

# ACCESS TO FINANCE – A SMALL BUSINESS CONSTRAINT

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## ABSTRACT

Access to finance has been cited as one of the most prominent constraints facing SMMEs in South Africa. This study seeks to establish whether this indeed is the case and to identify the factors hindering this process.

Judgmental sampling was used in a survey conducted among small business owners/managers operating in a metropolitan area in South Africa. Data analysis relating to reported results was conducted in three stages. Firstly, an item analysis was conducted to determine which items should be used in summated scales to calculate the scores for the various factors hindering access to finance. Secondly, descriptive statistics were calculated to summarise the sample data distribution. Finally, inferential statistics were used to determine significant relationships between the factors hindering access to finance and selected demographic variables.

Results show that accessing finance is indeed a problem for many SMMEs and factors hindering this process include lack of security, poor quality business plans and lack of business knowledge. Aspects relating to the financial services sector and government support structures were also cited as constraints in accessing finance. All stakeholders need to recognize that without addressing these constraints small businesses in South Africa cannot realise their full potential.

*Keywords: Small business, finance, problems encountered, South Africa, business environment.*

# INTRODUCTION

The importance of developing the small business sector as a vehicle for job creation and equitable economic growth remains indisputable. The South African government has recognised this and SMMEs are drawing increasing attention in the economic sector. International experience has also demonstrated that SMMEs play a valuable role in enhancing productivity, driving technical change, and above all, fostering entrepreneurship (Van Eeden & Viviers 2001:3).

However, an alarmingly high percentage of SMMEs fail in South Africa. There also exists a number of structural constraints in the economy that inhibit the potential of this sector. Worldwide experience shows that small businesses in general constantly deal with a myriad of constraints. Such constraints range from the legal and regulatory environment, problems with access to markets, finance, technology and business premises, as well as a lack of technical skills, managerial expertise and business infrastructure (The state of small business in South Africa 1997:26).

The inability to obtain sufficient funds is often cited as a major obstacle experienced by many small businesses (Ryan 2003; Demirg-Kunt & Love 2001). Access to capital, which is key to economic growth and the development of the SMME sector, has been identified as being difficult for the majority of South African small businesses (Access to capital is vital 2001:13). Research conducted by Sanlam (a South African insurance company) also showed a real need for financial assistance in the small business sector (Corporate mindshift towards SME market 2002).

The problems associated with financing SMMEs have significantly hindered the role they play in the overall performance of the South African economy. Research by The World Bank on finance, found that without access to external finance firms cannot realize their full growth potential, which will eventually result in slower economic growth for the country as a whole (Beck & Demirg-Kunt 2001). If SMMEs are to develop, it is critical for them to access adequate funds and it is thus important to assist them in obtaining funds. In 2001 President Thabo Mbeki spelled out exactly how serious the government was on the issue of financing small business start-ups and said that the government remained concerned that access to capital, which is key to economic growth and the development of the small and medium enterprise sector in the economy, remains difficult for the majority. Mbeki said that there was a need to develop the capacity to make such access easier while retaining a well-managed financial sector. Accordingly the micro-finance sector would be mobilised in support of entrepreneurship and productive activities (Access to capital is vital 2001). Despite the government's attempts over the past few years to remedy the problem, access to funding continues to plague the small and medium-sized business sector (Sukuzi 2003) and conflicting views exist as to why this is (Driver, Wood, Segal and Herrington 2001:44).

# RESEARCH OBJECTIVES

The primary objective of this study was to establish whether small businesses experience problems when attempting to access finance and to identify the factors hindering this process. A secondary objective was to investigate whether relationships exist between the factors identified and selected demographic variables.

## Literature review

The failure rate among SMMEs is unacceptably high in South Africa. It is estimated that between 70% and 80% of South African start-up businesses fail within five years (Moodie 2003) and millions of rands are lost (Barron (b) 2000:1). A number of structural constraints have been cited as major reasons for the underdevelopment and the failure of the SMME sector. This includes amongst others lack of access to finance, markets, information and mentoring, business premises, business skills and poor infrastructure. Access to finance, in particular, has been identified as the key constraint in the development of SMMEs. Not being able to access finance is seen by some as the single greatest impediment to their growth and success (Banks fail to feed the SMME pipeline 2003). Literature also proposes that inadequate capital or a lack of financing is one of the main reasons for small business failure (Sukazi 2003; Marx, Van Rooyen, Bosch & Reynders 1998:732; Van Aardt, Van Aardt & Bezuidenhout 2000:191; Olivier 1998:12). This problem is seen as the most serious constraint during the formation of a new venture and also manifests itself at later stages when businesses require additional inflows of capital to support expansion and growth (Van Eeden et al 2001:4).

It thus becomes vital to identify and examine the factors that impede the provision of finance to SMMEs in South Africa. A significant contribution to the development of SMMEs can be achieved through the understanding of these factors. The most prominent of these are government support structures, the financial services sector, stringent lending criteria of banks, poor quality of business plans, lack of business skills, lack of own contribution, lack of collateral, inability to meet loan obligation, high costs to banks, nature of the business activity, discrimination and lack of mentoring.

Based on existing literature sources, the various reasons as to why access to finance is denied and the various obstacles in obtaining finance are presented in Table 1.

**Table 1: Factors hindering access to finance**

<b>Factors</b>	<b>Literature sources</b>
Government support structure	Access to capital is vital 2001; Erwin admits SMME sector failure 2000:11; Streek 2001; Sukazi 2003; Walker 2000:11; SMME sector in SA stuck in a quandary 2001.
Financial services sector	Banks face renewed attack 2001:17; Banks fail to feed the SMME pipeline 2003; Barron (b) 2000:1; Erwin admits SMME sector failure 2000:75; Held back by lack of finance 2000:13; Schoombee 2000:751; Streek 2001; Taylor 1997:32; Theobald 2000:50.
Stringent lending criteria of banks	Access to capital is vital 2001; Horton, Honderich & Modise 2000:48; Khula get R100 million from trade department 2000; Mahadea 1996:77; Ryan (c) 2001: 12; Taylor 1997:32; Webb 2000:17.
Poor quality of business plans	Finding capital not the only problem 2000:12; Gaurente 2001:39; Held back by lack of finance 2000:13; Khula get R100 million from trade department 2000; Ryan (d) 2003; Wadula (a) 2000; Walker 2000:11; Webb 2000:17.
Lack of business skills/ability	Finding capital not the only problem 2000:12; Gaurente 2001:39; Held back by lack of finance 2000:13; Mahadea 1996:80; Penrose 1995:39; Ryan (c) 2001: 12; Ryan (d) 2003; Wadula (a) 2000; Walker 2000:11; Webb 2000:17.
Lack of own contribution (capital)	Access to capital is vital 2001; Khula get R100 million from trade department 2000; Loxton 2000:7; Wadula (a) 2000.
Lack of collateral/security	Banks reluctant to assist smaller concerns 2001; Held back by lack of finance 2000:13; Loxton 2000:7; Mahadea 1996:77; Ryan (c) 2001:12; State moves on SMME loans 2001:13; Taylor 1997:32; Webb 2000:17.
Inability to meet loan obligation	Access to capital is vital 2001; Held back by lack of finance 2000:13; Khula get R100 million from trade department 2000; Theobald 2000:50.
High costs to banks (time and money)	Access to capital is vital 2001; Ensor 2000; Hartley 2000; Horton <u>et al</u> 2000:48; Khula get R100 million from trade department 2000; Loxton 2000:7; Mahadea 1996: 77; Theobald 2000:50.
Nature of the business activity	Mahadea 1996:80.
Discrimination/hostile attitudes	Ensor 2000; Hartley 2000; Horton <u>et al</u> 2000:50; Loxton 2000:7; Moloi 2001; Streek 2001; Schoombee 2000:751.
Lack of assistance/mentoring	Finding capital not the only problem 2000:13; Ryan 2003.

# METHODOLOGY

## Research design and measuring instrument

Judgmental sampling was used in a survey conducted among small business owners/managers operating in a metropolitan area in South Africa. Judgmental sampling involves that researchers use their own judgement in selecting the small businesses to act as respondents. Selection to participate in the study was however based on the firm qualifying as a small business. "Small business" is a relative concept and for the purpose of this study, firms were considered as "small businesses" if they employed fewer than 50 full-time employees. This is consistent with the criteria laid down by the National Small Business Act (National Small Business Act No. 102. 27 November 1996). The original sample size was 214, and of the questionnaires returned, 188 were usable. This resulted in a response rate of 88%.

In an effort to investigate the problem of access to finance among small businesses, a research instrument in the form of a questionnaire was developed. The questionnaire consisted of two sections. Demographical information was requested in Section A and section B consisted of 26 items relating to various factors hindering access to finance. These statements were phrased with a possible response continuum of 1 to 5, where 1 = *strongly disagree*, 2 = *disagree*, 3 = *neutral*, 4 = *agree*, 5 = *strongly agree*.

## DATA ANALYSIS

Data analysis relating to reported results was conducted in three stages:

- An item analysis, consisting of a series of factor analyses, was undertaken to determine which of the items loaded together. This was done to determine which items should be used in summated scales to calculate the scores for the various factors hindering access to finance.
- Descriptive statistics such as the mean, standard deviation and frequency distributions were calculated to summarise the sample data distribution. This was done for each individual item and subsequent summated scores relating to the factors hindering access to finance.
- Finally, inferential statistics were used to determine significant relationships between the factors hindering access to finance and selected demographic variables.

## EMPIRICAL RESULTS

### Item analyses

A series of factor analyses revealed that the 26 items relating to the factors hindering access to finance, loaded onto seven different categories. These categories were named *loan criteria (security)*; *loan criteria (knowledge)*; *mentoring (assistance)*; *mentoring (reducing risk)*; *the financial services sector*; *government support structures*; and *personal issues*.

To evaluate the internal reliability of the measuring instrument, Cronbach Alpha coefficients were calculated. A summary of the results is given in Table 2. The Cronbach Alphas for *loan criteria (security)*, *mentoring (reducing risk)*, *mentoring (assistance)* and *personal issues* could not be obtained. This was because too few items loaded onto these factors. Of the remaining factors all obtained Cronbach Alpha coefficients of greater than the cut-off point of 0.70 as determined by Nunally (1978:226). The internal reliability of these factors was thus confirmed. Interpretation and conclusions made with regard to the other factors should however be treated with caution.

**Table 2: Summary of factor analyses per category**

Factor	Number of items	Factor loadings		Cronbach Alpha
		Min	Max	
Loan criteria (security)	2	0.69	0.79	na
Loan criteria (knowledge)	5	0.73	0.78	0.83752
Mentoring (assistance)	3	0.55	0.82	na
Mentoring (reducing risk)	2	0.65	0.84	na
Financial services sector	7	0.56	0.68	0.701856
Government support structures	5	0.58	0.87	0.803433
Personal issues	2	0.90	0.90	na

## Demographic and sample characteristics

The majority of respondents (75,53%) were both the owners and the managers of their small businesses. The results show that 77,66% of the respondents were male whereas only 22,34% were female. Most owners/managers (61,70%) were white, whereas 14,36% were black, 13,83% were Asian and 7,45% were coloured. The majority of respondents (72,87%) have been in this position for more than three years and most (65,96%) of the respondents do not possess a managerial qualification. The sole trader (36,17%) and close corporation (43,09%) are the most popular forms of enterprise and many of the small businesses operate in either the retail and/or wholesale (40,96%), or service (29,79%) sectors. The majority of respondents (71,27%) employed between one and ten full-time employees, and 51,59% reported an annual turnover of between R500 000 and R1 million.

## Findings on the ability to access finance and the factors hindering access to finance

Respondents were asked if they had experienced any difficulties when attempting to obtain start-up and/or growth capital from financial institutions. The results show that 37,23% of the owners/managers had experienced difficulties in obtaining start-up capital from financial institutions, whereas nearly the same number (37,77%) had not. Many respondents (45,74%)

reported, however, that they had not recently (in the last year) experienced difficulties when attempting to obtain capital, for either expansion or normal operations purposes, from financial institutions. Others indicated that this was not applicable to them (27,66%).

The factors hindering access to finance were identified and categorized as *loan criteria (security)*; *loan criteria (knowledge)*; *mentoring (assistance)*; *mentoring (reducing risk)*; *the financial services sector*; *government support structures* and *personal issues*. Table 3 below contains a summary of the descriptive statistics of these factors. Scores on the five-point scale were recalculated into disagree (less than or equal to 2.6), neutral (between 2.6 and 3.4) and agree (above 3.4).

**Table 3: Descriptive statistics of factors influencing access to finance**

Factor	Valid N	Mean	Std.Dev.	Frequency distribution %		
				Disagree	Neutral	Agree
Loan criteria (security)	188	4.01	0.93	10.11	10.11	79.79
Loan criteria (knowledge)	188	3.73	0.85	7.45	17.55	75.00
Mentoring (assistance)	188	3.69	0.79	6.38	32.45	61.17
Mentoring (reducing risk)	188	3.53	0.87	15.96	24.47	59.57
Financial services sector	188	3.72	0.68	6.38	22.34	71.28
Government support structures	188	3.79	0.82	4.79	14.89	80.32
Personal issues	188	2.64	1.14	48.94	23.94	27.13

As indicated in Table 3, it is apparent that the mean scores varied for all the factors hindering access to finance that were investigated. The highest mean score was allocated to the factor *loan criteria (security)* (mean = 4.01). Statements were put to the respondents to establish whether the lack of own capital and security were factors that hindered them from accessing funds. The vast majority of the respondents (79,79%) agreed with these statements. Lack of own capital/money obtained a mean score of 3.91 and the lack of security obtained 4.11. The Khula Credit Guarantee Scheme was created by the Department of Trade and Industry to help SMMEs that do not have adequate security to access finance from commercial banks. Questions were put to the respondents to establish whether they had heard of Khula and if they had ever made use of this scheme. Most respondents (58,51%) indicated that they had never heard of the Khula Guarantee Scheme, whilst only 2,13% of the respondents indicated that they had made use of the scheme.

The factor *loan criteria (knowledge)* obtained a mean score of 3.73. This factor included statements about the small business owners' lack of well-written business plans, realistic financial forecast, thorough market research, business experience and skills/knowledge as factors that hinder the small business owners/managers from accessing finance. Three quarters (75%) of the respondents agreed with these statements. The respondents generally agreed that the lack of a well-written business plan was a factor hindering access to finance (mean = 3.81), as well as the lack of realistic financial forecasts (3.79), thorough market research (3.67), business experience (3.62) and business skills/knowledge (3.78).

*Mentoring (assistance)* obtained a mean of 3.69. This factor considered statements about whether the entrepreneurs had received assistance from banks/financiers or NGOs when applying for start-up financing. Most (61,17%) respondents agreed with the statements that they had not been assisted in drawing up business plans when applying for start-up capital (mean = 3.92). Respondents were generally aware of NGOs providing assistance when seeking funds, but most agreed that they had not obtained assistance from these bodies (mean = 4.29).

*Mentoring (reducing risk)* obtained a mean score of 3.53. Statements were put to the respondents to establish whether small business owners thought that mentoring would have increased their chances of obtaining finance. Many (59,57%) small business owners/managers agreed with these statements. The research shows that small business owners/managers thought that their chances of obtaining funds for start-up capital would have been enhanced if they had received more assistance from the banker or financiers (mean = 3,21) and that risks associated with business lending would be reduced by banks offering pre and post funding assistance (3.86).

*The financial services sector* obtained a mean score of 3.72. Respondents were requested to identify whether aspects relating to the financial services sector hindered access to finance. The majority (71,28%) of respondents agreed with these statements. The results show that banks are perceived as not willing to take risks (mean = 3.99). Respondents were however neutral with regard to viewing banks as not willing to provide entrepreneurs with assistance (3.21) and viewing small clients as unprofitable (3.34). The respondents further indicated that more competition among banks will improve an entrepreneur's chances of obtaining funds (3.82), improve products or services offered to small businesses (3.99), reduce bank charges for small business clients (3.93) and reduce interest rates charged on bank loans and overdrafts (3.78).

*Government support structures* as a factor hindering access to finance obtained a mean score of 3.79. This factor considered the perception of the government support structures and how the government could offer more support to small businesses. The vast majority of respondents (80,32%) agreed with these statements. The results show that respondents felt that government could offer more support by making more funds available for small business development (mean = 4.12), by providing more non-financial support to entrepreneurs seeking finance (3.92), by subsidising more small business loans (3.88) and by implementing a more effective loan guarantee scheme (3.95). Respondents were however neutral with regard to forcing banks through legislation to grant more loans to small businesses (3.07).

*Personal issues* as a factor hindering access to finance obtained a mean score of 2.64 and this score was the lowest of the five categories. Statements were put to the respondents to establish whether they had experienced hostile attitudes from banks or financiers, or had been discriminated against when applying for finance. Many respondents (48,94%) had not experienced hostile attitudes and/or discrimination when applying for finance. As a whole, the *personal issues* experienced when applying for finance got a low mean, but when considering the individual items, one could see that some small business owners were neutral (23,94%) or agreed (27,13%) with regard to experiencing hostile attitudes and discrimination when applying for finance.

## Relationships between factors hindering access to finance and selected demographic variables

The analysis of variance (ANOVA) was undertaken to determine whether significant relationships exist between selected demographical variables and three of the factors hindering access to finance. Inferential statistics were not obtained for the other factors, as the internal reliability of these factors was not confirmed. The ANOVA results are shown in Table 4.

**Table 4: Relationships between factors hindering finance and demographic variables**

Demographic variables	df	Loan criteria (knowledge)		The financial services sector		Government support structures	
		F	p	F	p	F	p
Ownership status	2	2.9698	<b>** 0.054131</b>	2.7076	<b>**0.069734</b>	2.4495	<b>**0.089548</b>
Gender	1	0.2236	0.636973	0.0039	0.950265	0.8692	0.352579
Population group	4	0.4013	0.807514	0.7195	0.579752	5.4893	<b>*0.000362</b>
Term of management	3	0.1019	0.958856	0.4259	0.734701	1.5866	0.194698
Management qualification	1	10.6029	<b>*0.001377</b>	0.367	0.848328	1.6016	0.207506
Form of enterprise	4	0.4280	0.788238	2.33771	<b>**0.054132</b>	0.5586	0.693048
Nature of industry	4	4.0604	<b>*0.003656</b>	3.7621	<b>*0.005925</b>	1.6121	0.173709
Number of employees	3	1.4505	0.230176	2.2937	<b>**0.079996</b>	0.8015	0.494710
Annual turnover	4	1.1217	0.348181	2.2590	<b>**0.065074</b>	1.0011	0.408762

\*  $p < 0.05$

\*\*  $p < 0.10$

From Table 4 above, it is clear that there is a significant relationship between *loan criteria (knowledge)* and the following namely, *ownership status* ( $p < 0.10$ ) and *management qualification* ( $p < 0.05$ ). Respondents who were both owners and managers agreed to a greater extent (mean = 3.76), that loan criteria (knowledge) was a factor that hindered them when accessing finance than respondents who were owners but not managers (mean = 3.42). It appears that owners/managers with a management qualification (mean = 4.04) also regard *loan criteria (knowledge)* as a hindrance more than owners/managers without a management qualification (mean = 3.57). A significant relationship ( $p < 0.05$ ) is evident between *loan criteria (knowledge)* and the *nature of industry*. It appears that small businesses in the service (mean = 3.88) and retail and/or wholesale industries (mean = 3.86) agreed to a greater extent that *loan criteria (knowledge)* is a factor hindering access to finance than small businesses in the manufacturing industry (mean = 3.31).

There is a significant relationship ( $p < 0.10$ ) between the *financial services sector* and *ownership status*. Respondents who were owners (mean = 3.86) and those who were both owners and managers (mean = 3.76) regard the financial services sector as a factor hindering access to finance more than respondents who were only managers (mean = 3.44). The *financial services sector* also shows a significant relationship with the following namely, *form of enterprise* ( $p < 0.10$ ), *the nature of industry* ( $p < 0.05$ ), *number of employees* ( $p < 0.10$ ) and *annual turnover* ( $p < 0.10$ ). It appears that close corporations perceive the financial services sector as a factor hindering access to finance (mean = 3.81); however partnerships do so to a lesser extent (mean = 3.38). Small businesses in the retail and/or wholesale industry (mean

= 3.85) also perceive the financial services sector as a factor hindering access to finance to a greater extent than small businesses in the manufacturing industry (3.43). It was found that small businesses that employ between 6 and 10 employees (mean = 3.91) regard the financial services sector as a factor that hinders them from accessing funds more so than small businesses that employ between 11 and 20 employees. Small businesses with an annual turnover of more than R5 million (mean = 3.85) regarded this factor to be hindrance when accessing funds more than small businesses earning an annual turnover of less than R500 000 (mean = 3.56). This finding corresponds with literature where it is indicated that larger firms find it easier to obtain capital from financial institutions than smaller firms.

There is also a significant relationship between *government support structures* and the following namely, *ownership status* ( $p < 0.10$ ) and *population group* ( $p < 0.05$ ). It was found that respondents who were managers (mean = 4.11) and those who are both owners and managers (mean = 3.79) agreed to a greater extent that government support structures hindered their ability to access funds, than the respondents who are only managers (mean = 3.61). It also appears that black (mean = 4.13) and Asian (mean = 4.31) small business owners regard government support structures as a factor that hinders them from accessing funds to a greater extent than whites (mean = 3.62) and coloureds (mean = 3.96). This relationship is somewhat surprising given the government's push for Black Economic Empowerment.

## **CONCLUSIONS, RECOMMENDATIONS AND MANAGERIAL IMPLICATIONS**

Based on existing secondary sources, it was found that access to finance is a constraint facing small businesses. It was also identified that government support structures, the financial services sector, stringent lending criteria of banks, poor quality of business plans, lack of collateral and lack of own contribution, inability to meet loan obligation, discrimination and lack of mentoring and assistance were factors hindering access to finance. The theoretical study provided the base on which to undertake the empirical investigation. More specifically, the following aspects were investigated, namely to establish whether small businesses experience problems when attempting to access finance and to identify the factors hindering this process.

The study revealed that many of the respondents had experienced difficulties in obtaining start-up capital from financial institutions and that there were numerous factors hindering this process.

Small businesses in South Africa are generally considered as notoriously risky, and thus banks and financiers need to demand the level of collateral that will compensate them for the risk assumed. A high percentage of the owners/managers stated that lack of security (collateral) and own contribution was a factor that hindered them from accessing finance. Furthermore, it appears that the Khula credit guarantee scheme designed to assist small businesses that do not meet the necessary collateral requirements, has been ineffective. Most of the respondents indicated that they had never heard of Khula, whilst only a few had

made use of the scheme. With regard to security (collateral) and own contribution requirements, the following recommendation could be made:

- Banks and financiers should place less emphasis on collateral and security and rather focus on the merit and viability of the business.
- The government must create more awareness of the Khula guarantee scheme and thus encourage more small businesses to make use of the scheme. Banks should also inform loan applicants of this scheme.
- Banks and financiers should evaluate the risk profile of the small businesses requiring finance, and offer mentoring and assistance to those considered high risk.

Literature showed that lack of business skills/knowledge and inability to prepare satisfactory business plans by many small businesses, had influenced their ability to access funds. Respondents stated that the lack of well-written business plans, as well as a lack of realistic financial forecasts, thorough market research, business experience and skills/knowledge were factors that hindered small businesses from accessing funds. This clearly indicates that the problem in accessing finance arises not only as a result of the lack of collateral on the part of the small businesses, but also as a result of poor quality of business plans and lack of business skills/knowledge by small business owner/managers. The empirical results further showed that most of the owners/managers had not received any assistance when applying for finance and were not aware of the NGOs that provided assistance to entrepreneurs when seeking finance. Furthermore, the many respondents felt that their chances of obtaining funds would have been enhanced if they had had more assistance from banks and financiers, and thus believe that banks and financiers can reduce the risks associated with small business lending by offering pre and post funding advice. The following recommendations with regard to providing assistance can thus be made:

- More assistance and mentoring should be provided to small business owners/managers, particularly to those who lack business experience, skills and knowledge. A fee could be charged for the mentoring and assistance.
- Small business owners/managers need to be informed on what to do, in terms of how to set up and manage a business.
- Banks and financiers should provide checklists, procedures, brochures, websites etcetera, which could assist small businesses to prepare the necessary information such as business plans, financial forecasts and market research.
- Awareness of NGOs and other institutions providing assistance should be increased.
- It is important that the mentoring and assistance programmes are consistent and sustainable.

Although the financial services sector in South Africa is well developed, it has been unable to make sufficient amounts of funds available to the majority of SMMEs. From the literature it was seen that the financial sector is inadequate in meeting the challenges posed by the demand for capital by the developing SMME sector. The results of the research also showed that the majority of the respondents regard the financial services sector as hindering them from accessing finance and regard banks as not willing to take risks. A considerable contribution could be made to the development of the SMME sector if the financial services industry changed their attitudes towards small businesses. In this regard the following recommendations are made:

- Banks and financiers must change their attitudes and be more risk accepting.
- Products and services offered to small businesses can be improved and tailored to their needs.
- More competitive bank charges and interest rates should be negotiated for small businesses.

A general view is that the South African government's stated desire to promote small businesses has not been matched by its deeds. The government's support programmes aimed at promoting small businesses in particular, the two development agencies Khula and Ntsika, have been ineffective. The majority of the respondents indicated that government support structures were indeed a factor that hindered them from accessing finance. The following recommendations are made with regard to government support structures:

- More funds should be made available for small business development.
- Non-financial support such as mentoring for entrepreneurs seeking funds should be provided.
- The government should consider subsidising more small business loans.
- A more effective loan guarantee scheme should be established.

One other factor that has been reported to be hampering the development of the South African SMME sector is personal issues such as hostile attitudes from banks and financiers, and discrimination on the basis of race and/or gender. However the results of this study show that most of the respondents did not experience the above-mentioned personal issues or were neutral about them. This is an encouraging sign but does however not suggest that personal issues are not a problem. The following are recommended with regard to personal issues:

- Banks and financiers must try to understand the sociology of previously disadvantaged entrepreneurs, mainly those who lack business experience and skills/knowledge.
- Banks and financiers must employ more friendly and competent staff that will understand the needs of small businesses.
- Banks and financiers must try to understand the socio-economic, cultural and language barriers faced by many entrepreneurs.

An analysis of variance (ANOVA) was conducted to determine the relationships between factors hindering access to finance and selected demographic variables. It was found that respondents who were both owners and managers agreed to a greater extent that *loan criteria (knowledge)* was a factor that hindered them when accessing finance than respondents who were owners but not managers. Owners are more likely to be the ones approaching the financiers and are thus more likely to experience this as a problem. It appears that owners/managers with a management qualification also regard *loan criteria (knowledge)* as a hindrance more so than owners/managers without a management qualification. This finding is somewhat surprising as one would expect owners/managers with a management qualification to experience fewer problems with regard to well-written business plans, realistic financial forecasts, market research, business experience and skills/knowledge. A significant relationship was also found between loan criteria (knowledge) and the nature of industry. It appears that small businesses in the service and retail and/or wholesale industries agreed to a greater extent that the *loan criteria (knowledge)* is a factor hindering access to finance than small businesses in the manufacturing industry.

It was found that respondents who were owners and those who were both owners and managers regard the financial services sector as a factor hindering access to finance more than respondents who were only managers.

The *financial services sector* also showed a significant relationship with the following namely, form of enterprise, the nature of industry, number of employees and annual turnover. It appears that close corporations perceive the financial services sector as a factor hindering access to finance more so than partnerships do. Small businesses in the retail and/or wholesale industry also perceive the financial services sector as a factor hindering access to finance to a greater extent than small businesses in the manufacturing industry. It was found that small businesses, which employ between 6 and 10 employees regard the financial services sector as a factor that hinders them from accessing funds more so than small businesses which employed between 11 and 20 employees. Surprisingly, small businesses with an annual turnover of more than R5 million regarded this factor to be hindrance when accessing funds more so than small businesses earning an annual turnover of less than R500 000.

There is also a significant relationship between *government support structures* and the following namely, ownership status and population group. It was found that respondents who were managers and those who are both owners and managers agreed to a greater extent that this factor hindered their ability to access funds, than the respondents who were only managers. Owners are more likely to apply for financing than managers and are thus more likely to be exposed to government support structures. It also appears that black and Asian small business owners regard this factor as hindering them from accessing funds to a greater extent than whites and coloureds. A possible explanation for this is that with the government's drive for the upliftment of previously disadvantaged persons, these persons are targeted by government support structures. Black small business owner/managers are thus possibly more likely to approach government for support and in this way more likely to experience the shortcomings of these structures.

From this study, it is evident that access to finance is indeed a problem for small businesses in South Africa. The South African government and financial services sector need to recognize that without adequate financing, small businesses cannot realise their full growth potential, and this will eventually result in slower economic growth for the country as a whole. Finally, if the South African SMME sector is to develop, it is critical that the issue of access to finance is addressed effectively by all stakeholders in the country.

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