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THE IMPACT OF MICROFINANCE ON MICROENTERPRISES

Abstract

The provision of and access to financial services, particularly credit, can contribute greatly to the development of microenterprises in South Africa. Such provision has been an issue ignored by conventional banks or formal financial institutions. The problem associated with this ignorance includes high transaction and operation costs, lack of collateral, and the inability to obtain information about microenterprises resulting in difficulties to extend such credit. Microfinance therefore becomes an alternative to conventional banking and a mainstream and sustainable development activity for extending credit to microenterprises. However, the benefits of microfinance, which include, among others, the ability to provide the much-needed financial support for microenterprises, have not been fully harnessed in South Africa. The objective of this article is to evaluate the impact of microfinance on microenterprises in a typical South African township and to propose specialized financial mechanisms to support and improve the provision of credit to microenterprises. The article draws on the findings of a study undertaken in the Ga-Rankuwa township located in the Tshwane Metropolitan area in the Gauteng province of South Africa. It further draws on a wide range of extensive review of literature that documents the impact of microfinance on microenterprises. A case study approach is adopted and mixed method research paradigm (qualitative and quantitative) is used to gather information. Structured questionnaires and interviews were used to solicit information from the randomly selected microfinance institutions and microenterprises in the Ga-Rankuwa township.

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INTRODUCTION

Microfinance is the provision of financial services, particularly micro credit, to people who have been systematically excluded from accessing such services by the formal financial institutions (Consultative Group to Assist the Poor (CGAP), 2012). This exclusion is due to collateral constraints, high transaction costs and other regulatory bottlenecks that hinder lending (Zingoni, 2010; Kota, 2007; Karlan & Goldberg, 2011). Firpo (2005) argues that for over 30 years the operations of microfinance have proved that the poor and the less privileged are bankable, because they repay loans even at high interest rates. Bedson (2009) and Kota (2007) report that although microfinance has been used to increase financial inclusion, is has not developed enough to meet the demands of the excluded people including microenterprises. Today, the majority of microenterprises still experience financial exclusion and are unable to develop.

According to the study conducted by the World Bank (2014), South Africa's growth potential lies in its townships and in ensuring their convergence with the advanced parts of the economy. The study found that half of South Africa's urban population lives in townships and informal settlements. About 60% of the unemployed and 38% of the working age citizens live in township and informal settlements. Ga-Rankuwa, for example, is a black community township in the Gauteng province where the majority of microenterprises operate. These microenterprises find it difficult to access even small-scale credit due to the unavailability of sufficient microfinance institutions (Mashigo & Klingelhoefer, 2012). As a result of the increasing number of small businesses (the SMMEs), the government of South Africa with joint private participation established microfinance institutions as strategies to meet the financial needs of these enterprises. Microenterprises, for example, are regarded as having high potential to contribute to poverty reduction and jobs creation, hence, contribute to economic growth (Duncombe & Heeks, 2005).

Due to the importance of finance in the development and growth of microenterprises, a proficient financial mechanism or financial sector that can improve access to the financial resources is essential to assist microenterprises to grow and develop.

1. RESEARCH PROBLEM

Access to finance and/or credit plays a pivotal role in sustaining livelihoods and developing microenterprises. Inaccessibility of such credit continues to hinder this development. The formal financial institutions view these enterprises as risky and unprofitable and are therefore hesitant to provide such credit to them. The underlying problem associated with this hindrance includes the high transaction and operation costs, lack of collateral, and the inability to obtain information about microenterprises. This results in the continued financial exclusion of microenterprises.

2. RESEARCH OBJECTIVE

The objective of this article is to evaluate the impact of microfinance on microenterprises and propose specialized financial mechanisms that would assist the microenterprises to access credit or financial services. The research question to be addressed is: what are the factors that hinder access to credit by microenterprises?

3. METHODOLOGY

The article draws on the findings of a study undertaken in the Ga-Rankuwa township located in the Tshwane Metropolitan area in the Gauteng province of South Africa. The township has the common practices, relationships, social interactions and hegemony of a South African township. It is a township in which many microenterprises operate.

This article adopts a case study approach and uses a mixed research methodology paradigm. Mixed method research is the combination of a minimum of one qualitative and one quantitative component in a study (Bergman, 2008). The data for this study were collected through the administration of structured questionnaires to selected microfinance institutions and microenterprises and by conducting interviews and observing respondents in order to obtain information from both microfinance and microenterprise operators.

Amongst the microenterprises located in the Ga-Rankuwa township, 25 were randomly selected for questionnaire administration and personal interviews, while two (2) microfinance sections from two (2) banks, namely First National Bank (FNB) and Nedbank, participated in the study. The selection of sections of the banks was informed by the lack of readily available stand-alone microfinance institutions in Ga-Rankuwa. Descriptive statistical method was used to analyze the data set collected. Descriptive statistics provides summaries about the samples (Baron & Shane, 2008). In this study, these were the mean, median, mode, standard deviation, minimum and maximum values. The SPSS statistical package was used in the analysis of data collected.

4. LITERATURE REVIEW

4.1. Overview of microfinance

Microfinance is generally viewed as a powerful tool for sustainable development and an alternative to formal banking (Lützenkirchen, 2012). Microfinance is defined by the Consultative Group to Assist the Poor (CGAP) (2012) as the provision of small-scale financial services to the poor and low-income earners, especially for the people who are not earning a salary or who have been systematically excluded from the financial system. These people, according to Zingoni (2010), Kota (2007), Karlan and Goldberg (2011), include those operating small enterprises. Firpo (2005) emphasizes that, for over 30 years, the operation of microfinance has proven that the poor and the less privileged are bankable, because they repay loans even at high interest rates.

Bedson (2009) and Kota (2007) argue that microfinance has not been growing fast enough to meet the financial needs of people or microenterprises. In trying to address this challenge, the South African government started to take important initiatives to promote the development of small businesses, including microenterprises (DTI, 2008). The microfinance sector was therefore established to cater for the financial needs of these enterprises (Mathison, 2005). According to Mashigo and Klingelhoefer (2012), the high cost of operation, the lack of collateral required to secure credit and the inability to obtain information regarding microenterprises (as borrowers) have made it difficult and costly to extend credit. Financial institutions further hesitate to establish branches in townships and rural areas for the less privileged (Coetzee, 1998).

The challenge, even today, according to Mashigo (2014), is that microfinance institutions in South Africa focus only on the formally employed people so that their salaries could be tapped or serve as collateral to ensure repayment of credit/loans. These loans are advanced at high interest rates and majority of the owners of microenterprises are unemployed and do not have collateral or valuable assets to secure credit, no established relationships with lenders or even credit records. The microenterprises therefore continue to be excluded marginalized. Other related challenges are that the majority of microfinance institutions in South Africa are prevented from taking deposits (savings) and this increases the cost of doing business. Savings may be used as collateral for securing credit. It can therefore be concluded that the microfinance sector still remains less developed and unable to expand credit to microenterprises. This impacts negatively on the development of microenterprise.

4.2. Microenterprises in South Africa: an analysis

A microenterprise is a type of small business, often unregistered, having five or fewer employees. The National Small Business Act (No. 102 of 1996) defines microenterprise as a business entity that includes cooperatives and non-governmental organizations that are owned and managed by one or more persons (South Africa, 1996). It is a form of a self-employment business venture that includes, among others, spaza shops, artisans and local manufacturers. Microenterprises, if properly supported, have the ability to contribute immensely to the economy by creating employment opportunities, generating higher production volumes, introducing new innovations and increasing entrepreneurial skills (Duncombe & Heeks, 2005; Bedson, 2009; World Bank, 2014; Mashigo & Klingelhoefer, 2012), citing the Gauteng Department of Economic Development (2011) and the Gauteng Department of Agriculture and Rural Development (2010). The Department of Trade and Industry (2005), in its attempt to support microenterprises, designed a strategy based on three pillars, first, to promote entrepreneurship through campaigns, leadership training and awards, second, to create an enabling environment through more flexible regulations an increase in access to finance and markets and the provision of improved infrastructure facilities; and finally, to increase business support and enhance competitiveness and capacity at the enterprise level through skills training and the facilitation of technology transfer. It is argued, in this article, that in spite of these, microenterprises in townships such as Ga-Rankuwa still lack the necessary support and access to financial resources to develop and grow and therefore are not able to contribute to the economy.

The article, however, demonstrates that microfinance institutions, if properly designed with effective financial mechanisms, have the capability of providing microfinance services to microenterprises in townships like Ga-Rankuwa.

4.3. The impact of microfinance on microenterprises

Improving microfinance operation in townships can have a positive impact on microenterprise operation. This can assist the microenterprises to grow, develop and become sustainable (Mashigo, 2007). In addition to accessing credit, microfinance also assist them as households for the provision of better food security and nutrition.

To operate microenterprises requires working capital. Often, working capital is normally raised from informal sources such as family, friends and money lenders, which is frequently inadequate (Bhasin & Akpalu, 2001). Microfinance therefore provides a platform for microenterprises to raise the capital and become sustainable. Microfinance institutions can support microenterprises by offering financial and business management advisory training. This can help microenterprises to acquire business and financial skills required to operate businesses and gain knowledge about preconditions for lending (Karlan & Valdivia, 2010; Mashigo, 2014).

The challenge is that information about the services of microfinance institutions is not effectively disseminated in the townships but only in urban areas which are deemed to be more conducive for their operations (Mashigo, 2014).

On the contrary, microfinance institutions in South Africa are faced with many challenges that hinder them from performing their roles as expected. Falkena et al. (2001), Kota (2007), Arthur et al. (2009) identify limitation of access to working capital as one of the challenges confronting microfinance institutions. This includes the reduction in participation and support of microfinance institutions by government and donors in South Africa. Mashigo and Klingelhoefer (2012) emphasize the need to support, empower, and establish sustainable microfinance institutions that can effectively support microenterprises so that these enterprises can be sustainable and contribute to the economy.

The problem with microfinance is that while its role is to finance SMMEs, there is insufficient consideration regarding the SMMEs given their different sizes, roles, needs, locations and operations. Their different sizes do not require an umbrella but different and tailor-made financial support and development. Financial services offered by microfinance institutions are few and are offered only to those in gainful employment who own assets and can provide collateral which is required as security in the case that income ceases (Mashigo, 2011). The geographical distances make it difficult for microenterprises and poor people in the townships to access microfinance services. The terms and conditions governing available services, the requirements, the paper work that is difficult to complete and the lack of information on where to apply affect the provision of microfinance services in the townships.

The stringent regulatory requirements of microfinance institutions hinder them from accessing clients' savings or taking deposit (Falkena et al., 2001; Zingoni, 2010). For example, the provisions of the Banks Act No. 94 of 1990, which set out the conditions for deposit acceptance by financial institutions, prohibit institutions not registered as a bank from accepting deposits from the public (Meagher & Wilkinson, 2002; ESAF, 2004). Further challenges include lack of required infrastructure and logistics to increase outreach in areas where microenterprises require financing.

Mashigo and Klingelhoefer (2012) found that lack of appropriate education and training leads to low staff productivity. For example, the lenders experience problems in understanding financial expressions and communicating with some microenterprises. Some microenterprises are not aware of the program offered by microfinance institutions or even the marketing thereof (Mashigo & Klingelhoefer, 2012; Fatoki, 2014). Mission drift is another major challenge confronting microfinance institutions. As Bedson (2009) argues, many microfinance operators place an emphasis on profitability rather than helping the poor, the less privileged and microenterprises, hence, they establish their offices in the urban areas and neglect the townships (Mashigo & Klingelhoefer, 2012).

5. FINANCING STRATEGIES TO SUPPORT MICROENTERPRISES IN SOUTH AFRICA

In realizing that initiatives and institutions developed in the past were not appropriate to the development of microenterprises, the government started to set up agencies through the Department of Trade and Industry (DTI) to oversee the channelling of finance and other related resources to microenterprises (Mashigo & Klingelhoefer, 2012). Some of the financing strategies include the Small Enterprise Foundation (SEF) which is a microfinance institution established in 1991 to provide micro loans to marginalized microenterprises through its Micro Credit Program and the Tshomisano Credit Program. Initially, the foundation operated in the Limpopo province of South Africa but expanded its program in 2010 to other provinces such as Eastern Cape, Mpumalanga and North-West (Mashigo & Klingelhoefer, 2012; Van de Ruit, May, & Roberts, 2001; BANKSETA, 2013). Its objective was targeted at the elimination of poverty and unemployment (Small Enterprise Foundation (SEF), 2015).

The Get Ahead Foundation (GAF), which was established in 1983, was the first non-governmental organization to introduce group lending in rural townships in South Africa (Sebstad, 1992). It provided alternative credit through its stokvel lending to less privileged and microenterprises that could not access conventional credit facilities (Mashigo & Klingelhoefer, 2012). It was noted that GAF, through its business loans, assisted only highly established enterprises.

Khula Enterprise Finance was established in 1996 as an independent agency under the DTI to support SMMEs by helping them secure finance through partner financial intermediaries. Khula Enterprise Finance acts as a wholesale financial institution by offering assurance for retail financial institutions to lend at substantially low interest rates to SMMEs, particularly SMMEs with owners from previously disadvantaged groups (Meagher & Wilkinson, 2002; Mashigo & Klingelhoefer, 2012). Khula Enterprise Finance and the South African Micro-Finance Apex Fund (SAMAF) were created to encourage savings mobilization and financial service capacity building in the rural communities and townships. According to Mashigo and Klingelhoefer (2012), Khula Enterprise Finance uses microfinance institutions, financial institution services and cooperatives to pilot its microfinance funding models. It operates within the public sector, as well as the private sector of the South African economy and its channels of funding include retail financial institutions, specialist funds, commercial banks and joint ventures.

SAMAF engages in wholesale microfinance services to the rural poor and micro, small and survivalist businesses in South Africa (Mashigo & Klingelhoefer, 2012). It provides wholesale microfinance services to its funded financial intermediaries such as financial services cooperatives and microfinance institutions for on-lending to their members and customers. SAMAF has the task of developing the microenterprise finance sector in South Africa and identifying the lending initiative that will ensure the success of microenterprises. It is argued that the financial support provided by SAMAF to microenterprises was insufficient and not delivered in a manner that ensured the development of the microenterprise segment.

In 2012, the South African government amalgamated Khula Finance Trust, the SAMAF and the International Development Corporation, forming the Small Enterprise Finance Agency (SEFA) to fast-track loans to small businesses using Postbank facilities at post offices around South Africa. It consolidates the small business lending books of the three amalgamated institutions (Small Enterprises Finance Agency (SEFA), 2012). The agency offers retail financing to the general SMMEs and provides wholesale financing to microfinance institutions that support SMMEs. Although this initiative is acknowledged, the challenge remains lack of strategic approach and prioritization regarding the support, given different sizes, operations and the needs of the general SMMEs, particularly microenterprises that operate in the townships. Furthermore, mechanisms of credit exclusion continue to be determined by high transaction and operation costs and the need for collateral. This challenge, if not properly and effectively addressed, will continue to hinder the development of microenterprises.

6. DATA COLLECTION

Data collection was done through the study conducted between 2012 and 2016 by administering two separate sets of questionnaires to respondents, namely microfinance institutions and microenterprises. Personal interviews were also conducted with both these respondents. Since the study found no stand-alone microfinance institutions in Ga-Rankuwa township, the microfinance sections of the banks which deal with microfinance were therefore targeted. One set of questionnaires was administered to the microfinance sections of the First National Bank and Nedbank, respectively, and the other to the microenterprises operating in the township.

In this study, twenty five (25) microenterprises and six (6) microfinance institutions were targeted for questionnaire administration. That is, one (1) manager or supervisor or owner in each microenterprise and two (1 branch manager and 1 supervisor) from each microfinance institution (12 in total). As alluded to above, since there was no stand-alone microfinance institutions in Ga-Rankuwa township, this made the data collection process a challenge. However, to mitigate this problem, the alternative was to approach branches of the big four banks located within Ga-Rankuwa's City Center Mall, which include Amalgamated Banks of South Africa (ABSA), First National Bank (FNB), Standard Bank and Nedbank, as well as African Bank for data collection.

It was then that only two banks, Nedbank and First National Bank (FNB) branches in Ga-Rankuwa Mall, admitted that they have microfinance sections that cater for the financial needs of small businesses such as microenterprises and are willing to participate in the study. The other banks (Standard bank and ABSA) do not have microfinance sections at the branches in Ga-Rankuwa, while African bank does not advance microfinance to microenterprises. However, all the banks indicated that potential loan customers must have the required documentation such as business registration, financial statement and bank account statements in order to benefit from financial support. Four (4) questionnaires (that is two (2) to the branch managers and the other two (2) to the supervisors) were therefore distributed to Nedbank and FNB. Another challenge faced after the questionnaires have been administered was that the administered questionnaires were returned by the two branch managers of the two banks and the two supervisors never responded or completed the questionnaires.

7. DESCRIPTION OF RESPONDENTS AND RESULTS

7.1. Microfinance institutions

This section provides a description of data collected from microfinance institutions in Ga-Rankuwa that participated in this study. Of the five banks that were approached to provide information on microfinance, only two (that is FNB and Nedbank) which had microfinance sections within their branches responded to the administered questionnaires. As indicated, the other banks do not give loans to microenterprises therefore were not able to participate in the study.

During the study, First National Bank (FNB) and Nedbank were asked how many branches they have in Ga-Rankuwa in order to establish the spread and coverage of the microenterprises. These banks indicated that each of them has only one (1) branch in Ga-Rankuwa which is located inside the Ga-Rankuwa Mall. It is important to note that Nedbank and FNB have other branches all over Gauteng and other provinces in South Africa. Among the two banks, Nedbank indicated that the nearby branches are located in Brits, Mabopane and Soshaguve townships, Wonderpark Mall, Pretoria North and Rosslyn, a total of about nine (9) branches around these locations.

Both banks give different types of loans which include business, personal and student loans. They further indicated that special facilities such as business overdraft are also available which can be applied for through the managers. The study however found that only 50% of the microfinance sections (Nedbank) give loan to microenterprises, but such microenterprise must provide evidence of business registration with the DTI, as well as the business bank financial statements.

7.2. Microenterprises

The majority of microenterprises which operate in Ga-Rankuwa township include spaza shops, barber shops, beauty parlors, and fruit and vegetable vendors. Many contribute significantly to the socio-economic landscape of their society and help create employment even if it is only for one or two people. For example, microenterprises in South Africa are estimated to contribute 50% of gross domestic product (GDP) and provide employment above 60% of the total labor force (Bank Seta, undated, Falkena et al., undated).

The study sought to find out which nationalities of people operate microenterprises in the township. It was evident from the study that the microenterprise operators in Ga-Rankuwa comprise blacks of different nationalities though the majority are South Africans (79.2%). Others are Nigerians (16.7%), and Ethiopians (4.2%). Regarding the level of education, the majority (87.5%) of microenterprise operators have acquired some form of education such as bachelor's degrees, high school, primary education and other vocational studies.

The study further determined whether access to finance can help to develop microenterprises and which sources of finance are used. It was found that many microenterprise owners generate the start-up capital from their personal savings (50%) and others from inheritances (16.7%), family and friends (20.9%), bank loan (8.3%) and township money lenders (4.2%). None were found to source financial support directly from microfinance institutions due to stringent DTI registration processes. It can therefore be concluded that the inability to secure financial assistance limits the growth of any business including microenterprises.

When asked if they are able to secure financial assistance from the banks where they have accounts, the study found that only 8.3% of the sampled microenterprises have obtained loans from commercial bank they have accounts with, while 91.7% have never received loan from any of the banks. This is due to the inability to provide official business registration documents and financial records. These issues continue to pose major challenges to the development of microenterprises. Microenterprises were further asked whether they access financial support from other sources other than the banks. It was found that only 4.2% of them received financial assistance from other financial institutions or sources such as M-Pesa (mobile phone based money transfer service offered by Vodacom), while 95.8% never received any financial assistance from any financial institutions.

Furthermore, none have ever received any financial assistance from microfinance institution or developmental institutions such as SEDA and International Finance Corporation (IFC). The study determined if microenterprises seek alternative sources of financing such as borrowing from township money lenders (locally referred to as Machonisas). They were asked what their experiences were about borrowing from these money lenders. The study established that 8.3% microenterprises have received loan from the money lenders in the past, while 91.7% have never borrowed from them. While responding to the question on their experience with money lender, 8.3% microenterprises indicated that their experience with money lenders was poor, while 91.7% could not share their experience, as they never borrowed from township money lenders. The microenterprise operators raised concerns about township money lenders charging exorbitant interest rates and suffered harassment by such money lenders. They further mentioned that their goods were confiscated by money lenders due to non-payment of loans. When asked if they prefer borrowing money from township money lenders (or informal financial institution) and banks/microfinance institutions (formal financial institutions), 4.2% of the microenterprises preferred money lenders. The main reason for this is that these money lenders do not ask a lot of questions and are quick in giving money. On the contrary, 95.8% of microenterprises do not prefer borrowing from money lenders due to the high cost of loans.

They study found that 87.5% of the microenterprises prefer borrowing from formal microfinance institutions or the banks, because their operations are regulated and controlled, the interest rate is affordable, and there is no harassment. The remaining 8.3% do not prefer borrowing from microfinance institutions or banks. However, when the microenterprises were asked if they plan to borrow from either formal or informal financial institutions, 8.3% mentioned that they do not, while 91.7% plan to borrow from these institutions, but were uncertain if they will be able to receive loan approval.

Furthermore, microenterprises in Ga-Rankuwa do not benefit from government and non-governmental organizations such as the SEDA support programs that have been put in place to assist small businesses to develop. This is due to lack of awareness of these program by microenterprises and their inability to satisfy the requirements of such organizations. It was found that only 37.5% of the microenterprises were registered with the DTI, while 62.5% are not registered. In addition, 95.8% of them have never benefitted or had any support from the government and only 4.2% microenterprises got business support material such as banners, flyers and other marketing materials from the government through the DTI.

8. RESULTS

The study found no stand-alone microfinance institutions in Ga-Rankuwa township that provide the necessary financial support for microenterprises. Therefore, microenterprise operators are not able to develop their businesses since the majority of them are making an average monthly income of less than R 6,000. Although the microfinance sections of the FNB and Nedbank participated in the study, microenterprises in Ga-Rankuwa are not benefitting from their presence. None of the microenterprises has received financial support from them. Most microenterprises were found not to meet the necessary requirements of the banks and, therefore, they are financially excluded.

The majority of the microenterprises are not duly registered with the DTI and are not keeping proper records of their business transactions. They are therefore excluded from financial assistance mechanisms put in place by the government.

9. DISCUSSION

Microenterprises in Ga-Rankuwa continue to be financially excluded due to the absence of stand-alone microfinance institutions that would support their enterprises. Associated with this is lack of collateral and the high costs to secure credit (Mohane et al., 2000). Since there are no stand-alone microfinance institutions in Ga-Rankuwa, the challenges facing the microenterprises are enormous, as the microfinance sections of First National Bank and Nedbank still require the microenterprises to meet the requirements for lending, must be registered and have financial status. The inability of effective or tailor-made microfinance institutions in the township contribute to the inability of the microenterprises to grow and develop their businesses.

It is evident that microenterprises in the township do not keep proper business records and do not have financial statements or even registered with the DTI. While less than half of the microenterprises that participated in the study have business accounts with some of the commercial banks, some are using their personal bank accounts for their businesses. Only few of the microenterprises have been able to obtain financial support from their bankers. None of the microenterprises in Ga-Rankuwa have been able to obtain financial support from any microfinance institution.

The study found that microfinance institutions have not performed up to expectation in meeting the financial needs of microenterprises, since the focus is only on income earners who have collateral which microenterprises in the township do not have. The microenterprises therefore continue to be excluded and unable to develop.

CONCLUSION AND RECOMMENDATIONS

It is evident that with no stand-alone microfinance institutions in Ga-Rankuwa township to cater for the financial needs of microenterprises, these enterprises have no prospects of developing and contributing to the economy. While the microfinance sections of FNB and Nedbank are present and offer financial services, microenterprises do not benefit from these services due to stringent financial requirements.

It can be concluded that microfinance has had no impact on microenterprises in the township. These findings, however, cannot be conclusive to all other South African black townships where microfinance institutions are physically present.

There is therefore a need for a specialized financial mechanism that would assist the microenterprises in accessing financial services. The South African government should put more effort to effectively locate microfinance institutions in the townships that would provide financial services/credit at reasonable interest rates and design workable modalities of ensuring repayment of credit. Mutually beneficial associations should be encouraged among microenterprises and these should be supported by government through granting loans to the group (group lending) as practised in countries like Bangladesh. It is recommended that government agencies such as SEDA should establish branches in the townships and not only in the cities. The financial requirements of such branches should be relaxed to suit the financial needs of the township microenterprises to assist them to develop.

Awareness program should be developed. For example, by way of advertisements on billboards, broadcasts on the radio and through print media so that microenterprise operators can be aware of them and utilize them. These program should not only be made available in English, but also in different vernacular languages so that they can be easily understood. The registration process should be relaxed for microenterprises to enable them to access financial support. Future studies should examine the factors hindering registration further and make recommendations to promote a robust relationship between the DTI and microenterprises.

The government should further look at the possibility of developing effective microfinance/credit mechanisms that remove collateral requirements and decrease security costs in financial contracts. Such mechanism may include community banks and solidarity group lending which can help to mobilize savings from community groups, which microenterprises can become part of. Establishing community banks can help to decentralize microfinance and locating it in close proximity to the townships. The savings can be used as collateral for accessing micro credit. South Africa has to re-examine and reform the legislation governing the microfinance sector and allow the sector to collect deposits to increase their fund base. In so doing, the sector will be able to provide bridging finance for microenterprises so that they are able to meet their working capital needs.

It is of critical importance for government to distinguish between small, medium and micro enterprises and develop effective and appropriate strategies and not adopt an umbrella strategy to support the enterprises. This will inform tailor made policies and interventions of financing microenterprise.

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