

Financial access as a growth constraint for small and medium enterprises: A case study of the Northern Cape Province, South Africa



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Dates:

Received: 30 Sept. 2025
Accepted: 16 Feb. 2026
Published: 20 Mar. 2026

How to cite this article:

Peters, R.M. & Pretorius, T., 2026, 'Financial access as a growth constraint for small and medium enterprises: A case study of the Northern Cape Province, South Africa', *Acta Commercii* 26(1), a1515. <https://doi.org/10.4102/ac.v26i1.1515>

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Orientation: Small and medium-sized enterprises (SMEs) are vital for economic growth and innovation, yet limited access to finance remains a critical barrier to their sustainability and expansion in developing economies like South Africa.

Research purpose: This study investigates the accessibility of funding from commercial banks and development finance institutions for SMEs in the Northern Cape, South Africa.

Motivation for the study: The research addresses the specific financial constraints and institutional limitations impacting business growth within the Northern Cape's unique economic landscape.

Research design, approach and method: Using purposive sampling, data were collected from 100 SMEs via structured surveys and analysed through descriptive statistics, regression analysis, and Chi-square tests.

Main findings: Formal financing significantly predicts turnover growth ($OR = 2.45, p = 0.023$). Ownership type was also identified as a key determinant of funding access. Conversely, BEE initiatives showed no statistically significant relationship with SME growth metrics, highlighting a gap in intervention effectiveness.

Practical/managerial implications: To bolster SME sustainability, policymakers should prioritise targeted financial support and streamlined formal funding access. Additionally, BEE programs require significant restructuring to effectively meet the financial needs of small businesses.

Contribution/value-add: This study contributes empirical evidence from the Northern Cape province, highlighting how formal financing access, ownership structure, and institutional mechanisms shape SME growth outcomes.

Keywords: financing; SME; employment growth; turnover growth; poverty; unemployment.

Introduction

Access to finance is widely acknowledged as a critical determinant of business growth and sustainability (Beck & Demirci-Kunt 2006; Organization for Economic Co-operation and Development [OECD] 2017). However, small, medium and micro enterprises (SMMEs) in South Africa continue to face persistent challenges in securing formal financing because of structural deficiencies, regulatory constraints and institutional biases within the financial sector. These barriers limit SMMEs' capacity to innovate and contribute effectively to economic development (Jordaan & Coetzee 2021; Maneesha 2020). Despite their recognised role in job creation and poverty alleviation, the sector continues to underperform, with failure rates amongst the highest globally (Ramsuraj 2023; Yahaya & Nadarajah 2023). Long-standing evidence documents South Africa's entrepreneurship constraints and macro-level headwinds, including poverty and inequality, which depress formation and growth (Foxcroft et al. 2003; Chibba & Luiz, 2011).

Although South Africa possesses a relatively advanced banking system compared to other emerging economies, access to credit remains a systemic issue (Senbet 2024). Government interventions, including training and financial support programmes, have yielded limited success, as reflected in the country's persistently high unemployment rate of 32.9% (Trading Economics 2024). Recent studies attribute financial exclusion to information asymmetry and stringent collateral requirements, which disproportionately disadvantage historically marginalised groups (Mugano 2024; Olarewaju & Msomi 2021). Across contexts, SMEs face information, collateral, and cost-of-capital barriers; public equity also remains difficult to

access at SME scale (Chowdhury & Alam 2017; Anton & Bostan 2017; Olawale & Garwe 2010).

Global Entrepreneurship Monitor (GEM) reports indicate that financial constraints account for approximately 28% of business closures in South Africa (GEM 2017). Moreover, the estimated credit gap in sub-Saharan Africa – between US\$80 and US\$100 billion – underscores the magnitude of the challenge (Senbet 2024). While OECD countries systematically track small and medium-sized enterprises (SMEs) financing indicators such as interest rates, collateral requirements and loan rejection rates, South Africa lacks comprehensive, publicly accessible data, thereby impeding evidence-based policy development (Enaifoghe & Durokifa 2024; OECD 2017).

Empirical evidence confirms that SMMEs with access to formal financing experience accelerated growth and job creation (Beck & Demircug-Kunt 2006; Mugano 2024). Yet, only 2% of new SMMEs in South Africa secure bank funding, with most relying on personal savings or informal networks (Olawale & Msomi 2021). This reliance reflects structural inefficiencies and highlights the urgent need for adaptive credit assessment frameworks and alternative financing models. Evidence links sustainability practices to resilience and long-run performance, supporting capability-building recommendations (Ortiz-de-Mandojana & Bansal 2016). Limited access to finance not only constrains operational stability but also undermines resilience and competitiveness, reinforcing the necessity for targeted interventions to close the financing gap (De Blick, Paeleman & Laveren 2023; Yahaya & Nadarajah 2023).

Consequently, scholars and practitioners have explored strategies to enhance SMME financial sustainability (Ndjwili-Potele 2013; Tuffour, Amoako & Amartey 2020). SMEs contribute to development and poverty reduction, but realising these gains hinges on finance bundled with structured support (Maksimov, Wang & Luo 2017; Iheanachor & Etim 2022). Despite these efforts, SMMEs in South Africa continue to fall short of expectations for employment generation and poverty reduction, with failure rates ranking amongst the highest globally (Lekhanya 2016). Estrin et al. (2019) emphasise that support for entrepreneurship and SMME development in transition economies remains less robust than in other emerging markets. Understanding the factors influencing financial sustainability is therefore essential. This study seeks to identify financing sources utilised by SMMEs in the Northern Cape and provide empirical insights into survival determinants, addressing a notable gap in regional research.

Persistent inequality further compounds these challenges. Oxfam (2018) reports that the top 10% of South Africans control approximately 50% of the national income, while the lowest 50% share only 12%. Similarly, the World Bank (2018) notes that the top 10% hold 71% of household wealth, leaving the bottom 60% with just 7%. Nearly half of the population is chronically poor, with 30.4 million South Africans living

below the poverty line in 2015 (Statistics South Africa 2017). These conditions underscore the urgency of fostering inclusive economic growth through SMME development. In response, post-1994 policies such as Broad-Based Black Economic Empowerment (BBBEE) were introduced to promote equity and strengthen SMMEs, primarily through preferential procurement. Transformation policy and the NDR context shape enterprise dynamics and the efficacy of BEE-linked instruments (Mosala, Venter & Bain 2017).

Access to finance remains a critical constraint on SMME sustainability (Ye & Kulathunga 2019).

While South Africa's financial sector is comparatively well-developed, SMMEs encounter significant obstacles in obtaining external funding, including high collateral requirements and risk-averse lending practices (Khan & Anuar 2018; Schmidt et al. 2017). Many SMMEs rely on family and friends for initial capital (Stensrud 2017), but as businesses grow, they require greater financial resources to innovate and remain competitive (Burlea-Schiopoiu & Mihai 2019).

Limited access to finance not only restricts expansion but also impedes the adoption of efficiency-enhancing strategies (De Blick et al. 2023). Recent research highlights that improving financial access can enhance competitiveness, foster innovation and support sustainable growth (Adegboye & Iweriebor 2018; Brixiová, Kangoye & Yogo 2020; Mugano 2024).

Research objectives

Previous studies emphasise the financial constraints faced by SMMEs, particularly in South Africa, but lack empirical data specific to the Northern Cape region. This study addresses this gap by employing a structured survey targeting SMME owners to assess financing accessibility and constraints.

Setting: The Northern Cape Province

The Small Enterprise Finance Agency (SEFA 2019) Quarter 1 data indicate that the Northern Cape has 25 577 SMMEs, which represent only 1% of the national SMME distribution. The data also report that the province experienced 7% growth in SMMEs from the previous year. According to the report, the trade and accommodation sector is the largest across all provinces except the Western Cape and Northern Cape. The research indicates that the commerce and accommodation sector is the predominant industry in all provinces, except for the Western Cape. The Northern Cape is a predominantly rural area, and its economy is primarily focused on agriculture.

Table 1 reports the population distribution of South Africa by province over four censuses since 1996.

Census data demonstrate that the South African population increased from around 40 million in 1996 to 62 million in

TABLE 1: Population distribution by province according to the South African census 1996–2022.

Province	Population				Growth rates (years)		
	Census 1996	Census 2001	Census 2011	Census 2022	1996-2001	2001-2011	2011-2022
Western Cape	3 956 875	4 524 335	5 822 734	7 433 020	2,7	2,5	2,4
Eastern Cape	6 147 244	6 278 651	6 562 053	7 230 204	0,4	0,4	0,9
Northern Cape	1 011 864	991 876	1 145 861	1 355 945	-0,4	1,4	1,6
Free State	2 633 504	2 706 775	2 745 590	2 964 412	0,5	0,1	0,7
KwaZulu-Natal	8 572 302	9 584 129	10 267 300	12 423 907	2,2	0,7	1,9
North West	2 726 828	2 982 064	3 509 953	3 804 547	1,8	1,6	0,8
Gauteng	7 834 620	9 390 528	12 272 263	15 099 423	3,6	2,7	2,0
Mpumalanga	3 124 203	3 365 957	4 039 939	5 143 324	1,5	1, 8	2,3
Limpopo	4 576 133	4 995 462	5 404 868	6 572 721	1,8	0,8	1,9

Source: Statistics South Africa, 1996–2022, *Census datasets: 1996, 2001, 2011 and 2022*, Statistics South Africa, viewed n.d., from <https://isibalowe.statssa.gov.za/pages/surveys/pss/censuses/census.php>

2022. From 1996 to 2022, the population of the Northern Cape increased from 1 million to 1.3 million. The population growth rate of the Northern Cape declined by 0.4% from 1996 to 2001, after which growth rates of 1.4% and 1.6% were recorded for the subsequent two intercensal periods. The population of the Northern Cape increased at a rate lower than the national yearly growth rate over the intervening years of 1996–2001 and 2011–2022.

The Northern Cape is the largest province in South Africa by geographical area, although it possesses the smallest population proportion, rendering it the most sparsely inhabited province in the country. This province is one of the poorest in the country and contributes just 2% to the national gross domestic product (GDP); the province experiences over 40% unemployment; thus, it is essential to comprehend the influence of financing on SMMEs. The province's over-reliance on volatile industries such as mining and transportation has restricted employment options for its citizens.

Entrepreneurship and innovation are crucial for development and have been universally acknowledged as mechanisms to alleviate poverty.

Literature review

This study is anchored on two theoretical perspectives, namely the Credit Rationing Theory (Stiglitz & Weiss 1981) and the Resource-Based View (RBV) (Barney et al. 2001). Credit Rationing Theory explains that financial institutions may limit credit supply even when borrowers are willing to pay higher interest rates as a result of information asymmetry, which creates risk in distinguishing high-risk from low-risk projects. This theory is relevant to the research problem as SMMEs often face credit rationing despite their willingness to comply with lending terms. The RBV posits that access to finance is a critical external resource enabling firms to acquire other resources necessary for growth and competitiveness. Applying RBV provides a lens to understand how financial constraints hinder SMMEs from leveraging strategic resources for sustainable growth.

These theories inform the hypotheses by framing access to finance as both a structural and resource-based challenge influencing SME performance.

Research methods and design

Research approach and strategy

A purposive sampling technique was employed to recruit 100 SME respondents. Data were collected through structured surveys and analysed using descriptive statistical methods to assess funding accessibility and the effects of Black Economic Empowerment (BEE) initiatives.

The structured survey included both pre-existing validated measures and newly developed items tailored to SME financing contexts. A pilot study was conducted with 10 SMEs to refine question clarity and ensure reliability; feedback informed adjustments to wording and scale anchors.

Missing data were handled using pairwise deletion to maintain statistical integrity. Regression analysis was performed using SPSS version 29, which provided robust tools for hypothesis testing, including logistic regression and Chi-square tests. Validity and reliability were established through Cronbach's alpha for internal consistency ($\alpha > 0.70$) and expert review for content validity.

Sampling and external validity

This study employed a purposive sampling technique to recruit 100 SMMEs from selected sectors and turnover bands within the Northern Cape Province. While this method allowed for a targeted approach, it inherently limits the generalisability of the findings.

Purposive sampling focuses on specific characteristics, which can restrict the diversity of the sample and may not accurately represent the broader population of SMMEs in the province.

To enhance external validity in future research, a more stratified sampling approach could be adopted. This would involve selecting participants from a wider range of sectors and varying turnover levels, ensuring a more representative sample that captures the complexities and diverse experiences of SMMEs across the Northern Cape. Random sampling within identified strata could further improve generalisability by including a broader spectrum of SMMEs.

Additionally, future studies should consider incorporating multiple geographic regions, particularly urban and rural areas, to understand regional differences in financial access and business growth. By expanding the sample size and inclusivity, researchers can obtain results that are more widely applicable and reflective of the challenges faced by SMMEs across South Africa.

Hypotheses

The study will examine the following hypotheses:

H1: There is a significant positive relationship between access to formal financing and turnover growth amongst established SMEs in the Northern Cape.

Falsifiable Statement: If established SMEs in the Northern Cape experience no turnover growth despite accessing formal financing, then the hypothesis will be rejected.

H2: SMEs that utilise BEE support programmes show higher turnover growth compared to those that do not participate in such programmes.

Falsifiable Statement: If there is no difference in turnover growth between SMEs participating in BEE programmes and those that do not, the hypothesis will be rejected.

Ethical considerations

Ethical clearance to conduct this study was obtained from the Sol Plaatje University Senate Research Ethics Committee. The ethical clearance number is SREC0437/2024c. Informed consent was obtained from a participants prior to data collection. Participants were provided with detailed information regarding the study's purpose, their right to withdraw at any time without penalty, and how their data would be utilised in the research. To ensure participant anonymity, all identifying information was redacted, and pseudonyms were used in reporting the findings. The integrity of this research was maintained by adhering to ethical standards throughout the study, ensuring transparency and accountability in the data collection and analysis processes.

Results

The control variables in this study are essential for clarifying the relationship between funding access and SME growth. Firm age refers to the number of years a business has been operational; older firms often have more established networks and resources, which can enhance their ability to secure financing. The sector involves the classification of the industry, such as agriculture, manufacturing or retail, as different sectors may have varying access to financing and growth potential. Firm size is measured by the number of employees or annual turnover, with larger firms typically enjoying better financial resource access compared to smaller ones. The ownership type, which denotes legal structures like sole proprietorships or partnerships, can also influence funding access and regulatory requirements.

Location plays a critical role as well, distinguishing between urban and rural settings; geographic area may impact accessibility to financial institutions. Prior financing encompasses the history of previously received funding, such as loans or grants, which can significantly affect a firm's growth trajectory. The BEE Status indicates compliance with BEE initiatives, which may enhance or restrict eligibility for specific funding options. Additionally, the owner gender can influence perceptions and access to financial resources, while the owner education level highlights the highest qualification attained, which may correlate with better financial management skills.

Credit history refers to the firm's credit score or history, impacting loan eligibility and access to financing. Economic conditions, including local economic indicators like unemployment rates and regional GDP growth, can also influence the performance of businesses and their funding opportunities. Lastly, the business plan quality is crucial; the completeness and robustness of the business plan presented to potential funders can affect approval rates for funding. Including these control variables in the analysis helps mitigate bias and provides a clearer understanding of the dynamics between funding access and the growth of small and medium enterprises.

Participants were requested to specify their gender so that we could ascertain whether there were gender balances in subsectors of the economy. Table 2 reports that 62% of participants were male and 38% female. Regarding age, the majority of participants (44%) were aged 50–59 years, and 36% reported being aged 40–49 years. More than 90% of the interviewees were citizens of South Africa.

TABLE 2: Demographic information of respondents.

Variable	%	Valid %	Cumulative %
Gender			
Male	62.0	62.0	62.0
Female	38.0	38.0	100.0
Age (years)			
17–29	6.0	6.0	6.0
30–39	14.0	14.0	20.0
40–49	36.0	36.0	56.0
50–59	44.0	44.0	100.0

TABLE 3: Small, medium and micro enterprise owners' perceptions of financial constraints.

Question number	Questions with answers	n	%	Valid %	Cumulative %	Missing data	
						n	%
3.1	Is the lack of access to finance the biggest problem or constraint to prevent you from achieving your business goals?					1	1.0
	Yes	70	70.0	70.7	70.7	-	-
	No	29	29.0	29.3	100.0	-	-
3.2	In the past 5 years, has your labour force:					2	2.0
	Expanded	-	52.0	53.1	53.1	-	-
	Unchanged or decreased	-	46.0	46.9	100.0	-	-
3.3	In the past 5 years, has your year-on-year turnover increased?					2	2.0
	Yes	-	72.0	73.5	73.5	-	-
	No	-	26.0	26.5	100.0	-	-

The responses to Question 3.1 (see Table 3) indicate that lack of access to finance was the biggest problem and/or constraint that prevented businesses from achieving their business goals. In total, 70% of the respondents confirmed that insufficient access to financial resources represented a critical obstacle that could hinder the attainment of business objectives. Without adequate funding, enterprises struggled to invest in growth opportunities, and they could not enhance operational efficiency or navigate market fluctuations. Financial constraints limited their ability to innovate, scale up operations and sustain long-term success, and ultimately stood in the way of entrepreneurial aspirations and economic advancement. These patterns echo long-standing evidence documenting South Africa's entrepreneurship constraints and macro-level headwinds—including poverty and inequality—that depress enterprise formation and growth (Foxcroft et al. 2003; Chibba & Luiz 2011). Across contexts, SMEs face information, collateral and cost-of-capital barriers, and public equity remains difficult to access at SME scale (Chowdhury & Alam 2017; Anton & Bostan 2017; Olawale & Garwe 2010), supporting the pattern observed in our data.

In response to Question 3.2 (Table 3), only 52% of respondents reported that their companies had expanded their labour force, while 46% reported that their labour force had either remained stable or decreased, primarily because of difficult economic conditions.

Question 3.3 (Table 3) enquired whether businesses had experienced an increase in their year-on-year turnover over the past 5 years, and 72% of participants affirmed that they had, while 26% reported that the turnover of their businesses had not increased over the last 5 years.

More than a third of owners or managers (36%) indicated that their chosen form of legal entity was sole proprietorship, while 30% operated as private companies (Pty Ltd). Additionally, 16% of respondents continued to use Close Corporations (CCs) or owned multiple businesses, some of which were CCs. This is notable because South Africa discontinued the registration of new CCs after the introduction of the *Companies Act 2008*, which streamlined business registration under Private Companies (Pty Ltd). However, previously registered CCs remain legally

operational, which explains their continued use amongst some entrepreneurs.

Table 4 illustrates the sources of funding used by SMMEs at the startup phase. A majority (54%) of businesses relied on a combination of personal, family and commercial bank financing, while only 2% secured full bank funding.

This supports the findings of Olarewaju and Msomi (2021), who found that only 2% of new SMMEs in South Africa had successfully secured financial support from banks. Additionally, 4% obtained funding from development finance institutions such as the SEFA and the National Empowerment Fund (NEF), while 16% relied on personal savings or informal funding sources, such as family or friends, to establish and sustain their businesses.

In this study, 54% of respondents utilised a combination of own or family or friends or commercial bank funding. Given that all businesses in the sample had been in existence for at least 5 years before the research, this suggests that these SMMEs were able to demonstrate positive year-on-year turnover over that period.

Table 5 presents insights into business planning practices among SMME owners. The results show that only 36% of respondents prepared an initial business plan, whereas a considerably larger proportion (64%) began operating without one. Furthermore, among those who did prepare a business plan, an even smaller share (18%) relied on a professional service, while the majority (82%) drafted their plans independently. These findings suggest that most SMMEs enter the market without formal planning structures, which may influence long-term strategic clarity, access to finance, and overall business sustainability. Table 6 illustrates

TABLE 5: Participants' responses regarding business plans for small, medium, and micro-enterprises.

Questions with answers	%	Valid %	Cumulative %
Did you initially draw up a business plan for your business?			
Yes	36.0	36.0	36.0
No	64.0	64.0	100.0
Did you make use of the services of a professional to draft your business plan?			
Yes	18.0	18.0	18.0
No	82.0	82.0	100.0

TABLE 4: Participants' responses on the form of ownership and funding for small, medium and micro-enterprises.

Variable	%	Valid %	Cumulative %
Please specify the form of ownership of the business.			
Sole trader	36.0	36.0	36.0
Partnership	18.0	18.0	74.0
Close Corporation (CC)	16.0	16.0	90.0
Private company	30.0	30.0	100.0
Please state whether your business has been funded by bank, development finance institutions or own/family/friends (at inception)			
Commercial bank funding for SMMEs	2.0	2.0	2.0
Development finance institutions for SMMEs	4.0	4.0	6.0
Own or family or friends funding for SMMEs	38.0	38.0	46.0
Combination of various funding, including own and/or family and/or friends and/or commercial banks (for example overdraft, credit card, revolving credit in owner's personal capacity)	54.0	54.0	100.0

SMME, Small, medium and micro enterprises.

TABLE 6: Participants' responses on Black Economic Empowerment for small, medium, and micro-enterprises.

Questions with responses	%	Valid %	Cumulative %
Do you think that programs such as BEE will help expand your business?			
Yes	30.0	30.0	30.0
No	70.0	70.0	100.0
Do you think BEE has added value to your business?			
Yes	12.0	12.0	12.0
No	62.0	62.0	74.0
Already BEE	26.0	26.0	100.0

BEE, black economic empowerment.

perceptions of SMME owners regarding the effectiveness of BEE programmes in supporting business growth. Table 6 reflects expectations about whether BEE initiatives could contribute to expansion, with 70% of respondents doubtful about their potential benefits. Table 6 examines experienced impact, revealing that 62% did not perceive any added value from BEE for their businesses, while 12% found it beneficial. Notably, 26% of respondents already operated as BEE-compliant entities, suggesting that their experiences may differ from non-beneficiaries. Transformation policy and the NDR context shape enterprise dynamics and the efficacy of BEE-linked instruments (Mosala et al. 2017).

Discussion

This section presents results aligned with the study's hypotheses and discusses their implications through the lens of Credit Rationing Theory and RBV. Validity and reliability of measures are also addressed.

Access to formal financing and turnover growth

H1: There is a significant positive relationship between access to formal financing and turnover growth amongst established SMEs in the Northern Cape.

Binary logistic regression analysis revealed a statistically significant relationship between access to formal financing and turnover growth (see Box 1).

Interpretation: Small, medium and micro enterprises with access to formal financing were 2.45 times more likely to experience turnover growth compared to those without such access. This finding supports the rejection of H01 and aligns with Credit Rationing Theory, which explains that limited credit supply constrains growth. It also reinforces RBV, as financial resources enable firms to acquire other strategic resources for competitiveness.

BEE programmes and SMME growth

H2: SMEs that utilise BEE support programmes show higher turnover growth compared to those that do not participate in such programmes.

Logistic regression analysis indicated no statistically significant association between BEE programmes and turnover growth ($p > 0.05$) (see Box 2). Chi-square tests also confirmed the absence of significant relationships.

BOX 1: The statistically significant relationship between access to formal financing and turnover growth.

Predictor	Odds Ratio (OR)	95% CI	p-value
Access to formal finance	2.45	[1.12, 5.39]	0.023

BOX 2: Statistics showing that BEE programmes do not contribute to SMME growth.

Predictor	χ^2	df	p-value
BEE programme	1.87	1	0.171

Interpretation: The lack of significance suggests that BEE initiatives have limited measurable impact on SMME growth in the Northern Cape. This finding calls for a re-evaluation of empowerment strategies to ensure they translate into tangible business outcomes.

Validity and reliability

The survey instrument demonstrated strong internal consistency, with Cronbach's alpha values exceeding 0.70 across all multi-item scales. Content validity was established through expert review during the pilot phase, ensuring clarity and relevance of items. These measures confirm the robustness of the data collection process.

Theoretical integration

This study is anchored in two primary theoretical frameworks: Credit Rationing Theory and the RBV. Credit Rationing Theory posits that financial institutions may limit credit supply even when borrowers are willing to accept higher interest rates, primarily because of information asymmetry that complicates the distinction between high-risk and low-risk projects (Stiglitz & Weiss 1981). This framework is particularly relevant in understanding the challenges SMEs face in securing financing.

Similarly, the RBV highlights access to finance as a critical external resource that enables firms to acquire necessary resources for growth and competitiveness (Barney et al. 2001).

In our findings, the statistically significant relationship between access to formal financing and turnover growth aligns with these theories, suggesting that overcoming financial barriers is essential for SME development.

However, the ownership-form and/or funding-access association merits further exploration. Different ownership structures – such as sole proprietorships versus partnerships – can significantly influence the nature and extent of access to funding. For example, prior research indicates that SMEs with more complex ownership arrangements may face greater scrutiny from lenders, affecting their financing outcomes (Yahaya & Nadarajah 2023). This underlines the necessity of considering ownership type when examining funding access, a factor that warrants deeper analysis in the current context.

Furthermore, empirical studies emphasise the importance of ownership structure in shaping financing strategies and business performance, suggesting that a nuanced understanding of these dynamics can inform both academic discourse and practical policy initiatives in South Africa (Beck & Demirci-Kunt 2006; Estrin et al. 2019). By integrating these theoretical insights and empirical findings, this study contributes to the growing body of literature on SME financing, emphasising the need for targeted interventions that consider ownership characteristics.

Overall, the data underscore that financial constraints significantly hinder the capacity for growth and sustainability amongst SMEs in the Northern Cape, reaffirming the importance of addressing funding barriers to promote economic advancement. Long-standing evidence documents South Africa's entrepreneurship constraints and macro-level headwinds, including poverty and inequality, which depress formation and growth (Foxcroft et al. 2003; Chibba & Luiz 2011). Across contexts, SMEs face information, collateral, and cost-of-capital barriers; and public equity also remains difficult to access at SME scale (Chowdhury & Alam 2017; Anton & Bostan 2017; Olawale & Garwe 2010). This reinforces the need for adaptive credit assessment frameworks in South Africa. These results contribute valuable insights to the ongoing discourse on SMME financial accessibility, which is essential for policy formulation aimed at bolstering the sustainability and expansion of small businesses in South Africa. This integration supports the findings and links empirical results with the literature review.

Recommendations

The recommendations below are directly derived from the study's empirical results and interpreted through the theoretical lenses of Credit Rationing Theory and RBV.

Model diagnostics and robustness checks

In quantitative research, it is crucial to examine model fit and robustness to ensure the validity of the findings. Diagnostics help ascertain whether the assumptions underlying the statistical models are satisfied, while robustness checks reinforce the reliability of the results across different scenarios. However, this study did not report key model fit indicators or conduct robustness checks. The absence of these elements limits the ability to validate the robustness of the findings regarding the relationship between financial access and SME growth. To enhance the credibility of the results, the following diagnostics should be included in future studies:

Model Fit Statistics: Providing metrics such as R-squared values for regression analyses will help assess the proportion of variance explained by the predictors.

Robustness Checks: Techniques like bootstrapping or alternative model specifications can validate that the findings are not sensitive to specific assumptions or outliers.

Variance Inflation Factors (VIF): Examining VIFs for predictor variables will help identify potential multicollinearity issues that could bias the results.

Incorporating comprehensive diagnostics and robustness checks in future analyses will significantly enhance the rigour and validity of the research findings. This approach will contribute to a deeper understanding of the financial access challenges faced by SMEs, ultimately informing better policy decisions.

Enhance access to formal financing

Empirical basis: Regression analysis confirmed that access to formal financing significantly influences turnover growth.

Theoretical link: Credit Rationing Theory suggests that information asymmetry leads to credit restrictions. To mitigate this, financial institutions should adopt adaptive credit scoring models that incorporate non-traditional metrics (e.g. transaction history, digital footprints).

Policy action: Introduce risk-sharing mechanisms between banks and development finance institutions to reduce perceived lending risk.

Re-evaluate black economic empowerment programmes

Empirical basis: Findings show no significant relationship between BEE programmes and SMME growth.

Theoretical link: RBV emphasises resource acquisition for competitiveness. Current BEE frameworks fail to provide tangible financial resources.

Policy action: Shift BEE from compliance-driven models to growth-oriented incentives, including direct financial support and market access facilitation.

Strengthen financial literacy and business development

Empirical basis: High reliance on informal funding and poor-quality business plans indicates gaps in financial preparedness.

Theoretical link: RBV underscores the importance of internal capabilities. Financial literacy enhances resource utilisation and strategic decision-making.

Policy action: Integrate mandatory financial management training into funding initiatives and establish SME incubators combining mentorship and financial education. Evidence links sustainability practices to resilience and long-run performance, supporting capability-building recommendations (Ortiz-de-Mandojana & Bansal 2016).

Theoretical contributions

This study extends the application of Credit Rationing Theory and RBV in the context of SMME financing in South Africa as follows:

- **Credit Rationing Theory:** Empirical evidence supports the notion that structural credit constraints significantly hinder SMME growth, validating the theory in an emerging market setting.
- **Resource-Based View:** The findings demonstrate that financial resources are foundational for acquiring other strategic assets, reinforcing RBV's relevance to small business sustainability.

By framing financial access as both a structural and resource-based challenge, this research bridges theoretical perspectives with practical realities, offering a nuanced understanding of SMME growth constraints. Addressing SMME financing constraints requires a holistic approach that incorporates government intervention, private sector collaboration, financial literacy development, and alternative funding models. By implementing adaptive lending practices, enhancing access to finance, and fostering strategic partnerships, stakeholders can create a more inclusive financial landscape for SMMEs, empowering them to contribute meaningfully to economic growth and job creation.

While this study provides valuable insights into SMME financial access in the Northern Cape, certain limitations should be acknowledged to contextualise its findings. The study is based on data from 100 respondents, which, while sufficient for descriptive analysis, may not fully capture the diversity of SMME experiences across the Northern Cape. A larger sample size encompassing varied industries and geographic regions within the province could provide more generalisable results. The findings are specific to the Northern Cape, which has unique economic characteristics, including a strong reliance on agriculture and mining. Small, medium and micro enterprises financing challenges may differ across South African provinces, particularly in urban centres where financial institutions have greater outreach. The study relies on survey responses, which may be subject to recall bias or subjective interpretations by SMME owners regarding their financial experiences.

Suggestions for future research are to expand the study sample to include SMMEs from multiple provinces for comparative analysis. By incorporating mixed methods by integrating qualitative interviews alongside quantitative surveys for deeper contextual understanding. Analysis of emerging financial instruments such as fintech solutions, microcredit schemes, and private equity investments tailored for SMMEs. Evaluate policy impact over time to assess whether financing accessibility improves with regulatory adjustments.

Conclusion

This article highlighted the significant financial constraints faced by SMMEs in the Northern Cape, emphasising their reliance on alternative funding sources because of limited access to commercial bank financing. The findings confirm that traditional lending institutions view SMMEs as high-risk investments, resulting in minimal startup funding

opportunities. While BEE programmes aim to support SMME growth, their actual impact on turnover expansion and labour force increases remains inconclusive.

The study's inferential analysis provides empirical evidence that access to finance is a statistically significant determinant of SMME growth. While descriptive statistics confirmed widespread reliance on informal funding, regression and association tests substantiated that SMMEs with formal funding sources had higher probabilities of experiencing turnover increases. The lack of statistical association between BEE support and growth metrics suggests a re-evaluation of these policies is warranted.

Given the pivotal role SMMEs play in economic development, policy interventions must prioritise transparent financial accessibility mechanisms. This includes streamlining loan approval processes, reducing collateral requirements, and expanding SMME-specific funding programmes.

Encouraging financial literacy initiatives and adaptive credit scoring models could enhance the ability of SMMEs to secure funding and sustain operations.

To advance SMME development in South Africa, collaboration between government, financial institutions, and private investors is essential. A shift toward inclusive financing models, such as venture capital, fintech solutions, and sector-based funding incentives, could mitigate existing challenges. Additionally, data transparency on SMME loan rejection rates and financing terms must be improved to guide future policy decisions.

Ultimately, addressing financial access barriers requires a coordinated policy approach, integrating financial institutions, regulatory bodies and SMME stakeholders to create a sustainable ecosystem for small business growth and innovation. Future research should assess longitudinal trends in SMME financing, exploring how evolving policies and economic shifts shape access to capital over time.

Acknowledgements

The authors would like to thank Dr Johann van der Spuy, who assisted with the collection of data. While their contribution was important, it did not meet the criteria for authorship.

Competing interests

The authors, Ricardo M. Peters and Tania Pretorius, have reported that they have received funding from the Sol Plaatje University Deputy Vice Chancellor fund that may be affected by the research reported in the enclosed publication. They have disclosed those interests fully and have in place an approved plan for managing any potential conflicts arising from that involvement.

CRedit authorship contribution

Ricardo M. Peters: Conceptualisation, methodology, formal analysis, investigation, writing – original draft and funding acquisition. Tania Pretorius: Methodology, writing – original draft, project administration and writing – review & editing. Both authors reviewed the article, contributed to the discussion of results, approved the final version for submission and publication, and took responsibility for the integrity of its findings.

Funding information

The authors disclosed receipt of the following financial support for the research and publication of this article. This work was supported by Sol Plaatje University, Deputy Vice Chancellor fund.

Data availability

The data that support the findings of this study are not openly available because of reasons of sensitivity and are available from the corresponding author, Tania Pretorius, upon reasonable request.

Disclaimer

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