

Evaluating Developmental Financing Strategies for the Sustainable Growth of Construction SMMEs: A Case Study of a State-Owned Entity in South Africa

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ABSTRACT

Construction Small, Medium and Micro Enterprises (SMMEs) play an important role in economic development, employment creation and infrastructure delivery in South Africa, yet many continue to face constraints relating to limited access to finance, operational instability and weak long-term sustainability. This study evaluated developmental financing strategies implemented by a state-owned entity to support the sustainable growth and competitiveness of construction SMMEs in South Africa's Free State Province. The study pursued three objectives: to critically examine the developmental financing strategies implemented by the entity, to evaluate the effects of these strategies on SMME sustainability, and to propose recommendations for enhancing their developmental impact and long-term competitiveness. An interpretivist research philosophy and qualitative case study design were adopted, with data collected through semi-structured interviews with a purposively selected sample of fifteen stakeholders and analysed thematically. The findings indicate that project-linked procurement and ring-fenced subcontracting, mobilisation funding and advance payments, and mentorship and technical support have contributed positively to business growth, operational stability, internal capacity development, and access to future market opportunities among construction SMMEs. However, the study also identified persistent challenges, including delayed payments, bureaucratic inefficiencies, weak post-contract continuity, limited institutional collaboration, and continued dependence on government-linked contracts. The study concludes that while developmental financing strategies contribute meaningfully to supporting construction SMMEs, stronger institutional reform and more integrated support mechanisms are required to secure long-term sustainability and competitiveness. Recommendations include improving payment turnaround times and financial transparency, institutionalising post-contract support and business incubation, strengthening financial and technical training, improving collaboration among development institutions, and expanding the use of digital platforms. These findings contribute to the limited empirical literature on state-led developmental finance and construction SMME sustainability within South Africa's provincial infrastructure sector.

Keywords: Developmental finance, Construction SMMEs, State-owned entities, Enterprise sustainability, South Africa

INTRODUCTION

Construction Small, Medium and Micro Enterprises (SMMEs) are vital contributors to South Africa's economic development, particularly in comparatively underdeveloped provinces such as the Free State, where infrastructure delivery is central to job creation and poverty reduction. SMMEs are estimated to contribute approximately 40% of South Africa's gross domestic product and to absorb more than 60% of the national labour force, yet many, particularly in the construction sector, continue to face constraints relating to access to finance, skills development and long-term sustainability. In response to these challenges, state-owned entities mandated to deliver public infrastructure are expected to support SMMEs through developmental financing strategies such as project-linked subcontracting, mobilisation funding and

enterprise development initiatives. Despite this mandate, many construction SMMEs continue to experience financial instability, limited growth and an over-reliance on project-based income.

This study is set within the Free State Province, an area identified as a priority for infrastructure development owing to its comparatively high levels of poverty, unemployment and service-delivery backlogs. Within this context, state-owned entities mandated to deliver social infrastructure act as important enablers of developmental finance for construction SMMEs, offering a strategic entry point for emerging contractors through project-linked procurement, mentorship and subcontracting facilitation. Concerns nonetheless persist regarding the long-term developmental impact of these strategies, as many SMMEs remain financially dependent on public sector work and are seldom able to scale beyond it. Unlike dedicated development finance institutions that offer loans and grants directly, state-owned infrastructure implementing agents typically extend support indirectly, through ring-fenced subcontracting, mobilisation fees and capacity-building programmes bundled into project delivery. The long-term effectiveness of these indirect financing mechanisms, and how well they align with the practical realities of construction SMMEs operating in high-need provincial contexts, remains empirically underexplored.

There is limited empirical evaluation of how developmental financing strategies implemented by state-owned entities affect the long-term sustainability of construction SMMEs in the Free State Province specifically. Although construction SMMEs are integral to employment and service delivery, they face systemic financial constraints exacerbated by delays in fund disbursement, stringent eligibility criteria, limited mentoring, and the absence of post-contract continuity; many remain dependent on project-based support without transitioning into financially independent enterprises. This study addresses that gap by critically evaluating the developmental financing strategies implemented by a state-owned entity and their effectiveness in promoting the sustainable growth of construction SMMEs in the province.

The aim of this study was to critically evaluate the effectiveness of developmental financing strategies, such as project-linked procurement, mobilisation funding, enterprise development and technical support, implemented by a state-owned entity in promoting the sustainable growth of construction SMMEs in the Free State Province.

Specifically, the study sought to: (1) critically examine the developmental financing strategies implemented by the entity to support construction SMMEs; (2) evaluate the effects of these financing strategies on SMME sustainability, focusing on indicators such as financial independence, business continuity beyond public contracts, technical capacity development and access to future market opportunities; and (3) propose strategic recommendations and institutional improvements, including capacity-building tools, post-contract support frameworks and blended finance models, to enhance the developmental impact and long-term competitiveness of construction SMMEs within the provincial infrastructure sector.

The study makes both theoretical and practical contributions. Theoretically, it applies the Resource-Based View and Development Finance Theory to the context of construction SMMEs operating within a public infrastructure development environment, expanding sector-specific understanding of how SMMEs' internal capabilities interact with institutional financing mechanisms to drive, or hinder, long-term sustainability, and addressing a gap in empirical research on state-facilitated financing models within South Africa's provincial infrastructure sector.

Practically, the research informs managers of development-focused public entities, policymakers and development finance institutions on the effectiveness of current financing strategies; by identifying structural gaps and offering context-sensitive recommendations, the study supports the design of financing models that facilitate not only project participation but also long-term business viability, with relevance to infrastructure procurement policy, contractor development frameworks and SMME empowerment strategies more broadly, particularly in provinces with comparatively underdeveloped economic ecosystems.

LITERATURE REVIEW

Conceptualising Developmental Finance, SMMEs and Sustainability

Developmental finance refers to the provision of financial resources, support mechanisms and institutional tools aimed at fostering economic development, particularly in underdeveloped sectors or regions, often involving concessional funding, capacity-building and risk mitigation to stimulate entrepreneurship, infrastructure delivery and inclusive growth (United Nations Development Programme, 2024). Development Finance Theory positions state intervention as a vital corrective to market failures that exclude small firms from formal financing systems, most notably the information asymmetries and collateral constraints identified in seminal credit-rationing theory (Stiglitz & Weiss, 1981); critics nonetheless argue that developmental finance may become inefficient where implementing institutions lack capacity or misalign strategies with the practical realities of the enterprises they intend to support. SMMEs are classified according to size, turnover and employee numbers; in South Africa, they are defined in the National Small Enterprise Act 102 of 1996 as businesses employing fewer than 200 people, with turnover thresholds varying by sector, and are recognised as key drivers of employment, innovation and local development. A state-owned entity, for the purposes of this study, is a government-owned organisation that operates commercially while fulfilling a developmental mandate, in this case responsible for delivering public infrastructure and supporting local economic empowerment by facilitating SMME participation in construction-related initiatives.

Sustainability, in this context, refers to the long-term survival, financial viability and operational growth of SMMEs beyond individual projects or funding cycles, including their ability to compete in the market, access diverse funding sources and scale operations over time. The Resource-Based View suggests that sustainability also depends on an SMME's internal capabilities, resources, knowledge and skills, which allow it to respond to opportunities created by external financing (Barney, 1991); relatively few empirical studies, however, directly assess whether state-led financing activates or neglects these internal capacities, marking a clear gap in the literature. A developmental financing strategy, finally, is a structured approach adopted by public or development-oriented institutions to allocate resources, offer support services and design funding instruments that promote economic inclusion and enterprise development, potentially including project-linked payments, mentorship, blended finance and technical assistance. Although the theoretical benefits of such strategies are well documented, inconsistencies in delivery, scalability and monitoring across provinces raise ongoing concerns about their real-world developmental impact.

Financing Strategies Implemented By State-Owned Entities to Support Construction Smmes

State-owned entities play a central role in advancing developmental finance by implementing targeted strategies that enable construction SMMEs to participate meaningfully in public infrastructure delivery. The Resource-Based View frames such interventions as opportunities for SMMEs to access external resources, although their effectiveness depends on the recipient firm's absorptive capacity, while Development Finance Theory supports the proactive role of public institutions but highlights persistent contradictions regarding execution and equity. Project-linked procurement mechanisms form the foundation of this approach: SMMEs are engaged as subcontractors or service providers within larger infrastructure projects, allowing them to access funding through work opportunities rather than traditional loans, reducing entry barriers and promoting experiential learning while ensuring that a portion of public infrastructure spending directly benefits local economic actors. Evidence nonetheless points to systemic challenges, including delayed payments, limited project oversight and weak contract enforcement, which can diminish the developmental impact of these mechanisms in the absence of timely disbursement and structured support.

Advance payment systems and mobilisation fees are similarly employed to alleviate the financial burden faced by SMMEs at a project's inception, covering critical early-stage expenses such as equipment hire, material procurement and workforce mobilisation, and serving as an alternative to commercial credit for contractors who lack access to working capital or bank loans. The effectiveness of such instruments is, however, contingent upon the financial management capabilities of recipients: without adequate training in

budgeting and cost control, SMMEs may misallocate funds, resulting in delayed milestones, contract termination or reputational damage, underscoring the need to pair advance payments with financial literacy interventions. Enterprise development initiatives, including formal mentorship, business skills training, shared technical resources and networking platforms, address capacity gaps among emerging contractors and have been shown to improve compliance with procurement policy, delivery performance and managerial capability, though their success depends on continuity, alignment with project timelines and the quality of the mentoring relationship.

Ring-fenced budgeting, whereby a specified proportion of a project's budget is allocated exclusively for SMMEs, aims to protect the economic interests of small contractors and promote distributive equity, particularly in historically marginalised communities, though in the absence of clear performance criteria and post-contract evaluation, ring-fencing may inadvertently encourage dependency or opportunistic practices that undermine its transformative intent. Preferential procurement targets, mandated in South Africa under the Preferential Procurement Policy Framework Act 5 of 2000, similarly reserve a portion of contract value for SMMEs and historically disadvantaged individuals, but risk producing symbolic inclusion without adequate developmental backing where compliance-based quotas are not complemented by developmental financing, technical support and access to markets beyond government contracts. Finally, technical assistance, covering support in navigating tendering processes, interpreting contract specifications, complying with safety standards and using construction management tools, forms an essential non-financial component of institutional support, particularly for rural or first-time contractors, although such programmes often suffer from inconsistent rollout and limited monitoring and evaluation.

Effects Of Financing Strategies on the Sustainability and Growth of Construction Smmes

Financing strategies implemented by state-owned entities influence not only the short-term participation of construction SMMEs in public projects but also their long-term viability and competitiveness. Project-linked work packages enable consistent income generation during a project's life cycle, offering a relatively secure and predictable revenue stream that reduces reliance on conventional bank financing, which is often inaccessible to small enterprises owing to collateral requirements and strict lending criteria. This income stream, however, is frequently temporary and insufficient to build long-term sustainability unless followed by subsequent projects or access to a broader market; the absence of a continued funding pipeline post-project often forces SMMEs into cycles of inactivity that contribute to stagnation or closure. Developmental financing strategies that incorporate training, mentorship and technical assistance contribute significantly to the operational maturity of construction SMMEs, improving project execution skills, regulatory compliance and business acumen, and enabling beneficiaries of well-structured programmes to demonstrate increased resilience, higher survival rates and enhanced competitiveness over time, although the depth and duration of support remain critical, since short-term or generic interventions tend to produce only marginal benefit.

Despite these developmental intentions, many SMMEs remain structurally dependent on state-led opportunities: repeated access to public contracts without transition planning can foster a culture of reliance in which SMMEs are unable to diversify income or enter competitive private-sector markets, compounded by the absence of financial planning tools, limited access to private investment and minimal creditworthiness. The developmental outcomes of state-led financing are also not uniformly distributed across regions or project types; rural-based contractors, particularly in provinces such as the Free State, face logistical challenges, limited digital connectivity and fewer technical resources relative to their urban counterparts, restricting their ability to fully benefit from financing programmes. An indirect but important effect of developmental financing is job creation within local communities, as SOE-allocated infrastructure work stimulates employment among unskilled and semi-skilled workers with a ripple effect on household income and local socio-economic upliftment, although the sustainability of these employment gains is contingent on the continuity of project opportunities. Finally, weak post-contract continuity remains a major limitation: the absence of structured exit strategies or market-linkage initiatives connecting SMMEs to future tenders or private-sector clients often leaves small enterprises facing operational standstill, resource depletion and the attrition of skilled workers once a project concludes.

Strategies to Enhance Developmental Financing Approaches

To improve the long-term sustainability and competitiveness of construction SMMEs, developmental financing approaches must evolve to address both structural limitations and emerging sector needs. Strengthening financial literacy and project management training is foundational: many emerging contractors lack the skills needed to manage budgets, adhere to project timelines, or meet compliance and reporting requirements, and embedding structured training into the early stages of funding programmes increases the likelihood of project success while building the internal systems SMMEs need to scale their operations. Streamlining disbursement processes and reducing bureaucracy is similarly important, since administrative delays arising from complex approval chains, poor inter-departmental coordination and outdated manual systems can disrupt project timelines and undermine contractor confidence; digitisation, real-time tracking and clearer timelines for fund release can significantly improve the experience of SMMEs and accelerate infrastructure delivery.

Blended finance models, which combine concessional public funding with commercial investment from banks, donors or private equity, offer a further avenue for enhancing developmental financing by de-risking investment and sharing financial exposure between stakeholders, potentially broadening SMMEs' access to long-term financial instruments and investor networks beyond public contracts. Institutionalising post-contract support and business development services, including incubation, market-access platforms and credit facilitation, addresses one of the most significant gaps in current financing models, providing a bridge between project-based support and long-term enterprise development that can reduce dependency on public sector contracts. Finally, leveraging digital tools, including digitised procurement portals, application systems and reporting platforms, can enhance transparency, improve efficiency and broaden access for remote or rural contractors, while creating audit trails that promote accountability and enable data-informed institutional decision-making.

Table 1: Overview of developmental financing mechanisms and their principal effects on construction SMME sustainability

Financing mechanism	Principal developmental benefit	Key limitation identified in the literature
Project-linked procurement / ring-fenced subcontracting	Access to project-based income, work experience and a public-sector track record	Delayed payments, weak contract enforcement and limited project oversight
Advance payments / mobilisation funding	Improved short-term liquidity and reduced reliance on commercial credit	Effectiveness contingent on recipients' financial management capability
Mentorship and enterprise development	Improved compliance, managerial capability and delivery performance	Impact depends on continuity and quality of the mentoring relationship
Preferential procurement and compliance targets	Increased access to state contract opportunities for SMMEs	Risk of symbolic inclusion without developmental backing
Technical assistance and capacity building	Improved tendering, compliance and construction-management competence	Inconsistent rollout and weak monitoring and evaluation

Source: Synthesised by the author from the developmental finance and SMME sustainability literature.

THEORETICAL FRAMEWORK

This study is underpinned by the Resource-Based View (Barney, 1991) and Development Finance Theory. The Resource-Based View holds that sustainable competitive advantage derives from a firm's possession of valuable, rare and difficult-to-imitate internal resources and capabilities, positioning SMME sustainability as a function of financial literacy, project management competence, absorptive capacity and innovation; applied to this study, it directs attention to whether construction SMMEs can convert externally provided support into sustained competitive advantage. Development Finance Theory, by contrast, positions state intervention as a corrective response to market failures, particularly the information asymmetries and collateral constraints that exclude small firms from formal credit markets (Stiglitz & Weiss, 1981), and directs attention to the design of institutional mechanisms such as project-linked procurement, advance payments, mentorship and ring-fenced budgets, and how effectively they target these market failures. Read together, these two lenses frame the central analytical question of this study: how external developmental financing support interacts with the internal capabilities of construction SMMEs to shape sustainability outcomes, with Development Finance Theory illuminating the design and rationale of institutional mechanisms and the Resource-Based View illuminating the firm-level conditions required for that support to translate into lasting competitive advantage.

Research Gap

Although developmental finance is widely discussed in South African policy and academic literature, empirical evaluation of its implementation and impact at provincial level remains limited, and existing studies tend to emphasise the design of financing instruments rather than their lived effects on construction SMMEs operating within public infrastructure delivery specifically. Comparatively little empirical attention has been paid to how state-owned entities' indirect financing mechanisms, such as ring-fenced subcontracting and mobilisation funding, interact with the internal capabilities of construction SMMEs to shape sustainability outcomes in historically underdeveloped provinces such as the Free State. This study addresses that gap by evaluating the developmental financing strategies implemented by a state-owned entity operating in the province, their effects on construction SMME sustainability, and the institutional improvements that could strengthen their long-term developmental impact.

METHODOLOGY

Research Design and Philosophy

This study adopted an interpretivist research philosophy, which holds that reality is socially constructed and best understood through the subjective meanings people attach to their experiences (Creswell & Poth, 2020). This paradigm was considered appropriate given the study's focus on the experiences and perceptions of individuals affiliated with a state-owned entity and construction SMMEs regarding the design and effect of developmental financing interventions, contexts not easily reduced to purely quantitative measurement. An inductive approach was adopted, consistent with the study's qualitative orientation: rather than testing predefined theory, the research sought to develop new understanding of the effectiveness and limitations of financing strategies in practice, allowing insight to emerge from participants' first-hand accounts of how developmental finance is structured and experienced. An exploratory research design was selected, given the limited extent of existing empirical research on how state-owned entities support construction SMMEs within provincial infrastructure delivery specifically, providing the flexibility needed to uncover new perspectives, examine institutional gaps and propose data-driven recommendations. A case study strategy, supported by semi-structured interviews as the primary data collection method, was judged most appropriate: it allowed for an in-depth exploration of the real-world institutional environment in which developmental financing occurs, enabled the researcher to gather rich qualitative data from multiple categories of stakeholder for triangulation, and aligned with the interpretivist paradigm underpinning the study (Yin, 2023).

Population, Sampling and Participants

The target population comprised approximately fifty stakeholders affiliated with the state-owned entity in the Free State Province, including project managers, finance and portfolio management personnel, project accountants, consultants, principal agents, quantity surveyors and client-department representatives with direct experience of the implementation and management of developmental financing strategies. A non-probability, purposive sampling strategy was adopted, whereby participants were deliberately selected on the basis of their direct involvement in the planning, implementation or oversight of developmental financing strategies, ensuring that the sample provided information-rich, relevant and knowledgeable perspectives (Etikan, Musa & Alkassim, 2016). The final sample comprised fifteen participants, a size considered appropriate for qualitative inquiry in which the emphasis lies on in-depth understanding and the likelihood of reaching data saturation rather than statistical generalisability.

Data Collection

Primary data were collected through semi-structured interviews, an approach well suited to exploring complex institutional strategies and lived experience while maintaining a consistent structure aligned with the study's objectives (Bryman, 2016). An interview schedule was developed around the study's three research objectives, comprising an introductory section on participant demographics followed by sections exploring the developmental financing strategies implemented by the entity, the effects of these strategies on construction SMME sustainability, and recommendations for enhancing developmental financing approaches. With the informed consent of each participant, interviews were digitally recorded and transcribed verbatim to ensure that the data captured was both precise and reflective of participants' authentic experiences and insights. Prior to the main data-collection phase, a pilot study involving three participants with professional profiles comparable to those of the main sample was conducted to assess the clarity, relevance and appropriateness of the interview questions, with resulting feedback used to refine question wording and the flow of the interview guide (Polit & Beck, 2020).

Data Analysis

Data were analysed using thematic analysis, following the widely established six-phase framework of familiarisation, initial coding, searching for themes, reviewing themes, defining and naming themes, and producing the final report (Braun & Clarke, 2006). Interview transcripts were read repeatedly to achieve close familiarity with the data, after which meaningful segments of text were systematically coded using computer-assisted qualitative data analysis software to enhance the transparency, consistency and traceability of the coding process; related codes were then clustered into broader candidate themes, which were reviewed against the dataset for internal coherence and relevance to the research objectives before being refined and clearly defined. Themes were generated both deductively, guided by the study's research objectives and conceptual framework, and inductively, allowing additional insight to emerge directly from participants' responses, supporting an analysis that remained both structured and responsive to the data.

Characteristic	Category	n (%)
Gender	Male	7 (46.7%)
	Female	8 (53.3%)
Age group	18–30 years	1 (6.7%)
	31–40 years	7 (46.7%)
	41–50 years	7 (46.7%)

	Above 50 years	0 (0%)
Organisational tenure	3–5 years	3 (20.0%)
	6–10 years	5 (33.3%)
	More than 10 years	7 (46.7%)

Trustworthiness and Ethical Considerations

Trustworthiness was addressed through the four criteria of credibility, transferability, dependability and confirmability (Lincoln & Guba, 1985). Credibility was strengthened through a research strategy centred on in-depth semi-structured interviews with key stakeholders and through member checking, in which interpreted data were returned to selected participants for validation. Transferability was supported through rich, contextualised description of the state-owned entity's financing mechanisms and the socio-economic landscape of the Free State Province, enabling readers to judge the relevance of the findings to comparable provincial or institutional contexts. Dependability was reinforced through a documented audit trail of participant selection, interview protocols, coding decisions and analytical steps, supported by the consistent use of qualitative analysis software for data organisation. Confirmability was maintained through reflexive practice, in which the researcher actively reflected on and disclosed personal assumptions that might affect data interpretation, together with direct quotation of interview evidence to allow the link between raw data and thematic conclusions to be traced.

The study was conducted in accordance with recognised ethical principles for research involving human participants, including voluntary participation, informed consent, and the protection of confidentiality and anonymity. All participants received a letter of information outlining the purpose, scope and voluntary nature of the study and were informed of their right to decline specific questions or withdraw at any stage without penalty; written consent was obtained prior to each interview. To protect confidentiality, personal identifiers, specific job titles, and the name of the state-owned entity and its individual infrastructure projects were excluded from analysis and reporting; participants are referred to only by general professional role throughout this article, and no individual, project or organisation is identifiable from the findings presented. Ethical clearance for the study was obtained from the researcher's affiliated institutional research ethics committee prior to the commencement of data collection.

Profile of Research Participants (N = 15)

Source: Author's fieldwork.

The sample was almost evenly split by gender (eight female and seven male participants), providing a range of perspectives on developmental financing and construction SMME sustainability across the state-owned entity and provincial construction sector. The large majority of participants (fourteen of fifteen) were aged between thirty-one and fifty years, suggesting that respondents possessed substantial professional and industry experience relevant to developmental financing, infrastructure implementation and SMME support. Similarly, most participants (twelve of fifteen) had more than five years of organisational or sector experience, enhancing the credibility and richness of the findings through in-depth, informed insight into the effectiveness, limitations and sustainability outcomes of the entity's financing strategies.

RESULTS AND DISCUSSION

This section presents and discusses the empirical findings in relation to the study's three research objectives. Findings are interpreted with reference to the Resource-Based View and Development Finance Theory outlined above, and are illustrated, where appropriate, with brief, non-identifying excerpts from the interviews attributed only by general professional role, consistent with the confidentiality undertakings given to participants.

Developmental Financing Strategies Implemented By the State-Owned Entity

Project-linked procurement and ring-fenced subcontracting emerged as the primary developmental financing mechanisms used to support construction SMMs. Participants consistently described how the entity intentionally reserves a portion of its infrastructure projects for smaller contractors, providing new entrants with work experience, revenue and a track record of delivering public infrastructure that they could not otherwise have obtained. As one project-facing participant explained, without such subcontracting opportunities many small businesses would never access government work, since eligibility requirements are typically pitched too high for smaller firms; ring-fenced participation was described as having enabled local contractors, in particular, to compete for work previously awarded to larger, non-local firms, employing workers from their own communities in the process. This finding strongly supports the literature's positioning of project-linked procurement as a central developmental finance instrument through which state-owned entities draw SMMs into public infrastructure delivery as an alternative to conventional financing routes. It also illustrates the promise, and limits, of this mechanism as identified in the literature: while ring-fenced procurement can meaningfully lower entry barriers and support local economic empowerment, its developmental impact remains contingent on sound institutional management, since delayed payment, limited oversight and weak contract enforcement can just as easily undermine it.

Mobilisation funding and advance payments emerged as a second key enabler, addressing the working-capital constraints that prevent many small contractors from beginning project work at all. Participants explained that advance payments allow businesses to procure materials, secure equipment and begin mobilising labour before revenue from the project itself materialises, functioning as a practical substitute for commercial credit given that financial institutions typically require collateral and financial track records that many emerging contractors lack. Where such payments were delayed, however, participants described significant knock-on effects: work stalls, supplier and subcontractor relationships come under strain, and contractors are left without the means to pay workers who still expect remuneration regardless of when funds are actually released. This is consistent with the literature's characterisation of advance payments as a valuable but conditional instrument, whose benefit depends heavily on both the efficiency of institutional disbursement processes and the financial management capability of the recipient firm; without adequate budgeting skills, the literature cautions, advance funding can as easily be misallocated as put to productive use.

Mentorship, technical support and enterprise development formed a third theme. Participants described how technical guidance from experienced engineers and project teams helped them understand compliance requirements, procurement systems and industry standards that many were encountering for the first time, building confidence to manage larger and more complex projects and reducing operational mistakes that could otherwise affect project quality or timeliness. This finding is consistent with the Resource-Based View's emphasis on the internal capabilities that allow firms to convert external opportunity into sustained advantage: mentorship and technical support appear to function less as a supplementary benefit than as a mechanism for building precisely the managerial and compliance-related capabilities SMMs need to compete for, and successfully deliver, future contracts. It also echoes the literature's caution that the value of such support depends on its consistency and depth, since sporadic or overly generic training interventions tend to have only limited developmental effect.

Alongside these enablers, participants identified persistent barriers to accessing developmental financing, most notably lengthy and complex application and compliance processes that smaller businesses, often without dedicated administrative capacity, struggle to navigate; delayed payments that place immediate pressure on cash-strapped contractors still liable for supplier, transport and labour costs; and weaker access to information and support services among rural contractors relative to their urban counterparts. These findings are consistent with the literature's identification of bureaucratic inefficiency, payment delay and uneven institutional reach as persistent constraints on the developmental effectiveness of state-led financing programmes, and support Development Finance Theory's caution that the design of financing mechanisms matters as much as their existence: well-intentioned instruments can be substantially undermined by weak institutional execution.

Effects Of Financing Strategies on the Sustainability and Growth of Construction SMMEs

Participants widely reported that developmental financing strategies had contributed to improved business growth and operational stability. Consistent access to SOE-sponsored project work was described as having stabilised participating businesses financially, enabling them to retain workers, invest in equipment and plan operations with greater confidence than the episodic, uncertain income many had previously relied on. This is consistent with the literature's recognition of project-based income as a relatively secure and predictable revenue stream that reduces small contractors' dependence on conventional bank financing, which remains largely inaccessible to them; it also reflects Development Finance Theory's view of project-linked income as a redistributive mechanism that reduces financial uncertainty and allows small businesses to focus on growth rather than survival.

A second effect concerned the development of internal capacity and compliance. Participants described how exposure to formal reporting systems, budgeting processes and procurement compliance requirements, often for the first time, improved their organisational professionalism and, in some cases, strengthened their formal contractor grading, making it easier to qualify for larger future opportunities. This finding aligns closely with the Resource-Based View, which holds that sustainability depends on a firm's internal knowledge, skills and operational capability; the findings suggest that developmental financing strategies function not solely as a source of capital but as a vehicle for building precisely these internal capabilities, corroborating the view in the literature that enterprise development support serves a professionalising as much as a financial role.

A third effect related to increased access to future market opportunities. Participants explained that successful completion of state-sponsored infrastructure work had strengthened their business profile and credibility, providing references and a demonstrable track record that improved their prospects of securing further public and private sector contracts, while also building professional networks with suppliers, consultants and project managers that opened doors to future collaboration. This is consistent with literature suggesting that participation in public infrastructure projects enhances SMMEs' long-term viability and competitiveness through learning-by-doing and industry exposure that extends well beyond the value of the immediate contract.

Despite these benefits, participants also identified ongoing sustainability challenges and financial pressures that persist alongside developmental support. Many noted that, once a project concludes, there is often no guarantee of further work, leaving small businesses to bear staffing, equipment and overhead costs while awaiting the next opportunity; payment delays during active projects compound this pressure, since suppliers and workers still expect payment irrespective of when funds are released by the implementing entity.

Several participants also observed that heavy reliance on government-linked work, in the absence of meaningful diversification into private-sector markets, leaves businesses structurally vulnerable to project delays, cancellations or shifts in government programming. These findings corroborate the literature's identification of financial dependency, weak post-contract continuity and limited market diversification as the principal barriers preventing construction SMMEs from translating project-based support into durable, independent sustainability, reinforcing Development Finance Theory's broader caution that access to finance alone, without accompanying institutional and capability-building support, is unlikely to produce lasting developmental outcomes.

Strategic Recommendations for Institutional Improvement

Drawing on the findings above, participants converged on four interrelated areas for strengthening the developmental impact and long-term competitiveness of construction SMMEs supported through this financing model, summarised in Table 3.

Table 3: Summary of recommendations for strengthening developmental financing outcomes for construction SMMEs

Recommendation	Rationale
Improve payment turnaround times and financial transparency	Faster, trackable disbursement reduces cash-flow pressure on contractors with limited financial reserves and strengthens confidence in the financing system.
Institutionalise post-contract support and business incubation	Continued mentorship, market-linkage and incubation support helps SMMEs sustain momentum and diversify beyond single project cycles.
Expand financial and technical training	Structured, ongoing training in budgeting, compliance and project management builds the internal capability needed to convert opportunity into sustained growth.
Improve institutional collaboration and integrated support	Closer coordination among implementing entities, municipalities, development finance institutions and enterprise support agencies reduces fragmentation and administrative burden for SMMEs.
Increase the use of digital platforms	Digitised application, payment-tracking and compliance systems improve transparency, efficiency and accessibility, particularly for rural contractors.

Participants emphasised, first, the need for faster and more transparent payment systems, including digitised tracking that allows contractors to monitor invoice status and anticipate disbursement timing, reducing the cash-flow strain that currently forces some contractors into short-term debt simply to keep projects moving. Second, participants called for stronger post-contract support and business incubation, arguing that developmental support should not end when a project concludes but should extend into mentorship, networking and market-access assistance that helps businesses transition toward greater self-sufficiency. Third, participants highlighted the value of closer institutional collaboration among implementing entities, municipalities, development finance institutions and enterprise support agencies, noting that fragmented service provision across separate institutions currently makes it difficult for SMMEs to access the full range of financial and non-financial support available to them. Finally, participants pointed to the potential of expanded digital platforms to improve the accessibility, transparency and efficiency of developmental financing processes, particularly for contractors based outside major urban centres who currently face greater difficulty accessing information, training and application processes in person.

Collectively, these recommendations address both dimensions of the study's conceptual framework: strengthening payment systems, institutional collaboration and digital access speaks to the design of financing mechanisms emphasised by Development Finance Theory, while expanding post-contract support and technical training speaks to the internal capability-building emphasised by the Resource-Based View. The findings suggest that sustained developmental impact depends on treating these as complementary rather than substitutable priorities.

CONCLUSION

This study set out to evaluate the developmental financing strategies implemented by a state-owned entity to support the sustainable growth of construction SMMEs in South Africa's Free State Province, and to identify the effects and institutional improvements shaping their long-term impact. The findings confirm that project-linked procurement and ring-fenced subcontracting, mobilisation funding and advance payments, and mentorship and technical support together form a coherent, mutually reinforcing package of developmental

financing mechanisms that have contributed meaningfully to the participation, growth and operational stability of construction SMMEs within the province's infrastructure sector.

A central conclusion is that these financing strategies function most effectively not as isolated financial transfers but as integrated interventions that build internal firm capability alongside providing access to capital and work opportunity, consistent with the complementary logic of Development Finance Theory and the Resource-Based View that jointly underpin this study. Where financing is paired with mentorship, technical support and compliance training, SMMEs appear better positioned to convert project participation into lasting competitive advantage; where it is not, or where institutional execution is weak, SMMEs remain vulnerable to payment delay, bureaucratic inefficiency and continued dependence on government-linked work. The study therefore concludes that while developmental financing strategies contribute significantly to supporting construction SMMEs, stronger institutional reform, particularly in relation to payment efficiency, post-contract continuity and inter-institutional collaboration, is necessary to convert short-term participation into durable, long-term sustainability and competitiveness.

Theoretically, the study extends the joint application of the Resource-Based View and Development Finance Theory to an empirical, provincial-level public infrastructure context that remains under-represented in the South African literature, most existing research having addressed developmental finance at a more general policy level. Practically, the findings offer managers of development-focused public entities, policymakers and development finance institutions a structured, evidence-based basis for prioritising investment in payment-system reform, post-contract support, institutional collaboration and digital access, with relevance extending beyond the Free State to other provinces facing comparable infrastructural and developmental challenges.

The study is subject to several limitations that should be considered when interpreting its findings. As a qualitative, exploratory case study centred on a single state-owned entity and a purposively selected sample of fifteen stakeholders, the findings are context-rich but not statistically generalisable to other institutions, provinces or sectors. The reliance on self-reported data also means that findings reflect participants' perceptions and interpretations rather than independently verified financial or project outcomes. Future research could usefully extend this work through comparative studies of developmental financing approaches across different provinces and state-owned entities, quantitative analysis of the relationship between financing-strategy design and construction SMME survival rates, research on SMMEs' transition toward private-sector market participation and reduced dependence on government contracts, and focused investigation of the experiences of rural contractors in accessing digital and institutional support.

Overall, this study demonstrates that developmental financing strategies represent an important, but not yet fully sufficient, mechanism for supporting the sustainable growth of construction SMMEs within South Africa's provincial infrastructure sector. Strengthening payment systems, post-contract support, institutional collaboration and digital accessibility appears central to converting the developmental promise of these strategies into durable, independent enterprise sustainability.

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Declarations

Ethical Approval and Consent To Participate

This study was conducted in accordance with the ethical research guidelines of the author's affiliated academic institution. Ethical clearance was obtained from the relevant Research Ethics Committee prior to data collection. All participants provided written informed consent, and their right to withdraw at any stage without penalty was clearly communicated and respected.

Conflict of interest

The author declares no conflict of interest in relation to this study.

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Data availability

Owing to the confidential nature of the semi-structured interviews and the assurances of anonymity given to participants, the qualitative data supporting the findings of this study are not publicly available. Anonymised excerpts and supporting materials may be made available by the corresponding author upon reasonable request, subject to ethical constraints.

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