



Challenges encountered by SMMEs in accessing bank credit: a case of Vhembe District Municipality

 Khamusi Ramudingane^{(a)*}  Livhuwani Gladys Nkondo^(b)



^(a)Junior Lecturer, Department of Business Management, University of Venda, University of Venda Rd, Thohoyandou, South Africa

^(b)Senior Lecturer, Department of Business Management, University of Venda, University of Venda Rd, Thohoyandou, South Africa

ARTICLE INFO

Article history:

Received 12 May 2024

Received in rev. form 24 June 2024

Accepted 27 July 2024

Keywords:

Challenges, Collateral, Credit, Finance, Access, SMMEs

JEL Classification:

M13

ABSTRACT

Policymakers and scholars universally accept and recognize the influence of small, micro, and medium enterprises (SMMEs) on stimulating economic growth and job creation. To succeed and prosper, SMMEs need to establish a sound financial management function. Therefore, it is vital to investigate the financial challenges these firms are experiencing. The objective of this paper was to investigate possible challenges that SMMEs experience when applying for credit from banks. The study sought to answer the main research question - 'What challenges are encountered by SMMEs when applying for credit from banks?' The study adopted a qualitative research methodology. The population used in this research was derived from SMMEs and banking officials in the Vhembe District Municipality area. Stratified random sampling was used to select a sample of 10 research participants. An interview guide was used to gather data from the participants. Data was analyzed using Atlas.ti. The results indicated that most SMMEs in the Vhembe district are not adequately supported, especially in the areas of financial resources, as well as in financial literacy skills and expertise. Specifically, this study identified that the credit application challenges faced by SMMEs are related to - lack of collateral security, lack of financial application education, complex bank credit access regulations, non-satisfaction of banks' qualifying criteria, as well as stringent credit system, and documentation requirements.

© 2024 by the authors. Licensee SSBFNET, Istanbul, Turkey. This article is an open access article distributed under the terms and conditions of the Creative Commons Attribution (CC BY) license (<http://creativecommons.org/licenses/by/4.0/>).

Introduction

Given the significance of the banking industry in supporting the market of any country, access to money, especially bank finances, is a critical component, also, in the growth of the SMMEs' sector. One of the biggest barriers to doing business is access to finances (Amadasun & Mutezo, 2022). Several studies have demonstrated that lack of access to funding negatively impacts the expansion of the SMME sector more than that of the large enterprises. Financing, hence, is a greater barrier for SMMEs than it is for large firms, particularly in the developing world (Gassiah & Kikula, 2022). SMMEs in the Vhembe District Municipality continue to encounter considerable obstacles despite all the efforts made by the South African government to enhance and deepen the contributions of SMMEs to the economy. African Development Bank mentioned that more than 70% of SMMEs lack access to medium-term financing, which leads to a funding gap of more than \$140 billion (US dollars) in Africa alone (Gyimah & Agyeman, 2019). Problems that affect small businesses when applying for funding have been widely researched. Nugroho (2023), for example, conducted a study in Sukabumi City in Indonesia to analyze the challenges and barriers that entrepreneurs face in accessing financial services and Chilemba (2021) examined factors that affect SMMEs' access to finance in Lusaka, Zambia. Studies focusing on rural areas, like places in the Vhembe District Municipality, however, are limited. The findings of this qualitative study, it is anticipated, will highlight barriers to SMME growth and offer suggestions for overcoming them.

South African SMMEs experience an extremely high percentage of company failure (Maduku & Kaseeram, 2021). According to estimates, 40% of all new enterprises in the nation fail in their first year of operation; 60% fail in their second year, and 90% fail

* Corresponding author. ORCID ID: 0009-0001-4365-4464

© 2024 by the authors. Hosting by SSBFNET. Peer review under responsibility of Center for Strategic Studies in Business and Finance.

<https://doi.org/10.20525/ijrbs.v13i5.3534>

within the first 10 years of their founding. There are several identified causes for these failures, such as poor access to finance, lack of financial management skills, red tape, stringent documentation, and an uncondusive regulatory environment. The South African Reserve Bank's statistics on the lending performance of banks show that, as of the end of 2017, 28% of all company loans were made to SMMEs, although literature reviews have revealed several sources of credit for SMMEs (Jordaan & Coetzee, 2021). Due to their lack of formal documentation and access to SMMEs' records, it has not been possible to accurately establish if the financing on hand is adequate to meet the demands of the SMMEs in Vhembe and the nearby rural areas. Further studies are required in this area to determine the precise financing needs of the SMME sector and to determine whether the finance provided satisfies those needs (Rungani & Potgieter, 2018). To support overall economic sustainability, it is crucial to promote SMME sustainability by improving their access to financing sources (Batrancea et al., 2018). Due to the problems of accessing finance from banks, a large proportion of SMMEs around Vhembe district rely more on self-financing strategies, including retained earnings, personal savings, gifts and loans from family and friends, as well as charitable donations. The question at this point is: What are the challenges *encountered by SMMEs in the Vhembe district area when accessing finance from banks?* The implication is that SMMEs do not always have sufficient finances to meet their needs at different levels of growth. In light of this background, this study sought to determine the challenges SMMEs face when applying for financial assistance from banks. To understand why it is so difficult for SMMEs to access funding from the banks, the following research questions were asked:

- i. Why do you think SMMEs continue to struggle to gain access to finance?
- ii. What do you think banks should do to simplify SMMEs' access to funds?
- iii. Have you ever been discriminated against by banks when applying for funding based on factors such as age, gender, and education, among others?
- iv. What are the factors that hinder your business from accessing credit from banks?

Literature review

This section provides an overview of SMMEs in South Africa and the Pecking Order Theory that underpins this topic on the challenges facing SMMEs in accessing credit facilities. In addition, a discussion on the functions that banks play in the growth of SMMEs is presented in this section.

Overview of SMMEs in South Africa

SMMEs are acknowledged for their significance and considerable contributions in both developed and developing economies; however, there is no accepted definition of an SMME (Enaifoghe & Vezi-Magigaba, 2023). Several terms are used in various nations to refer to the group of businesses that do not fall under the major company umbrella. For instance, some nations refer to them as "small businesses," while others, including the Republic of South Africa, use the terms "small and medium enterprises" and "small, micro, and medium enterprises," respectively. When categorizing SMMEs, many countries use different types of indicators; these countries, in addition to conventional ones like - employment, assets, capital or revenue – which are also often used as definition criteria, sales, or turnover, may serve as further characteristics.

Small, Medium, and Micro Enterprises (SMMEs) are referred to in South Africa as - *small-and medium-sized enterprises or firms*. SMMEs are organizations or companies that develop as a result of an individual's entrepreneurial efforts. As indicated earlier, SMMEs do not have a single, accepted definition like other concepts in social science. A small business, however, is generally accepted as a distinct organization that can be found in any sector or sub-sector of the economy and that can be categorized as either - a micro-enterprise, a very small enterprise, a small enterprise, or a medium enterprise by the South African National Small Business (NSB) Act 102 of 1996 (Bvuma & Marnewick, 2020). An SMME is additionally defined by the NSB Amendment Acts of 2003 and 2004 as a distinct business entity run by one or more people that satisfies a set of requirements. The NSB Act of South Africa's definition of SMMEs is shown in Table 1 below.

Table 1: Definition of small, medium, and micro enterprises (SMMEs) according to the National Small Business (NSB) Act 102 of 1996 of South Africa

Enterprise Size	Number of Employees	Annual Turnover in South African Rand	Gross Assets, Excluding Fixed Property
Medium	Fewer than 100 to 200, depending on industry	Less than R4 million to R50 m, depending on industry	Less than R2 m to R18 m, depending on industry
Small	Fewer than 50	Less than R2m to R25 m, depending on industry	Less than R2m to R4.5 m, depending on industry
Very Small	Fewer than 10 to 20, depending on industry	Less than R200,000 to R500,000, depending on industry	Less than R150,000 to R500,000, depending on industry
Micro	Fewer than 5	Less than R150,000	Less than R100,000

Theoretical background

Pecking Order Theory

Mole and Namusonge (2016) state that a hypothesis that can be considered when analyzing how SMMEs handle their finances and choose their funding sources is the Pecking Order Theory. This concept suggests that small business owners have preferences when it comes to the sources of funding they employ to run their companies. It is believed that retained income is the primary source of funding for small business owners, followed by debt and hybrid instruments. As per this theory, equity is typically the final financial alternative. The theory was created by Myers and Majluf (1984) on the premise that "internal" management has a greater understanding of a company's underlying value than "outside" investors. The Pecking Order Theory, according to its creators, is very significant for the sector since SMMEs have greater external capital costs and comparatively larger information asymmetries (Amadhilo, 2020). Furthermore, a prevalent tendency in the industry is the company owners' inclination to retain management autonomy and control over the business. Studies highlight the fact that, although a tiny percentage of firms employ external capital finance, small enterprises rely on both internal and external loans to finance operations and expansion (Amadhila, 2020). The availability of the desired funding source and demand preferences are both important considerations in determining compliance with the Pecking Order Theory. The supply of financing is contingent upon several factors, including the stage at which the company's financing is developed (Amadhilo, 2020). The predictions of Pecking Order Theory have been empirically explored in the context of SMME finance by earlier academics (Myers and Majluf, 1984). These authors considered factors like - ownership structure, firm size, profitability, and growth potential - to determine how they affect SMMEs' access to credit and other financing options. These studies have offered empirical proof that the Pecking Order Theory is relevant for understanding the financing practices of SMMEs and how such behavior affects credit accessibility. This theoretical framework offers a helpful prism through which to examine the intricate connection between credit accessibility and SMME financing decisions, advancing our knowledge of the obstacles and possibilities SMMEs face when attempting to obtain bank funding (Akintoyo et al., 2024). In general, the Pecking Order Theory sheds light on how businesses prioritize various funding sources and make financial decisions, therefore, even if it might not be able to fully account for all financing behaviors, this theory is helpful for comprehending certain corporate finance decisions.

Empirical literature on SMMEs' access to finance

Generally, small businesses prefer to retain management autonomy and control over their business; hence, they resort to loans from financial institutions as a form of funding as opposed to investors who would then become co-owners. Access to such funds has been a major concern for SMMEs for several years (Addo & Asante, 2022), and as alluded by Fatoki (2021), one significant problem that SMMEs often face is access to capital. Based on research by Rajamani, Jan, Subramani, and Raj (2022), SMMEs' lack of finance is one of the major reasons for these businesses' failure. According to Nabisaalu and Bylund (2021), the problem with funding SMMEs is not so much the sources of funds but their accessibility. Factors identified as inhibiting funds' accessibility by SMMEs are stringent conditions - such as business plans, financial history, and collateral, which are requirements set by banks (Surmanidze, Beridze, Amashukeli, & Tskhadadze, 2023). Cortés, Demyanyk, Li, Loutskina, and Strahan (2020) highlight the fact that the majority of SMMEs require funding from banks, therefore, high interest rates are a key challenge to SMMEs' sustainability. In developing countries, sources of finance for entrepreneurs were historically limited to commercial banks. According to Jordaan and Coetzee (2021), banks in South Africa are conservative when it comes to extending credit to young and smaller businesses.

In South Africa, five out of seven new small businesses fail within their first year of operation. Mthoa and Rankhumise (2021) identified a lack of basic management skills, such as business planning, as one of the reasons why small businesses fail, while Banha, Coelho, and Flores (2022) revealed a lack of entrepreneurship education as a major reason for SMMEs' failure. Nareswari, Nurmasari, & Putranti (2023) further allude to the fact that having been well-versed in good business managerial skill is vital to any individual to run and successfully manage a business. According to Jordaan & Coetzee (2021), the main constraint that SMMEs encounter is a lack of financial support. Similarly, Nabisaalu and Bylund (2021) maintain that SMMEs, whether starting up or already in existence, need capital to be able to grow or expand operations. Capital can be in the form of internally generated funds or external funds, or capital contributions (Kuteesa, Akpuokwe, & Udeh, 2024).

Robust economic growth cannot be achieved without putting in place well-focused programs to reduce poverty in the country - by empowering the people and by increasing their access to factors of production, especially credit. In South Africa, the SMME sector finds it very difficult to play its role effectively because of some challenges in the country. In a related study, Simba, Tajeddin, Dana, and Ribeiro Soriano (2024) pointed out that in many parts of Africa, SMMEs generally faced difficulties in obtaining financing, with a lack of collateral, insufficient documents to support loan applications, and a lack of financial track record being the main constraints faced by the SMMEs sector in accessing financing. Apart from their unwillingness to disclose information to financiers, SMMEs are also faced with the challenge of proper bookkeeping practices that make it difficult for financiers who are even willing to assist, in doing so (Tharmini & Lakshan, 2021). A study conducted in Khayelitsha, South Africa, found that SMME owners were not aware of the government initiatives aimed at supporting their businesses (Kelly, Shumba, Zindiye, Donga, 2021). The soundness of the banking system has improved significantly, however, banks are still cautious about lending to SMMEs, even though such enterprises account for a large share of the economic activity. The majority of banks still consider the SMME sector to be risky; hence, no special concessions are made for them, and their loan requests are always well scrutinized. Start-up companies are finding it increasingly

difficult to borrow from banks because of strict application requirements. It is difficult for banks to evaluate SMMEs applications since they often do not have solid accounting systems (Nareswari, Nurmasari, & Putranti, 2023).

Nareswari et al. (2023) add that SMMEs lack knowledge about available sources of external finance and even if these are determined, SMMEs still have challenges satisfying the loan requirements from the external financiers. Furthermore, some external financiers do not seem to understand the exact operations of small business ventures. This means that the only possible way that SMMEs can raise capital is through personal savings, friends, and family members. Additionally, since both these business ventures' capital and sales value are small compared to operating costs, they face challenges in maintaining the business, resulting in the eventual collapse of the SMMEs. Endris and Kassegn (2022) maintain that SMMEs' access to credit is one of the top three factors discouraging their growth and development. SMMEs require finance to start and expand their operations, develop new products, and invest in new staff or production facilities. SMMEs even experience challenges accessing funding, meant for them, in all government entities. Nareswari et al. (2023) mentioned that on issues of financial access for small businesses, it is noted that only a few had access to credit, and as such, they lost opportunities for expansion.

Previous research points to the importance of SMMEs in contributing to economic growth and social transformation (Adam, 2024). These studies also point to the need to ensure that SMMEs fulfill their role in innovation so that they can continue to be a major contributing factor to the economy. To help SMMEs accomplish this, banks and formal financial sources should work to overcome the obstacles SMMEs face in this regard, the main obstacle being access to sources of finance (Simba et al., 2024). The financial services providers, for example banks, can develop services in line with SMMEs' needs, from the cost of these services to the types of services provided; this will enable SMMEs to access and use bank loans more effectively to manage their operations, develop feasible financial systems, and enhance their performance and growth (Nareswari et al., 2023).

Research and Methodology

The study aimed to establish the challenges SMMEs face when applying for financing from banks and what needs to be done to address these challenges. The design for the current study was descriptive and qualitative in nature. The study used the interpretivism paradigm, which bases comprehension on the knowledge of individuals who operate inside a particular phenomenon or context (Bryman & Bell, 2011). The population used in this research was derived from SMMEs in the Vhembe District Municipality area. It included small enterprises from various industries, such as agriculture, tourism, and hospitality. Using stratified sampling, the researcher deliberately selected the banks and SMMEs most appropriate for the study's objectives. The population included workers from different banks and SMMEs from the Vhembe District Municipality. In determining sample size, Serei (2017) proposed that 10 interviews are sufficient to reach saturation in the data collection. Therefore, 10 SMME owners/managers and bank officials were interviewed using stratified random sampling.

Interviews were utilized to gather data about participants' perspectives on the challenges SMMEs encounter when applying for credit. Face-to-face interviews were conducted to address any concerns that the sampled population might not be able to understand the questions. To allow for flexibility in these predetermined questions, the research employed a semi-structured interview guide. Semi-structured interview technique was chosen by the researcher to collect qualitative data as the format provides interviewers opportunity to ask a series of open-ended questions whose answers can be thoroughly explored and improved by probes. The qualitative data analysis program, ATLAS.ti, was used to analyze the respondents' primary data. The acquired data was entered into Microsoft Word for transcription then ATLAS.ti was used to conduct a thematic framework analysis. A technique called "thematic analysis" was used to find, examine, and summarize patterns and themes in the data. With this method, the emphasis is on finding latent concepts and themes in the data rather than just counting explicit words or sentences. The researcher carefully coded the data to identify recurring themes and patterns of meaning, thereby, establishing connections between the answers provided and the topics.

Findings and Discussions

This study aimed to determine the challenges SMMEs encounter when applying for credit from banks. The subthemes that emerged from the analysis of data are - collateral security, lack of financial assistance education, credit access regulations, qualifying criteria, stringent credit system, and documentation requirements. The themes are shown in Figure 1.

Collateral security

The results revealed that lack of collateral security is one of the challenges that SMMEs encounter when applying for credit from banks. Collateral security as a challenge emerged from the expressions of Participants 1, 4, 7, and 9 as shown in the following excerpts.

"They can put their property such as a car or house as collateral." (P1)

"Because of lack of adequate collateral as a result of general conditions of poverty and limited resources which characterize SMMEs." (P4)

"Collateral security and qualifying criteria make it difficult for SMMEs to access funding." (P7)

“Some SMMEs do not have the required collateral by the banks. The criteria that the banks use for accessing the funding makes the SMMEs struggle to access finance.” (P9)

In this study, the participants indicated that lack of collateral is a severe obstacle in accessing funding or credit. This implies that the SMMEs do not have adequate collateral to meet the standard or the stipulations of the banks. This lack of collateral security has an adverse as without such security, SMMEs are not eligible to access credit, although, these funds are needed for the sustainability or growth of the operations.

Lack of financial assistance education

Lack of financial assistance education was noted to be another challenge that negatively affects SMMEs when applying for funding from banks. This emanated from the views of Participants 2, 3, 5, and 6, shown in the following excerpts.

“Lack of education. Small business owners might have the skill of identifying opportunities around, but what they lack is the education on how and when they can access financial assistance.” (P2)

“Currently, I do not know products or services that the banks offer to assist business development. (P3)

“No, banks do not go an extra mile as many SMMEs to date do not have enough information regarding financial support from banks.” (P5)

“You have to put extra effort into knowing this as this information is not just readily available. You have to go to the bank and get information; otherwise, banking institutions do not have much to ensure awareness of the product and services. I think they know that people will come looking for them.” (P6)

The responses indicated that SMMEs business owners might have the skill of identifying opportunities but lack the education and awareness on how and when they can access financial assistance. The participants further alluded that finance-access information is not just readily available; therefore, the business owners have to go to the bank or financial institution and get information; otherwise, there is not much done by the institutions to ensure awareness of their products and services. This implies that such lack of awareness and education on financial opportunities available, creates challenges in SMMEs' efforts to access funding or credit.

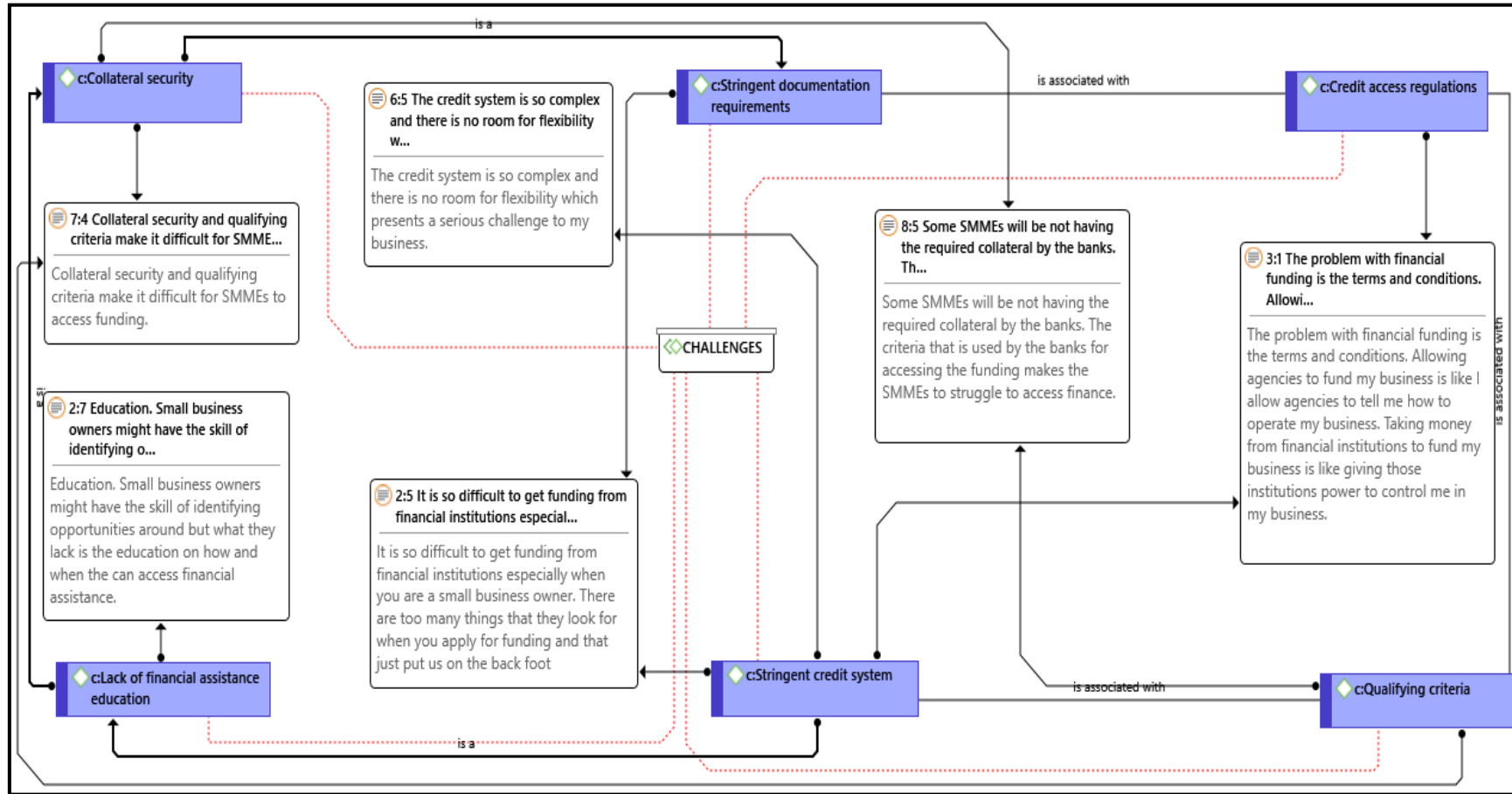


Figure 1: SMMEs credit application challenges network; Source: SMMEs challenges accessing credit using ATLAS.ti

Stringent credit system

The stringent credit system was also established as another challenge that is affecting access to credit among SMMEs. The stringent credit system emanated from the views of Participants 1, 2, 3, 4, and 7, as shown in the following extracts:

“Our system that we use needs to change because you may find that a customer may apply for credit with us and it declines, yet the very same customer may go to another financial institution and get approved.” (P1)

“It is so difficult to get funding from banks, especially when you are a small business owner. There are too many things that they look for when you apply for funding and that just puts us on the back foot.” (P2)

“The problem with financial funding is the terms and conditions. Allowing agencies to fund my business is like allowing agencies to tell me how to operate my business. Taking money from banks to fund my business is like giving those institutions power to control me in my business.” (P3)

“No, SMMEs have limited access to funds from banks, which is a challenge that hinders their growth and development.” (P4)

“The credit system is so complex, and there is no room for flexibility, which presents a serious challenge to my business.” (P7)

Pertaining to the credit system, the participants indicated that it is difficult for them to get funding from banks, especially when they are small business owners. The participants argued that there are too many factors that banks consider when SMMEs apply for funding, which adversely affects their application. The participants indicated that the credit system is complex, and there is no room for flexibility, which presents a serious challenge to businesses in accessing funding, hence, the complex credit system is an impediment to accessing to credit by SMMEs.

Stringent documentation requirements

The participants alluded that stringent documentation requirements are negatively affecting SMMEs in their endeavors to access credit from banks. Documentations that are required by the banks are stringent, and these may be difficult to provide, hence, SMMEs fail to access credit owing to their lack of proper documents, required by these institutions. Participants 1 and 2 expressed their views regarding stringent documentation requirements, as shown in the following extracts:

“For starters, they will need proper documentation. They will go to their banker, and the banker will make them fill out their personal balance sheet and assessment of sureties and submit the application together with the financial statement. Most of the applicants do not have proper documentation.” (P1)

“It is so difficult to get funding from banks, especially when you are a small business owner. There are too many things that they look for when you apply for funding and that just put us on the back foot.” (P2)

Discussion of the findings

This section provides a discussion relating to the challenges SMMEs encounter when applying for credit from banks. The challenges identified in this study are – lack of collateral security, lack of financial assistance education, complex credit access regulations, numerous qualifying criteria, stringent credit system, and demanding documentation requirements.

Collateral security

This research found that most SMMEs do not have the required collateral security that aligns with the set standards of the banks, which has a detrimental impact on the former's ability to access funding. Tshuma (2022) postulated that lack of collateral security negatively affects the ability of SMMEs to access start-up capital and the funds required to cater for work in progress. Paya (2022), similarly revealed that a lack of collateral negatively affects fashion entrepreneurs in Botswana. This shows that lack of collateral security is a major challenge that is faced by SMMEs in their efforts to apply for credit.

Lack of financial assistance education

Lack of financial assistance education was found to be another challenge that SMMEs encounter when they are applying for funding. Adequate finance access information is not readily available, and this results in non-awareness of how and when SMMEs can access such assistance. Joseph et al. (2021) elucidate that the efforts by banks to provide support programs for SMMEs were to enable them to take advantage of market opportunities proactively and effectively, as the lack of education negatively affects the awareness of their services, hence, SMMEs' failure to take advantage of the opportunities. This implies that the findings of Joseph et al. (2021) align with this study.

Credit access regulations

Credit access regulations are another challenge. The regulatory environment and National Credit Bureau make it difficult for small businesses to access funds because most SMMEs do not have proper documentation when applying for funding; this results in entrepreneurs failing to access the funding. These findings concur with those of Tshuma (2022), who maintains that the credit

regulatory environment is an obstacle to access to funding by SMMEs as its sets conditions are more favorable to the lender than to the borrower.

Qualifying criteria

The findings also revealed that the credit qualifying criteria make it difficult for starters to get funding from banks. Financial institutions are setting qualifying criteria so high so that only a few businesses can qualify for credit or loans; this behaviour serves more the interests of the banks and not that of the SMMEs. Qualifying criteria as hindering access to funding were also found by Van der Spuy and Antonites (2022), who concluded that the qualifying criteria that are set by some of the banks do not create an enabling environment for the SMMEs to access funding, thereby, they have a detrimental impact on their efforts.

Stringent credit system

The stringent credit system is another challenge that makes it difficult for SMMEs to access funding from banks. There are too many factors that financial institutions consider when entrepreneurs apply for funding; these adversely affects SMMEs' efforts. This assertion aligns with Tshuma (2022), who posited that the credit regulatory environment is an obstacle to SMMEs' access to funding; these systems establish conditions which are more favorable to the lender than to the borrower. This also aligns with the findings of Van der Spuy and Antonites (2022), who posit that the credit system within the financial institutions dictates what has to be done and how it has to be done and there is no room for flexibility based on the needs of the SMMEs; these conditions are detrimental to accessing funding by these entities.

Stringent documentation requirements

Documents required by the banks are very stringent and may be difficult to provide, thereby resulting in SMMEs failing to access credit owing to their lack of proper documentation. Aligning with the findings of this study, Tshuma (2022) and Van der Spuy and Antonites (2022) proffered that the documentation required by the banks is stringent and sometime cannot be understood by a layman, making it difficult for the SMMEs to address these requirements effectively. Stringent documentation requirements, hence threatens credit or funding applications of the SMMEs.

Conclusions

The results of this study may add to the body of knowledge on the expansion of SMMEs and the potential barriers to their growth in the Vhembe District. The results may also provide banks and other financing sources with information, provide details on potential barriers to SMME growth, and offer suggestions for overcoming current difficulties, thus, enable an expansion in the SMMEs' sector

In determining the challenges SMMEs encounter when applying for credit from banks, the study revealed that these challenges are – lack of collateral security, lack of financial assistance education, complex credit access regulations, extensive qualifying criteria, stringent credit system, and excessive documentations requirements. Concerning collateral security, it was found that a lack of collateral security that meets the set standards of banks adversely affects the eligibility of SMMEs to access credit; failure to access credit has a detrimental impact on the overall operations of these businesses. Lack of financial assistance education is another challenge where adequate finance-access information is not readily available, and this results in lack of awareness on how and when SMMEs can access such assistance. This has a non-positive impact on the overall accessibility of funding by SMMEs.

In addition, extensive credit access regulations imposed by the regulatory environment and National Credit Bureau, make it extremely difficult for small businesses to access funds because most of the small businesses do not have the proper documentation required when applying for funding. This is aggravated by the lack of awareness programs offered by banks. Rigid qualifying criteria make it difficult for start-ups to get funding from banks resulting in only a few enterprises qualifying for credit or loans.

The stringent requirement for credit is another challenge revealed in this study. The credit system is so complex, and there is no room for flexibility, which presents a serious challenge to businesses in accessing funding. This stringent credit system has a negative impact on the overall sustainable operations of enterprises. Most SMMEs fail to access credit owing to the lack of the numerous and specific documents requested by the banking institutions. This means that the stringent credit system combined with stringent documentation requirements pose difficulties for the SMMEs, that adversely affect their application and access to credit. This study, thus, concludes that the main credit-access challenges that SMMEs face are – lack of collateral security, lack of financial assistance education, excessive credit access regulations, extensive qualifying criteria, as well as stringent credit system, and documentation requirements.

Recommendations and Direction for future research

This study recommends that financial institutions should provide programmes, workshops, or information sessions for enterprises; during these sessions, information regarding the various credit services or plans they have and the requirements thereof should be provided. Entrepreneurs should make every effort to gather relevant information regarding the credit or funding they require from the banks of their choice. Policymakers and banks should create an enabling environment for SMMEs to be able to access funding by reviewing their regulations so as to limit some of the stringent regulatory requirements.

The researchers recommend that comparable studies be carried out in other South African provinces to compare the results which can have general implications for use in other scenarios. The researchers advise that another study be carried out in the same study area, but it should employ a quantitative approach in order to reach a larger sample.

Limitations

The limitation of the current study was that participants from only one district municipality were included, and other districts from Limpopo Province did not participate. The findings can, however, be transferred to other districts.

Acknowledgment

All authors have read and agree to the published version of the manuscript.

Author Contributions: Conceptualization, R.K and N.L.G; methodology, R.K and N.L.G; validation, R.K; formal analysis, R.K and N.L.G; investigation, R.K; resources, R.K and N.L.G; writing-original preparation, R.K, and N.L.G; writing-review and editing, R.K. and N.L.G.

Informed Consent Statement: Informed consent was obtained from all subjects involved in the study.

Data Availability Statement: The data presented in this study are available on request from the corresponding author. The data are not publicly available due to restrictions.

Conflict of interest: The authors declare no conflict of interest.

References

- Adam, N. A. (2024). Perceived Risk and External Finance Usage in Small-and Medium-Sized Enterprises: Unveiling the Moderating Influence of Business Age. *Journal of Risk and Financial Management*, 17(4), 150.
- Addo, S. D., & Asante, J. (2022). The Impact of Financial Literacy on Access to Finance: Does Risk Attitude Matter? *International Journal of Business, Management, and Economics*, 4(1), 32 - 55. <https://doi.org/10.47747/ijbme.v4i1.1101>
- Amadasun, D.O.E., & Mutezo, A.T. (2022). Influence of access to finance on the competitive growth of SMEs in Lesotho. *J Innov Entrep*, 11(56). <https://doi.org/10.1186/s13731-022-00244-1>
- Amadhila, B. (2020). *The Challenges faced by Small and Medium Enterprises in Accessing Credit in Namibia*. (Masters' dissertation: University of Cape Town).
- Akintoyo, A.A., Odeh, C.D., Lawal, N.A. & Makinde, T.A. (2024). Credit accessibility and small and medium-sized enterprises (SMEs) in Osun state, Nigeria. *Global Business Management Review*, 16(1), 1–18. <https://doi.org/10.32890/gbmr2023.16.1.1>
- Banha, F., Coelho, L. S., & Flores, A. (2022). Entrepreneurship education: A systematic literature review and identification of an existing gap in the field. *Education Sciences*, 12(5), 336.
- Batrancea, I., Morar, I. D., Masca, E., Catalin, S. & Bechis, L. (2018). Econometric modelling of SME performance. Case of Romania. *Sustainability*, 10(1), 192.
- Bvuma, S. & Marnewick, C. (2020). Sustainable Livelihoods of Township Small, Medium and Micro Enterprises towards Growth and Development. *Sustainability*, 12(1), 3149. <https://doi.org/10.3390/su12083149>
- Chilembo, T. (2021). A Study of the Factors Affecting Small and Medium Enterprises (SMEs) Access to Finance. A Case of Lusaka Based SMEs. *American Journal of Industrial and Business Management*, 11, 437–460. <https://doi.org/10.4236/ajibm.2021.115028>
- Cortés, K. R., Demyanyk, Y., Li, L., Loutskina, E., & Strahan, P. E. (2020). Stress tests and small business lending. *Journal of Financial Economics*, 136(1), 260-279.
- Enaifoghe, A., & Vezi-Magigaba, M. F. (2023). Conceptualizing the role of entrepreneurship and SME in fostering South Africa's local economic development. *International Journal of Research in Business and Social Science* (2147- 4478), 12(4), 96–105. <https://doi.org/10.20525/ijrbs.v12i4.2444>
- Endris, E., & Kassegn, A. (2022). The role of micro, small and medium enterprises (MSMEs) to the sustainable development of sub-Saharan Africa and its challenges: a systematic review of evidence from Ethiopia. *Journal of Innovation and Entrepreneurship*, 11(1), 20.
- Fatoki, O. (2021). Access to finance and performance of small firms in South Africa: The moderating effect of financial literacy. *WSEAS Transactions on Business and Economics*, 18(9), 1-10.
- Gassiah, N., & Kikula, J. (2022). Challenges small and medium enterprises (SMEs) face in acquiring loans from commercial banks in Tanzania. *African Journal of Business Management*, 16(4), 74-81.
- Jordaan, H., & Coetzee, J. (2021). Access to finance perceived as an obstacle and the characteristics of the SMME and its owner: evidence from the free state goldfields–South Africa. *International Journal of Economics and Finance Studies*, 13(1), 373-404.
- Joseph, T., Obikaonu, P., Ariolu, C., Nwolisa, C. & Aderohunmu, A. (2021). SMEs intervention programmes in Nigeria: evaluating challenges facing implementation. *Applied Journal of Economics, Management and Social Sciences*, 2(1), 16-25.
- Kelly, T. D., Shumba, K., Zindiye, S., & Donga, G. (2021). An evaluation of government support services for SMMEs in Thohoyandou, South Africa. *Journal of Entrepreneurial Innovations*, 2(1).
- Kuteesa, K. N., Akpuokwe, C. U., & Udeh, C. A. (2024). Exploring global practices in providing small and medium enterprises access to sustainable finance solutions. *World Journal of Advanced Science and Technology*, 5(2), 035-051.

- Maduku, H., & Kaseeram, I. (2021). Success indicators among black owned informal small micro and medium enterprises' (SMMEs) in South Africa. *Development Southern Africa*, 38(4), 664-682.
- Mole, S. A. & Namusonge, G. S. (2016). Factors affecting access to credit by small and medium enterprises: A Case of Kitale Town. *The International Journal of Social Sciences and Humanities Invention*, 3(10), 2904-2917.
- Mothoa, M. S., & Rankhumise, E. M. (2021). Government contribution towards the growth of small and medium-sized enterprises: owners perspective. *International Journal of Entrepreneurship*, 25, 1-11.
- Myers, S.C. & Majluf, N.S. (1984). Corporate financing and investment decisions when firms have information that investors do not have, *Journal of Financial Economics*, June 187–221.
- Nabisaalu, J. K., & Bylund, P. L. (2021). Knight, financial institutions, and entrepreneurship in developing economies. *Journal of Institutional Economics*, 17(6), 989-1003.
- Nareswari, N., Nurmasari, N. D., & Putranti, L. (2023). Financial constraints of micro, small, and medium-sized enterprises (MSMEs) in the Indonesia creative industries. *Journal of Economics, Business, & Accountancy Ventura*, 25(3), 312-321.
- Nugroho, A. P. (2023). Qualitative Investigation: Exploring the Challenges Faced by Indonesian SMEs in Accessing Financial Services in Sukabumi City. *West Science Interdisciplinary Studies*, 1(05), 183-193.
- Paya, K. M. (2022). *Challenges experienced by women fashion entrepreneurs of Botswana's Youth Development Fund project* (Doctoral dissertation).
- Rajamani, K., Jan, N. A., Subramani, A. K., & Raj, A. N. (2022). Access to finance: challenges faced by micro, small, and medium enterprises in India. *Engineering Economics*, 33(1), 73-85.
- Rungani, E.C. & Potgieter, M. (2018). 'The impact of financial support on the success of small, medium and micro enterprises in the Eastern Cape province', *Acta Commercii*, 18(1), 591.
- Simba, A., Tajeddin, M., Dana, L. P., & Ribeiro Soriano, D. E. (2024). Deconstructing involuntary financial exclusion: a focus on African SMEs. *Small Business Economics*, 62(1), 285-305.
- Surmanidze, N., Beridze, M., Amashukeli, M., & Tskhadadze, K. (2023). Empowering small businesses in Georgia: access to finance, economic resilience, and sustainable growth. *Agora International Journal of Economical Sciences*, 17(2), 158-169.
- Tharmini, T., & Lakshan, A. M. I. (2021). Impact of financial management practices on performance of small and medium enterprises – Legitimacy theory perspectives. *Kelaniya Journal of Management*, 10(1), 43. <https://doi.org/10.4038/kjm.v10i1.7666>
- Tshuma, M. M. (2022). *Accelerating private sector job creation and poverty reduction in South Africa's townships*. SA-TIED Working Paper.
- Van der Spuy, S. J., & Antonites, A. (2022). Incubator management experiences engaging with public SMME financiers at national and provincial levels in South Africa. *Journal of Contemporary Management*, 19(1), 320-361.

Publisher's Note: SSBFNET stays neutral with regard to jurisdictional claims in published maps and institutional affiliations.



© 2024 by the authors. Licensee SSBFNET, Istanbul, Turkey. This article is an open access article distributed under the terms and conditions of the Creative Commons Attribution (CC BY) license (<http://creativecommons.org/licenses/by/4.0/>).

International Journal of Research in Business and Social Science (2147-4478) by SSBFNET is licensed under a Creative Commons Attribution 4.0 International License.