliance with government regulations, and to protect vital attributes such as fairness, objectivity, transparency and easy access to finance to all SMMEs.

MFIs have alleviated abject poverty by lending out money needed by start-up SMMEs in South Africa, Nigeria and Kenya. The results confirm the importance of efficient microfinance services as a means of reducing poverty and promoting profitability in SMMEs. The results also show that microfinance agencies often lack resources for providing loans to SMMEs at more affordable rates. The study has shown that microfinance regulations and guidelines are often disregarded by microfinance agencies as well as SMMEs. The key mandate of MFIs is to give out small loans to SMMEs so that they could meet their operational and business related needs conveniently. SMMEs need financial assistance that comes with reasonable interest rates and minimal bureaucracy (Addae-Korankye, 2014). Figure 1 shows a framework constructed based on findings obtained from the study.



**Figure 1: Framework for improved services to SMMEs by microfinance institutions**

MFIs have successfully alleviated poverty in all Sub-Saharan African countries by providing loan services to SMMEs. Some of the key challenges for microcredit are lack of lending capacity and political interference in MFI institutions. A framework is vital for ensuring value for money and the provision of quality microfinance services to SMMEs. In this regard, the ability of microfinance institutions to respect and abide by the relevant regulations, guidelines and legislation in South Africa, Nigeria and Kenya is critically important. Operators of SMMEs need speedy, highly efficient, reliable, affordable and transparent loan services. Operators of SMMEs require credit, savings, insurance, and money transfer services. Microfinance is a powerful tool to fight poverty. Poor households use financial services to raise income, build their assets, and cushion themselves against external shocks. Microfinance means building financial systems that serve the poor. Microfinance will reach its full potential only if it is integrated into a country's mainstream financial system. Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor people. Unless microfinance providers charge enough to cover their costs, they will always be limited by the scarce and uncertain supply of subsidies from donors and governments. Microfinance is about building permanent local financial institutions that can attract domestic deposits, recycle them into loans, and provide other financial services. Microcredit is not always the answer. Other kinds of support may work better for people who are so destitute that they are without income or means of repayment. Interest rate ceilings hurt poor people by making it harder for them to get credit. Making many small loans costs more than making a few large ones. Interest rate ceilings prevent microfinance institutions from covering their costs, and thereby choke off the supply of credit for poor people. The job of government is to enable financial services, not to provide them directly. Governments can almost never do a good job of lending, but they can set a supporting policy environment. Donor funds should complement private capital, not compete with it. Donors should use appropriate grant, loan, and equity instruments on a temporary basis to build the institutional capacity of financial providers, develop support infrastructure, and support experimental services and products. The key bottleneck is the shortage of strong institutions and managers. Donors should focus their support on building capacity. Microfinance works best when it measures and discloses its performance. Reporting not only helps stakeholders judge costs and benefits, but it also improves performance. MFIs need to produce accurate and comparable reporting on financial performance in areas related to loan repayment and cost recovery as well as social performance such as the number and poverty level of clients being served.



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