

**The impact of non-financial support for small, micro and medium-sized enterprises located in Attredgeville, Ga-Rankuwa, Mabopane, Mamelodi and Soshanguve Townships, South Africa**

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**Abstract** – Small, micro and medium-sized enterprises (SMMEs) are vital for growing the South African economy as South Africa is a developing nation. The contribution made by SMMEs is evident in South African Townships and cities. This article highlights the positive impact of financial support of SMMEs located in townships to enhance their success. It has potential of reducing poverty, job creation, growing the economy, introduce innovation. More so SMMEs located in the townships have that ability as well. The motivation of the study is to encourage inclusiveness of SMMEs located in townships. The study used data collected through a validated questionnaire among n250 SMMEs operating within five townships of Tshwane, Gauteng province. The design of the questionnaire is that of open and closed-ended questions. The findings of the study indicated that only 14.4% of the n250 did not have difficulties in securing business funding. It is undoubtedly that financial support is crucial to developing businesses as well as developed businesses. Such support should be structured in a way that it is equally accessible by businesses located in the cities, townships as well as rural areas. When such SMMEs support programs are developed they should be able to encourage accessibility, be tailored for all SMMEs regardless of their location. This study will add value, influence policymakers on how to better support and grow the SMME sector regardless of their location, and mend the success and growth of this sector.

**Keywords:** SMME, Tshwane Townships, Non-financial support, Access to finance

### 1. Introduction

Unemployment is reported to continue to be a significant issue for Tshwane, and this is highlighted by the City of Tshwane's annual household income profile. According to Census 2011 data, nearly 15 percent of households have no source of income and approximately 46 percent of households earn a yearly salary of less than R76 401. Studies conducted by Marivate (2014, p. 14; February 2015) have shown that the acute shortage of finance is a crucial obstacle to growth and development in the SMME sector. It becomes very crucial to address such challenges faced by the SMME sector in order to promote the success of small, medium and micro enterprises (SMMEs) and obtain real tangible growth in this sector and grow the economy. The South African government has encouraged and prioritized the venture creation with the objective that they will make a difference in society (Rankhumise, 2014).

Township is described on an article by (Dr Esther Njiro, 2010, p. 6) and it is referred to as a peculiarly South African phenomenon and a deliberate manipulation of urban planning that designs cities in terms of race. Moreover, further to that, most residences of the township spend a lot of their money purchasing goods outside their residential places.

According to Kasipreneurs article, almost half of South Africa's urban populace reside in townships and informal settlements, accounting for 38% of working-age citizens. This is according to research done by the World Bank Group in 2014. (Writer, 2017)

National Development Plan states that 90% of jobs will be created by small and medium businesses by the year 2030 that makes entrepreneurship a key driver for employment creation and economic growth. (Writer, 2017). Adoption and support of the SMME sector will assist in growing the economy of Tshwane. (Mahadea & Pillay, 2008, p. 432) advises that support structures for SMMEs (internally and externally) should play an active role in supporting this sector in order to fully realize its growth and potential of the SMME economy.

There is a level of neglect for entrepreneurs who are operating in the township and yet townships according to Asad Alam World Bank Group country director for South Africa they are filled with “working-age people anxious for economic opportunity, being spatially detached from urban centers that offer better economic prospects” (Writer, 2017). Moreover, research by the same organization shows the majority of the unemployed (about 60% of the total) come from townships and informal settlements.

This study endeavored to look in to challenge faced by SMMEs in Tshwane townships when securing funding from financial institutions. There is a perception that SMMEs located in the townships do not have equal access to funding and other support opportunities as those located in the cities or developed areas. The goal of this research and to make it known of the un-equals of the system that is aimed at supporting this crucial sector of SMMEs and to highlight the vital role that is played by the SMMEs located in the townships. The study had the following specific objectives:

- To assess if there exists a gap between support received by SMMEs in the townships and those in the town/cities and urban.
- Determine and examine the impact of non-financial support on the success of SMMEs located in the townships of Tshwane.
- Highlight the import role being played by the SMMEs in the townships.

It is important to bring equality to the support being offered to the SMMEs sector regardless of the location of the small business. This sector is very crucial in creating employment, abolishing poverty and developing the economy. It is well known that the level of unemployment in the townships calls for urgent attention and action, if the SMMEs supporting institution were to put more effort and forces in supporting SMMEs in the townships this will change the lives of those not only owning the businesses but those who receive service and employment from this sector. Township businesses have the potential of producing a high entrepreneurial awareness; it can bring forth innovation into the country. This paper is arranged in this manner: section 2-literature review, section 3-Methodology, section 4-Results and section 5-Conclusion.

## 2. Literature Review

SMMEs are increasingly acknowledged globally for their capacity for creating employment, social development, and economic growth. The full potential of the SMME sector remains untapped (Rungani & Potgieter, 2018, p. 1)

The important role played by the SMME sector is again highlighted on a report commissioned by; The Small Enterprise Development Agency and the of Stellenbosch University, it highlights that SMMEs play a crucial role in the country’s economy in terms of innovation, employment creating and economic growth (Stellenbosch, 2016, p. 5). Small, Medium and Micro Enterprises (SMMEs) it is undoubtedly that they are the key drivers of economic growth, innovation, and job creation. (Maas & Herrington, 2007) on their report states that the SMME sector has the potential of providing quality employment to their owners, the community and they make an important contribution to innovation and the country’s GDP.

Entrepreneurship and the creation of more small businesses are seen as a potential cure to reduce joblessness in the country, to grow the economy and progress development. (Diseko, 2017) South African government recognizes the importance of this segment of business activity, so much so that a new Ministry of Small Business Development was established in early 2014.

(T.J, 2012, p. 2) Informs us that in South Africa there is still a large majority of people living in severe socio-economic conditions despite the countless legislative, institutional and administrative processes that are created in order to have an improved quality of life for all South Africans. Reforms have been undertaken to create an environment conducive for the improvement of the quality of life of all South Africans.

The understanding of the dynamics of urban townships lies at the heart of unraveling South Africa’s economic transformation. It is noted that population in townships; Black people are the majority of the residents in the

townships at 89 percent; people of color are 5 percent, white people 3 percent and Indian people 2 percent. (Dr Esther Njiro, 2010, p. 15). It is documented and reported that the formation of South Africa's townships are vestiges of the country's apartheid system. However, it is sad to continue in 2019 to report that the impact of past neglect of the apartheid regime, the lack of investment, overpopulation, and isolation is still widely evident today. What is more visible is the lack of resources and infrastructure development and the shockingly high levels of unemployment (Writer, 2017).

The hive for entrepreneurial activity in South Africa is reported to be in the townships. However a big challenge for the country has been unlocking the potential in order to generate broader economic benefits.

One of the first successful black entrepreneurs from the township back in the 1950s, Dr. Richard Maponya when he wanted to establish his business was told by the then apartheid government that he is "off his head." He was told that no black person is allowed to own a business. Those residing in the townships were not allowed to own or run any type of businesses, and they had partial access to capital, education and fundamental social and economic rights. (Dr Esther Njiro, 2010, p. 6)

It seems that access to capital for those located in the township is still a challenge with the new ruling government. The challenge faced by SMMEs tends to be location specific. (Stellenbosch, 2016, p. 7) most owners of the business in the township experience great difficulty in accessing funding for their businesses. (Tengeh, 2017, p. 334) It is prominent that SME funding and access to finance is noted as major barrier for businesses to survive particularly those who are functioning in the townships. (Rankhumise, 2014)

The lack of access to funding for SMMEs is reported to be a major challenge faced by SMMEs, a chief reason that causes business failure (Stellenbosch, 2016, p. 7). In agreement to the latter statement, (Fumo, 2011) informs us that the obstacle of funding is defined as one of the recurrent problems for small-sized enterprises and it is related to the struggle of accessing credit. (Rankhumise, 2014) in their findings, the majority of the contributors indicated that funding had been problematic for their businesses, predominantly when they approached financial institutions for loans.

(Rugimbana, 2010) With regards to access for funding for SMMEs located in the rural areas and township, states that SMME owners in those areas are faced with a challenge of being seen as to be posing a major risk, and as such their applications for loans are declined. This perception affects SMMEs in these areas in a negative way and hampers their growth.

(Ladzani & Netswera, 2009, p. 235) On their study titled Support for rural small businesses, indicate to us that many SMME owners (84 percent), started their businesses without any external funding because of the lack of financial support, and only a few (9 percent) received loans from funding institutions. This indicates to us that financial institutions who can fund SMMEs are not willing to fund them. (Rogerson, 2006) also discovered that institutions who have the ability to financial support SMMEs are unwilling to fund the sector.

### 3. Methodology

The study used data collected through a validated questionnaire (qualitative and quantitative) among 250 SMMEs operating from the five townships of Tshwane, Gauteng province. The design of the questionnaire is that of open and closed-ended questions.

**Data collection and analysis methods:** This section describes how the data was collected and analyzed.

Data was collected from SMME owners/operators in the following townships of Tshwane; Attredgeville, Ga-Rankuwa, Mabopane, Mamelodi and Soshanguve. SMMEs operating in the following sectors; Agriculture, Bed and breakfast or tourism operator, Education or training, Engineering (construction, civil, mechanic...) Entertainment (catering, PR, restaurant, events) Food outlet, restaurant or bakery, Fuel station or car wash shop, Hair salon, Barbershop, Beautician's shop of spa, ICT services and support, Internet café, Mini-market or fruits and vegetables shop, Real estate, Security services, Sports or gym shop, Textile, clothing or footwear shop, Transportation and shuttle services.

**Analysis Methods:** Data analysis was done in the statistical package STATA version 13 (STATA Corporation, 2013). Statistical methods such as frequency tables, summary statistics, cross-tab analyses (Pearson's chi-square tests of association), were used for performing quantitative data analyses.

**Sampling:** Sample of this study was n250 SMMEs located in the five townships of Tshwane, the research team distributed validated, and pre-tested questionnaires in the mentioned five townships of Tshwane and allowed research participants to complete the questionnaire before moving to the next SMME owner/operator. In collecting data, there was no language barrier.

**Ethical consideration:** Standard ethical procedures and guidelines were followed during the study. The researcher was mindful of and upholds standard ethical principles and guidelines. Participants took part in the study voluntarily. Data collection was done by use of a structured and validated questionnaire, that did not offensive, discriminatory, or other unacceptable language; Privacy and anonymity of sample group members was maintained. The works of other authors used in any part of the study was acknowledged with the use of referencing system such as Harvard, APA, etc. The ethical principles considered in this research were: accurate reporting of results, proper credit of sources cited, and a thorough the reviewed literature Ethical approval was obtained from the Research Ethics Committee of the Tshwane University of Technology. This was done through the supervisor of the study. Research approval was secured before the study was implemented - FCRE2017/FR/09/001/-MS (2).

**Academic use:** The research findings are freely available to the academic community. Separately from theoretical suggestions, the study has several important effects for practitioners, educators and policymakers.

#### 4. Results

Result of the study indicated to us that 85 percent of participants used their own funding to establish their businesses, in agreement to that are results obtained from a study conducted by (Dr Esther Njiro, 2010, p. 31), informs us that about 56.5 percent of participants used their own contributions to finance their business, 3.3 percent of them only used financial support from government. in the study conducted on "Sustaining Native Entrepreneurship in South African Townships: the Start-up Agenda" by (Tengeh, 2017, p. 337) it was discovered that 56, 2% of the respondents on the study agreed that access to capital was a huge challenge to the start-up of a business, the percentage 31.4% participants strongly felt that capital was a major stumbling block to the start-up of businesses.

#### SOURCE OF INITIAL CAPITAL

It is very important to determine the source of capital so that an analysis can be made to determine the source of capital utilized by the respondents. Moreover, it clearly shows on the table below that majority of respondents used their own savings figure 1 below.

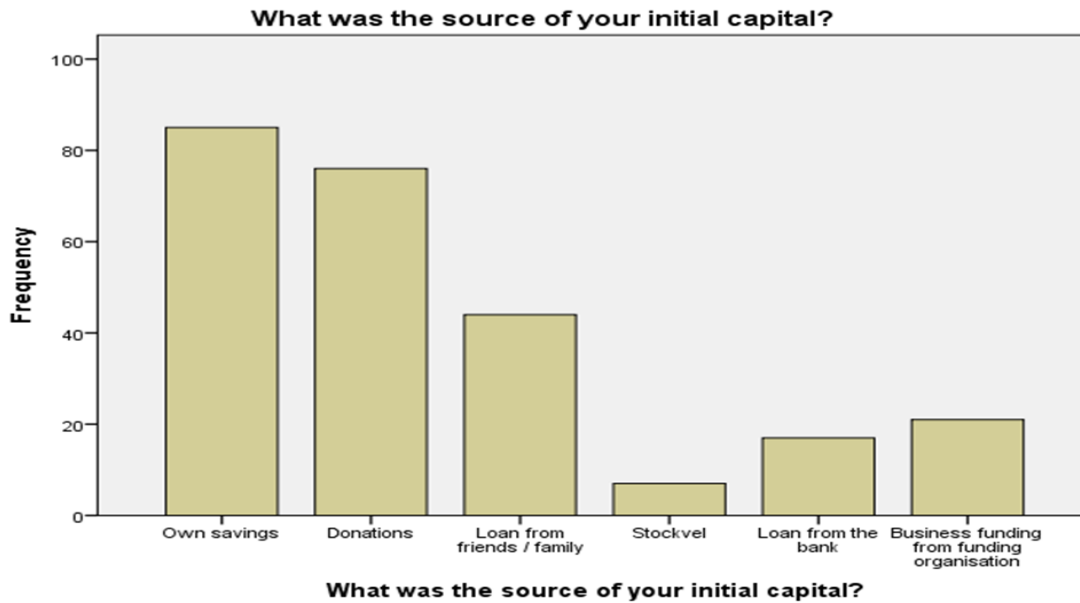


Figure 1: Source of SMME initial capital

**HOW THE BUSINESS FUND ITS OPERATIONS?**

A determination on the sources used to fund the daily operations of the business was looking into, including the following variables; Business profits, Personal funds, external funding from the government, External funding from private business funding agencies, Funding from the bank, Other sources. Results are reflected in figure 2 below;

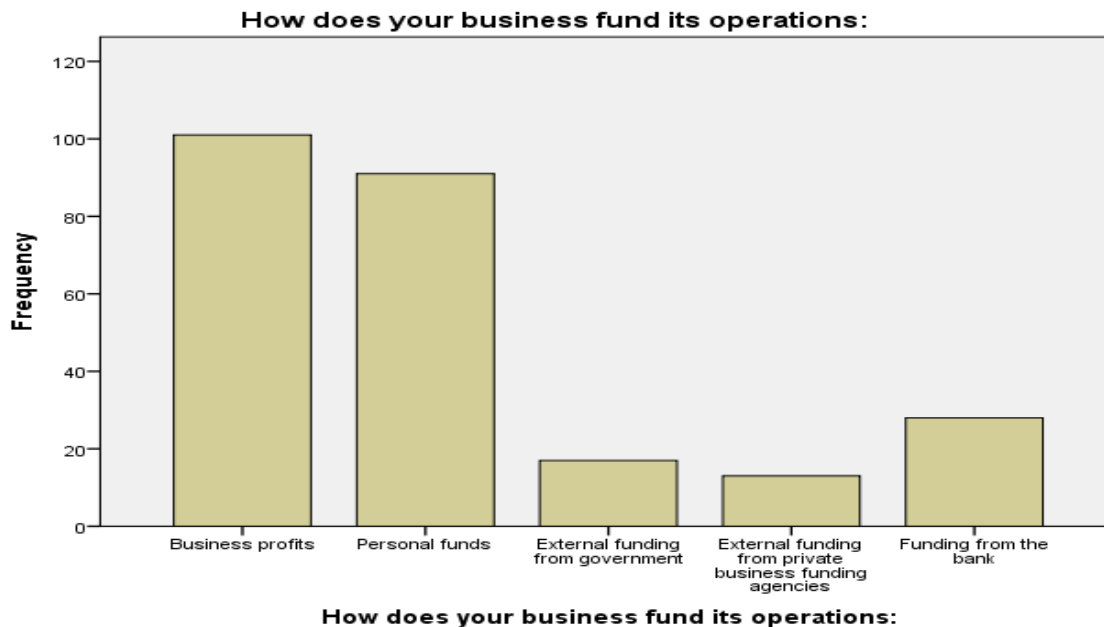


Figure 2: Funds used to fund SMME operations

The country requires a stable cohort of entrepreneurs; South Africa is likely to stagnate and decline economically. The SMME sector can thus be perceived as a vehicle by which the lowest-income people in our society gain access to economic opportunities - at a time that distribution of income and wealth in South Africa is amongst the most unequal in the world. (Mutezo, 2005)

South Africa has developed numerous policies that are targeting the development of the SMME sector. However, it seems to be not aligned with those SMMEs located in the townships. An article by (Tengeh, 2017, p. 1) informs us that the current evidence suggests that these laudable efforts made by the current government have not profited the poorest of the poor nor have they aroused and continued entrepreneurship in certain areas. Some of such policies and instruments developed by the ruling government to aid the SMME sector include the Local Government Transition Act of 1993, which was amended in 1999; the National Small Business Act 102 of 1996 and Broad-Based Black Economic Empowerment (BBE) Act 53 of 2003. These legislations play an important role in the growth of the SMME sector mainly for the historically disadvantaged people, gives the opportunity to participate meaningfully to the economy (Department of Trade and Industry, 2014). In addition to that, the government has attempted to attend to the challenge of skills shortage among the existing and potential SMMEs operators utilizing the Sectorial Education and Training Authorities (SETAs) which coordinates the up-skilling of the employees (World Bank, 2007).

Result of the study indicated to us that 85 percent of participants used their own funding to establish their businesses, in agreement to that are results obtained from a study conducted by (Dr Esther Njiro, 2010, p. 31), informs us that about 56.5 percent of participants used their own contributions to finance their business, 3.3 percent of them only used financial support from government. In the study conducted on "Sustaining Native Entrepreneurship in South African Townships: the Start-up Agenda" by (Tengeh, 2017, p. 337) it was discovered that 56, 2% of the respondents on the study agreed that access to capital was a huge challenge to the start-up of a business, the percentage 31.4% of participants strongly felt that capital was a major stumbling block to the start-up of businesses. Internationally it has been proven that small businesses foster economic growth and job creation (Mutezo, 2005, p. 19)

(Mahajan, 2014, p. 115) Informs, that most credit in townships initiates from family and friends, whereas in the businesses in the non-township urban areas obtain it from banks. The report further agrees to the challenge faced by SMMEs in the townships, of financial exclusion and uneven access to finance for the poor and small businesses is a major concern in South Africa.

Such research should be taken seriously by the community, the government, policy makers and implementers, once that is done the implication will be that of townships being the center of economic activity and development.

## 5. Conclusion

This study made us realize the crucial importance of the SMME sector and the important contribution that has to be made by the government to sustain the sector. It is realized not only by this study but by other studies that small business has more significant role in economic growth are if a country is serious about ending poverty, creating employment and being globally competitive they should take care of the SMME sector. 199 not neglecting those located in our townships. The study does not ignore that there is a need for capacitating, empowering SMMEs located in the townships, ensuring such programs are accessible and are relatable

(Mahajan, 2014, p. 116) in his report quoting (Aportela 1999 and Dupas and Robinson 2009) A growing body of research using field experiments shows that financial inclusion can have significant beneficial effects such as increasing savings and consumption as well as a productive investment of entrepreneurs

The government should contemplate decentralizing their offices that are offering funding and support to SMMEs; they should be located in the townships and rural areas for easy access to those offices just like those SMMEs that are located in the cities. 199

The issue of incorporating entrepreneurship is of serious concern. (Mutezo, 2005) Indicates to us that the results of low popularity of entrepreneurial activity among young adults in South Africa derives from our education



system are associated, the quality and content of it is seen to being a key limiting factor for entrepreneurship. It is noted that “Until recently, the school curriculum did not sufficiently incorporate entrepreneurship,” and, according to experts interviewed by GEM, this has resulted in a legacy of lack of, initiative, creative thinking and confidence. It was also noted that this will result in negatively impacting the entrepreneurial conduct of younger people, which is indeed where South Africa appears to lag behind other developing countries (Orford, 2003, p. 17)

The lack of sufficient financing is a serious restriction during the development of new business concepts as well as at later stages, as business needs additional influxes of capital to support enlargement and growth (Nieuwenhuizen, 2004, p. 9)

In addition to this study, more studies and research is required to ensure that more authoritative knowledge is acquired to promote growth and development of SMME located in the township.

### 6. Recommendation

The researcher recommends for more research to be conducted with regards to tailor making of support programs and funding for the SMMEs located in the townships and rural areas. The needs for small businesses are not the same some needs are based on the location, culture, level of education and language. SMME support should be a blanket approach but should be tailored according to the items mentioned above and more.

It is highly recommended that Entrepreneurship and Innovation be made part of the school curriculum regardless of the subject choices of a learner in lower level schools or Academic institutions, the two (Entrepreneurship and Innovation) should be part of their curriculum.

(Dr Esther Njiro, 2010, p. 14) also advises that there is a need to offer entrepreneurship education in primary schools in order to expose and influence learners of career choices in entrepreneurship.

(Mutezo, 2005, p. 32) Advises that another tool that can be used to support small business in the establishment of a bank that is tailored to provide SMMEs with loans on a group liability instead of requiring collateral. In reference of the Grameen Bank in Bangladesh that was formed with a mandate of fighting poverty. The SMME owners who borrow from the bank lack access to conventional sources of credit because they do not possess collateral (Wahid, 1999, p. 94).

It should not be overlooked that townships have great potential as a hub for SMMEs. The government should take note of the number of SMMEs in the townships, and analyze the impact they make to those they are offering employment, products, and services.

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