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The Relationship between Small, Medium and Micro Enterprises And Financial Institutions in Limpopo Province, South Africa

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ABSTRACT The importance of SMMEs to the South African economy has been acknowledged by government. Yet, extensive research reveals that access to financing is one of several important factors that are critical for business survival and growth. SMMEs in the Limpopo Province are currently experiencing their worst liquidity crisis in decades. SMMEs have been stereotyped as a credit risk by financial institutions. This paper draws attention to the key role played by financial institutions in providing credit to SMMEs in Limpopo Province. It evaluates the key constraints that hinder local SMMEs from securing capital and recommends a basic SMME financial model that could be applied by local financial institutions. The purpose is to assist financial institutions to apply appropriate financial application processes and move away from "one-size-fits-all" application criteria. Using a qualitative design, this study employed a case study method. Purposive and convenience sampling techniques were used to select two hundred SMMEs in the Limpopo Province as key informants. Eight financial institutions also participated in the study. The study identified numerous possible interventions to narrow the widening "financing gap" in the SMME sector in the Limpopo Province. Financial institutions should be encouraged by means of incentives provided by these spheres of government to invest in small businesses, create a pro-SMME investment climate, develop distinct financing products for SMMEs and provides SMMEs with sound financial education.