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MICROFINANCE MODELS FOR MICROENTERPRISES AT THE BASE OF THE PYRAMID

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ABSTRACT

The purpose of the research was to investigate the proposition that current Microfinance solutions are not adequate for Microenterprises operating at the Base of the Pyramid. The research proposes Microfinance solutions for Microenterprises should provide all-inclusive solutions; encompassing both financial and business development services

While the government can lead the debate and deliver on some of the enabling requirements, the limited government resources cannot deliver fully on development requirements at the Base of the Pyramid. There is an increasing need for the private sector to participate in sustainable development initiatives. A key limiting factor is a lack of in-depth understanding of the needs of Microenterprises operating at the Base of the Pyramid.

Quantitative research was conducted, using a survey-based method. The results show there is appetite amongst Microenterprise owners at the BOP for holistic Microfinance solutions that can deliver financial and business development services. The study also found business development services, focusing on developing business knowledge and business management skills, were rated the highest. BOP markets for Microenterprises are complex and require dedicated initiatives to understand them and deliver solutions tailored to their needs accordingly.

Keywords: Microfinance, Microenterprises, Business Development Services

DECLARATION

I declare that this research is my own work. It is submitted in partial fulfilment of the requirements of the degree Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree of examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research

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Definition of Terms and Acronyms

ANOVA	Analysis of Variance
BOP	Base of the Pyramid
BSM	Business Sophistication Measure
CBE	Community-based Enterprise
KMO	Kaiser-Meyer-Olkin
MFI	Microfinance Institution
MNC	Multinational Corporation
MSA	Measure of Sampling Adequacy
NGO	Non-governmental Organisation

1. Definition of the Problem and Purpose

The contribution that Microenterprises can make achieving sustainable economic development is getting increasing attention. Microenterprises are currently being discussed as a channel that can be leveraged for delivering sustainable poverty alleviation strategies at the Base of the Pyramid (BOP) (Rankhumise & Rugimbana, 2010; Agyapong, 2010). In the same debate, the availability of the right kind of private and public sector Microfinance is getting attention, to support the establishment and growth of Microenterprises. However, there is a limited body of knowledge and documented practice to unpack the appropriate Microfinance solutions for Microenterprises operating at the Base of the Pyramid. The key argument of this research is successful Microfinance models for Microenterprises should provide solutions beyond basic financial support. The measures of success for future Microfinance models should include an increase in loan uptake, based on effective Microfinance solutions, as well as fulfilment of the repayment obligation, based on good business performance. In addition, success should include measures beyond financial metrics and look at sustainable community benefits as possible metrics. The research proposes Microfinance solutions for Microenterprises should be all-inclusive of financial services, as well as nonfinancial services such as access to market insights; business support services; access to Institutional Structures to facilitate the formalisation of Microenterprise businesses.

The limited understanding of Microenterprises and how to successfully establish and develop them is expressed by Cotler and Woodruff (2008) and in the study conducted by the Centre of Microfinance (2010). According to the study only seven Microfinance Institutions (MFIs), specialising in Microenterprise lending in South Africa, have reached more than 1000 active accounts (Centre for Microfinance, 2010). Only three of the seven Microfinance Institutions have reached more than 20 000 active Microenterprise accounts (Centre of Microfinance, 2010). The combined number of active accounts reached 117 943 nationally in 2009 (Centre of Microfinance 2010). According to the Centre of Microfinance (2010), the survey done by Finscope South Africa in 2010 identified 458 000 Microenterprises operating in the Gauteng Province alone. Comparing the number of active Microfinance accounts for Microenterprises to the number of active Microenterprises in Gauteng alone, raises the question of where do the other Microenterprises obtain the funds to start and grow their businesses? The study further states 84% of the active Microenterprises in Gauteng operate as informal businesses (Centre of Microfinance, 2010). The current rigidness of Institutional Structures and Legislature around formalising businesses further limits the reach of Microfinance solutions to Microenterprises operating in informal markets (Centre of Microfinance, 2010). The gap in the stated number of active accounts relative to the potential market, is evidence of the limited understanding of Microenterprise development and the limited delivery of financial solutions to cater for their needs.

1.1. Sustainable Development Requires Microenterprises

The strategic goals of self-sufficiency, job creation and sustainable development have been confirmed as critical to the growth of the South African economy (Gordhan, 2011; Rankhumise & Rugimbana, 2010). The reality is, government institutions have limited capacity and capabilities to deliver fully on the strategic economic growth of South Africa. The limitations of government are increasing the level of debate around the contribution that can be made by the private sector in its various forms. In the context of this research, Microfinance Institutions are classified as part of the private sector. In his National Budget speech of 2011 the Minister of Finance said: *"Giving every South African the dignity of a job, the security of an income, the prospect of training, the support to launch new businesses, the confidence to be an entrepreneur and the sheer passion and optimism to break the shackles of unemployment – is the best legacy this generation can leave for the next".* Similarly quoted in the budget speech (Gordhan, 2011, p. 42) "*Government must teach its people to fish; not be suppliers of fish. The latter is not sustainable; the government pond will never be able to supply more fish in twenty years than it is doing now to the ever growing masses of people of this country. Let's work to reduce dependency and give back dignity that was eroded by our past* (Gordhan, 2011, p. 42)*".*

It is clear from the National Budget of 2011 that Government is recognising the importance of self-sufficiency through business development in South Africa, especially at grass-root level.

1.2. Understanding Microenterprises at the Base of the Pyramid

Finscope South Africa introduced a business classification method called Business Sophistication Measure (BSM) in 2006. The classification has been refined over the years into eight BSM Categories (Finscope, 2010). BSM categories are defined by several criteria, namely, formal business registration; ownership structure; types of customers; business premises; access to facilities - water, electricity and sanitation; formal record-keeping; use of technology in the business and use of banking and other financial services (Finscope, 2010). BSM 1 to BSM 3 classifies Survivalist Businesses; BSM 4 to BSM 6 classifies Microenterprises and BSM 7 and BSM 8 classify Small Enterprises (Finscope, 2010; Centre of Microfinance, 2010). The Centre of Microfinance (2010) utilised the data from the survey conducted by Finscope South Africa to compile a report on the status of access to financial services and funding of Microenterprises. The results show access to Microfinance by Microenterprises is very limited (Centre of Microfinance, 2010). The limited understanding of business models required to cater for the financial needs of Microenterprises, combined with the regulatory burden placed on financial institutions, has resulted in the poor delivery of Microfinance solutions to Microenterprises (Centre of Microfinance, 2010). As a result, financial services specifically loans for Microenterprises, are lagging far behind the market potential (Centre of Microfinance, 2010). The challenge is to understand the reasons for this lag and build the answers into future Microfinance solutions for Microenterprises at the Base of the Pyramid.

The definition of the Base of the Pyramid itself is a topic of debate. Anderson and Billou (2007) define the Base of the Pyramid as approximately 4 billion people in the world living on less than $1500 per Capita income (Purchasing Power Parity). Hart and London (2005) support the definition and further state that beyond the Purchasing Power of Parity measure, there is immense asset wealth at the Base of the Pyramid not being recognised by the current definitions of asset ownership. Hart and London (2005) argue the current definitions of economic activity prevent the recognition of lucrative informal economies at the Base of the Pyramid. For the purpose of the research, the definition by Anderson and Billou (2007), supported by Hart and London (2005) will be adopted.

1.3. Motivation for the Research

The rationale for the research is based on the challenge of achieving self-sufficiency through small business development, specifically Microenterprises. The research proposes Microenterprises, in conjunction with Microfinance solutions, have a strategic and practical role to play in economic growth and poverty alleviation. However, appropriate Microfinance solutions that can deliver to the requirements of Microenterprise development at the Base of the Pyramid lack in-depth understanding. Income-generating initiatives are constantly referred to in the literature on BOP; however, there is limited exploration of BOP markets in the context of BOP Producers.

South Africa has one of the best finance and credit structures in the world and is currently ranked 9th out of 139 countries by the 2011 World Competitiveness Report (World Economic Forum, 2010). However, it currently lags behind other developing markets in providing financial solutions for its Base of the Pyramid citizens, especially citizens engaging in business activities. The research proposes that defining appropriate Microfinance solutions for Microenterprises at the Base of the Pyramid should include several key considerations. Firstly, it is important to gain insights into BOP consumer and producer characteristics particularly paying attention to the drivers of consumption behaviour. Another key consideration is the operational requirements of BOP markets looking at factors that ease or hinder the operational environments of Microenterprises. Beyond consumer insights and environment factors, evidence from projects conducted by the International Finance Corporation (2011) indicate that training and continued support are important building blocks for establishing and sustaining successful small businesses in BOP markets.

With the above-mentioned considerations being tabled, the research aims to investigate factors that should be considered for defining appropriate all-inclusive Microfinance solutions for Microenterprises operating at the Base of the Pyramid. The research will focus on three key considerations for arguing in favour of all-inclusive Microfinance solutions namely: providing access to appropriate Microfinance products to Microenterprises; inclusion of business development and support services as part of the all-inclusive Microfinance offering; facilitating access

to Institutional Structures that enable the establishment of formal businesses in BOP markets. The emphasis is purposefully on all-inclusive Microfinance solutions with the capability to deliver value propositions beyond basic financial requirements. The research proposes that Microfinance solutions are a credible tool that can be used to deliver a holistic approach to Microenterprise development at the BOP.

2. Literature Review

The research done on Base of the Pyramid markets, Microenterprises and Microfinance has gained momentum over the last decade. However, the research and case studies have been developed in a disjointed manner across the three subjects with very little consolidation of the theory. This research proposes that by combining the three subject areas, a more holistic argument can be made in favour of developing all-inclusive Microfinance solutions for Microenterprises operating at the Base of the Pyramid. The key components of the proposition entail understanding BOP markets and drivers of consumer behaviour; understanding the characteristics of Microenterprises in BOP markets; understanding the characteristics of enabling Institutional Structures; lastly, identifying the kind of financial and business development solutions required to facilitate the successful establishment and development of Microenterprises in BOP markets.

2.1. Understanding Base of the Pyramid Markets

In his book, Prahalad (2005) clearly positioned the argument on the ignorance of mainstream organisations, regarding the viability of the Base of the Pyramid (BOP) for profitable business. However, the combined effect of saturation in the middle-market and the impact of the 2008 recession have created a shift in focus for Multi-National Companies (Barki & Parente, 2010). They are moving towards developing markets with a large focus on the BOP (Barki & Parente, 2010). Pitta, Guesalaga and Marshall (2008) support Prahalad by stating the same argument about

mainstream companies being ill-equipped to service BOP markets. One of the key reasons is the lack of proper understanding of BOP consumer markets and consumer needs that drive behaviour (Pitta et al., 2008) .The key to BOP markets lies in understanding the right mix of product, pricing, quality and distribution to yield profits for business operators and fulfil the needs of BOP consumers (Pitta et al., 2008).

The prevalent perceptions about BOP markets are based on business models reinforcing the definition of value through existing mainstream markets and consumer segments (Prahalad, 2005; Pitta et al., 2008). Webb, Kistruck, Ireland and Ketchen (2010) further state the lack of flexibility in business models is driven by cost structures that are standardised around production, distribution, marketing and logistics. Mainstream organisations have an unwavering commitment to Product-Form over Product-Functionality. This limits the ability to innovate new products, methods of production and distribution required to service BOP markets (Anderson & Billou, 2007).

Hart and London (2005) propose that beyond the standardised measures of economic activity, there are fast-growing informal markets in BOP communities globally. Hart and London (2005) further state the limitations of institutional structures to recognise unregistered assets and informal economic activity in BOP markets continue to underestimate the value of BOP markets.

2.1.1. BOP Market Access Requires Innovative Technology

BOP consumers are usually located in remote and rural areas in a geographically dispersed manner with poor access to infrastructure (Mendoza & Thelen, 2008; Karnani, 2007). The traditional business models and methods of establishing business infrastructure are unsustainable in BOP markets (Pitta et al., 2008; Anderson & Billou, 2007; Karnani, 2007). These business models are based on cost-revenue value measures and as a result, tend to charge premium prices to BOP consumers in order to mitigate the increased costs of servicing BOP markets (Pitta et al., 2008).

In the debate on cost-revenue value measures, technology innovation becomes a critical consideration. In order to address the implications of increased costs of production, service and distribution, organisations need to consider leveraging innovations in technology to access and serve BOP markets more flexibly and more effectively (Anderson & Billou, 2007; Barki & Parente, 2010). In the case studies highlighted by Anderson and Billou (2007), it is evident BOP consumers are eager to embrace technology as long as it fulfils their needs. The key benefits of using technology are realised through the ability to optimise production, modify packaging, modify distribution and therefore, improve access to products and services. Advanced technology facilitates reach, scalability and flexibility of BOP market solutions in a cost-effective manner (Anderson & Billou, 2007). The large-scale uptake of mobile phone usage globally is a good example of how technology

can been used in BOP markets for the benefit of both BOP consumers and business operators (Anderson & Billou, 2007).

2.2. Understanding Consumer Behaviour in BOP Markets

2.2.1. BOP Consumers associate Brands with Quality

The BOP consumer is very brand conscious. However, BOP consumers see brands in the context of offering guaranteed quality, good workmanship and durability (Barki & Parente, 2010; Ireland, 2008). Karnani (2007) takes the argument further and states the key quality dimensions in BOP markets also include performance, features, reliability and serviceability. The customer takes all these factors into account and comes up with an overall perception of quality (Karnani, 2007). It is important to note financial loss, incurred in buying poor quality products, is more damaging for a BOP consumer who, most likely, does not have the funds to correct purchase mistakes (Pitta et al., 2008). BOP consumers are value-buyers. This means they have limited funds and expect good quality products at affordable prices (Barki & Parente, 2010). Affordable quality is a critical criterion for product acceptability in BOP markets (Anderson & Billou, 2007).

2.2.2. BOP Consumer-behaviour Drivers

Understanding the logistical and structural requirements of entering BOP markets is not sufficient for success. A critical contributor of success or failure in BOP markets requires a good understanding of the factors driving BOP consumer

behaviour and the link between behaviour and market acceptance (Pitta et al., 2008).

Base of the Pyramid consumers place a high level of importance on trust, dignity and belonging to a community (Barki & Parente, 2010). BOP communities live in highly social, cooperative and co-dependent environments (Barki & Parente, 2010). Therefore, trust is critical to BOP consumers in the daily engagements with each other and business environments (Barki & Parente, 2010). Honesty in the engagements is the key building block for the trust that needs to be established before they accept any new products or services into their communities (Barki & Parente, 2010). Dignity comes from being treated with respect and honesty in their engagement with each other and with the markets they access (Barki & Parente, 2010); a sense of being worthy. Therefore it is important, to incorporate the value placed on personal relationships, trust and dignity in the business models deployed in BOP markets (Ireland, 2008; Barki & Parente, 2010).

Over many years the perception created by mainstream businesses that operate in BOP markets has been one of cost minimization (Barki & Parente, 2010). This has created the impression that BOP consumers do not deserve well-appointed facilities (Barki & Parente, 2010). As an example, the minimalist ambiences of low-cost supermarkets in BOP communities are perceived as distant and impersonal (Barki & Parente, 2010). Barki and Parente (2010) also state similar negative perceptions about the financial industry. The lack of understanding of financial

information, coupled with the higher interest rates and fees charged, due to the risk models, creates a perception of exploitation amongst BOP consumers (Barki & Parente, 2010). There needs to be a balance between the quest for cost optimisation and service fulfilment. The minimalist approach to infrastructure in BOP markets can easily violate the most important factors to BOP consumerism namely respect, dignity and personal relationships (Barki & Parente, 2010). This reinforces the notion that having a good value proposition at the right costing model is not enough to succeed in BOP markets. Understanding the consumer drivers of value is very important as well.

2.2.3. Marketing to BOP Consumers

Barki and Parente (2010) argue the success in communicating with BOP consumers is achieved by appealing to the aspirations of the individual and the community. Generally, marketing messages communicate “Exclusivity” to upper market consumers and “Differentiation” to middle market consumers (Ireland, 2008). The message to BOP consumers should emphasise “Inclusivity” (Ireland, 2008). The message should resonate with the sense of mutual benefit, co-dependence and communal belonging, which underpin BOP communities (Ireland, 2008). Case studies on successful BOP marketing strategies show there are significant benefits in involving the community in the marketing and sales of BOP value propositions (Barki & Parente, 2010). Ireland (2008), as well as Anderson and Billou (2007) provide evidence showing the success of hiring local community members to be part of the employee base, especially in marketing and sales. Local

employees leverage their knowledge of the geography, communal trust and their existing informal resources to facilitate effective marketing and sales campaigns. The importance of personalised relationships has already been mentioned; personalisation of the marketing message follows on from that (Barki & Parente, 2010; Ireland, 2008). Mendoza and Thelen (2008) reinforce the importance of having personal knowledge about the target market and their circumstances as a crucial component in defining products and services for BOP markets. Personalisation in BOP marketing has yielded better results than mass communication using generic global marketing language (Mendoza & Thelen, 2008).

2.3. Value Proposition for BOP Markets

There are several success stories, ranging from retailers, service providers and financial institutions who have achieved success in BOP markets (Anderson & Billou, 2007; Barki & Parente, 2010). Anderson and Billou (2007) argue the success of business models deployed in BOP markets have commonalities characterised by the ***4As Concept –*** *Awareness, Availability, Affordability and Acceptability*. ***Awareness*** is the degree to which BOP consumers have information about a product or service in a manner that is understandable to them and through channels that are accessible (Anderson & Billou, 2007). ***Availability*** is based on ensuring services and products are conveniently available in a cost-effective manner. Careful attention is paid to infrastructure, logistics and distribution channels (Anderson & Billou, 2007). ***Affordability*** is the extent to which the BOP

consumer is able to pay for the products and services offered. Key considerations of affordability include frequency of cash flow, frequency of consumption and packaging (Anderson & Billou, 2007). ***Acceptability*** defines the extent to which BOP consumers are willing to acquire, use and distribute the products or services being offered (Anderson & Billou, 2007).

The 4As are insufficient by themselves; innovation in defining value propositions for BOP markets is also required. Mendoza and Thelen (2008) have identified several practices and trends increasingly being adopted by BOP market operators to innovate value propositions being offered in BOP markets. The practice of ***Deskilling*** advocates focusing on production and service through specialisation, which leads to focused solutions, efficiency and cost optimisation (Mendoza & Thelen, 2008). The use of modern ***Information and Communications Technology*** remains a key consideration for defining flexible and scalable BOP value propositions (Mendoza & Thelen, 2008). Innovations in ***contracting processes and performance incentives*** promote a change in consumer perception from exploitation into a win-win scenario (Mendoza & Thelen, 2008). ***Public-Private Partnerships*** are increasingly being looked at as a method of gaining access to resources, expertise and insights already existing in local organisations and BOP communities (Mendoza & Thelen, 2008). ***Inclusive-packaging*** refers to combining products and services together into one proposition that delivers value in a simplified manner (Mendoza & Thelen, 2008). Lastly ***Joint-consumption*** makes products and services more affordable to communities who

would otherwise not be able to afford them as individual consumers (Mendoza & Thelen, 2008).

The research aims to articulate factors that facilitate, or hinder, market acceptance of Microfinance solutions for Microenterprises at the BOP. The 4As concept by Anderson and Billou (2007) as well as BOP practices and trends identified by Mendoza and Thelen (2008), highlight important considerations for designing viable value propositions. For the purpose of the research, they provide a starting point for investigating the factors that can influence the definition and uptake of Microfinance solutions for Microenterprises.

2.4. Conclusion on BOP Insights

The resounding message from BOP scholars is business models for BOP markets need to be innovative and different from those used in mainstream markets. BOP business models must be defined with a clear understanding of the market characteristics, BOP consumer requirements and the consumers' buying decision-drivers. Success in BOP markets is dependent on delivering value propositions in a flexible, scalable, cost effective and holistic manner that delivers to the needs of BOP consumers.

2.5. Defining Business at the Base of the Pyramid

The main reason for engaging in business activities is to make money (Nieman & Nieuwenhuizen, 2010). Nieman and Nieuwenhuizen (2010) also argue small business owners establish and manage businesses in order to generate an income to secure their families' future. For the purpose of this research Microenterprises are the chosen form of businesses operating at the Base of the Pyramid. Similar to the rationale for business offered by Nieman and Nieuwenhuizen (2010), Microenterprises are businesses established to make money and in most instances the money from the business is the main source of income (Torri, 2009). Agyapong (2010) supports this view and further adds that the appeal for starting a Microenterprise business comes from the ability to start a business with very little capital, low skill levels and low levels of sophistication. Agyapong (2010) further states there is no universally accepted definition of Microenterprises. Different countries and regions define Microenterprises based on their economic policies and local operating factors (Agyapong, 2010). In South Africa, Microenterprises are defined as businesses which mainly engage in single-service or single-product activities (Centre of Microfinance, 2010). They operate predominantly at the residential property and employ one or two people (Centre of Microfinance, 2010). The annual turnover of Microenterprises in South Africa ranges from R25 000 to R120 000 per annum (Centre of Microfinance, 2010).

According to the International Finance Corporation (2011), supported by Agyapong (2010) there are several fundamental components required to establish and grow

small businesses successfully; Microenterprises are included in the context of small businesses. The first requirement is ***Access to Markets***. Supportive institutions are essential to facilitate access to buyers and sellers who form part of the businesses' value chains (Agyapong, 2010; International Finance Corporation, 2011). The institutional support should include advisory services to assist small businesses in accessing market information, improve quality standards, as well as adapt products and services to align to market needs (International Finance Corporation, 2011). The second requirement is ***Access to Finance***. This component addresses funding required to establish and grow business opportunities (Rankhumise & Rugimbana, 2010; Agyapong, 2010; International Finance Corporation, 2011). Various financial solutions are required to focus on short-term and long-term funding (International Finance Corporation, 2011). Systems, processes and procedures are also important to facilitate the participation of financial institutions in providing the required financial services (International Finance Corporation, 2011). The third requirement entails ***improving the Investment Climate*** to facilitate engagement between investors and people with viable business opportunities (International Finance Corporation, 2011). The focus areas include simplification of business registration and tax registration processes (International Finance Corporation, 2011). The reduction of the costs of formalising businesses and keeping them legitimate over the long term is a critical requirement as well. This can be achieved through effective and efficient institutional processes (International Finance Corporation, 2011). The last requirement is ***Management Skills*** (International Finance Corporation, 2011;

Rankhumise & Rugimbana, 2010; Agyapong, 2010). Providing basic training in business management, financial literacy and industry specific training improves the chances of success for small businesses (International Finance Corporation, 2011). Evidence from projects done by the International Finance Corporation (2011) also indicates training is not enough to mitigate the risks of failure. Ongoing support and management tools play a vital role in sustainable business success.

The argument made by the scholars and the International Finance Corporation (2011) supports the proposition being made by this research on holistic business development solutions being required in order to establish successful and sustainable Microenterprises. This research argues all-inclusive Microfinance solutions are the appropriate structure for facilitating the all-inclusive approach for sustainable business development.

2.5.1. Defining Microenterprises at the Base of the Pyramid

Scholarly and business literature on BOP consumer behaviour; BOP markets and BOP business models are becoming increasingly well-articulated. BOP scholars like Barki and Parente (2010), Ireland (2008), as well as Anderson and Billou (2007) provide good case studies to illustrate the success of consumer-based business models in BOP markets. However, there are limited insights into BOP markets from a Producer perspective (Cotler & Woodruff, 2008). McMullen (2011) reinforces this view by stating management scholars have advanced significantly in

studying business science; however the study of business science involving the poor populations of the world has lagged behind and requires more attention.

Pitta et al., (2008) and Karnani (2007) take the view further and state BOP markets can participate in lifting themselves out of poverty by increasing the focus on the Base of the Pyramid as Producers. However, understanding the link between Microenterprises and poverty alleviation within BOP communities continues to be a challenge (Agyapong, 2010). The main approach to poverty alleviation has been focused on philanthropy (Pitta et al., 2008). Many programmes are deployed through NGOs and government institutions in a paternalistic approach, which does not achieve independence or sustainability (Pitta et al., 2008). Philanthropy does very little to develop the mindset of self-sufficiency and sustainability through local enterprise development (Pitta et al., 2008; Torri, 2009). There is also a general expectation that governments should take the lead in providing the structural and financial resources to alleviate poverty (Pitta et al., 2008, McMullen, 2011). However, evidence shows there is a limitation on government resources and capacity to provide extensive, sustainable and scalable solutions (Centre of Microfinance, 2010).

Torri (2009) proposes an alternative approach to rural and community-based poverty alleviation programmes through the introduction of self-sufficiency and Community-based Enterprises (CBEs). Community-based Enterprises are defined as *"the result of a process in which the community acts entrepreneurially, to create*

and operate a new enterprise embedded in its existing social structure and network" (Torri, 2009, p414). The key construct of CBEs is the association of individuals within the same community to jointly produce products and services to cater for their common economic, social and cultural needs (Torri, 2009).Western entrepreneurship focuses on economic prosperity (Torri, 2009). The emphasis of CBEs is community upliftment and preservation (Torri, 2009). McMullen (2011) supports the social-oriented approach through a similar definition of Social Entrepreneurship in BOP communities. The proposed approach of Social Entrepreneurship is rooted in social capital and social organisations that leverage the communal trust, communal networks and consumer insights to build sustainable local enterprises (McMullen, 2011).

In the case study on Community-based Enterprises in India, Torri (2009) identifies several key structural components required for the successful establishment and sustainability of community-based businesses. Within the context of BOP markets, Microenterprises are a form of community-based enterprise. Therefore, the structural considerations proposed by Torri (2009) should be extended to Microenterprises operating in BOP markets. Torri (2009) supported by Barki and Parente (2010), as well as Anderson and Billou (2007), states the importance of network structures in leveraging the existing knowledge and resources that are part of the community. Support organisations and agencies must be part of the community in order to foster trust and bridge the gap between community insights and commercial orientation (Torri, 2009). Being part of the community is important

for understanding BOP markets and how to manage a business under conditions of adversity and minimal formal structures (Torri, 2009). Promoting entrepreneurial activity must look beyond financial gain by incorporating communal benefits and measures of upliftment as part of the measures of success for BOP enterprises (Pitta et al., 2008; Torri, 2009; McMullen, 2011). In order to be successful, community-based enterprises must pay special attention to the development of Human Capital, effective institutions, market insights and fundamental business acumen (Torri, 2009; Agyapong, 2010; International Finance Corporation, 2011). Human Capital at the BOP is established when relevant knowledge and skills accumulate and are transferred through formal and informal training, as well as coaching, using local channels (Agyapong, 2010; Mamun, Malarvizhi, Wahab & Mazumder, 2011). Beyond the standard economic measures of business, the social benefits and the positive impact on the greater community are crucial measures of success for community-based enterprises (Pitta et al., 2008; Torri, 2009; Mamun et al., 2011; McMullen, 2011).

Within the context of this research, the holistic definition of Microenterprises at the BOP lends itself well to combining the constructs proposed by Torri (2009) for Community-based Enterprises (CBEs), as well as McMullen (2011) for Social Entrepreneurship. Therefore, for the purpose of this research the definition of Microenterprises is as follows:

Microenterprise at the Base of the Pyramid is an entity that is created and operated to service the needs of its existing social structure and leverages communal trust

and networks to gain insights and build a sustainable enterprise supported by relevant business solutions (Torri, 2009; McMullen, 2011).

2.6. Mainstream Financial Credit Models

Mainstream credit, savings and insurance models are not designed to cater for the needs of the BOP (Koku, 2009). Mainstream banking services still use technology-driven and standardised risk models to evaluate credit applications for personal and business applicants (Koku, 2009; Torre, Peria & Schmukler, 2010). These models use credit evaluation criteria that are beyond the access of BOP Consumers and BOP Producers (Koku, 2009). The key feature of the risk-based evaluation process is credit scoring of the applicant using Credit Bureau information (Torre et al., 2010). The second key element entails reviewing security guarantees and assets that can be leveraged in the event of failure to repay the loan (Torre et al., 2010; Behr, Entzian & Guttler, 2011). The presentation of legal title on property as collateral has significant weighting in this regard (Mendoza & Thelen, 2008; Koku, 2009; Torre et al., 2010; McMullen, 2011). For the purpose of obtaining a business loan, the formal registration of the business is very important. It is a key requirement for contract enforcement processes, should the business fail to honour its loan obligations (Torre et al., 2010).

Mainstream credit models are a challenge in BOP markets mainly because BOP Consumers and BOP Producers have limited formal information available on their credit history and income (Chang, 2010; Khavul, 2010; Behr et al., 2011).

Information on credit worthiness is usually located in the community structures, which are difficult to access through formal information gathering channels, deployed by mainstream financial institutions (Khavul, 2010). To mitigate the risk of limited information financial institutions tend to apply the highest interest rates allowed by the law on BOP borrowers or they totally exclude applicants, due to poorly-understood profiles (Chang, 2010; Behr et al., 2011).

2.7. Microfinance

In response to the challenges posed by Mainstream Credit Models, financial institutions have turned to Microfinance. Sengupta and Aubuchon (2008) define Microfinance as a form of financial solution which includes credit, savings, insurance and investment services. The most prevalent microfinance component is microcredit, which refers purely to offering a collateral-free loan facility on specified repayment terms and interest rates (Khavul, 2010; Sengupta & Aubuchon, 2008). For the purpose of this research, Microfinance refers to inclusive financial services encompassing transactional, credit, savings, insurance and investment solutions (Sengupta & Aubuchon, 2008; Stewart, Van Rooyen, Dickson, Majoro & De Wet, 2010). Microfinance solutions are being considered as one of the key leavers available to alleviate poverty in emerging economies (Khavul, 2010). Microfinance Institutions mainly comprise of non-governmental institutions, private commercial institutions as well as public-private partnership (Khavul, 2010).

2.7.1. Microfinance Models at the Base of the Pyramid

Several Microfinance models are used globally to fund individual consumers and businesses at the Base of the Pyramid. Currently, the most prevalent Microfinance model in BOP markets is the Joint-liability model also known as the Group-lending model (Sengupta & Aubuchon, 2008; Nedunchezian & Sivasankaran, 2009; Barki & Parente, 2009; Khavul, 2010). The Joint-liability model is most popularly known through two variations, namely the Grameen Bank Model and the Self-Help Group Model (Sengupta & Aubuchon, 2008).

2.7.1.1. The Grameen Bank Model

The Grameen Bank Model is a Joint-liability lending model originating from Bangladesh (Sengupta & Aubuchon, 2008). The model is based on community-orientation, trust and joint-accountability, inherent in BOP communities. The preferred customers are groups of four to five women involved in income-generating businesses (Sengupta & Aubuchon, 2008; Karnani, 2008). In the first round of lending, loans are offered to only two members of the group and the two members must repay the full loans within an agreed period of time before the other members can be eligible for their loans (Nedunchezian & Sivasankaran, 2009). The repayment obligation is applied to the entire group and acts as an incentive for all the members to participate in ensuring full repayment of the loans (Nedunchezian & Sivasankaran, 2009). The Joint-liability model is hailed for its ability to reduce, what is known as Agency Costs (Sengupta & Aubuchon, 2008). Agency Costs are the direct and indirect costs incurred by financial institutions in

selecting people to lend money to and the subsequent costs of monitoring the repayment of the loan (Sengupta & Aubuchon, 2008; Khavul, 2010). In the Grameen Model, the group itself facilitates the selection of members based on community and personal knowledge. The group members ensure repayment commitments are honoured by using peer accountability and peer pressure is applied on members who do not comply with conditions of the agreement (Sengupta and Aubuchon, 2008). The community or co-lenders also ensure the money is used for the purpose it was intended for, by monitoring the business venture in which the money was invested first-hand (Sengupta & Aubuchon, 2008). The critical success factors of the Joint-liability model are rooted in the concepts already mentioned on BOP consumers behaviour namely, the presence of mutual respect, mutual trust, honesty and co-dependence amongst the members of the group (Nedunchezian & Sivasankaran, 2009; Barki & Parente, 2009).

2.7.1.2. The Self-help Group Model

The Self-help Group model is a variation of the Grameen Bank Model, adopted in India. The primary objective of this model is to develop a culture of saving money and peer-level accountability (Khan, Zacharias, Srinivasan, Srivastava, Kannan and Ahuja, 2005; Nedunchezian & Sivasankaran, 2009). Financial discipline is indirectly nurtured through the practice of saving money on a regular basis (Khan et al., 2005). Once the regular saving discipline is in place and the savings have accumulated to the levels agreed upfront with the group, credit is granted to the members of the group. The savings remain in place as collateral for the loans

(Khan et al., 2005). Groups are encouraged to repay the loans, as well as continue with the savings programme, as part of a long-term solution. The Self-help Group Model also leverages community orientation and minimises Agency Cost in a similar manner to the Grameen Model (Khan et al., 2005).

2.7.1.3. Individual-liability Lending Model

The Individual-liability lending model is based on the commonly used credit model, where the loan is granted to an individual person (Madajewicz, 2011). Each borrower obtains a loan for their own project and is fully liable for the repayment conditions (Madajewicz, 2011). In Individual-liability lending the risk assessment process and repayment monitoring requirements are carried by the lender (Madajewicz, 2011). Individual lending models increase the risk of Moral Hazard, referring to the risk of lending money that ultimately gets used for reasons it was not intended for, or for projects with low chances of success (Madajewicz, 2011; Rankhumise & Rugimbana, 2010; Behr et al., 2011). The risk of Adverse Selection also increases where lack of information about the applicant increases the risk of making incorrect lending decisions (Khavul, 2010; Behr et al., 2011). This impacts the success rate of repayment and increases the cost of monitoring repayment compliance for the Microfinance Institutions (Khavul, 2010).

2.7.1.4. Government Partial-Guarantee Lending Model

Seelos and Mair (2007) advocate partnerships between institutions for delivering Microfinance solutions in BOP Markets. The resources available in BOP markets

are scarce and warrant an exploration of partnering between large corporations, government institutions and local organizations to deliver appropriate solutions (Webb et al., 2010). Partial-guarantee models encourage a partnership between governments and financial institutions to facilitate lending in markets deemed too risky by the financial institutions (Honohan, 2010). The government provides guarantees to the financial institutions on the loans dispersed under specific finance programmes (Honohan, 2010). The government-guaranteed programmes mitigate the high risk of loans in low-income markets where credit information is limited (Khavul, 2010). As the programmes progress, the financial institutions start acquiring data and building models to facilitate proper credit evaluation of low-income consumers and small businesses (Honohan, 2010; Behr et al., 2011). It is crucial to have robust institutional structures in place to facilitate the government side of the programmes (Honohan, 2010). The absence of robustness and confidence in the processes will result in limited participation by the financial institutions (Honohan, 2010). An important element of partial-guarantee models is that they can be applied to individual, as well as group-based financing programmes. The key benefit of the partial-guarantee approach is the limited liability carried by the Microfinance Institutions. According to the Centre of Microfinance (2010), this model is deployed by the top three Microenterprise Lenders in South Africa. Seelos and Mair (2007) argue that the challenge for successful partnerships lies in leveraging the right competencies to fulfil the business objectives.

2.7.1.5. Variation of Microfinance Models and Services

Several other models are used in BOP markets. However, they have not gained the same level of popularity as the Grameen Model and the Self-help Group Model. Mendoza and Thelen (2008) as well as Khan et al. (2005) identify several alternatives for consideration. ***Microfinance Contractual Savings*** entail savings agreements for a fixed amount and fixed period of time at a higher interest rate than a normal savings account. The savings portion of the agreement acts as an insurance fund, should the loan go into default. The consumer has to save a specified minimum amount, which is agreed upon upfront (Khan et al., 2005). ***The savings account with emergency loan facilities*** has the added benefit of extending emergency loans to savings customers. Up to 90% of the amount in the savings facility can be withdrawn as a loan, for certain types of emergencies (Khan et al., 2005). ***Flexible insurance policies*** where premium agreements are based on seasonal income provide flexibility in accessing much-needed protection by BOP Consumers and Producers (Khan et al., 2005). The flexibility is very important to customers who are part of industries which are subjected to seasonality and natural disasters (Khan et al., 2005). Flexible insurance products are also available for life-insurance requirements (Khan et al., 2005). ***Money transfers and savings platforms*** use mobile technology to transfer money globally and access basic banking services (Khan et al., 2005). The limited access to BOP consumers who live in geographically remote areas has made cellular phone text messaging and money transfers a popular alternative (Khan et al., 2005). ***Dynamic Incentives Models*** motivate lenders to repay their loans as per the agreed terms with the

opportunity for further loans at better rates at the end of the contractual period (Mendoza & Thelen, 2008). Inversely, poor repayment behaviour results in penalties in future lending, or complete denial of loans. This approach is utilised successfully for individuals and group-lending models (Mendoza & Thelen, 2008; Khavul, 2010). Credit retailers and Microfinance Institutions are adopting ***Flexible Repayment Programmes*** which allow BOP consumers to access credit for purchases and repay the credit through flexible mechanisms linked to seasonal business operations and seasonal employment (Mendoza & Thelen, 2008).

2.7.2. Comparing Individual-liability to Joint-liability Models

Madajewicz (2011) proposes the two main types of lending models can co-exist, namely, Joint-liability and Individual-liability lending. Poorer borrowers, who cannot qualify for loans beyond a certain amount, opt to participate in Joint-liability programmes (Madajewicz, 2011). Joint-liability loans are cheaper for the lenders because they reduce Agency Costs and Moral Hazard (Madajewicz, 2011). Individuals who have higher-value personal assets may opt for Individual-liability options (Madajewicz, 2011). However, Individual-liability models impose higher monitoring costs for Microfinance Institutions (Madajewicz, 2011).

The research done by Khavul (2010) shows Individual-liability loans are more profitable than Joint-liability loans. Cull, Demirguc-Kunt and Morduch (2009b) support this view and state profitability considerations are also linked to the mission of the Microfinance Institution. Cull et al. (2009b) state rural-based Microfinance

Institutions tend to be the least profitable while Individual-liability Microfinance Institutions in metropolitan areas show the highest profitability rates. Khavul (2010) also states commercial Microfinance Institutions have a higher client-base of men who engage in Individual-liability models. The majority of Joint-liability Microfinance solutions are accessed by women (Khavul, 2010). Evidence collected in case studies over several years, shows women are have the lowest risk profile overall (Khavul, 2010). Women show the highest repayment rates; women are more likely to engage in Joint-liability models and respond to peer-pressure more easily when action needs to be taken for non-repayment; women are less mobile and thus easier to monitor; women are more likely to select less risky business ventures and follow through on them (Khavul, 2010). In the context of measuring the indirect benefits of Microfinance, women are more likely to borrow money to invest in education and family welfare (Khavul, 2010; Karnani, 2008).

The underlying message is financial models for BOP markets also need to be different from those used in mainstream markets. Similarly, to product and other service models, financial services models must also take note that BOP markets react well to propositions that are able to cater to their needs, within the dynamics of their personal circumstances, social orientation and demographic context (Anderson & Billou, 2007; Mendoza & Thelen, 2008; Ireland, 2008; Barki & Parente, 2010).

2.8. Relationship-based Lending Models

Torre et al. (2010), Chang (2010) and Khavul (2010) argue small businesses are financially more strained and lack access to financial support, due the bias inherent in standard credit models. BOP consumers engage in lending agreements with family and friends through social and community orientation that exists at the Base of the Pyramid. The study conducted by Stewart et al. (2010) in Sub-Saharan African countries shows the most prevalent financial relationships are formed through credit unions; membership in co-operatives; participation in self-help groups; rotating savings clubs and assisted-burial clubs. All these are relationship-based finance models. The proposed alternative to standardised credit valuation of small businesses is “Relationship-based Lending” (Torre et al., 2010, p.2281). The key feature of Relationship-based Lending is the use of personalised involvement in understanding the business and its value proposition (Torre et al., 2010). It entails using soft information that is not available on business systems, yet can be obtained directly from the business environment through environment emersion (Torre et al., 2010). Relationship-based evaluation entails doing a thorough first-hand analysis of the business operations. It entails analysing the environment in which the business is conducted; analysing the surrounding market opportunities; evaluating the business owner’s heuristic knowledge of business; assessing the possibility of success in the specific environment (Torre et al., 2010).This method can also be beneficial in providing ongoing business support through direct engagement with the business in its operating environment (Torri, 2009).

2.9. Regulation and Commercialisation of Microfinance Institutions

The Centre of Microfinance (2010) argues government resources are not sufficient to achieve the reach and scalability required for real Microfinance proliferation and Microenterprise development. The involvement of private sector Microfinance Institutions has become an increasingly important consideration (Cull et al., 2009b).

The analysis done by Cull et al. (2009b) and the Centre of Microfinance (2010) imply non-profit Microfinance Institutions achieve scale through disbursing smaller loans and therefore, achieve greater reach without the overarching burden of profit and cost efficiency. Non-profit Microfinance Institutions tend to have a subsidised funding model that alleviates the burden of cost management (Cull et al., 2009b). Cost optimization is a critical consideration in commercial Microfinance Institutions and commercial banks (Cull et al., 2009b). According to the Centre of Microfinance (2010), South African Microenterprise lenders who participate in a subsidised model have the greatest level of reach in both the number of loans and the value of loans. However, the sustainability of the subsidised model and government intervention is questionable (Centre of Microfinance, 2010). Microfinance Institutions that rely on aid are at the mercy of changes in donor strategies and budget allocations (Montgomery & Weiss, 2010). In order to reach scale and sustainable business models, Microfinance Institutions are increasingly seeking to minimize their reliance on subsidies (Karlan & Zinman, 2008; Montgomery & Weiss, 2010).

The current school of thought is the regulatory requirements for Microfinance Institutions are onerous and increase the cost of operations (Cull, Demirguc-Kunt and Morduch, 2009a; Centre of Microfinance, 2010). In order to achieve profits, commercial Microfinance Institutions need to minimise costs through Economies of Scale and the disbursement of higher-value loans at higher interest rates (Centre of Microfinance, 2010; Cull et al., 2009a). The complexity of regulatory compliance tends to require skilled labour and expertise which may not be readily available in smaller Microfinance Institutions (Cull et al., 2009a; Centre of Microfinance, 2010). The costs per account are even higher for Microfinance Institutions operating in rural areas, due to lower average balances per loan, high administration costs; lower volumes of qualifying applicants; higher logistical costs of maintaining fully compliant rural and remote Microfinance Institutions (Cull et al., 2009a).

The key argument is government regulation of financial institutions, curtails outreach (Cull et al., 2009a; Rankhumise & Rugimbana, 2010). In order to remain financially self-sufficient and compliant with the regulatory rigour, commercial Microfinance Institutions resort to deploying business models that exclude certain demographics of consumer and producer markets from accessing financial services (Karlan & Zinman, 2008; Cull et al., 2009a; Rankhumise & Rugimbana, 2010). McMullen (2011), Cull et al. (2009a) and the Centre of Microfinance (2010) argue the lack of supportive Institutional Structures and the onerous cost of regulation in the formal Microfinance sector are fundamental problems preventing outreach of Microfinance to BOP markets.

2.10. The Role of Supportive Institutional Structures

Karnani (2009) and McMullen (2011) propose a view that markets work best when they are appropriately regulated and structured to protect the poor. Karnani (2009) takes the view further and says the governments of emerging markets must take the lead to establish poverty alleviation strategies through robust business enterprises that create employment. The Centre of Microfinance (2010) supported by Cull et al. (2009a) argues the involvement of government in poverty alleviation is not the answer. Poverty alleviation strategies need to focus beyond immediate needs and establish frameworks that are sustainable and scalable (Centre of Microfinance, 2010). In order to establish the scalability required to reach critical mass and sustain it, the limited capacity and resources within government institutions will not suffice (Centre of Microfinance, 2010).

Institutional Voids create hindrances for market participation (Mair & Marti, 2009). The term Institutional Voids describes a weakness, or absence of institutional structures required to support access and participation in business markets (Mair & Marti, 2009). There are two spheres of institutional conditions that are required for markets to function. The first sphere comprises of legal factors like property rights, governance rules and controls of exchange (Mair & Marti, 2009). The second sphere comprises of functional factors namely, disclosures, enforcement and institutional intermediaries to facilitate market access (Mair & Marti, 2009). In current business markets and emerging economies, the biggest challenges lie in

establishing effective institutional structures, enabling participation in markets for the poor (Mair & Marti, 2009).

The role of governments, in establishing institutional structures to support business models, cannot be overemphasised (McMullen, 2011). The Institutional Voids in Base of the Pyramid markets are more prevalent and evident than in mainstream markets (Karnani, 2008; Mair & Marti, 2009). In order to be effective in BOP markets, business models need to be supported by institutional structures, facilitating and enforcing Transaction Governance Capacity (TGC) (McMullen, 2011). TGC is defined as the capacity of a country's legal and regulatory system to facilitate commercial transactions through a system of laws that are consistently and fairly enforced (McMullen, 2011). Fair markets, formalised property rights and the rule of law are necessary for fair business transactions to take place (McMullen, 2011). Stable and functional Institutional Structures provide the ability to exchange information, access capital, access labour and resources, as well as enforce legal rights through the rule of law (Khanna & Palepu, 1999). Expressed in a different manner by Mair and Marti (2009), as well as Puffer, McCarthy and Boisot (2010), business opportunities are not fully reliant on the ability of an entrepreneur to identify and pursue them. Successful pursuit of business opportunities is also highly dependent on the institutional, social and political environment in which they exist. Puffer et al. (2010), Karnani (2008) and Behr et al. (2011) further reinforce the argument that institutional structures, facilitating supportive business development, are seriously lacking in emerging economies

and require urgent attention. In First World Economies robust Institutional Structures facilitate the processes deemed critical for business success (Khanna & Palepu, 1999).

Emerging Market governments have historically intervened and provided state-funded credit for income-generating initiatives (Mendoza & Thelen, 2008). The systematic failure of governments to establish formalised Transaction Governance Capacity (TGC) institutions limits the effectiveness of subsidised and sponsored business development initiatives (McMullen, 2011). McMullen (2011) further argues institutional barriers and the lack of robust implementation systems continue to exclude certain populations from participating in developmental initiatives. The literature reviewed by Crabb (2008) reinforces MFIs cannot provide effective financial solutions without a supportive and well-functioning regulatory framework. Functional Institutional Structures are critical for facilitating formalised lending transactions (Crabb, 2008). Nedunchezian and Sivasankaran (2009) support the view and state continuous poverty is not perpetuated by the poor themselves, but by ineffective institutions and policies surrounding them. In addition, the presence of undesired elements like corruption, political interference and poor structural policies continue to marginalise poor people (McMullen, 2011). The poor continue to resort to informal credit lenders at very high interest rates in order to get access to loans for their business initiatives (Pitta et al., 2008; Mendoza & Thelen, 2008).

In instances where governments are failing to deliver on effective Institutional Structures, private business is starting to step in through self-regulation and industry agreements (Mair & Marti, 2009). The absence of robust Institutional Structures in emerging economies has resulted in a reliance on informal institutions and community-based structures to facilitate markets, with an increasingly strong reliance on relationship-based transactions and favours to get things done (Puffer et al., 2010). Local networks and community influencers are engaged to enforce business agreements and to facilitate access to resources required by the business operators (Puffer et al., 2010). The ongoing reliance on informal Institutional Structures has negative long-term consequences. Over time a strong tendency to trust those who are part of the "in-group" and distrust "out-group" parties will hinder the establishment of formal Institutional Structures (Puffer et al., 2010). The longer it takes to establish formal institutions, the harder it becomes to establish a trusting relationship and instil practices of good governance and fair practices amongst the business owners and communities (Puffer et al., 2010).

2.11. Challenges in Financing Microenterprises at the BOP

Irrespective of the momentum gained in Microfinance globally, access to formal Microfinance for Microenterprises has remained limited (Pitta et al., 2008; Rankhumise & Rugimbana, 2010). One view of the problem expressed by Cotler and Woodruff (2008) is Microfinance Institutions have a limited view of the requirements of Microenterprises, which limits their ability to service them effectively. The alternative view is commercial financial institutions have been

unable to generate sufficient profits to justify the cost of capital in BOP markets (Pitta et al., 2008). The key challenges faced by financial institutions include defining the correct measures of success for Microfinance offered to Microenterprises; lack of information required for standardised credit evaluation; inability to determine the key drivers of repayment behaviour.

2.11.1. Measuring the Success of Microfinance for Microenterprises

Loan repayments are the most significant measure in Microfinance performance (Khavul, 2010). The focus on repayment rates is a standard financial measure employed by mainstream financial institutions (Khavul, 2010). As long as the key measure of success is highly focused on financial metrics, Microenterprise lending will remain a non-viable business model for mainstream financial institutions (Mamun et al., 2011). Repeatedly, various proponents of Microfinance solutions encourage measurement metrics that look beyond financial metrics. Upon reviewing microfinance literature and case studies (Mamun et al., 2011) summarised, access to credit services has two key benefits for Microenterprises. The first benefit is further growth and community upliftment (Mamun et al., 2011). Another benefit is the improvement in living standards due to income for the business owner and employment for others within the greater community (Mamun et al., 2011). In their review of various studies conducted in Bangladesh Bolivia, Bosnia, Herzegovina, India and Malaysia, Mamun et al. (2011) found repeated evidence of Microenterprises yielding results beyond financial gain. Community development factors were evident and were a notable measure of success

(Mamun et al., 2011). Besides the increase in personal income, most Microenterprise success stories include evidence of family upliftment; improved standards of living, investment in business growth; increased levels of education and reduction in community unemployment (Basargekar, 2009; Torri, 2009; Mamun et al., 2011). As part of the advocacy of innovative business models for BOP markets, the use of social investment and indirect community benefits should be a serious consideration for measuring Microfinance success at the Base of the Pyramid (Basargekar, 2009; Kim, Watts, Hargreaves, Ndhlovu, Phetla, Morrison, 2007; Stewart et al., 2010; Torri, 2009; Khavul, 2010).

2.11.2. Imperfect Information

Lending models for small businesses are not well articulated (Honohan, 2009). There is even less knowledge and insights available on Microenterprise lending (Honohan, 2009; Khavul, 2010). The lack of access to historical credit information makes the lending process less reliable and more risky for Credit Providers (Honohan, 2009; Torre et al., 2010; Chang, 2010; Khavul, 2010; Behr et al., 2011). The current regulatory frameworks also place additional burden on the financial institutions by requiring the anticipated credit losses to be calculated in advance (Cull et al., 2009a; Honohan, 2009). In the absence of reliable and stable predictors of possible behaviour, the task of forecasting income and losses becomes very difficult (Honohan, 2009). As a result financial institutions continue to be reluctant to lend to Microenterprises at the Base of the Pyramid (Honohan, 2009; Khavul, 2010).

2.11.3. Understanding Repayment Behaviour

The study conducted by Khavul (2010), shows Joint-liability credit has a higher repayment rate than Individual-liability credit. The reasons provided for the higher success of Joint-liability credit differ from study to study (Khavul, 2010). Some of the data show the combination of Joint-liability credit and women borrowers to be a winning formula, since women are more likely to succumb to peer-pressure to honour their repayment obligations (Khavul, 2010). Another interpretation is the perceived superiority of the lender in the community that has influence over the repayment behaviour of the borrowers (Khavul, 2010). Another perspective shows the involvement of community-based and well-respected mediators between the lender and borrowers improves repayment rates (Khavul, 2010). Madajewicz (2011) did an analysis on both Joint-liability and Individual-liability models as well. The results show the repayment rate in Individual-liability models is significantly influenced by the success of the borrower's business venture. This finding makes logical sense. However, in Joint-liability models, the repayment of the loan is dependent on the success of multiple people and their ability to enforce repayment obligations amongst each other (Madajewicz, 2011). In Individual-liability models, repayment is improved by robust monitoring through frequent site visits to the borrower's business throughout the loan period (Madajewicz, 2011). For both Joint-liability and Individual-liability models, the presence of dynamic incentives, which promise better interest rates and higher loan amounts in the future, motivates lenders to honour the agreed terms of repayment (Mendoza & Thelen, 2008; Madajewicz, 2011). Dynamic incentives are more effective for Joint-liability models

where the opportunity to borrow money is limited to one or two members at a time. It becomes imperative for the group to ensure full repayment in order for the other group members to qualify for their own loans in the future (Mendoza & Thelen, 2008; Madajewicz, 2011). Inversely, poor repayment behaviour results in penalties, or complete denial of loan facilities for the other group members (Mendoza & Thelen, 2008).

The answer for repayment behaviour cannot be defined by one formula. Based on the various models analysed, there seems to be several factors required in a specific combination to facilitate repayment success. In addition, the factors introduced by local demographics, community and social influences cannot be ignored in understanding the drivers behind good or poor repayment behaviour. The underlying message is Microfinance Institutions need to look at their own business models, in conjunction with the client-base it aims to service, in order to determine the best combination of factors that will facilitate good repayment behaviour.

2.12. Conclusion of the Literature Review

The key message across the literature on BOP is organisations who want to participate in BOP markets require innovative business models, because understanding the institutional requirements of entering BOP markets is not sufficient for success. A critical contributor to success in BOP markets entails having an in depth understanding the factors driving BOP consumer behaviour and

their perceptions of quality driving acceptability of market offerings. BOP consumers are highly influenced by their social context, political context, community orientation and cultural nuances. In order to be successful, BOP value propositions must cater to the holistic needs of the BOP consumer, within the context of the environment in which they live.

Microfinance combined with Microenterprises have been identified as a strategic tools for facilitating poverty alleviation in BOP markets. However, the definition of appropriate Microfinance models is not a simple exercise. In order for Microfinance solutions to be effective, there are critical supporting factors that need to be understood and put in place. In the context of standardised financial models, the absence of adequate market information; lack of robust Institutional Structures; lack of alignment to standardised credit evaluation models and meaningful metrics to measure success has made it difficult to establish and manage Microfinance Institutions in BOP markets. Mainstream financial models are not appropriate for assessing lending decisions in BOP markets.

Defining and understanding Microenterprises at the Base of the Pyramid is also an ongoing challenge. The inherently dynamic nature of BOP markets, coupled with the complexity of defining success elements for a self-sufficient and sustainable business in BOP markets, have made it difficult to underpin one definition for Microenterprises (Agyapong, 2010). As part of the research process a definition of

Microenterprises was adopted, based on two key schools of thought, namely Community-based Enterprises and Social Entrepreneurship.

The key subject areas explored for the purpose of this research comprise of BOP market insights; business development and support services for establishing sustainable Microenterprises in BOP markets; Institutional Structures facilitating business development in BOP markets; Microfinance solutions and supporting services required in BOP markets. Each of the subject areas have been explored thoroughly in their individual schools of thought. However, knowledge on the integration of the subjects into a comprehensive solution for BOP markets is still lacking. The purpose of this research is to integrate these elements into an all-inclusive proposition for Microfinance solutions for Microenterprises that can be deployed in BOP markets.

3. Research Questions

The use of Microfinance solutions as a lever to establish and support Microenterprises for sustainable growth and poverty alleviation is getting increasing attention.

The point of departure for this research addresses to the resounding theme in BOP literature, advocating innovative business models for BOP markets. If the separate topics on Microfinance models, BOP market insights, Institutional Structures, Microenterprises, as well as business development and support services are combined, the true success of Microfinance for Microenterprises at the Base of the Pyramid warrants the exploration of new and innovative business models. The research proposes Microfinance solutions for Microenterprises should include value propositions providing support beyond financial needs. Firstly, the research proposes Microfinance solutions should increase the focus on improving access to financial services for Microenterprises at the Base of the Pyramid. Secondly, Microfinance solutions should include access to critical business development services required to improve the chances of success for Microenterprises in BOP markets. Lastly, this study also argues that appropriate Institutional Structures are critical for enabling the development of sustainable Microenterprises in BOP markets. In order to define the constructs for sustainable Microfinance models for Microenterprises at the Base of the Pyramid, the following research questions were asked:

1. What are the key considerations for successfully accessing financial services for Microenterprises at the Base of the Pyramid?
2. Are the required Institutional Structures in place for establishing formal Microenterprises at the Base of the Pyramid?
3. What are the key business development and support factors needed to influence the success rate of Microenterprises at the Base of the Pyramid?

3.1. Propositions for the Research

Based on the research questions stated above, the following research propositions are presented for consideration.

Research Proposition for Awareness

BOP marketing strategies have repeatedly failed to articulate their value propositions properly to BOP markets. The limitation of channels available in BOP markets adds to the challenge of proper communication in BOP markets. Therefore, the research proposes Microenterprise owners are not aware of the financial services available to them for getting a loan for their businesses.

Research Proposition for Availability

In keeping with the prevailing view of limited access to channels for engaging in financial services in BOP markets, the research proposes financial services are not easily available to Microenterprises at Base of the Pyramid.

Research Proposition for Affordability

Mainstream business models are based on cost-revenue metrics and result in business cases applying premium pricing to BOP value-propositions in order to make the propositions viable for the decision-makers. As a result, the research proposes that financial services based on mainstream business models are not affordable to Microenterprises at Base of the Pyramid.

Research Proposition on Institutional Structures

The prevalence of Institutional Voids in emerging markets has resulted in a strong view that existing Institutional Structures are a hindrance to the establishment and operation of formal small businesses. Therefore, the research proposes current Institutional Structures in South Africa do not facilitate the formalisation of Microenterprises at the Base of the Pyramid.

Research Proposition on Business Development Support

Business support is increasingly being debated as a key component in establishing and sustaining successful Microenterprise in BOP markets. However, the prevailing belief is business development and support services from Microfinance Institutions are not important to Microenterprises at the Base of the Pyramid. This research takes on a different view and proposes it is important for Microenterprise owners to have access to business development services through holistic Microfinance solutions.

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4. Research Methodology and Design

The proposition of the research is current Microfinance models are not aligned to the needs of Microenterprises operating at the Base of the Pyramid. The research proposes Microfinance models for Microenterprises should provide solutions beyond financial assistance and deliver to the holistic development needs of Microenterprises operating at the Base of the Pyramid. As part of the research, the proposed Microfinance solution components were tested on Microenterprise owners operating in BOP markets. The proposed components of future Microfinance solutions were defined from literature on Microfinance, BOP market insights, Microenterprise development factors and enabling Institutional Structures. The relevant constructs were defined and tested in Gauteng, using paper-based questionnaires. The results were analysed using quantitative statistical methods. The analysis of the findings will contribute towards understanding how the combination of Microfinance, BOP market insights and Microenterprise development theory can be used to propose a more holistic Microfinance framework which can be developed into Microfinance solutions for Microenterprises operating at the Base of the Pyramid.

4.1. Unit of Analysis and the Research Population

The Unit of Analysis describes the level at which the research is performed (Blumberg, Cooper, & Schindler, 2008). The Unit of Analysis for the research consisted of Microenterprises operating in Base of the Pyramid markets.

Microenterprise owners operating in Gauteng were selected to provide their views on the proposed considerations for the all-inclusive Microfinance solutions.

4.2. Research Sampling

The research sample comprised of Microenterprises operating in the Gauteng province. Three geographical locations were selected for the quantitative survey, namely the Metro-mall on Bree Street in the Centre of Johannesburg; the Metro-mall at Baragwanath Hospital in Soweto and Microenterprises operating throughout the Alexandra Township. The three locations were selected due to the high density of Microenterprises, which made it easier to access and include them in the sample. A limitation in resources to extend the research into rural areas also narrowed the sampling to Gauteng urban and township areas.

4.2.1. The Sampling Approach

The research sample was selected, using the Judgemental Sampling approach (Blumberg et al., 2008). Judgemental Sampling entails explicit selection of members of the population to participate in a research, based on specific criteria (Blumberg et al., 2008). For this research, two key criteria were used. The first criterion was the geographic location. The Microenterprise had to operate in one of three selected locations. The second criterion was income. In order to qualify as a Microenterprise the annual income had to be between R25 000 to R120 000 (Centre of Microfinance, 2010). There were no restrictions on the type of business

activity. The examples of businesses identified through the research done by Agyapong (2010) in conjunction with the outcomes of the Finscope survey, as well as the characteristics of BSM 4 to BSM 6 were used to identify possible types of businesses that could be targeted for the purpose of Judgemental Sampling (Centre of Microfinance, 2010; Finscope, 2010).

4.2.2. Sample Size

In the field of research the rule-of-thumb applied to determine the sample size is the Central Limit Theorem (Albright, Winston & Zappe, 2009). The Central Limit Theorem states if a Population (N) has a Normal Distribution around the Mean value (μ) and a Standard Deviation (σ) from the Mean value, then the Sample (n) of the population will also have a Normal Distribution around the Sample Mean value (X) and a Standard Deviation (s= σ/sqrt of n) from the Sample Mean value (Albright et al., 2009). In other words, a population with a normal distribution will display a bell-curve around the population Mean value and it will also have a sample that displays a bell-curve around the Sample Mean value. For a population (N) displaying Normal Distribution around the Mean value (μ), the minimum sample size should be thirty (Albright et al., 2009). If the population does not display Normal Distribution around the Mean value (μ), the sample size is recommended to be at least fifty (Albright et al., 2009). The Sample Mean value (X) is more accurate for larger sample sizes (Albright et al., 2009). In order to align to the Central Limit Theorem, 310 surveys were sent out for completion by Microenterprise owners in the three preselected locations. Of the 310 surveys sent out, 304 were returned

and 300 were used in the final data analysis. Four of the returned surveys were disregarded due to significant missing data.

4.3. Research Instrument

The research entailed conducting a questionnaire-based survey amongst businesses classified as Microenterprises, based on the Judgemental Sampling criteria (Blumberg et al., 2008; Finscope, 2010; Centre of Microfinance, 2010). The questions were grouped into four sections. The first section comprised of demographic information, used for establishing context about the Microenterprise owners, their businesses and to ensure they qualified to participate in the survey, as per the Judgemental sampling approach. The other three sections focused on testing the perceptions of the Microenterprise owners on the proposed components for holistic Microfinance solutions for Microenterprises at the Base of the Pyramid. The proposed components were aligned to the three research areas namely, access to financial services; the enabling role of Institutional Structures; and the importance of business development services. The questions included in the survey were defined from the literature review conducted as part of the research process.

A survey, using the Likert Scale, was conducted to test the perceptions of Microenterprise owners on the proposed all-inclusive Microfinance solution components. The survey used affirmative statements assessing the degree of agreement, or disagreement with each proposed component for inclusion. The

Likert Scale was coded for numerical data analysis, such that 5 means “Strongly Agree” and 1 means “Strongly Disagree” with the statement.

4.4. Data Collection

In preparation for the field survey, we identified possible challenges with respondents who might have a limited understanding of the English language, which may impact the responses to the survey questions. In order to address the language challenge, the field agents who conducted the survey were fluent in English, Sotho, Zulu and Xhosa, the predominant languages spoken in Gauteng. The field agents were able to translate and explain the questions to the respondents to ensure proper understanding during the survey process. A pilot was conducted, using eight questionnaires to make sure the questions were easy to understand and complete in the field. The pilot questionnaires were not included in the 310 questionnaires sent out for the final field survey and they were not included in the final 300 surveys that were used in the final data analysis process. The field agents were also provided with a Field Agent Guide containing critical information for the survey process. Please refer to ***Appendix 1 and Appendix 2*** for the Field Agent Guide and the Research Questionnaire.

4.5. Data Analysis

In order to analyse the results of the survey several statistical tests were used. The data analysis was conducted in four steps. Firstly, Descriptive Statistics were used

to provide context about each microenterprise owner and the businesses included in the survey. Descriptive Statistics are also important for selecting the appropriate statistical tests, based on the Central Limit Theorem (Albright et al., 2009). The second step involved grouping the survey variables, using Factor Analysis to see which variables had strong joint effects on the outcomes of responses. The third step entailed using the strongest factor groupings as key variables for testing the five main Research Propositions. In the fourth step, the strongest factors were also used to test for possible relationships and response linkages between specific research variables. This was done using association testing.

4.5.1. Step One: Descriptive Statistics

Descriptive statistics consist of measurements that can be used to determine response patterns and create context of the research data prior, to statistical analysis (Page & Meyer, 2005). The most commonly known descriptive measures for centre measurement are Frequency, Mean value and Median value; Standard Deviation used to measure Spread; Cross Tabulation is used for Association (Page & Meyer, 2005).

Descriptive Statistics, using Frequency Tables, were used upfront to analyse the demographic information. Descriptive statistics were also used for determining the types of statistical tests possible, based on the Central Limit Theorem requirements (Albright et al., 2009). Frequency Analysis was also used to determine if any trends emerged from the questionnaire answers (Albright et al.,

2009). The identified trends were then used as triggers for additional association and relationship testing between certain research variables (Albright et al., 2009).

4.5.2. Step Two: Factor Analysis

Factor Analysis entails a process of grouping variables together to determine which variables have a strong joint-effect on the responses provided by the survey respondents (Montgomery, Runger & Hubele, 1998). Factor Analysis is done prior to statistical analysis (Montgomery et al., 1998). The primary factors which cause the most significant change in particular responses are referred to as the *Main Effect* Factors (Montgomery et al., 1998).

The first step in Factor Analysis is to conduct a Kaiser-Meyer-Olkin (KMO) Measure. According to Kaiser (1974), Factor Analysis requires the Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy be greater than 0.50 for individual variables as well as for the set of variables grouped together. In Factor Analysis, the KMO Measure of Sampling Adequacy (MSA) is described as significant if it is 0.90 or more (Kaiser, 1974). The KMO Measure of Sampling Adequacy (MSA) is described as mediocre if it is less than 0.50 (Kaiser, 1974). Kaiser (1974) recommends accepting KMO values greater than 0.5 and removing variables with KMO values below 0.5 from the factor grouping.

Bartlett's Test is also produced as an output of the Factor Analysis process. It measures the correlation between variables chosen for factor grouping (Kaiser,

1974). The correlation coefficient between two or more variables, chosen for factor grouping, should not be equal to zero (Kaiser, 1974). If the correlation coefficient is equal to zero, it means there is no relationship between the chosen variables. Therefore, they cannot be grouped under the same factor (Kaiser, 1974). The closer the correlation coefficient is to the value one (1), the stronger the relationship between the selected variables (Kaiser, 1974). Barlett's Test produces an output for the test for significance using a p-value. In the context of this research Bartlett's Test of Sphericity should have a p-value less than 5%, in order for the variables to be considered viable for Factor Analysis (Kaiser, 1974).

Once the primary factor is determined, Commonality Testing is used to determine the importance of the factor in determining the observed responses (Page & Meyer, 2005). Commonality provides an indication of how much variation in the responses is explained by the identified primary factor (Page & Meyer, 2005). A commonality value of at least 50% is preferred (Page & Meyer, 2005). A high percentage shows that the identified factor explains a large portion of the variation in responses (Page & Meyer, 2005). It provides additional confidence the grouping of the variables under the specific factor has a strong effect on the responses provided (Page & Meyer, 2005).

Factor Analysis was done across all the research variables before to the five main research propositions were tested (Montgomery et al., 1998). The process to obtain the optimal factors was iterative and involved repeated inclusion and

exclusion of variables until the optimal factors were determined (Montgomery et al., 1998).

4.5.3. Step Three: Proposition Testing using Statistical Rationale

Proposition testing is based on the notion of determining whether the stated argument is supported, or not supported by the research data (Blumberg et al., 2008). Research propositions are statements describing the relationship between two variables (Blumberg et al., 2008). The research propositions defined in Chapter 3 articulate what is regarded to be the status quo, or common belief. For the purpose of this research, statistical testing was applied to determine if the survey data supports the argument expressed in the research propositions, or not.

Statistical testing for research propositions can be done using either one-tailed or two-tailed testing (Albright et al., 2009). One-tailed testing is used for observed evidence in one direction. Two-tailed testing is used when observed evidence in either direction can result in rejection of the research proposition. For the purpose of this research, the chosen Level of Significance (α) is 5% (Albright et al., 2009). This means we could only reject the research proposition if the data provided a confidence level of 95% that the research proposition is not supported (Albright et al., 2009).In statistics the output for significance testing is the p-value (Albright et al., 2009). We could only reject the research proposition with a 95% confidence level if the p-value is less than 0.05.

As previously noted, the Central Limit Theorem states a population sample size (n) that is reasonably large, will display normal distribution around the sample Mean value (X) and Standard Deviation (s= σ sqrt n). However, when the population's Standard Deviation (σ) is unknown; the normal distribution sample (n) displays a t-distribution with (n-1) Degrees of Freedom (Albright et al., 2009). In the absence of a known value for the population's Standard Deviation (σ) the statistical test conducted is called the T-Test for Significance. The five key research propositions were tested using the One-tailed T-Test for Significance with the chosen Level of Significance of 5% (Albright et al., 2009).

4.5.4. Step Four: Relationship Testing

Relationship Testing was conducted between certain research variables. The main objective was to determine if there were any associations between the variables, which could be used to infer why the respondents answered some of the survey questions in the manner that they did. Two types of relationship testing were done, namely Correlation Analysis and One-way ANOVA.

4.5.4.1. Correlation Analysis for Relationship Testing

Correlation is used to measure the relationship between two variables (Albright et al., 2009). The strength of the relationship is expressed by the value of the correlation coefficient between the -1 and +1 (Albright et al., 2009). The closer the coefficient is to the value of one (1), the stronger the relationship between the two variables (Albright et al., 2009). For the purpose of this research, Correlation

Analysis was used for testing relationships between two specific variables at a time.

4.5.4.2. Analysis of Variance (ANOVA) for Relationship Testing

The Analysis of Variance (ANOVA) tests for equality between two or more Population Mean Values (μ) (Salvatore & Reagle, 2002). The Null Hypothesis for ANOVA states all Mean values (μ) are equal; the alternative hypothesis states at least one Mean value (μ) is different from the others. One-way ANOVA can be used to test the variance in mean values (μ) across two or more distinct populations, or to test a single population across several distinct experiments (Albright et al., 2009). If a single population is used, the allocation of the population members to the various experiments must be randomised (Albright et al., 2009). In One-way ANOVA the samples do not have to be equal in size, however, each sample must independently fulfil the requirements of the Central Limit Theorem (Albright et al., 2009).

4.6. Limitations of the Research

The study was conducted in descriptive manner. The aim of descriptive studies is to determine if changes in certain variables have influence on the behaviour of other variables (Blumberg et al., 2008). The research will add to the body of knowledge aimed at understanding the appropriate components that should be considered for defining future Microfinance solutions for Microenterprises operating

in BOP markets. The use of a Judgemental Sample limits the ability to generalise the research outcomes to the entire population of Microenterprise owners. Due to time and resource constraints, the field surveys were conducted only in Gauteng at three locations, which are classified as urban locations. It is also important to note survey-based research, using the affirmative-statement approach, can introduce the risk of “leading questions” which may influence the respondents to answer questions in a certain manner. Affirmative statement surveys do not provide the opportunity to gather insights from the respondents to better inform the rationale for their responses.

5. Research Results

This chapter presents the findings of the research conducted, based on the research questions and research propositions presented in. The results are based on the data analysis process defined in Chapter 4.

5.1. Survey Locations

The surveys were conducted in three distinct locations in the Gauteng Province. Location 1 was the Metro-mall on Bree Street in the Johannesburg City Centre. Location 2 was the Metro-mall at Baragwanath Hospital in Soweto. Location 3 comprised of Alexandra Township in Johannesburg. The goal was to obtain 300 respondents to participate in the survey from the three chosen locations. A total of 310 surveys were sent out and 304 were returned successfully. Only 300 were used in the final data analysis. Four of the returned surveys were excluded from the analysis due to significant missing data.

Table 1: Survey Location Information

	Frequency	Percent (%)	Valid Percent	Cumulative Percent
1: Metro-mall Bree Street	48	16.0	16	16
2: Metro-mall Baragwanath Hospital	50	16.7	16.7	32.7
3: Alexandra Township	202	67.3	67.3	100
Total	300	100	100	

5.2. Demographics and Business Information

In order to create context for the research findings, the profile of the respondents, their geography and business environment were included in the survey. For the demographic profile, questions were included pertaining to the personal information, and educational background of the Microenterprise owner. Questions pertaining to the businesses environment were also included and provided information on business type; revenue, reasons for starting a business; type of banking services utilised and job creation ability.

Please see ***Appendix 3*** for the detailed Frequency Tables of the demographic information gathered through the survey.

5.3. Factor Analysis

Factor Analysis was used to determine if there were relationships between the survey variables which could be used to build the constructs of the five research propositions (Montgomery et al., 1998; Kaiser, 1974). The Factor Analysis process produced three outcomes namely, the Kaiser-Meyer-Olkin Measure of Sampling Adequacy; Bartlett's Test and Commonality. Under the Kaiser-Meyer-Olkin Measure of Sampling Adequacy only variables producing a grouping value greater than 0.5 were included in a factor grouping (Kaiser, 1974). Under Bartlett's Test only variable groupings producing significance level less than 0.05 were included in

the factor group (Kaiser, 1974). For commonality, only values greater than 0.50 were included in the factor grouping (Kaiser, 1974).

5.3.1. Factor Analysis for Awareness

Factor Analysis for Awareness led to one factor with 3 questions (Kaiser, 1974).

Table 2: KMO and Bartlett's Test for Awareness Factor

KMO Measure of Sampling Adequacy.		.648
Bartlett's Test	Approx. Chi-Square	516.238
	Df	3
	Sig.	.000

Table 3: Factor Matrix for Awareness Questions

	Factor Grouping	Commonality
Q6: Access to the loan product information from the banks and the loan companies is easy	0.761	0.580
Q7: The process of applying for a loan is easy to understand	0.929	0.863
Q8: The documents for applying for a loan are easy to understand	0.927	0.860

5.3.2. Factor Analysis for Availability

Factor Analysis for Availability led to one factor with 3 questions (Kaiser, 1974).

Table 4: KMO and Bartlett's Test for Availability Factor

KMO Measure of Sampling Adequacy.		.650
Bartlett's Test	Approx. Chi-Square	254.225
	Df	3
	Sig.	.000

Table 5: Factor Matrix for Availability Questions

	Factor Grouping	Commonality
Q11: The distance to get to the bank or loan company is short (less than 30 minutes travel)	0.851	0.725
Q12: The transport to get to the bank or the organization giving loans is easily available	0.880	0.774
Q13: The loan officer must understand your business and its needs	0.739	0.546

5.3.3. Factor Analysis for Affordability

Factor Analysis for Affordability led to one factor with 3 questions (Kaiser, 1974).

Table 6: KMO and Bartlett's Test for Affordability Factor

KMO Measure of Sampling Adequacy.		.623
Bartlett's Test	Approx. Chi-Square	180.343
	df	3
	Sig.	.000

Table 7: Factor Matrix for Affordability Questions

	Factor Grouping	Commonality
Q15: The loan repayment requirements must be flexible based on time of the year	0.864	0.747
Q17: The bank or loans company must consider offering loans to businesses that apply as a group (Group-lending)	0.740	0.547
Q35: I would be willing to pay a fee as part of the loan for business development and support services	0.775	0.601

5.3.4. Factor Analysis for Institutional Structures

Factor Analysis for Institutional Structures led to one factor with 4 questions (Kaiser, 1974).

Table 8: KMO and Bartlett's Test for Institutional Structures

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.750
Bartlett's Test	Approx. Chi-Square	379.428
	Df	6
	Sig.	.000

Table 9: Factor Matrix for Institutional Structures Questions

	Factor Grouping	Commonality
Q18: I have easy access to the business laws of South Africa I need to follow in my business	0.737	0.543
Q19: All businesses in South Africa should be registered with the government	0.783	0.612
Q20: I know where and how to register my business with the government	0.882	0.777
Q21: Registering a new business is an easy process	0.746	0.556

5.3.5. Factor Analysis for Business Development

Factor Analysis for business development led to three factors defined as "Business Development Factor 1", "Business Development Factor 2", and "Business Development Factor 3" (Kaiser, 1974).

"Business Development Factor 1" contains three statements about business development. The statements are *"Having a business mentor is important for running a business successfully"; "The bank or loans company should provide business mentors in the community"; "The bank or loans company giving you the loan should form groups to support you and businesses like yours in the community"*.

"Business Development Factor 2" has two statements: "*Keeping good financial records on your business is important"* and *"I keep formal financial records in my business."*

"Business Development Factor 3" has the following statements; *"Understanding the opportunities in the market is important for establishing a successful business",* and *"I know how to find information on opportunities in the market".*

Table 10: KMO and Bartlett's Test for Business Development

KMO Measure of Sampling Adequacy.		.673
Bartlett's Test	Approx. Chi-Square	1037.366
	df	21
	Sig.	.000

Table 11: Factor Matrix for Business Development Questions

	Factor 1	Factor 2	Factor 3	Commonality
Q30: Having a business mentor is important for running a business successfully	0.850	0.314	0.158	0.846
Q31: The bank or loans company should provide business mentors in the community	0.833	0.367	0.174	0.859
Q33: The bank or loans company giving you the loan should form groups to support you and businesses like yours in the community	0.808	-0.080	0.008	0.659
Q27: Keeping good financial records on your business is important	0.071	0.893	-0.024	0.804
Q28: I keep formal financial records in my business	0.266	0.831	0.270	0.834
Q24: Understanding the opportunities in the market is important for establishing a successful business	-0.002	-0.043	0.900	0.811
Q25: I know how to find information on opportunities in the market	0.274	0.328	0.753	0.750

5.3.6. Factor Analysis for Community Development

Factor Analysis of Community Development led to one factor with 2 questions (Kaiser, 1974).

Table 12: KMO and Bartlett's Test for Community Development

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.500
Bartlett's Test	Approx. Chi-Square	47.358
	df	1
	Sig.	.000

Table 13: Factor Matrix for Community Development Questions

	Factor 1	Commonality
Q37: The bank or loans company giving you the loan should have a local branch in the community	0.832	0.692
Q39: I would prefer taking a loan from a bank or loan company that actively supports community development	0.832	0.692

5.4. Research Proposition Testing

The research questions identified in Chapter 3 translated into five key research propositions. Statistical testing was conducted, using the key factors identified through the Factor Analysis process (Kaiser, 1974; Montgomery et al., 1998). A total of eight factors were established namely, Awareness, Availability, Affordability, Institutional Structures, Business Development Factor1, Business Development Factor2, Business Development Factor3 and Community Development.

5.4.1. Research Proposition for Awareness

BOP marketing strategies have repeatedly failed to articulate their value propositions properly to BOP markets. The limitation of channels available in BOP

markets adds to the challenge of proper communication in BOP markets. Therefore, the research proposes Microenterprise owners are not aware of the financial services available to them for getting a loan for their businesses.

One tailed T-test was done at a 5% Level of Significance (Albright et al., 2009). A consolidating variable called Awareness was created using in the "Awareness" Factor Analysis outcomes (Kaiser, 1974; Montgomery et al., 1998). In the preliminary grouping of questions for Factor Analysis, Question 5 of the survey was included as a possible factor of Awareness. It was subsequently excluded when the KMO and Bartlett's Test for Awareness were conducted since it did not meet the inclusion requirements (Kaiser, 1974). The **One tailed T-test** was also done for Question 5 separately (Albright et al., 2009).

Table 14: T-Test for the Research Proposition on Awareness

One-Sample Statistics				T-Test against the Mean of scale = 3		
	N	Mean	Std. Deviation	t	Df	P-Value
Awareness	300	3.947	0.403	40.720	299	0.000
Q5: Access to information on loans from the banks and the loan companies is important	300	4.107	0.386	49.638	299	0.000

The overall Awareness Factor and the variable Question 5 *"Access to information on loans from the banks and the loan companies is important"* are significantly higher than the mean of the scale. The p-value is less than 0.05.

Results for Research Proposition for Awareness:

Based on the outcomes of the T-test, we are 95% confident the data does not support the research proposition on Awareness, which states *Microenterprise owners are not aware of the financial services available to them for getting a loan for their businesses.* The results imply Microenterprise owners are aware of the financial services available to them for getting a loan for their businesses.

5.4.2. Research Proposition for Availability

In keeping with the prevailing view of limited access to channels for engaging in financial services in BOP markets, the research proposes financial services are not easily available to Microenterprises at Base of the Pyramid.

One tailed T-test was carried out at 5% Level of Significance (Albright et al., 2009). A consolidating variable called Availability was created using the "Availability" Factor Analysis outcomes (Kaiser, 1974; Montgomery et al., 1998). In the preliminary grouping of questions as possible factor components, Question 9 and Question 14 of the survey were included as possible factors of Availability. Both questions were subsequently excluded when the KMO and Bartlett's Test for Availability were conducted as they did not meet the inclusion requirements (Kaiser, 1974). **One tailed T-tests** were also carried out separately for the variables Question 9 and Question 14 separately (Albright et al., 2009).

Table 15: T-Test for the Research Proposition on Availability

One-Sample Statistics				T-Test against the Mean of scale = 3		
	N	Mean	Std. Deviation	T	df	P-Value
Availability	298	4.208	0.429	48.613	297	0.000
Q9: The information that the bank or loans company wants from me for the loan is easy to get and submit to them	300	4.023	0.387	45.772	299	0.000
Q14: The loan officer should help you through the application process in a language that you understand	298	4.477	0.500	50.948	297	0.000

The Availability Factor and the variables defined by Question 9 *"The information that the bank or loans company wants from me for the loan is easy to get and submit to them"* and Question 14 *"The loan officer should help you through the application process in a language that you understand"* are significantly higher than the mean of the scale. The p-value is also less than 0.05.

Results for the Research Proposition on Availability

Based on the outcomes of the T-test, we are 95% confident the data does not support the research proposition on Availability, which states *financial services are not easily available to Microenterprises at Base of the Pyramid*. The results imply Microenterprise owners perceive financial services to be easily available to them at Base of the Pyramid.

5.4.3. Research Proposition for Affordability

Mainstream business models are based on cost-revenue metrics and result in business cases applying premium pricing to BOP value-propositions in order to make the propositions viable for the decision-makers. As a result, the research proposes financial services based on mainstream business models are not affordable to Microenterprises at Base of the Pyramid.

One tailed T-test was carried out at 5% level of significance (Albright et al., 2009). A consolidating variable called Affordability was created using the "Affordability" Factor Analysis outcomes (Kaiser, 1974; Montgomery et al., 1998). In the preliminary grouping of questions as possible factor components, Question 36 of the survey was included as a possible factor of Affordability. It was subsequently excluded when the KMO and Bartlett's Test for Affordability were conducted as it did not meet the inclusion requirements (Kaiser, 1974). **One tailed T-test** was carried out separately for Question 36 (Albright et al., 2009).

Table 16: T-Test for the Research Proposition on Affordability

One-Sample Statistics				T-Test against the Mean of scale = 3		
	N	Mean	Std. Deviation	T	Df	P-Value
Affordability	300	3.904	0.631	24.828	299	0.000
Q36: I would be willing to enter into a partnership agreement with the bank or loan company in exchange for the business development services	300	3.933	0.799	20.244	299	0.000

The results revealed the Affordability Factor variable, and the variable in Question 36 *"I would be willing to enter into a partnership agreement with the bank or loan company in exchange for the business development services"* are significantly higher than the mean of the scale. The p-value is less than 0.05.

Results for Research Proposition on Affordability

Based on the outcomes of the T-test, we are 95% confident the data does not support the Research Proposition on Affordability, which states *financial services based on mainstream business models are not affordable to Microenterprises at Base of the Pyramid*. The results imply the respondents perceive financial services to be affordable to Microenterprises at Base of the Pyramid.

5.4.4. Research Proposition on Institutional Structures

The prevalence of Institutional Voids in emerging markets has resulted in a strong view existing Institutional Structures are a hindrance to the establishment and operation of formal small businesses. Therefore, the research proposes current Institutional Structures in South Africa do not facilitate the formalisation of Microenterprises at the Base of the Pyramid.

One tailed T-test was carried out at 5% Level of Significance (Albright et al., 2009). A consolidating variable called Institutional Structures was created using in the "Institutional Structures" Factor Analysis outcomes (Kaiser, 1974; Montgomery et al., 1998).

Table 17: T-Test for the Research Proposition on Institutional Structures

One-Sample Statistics				T-Test against the Mean of scale = 3		
	N	Mean	Std. Deviation	t	df	P-Value
Institutional Structures	300	3.812	0.572	24.558	299	0.000

The results showed the mean of "Institutional Structures" Factor is higher than the mean of the scale. The p-value is less than 0.05.

Results for the Research Proposition on Institutional Structures

Based on the outcomes of the T-test, we are 95% confident the data does not support the Research Proposition on Institutional Structures, which states *current Institutional Structures in South Africa do not facilitate the formalisation of Microenterprises at the Base of the Pyramid.* The results show respondents have a positive perception that existing Institutional Structures facilitate the formalisation of Microenterprises at the Base of the Pyramid.

5.4.5. Research Proposition on Business Development Support

Business support is increasingly being debated as a key component in establishing and sustaining successful Microenterprise in BOP markets. However, the prevailing belief is business development and support services from Microfinance Institutions are not important to Microenterprises at the Base of the Pyramid. This research takes on a different view and proposes it is important for Microenterprise

owners to have access to business development services through holistic Microfinance solutions.

One tailed T-tests were carried out at 5% Level of Significance (Albright et al., 2009). Three variables were created using the findings of the Factor Analysis process for "Business Development" (Kaiser, 1974; Montgomery et al., 1998). In the preliminary grouping of questions as possible factor components, Questions 26, Questions 29, Questions 32 and Questions 34 of the survey were included as possible factors of business development. They were subsequently excluded when the KMO and Bartlett's Test for Affordability were conducted as they did not meet the inclusion requirements (Kaiser, 1974). **One tailed T-tests** were also done for each excluded variables Question 26, Question 29, Question 32 and Question 34.

Table 18: T-Test for the Research Proposition on Business Development

One-Sample Statistics				T-Test against the Mean of scale = 3		
	N	Mean	Std. Deviation	T	df	P-Value
BusinessDevelopmentFactor1	299	4.077	0.526	35.378	298	0.000
BusinessDevelopmentFactor2	299	4.391	0.586	41.077	298	0.000
BusinessDevelopmentFactor3	300	4.153	0.550	36.321	299	0.000
Q26: The bank or loans company should assist you in understanding the needs and opportunities in your market	299	4.107	0.341	56.198	298	0.000
Q29: The bank or loans company should provide business management training in the community	299	4.174	0.414	49.089	298	0.000

One-Sample Statistics				T-Test against the Mean of scale = 3		
	N	Mean	Std. Deviation	T	df	P-Value
Q32: Belonging to a club of business owners would help build businesses in the community	299	3.876	0.646	23.449	298	0.000
Q34: The bank or loans company giving you the loan should help you develop a good business plan for the loan you want to apply for	299	4.184	0.437	46.858	298	0.000

The results showed the mean values are all higher than the mean of the scale for the Business Development Factor 1, Business Development Factor 2, Business Development Factor 3, as well as the individually variables Question 26 "*The bank or loans company should assist you in understanding the needs and opportunities in your market"*, Question 29 *"The bank or loans company should provide business management training in the community",* Question 32 *"Belonging to a club of business owners would help build businesses in the community"* and Question 34 *"The bank or loans company giving you the loan should help you develop a good business plan for the loan you want to apply for".* The p-value is less than 0.05.

Results for the Research Proposition on Business Development Support

Based on the outcomes of the T-test, we are 95% confident the data does not support the status quo and instead supports the research proposition, which states *it is important for Microenterprise owners to have access to business development services through holistic Microfinance solutions*.

5.5. Association Testing

In addition, further tests were conducted to determine if there were any associations between certain variables of the research. Several associations were tested to determine if any further insights can be gained from the responses provided.

5.5.1. Relationship: Location and Availability

The high cost of providing banking services has been sighted as one of the reasons why financial service providers have limited reach in non-urban and remote areas (Centre of Microfinance, 2010; Cull et al., 2009a). The test for association between Location and Availability was conducted to determine if the research sample experienced any availability challenges. Location 1 is situated in the Central Business District of Johannesburg. Location 2 is situated in a township approximately 30 km from the Central Business District of Johannesburg. Location 3 is the entire township of Alexandra, located approximately 10 km from Sandton, an upmarket business district and approximately 20 km from the Central Business District of Johannesburg.

Descriptive Analysis and One-way ANOVA were done to test the differences between the means for the “Availability” Factor and other survey questions aimed at establishing availability of financial services to Microenterprise owners at the BOP. The tests were done by Location (Albright et al., 2009).

ANOVA Hypothesis: μ (location 1) = μ (location 2) = μ (location 3)

Table 19: Descriptive Statistics for Location and Availability

		Sample	Mean	Std. Deviation
Availability	Location 1	46	4.304	0.496
	Location 2	50	3.967	0.411
	Location 3	202	4.246	0.397
	Total	298	4.208	0.429
Q9: The information that the bank or loans company wants from me for the loan is easy to get and submit to them	Location 1	48	4.042	0.459
	Location 2	50	4.140	0.351
	Location 3	202	3.990	0.373
	Total	300	4.023	0.387
Q14: The loan officer should help you through the application process in a language that you understand	Location 1	46	4.804	0.401
	Location 2	50	4.680	0.471
	Location 3	202	4.351	0.479
	Total	298	4.477	0.500

The descriptive statistics show the samples all comply with the Central Limit Theorem required to conduct ANOVA.

Table 20: ANOVA for Relationship between Location and Availability

		Sum of Squares	df	Mean Square	F	Sig.
Availability	Between Groups	3.629	2	1.814	10.490	.000
	Within Groups	51.027	295	.173		
	Total	54.656	297			

		Sum of Squares	df	Mean Square	F	Sig.
Q9: The information that the bank or loans company wants from me for the loan is easy to get and submit to them	Between Groups	.920	2	.460	3.110	.046
	Within Groups	43.917	297	.148		
	Total	44.837	299			
Q14: The loan officer should help you through the application process in a language that you understand	Between Groups	10.172	2	5.086	23.383	.000
	Within Groups	64.164	295	.218		
	Total	74.336	297			

The significance value of the F-test for Availability is 0.000, meaning the p-value is less than 0.05. Therefore, we reject the null hypothesis that the average ratings for "Availability" are equal across the three Locations.

The significant value of the F-test for Question 9 *"The information that the bank or loans company wants from me for the loan is easy to get and submit to them"* is 0.046, meaning the p-value is less than 0.05. Therefore, we reject the null hypothesis average ratings for Question 9 are equal across the three Locations.

The significance value of the F-test for Question 14 *"The loan officer should help you through the application process in a language that you understand"* is 0.000, meaning the p-value is less than 0.05. Therefore we reject the null hypothesis the average ratings for Question 14 are equal across the three Locations.

Figure 1: Means Plot for Location of Business and Availability Factors

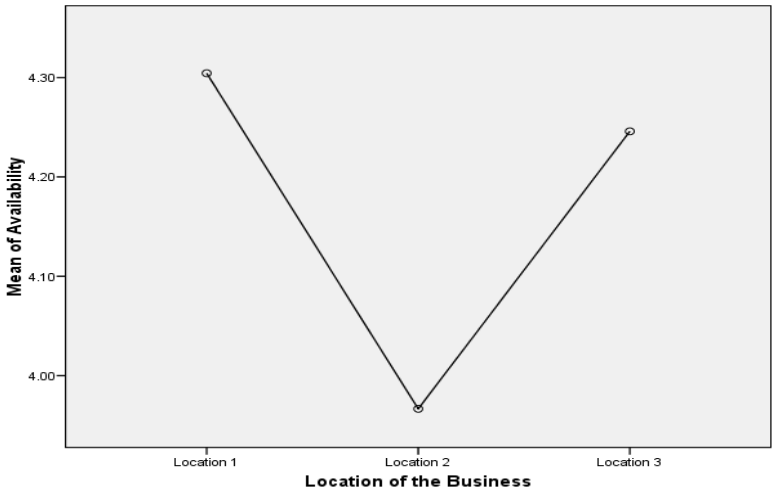
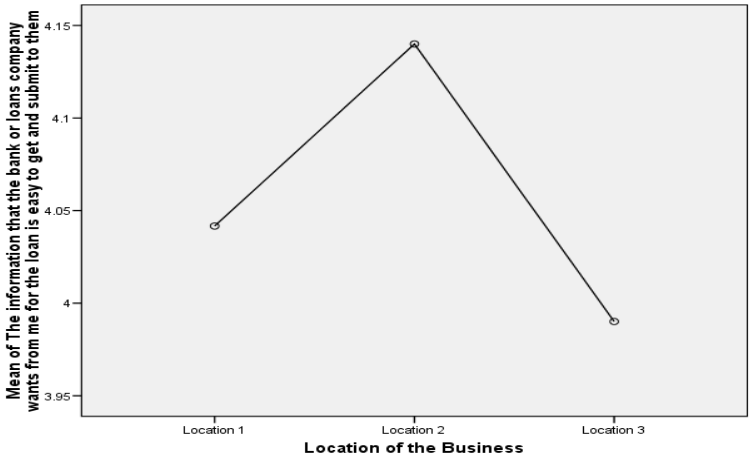


Figure 2: Means Plot for Location and Ease of Access to Application Requirements



The Descriptive Statistics in Table 19 and the Mean Plots (Figure 1 and Figure 2) support the outcomes of the ANOVA and show that Location 2 had the lowest Mean value for Availability. However, Location 3 has the lowest Mean value relating to ease of access to loan application requirements.

5.5.2. Relationship: Banking Status and Awareness

As part of the demographic section of the survey, the respondents are requested to state whether they have a personal and/or business bank account. An analysis was conducted to determine if having a bank account has any influence on how the respondents answered questions pertaining to availability of banking services. In the sample size of 300 respondents, 277 had Personal Bank accounts and only 23 had no banking account at all.

Independent T-tests were carried out between the means of the "Availability" factor for those who have Personal Bank accounts and those who do not have bank accounts (Albright et al., 2009).

Table 21: Descriptive Data on Banking Status and Awareness Factors

Group Statistics				
	Do you have a personal bank account	N	Mean	Std. Deviation
Awareness	Yes	277	3.974	0.374
	No	23	3.623	0.571

Table 22: T-test for association between Banking Status and Awareness

Independent Samples Test							
		Levene's Test for Equality of Variances		T-test for Equality of Means			
		F	P-Value	t	df	P-Value	Mean Difference
Awareness	Equal variances assumed	21.822	0.000	4.115	298	0.000	0.350
	Equal variances not assumed			2.890	24	0.008	0.350

For the "Awareness" factor equal variance cannot be assumed. The p-value is less than 0.05. We therefore assume unequal variance. Based on the assumption of unequal variance there is a significant difference between the mean of those with Personal Bank accounts and those without bank accounts. Therefore, the extent of agreeing with "Awareness" does depend on whether one has a Personal Bank account or not.

5.5.3. Relationship: Banking Status and Availability

An analysis was conducted to determine if having a bank account has any influence on how the respondents answered questions pertaining to banking services availability. In a sample size of 300 respondents, 277 had Personal Bank accounts and only 23 had no banking account at all.

Independent T-tests were carried out between the means of the "Availability" Factor for those who have Personal Bank accounts and those who do not have bank accounts (Albright et al., 2009). T-tests were also conducted on the questions which were part of the survey and could contribute toward understanding availability of financial services.

Table 23: Descriptive Data on Banking Status and Availability Factors

Group Statistics				
	Do you have a Personal Bank Account	N	Mean	Std. Deviation
Availability	Yes	275	4.204	0.437
	No	23	4.261	0.317
Q9: The information that the bank or loans company wants from me for the loan is easy to get and submit to them	Yes	277	4.043	0.369
	No	23	3.783	0.518
Q14: The loan officer should help you through the application process in a language that you understand	Yes	275	4.480	0.501
	No	23	4.435	0.507

Table 24: T-Test for Association: Banking Status and Availability

Independent Samples Test							
		Levene's Test for Equality of Variances		T-test for Equality of Means			
		F	P-Value	T	Df	P-Value	Mean Difference
Availability	Equal variances assumed	1.507	0.221	-0.614	296	0.540	-0.057
	Equal variances not assumed			-0.804	29	0.428	-0.057

Independent Samples Test							
		Levene's Test for Equality of Variances		T-test for Equality of Means			
Q9: The information that the bank or loans company wants from me for the loan is easy to get and submit to them	Equal variances assumed	7.594	0.006	3.148	298	0.002	0.261
	Equal variances not assumed			2.363	24	0.027	0.261
Q14: The loan officer should help you through the application process in a language that you understand	Equal variances assumed	1.811	0.179	0.416	296	0.678	0.045
	Equal variances not assumed			0.411	26	0.684	0.045

For the Availability Factor equal variance is assumed. The p-value is greater than 0.05. Based on the assumption of equal variance, there is an insignificant difference between the mean of those with Personal Bank accounts and those without bank accounts. The extent of agreeing with “Availability” statements does not depend on whether one has a bank account or not.

For Question 9 *“The information that the bank or loans company wants from me for the loan is easy to get and submit to them”* equal variance cannot be assumed. The p-value is less than 0.05. On the assumption of unequal variance, there is a significant difference between the mean of those with Personal Bank accounts and those without bank accounts. The respondents with Personal Bank accounts agree with the statement *“The information that the bank or loans company wants from me*

for the loan is easy to get and submit to them" more than those without Personal Bank accounts.

For Question 14 *"The loan officer should help you through the application process in a language that you understand"* equal variance is assumed. The p-value is greater than 0.05. Based on the assumption of equal variance there is no difference between the mean of those with Personal Bank accounts and those without bank accounts. Thus, the extent of agreeing with the statement *"The loan officer should help you through the application process in a language that you understand"* does not depend on whether one has a Personal Bank account or not.

5.5.4. Relationship: Main Source of Income and Business Development

We wanted to test if there was a difference in the way Microenterprise owners viewed the importance business development, based on whether the business was their primary source of income or not. Independent T-tests were carried out accordingly, using the three key Business Development Factors. T-tests were also conducted on other questions which were part of the survey and could contribute toward understanding the importance of business development.

Table 25: Descriptive Statistics: Main Source of Income and Business Development

Group Statistics				
	Is the business your main source of income	N	Mean	Std. Deviation
BusinessDevelopmentFactor1	Yes	283	4.084	0.520
	No	11	3.788	0.637
BusinessDevelopmentFactor2	Yes	283	4.394	0.592
	No	11	4.318	0.462
BusinessDevelopmentFactor3	Yes	284	4.155	0.563
	No	11	4.182	0.252
Q26: The bank or loans company should assist you in understanding the needs and opportunities in your market	Yes	283	4.113	0.349
	No	11	4.000	0.000
Q29: The bank or loans company should provide business management training in the community	Yes	283	4.170	0.412
	No	11	4.273	0.467
Q32: Belonging to a club of business owners would help build businesses in the community	Yes	283	3.869	0.647
	No	11	4.182	0.603
Q34: The bank or loans company giving you the loan should help you develop a good business plan for the loan you want to apply for	Yes	283	4.187	0.434
	No	11	4.000	0.447

Table 26: T-test for Association: Main Source of Income and Business Development

Independent Samples Test							
		Levene's Test for Equality of Variances		T-test for Equality of Means			
		F	P-value	t	df	P-value	Mean Difference
Business Development Factor1	Equal variances assumed	1.988	0.160	1.834	292	0.068	0.296
	Equal variances not assumed			1.52	11	0.158	0.296
Business Development Factor 2	Equal variances assumed	1.925	0.166	0.42	292	0.675	0.076
	Equal variances not assumed			0.527	11	0.608	0.076
Business Development Factor 3	Equal variances assumed	3.422	0.065	-0.16	293	0.875	-0.027
	Equal variances not assumed			-0.32	14	0.751	-0.027
Q26: The bank or loans company should assist you in understanding the needs and opportunities in your market	Equal variances assumed	7.167	0.008	1.072	292	0.284	0.113
	Equal variances not assumed			5.448	282	0.000	0.113
Q29: The bank or loans company should	Equal variances assumed	1.180	0.278	-0.81	292	0.418	-0.103

Independent Samples Test							
		Levene's Test for Equality of Variances		T-test for Equality of Means			
provide business management training in the community	Equal variances not assumed			-0.72	11	0.486	-0.103
Q32: Belonging to a club of business owners would help build businesses in the community	Equal variances assumed	0.007	0.933	-1.57	292	0.116	-0.313
	Equal variances not assumed			-1.68	11	0.121	-0.313
Q34: The bank or loans company giving you the loan should help you develop a good business plan for the loan you want to apply for	Equal variances assumed	3.037	0.082	1.403	292	0.162	0.187
	Equal variances not assumed			1.364	11	0.200	0.187

The p-values for test of equal variances revealed only one variable Question 26 *"The bank or loans company should assist you in understanding the needs and opportunities in your market"* shows disagreement with the statement. Therefore, we conclude the Business Development Factors are generally considered important by Microenterprise owners who participated in the survey, irrespective of whether the business is their primary source of income or not.

5.5.5. Relationship between Location and Group-lending

During the data capturing process, a trend emerged showing Microenterprise owners in Alexandra responded more positively to the possibility of Group-lending products. Question 17 stated *"The Bank or Loans Company must consider offering loans to businesses that apply as a group (Group-lending)".* This observation was tested statistically.

One way Analysis of Variance (ANOVA) was carried out to test the differences between the means (Albright et al., 2009).

ANOVA Hypothesis: Respondents across all three locations share a similar view on Group-lending.

ANOVA Hypothesis: μ(location 1) = μ(location 2)= μ(location 3)

Table 27: Descriptive Statistics for Group-lending across the three Locations

	Q17: The Bank or loans company must consider offering loans to businesses that apply as a group (Group-lending)		
	N	Mean	Std. Deviation
Location 1	46	2.522	0.913
Location 2	50	2.520	0.789
Location 3	202	3.698	0.693
Total	298	3.319	0.926

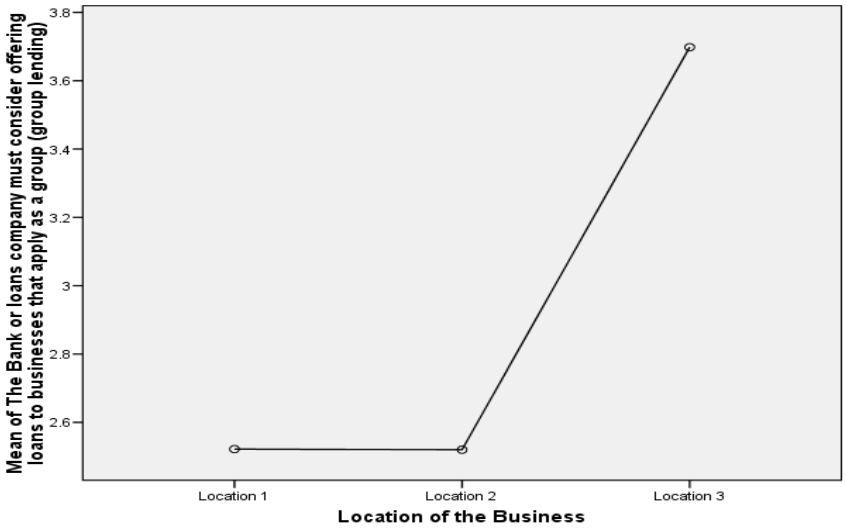
Table 28: ANOVA for Group-lending and the three Locations

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	90.177	2	45.089	80.840	.000
Within Groups	164.537	295	.558		
Total	254.715	297			

The significance value of the F test in the ANOVA table is 0.000.

We therefore reject the hypothesis the average mean ratings for Question 17 scores are equal across all three locations.

Figure 3: Means Plot for Group-lending across the three Locations



The results of the Descriptive Statistics (Table 27) and the Means plot (Figure 3) indicate the respondents from Location 3 had the highest positive response to the possibility of Group-lending products.

5.5.6. Relationship: Location and Institutional Structures

During the data capturing process, there was a trend emerging in relation to the different locations and their perception on Institutional Structures. One way ANOVA was carried out to test the differences between the means for "Institutional Structures" by location (Albright et al., 2009).

ANOVA Hypothesis: Respondents across all three locations share a similar viewpoint on the role of Institutional Structures and their enablement of Microfinance businesses.

ANOVA Hypothesis: μ(location 1) = μ(location 2)= μ(location 3)

Table 29: Description for Statistics for Institutional Structures and the three Locations

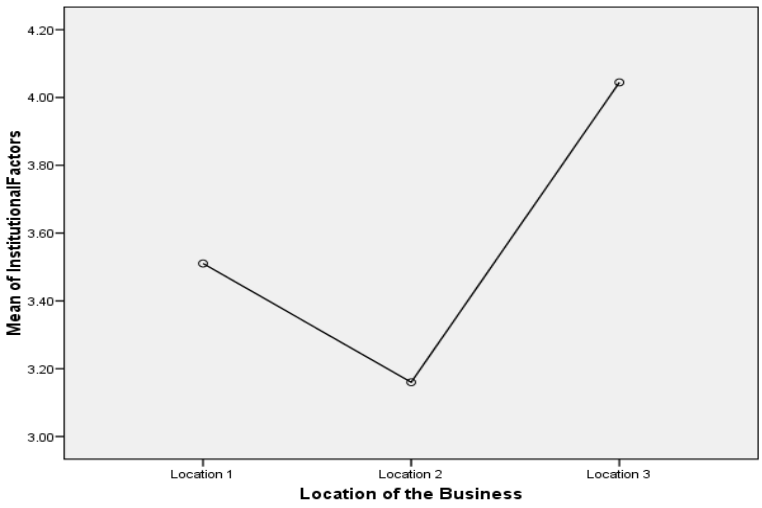
	Institutional Structures		
	N	Mean	Std. Deviation
Location 1	48	3.510	0.644
Location 2	50	3.160	0.677
Location 3	202	4.045	0.311
Total	300	3.812	0.572

Table 30: ANOVA for Institutional Structures and the three Locations

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	36.545	2	18.273	88.332	.000
Within Groups	61.439	297	.207		
Total	97.984	299			

The significance value of the F test in the ANOVA table is 0.000. *We therefore reject the hypothesis that the viewpoint on Institutional Structures is similar across all three locations.*

Figure 4: Means Plot for Institutional Structures and the three Locations



The Descriptive Statistics (Table 29) and the Means Plot (Figure 4) for the Locations were conducted and the chart shows respondents from Location 3 agree with "Institutional Structures" more than respondents from Location 1 (Metro-mall Bree Street) and Location 2 (Metro-mall Baragwanath Hospital)

5.5.7. Relationship between Institutional Structures and Affordability

The analysis shows respondents at all three locations are in favour of having Institutional Structures and agree "*Existing Institutional Structures facilitate the formalisation of Microenterprises at the Base of the Pyramid*" (Research

Proposition 4). However, the principle agreement with Institutional Structures needs to be tested against the practical implications of formalising businesses. One way of testing the practical implications is to determine the views of the respondents to Question 22 *"Registering a business is affordable"*.

Correlation Analysis was done to test the relationship between the "Institutional Structures" and affordability of registering a business (Albright et al., 2009).

Table 31: Correlation Analysis for Institutional Structures and Affordability

	Q22: Registering a business is affordable		
	Correlation Coefficient	P-value	N
Institutional Factors	0.123	0.034	300

Institutional Structures have a significant positive correlation with the statement "Registering a business is affordable", since the correlation coefficient is greater than 0 and the p-values is less than 0.05. This means those respondents who agree Institution Structures facilitate formalisation of Microenterprises (results of Research Proposition 4) also agree with the statement "Registering a business is affordable".

5.5.8. Relationship between Business Development Factors and Fees

While access to business development is deemed important by the respondents to the survey (Research Proposition 5), the cost of providing the services cannot be ignored as a possible hindrance for Microfinance Institutions. Question 35 *"I would*

be willing to pay a fee as part of the loan for business development and support services" was included in the survey to determine the willingness of respondents to pay for business support that could improve their chances of running successful businesses.

Correlation Analysis was done to test the relationship between each of the three key Business Development Factors and Question 35 (Albright et al., 2009). Correlation Analysis was also conducted on other questions which were part of the survey and could contribute toward understanding the importance of business development, namely Question 26, Question 29, Question 32 and Question 34.

Table 32: Correlation Analysis for Business Development Fee

	Q35: I would be willing to pay a fee as part of the loan for business development and support services		
	Correlation Coefficient	P-value	N
BusinessDevelopmentFactor1	0.483	0.000	299
BusinessDevelopmentFactor2	0.243	0.000	299
BusinessDevelopmentFactor3	0.358	0.000	300
Q26: The bank or loans company should assist you in understanding the needs and opportunities in your market	-0.102	0.077	299
Q29: The bank or loans company should provide business management training in the community	0.203	0.000	299
Q32: Belonging to a club of business owners would help build businesses in the community	-0.055	0.339	299
Q34: The bank or loans company giving you the loan should help you develop a good business plan for the loan you want to apply for	0.239	0.000	299

The results show five out of the seven elements of business development have a positive correlation to a viewpoint of agreeing to pay for business development services. This means the respondents, who support the inclusion of business development services, are willing to pay a fee for them.

Two elements show a negative correlation with willingness to pay for business development services, namely Question 26 *"The bank or loans company should assist you in understanding the needs and opportunities in your market"* and Question 32 *"Belonging to a club of business owners would help build businesses in the community". H*owever, the negative correlation is not significant with a p-value greater than 0.05.

5.5.9. Relationship between Business Development Factors and Partnership

While access to business development is deemed important by respondents to the survey (Research Proposition 5), the cost of providing the services cannot be ignored as a possible hindrance. Question 36 was included in the survey to determine the willingness of respondents to go into a partnership with banks or loan companies as a mechanism to access the business development services and improve their chances of running successful business.

Correlation Analysis was done to test the relationship between Business Development Factors against Question 36 (Albright et al., 2009). Correlation

Analysis was also conducted on other questions which were part of the survey and could contribute toward understanding the importance of business development.

Table 33: Correlation Analysis for Business Development and Partnership

	Q36: I would be willing to enter into a partnership agreement with the bank or loan company in exchange for the business development services		
	Correlation Coefficient	P-value	N
BusinessDevelopmentFactor1	0.209	0.000	299
BusinessDevelopmentFactor2	0.053	0.358	299
BusinessDevelopmentFactor3	0.077	0.185	300
Q26: The bank or loans company should assist you in understanding the needs and opportunities in your market	-0.012	0.837	299
Q29: The bank or loans company should provide business management training in the community	0.135	0.019	299
Q32: Belonging to a club of business owners would help build businesses in the community	-0.061	0.294	299
Q34: The bank or loans company giving you the loan should help you develop a good business plan for the loan you want to apply for	0.063	0.281	299

Only two of the seven elements show a correlation with a significant p-value less than 0.05. This means the majority of respondents surveyed, are not willing to enter into partnerships with banks or loan companies in exchange for business development services.

5.5.10. Relationship: Location and Community Development

The perception of the importance of community development was tested for the three locations of the research.

One tailed T-test was carried out at 5% level of significance (Albright et al., 2009). A consolidating variable called Community Development was created using in the "Community Development" Factor Analysis outcomes (Kaiser, 1974; Montgomery et al., 1998). In the preliminary grouping of questions as possible factor components, Question 38 of the survey was included as a possible factor of Community Development. It was subsequently excluded when the KMO and Bartlett's Test for Affordability were conducted as it did not meet the inclusion requirements (Kaiser, 1974). **One tailed T-test** was carried out separately for Q38 (Albright et al., 2009).

Table 34: T-Tests for the importance of Community Development

One-Sample Statistics				T-Test against the Mean of scale = 3		
	N	Mean	Std. Deviation	t	df	P-Value
Community Development	300	4.217	0.448	47.075	299	0.000
Q38: The staff that work for the bank or loans company must live in the community they serve	300	3.383	0.934	7.108	299	0.000

The results show mean values for both community development and the variable Q38 *"The staff that works for the bank or loans company must live in the*

community they serve" are significantly higher than the mean of the scale. The p-values of the T-tests are also less than 0.05. This means the respondents agree with both the Community Development and Q38 *"The staff that work for the bank or loans company must live in the community they serve"* are important considerations for Microfinance Institutions.

To test the importance of Community Development by Location, One way ANOVA was carried out (Albright et al., 2009). ANOVA was done on Q38 as a possible contributor to understanding the importance of Community Development requirements (Albright et al., 2009).

Table 35: Descriptive Statistics for Community Development by Location

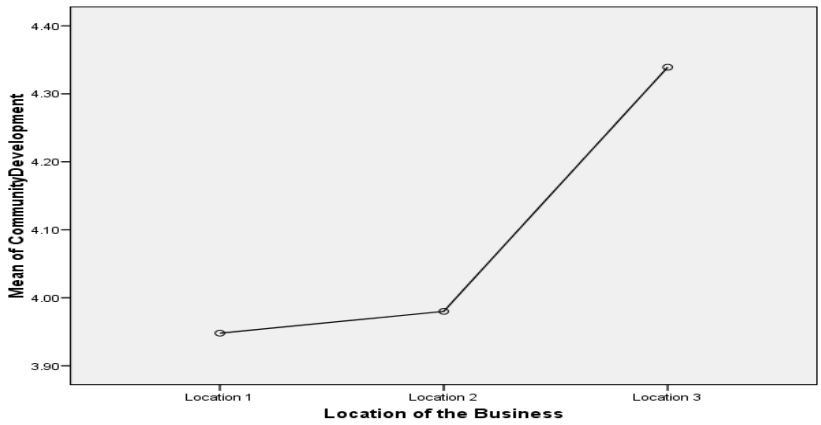
		N	Mean	Std. Deviation
Community Development	Location 1	48	3.948	0.452
	Location 2	50	3.980	0.534
	Location 3	202	4.339	0.367
	Total	300	4.217	0.448
Q38: The staff that work for the bank or loans company must live in the community they serve	Location 1	48	3.375	0.531
	Location 2	50	3.540	0.646
	Location 3	202	3.347	1.060
	Total	300	3.383	0.934

Table 36: ANOVA for Community Development by Location

		Sum of Squares	df	Mean Square	F	Sig.
Community Development	Between Groups	9.296	2	4.648	27.270	0.000
	Within Groups	50.621	297	0.170		
	Total	59.917	299			
Q38: The staff that works for the bank or loans company must live in the community they serve	Between Groups	1.504	2	0.752	0.861	0.424
	Within Groups	259.413	297	0.873		
	Total	260.917	299			

The ANOVA p-value of the F test for "Community Development" is 0.000. Thus, we reject the hypothesis the average rating for "Community Development" is equal across the three Locations. The p-value for Question 38 *"The staff that works for the bank or loans company must live in the community they serve"* is 0.424, greater than 0.05. We therefore accept the statement *"The staff that works for the bank or loans company must live in the community they serve".*

Figure 5: Means Plot for Community Development by Location



The results of the Descriptive Statistics (Table 35) and the Means Plot (Figure 5) show Location 3 (Alexandra Township) had the highest mean for Community Development (combined) whilst Location 2 (Metro-mall Baragwanath Hospital) had the highest mean for the variable Q38 *"The staff that work for the bank or loans company must live in the community they serve".*

5.5.11. Most Highly Rated Business Development Requirement

The statistical testing revealed business development for Microenterprises at the Base of the Pyramid is considered important. Tests were conducted to determine if there were specific development elements deemed more important than others. The influence of location on the importance ranking was also considered.

T-tests were conducted for Business Development Factors and the possibility of Location influence (Albright et al., 2009).

Table 37: T-test for Business Development - Total Sample

				T-Test against the Mean of scale = 3		
	N	Mean	Std. Deviation	t	df	P-Value
BusinessDevelopmentFactor2	299	4.391	0.586	41.077	298	0.000
Q34: The bank or loans company giving you the loan should help you develop a good business plan for the loan you want to apply for	299	4.184	0.437	46.858	298	0.000
Q29: The bank or loans company should provide business management training in the community	299	4.174	0.414	49.089	298	0.000
BusinessDevelopmentFactor3	300	4.153	0.550	36.321	299	0.000

				T-Test against the Mean of scale = 3		
Q26: The bank or loans company should assist you in understanding the needs and opportunities in your market	299	4.107	0.341	56.198	298	0.000
BusinessDevelopmentFactor1	299	4.077	0.526	35.378	298	0.000
Q32: Belonging to a club of business owners would help build businesses in the community	299	3.876	0.646	23.449	298	0.000

Table 38: T-test for Business Development - Location 1

				T-Test against the Mean of scale = 3		
	N	Mean	Std. Deviation	t	df	P-Value
BusinessDevelopmentFactor2	48	4.271	0.684	12.875	47	0.000
Q34: The bank or loans company giving you the loan should help you develop a good business plan for the loan you want to apply for	48	4.146	0.461	17.228	47	0.000
Q29: The bank or loans company should provide business management training in the community	48	4.021	0.526	13.459	47	0.000
BusinessDevelopmentFactor3	48	4.021	0.325	21.729	47	0.000
Q26: The bank or loans company should assist you in understanding the needs and opportunities in your market	48	3.958	0.289	23.000	47	0.000
BusinessDevelopmentFactor1	48	3.885	0.595	10.316	47	0.000
Q32: Belonging to a club of business owners would help build businesses in the community	48	3.646	0.442	10.113	47	0.000

Table 39: T-test for Business Development - Location 2

				T-Test against the Mean of scale = 3		
	N	Mean	Std. Deviation	t	df	P-Value
BusinessDevelopmentFactor2	50	4.200	0.452	18.783	49	0.000
Q34: The bank or loans company giving you the loan should help you develop a good business plan for the loan you want to apply for	50	4.170	0.726	11.400	49	0.000
Q29: The bank or loans company should provide business management training in the community	50	4.140	0.606	13.293	49	0.000
BusinessDevelopmentFactor3	50	4.100	0.364	21.356	49	0.000
Q26: The bank or loans company should assist you in understanding the needs and opportunities in your market	50	4.040	0.450	16.344	49	0.000
BusinessDevelopmentFactor1	50	3.860	0.707	8.596	49	0.000
Q32: Belonging to a club of business owners would help build businesses in the community	50	3.753	0.725	7.350	49	0.000

Table 40: T-Test for Business Development - Location 3

				T-Test against the Mean of scale = 3		
	N	Mean	Std. Deviation	t	df	P-Value
BusinessDevelopmentFactor2	201	4.475	0.499	41.879	200	0.000
Q34: The bank or loans company giving you the loan should help you develop a good business plan for the loan you want to apply for	202	4.290	0.434	42.261	201	0.000
Q29: The bank or loans company should provide business management training in the community	201	4.260	0.365	48.898	200	0.000

				T-Test against the Mean of scale = 3		
	N	Mean	Std. Deviation	t	df	P-Value
BusinessDevelopmentFactor3	201	4.259	0.439	40.648	200	0.000
Q26: The bank or loans company should assist you in understanding the needs and opportunities in your market	201	4.244	0.430	40.967	200	0.000
BusinessDevelopmentFactor1	201	4.075	0.263	57.832	200	0.000
Q32: Belonging to a club of business owners would help build businesses in the community	201	3.776	0.659	16.690	200	0.000

From the results of the T-test we can conclude Business Development Factor 2 is regarded as the most important. During the Factor Analysis process, Business Development Factor 2 was constructed using three of the strongest factor components from the survey *"Having a business mentor is important for running a business successfully"; "The bank or loans company should provide business mentors in the community"; "The bank or loans company giving you the loan should form groups to support you and businesses like yours in the community".*

6. Discussion of Results

This Chapter discusses the results presented in Chapter 5 and draws on the literature on Microfinance models, BOP market insights, the role of Institutional Structures and Microenterprise development to explain the observed results. The results are discussed in terms of the research questions and research propositions defined in Chapter 3.

The research argued current Microfinance solutions are not aligned to the needs of Microenterprises at the Base of the Pyramid. The purpose of the research was to identify and propose solution components that should be considered for designing future Microfinance solutions, in order to offer all-inclusive Microfinance market propositions. The proposed solution components were tested for relevance, using quantitative research on a sample of Microenterprise owners in Gauteng.

6.1. General Demographic Observations

The demographic observations are the result of combining literature on BOP consumers and the responses obtained from the survey. ***Appendix 3*** provides the detailed frequency tables compiled from the survey responses and used to expand the research observations.

The surveys were conducted in three locations in the Gauteng province. Location 1 was the Metro-mall on Bree Street in the Johannesburg City Centre. Location 2

was the Metro-mall at Baragwanath Hospital in Soweto Johannesburg. Location 3 was Alexandra Township in Johannesburg. The demographic information provided general background information on the survey respondents. The split between male and female Microenterprise owners is almost even with men accounting for 47% and women accounting for 51%. Only 1.3% of the respondents did not state their gender (missing data). The majority of respondents were aged between 36 and 55 years, making up 73.7% of the respondents. The majority of respondents had Matric as the highest level of education (55%), followed by those who did not reach Matric, accounting for 27% of the sample. Twenty two different types of businesses were surveyed with the most dominant type of business being Tuck Shops (37%). Nieman and Nieuwenhuizen (2010) state small business owners establish businesses in order to generate an income and to secure their families' future. The results of the survey prove this theory correct. The majority of Microenterprises businesses were the primary source of income for the respondents (94%); 72% of the respondents established business to make money for themselves and their families; 25.7% started businesses after losing their jobs. The majority of respondents had Personal Bank accounts at 92%. Only 28% had Business Bank accounts. A minimal number of respondents had no bank account at all (7.7%). The majority of business premises were either directly owned or rented. The high level of observed rentals is influenced by the high response rate from Metro-malls where the space is allocated purely on a rental basis.

One of the key components of the BSM measure, defined by Finscope, is the *use of technology in the business* (Finscope, 2010). There appeared to be a limited use of technology for accessing financial services in the research sample, with 87% of the respondents using bank branches for accessing financial services. Only 4.7% were using internet and cellular phone banking channels. Anderson and Billou (2007) state BOP markets embrace technology solutions, if they are easily available and deliver to their needs. The low uptake of banking services technology could imply the services are not easily available to the Microenterprise owners, who formed part of the sample, or there could be an information gap on the technology-driven services available to them for fulfilling their business banking needs. It would have been beneficial to include questions on how many respondents have cellular phones and how many have access to the internet. These additional questions may have assisted in informing the possible reasons for the low uptake of technology-driven banking solutions; is it a channel access problem – poor access to cellular phones and the internet; or is it lack of knowledge on the banking services available through technology-driven channels.

The results show current business knowledge and business management skills are a challenge for the Microenterprise owners who participated in the survey. As expected, the majority of respondents have not had business management training, 85.7% of the sample. The low levels of monthly income also indicate the low potential earnings in their chosen businesses. In line with the income range specified by Finscope (2010) for Microenterprises, the two main categories of

monthly income were R1000 to R3000 and R3000 to R5000, jointly accounting for 83% of the respondents. 10.3% of the respondents make less than R1000 per month, which places them in the Survivalist Business Category of the BSM measures (Finscope 2010; Centre of Microfinance, 2010). Survivalists are businesses in BSM 1 to BSM 3 with an income level ranging from less than R1000 to R1500 per month. On average only one business is operational, as supported by the research data, Appendix 3, Table 59.

Chang (2010) states the study conducted by Aghion and Williamson, shows BOP consumers use credit as a consumption smoothing mechanism to pay for day-to-day requirements. Rankhumise & Rugimbana (2010) found that BOP Microenterprise owners are not different. The results of the research support this view and further highlight the negative impact of limited business knowledge and planning capabilities in the use of Credit. The research results show 53% of the respondents would use a business loan to buy new stock for their current business; 3% would use the new loan to pay off other existing loans. This is another sign of low levels of business knowledge, having a short-term view of the business and its financial fitness. The findings regarding the use of business loans could also imply the proposition made by Agyapong (2010), that some Microenterprise owners might want to see their businesses grow, while others are comfortable with just achieving a steady income and using the business to leverage additional access to money. The use of new loans to pay other loans certainly aligns to Agyapong's second argument. One thing is certain; the use of loans for day-to-day

consumption results in less disposable income in the long-term, since a larger portion of the income has to be used to service the debt (Chang, 2010; Karnani, 2008). In essence, Credit cannot be used as a consumption smoothing tool on a sustainable basis (Chang, 2010; Karnani, 2008). Ideally, Credit should be used for business growth initiatives. Collectively, only 38.7% of the respondents would use the funds for business growth in the form of buying new equipment for their businesses (12%) or starting another business for expansion purposes (26.7%).

6.2. Microenterprise Access to Financial Services

According to Anderson and Billou (2007), business models defined for BOP markets must drive four key concepts: Awareness, Availability, Affordability and Acceptability. The testing done for the research propositions for *Awareness, Availability and Affordability* show Microenterprise owners are aware of the business financial services available to them and they feel the financial services are easily available to them and affordable.

The positive perception of financial services does not seem to translate into practical use of Microfinance for business purposes. To illustrate, Anderson and Billou (2007) define *Acceptability* as the extent to which BOP consumers are willing to acquire, use and promote the products and services on offer. If we take note of the results in *Appendix 3, Table 55 and Table 56* as well as the definition of Acceptability by Anderson and Billou (2007), the Acceptability rate of current Microfinance solutions is questionable. Only 24 respondents acknowledged having

a business loan, yet collectively, 56 respondents acknowledged having some form of a loan for their businesses. Loans from a bank, or a loan company only accounted for 13 out of the 56 affirmative responses. In other words, only 4.3% Microenterprise owners who have a loan obtained it from formal banks and loan companies, the rest of the loans came from “Mashonisa” (loan sharks), family and friends. Additional questions to understand why loans are not being taken, revealed only 25% do not have loans because they do not need them. The other 75% of respondents do not have loans for various reasons, one being due to their applications being declined; 22.7% fear that their seasonal business will make repayment difficult - lack of flexibility in loan repayment structures; lack of trust in formal banks and loan companies; some owners had not even considered getting loans for their businesses (31.3%). These research findings support the view expressed by Pitta et al. (2008), which states focusing on just providing products and services is not sufficient for achieving success in BOP markets. Part of the success formula involves having a very good understanding of the chosen market’s perceptions which drive consumption behaviour and ultimately market acceptance. The business environments in which Microenterprises operate and the demographic profiles of their owners require financial solutions to adopt a different valuation approach and provide services beyond financial products (Mamun et al., 2011). In this instance the low usage of formalised Microfinance is an indicator the solutions being offered are not suitable to the target market needs and therefore do translate into positive consumer uptake.

The expectation prior to conducting the field survey was people who have bank accounts would answer certain questions pertaining to financial services, differently from those who did not have bank accounts. For association testing, the data of those who have Personal Bank accounts was used, due to the high affirmative percentage of 92.3% compared to those who had Business Bank accounts - only 28.3%. The rationale for the expectation was based on the notion of exposure and usage of services leads to awareness, which leads to further exposure and further usage. The results verified the expectation. Association testing between having a Personal Bank account and the “Awareness” Factor showed having a Personal Bank account does influence the level of awareness about financial services. This makes sense, since those who have bank accounts would be more aware of the banking services available, since they utilise them. Those who do not have bank accounts would not necessarily know about the various services available and how to access them. The association testing between having a Personal Bank account and the “Availability” Factor showed having a Personal Bank account does not influence perceptions on the availability of financial services. So, irrespective of banking status, respondents agree financial services are available to Microenterprise owners. However, practical information from those who have bank accounts and those who do not, comes through in questions pertaining to engagements with financial institutions. Those who do not have bank accounts had more negative responses to questions used to test the engagement with financial institutions. The negative perception could be compounded by their lack of first-hand experience, which is implied by their lack of having bank accounts (Table 24).

In conclusion, the research findings show financial services are available, affordable and have a good level of awareness amongst Microenterprise owners. However, based on the definition of Acceptability provided by Anderson and Billou (2007), the current solutions for business loans for Microenterprises have a low Acceptability rate. Research conducted in Malaysia by Mamun et al. (2011) shows success can be achieved when microfinance solutions are flexible and adaptable to the needs of the target communities. Furthermore, Microfinance programmes that include training and community development benefits have gained the most favour amongst BOP Microenterprise owners. These are key considerations for local Microfinance Institutions attempting to understand why the current Acceptability (Anderson & Billou, 2007) of Microfinance offerings amongst Microenterprises is so low. The research results show that there is no single formula for defining Microfinance solutions for Microenterprises that will work in all BOP markets. The underlying reasons for Microenterprise owners using or not using Microfinance products and services differ. As reiterated in the literature and affirmed by the research results, in order to deliver acceptable Microfinance in a solution-oriented manner, it is important to gain a proper understanding of the of the chosen BOP markets. Microfinance Institutions should seek to understand consumer behaviour drivers; understand the perceptions of value characterising each BOP market and therefore, gain insights into the influences of acceptance and consumption behaviour.

6.3. The Role of Institutional Structures

The International Finance Corporation (2011) advocates a simplification of the business registration process as a requirement to reduce the costs of formalising businesses and keeping them legitimate over the long term. Hart and London (2005) support this view and further state the limitations of Institutional Structures result in poor accounting of unregistered assets and economic activity in BOP markets. These views are supported by the results of the study conducted by the Centre of Microfinance (2010) and Finscope (2010) stating 84% of Microenterprises operating in Gauteng are informal. However, the results of research proposition on Institutional Structures (Research Proposition 4) contradict the views expressed by the scholars and the study conducted by the Centre of Microfinance and Finscope in 2010. The research results show Microenterprise owners have a favourable perception about access to Institutional Structures and the role of Institutional Structures in facilitating the formalisation of their businesses. The test for association between Institutional Structures and Location surprisingly showed Location 3 (Alexandra Township) had the highest overall positive feedback on Institutional Structures (Table 29, Table 30 and Figure 4). The reason for the surprising positive feedback from Location 3 is mainly because that location has the highest probability of having informal businesses. Metro-malls are formal business locations with a requirement for the resident businesses to be formally registered in order to be allocated space to operate. Therefore, Metro-mall business owners cannot opt out of registration. The support of Institutional Structures by the two Metro-malls sample groups makes sense, given those

sample groups have seen the benefits of formalising their business operations. A possible reason for the results at Location 3 results could be the respondents were mindful of "the right thing to do" and could have mirrored their responses accordingly. Location 3 responses might indicate the perception they want to create about believing in legalising their businesses, while in reality their behaviour might be different. This is highly probable, given the high level of informal businesses operating in Gauteng (Centre of Microfinance, 2010). In retrospect, it would have been beneficial to include questions to determine if each respondent has registered their business. It would assist in determining if their perceptions are theoretical, or factual based on their own experiences, especially for Location 3 (Alexandra Township) where formalisation is definitely questionable.

6.4. Inclusion of Business Development in Microfinance Solutions

The most important proposition of the research pertains to the importance of including business development and business support services as part of the Microfinance solutions of the future. The International Finance Corporation (2011) advocates the importance of assisting small businesses in accessing producer and consumer markets, providing access to advisory services and providing support in improving quality standards and products to align to market needs. In addition to market-related support, Microenterprises require training in business management, financial literacy and industry specific knowledge to assist them in establishing successful enterprises (International Finance Corporation, 2011; Torri, 2009; Rankhumise & Rugimbana, 2010). The results of the research proposition on

Business Development Support (Research Proposition 5) support the literature and show Business Development Support from Microfinance Institutions is important to Microenterprises at the Base of the Pyramid, irrespective of whether the business is the main source of income or not (Table 25 and Table 26).

One of the arguments made by Torri (2009) is BOP markets need to develop locally relevant Human Capital. In this context, the right type of Human Capital is developed most effectively through local knowledge transfer and coaching. This view is strongly supported in the research findings. The respondents ranked Business Development Factor 2 as the most important future consideration for inclusion in Microfinance solutions (Table 37, Table 38, Table 39 and Table 40). The components of Business Development Factor 2 were *"Having a business mentor is important for running a business successfully"; "The bank or loans company should provide business mentors in the community"; "The bank or loans company giving you the loan should form groups to support you and businesses like yours in the community".* The highly positive responses to the Business Development Factors, especially Business Development Factor 2, imply an underlying awareness by the Microenterprise owners of the importance of strong business management knowledge and skills in order to have a successful business. By engaging in self-employment through their Microenterprise ventures, the survey respondents are showing inherent awareness of the need to pursue sustainable self-sufficiency in order to survive. This view is reiterated by the demographic information which found the majority of the respondents (94%)

operate the business as the primary source of income for themselves and their families. While the other two Business Development Factors (Factor 1 and Factor 3) focus on business skills and theoretical principles of Business Management, Business Development Factor 2 focuses on self-development components which can be leveraged indefinitely to build success.

Interestingly, the results of the survey provide a contradicting view on the importance of including market insights as part of the value proposition for Microenterprises. Various tests were done on the three Business Development Factors and other variables that contribute to the understanding of the importance business development to Microenterprise owners. The various test results in Table 26, Table 32 and Table 33 show rejection of the statement made in Question 26 *"The bank or loans company should assist you in understanding the needs and opportunities in your market".* The results imply the respondents do not perceive any significant challenges with accessing market information. This view is reinforced by the strongly positive answers to Question 24 *"Understanding the opportunities in the market is important for establishing a successful business"* and Question 25 "*I know how to find information on opportunities in the market".* The rejection of Question 26 could be because the respondents really feel they understand their markets and Microfinance Institutions would not be able to provide them with the type of information they need and want. Another possibility is the issue of not trusting banks or loan companies, implying lack of trust in the information coming from such institutions, as expressed by Barki and Parente

(2010). The results of the research on this particular matter are not extensive enough to take a definitive view. The descriptive survey-based approach used for this research did not provide the opportunity to gain insights or articulate the reasons for the contradictions in the results. Further research, in the form of open engagements, can be conducted to gain insights into the key business development services deemed important to Microenterprise owners, taking community variations into consideration. The engagements should also seek to understand why some of the proposed business development and business support services are acceptable while the others are rejected. A possible approach is to conduct Focus Groups with Microenterprise owners in various communities to gain insights into possible reasons for the responses provided.

6.4.1. The Cost of Delivering Business Development and Support Services

Cull et al. (2009b) state the focus on cost optimization and profit maximization results in Microfinance models that exclude certain demographics of consumers and producers from accessing financial services. The essence of the argument is costs curtail outreach (Cull et al., 2009b). The questions asked to determine if respondents would be willing to pay a fee for business development services yielded positive results (Table 32). However, the alternative option of entering into a partnership as a method of accessing the business development services received negative responses from the respondents (Table 33). This can possibly be attributed to the perceived loss of ownership and independence by entering into a partnership with a financial institution; while paying for the service maintains the perception of full ownership status, linked to independence. Another possibility is

the issue of lack of trust between Microenterprises and financial institutions as expressed by Barki and Parente (2010). Partnerships need to be built on trust and a relationship of mutual benefit. In retrospect, this question is loaded with possibilities that could be open to negative interpretation. Unlike the question on paying for services, which is quite straight-forward, the question on partnership is too broad. Given the nuances that need to be articulated in any form of partnership, it is understandable that failure to clearly articulate the possible conditions of the partnership, coupled with the implied limited trust, could result in apprehensive responses to partnerships with financial institutions.

The business case for all-inclusive solutions delivering credit, savings, investment, insurance and business development services for Microenterprises is viable. In reflection of the theory, loan repayments are the most significant measure in Microfinance performance (Khavul, 2010). So the key argument in favour of all-inclusive solutions is Microenterprises with access to all-inclusive Microfinance solutions, especially business support services, will have a higher probability of success and therefore a higher loans repayment rate. Not only will successful Microenterprises improve the sanctioning of Microenterprise lending, but they are also more likely to become the next generation of small and medium enterprises. In terms of Return on Investment, the next generation of small and medium enterprises provide financial institutions with the prospect of up-selling more profitable value-propositions to them in the future.

6.5. Community Orientation and Financial Services

Ireland (2008) advocates communication to BOP markets must focus on "Inclusivity" and a sense of belonging. Research conducted by Anderson and Billou (2007), Ireland (2008) and Torri (2009) show evidence of the success of business models emphasising community development and co-dependence in BOP markets. BOP consumer theory by Barki and Parente (2010) supports hiring local community members as part of the sales team as an effective marketing and sales tool to create the right awareness and acceptability for BOP products and services. The results of the research support the theory through positive responses to questions based on community-orientation and development. Survey questions, linking community development to financial services, received high Mean values across all three locations and achieved a significant rating of importance (Table 34, Table 35 and Table 36).

Torri (2009) proposes community-based poverty alleviation programmes should focus on establishing self-sufficiency through Community-based Enterprises (CBEs). Interestingly, the research results show the sense of community orientation does not extend to the business environment itself. One of key questions used to test the association between financial services to community orientation was the question on Group-lending propositions *"The bank or loans company must consider offering loans to businesses that apply as a group (Group-lending)"*. Location 1 and Location 2, the Metro-malls, had an overall negative response to Group-lending considerations. Location 3, Alexandra Township had a

very positive response to the proposition of Group-lending. Possible causes for the difference in responses could be the inherent community orientation in Alexandra which might not be present in the Metro-malls. In Location 3 (Alexandra Township) Microenterprise owners run their businesses from the residential premises. They are, therefore, part of an ongoing stable community; they know each other, live together and the business is an extension of their daily lives. The results observed in Alexandra make sense, based on the prevalent BOP theory of community-orientation, co-dependence, trust and the development of the greater community (Anderson & Billou, 2007; Ireland, 2008; Torri, 2009). Operating a business in a Metro-mall environment is very different. People come to a business location from differing backgrounds and different home communities. The environment is not necessarily conducive to stimulate the community-orientation required to embrace Group-lending propositions. It would have been beneficial to include questions to determine if the respondents belong to business clubs or other forms of financial clubs to see if pre-existing biases have any influence on the answer provided for the Group-lending question.

7. Research Conclusion and Recommendations

7.1. Introduction

The purpose of this research was to test the proposition that current Microfinance models are not aligned to the needs of Microenterprises operating at the Base of the Pyramid. The research proposed Microfinance solutions should provide services beyond financial assistance and cater for the holistic developmental needs of Microenterprises operating at the BOP. The key argument of this research is Microfinance solutions for Microenterprises should provide all-inclusive financial services catering for transactions, savings, insurance and investments, as well as nonfinancial services such as access to market insights; business management training; access to institutional structures to facilitate the formalisation of Microenterprise businesses.

Based on the findings of the research this chapter provides recommendations for Microfinance Institutions on future considerations for Microfinance models and recommendations for Government in their role as facilitator and enabler of Microenterprise development.

The chapter concludes with the proposed Microfinance Framework for consideration, derived from the Research Propositions and the results of the research conducted.

7.2. Research Conclusion

The research provided conclusive results on the five main Research Propositions and association testing conducted. Interestingly, some of the research results are contradictory to the expected outcomes, based on the literature review. Overall, the results show that the sample of Microenterprise owners have a positive perception about Awareness, Availability and Affordability of financial services even though they do not utilise them to levels that would deem the offerings successful. The challenge for Microfinance Institutions is to understand where the misalignment between positive perceptions about Microfinance and the low levels of uptake comes from. One of the possible reasons is the limited value derived from solutions that focus on financial services only. Another possibility could be ineffective Institutional Structures that hinder access to financial support services. However, the research results nullified the possibility of ineffective Institutional Structures as one of the possible reasons. The respondents have a positive view about Institutional Structures and the role they play in formalising businesses, coupled with the benefits thereof.

The proposition made by the research regarding the value that can be derived from including business development services in Microfinance solutions was significantly supported by the research results. Even though there are some elements of the results showing underlying negative perceptions about certain inclusions, the overall response was in support of including business development and business support services as part of Microfinance propositions. The

quantitative research approach did not allow the opportunity to unpack the definitive reasons for the low uptake of current Microfinance offerings nor the unexpected negative perceptions about certain business development and support inclusions. This provides opportunities for future research using alternative methods that allow more detailed engagements to take place, in order to understand the source and rationale for the contradictory results. The results also show a generally positive alignment to community development. However, the community orientation, trust and partnership principles do not extend to the actual business environment. This came through clearly where the respondents are willing to pay for business development services, but are not willing to enter into partnerships with financial institutions nor are they keen to engage in Group-lending models with fellow Microenterprise owners operating in the same community.

All things considered, the research results have a mixture of definitive outcomes and some implied differences which could not be fully articulated in this study. The results imply underlying differences in the needs and contexts of the Microenterprise communities and these differences will influence the products and services that would appeal to different Microenterprise contexts. Mendoza and Thelen (2008) reinforce the importance of gaining detailed knowledge about the target market, their personal circumstances and the influence of those in their consumption behaviour. In this context, the ability to define flexible Microfinance solutions that can be customised based on the specific community context and

business development needs, will yield better market acceptability and solution success for Microfinance propositions.

7.3. Recommendations for Microfinance Institutions

The contribution envisaged for Microfinance and Microenterprises in achieving economic development goals cannot be emphasised enough. However, the expectation that Government can deliver on all the required factors to facilitate the growth and development of Microenterprises, is not realistic. There is a limitation on government resources and capacity to provide extensive, sustainable and scalable solutions for economic development at grass-roots level. Microfinance Institutions providing appropriate Microfinance solutions can bridge the gap.

7.3.1. Consider the Role of Technology in Microfinance Solutions

The quantitative research was conducted in urban environments where access to financial institutions was still deemed easy. In the surveyed environments, the use of technology for business banking is minimal. Given the environments were urban with easy access to business districts and bank branches, the limited use of technology-driven banking services by Microenterprise owners is still acceptable. The opportunities lie in the remote areas where the use of technology is a critical consideration to achieve reach, scalability and flexibility. Microfinance Institutions should explore the role that technology can play in delivering future Microfinance solutions that are easy to access, easy to use and easy to customise to the needs of specific Microenterprise communities. Technology is a key consideration in

finding the balance between cost and effective delivery of financial solutions for Microenterprises in BOP markets.

7.3.2. Consider All-Inclusive for Microenterprises

All-inclusive Microfinance refers to financial services that include transactional, credit, savings, insurance and investment products in a single comprehensive offering. The research results have found appetite amongst Microenterprise owners for Microfinance solutions that include a variety of financial products as well as business development and business support services. The proposed approach is to consider "one-stop" financial packages providing transactional, savings, credit, investment, insurance and business development services in a single and easy to understand offering. The packaging of the various components and the relative importance of the components will be dictated by the needs of the specific target market.

7.3.3. Consider both Individual-liability and Joint-liability Models

In the research conducted by Khavul (2010), Individual-liability Microfinance solutions have proven to be more profitable than Joint-liability Microfinance. However, the research by Khavul (2010) also shows Joint-liability models have a higher repayment rate. One way to mitigate cost is to deploy profitable Individual-liability Microfinance solutions. However, in order to achieve scale and reach, Joint-liability models are the preferred option. The results of the survey conducted for this research showed a mixed result in favour and against Joint-liability models.

Microfinance Institutions should consider business models adopting a hybrid approach, engaging in both Individual-liability and Joint-liability models. The co-existence of the two models will allow Microfinance Institutions to achieve "Inclusivity" and scalability while still achieving commercial profits. Similar to the observations about business development services, there is no single formula for defining Microfinance solutions for Microenterprises. Microfinance Institutions should explore the requirements of their target markets and define the right mix of hybrid solutions that will deliver appropriately to the needs of those chosen markets.

7.4. Recommendations for Government

In order to be effective in BOP markets, business models need to be supported by enabling Institutional Structures.

7.4.1. Establish Supporting and Facilitating Institutional Structures

The concept of establishing micro-business districts, in the form of Metro-malls should be extended to rural and remote areas. The benefits will be, ease of access by the consuming communities as well as ease of access by supportive institutions seeking to assist in the development of Microenterprises.

One of the key arguments from Microfinance scholars, is that regulation curtails outreach (Cull et al., 2009a; Centre of Microfinance, 2010; International Finance Corporation, 2011). Government must look at revising policies and processes

deemed to hinder the formalisation of businesses. While the results from this research showed a positive perception about Institutional Structures, the research conducted by the Centre of Microfinance (2010) shows 84% of businesses operating in Gauteng are informal, giving a contradictory view on the effectiveness of Institutional Structures. Incentives should be implemented to encourage Microenterprise owners to become formalised and to maintain their formalised status over the long-term. Microenterprise owners must be able to see the benefits enjoyed by legalised businesses and be able to access the facilitating institutions and incentives efficiently.

7.4.2. Engage in Public-private Partnerships with Microfinance Institutions

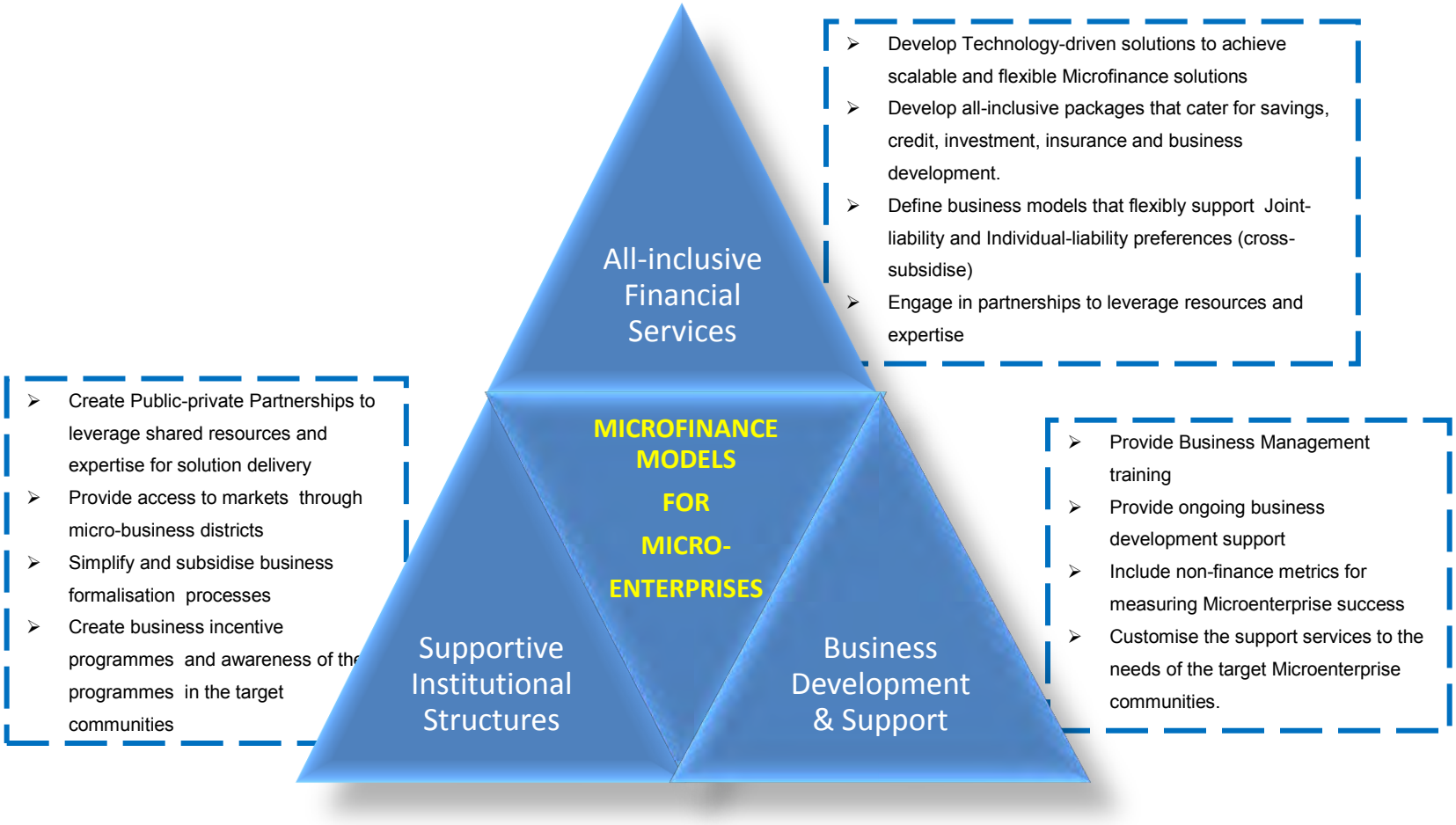
One of the recommendations made to Microfinance Institutions is to consider hybrid business models that can deliver on “Inclusivity”, as well as profitability. Government can play a role through Public-private partnerships by participating in Partial-guarantee programmes with Microfinance Institutions. Government can look at creating programmes which provide guarantees for loans in specific strategic industries and partner with Microfinance Institutions to drive the programmes. Public-private partnerships, based on Government-guaranteed programmes, will address several existing problems. Firstly, Government does not have the capacity or expertise to engage in extensive business development and financial services with Microenterprises; partnerships with Microfinance Institutions will address the deployment of effective models and provide the expertise required to manage them. Secondly, Microfinance Institutions do not have the appetite to take on the

full risk and costs of Microenterprise lending. Partnership in Government-guaranteed programmes will alleviate some of the economic burden and encourage better outreach programmes designed for Microenterprise development. In the quest for a win-win solution, Government-guaranteed programmes provide the opportunity to target specific strategic industries; provide access to funding in a cost-effective manner; while providing access to resources and expertise through the Microfinance Institutions involved in the programmes.

7.5. Recommended Microfinance Framework for Microenterprises

For the purpose of this research, *Microenterprises were defined as follows: Microenterprise at the Base of the Pyramid is an entity that is created and operated to service the needs of its existing social structure and leverages communal trust and networks to gain insights and build a sustainable enterprise supported by relevant business solutions* (Torri, 2009; McMullen, 2011). The framework below covers the three key areas of considerations from the propositions of this research and provides the key recommendations that are deemed important for delivering Microfinance solutions, catering for the holistic needs of Microenterprises.

Figure 6: Proposed Microfinance Framework for Microenterprises



7.6. Recommendations for Future Research

The recommendations for future research were based on limitations of this research as well as outcomes from the research requiring further exploration.

- Future Microfinance models need to be explored from the perspective of Microfinance Institutions. The outcomes of this research can be used as a point-of-departure for engaging Microfinance Institutions on the proposed considerations for defining Microfinance solutions for Microenterprises.

- A pilot of an all-inclusive Microfinance Model should be conducted and monitored, using a Time Series study. The objective should be to test the practical implications of the all-inclusive Microfinance Model and whether all-inclusive solutions will improve the probability of success for Microenterprises operating in BOP markets.

- The research was conducted on Microenterprises operating in Gauteng urban areas due to limitations in time and resources. It would be worthwhile to conduct a similar study in other provinces; rural areas and semi-urban areas. The purpose of the extended research would be to ascertain if the proposed Microfinance solution components defined and confirmed through this research, have a more generic appeal to Microenterprises, irrespective of location.

- In certain elements of the research, the results implied underlying differences in perception and influences. However, the survey-based quantitative approach did not allow the opportunity to explore the underlying rationale for some of the responses that differed from the extensive views of the literature and the expected responses. Further research is required to unpack the reasoning behind some of the contradictory responses. A research process that allows open ended questions, discussions and a more interactive engagement is required to gain the necessary insights into why certain elements of the research support the literature and research propositions, while other elements are in contradiction of the expectation.

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APPENDIX 1

FIELD AGENT GUIDE FOR THE QUESTIONNAIRE

MICROFINANCE SOLUTIONS FOR MICROENTERPRISES AT THE BASE OF THE PYRAMID

The purpose of this document is to serve as guidance document for the execution of the field survey for the research on **Microfinance Solutions for Microenterprises at the Base of the Pyramid.** The information provided should be used to clarify the requirements of the survey and provide guidance on how the data should be captured during the field collection process.

Introduction of the Survey to the Respondents

The field Agent must ensure they explain the purpose of the survey to all the respondents clearly and why they are requested to participate.

Explanation:

The purpose of the research is to gain a better understanding of the types of Microfinance solutions required by Microenterprises at the Base of the Pyramid. The Practical application of Base of the Pyramid businesses will be **businesses operating in Townships and Metro-malls with income between R25 000 to R120 000 per annum.** We are requesting assistance from Microenterprise business owners to assist us in understanding their financing and business development needs by participating in this survey. It is important to ensure they understand that:

- **Participation in the survey is voluntary. No one is forced or paid to participate in the survey**
- **All the respondents are entitled to remain anonymous (no names or contact details)**

Respondent Information: Business and Demographic Information

- The **Date of the Survey** must be completed
- The **Location of the Business Surveyed** must be completed
- The **Type of Business** Must be Completed
- The Demographic and Business Information will provide an indication of the profile of people who opens businesses in the Townships and metro-malls and why they open those businesses. It will give us information on how the businesses are operating currently (successfully or in difficulty).

Financial Services Awareness, Accessibility, Affordability and Acceptability

- This section will help us understand the current banking relationships the business owners have.
- The information is also required to help understand how they feel about the current banking services they have access to.

The Role of Legislature and Institutional Structures

- This section will help us get information on what business owners know about registration of businesses in South Africa.
- It will also help us establish the availability of basic services; infrastructure and resources they need to operate their businesses.

Growth and Development: Factors to build better businesses in BOP markets

- This section focuses on gaining insights into what additional business-related services should be included in Microfinance solutions.
- This information must be provided from the perspective of the business owner, based on their own needs and current experiences.

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APPENDIX 2

QUESTIONNAIRE FOR DATA COLLECTION

MICROFINANCE SOLUTIONS FOR MICROENTERPRISES AT THE BASE OF THE PYRAMID

Date of the survey (yyyy/mm/dd): .....

Location of the business being surveyed (name of Metro-mall or Township):

.....

Type of Business.....

My name is **Lesego Mmabatho Chauke**. I am a Masters in Business Administration (MBA) Student at the Gordon Institute of Sciences (GIBS). As part of my MBA qualification I am doing research on the factors influencing the success of Microfinance for Microenterprises in South African communities. I have compiled a questionnaire that requires information from Microenterprise owners who are still operating or may have stopped operating in South African Townships. The aim of the questionnaire is to determine if the factors of success identified through international and local literature are relevant and to what degree they influence your decision to access loans for your business. Completing the questionnaire will help me in determining which factors are important to Microenterprise Owners, which ones are not important and to what extent the factors impact decisions to obtain finance.

By completing the questionnaire you are declaring you were not forced to participate in the survey and your answers can be used in the MBA Research.

Researcher: Lesego Mmabatho Chauke	**Supervisor:** Dr. Tashmia Ismail (GIBS)	
Contact number: 072 307 6607	**Contact number :** 011 771 4385	
Email: lchauke@gmail.com	**Email:** ismailt@gibs.co.za	

Respondent Information: Business and Demographic Information					
Race of Owner:	African	Indian	Coloured	White	
Gender of Owner:	Male	Female			
Age of Owner	18 - 25	26 - 35	36-45	46 - 55	55+
Is the business your main source income?	Yes	No			
Why did you start the business	To make money for	I started after I lost	To supplement		

	myself and my family	my job	my income		
What do you do in your business	Sell Products	Provide a service			
How much money does the business make per month?	less than R1000	R1000 to R3000	R3000 to R5000	R5000 to R10 000	More than R10 000
How far did you go in school?	Below Matric	Matric Passed	Technical Training	Degree	
Have you had any business management training	Yes	No			
Do you have a Personal Bank Account?	Yes	No			
Do you have a Business Bank Account?	Yes	No			
I do my most of my banking via:	The Branch	Internet Banking	Cellular phone Banking	ATM	Loan Agents visit me
Do you currently have a business loan?	Yes	No			
Who gave you the business loan	The Bank	Mashonisa	Family	Friend	Loan Company
If you do not have a loan now, have you had one in the past two years	Yes	No			
If you do not have a business loan is it because	I do not believe in borrowing from banks or loan companies	I do not need any extra money for my business now	I are afraid because my business income is irregular or seasonally	I have applied for a loan and it was declined	I have not thought about a loan for my business
If you could get a business loan, would you use if for:	Buying stock for the current business	Buying business equipment for the current business	Personal reasons for yourself or your family	Pay other loans that I have	Start another business to add to my income
How many businesses have you started in the	1	2	3	4	More than 4

past 5 years?					
How many businesses are still operating?	1	2	3	4	More than 4
How many people work for you in your business?	0 – just me	1 to 2	3 to 4	4 to 5	More than 5
Who owns the property on which you run your business?	Me	Family Member	Friend	Rented – I pay a fee to use the property	

Financial Services Awareness, Accessibility, Affordability and Acceptability

Coding	**Strongly agree**	**Agree**	**Neither Agree/Nor Disagree**	**Disagree**	**Strongly Disagree**
1. Previous Credit History should be important in a loan application	5	4	3	2	1
2. Having my own business plan in order to get a loan is important	5	4	3	2	1
3. Businesses that are not registered should still be able to get a loan	5	4	3	2	1
4. Being able to providing security for the loan I get should be important	5	4	3	2	1
5. Access to information on loans from the banks and the loan companies is important	5	4	3	2	1
6. Access to the loan product information from the banks and the loan companies is easy	5	4	3	2	1

7. The process of applying for a loan is easy to understand	5	4	3	2	1
8. The documents for applying for a loan are easy to understand	5	4	3	2	1
9. The information that the bank or loans company wants from me for the loan is easy to get and submit to them	5	4	3	2	1
10. You would go to a bank or loans company based on information from :	Radio advertisement	TV advertise ment	Newspaper Advertise-ment	Information from a Friend or family or neighbour	
11. The Distance to get to the bank or loan company is short (less than 30 minutes travel)	5	4	3	2	1
12. The transport to get to the bank or the organization giving loans is easily available	5	4	3	2	1
13. The loan officer must understand your business and its needs	5	4	3	2	1
14. The loan officer should help you through the application process in a language that you understand	5	4	3	2	1
15. The loan repayment requirements must be flexible based on time of the year	5	4	3	2	1

16. The loan should have insurance and savings products included to help you protect the future	5	4	3	2	1
17. The Bank or loans company must consider offering loans to businesses that apply as a group (Group-lending)	5	4	3	2	1
The Role of Legislature and Institutional Structures					
Coding	**Strongly agree**	**Agree**	**Neither Agree/Nor Disagree**	**Disagree**	**Strongly Disagree**
18. I have easy access to the business laws of South Africa I need to follow in my business	5	4	3	2	1
19. All businesses in South Africa should be registered with the government	5	4	3	2	1
20. I know where and how to register my business with the government	5	4	3	2	1
21. Registering a new business is an easy process	5	4	3	2	1
22. Registering a business is affordable	5	4	3	2	1
23. Access to water and electricity at the business premises is important	5	4	3	2	1

Growth and Development: Factors that could help build better businesses in BOP markets					
Coding	**Strongly agree**	**Agree**	**Neither Agree/Nor Disagree**	**Disagree**	**Strongly Disagree**
24. Understanding the opportunities in the market is important for establishing a successful business	5	4	3	2	1
25. I know how to find information on opportunities in the market	5	4	3	2	1
26. The bank or loans company should assist you in understanding the needs and opportunities in your market	5	4	3	2	1
27. Keeping good financial records on your business is important	5	4	3	2	1
28. I keep formal financial records in my business	5	4	3	2	1
29. The bank or loans company should provide business management training in the community	5	4	3	2	1
30. Having a business mentor is important for running a business successfully	5	4	3	2	1
31. The bank or loans company should provide business mentors in the community	5	4	3	2	1
32. Belonging to a club of business owners would help build	5	4	3	2	1

businesses in the community					
33. The bank or loans company giving you the loan should form groups to support you and businesses like yours in the community	5	4	3	2	1
34. The bank or loans company giving you the loan should help you develop a good business plan for the loan you want to apply for	5	4	3	2	1
35. I would be willing to pay a fee as part of the loan for business development and support services	5	4	3	2	1
36. I would be willing to enter into a partnership agreement with the bank or loan company in exchange for the business development services	5	4	3	2	1
37. The bank or loans company giving you the loan should have a local branch in the community	5	4	3	2	1
38. The staff that work for the bank or loans company must live in the community they serve	5	4	3	2	1

39. I would prefer taking a loan from a bank or loan company that actively supports community development	5	4	3	2	1

APPENDIX 3

Frequency Tables for the Research Demographic Information

Note: In the data tables "Missing System" represents data fields where the respondent did not provide a response to the question

Table 41: Race of Business Owner

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 African	269	89.7	89.7	89.7
	2 Indian	21	7.0	7.0	96.7
	3 Coloured	8	2.7	2.7	99.3
	4 White	2	.7	.7	100.0
	Total	300	100.0	100.0	

Table 42: Gender of Business Owner

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 Male	141	47.0	47.6	47.6
	2 Female	155	51.7	52.4	100.0
	Total	296	98.7	100.0	
Missing	System	4	1.3		
Total		300	100.0		

Table 43: Age of Business Owner

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 18 - 25 years	7	2.3	2.3	2.3
	2 26 -35 years	46	15.3	15.4	17.8
	3 36 - 45 years	110	36.7	36.9	54.7
	4 46 - 55 years	111	37.0	37.2	91.9
	5 55 years +	24	8.0	8.1	100.0
	Total	298	99.3	100.0	
Missing	System	2	.7		
Total		300	100.0		

Table 44: Education Level of Business Owner

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 Below Matric	82	27.3	27.5	27.5
	2 Matric	166	55.3	55.7	83.2
	3 Technical Training	48	16.0	16.1	99.3
	4 Degree	2	.7	.7	100.0
	Total	298	99.3	100.0	
Missing	System	2	.7		
Total		300	100.0		

Table 45: Business Management Training

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 Yes	38	12.7	12.9	12.9
	2 No	257	85.7	87.1	100.0
	Total	295	98.3	100.0	
Missing	System	5	1.7		
Total		300	100.0		

Table 46: Status of Having a Personal Bank Account

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 Yes	277	92.3	92.3	92.3
	2 No	23	7.7	7.7	100.0
	Total	300	100.0	100.0	

Table 47: Status of having a Business Bank Account

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 Yes	85	28.3	28.3	28.3
	2 No	215	71.7	71.7	100.0
	Total	300	100.0	100.0	

Table 48: Preferred Method of Banking

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 The Branch	261	87.0	94.9	94.9
	2 Internet Banking	8	2.7	2.9	97.8
	3 Cellular phone Banking	6	2.0	2.2	100.0
	Total	275	91.7	100.0	
Missing	System	25	8.3		
Total		300	100.0		

Table 49: Business Property Ownership

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 Me	122	40.7	40.7	40.7
	2 Family Member	54	18.0	18.0	58.7
	3 Friend	9	3.0	3.0	61.7
	4 Rented – I pay a fee to use the property	115	38.3	38.3	100.0
	Total	300	100.0	100.0	

Table 50: Location of the Business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 Location 1	48	16.0	16.0	16.0
	2 Location 2	50	16.7	16.7	32.7
	3 Location 3	202	67.3	67.3	100.0
	Total	300	100.0	100.0	

Table 51: Business Type

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 Tuckshop	111	37.0	37.0	37.0
	2 Take-away Food	26	8.7	8.7	45.7
	3 Vender-fruit & Veg	27	9.0	9.0	54.7
	4 DVD Shop	1	.3	.3	55.0
	5 Cellphone Shops	19	6.3	6.3	61.3
	6 Bakery	3	1.0	1.0	62.3
	7 Restaurant	8	2.7	2.7	65.0
	8 Shoe maker	3	1.0	1.0	66.0
	9 Mechanic	24	8.0	8.0	74.0
	10 Public Phones	22	7.3	7.3	81.3
	11 Clothing	1	.3	.3	81.7
	12 Salon	31	10.3	10.3	92.0
	13 Watch Mechanic	1	.3	.3	92.3
	14 Hair Products	1	.3	.3	92.7
	15 Tailor	5	1.7	1.7	94.3
	16 Small Hardware Store	2	.7	.7	95.0
	17 Carpenter	1	.3	.3	95.3
	18 Welder	2	.7	.7	96.0
	19 Room Rental	3	1.0	1.0	97.0
	20 Laundraumate	5	1.7	1.7	98.7
	21 Internet Cafe	3	1.0	1.0	99.7
	22 Catering	1	.3	.3	100.0
	Total	300	100.0	100.0	

Table 52: Business as the Main Source of Income

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 Yes	284	94.7	96.3	96.3
	2 No	11	3.7	3.7	100.0
	Total	295	98.3	100.0	
Missing	System	5	1.7		
Total		300	100.0		

Table 53: Reasons for Starting a Business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 To make money for myself and my family	217	72.3	72.3	72.3
	2 I started after I lost my job	77	25.7	25.7	98.0
	3 To supplement my income	6	2.0	2.0	100.0
	Total	300	100.0	100.0	

Table 54: Business Turnover per Month

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 less than R1000	31	10.3	10.3	10.3
	2 R1000 to R3000	110	36.7	36.7	47.0
	3 R3000 to R5000	140	46.7	46.7	93.7
	4 R5000 to R10 000	19	6.3	6.3	100.0
	Total	300	100.0	100.0	

Table 55: Business Loan: Do you currently have a Business Loan?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 Yes	24	8.0	8.0	8.0
	2 No	275	91.7	92.0	100.0
	Total	299	99.7	100.0	
Missing	System	1	.3		
Total		300	100.0		

Table 56: Source of Business Loan

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 The Bank	12	4.0	21.4	21.4
	2 Mashonisa	11	3.7	19.6	41.1
	3 Family	23	7.7	41.1	82.1
	4 Friend	9	3.0	16.1	98.2
	5 Loan Company	1	.3	1.8	100.0
	Total	56	18.7	100.0	
Missing	System	244	81.3		
Total		300	100.0		

Table 57: Reasons for not having a Business Loan

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 I do not believe in borrowing from banks or loan companies	35	11.7	12.2	12.2
	2 I do not need any extra money for my business now	76	25.3	26.5	38.7
	3 I are afraid because my business income is irregular or seasonally	68	22.7	23.7	62.4
	4 I have applied for a loan and it was declined	14	4.7	4.9	67.2
	5 I have not thought about a loan for my business	94	31.3	32.8	100.0
	Total	287	95.7	100.0	
Missing	System	13	4.3		
Total		300	100.0		

Table 58: Potential Use of Business Loan in the Future

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 Buying stock for the current business	159	53.0	54.1	54.1
	2 Buying business equipment for the current business	36	12.0	12.2	66.3
	3 Personal reasons for yourself or your family	10	3.3	3.4	69.7
	4 Pay other loans that I have	9	3.0	3.1	72.8
	5 Start another business to add to my income	80	26.7	27.2	100.0
	Total	294	98.0	100.0	
Missing	System	6	2.0		
Total		300	100.0		

Table 59: Business Establishment Track Record

	N	Mean	Std. Deviation
How many businesses have you started in the past 5 years	300	1.360	0.620
How many businesses are still operating	300	1.103	0.374
How many people work for you in your business	300	1.583	0.715