



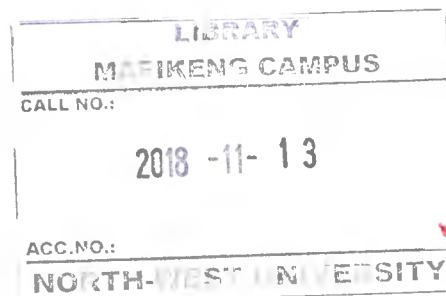
**Financing and Managing Manufacturing Small, Medium and Micro Enterprises (SMME's)
in Botswana: Challenges and Opportunities**

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**Thesis submitted in fulfilment of the requirements for the degree of Doctor of Philosophy
in Business Management at the Graduate School of Business Management and
Government Leadership, North-West University (Mafikeng)**

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DECLARATION

I, Wilbert R. Mutoko, solemnly declare that this thesis entitled, FINANCING AND MANAGING MANUFACTURING SMMEs IN BOTSWANA: CHALLENGES AND OPPORTUNITIES is original and is the result of my own work. It has never, on any previous occasion, been presented in part or whole to any institution or board for the award of any degree. I further declare that all information used and quoted has been duly acknowledged by means of complete referencing.

Signature:

A handwritten signature in black ink, appearing to be "W. Mutoko".

Date:

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PREFACE

After many years working as a management consultant, business consultant and independent financial adviser, I got saddened at the rate of financial struggles among both individuals and enterprises. At the same time, I was impressed by a handful of small, medium, and micro entrepreneurs (SMMEs) that I nurtured into success. I was exhilarated to see those few firms solving the unemployment challenge in Botswana; accounting for gross domestic product (GDP) and providing income for families of the firm owners and employees' alike, thereby reducing poverty levels.

As soon as I joined academia a few years ago, I got thrilled to carry out a study of the challenges and opportunities facing SMMEs. However, I quickly realized through literature search that there were a few studies on SMMEs in general in Botswana. Worse still, literature review revealed that micro enterprises in Botswana were not researched much about, yet they were the majority. Out of the few studies on SMMEs, most of those studies focused on tourism, retail, agriculture, health, and other sectors, apart from manufacturing sector.

Almost all the studies ever done on SMMEs pointed to financing challenges being the worst enemy of SMMEs. This supported my own observations as an independent financial adviser and management consultant where I saw SMMEs struggling with access to finance. Seeing that there was little research on the manufacturing sector, which is one of the earmarked sectors for economic diversification by the government of Botswana, I decided to focus my research on manufacturing SMMEs. That research interest culminated into a PhD proposal in Business Management.

When North West University accepted the research proposal for PhD in Business Management, I ventured into a seven-month field research of the challenges bedevilling the manufacturing SMMEs. I am so grateful to North West University that gave me the opportunity to study with them and to carry out this study.

The past three years have been awesome. I have enriched my work as a lecturer for entrepreneurship and business leadership through literature search and lessons learnt from field studies. I sincerely believe that the findings of this study will be helpful to industrial policy makers, SMMEs, potential investors, commercial banks and other interested parties.

ACKNOWLEDGEMENTS

This study could not have come to completion without the motivation and patience of many people. I would like to sincerely thank God for his wisdom, guidance, strength, and good health in the course of my studies.

I would like to express my utmost gratitude to the North-West University for their role in the research.

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My gratitude goes to Local Enterprise Authority (Botswana) and Botswana Exporters' and Manufacturers' Association for giving me access to their member databases.

Many thanks to Ministry of Trade and Industry (Botswana) as well as Ministry of Finance and Development Planning (Botswana) for granting me a research permit.

Special thanks to Mr Ismail Haffjee, Ms Sophy Mogorosi and Mr Tebogo Tebejane at the NWU office for their untiring assistance by giving me updates and deadlines.

I would like to thank my wife Phillis, my children, and colleagues for their support, emotional and otherwise, during the entire study.

I would like to express sincere gratitude to all questionnaire respondents and interviewees for allowing me to tap into their experiences and knowledge. Without them, the study would not have been possible.

Finally yet importantly, I would like to thank everyone who helped directly or indirectly to make possible the success of this project.

Wilbert R. Mutoko

DEDICATION

I dedicate this work with great thanks to my father Mark Tichaona Mutoko (MHSRIP) and my mother Irene Mutoko who raised secondary school fees for me under strenuous circumstances; taught me to work hard in life, to take school seriously and make a difference in the world.

I further dedicate the thesis to my precious wife and best friend – Phillis Mutoko, and to our lovely children Peace Mutoko, Praise Mutoko, and Prayer Mutoko for their encouragement, support, love, and intercessions.

"If you are planning for a year, sow rice; if you are planning for a decade, plant trees; if you are planning for a lifetime, educate people." ~ Chinese Proverb

ABSTRACT

Small, medium and micro enterprises (SMMEs) are pivotal to income generation, gross domestic product (GDP), poverty reduction, employment creation, economic growth, and diversification of a nation. Botswana has over-dependended on diamond exports, which are on the decline; hence, it is imperative to diversify the economy into manufacturing. Manufacturing SMMEs face challenges that cripple their chances of survival and growth. This study therefore, examines the gravity of financing and managing challenges of Botswana manufacturing SMMEs, as well as causes of the challenges and opportunities. The study also examines the factors influencing borrowing from commercial banks by SMMEs in the manufacturing sector. The study will bridge the gap of scarcity of data on manufacturing sector. Before the main study, there was a pilot study on 12 SMMEs in Gaborone, Botswana to test the questionnaire and fine-tune it. The main study employed both qualitative and quantitative research design. The researcher used a combination of deductive and inductive research approach. A target population of 329 registered manufacturing SMMEs in Botswana was employed where a research sample of 100 was drawn using a random stratified sampling technique. The researcher divided Botswana as a country into six strata from which sample figures were derived: Gaborone, Francistown, Maun, Kasane, Serowe, and Ghanzi. The manufacturing SMME participants (owners/directors/managers) were administered a structured questionnaire which was either emailed by the researcher or delivered by hand to the office of the participant. The population of commercial banks was a possible seven commercial banks operational in Botswana. Homogenous purposive sampling was used to select three commercial banks out of the seven. The selection criterion for commercial banks was based on the researcher selecting the banks that had active programs for supporting manufacturing SMMEs. At each of the selected banks, the person interviewed was the head of SMME banking to maximize the information collected during interview. A modified credit rational theory was used to interpret the two-pronged approach to the research where both demand-side and supply-side of financing were covered in the study. Reliability and validity tests were run on the instrument and a Cronbach's Alpha of 0.873 was attained. Data was captured, coded and analysed using SPSS computer software. The data was analysed descriptively and using multivariate logistic regression model. Presentation of data was done through descriptive statistics, figures, tables, pie charts, and percentages. Qualitative data was thematically coded and analysed. Findings include: 1) the factors influencing manufacturing SMME borrowing are gender, marital status and annual sales turn over; 2) the problem of information asymmetry is evident in the Botswana manufacturing sector; 3) the main challenges faced by SMMEs (in descending order) are lack of capital, lack of market, tough competition, shortage of skilled labour, tough regulations and lack of accounting records; and 4) opportunities in and around Botswana are available, but SMMEs are ignorant of process to tap into the market, for instance, to export into Southern African Development Community, and the rest of Africa. Policy implications and recommendations were given.

Key words: Manufacturing SMMEs, financing and management challenges, opportunities, Botswana

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List of Acronyms

AGOA	African Growth and Opportunity Act (2000)
BBS	Bangladesh Bureau of Statistics
BDS	Business Development Service
BEMA	Botswana Exporters and Manufacturers Association
BIDPA	Botswana Institute for Development Policy Analysis
CDE	Centre for the Development of Enterprise
CEDA	Citizen Entrepreneurship Development Agency (2001)
CSO	Central Statistics Office (Botswana)
EDD	Economic Diversification Drive
ESP	Economic Stimulus Program
EU	European Union
FAP	Financial Assistance Policy (1982)
IDP	Industrial Development Policy
IFS	Integrated Field Services
ISIC	International Standard Industrial Classifications
LEA	Local Enterprise Authority (2004)
MLM	Multivariate Logistic Model
NDB	National Development Bank
NFBIB	National Federation of Independence Businesses
OSYG	Out of School Youth Grant (CEDA)
SACU	Southern African Customs Union
SADC	Southern African Development Community
SBPA	Small Business Promotion Agency
SMEs	Small and Medium Enterprises
SMME	Small Medium and Micro Enterprises
SPSS	Statistical Package for Social Sciences
UN	United Nations
YDF	Youth Development Fund (Ministry of Youth, Sport and Culture)
YFF	Young Farmer's Fund (CEDA)

CHAPTER ONE

INTRODUCTION

1.1 Back Ground Information

Small, medium and micro-enterprises (SMMEs) are the backbone of the majority of the world's economies (Rhodes, 2012; Messah & Wangai, 2011). However, adequate financing has been a major factor hindering SMME success. While there are a number of ways to finance individuals and organisations, commercial banks have always been expected to play a major role in financing individuals and SMMEs alike. This idea is affirmed by Okurut *et al.* (2011) who argue, "*Historically, the formal credit market in Botswana has been dominated by commercial banks, which are the major suppliers of credit to households and private businesses.*" Berger & Udell (1998) echoed the same sentiments when they said that the largest sources of finance for micro and small firms are the principal owner, commercial banks and trade creditors. For that reason, this study focuses on internal financing (ploughing back profits and owner's equity) and external financing especially from commercial banks.

In the past decade, there has been an ongoing debate on SMME development and their contribution to Botswana (Mutoko, 2014; Baliyan, 2013). The debate has involved SMMEs' significance towards employment creation, poverty eradication, GDP contribution and economic diversification (BIDPA, 2009; Jefferies, 2014; Baliyan, 2013).

Botswana is strategically located in the centre of the southern Africa region with a total market size of approximately 200 million people (Republic of Botswana, 2012). The Republic of Botswana is an African country located toward the southern tip of Africa. The population in 2014 was 2,052,556, up from 2013's 2.04 million (World Population Review, 2014; World Fact Book, 2014).

In 2010, the Botswana government started the Economic Diversification Drive with an aim to diversify the economy from the fading diamond sales (Republic of Botswana, 2016). The drive is to minimize risk of overdependence on diamond sales that generally account for about

60% of exports every year; but to grow sectors such as manufacturing, tourism, agriculture and services (Bakwena & Kahaka, 2015; Republic of Botswana, 2015b).

Although there is a huge potential market, manufacturing SMMEs like other SMMEs face tremendous challenges that threaten their survival and growth (Jefferis, 2014; Moore *et al.*, 2010). The main challenges include access to markets, financing challenges and competitiveness (Centre for the Development of Enterprise, 2013).

Botswana government has put a lot of effort into boosting economic productivity by empowering SMMEs, particularly those that are one hundred percent citizen-owned. The following excerpts illustrate the government efforts: *"Government of Botswana has, over the years, embraced citizen economic empowerment in its development planning process in the absence of a specific citizen empowerment policy. A number of programmes and policies aimed at supporting citizen economic empowerment have been implemented. These include; ... Privatization Policy; Financial Assistance Policy; Universal Access to Education; Micro Business Finance Scheme; Citizen Entrepreneurial Development Agency (CEDA); and Citizen Entrepreneur Mortgage Assistance Equity Fund (CEMAEF), Local Enterprise Authority (LEA) and recently, Economic Diversification Drive (EDD)"* (CEDA, 2012).

In 2001, the government of Botswana, through an act of parliament instituted Citizen Entrepreneurial Development Agency (CEDA); an organization that finances citizen-owned firms (CEDA, 2014). Following the formation of CEDA, the Botswana Government formed Local Enterprise Authority (LEA) in 2004 as a Statutory Authority of the Government of Botswana. The Authority is guided by a board of directors drawn from both the private sector and the public sector and is headed by a chief executive officer (LEA, 2014). LEA is a co-ordinated and focused one-stop shop Authority that provides development and support services to the local industry needs of SMMEs, encompassing training, mentoring, business plan finalization, market access facilitation, and facilitation of technology adaptation and adoption. The Authority's key sectors are manufacturing, tourism, agriculture, and any services that support the three business sectors.

In particular, LEA targets women, youth, and the unemployed. Part of the strategy is to encourage businesses to use locally available natural resources and raw materials, within the identified sectors above. In addition, the Authority endeavours to build competencies in quality and efficiency, and to encourage import substitution and export oriented products and services (LEA, 2014).

However, many manufacturing SMMEs do not take advantage of the LEA facility to learn how to finance and manage their businesses. There is a need to establish why SMMEs struggle yet they do not use the mentorship, training, marketing, technology, advice and coaching facility from LEA. LEA offers highly specialized development and support services which include but are not limited to the ones in Table 1.1:

Table 1.1: Services Offered by LEA

Facilitation of business planning	Facilitating exploitation of government and large firms' procurement opportunities by SMMEs
Providing training, mentoring and advisory services	Facilitating access to finance
Identifying business opportunities for existing and future SMMEs	Facilitating technology adoption and diffusion
Promoting domestic and international linkages	Promoting general entrepreneurship and SMME awareness
Facilitating access to markets	Facilitating exploitation of government and large firms' procurement opportunities by SMMEs

(Adopted from LEA, 2014)

Table 1.1 shows that LEA assists SMMEs with advice on access to markets and skills acquisition. LEA does not provide finance to entrepreneurs, but rather, facilitates access to

finance from CEDA and banks as well as provide support services to SMMEs, before and after funding (LEA, 2014; Republic of Botswana, 2014b).

Although the government has played a major role in financing and supporting SMMEs, more support is necessary as currently SMMEs only account for approximately 35% of Botswana's GDP (World Bank, 2012; Republic of Botswana, 2014a). With several thousands of new graduates from tertiary institutions every year in Botswana; more has to be done to develop SMMEs so that they can be sustainable in the long-term and provide jobs to the many unemployed youths (Republic of Botswana, 2012; Katz & Green, 2011). Nevertheless, the global financial crisis, which began in 2008; has made things worse for financial institutions such that financial institutions, especially commercial banks have become more cautious about lending money to firms. This in turn leaves SMMEs financially crippled, with less options for external financing (Haron *et al.*, 2013).

While Botswana manufacturing SMMEs are still in their 'infancy stage', a study of their challenges can help grow the manufacturing industry (Shemi, 2013), which in turn can boost Botswana's economic performance.

More so, the current economic challenges in China's economy translate into a slowdown in Chinese manufacturing firms' output. This slow down means less competition for African manufacturers; which in turn creates opportunities in manufacturing even for Botswana manufacturing SMMEs (Deloitte, 2016; Morrison, 2015). It follows that manufacturing SMMEs in Botswana could take advantage of selling to SADC and the rest of the world at a time when their main competitor – China has drastically reduced production. However, the only challenge with this window of opportunity is that nobody knows when China's reduced production will resume and increase competition again. Thus, there is a possibility of Botswana manufacturing SMMEs benefiting in the short-term. Therefore, there is need for local firms to have other markets and to have contingent plans to deal with Chinese products.

According to The Business Monitor International (2014:20) Botswana's underdeveloped manufacturing sector (contributing just 3.8% to GDP in 2010) is tiny, hence it is unlikely to be a major driver of economic growth through year 2021, unless some measures are taken to grow manufacturing SMMEs.

A close comparison of how manufacturing can diversify the Botswana Economy is Ghana's experience. In Ghana SMEs are now exposed to greater opportunities than ever for expansion and diversification across the sectors. While developed global markets may be shrinking on account of the financial and economic crises prevailing, Ghana's market size is growing and opportunities within Africa are also beginning to look attractive for SMEs in manufacturing, food processing, pharmaceutical, IT and agro and service sector, among others, transportation difficulties discounted (Government of Ghana, 2013; Mutoko, 2014).

In order to advance the country industrially, in 1984 the Botswana Government enacted the Industrialization Development Policy (IDP) which was aimed at producing for the domestic market and substituting for imports. The policy became a foundation for subsequent national development plans. In 1998, a new Industrialization Development Policy instituted to cater for the demands of global competition and the advent of fast and more efficient technology; thereby helping manufacturing companies for exportation. The fundamental goal of the policy is to encourage the development of a competitive and sustainable SMME sector while promoting vertical integrations and horizontal linkages between the primary industries and SMMEs (Republic of Botswana, 2010; Sekwati, 2010). Furthermore, industrial development policy 2014 is part of the broader development of SMME sector such as national development plans and Botswana excellence strategy to better the economy (Republic of Botswana, 2014b).

According to Naidu and Chand (2012), SMMEs in the manufacturing sector are mainly export-oriented and include industries such as textiles, garments, footwear, sugar, food processing, beverages (including mineral water), and wood-based industries. SACU (2014:9) affirms that the major manufacturing activities in Botswana include but not limited to the following: Textiles, Food Products, and Wood Products. In Botswana however, there is a mix of export-oriented manufacturing SMMEs and locally selling SMMEs. Majority of the firms in Botswana produce for local market and not for export. This is a sign of potential growth in the manufacturing sector if manufacturing SMMEs produce products for the export market.

The Botswana industrial classifications are as shown in Table 1.2.

Table 1.2: Botswana Industrial Classifications

“Manufacturing (includes repair of machinery and equipment). Classifications are as follows:	
1510 Meat and meat products	2610 Cement manufacturing
1520 Dairy products	2620 Non-metallic mineral products, excluding cement but including glass, ceramic and cement products
1530 Grain mill products	2700 Basic metals
1541 Bakery products	2800 Fabricated metal products, excluding machinery and equipment
1545 Other food products not elsewhere classified (e.g. sweets, chocolates)	2900 Machinery and equipment, including domestic equipment
1550 Beverages	3000 Office, accounting and computing machinery
1600 Tobacco products	3100 Electrical machinery and apparatus
1700 Textiles (excluding clothing)	3200 Radio, television and communication equipment and apparatus
1800 Clothing and other wearing apparel (includes leather clothing)	3300 Medical, precision and optical instruments
1910 Tanning and leather products (excludes clothing and footwear) e.g. handbags, souvenirs etc.	3400 Motor vehicles, trailers and semi-trailers
1920 Footwear	3500 Other transport equipment
2000 Wood and wood products, excluding furniture but including building materials and straw products	3610 Furniture
2100 Paper and paper products	3691 Manufacture of jewellery
2200 Printing and publishing (including periodicals, journals etc.)	3692 Manufacturing of other products not elsewhere classified e.g. pens, pencils, smoking pipes, etc.
2400 Chemicals and chemical products	3700 Recycling”
2500 Rubber and plastic products	2610 Cement manufacturing

(Republic of Botswana, 2010)

Table 1.2 summarizes the contents of Botswana industrial classifications. It helps to have an overview of what activities are in the industrial category, which in turn results in a general understanding of the meaning of manufacturing in Botswana.

Botswana as a country has the following manufacturing operations types include: job types, project manufacturing, and repetitive (continuous) manufacturing. A job shop is a manufacturing operation in which short production runs produce small quantities of unique items, for example machine shops. Project manufacturing refers to operations for creating unique but similar products, such as grandstands for sporting facilities. Repetitive manufacturing refers to operations designed for long production runs of high-volume products, such as water from a water purification plant (Moore *et al.*, 2010:552).

According to Haron *et al.*, (2013) challenges of manufacturing SMMEs include lack of funding, lack of expertise, lack of innovation, no or poor planning, and poor management (Mutambi, 2013). Furthermore, other challenges include lack of business acumen, poor and or no

record-keeping on the performance of business, poor quality products, no or inadequate marketing and lack of market share (Andrae, & Beckman, 2013; Mutoko & Kapunda, 2015b). Lack of funding and related causal factors such as poor and or no record keeping regularly come up as main challenges of SMMEs (Shemi, 2013; Okurut *et al.*, 2011). Nevertheless, for SMMEs to flourish there is need to understand the extent of SMME financing challenges, its causes, and prospects.

Numerous scholars agree that apart from governments providing SMME funding; commercial banks are one of the major financiers or potential financiers for SMMEs (Padilla-Perez & Ontañón, 2013; Haron *et al.*, 2013; Abdesamed & Wahab, 2014; Senior, 2012; Abor, Agbloyor & Kuipo, 2014; Gichuki *et al.*, 2014; Mutoko *et al.*, 2015). Therefore, this study generally considers available financing options for SMMEs; but based on views of the mentioned scholars, commercial banks are the major consideration for financing of manufacturing SMMEs in Botswana. This is because government alone cannot be able to finance all SMMEs due to many other projects that it oversees.

Financing and financial management challenges seem to be the major foundational concerns among SMMEs. Apparently, financing and management factors tend to be interrelated in that a firm that is well managed is most likely to get financing easier than a firm that is poorly managed whether it is financial management, human resources management or operations management (Abor, Agbloyor & Kuipo, 2014; Terdpaopong & Martin, 2015; Stanbic Bank Botswana, 2012; Katz & Green, 2011). For that reason, this research concentrates on manufacturing SMMEs' financing challenges and by default; the study links financing challenges to managing challenges. The reason for linking financing challenges to managing challenges is that no financial institution would be keen to lend money to a firm that has poor management.

1.2 Statement of the Problem

Government of Botswana has been the major source of economic development. Therefore, the private sector has largely depended on government for their survival. Of recent, the government of Botswana has realised that its major source of revenue, which is the mining sector might not be sustainable with the growing population in the long-term. As such, there is a

dire need for economic diversification. The essence of economic diversification lies on the premise to retain employment, reduce unemployment, increase GDP, reduce poverty levels, and reduce reliance on government support.

Many studies have recommended manufacturing sector among other sectors of the economy as a key sector for profitable and sustainable economic diversification (McCaig *et al.*, 2015; Sentsho, 2007; Mackintosh *et al.*, 2015; Fatoki, 2014; Gbandi & Amissah, 2014). However, in Botswana, the manufacturing sector is not growing as expected and there has not been any study on this sector to understand why its contribution in the economy is steadily declining and yet, there is a great need for development in this sector. The sector's benefits include creating of employment, meeting the need of domestic consumption, and contribution to foreign exchange through exportation if internationally or globally competitive.

The existing studies have looked at SMEs in general, focusing on the challenges, which they are facing; but neglecting available opportunities. The studies reviewed thus far for Botswana have not only neglected the importance of the manufacturing sector to economic diversification. However, they also neglect the contribution of micro enterprises towards Botswana's economic diversification. The negligence of the latter suggests that micro enterprises are not designed to grow, but rather to remain as subsistence firms. This is an oversight, because most corporations in developed and some developing countries started as micro businesses and eventually grew to big corporations (World Bank, 2013; Chicho-Matenge & Ongori, 2013; BIDPA, 2009). The micro enterprises' growth in the relevant countries was facilitated by the support of other stakeholders such as commercial banks and investors within the economy. This is one of the reasons for this study, which is to examine the factors and the gravity of the factors that are distorting the contribution of SMMEs within the manufacturing sector in the Botswana economy.

Furthermore, there have been various economic packages designed to support SMMEs in Botswana, as part of citizen empowerment policy initiatives. One would expect that if these various packages are effective, they should have pronounced a positive effect on the manufacturing sector, just as services and retail industry and hence increase manufacturing sector's contribution to Botswana. But the current situation has shown that although these

stimulus packages have grown over the years, manufacturing sector contribution to gross domestic product of Botswana has been declining (McGaig, *et al.*, 2015; Mackintosh *et al.*, 2015; Botswana Central Statistics Office, 2015b:16; BIDPA, 2007: 16). The researcher intended to find out whether the manufacturing sector receive such stimulus or not; and to examine the extent of manufacturing SMMEs' challenges and opportunities.

1.3 Research Aim

The research aims to investigate to what extent financing challenges affect Botswana manufacturing SMMEs, why and what opportunities are available for the SMMEs

1.4 Research Questions

The central research question is:

To what extent does financing challenges affect Botswana manufacturing SMMEs survival, why and what are the opportunities? As literature points out lack of financing as the main challenge of SMMEs, this central question seeks to examine the gravity of financing challenges to Botswana manufacturing SMMEs. In the process of answering this central question, other challenges facing the sector are hoped to be unveiled, as well as their causes and prospects.

This study answers the following sub-questions:

1. *What factors influence manufacturing SMMEs' borrowing?* The question seeks to find out what factors deter or enhance borrowing for manufacturing SMMEs. Once the factors are found, then SMMEs will be led to know what factors they need to take cognisance of;
2. *What are the manufacturing SMMEs' financing challenges in Botswana and why?* While literature review shows that financing challenges are one of the main crippling challenges of SMMEs, this question seeks to establish which particular financing challenges are facing manufacturing SMMEs and related challenges that make financing difficult, if so;
3. *How can manufacturing SMMEs' financing challenges in Botswana be solved?* This question will hopefully lead to generation of solutions that can develop and grow manufacturing SMMEs by knowing available sources of finances, and how SMMEs can

prepare to seek finance. This includes SMME owners/managers and/or firms being able to rid themselves of possible behaviours and/or attitudes that deter financing;

4. *What role do commercial banks play in helping manufacturing SMMEs?* The question seeks to understand the various roles played by commercial banks. This helps when interpreting responses from commercial bank participants concerning the challenges which banks face in financing SMMEs;
5. *What challenges do commercial banks face when trying to finance SMMEs?* This question seeks to hear it first hand from commercial banks as to what challenges they face when intending to finance SMMEs. Commercial banks are susceptible to blame for being unfriendly and unhelpful to SMMEs that need funding. How true is that and why is that so, if true?
6. *What factors hinder manufacturing SMMEs from tapping into available opportunities?* The question establishes the factors that hinder opportunity exploitation by SMMEs. The response to the question can help in coming up with solutions for SMME financing and growth; and
7. *What is the current and past success rate of manufacturing SMMEs in Botswana?* Apart from the fact that literature will state success rate of SMMEs; this question establishes from participants as to how many are indeed successful considering their profitability figures and survival.

1.5 Objectives of the Study

The specific objectives of the study are:

1. *To determine the factors that influence manufacturing SMMEs' borrowing.* Factors that influence SMME success in borrowing are compared using multivariate logistic model;
2. *To examine the financing challenges faced by manufacturing SMMEs in Botswana and their causes.* This objective endeavours to expose the peculiar financing challenges that specifically affect manufacturing sector;

3. *To develop practical solutions to financing challenges faced by manufacturing SMMEs in the country.* This objective tries to propose solutions for financing challenges tailor-made for the manufacturing sector for policy makers, SMMEs and other stakeholders. Pecking order theory is mainly applied here;
4. *To evaluate the role played by commercial banks in helping manufacturing SMMEs.* Commercial bank representatives spell out their role in financing SMMEs so that comparisons can be made;
5. *To assess challenges faced by commercial banks when trying to finance manufacturing SMMEs.* This objective finds out what hindrances are there when they want to finance SMMEs. The hypothesis – commercial banks are unwilling to finance SMMEs is tested;
6. *To investigate the challenges that hinder manufacturing SMMEs from tapping into available opportunities.* In this objective there is need to investigate what causes SMMEs not to take advantage of any available opportunities; and
7. *To assess the current and past success rates of manufacturing SMMEs in Botswana.* This objective tries to find out how many of the participants are successful considering their profitability and growth.

1.6 Statement of Hypotheses

H₀₁: Factors influencing SMME borrowing include firm income (annual turnover), marital status, gender, highest educational qualification, and number of years in position.

H₀₂: Lack of financing is a major factor militating against growth and success of manufacturing small medium and micro enterprises

H₀₃: Commercial banks are not willing to finance SMMEs

1.7 Significance of the Study

The justification for this study is based on the importance of SMMEs in the manufacturing sector in Botswana. Manufacturing SMMEs challenges have been chosen for this study because manufacturing is pivotal to industrial development and in the past few years the

manufacturing industry has '*remained in infancy*' (McGaig, *et al.*, 2015; Mackintosh *et al.*, 2015).

The findings of this study are important in a number of ways: Firstly, they will assist policy makers in determining appropriate policies and strategies that can help manufacturing industry to sustainably grow and increase its contribution to Botswana's economy.

Secondly, the essence of this study findings and appropriate utilisation of the outcome would help the targeted participants (manufacturing industry) to understand the problems this sector is facing and the ways to address it. This transformation would assist both new investors bringing in foreign direct investment and local SMME in decision-making; hence, they better their performance. Therefore, the findings will establish ways in which the sector can become competitive locally, regionally and globally in the long-term.

Thirdly, this study has understood the heterogeneity in terms of problems faced by SMMEs, especially in Botswana. In studying a need assessment study for the growth of manufacturing sector, it is an informative research area, which is of paramount importance for appropriating diversification policies. It will instigate the need for comparative study. Even the previous studies have shown that manufacturing sector is a key sector for diversification (BIDPA, 2007; Mannathoko, 2012; Shemi, 2013). Furthermore, the researcher is aware that the Botswana Economic Diversification Drive (EDD) office needs information on the particular challenges affecting SMMEs in the manufacturing sector – sector specific research. This will inform diversification officers on the peculiar challenges facing manufacturing SMMEs and the opportunities thereof.

Fourthly, to the researcher's knowledge, this is the first study in Botswana focusing on manufacturing SMMEs to combine demand-side and supply-side factors of financing – looking at both challenges and opportunities. Most studies concentrate on demand-side only (SMEs) without inquiring from supply-side (banks). However, this study takes advantage of combining both sides of the financing equation.

Fifthly, the advent of Botswana's Economic Stimulus Program in 2016 meant to boost the economy is aimed at the sectors – manufacturing, agriculture, construction, and tourism. The

results of the study come at the right time to guide officers responsible for the stimulus program to understand manufacturing sector challenges so they know how to help the SMMEs in the sector.

Sixthly, no research has been done on manufacturing SMMEs in Botswana, particularly using a modified credit rationing theory. These current results will contribute to the body of existing literature not only for SMMEs, but also to sector specific. Before this current study, although there are some studies on SMEs (Habiyarimye, 2013; World Bank, 2013; Okurut *et al.*, 2011), in Botswana; none of the studies was specific on examining peculiar challenges faced by the manufacturing SMMEs. The scarcity of data on in-depth problems of manufacturing SMMEs in Botswana remains a major hindrance to SMME development. This study, therefore, builds onto the locally scarce data; and it therefore, bridges the knowledge gap by exploring the gravity of specific challenges of manufacturing SMMEs in Botswana and the available prospects.

1.8 Limitations of the Study

The researcher admits that likely shortcomings in the research could help to improve upcoming studies. This study has the following limitations:

It was not easy to get enough willing participants because some SMME owners/managers felt that some of the questions in the questionnaire were sensitive, for instance, questions on the profitability of a firm. Therefore, some SMME owners decided not to take part in the study.

The study was also limited due to the fact that although the survey involved the whole country, the researcher did not have enough time and resources to comprehensively cover all regions as he did with Gaborone (the capital city). As a result, majority of participants reachable were from Gaborone and surroundings.

Furthermore, the study was only limited to the manufacturing sector to discover challenges pertinent to the manufacturing sector specifically. This means that findings may not fully apply to other sectors.

Majority of SMMEs are unregistered. Therefore, to get the population of manufacturing SMMEs was difficult. The researcher had to rely on a list of registered and trading manufacturing SMMEs from LEA and BEMA. A recommendation for a bigger survey involving a larger population of all manufacturing SMMEs in Botswana is appropriate in future.

1.9 Definition of Relevant Terms

1.9.1 Small, Medium and Micro Enterprises (SMMEs)

There are various definitions of SMMEs. However, this study adopts the Botswana national definition. In Botswana, according to an entrepreneurial survey, the 1998 SMME policy distinguishes between small, medium, and micro enterprises as illustrated in Table 1.3.

Table 1.3: Definition of small, medium, and micro enterprises in Botswana

	Micro Enterprises	Small Enterprises	Medium Enterprises
Number of employees	6 or less employees	less than 25 employees	between 25 and 100 employees
Sales turnover per annum	up to P60 000 (USD5386) a year	between P60 000 and P1 500 000 (USD5386 and USD134 661)	between P1.5 million and P5 million (USD134 661 and USD448 870)

(Republic of Botswana, 1999)

1.9.2 Challenges

Challenges can be defined as difficult tasks or problems, things that are hard to do (Burmajster, 2010). In general, challenges in business refer to problems faced by the business or by the operators, which may result in malfunctioning or failure.

1.9.3 Manufacturing

“Manufacturing as defined by Industrial Development Act of 2006, means to subject physical matter to any process which materially changes it or its packaging in substance, character or appearance” (Republic of Botswana, 2015b). This means that manufacturing is any process that transforms a material from its original state into a packaged or polished state, thus increasing the original material’s value and usability.

1.9.4 Entrepreneurial Opportunity

Entrepreneurial opportunity refers to an economically attractive and timely opportunity, chance, or opening that creates value for interested buyers and the firm's owners alike (Moore *et al.*, 2010; Katz & Green, 2011; Burns, 2011).

1.9.5 Economic Diversification

Economic diversification is the course of action, which produces a growing range of economic outputs. It also refers to branching out of markets for exports or spreading of income sources away from domestic economic activities (i.e. income from overseas investment) (Republic of Botswana, 2015b; United Nations, 2010; Republic of Botswana, 2011). For several decades, Botswana over-relied on production of diamonds and beef mainly sold to USA and the European Union respectively.

However, with growing concerns that diamond is phasing out, the government is emphasizing economic diversification through tourism, manufacturing, and service export. SMMEs are encouraged to thrive and expand so that they can help the nation and the government to diversify the economy (Republic of Botswana, 2012; African Economic Outlook, 2014). For example, when the manufacturing sector buys raw materials from the domestic agricultural sector, which in turn also buys its inputs from the manufacturing sector, an increase in expenditure in one of the two sectors will generate more economic growth and employment than when the dependence is not mutual. By so doing, there is reduction from a narrow range of national offerings, to a diversified economy; resulting in creation of more jobs, increase in GDP, and poverty reduction.

1.9.6 Hypothesis

A hypothesis is a specific statement of prediction (Trochim & Donnelly, 2008: 9; Bell & Waters, 2014).

1.9.7 Alternative Hypothesis

An alternative hypothesis is a specific statement of prediction that usually states what one expects will happen in one's study (Trochim & Donnelly, 2008: 9; Saunders *et al.*, 2012).

1.9.8 Null Hypothesis

A null hypothesis is a statement of prediction that describes the possible outcomes other than the alternative hypothesis (Trochim & Donnelly, 2008: 9; Saunders *et al.*, 2012).

1.9.9 Thesis Structure

The rest of the study proceeds as follows: Chapter 2 reviews the literature covering both theoretical and empirical literature. Furthermore, there is a detailed review of concepts and theories related to the study. Chapter 3 discusses the research methodology and the specific methods used to gather empirical information. There is presentation of research philosophy used, approach, design, strategy, research methods, and results of pilot study with justifications. Chapter 4 presents the research findings illustrated by use of graphs and diagrams. Chapter 5 comprises the discussion of research findings and interpretation of findings. Included therein is critical evaluation of the findings with reference to literature. Chapter 6 contains the summary of the main findings, conclusions, policy implications, and recommendations. The researcher brings out final words about the study. Recommendations that can benefit SMMEs, the policy makers, commercial banks and other stakeholders are clearly articulated.

After chapter 6, follows the list of references used in the study. Then the appendices follow, which comprise of various figures and tables referred to in the thesis. The last two appendices contain a sample of the structured questionnaire administered to manufacturing SMMEs in Botswana; and a sample of the semi-structured interview questions that were used to interview commercial bank managers.

1.10 Conclusion

This chapter has endeavoured to present the knowledge gap and to articulate the research problem and research questions under consideration. Questions asked in this study require linkage of theory to literature and empirical findings in relation to manufacturing SMMEs and their financing challenges. While financing challenges remain the main SMME challenge according to literature, the study seeks to find out how far financing challenges affect

manufacturing SMMEs in particular and any other related challenges and possible solutions. The next chapter presents literature review.

CHAPTER TWO

LITERATURE REVIEW

2.1 *Introduction*

The first chapter laid a foundation for this thesis, stating the reason for the study, research questions, objectives, and definition of terms. This chapter proceeds to reflect on the literature reviewed for this study. The focus is on both theoretical/conceptual and empirical aspects of the literature review. The chapter forms a framework on which the study is based and it assists in forming sound comprehension and insights into relevant previous studies, current phenomena, and emerging trends in the industry. It explores the theories and models postulated by other scholars concerning the financing challenges of manufacturing small, medium, and micro enterprises (SMMEs) that may complicate management and success of the SMMEs. The researcher also proposes a conceptual framework for financing challenges of SMMEs. A critical analysis of available literature – textbooks, peer-reviewed journals, professional journals, reports, and other sources – is done to enable the researcher to make sound conclusions and recommendations tallying with findings.

In order to cover the study comprehensively the chapter is sub-divided into the following sub-sections: the importance of SMMEs, manufacturing SMMEs' current state and challenges of SMMEs; factors influencing SMME borrowing from commercial banks, financing challenges of manufacturing SMMEs, the role of commercial banks in SMME support; challenges faced by commercial banks when working with SMMEs, and sources of finances for SMMEs; success rate of manufacturing SMMEs, and opportunities available for manufacturing SMMEs.

2.2 *The Small, Medium and Micro Enterprises (SMMEs) Context*

2.2.1 Review of the Various Definitions of Small, Medium and Micro Enterprises

Small, medium, and micro enterprises have diverse definitions across the nations of the earth. In this sub-section, a number of different definitions of SMMEs in varied countries are covered. Classification of enterprises in different countries is by size, organization, location, technology, and sector. Considering policy and planning perspective, size provides the most

practical classification. Criteria for classification of enterprises include one or more of these elements: equity, employment, turnover, and assets (Evbuomwan *et al.*, 2013).

According to Rwigema and Venter (2006), the (South African) National Small Business Act 102 of 1996 Section 1, SMMEs refers to “*separate and distinct business entities in any sector or subsector of the economy managed by one owner or more. These include cooperative enterprises and non-governmental organizations, as well as branches or subsidiaries, if any.*”

On the other hand, SME stands for Small to Medium Enterprise. However, definitions of SME differ depending on who is defining. Industry Canada (2014) uses the term SME to refer to businesses with fewer than 500 employees, while classifying firms with 500 or more employees as "large" businesses.

Industry Canada (2014) also defines a small business as one that has fewer than 100 employees (if the business is a goods-producing business) or fewer than 50 employees (if the business is a service-based business). A firm that has more employees than these cut-offs but fewer than 500 employees is classified as a medium-sized business.

Micro business is defined as a business with fewer than five employees. Statistics Canada (2014) defines an SME as any business establishment with 0 to 499 employees and less than \$50 million in gross revenues.

In the EU, a similar system is used to define Small to Medium Enterprises. A business with a headcount of fewer than 250 is classified as medium-sized; a business with a headcount of fewer than 50 is classified as small, and a business with a headcount of fewer than 10 is considered a micro business. The European system also takes into account a business's turnover rate and its balance sheet (Info Canada, 2013).

According to Hatten (2011), a business is small if it is owned, operated, and financed independently; has fewer than 100 employees; and has relatively little impact on its industry.

So it can be concluded that there is no single standard definition of what constitutes a small or medium sized business as various sources use different definitions. However, the following definitions are often used:

a “micro” business is one with less than 10 employees;

a “small” business is one with less than 50 employees;

a “small or medium sized enterprise” is one with less than 250 employees

(Rhodes, 2012; EU in Stokes & Wilson, 2010:4).

So for the sake of this study, bearing in mind that the study is being carried out in Botswana; the definitions for small, medium and micro enterprises shall be according to the Botswana national definition shown in Table 2.1.

Table 2.1: Definition of small medium and micro enterprises in Botswana

	Micro Enterprises	Small Enterprises	Medium Enterprises
Number of employees	6 or less employees	less than 25 employees	between 25 and 100 employees
Sales turnover per annum	up to P60 000 (USD5386) per year	between P60 000 and P1 500 000 (USD5386 and USD134 661) per year	between P1.5 million and P5 million (USD134 661 and USD448 870) per year

(Republic of Botswana, 1999)

As revealed by Table 2.1, there are two ways of defining SMMEs in Botswana: by number of employees and by sales turnover level. The table helps readers to comprehend the interpretation of meaning of SMMEs in Botswana.

2.2.2 Importance of Small, Medium and Micro Enterprises (SMMEs)

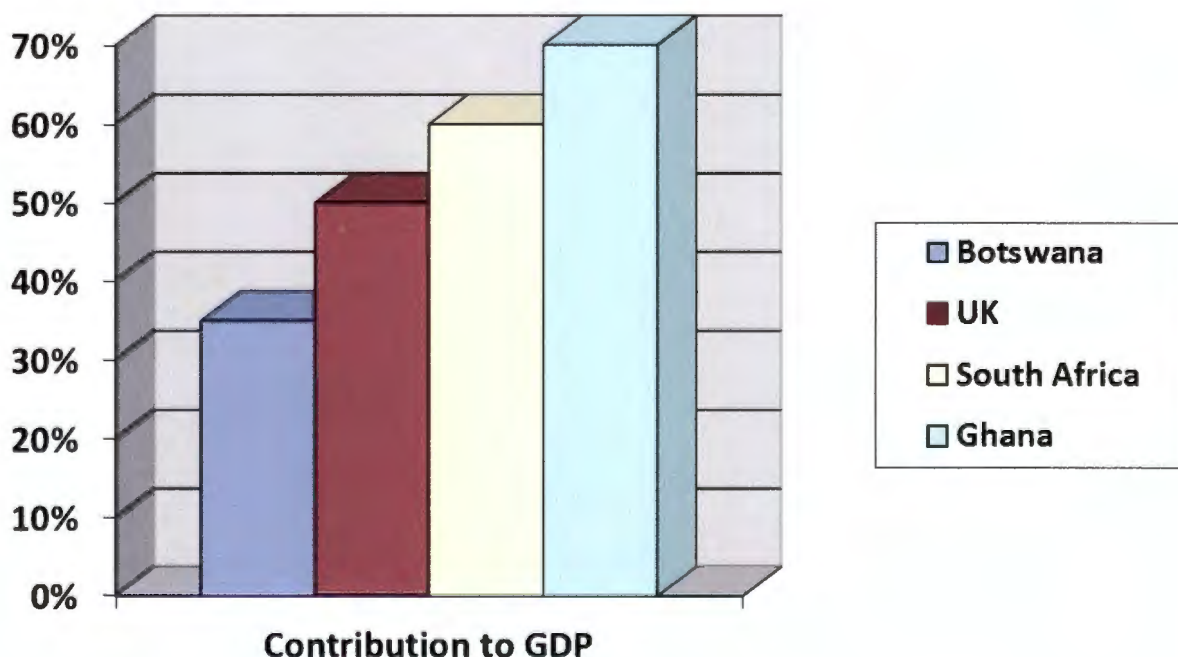
SMMEs play a major role in many economies as evidenced by the following assertions: Seven out every ten working Japanese are employed at small and medium-sized enterprises (SMEs), defined as having between 50-300 workers, depending on the industry. In the United States of America, the ratio is five in ten, even though the US small-business category includes bigger companies (Greasley, 2013; Kaplan *et al.*, 2010). On the other hand, in Botswana,

SMMEs contribute 75% of formal sector employment (Republic of Botswana, 2010). Based on the assertions it is evident that if well financed and managed, SMMEs can play a key role in employment control, which can be very helpful to Botswana youths and the unemployed, by giving a livelihood.

SMMEs provide means for economically empowering the economy of every nation. Approximately 30% to 60% of the global Gross Domestic Product (GDP) comes from SMMEs in most economies (Finweek, 2013). According to the Republic of Botswana (2010), Botswana SMMEs contribute between 30% and 45% to the GDP. On the other hand, Ncube (2013) has suggested that in Botswana SMMEs account for up to 35% of the country's GDP. Compared to other countries this level of GDP is not substantial (Sigauke *et al.*, 2014). There is need to empower SMMEs so that they can account for more GDP and economic contribution.

The contribution to GDP comparison is as shown in Figure 2.1, Botswana does not compare favourably with three other countries – South Africa, Ghana, and UK.

Figure 2.1: Comparison of Contribution to GDP by SMMEs in Botswana, South Africa, Ghana, and the UK



Own compilation from literature, 2015

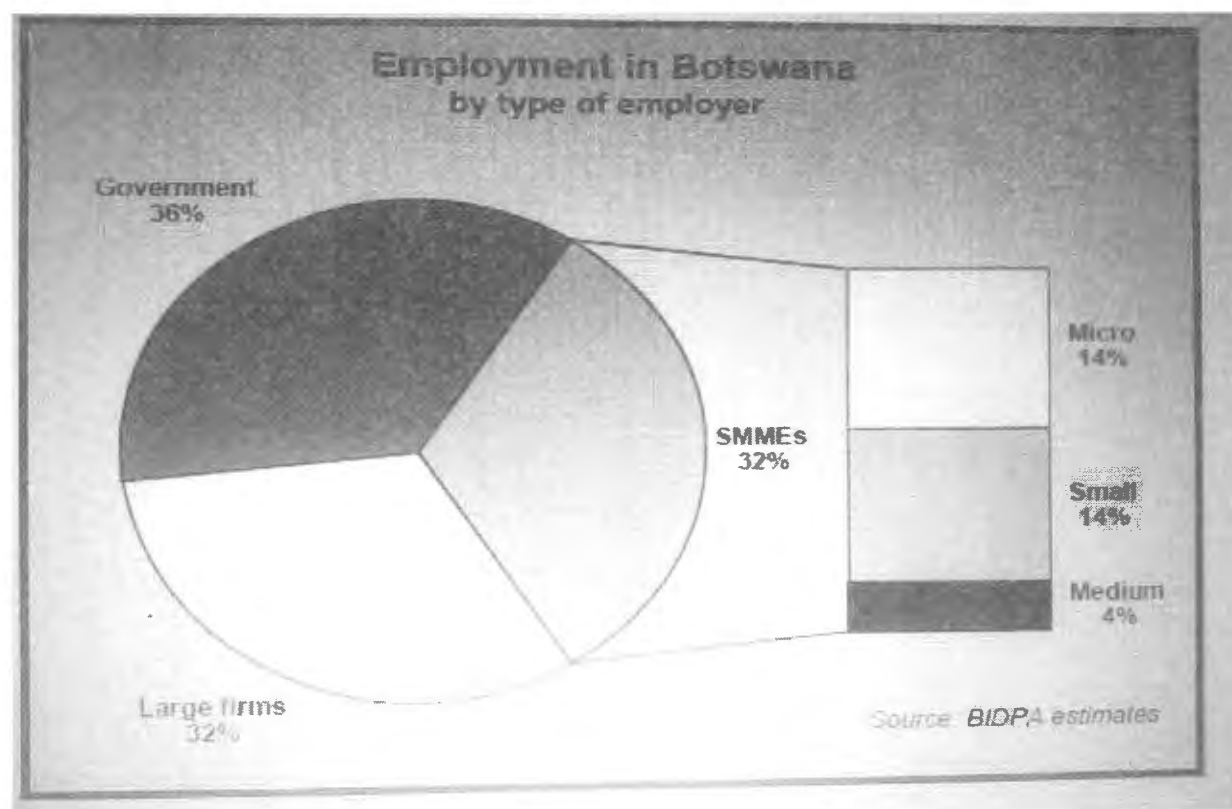
It is evident from Figure 2.1 that Ghana leads the other four countries in comparison. This is because Ghana SMMEs account for the highest GDP at 70%, followed by South Africa at 60%, UK at 50% and lastly Botswana at 35%. It means that SMMEs in Ghana double Botswana SMMEs' accounting to GDP, yet both countries are developing countries. Botswana SMMEs need to deal with current challenges so that they can enhance chances of increasing input into GDP.

In South Africa, figures suggest that SMMEs account for 50%-60% to GDP (Ramukumba, 2014; Masarira & Msweli, 2013), with around nine million South Africans being employed by SMMEs (Finweek, 2013). Comparatively, according to the Standard Chartered Bank (2012) in Ghana, SMMEs form 92% of Ghanaian businesses and they account for 70% to the country's GDP (Akugri *et al.*, 2015; Ahiawodzi & Adade, 2012). On the other hand, in the UK, in 2012, there were 4.8 million businesses. Over 99% of the UK businesses were small or medium-sized businesses, employing fewer than 250 people. 4.6 million or 96% of all businesses were micro-businesses - employing 0-9 people (Rhodes, 2012). According to BIS (2012), UK SMMEs account for 50% to GDP.

Botswana SMMEs have been low on GDP input and low employment creation. Bearing in mind that each year Botswana produces tens of thousands of graduates who do not have ready employment; the employment figures are however, not convincing (Sigauke *et al.*, 2014). Currently, unemployment in the country stands at 20% (Republic of Botswana, 2014a). Manufacturing SMMEs, if empowered can thrive and hire more unemployed people; thereby reducing unemployment rate.

Figure 2.2 shows employment figures by type of employer, according to a 1998 survey by BIDPA (2007).

Figure 2.2: Employment in Botswana by Type of Employer



Source: BIDPA, 2007

As shown in Figure 2.2, about 36 per cent were government employees, while large private firms and SMMEs equally shared 32 per cent of employees apiece. The 32 per cent of employees in SMMEs fall into Micro enterprises 14 per cent, Small Enterprises 14 per cent and Medium Enterprises at 4 per cent (Mwobobia, 2012; Sekwati, 2010; Mutoko, 2014; BIDPA, 2007). The Botswana government thus remains the biggest employer in the country, followed by large private firms, then micro and small enterprises; and finally medium enterprises employ the fewest number of people. Having the government as the biggest employer has worked for Botswana in the past because the government relied more on diamond export revenues.

Nevertheless, as diamond revenues begin to dwindle (Republic of Botswana, 2015b; Republic of Botswana, 2016) there is need to empower SMMEs to succeed and be able to employ more people and diversify the economy.

According to Botswana Central Statistics Office (2015a) employment survey, the employment figures among private sector firms are on the decrease. Private sector has the largest

share (47.4 percent), followed by Central Government with 25.8 percent. Local Government and Parastatal recorded 21.9 percent and 4.8 percent respectively (Botswana Central Statistical Office, 2015a: 2). According to Figure 2.2, government in 1998 employed 32 percent of the people while the private sector employed 64 percent of the employed population. However, Botswana Central Statistical Office (2015a: 2) employment survey reveals that the central government and local government together employ more people now (47.7 percent) than the private sector (47.4 percent).

Thus the private sector has drastically gone down in employment capability (down from 64 percent in 1998 to 47.4 percent in 2015) such that the employment figures are almost equal to those of government. This is a worrisome development as government should not be the major employer, but rather the private sector should lead in employment creation (Government of Ghana, 2014; UN, 2013).

Furthermore, a comparison of formal employment figures for 2014 and 2015 illustrates that *“overall employment decreased by 0.2 percent (892 persons) from 404,461 persons in September 2014 to 403,681 persons in September 2015. Local Government recorded the highest decrease in employment of 1.7 percent, followed by Private Sector Organizations with 0.1 percent. The decrease in Local government was due to the decrease (2.8 percent) in the number of Ipelegeng participants. Parastatals recorded an increase of 5.7 percent in employment. In September 2015, 12,145 (3.0 percent) employees were non-citizens. Out of this total, Private and Parastatal sectors contributed 10,508 (86 percent) employees. Manufacturing industry was the major employer of non-citizens at 16.7 percent, followed by Education (15.9 percent) and Construction (15.1percent)”* (Botswana Central Statistical Office (2015a: 2). These figures clearly show that employment figures are on the decrease in Botswana, hence the need to empower the manufacturing sector so that more locals can take advantage of opportunities in the industry.

The estimated number of employees by economic activity/sector for September 2015 was as follows: out of an estimated 403,461 employees in September 2015, 207,432 (57.3 percent) were males, with females accounting for 42.7 percent (196, 249) (Botswana Central Statistics Office, 2015a, 2). This means that generally, Botswana employment figures are higher among males

(57.3%) compared to females (42.7 percent). There is therefore need to empower women so that more females can be gainfully employed or run their own SMMEs, hence close the poverty gap.

The trend in Botswana is such that citizens own most SMMEs, while foreign investors and government own most large enterprises (Botswana Central Statistics Office, 2015a). It follows that for more growth of the economy, SMMEs need more support to become large enterprises.

Nevertheless, while the government and other stakeholders such as banks have put in a lot of effort, the contribution of Botswana SMMEs to GDP as of now is much lower than SMMEs' contributions to GDP in other countries. Of the 35% GDP accounted for by SMMEs, the proportion accounted for GDP by manufacturing SMMEs, according to Europe's World (2012) is very low - below 5%. Manufacturing sector should be a major contributor to economic growth. Therefore, accounting for less than 5% would not be sufficient. This is partly owing to the fact that manufacturing is still in its infancy in Botswana (BIDPA, 2007). However, manufacturing SMMEs, if fully developed, can boost the country's growth and reduce imports.

2.2.3 General Challenges of Small, Medium and Micro Enterprises (SMMEs)

Answering the question on how long business start-ups generally last, Hatten (2016:16) states that slightly more than 10% of businesses stopped operations in less than one year, 25% stopped business between one, and two years, while another 20% closed their doors between their third and fifth anniversaries. Only 13% of firms lasted longer than 21 years. Hatten (2016) goes on to mention that the major causes of business failure include inadequate management and inadequate financing. Business failure is a situation where a business closes with a financial loss to a creditor. On the other hand, business termination is a situation where a business ceases operation for any reason (Hatten, 2016).

Although the exact figures mentioned by Hatten (2016) may not apply to every country, scholars in various countries have attested to the fact that most SMMEs face pre-mature business closure (Gbandi & Amissah, 2014; Marwa, 2014). Therefore, business failure is a common and disturbing phenomenon in many countries. So all businesspeople, particularly SMMEs need to take note of things that cause failure so that they can guard against them; thus increasing business longevity for SMMEs.

Osotimehin *et al.*, (2012) examined challenges and prospects of micro and small-scale enterprises development in Nigeria. They administered questionnaire and interview in Lagos State, South Western Nigeria to gather relevant data that was statistically analysed. Findings showed that financial constraints and lack of management skills hamper the efficient performance of micro and small-scale enterprises in Nigeria. The researchers recommend that government and other stakeholders should organize regular seminars for potential and actual small and medium enterprise operators on how to plan, organize, direct, and control their businesses. SMME operators should devise effective marketing strategies and good customer relations management.

While Osotimehin *et al.*, (2012)'s study had good conclusions and recommendations; it was limited in two ways. Firstly, the study was on a sample of mixed small and micro enterprises such that one would not know how far the recommendations suggested could specifically help manufacturing SMMEs, considering the peculiarity of manufacturing industry. Secondly, the study left out medium enterprises of which in Botswana medium enterprises, just like small and micro enterprises in the manufacturing sector need empowerment to survive and thrive.

On the other hand, a study by Gbandi and Amissah (2014) suggests that SMEs constitute 90% of businesses in Nigeria but they only account for 10% of GDP. They advocate from their findings that two of the major factors why Nigerian SMEs are struggling to thrive are lack of adequate technology, unfriendly business environment, poor funding and management skills. The last two factors are a major concern for SMMEs development in Botswana just as in Nigeria, which is a sign that SMMEs in both Nigeria and Botswana are faced with the same major challenges of financing and managing.

Nigeria is Africa's largest economy, hence other African states could learn from its SMME challenges. The two studies mentioned earlier: Osotimehin *et al.* (2012) and Gbandi & Amissah (2014) agree that the main SMME challenges in Nigeria (and possibly many other African countries) are lack of management skills and lack of capital (Marwa, 2014). It therefore makes logical sense to research on the two challenges among manufacturing SMMEs in Botswana to discover how they affect the sector and find out what the prospects for manufacturing SMMEs are.

Survival and growth of SMMEs is militated by a number of constraints. The Botswana SMME Policy document identifies SMME constraints as shown in Table 2.2.

Table 2.2: Constraints of SMMES according to the Botswana SMME Policy document (1998)

Lack of access to finance	Excessive government laws and regulations
Lack of entrepreneurial skills	Lack of information on government assistance programmes
Bias of the education system against self-employment	Lack of marketing skills
Lack of business start-up training	Lack of data on SMMEs
Shortage of business premises	Inherent biases against SMMEs
Lack of access to finance	

(Republic of Botswana, 2012)

According to Table 2.2, financing challenges come out as “*lack of access to finance*”, while managing challenges come out as “*lack of business start-up training and lack of entrepreneurial skills*.” Without solving these challenges, SMMEs keep struggling for survival and growth.

Kakkar (2009:3) supports this notion: “*probably the two most common reasons that a business doesn’t succeed are that (1) the business is poorly managed because the owner lacks the necessary skills and (2) the owner underestimates how much money it will take to start the business (undercapitalization)*.” As Kakkar (2009) emphasizes, most small businesses struggle to survive and grow because of lack of management skills and lack of sufficient capital (Wang & Yang, 2014). That is why it is pertinent to discover the gravity of financing, related challenges and prospects of manufacturing SMMEs in particular, so that Botswana diversification program can be a success.

Looking at Africa’s second largest economy – South Africa, Lekhanya & Mason (2014) carried out a study in South Africa entitled *Selected Key External Factors Influencing the Success of Rural Small and Medium Enterprises in South Africa*. They investigated business environmental, financial, and infrastructural factors that influence rural SME success. They

distributed a questionnaire among 374 SME owners/managers across five rural areas in KwaZulu-Natal (KZN) Province. Lekhanya & Mason (2014) found out that skills shortage and access to finance were the main distinguishing factors between successful and unsuccessful rural SMEs. Again, the findings of the study support the idea that generally SMMEs face challenges of financing and managing.

Considering Botswana, the World Bank (2011) states that Botswana has had active programmes of government support to SMMEs since the 1970s. However, none of these reached micro-enterprises to a significant degree. One of the reasons could be that there are not many appropriate or affordable financial products and Business Development Services (BDS) for micro businesses.

In June-July 2009, the World Bank and the Botswana Institute of Development Policy Analysis (BIDPA) carried out a pilot sample survey of 800 micro-enterprises in the Eastern Corridor of Botswana. The aim was to identify major capability groups of micro-businesses in Botswana and institutional constraints under which they operate, as potential input for the design of formal market assessments for financial services and BDS tailored to the needs of the area. Micro-enterprises constituted the bulk of the sample compared to SMEs. The micro-enterprises were more one-person managed businesses that struggled with management skills and financing handicaps, thereby impeding growth (World Bank, 2011; Moore *et al.*, 2010). Evidently, just like the earlier mentioned countries – Nigeria and South Africa, the study shows that Botswana micro enterprises' two main challenges which are financing and managing.

Another study by Kapunda, Magembe and Shunda (2007) on SMME challenges in Botswana mentions that challenges of SMMEs include lack of funds (Marwa, 2014), stiff competition, bad debts, high rental charges, unreliable workforce, lack of training, limited markets, and high cost of utilities. As the authors concluded, financing challenges stand out as the major obstacle for SMMEs. However, the study did not reveal the gravity of the challenge and any suggested solutions. The current study uses the study by Kapunda, Magembe, and Shunda (2007) as a stepping-stone for understanding challenges of manufacturing SMMEs.

In a separate study by Ndaloma (2007: VI) there were three phases: firstly, 30 SMME entrepreneurs in Botswana were asked to list the constraints they faced when running their businesses. Secondly, 150 entrepreneurs ranked the identified constraints in terms of level of

seriousness. Then lastly, the top four constraints ranked by level of seriousness were financial support, financial management, market, and administration. Although respondents ranked financial constraints, there were substantive recommendations concerning practical solutions for the challenge under consideration. The research certainly serves as a foundation for the current study exploring further on financing challenges.

Another study was carried out by Acquah and Mosemanegape (2007:1-17), who carried out a survey to determine factors influencing SMME performance in Botswana. They evaluated 200 SMMEs in Gaborone, Ramotswa, Tlokweng, Mochudi, and Molepolole and they discovered that start-up capital and total costs incurred in the business played a vital role in business performance. The researchers therefore recommended the following as shown in Table 2.3:

Table 2.3: Recommendations of study by Acquah and Mosemanegape (2007:1-17)

Entrepreneurs need to be assisted to have access to affordable loans (with reasonable interests)	Start-up funds and fund utilization from government agencies needs monitoring and evaluation to improve Botswana SMMEs
Training entrepreneurs and their workforce can positively influence SMME performance	

(Acquah and Mosemanegape, 2007)

The study by Acquah and Mosemanegape (2007) further emphasizes the need for an examination of the financing challenges of SMMEs in Botswana, particularly the manufacturing sector that is peculiar in its operations and nature of business.

In order to tackle the SMME challenges, since the 1970s, the Botswana government has introduced active programmes of support to SMME development. The earliest framework was the Financial Assistance Policy (FAP), introduced in the early 1980s to provide direct government financial assistance to small-scale manufacturers. In the late 1980s, the Integrated Field Services (IFS) was launched to train SMMEs in recordkeeping, costing, business planning, marketing, buying, and stock control (Sigauke *et al.*, 2014). The government set up the Small

Business Promotion Agency (SBPA) in 1999 to coordinate all SMME support programmes (Republic of Botswana, 2012; World Bank, 2011).

Following this was the establishment of the Citizen Enterprise Development Agency (CEDA) in 2001. CEDA is the implementing agency of FAP, now refocused on providing subsidized loans to indigenous enterprises. Currently, CEDA offers loans ranging from P500 to P150 000 to micro-and small-scale projects at an interest rate of 5.0%, repayable in 5 years; and loans of up to P2 million to medium-scale projects with a 7.5% interest rate repayable in 7 years (CEDA, 2014). CEDA's micro-lending activities are intended to complement those of the National Development Bank (NDB), which has provided a range of regular-term loans to SMMEs since 1999 (Republic of Botswana, 2012; World Bank, 2011).

Etemadi & Mougouie (2015) carried out a study comparing the Olson model and a firm's life cycle theory. The Olson model anchors on book value of the firm, accounting profit, and earnings. Contrarily, according to the life cycle theory, significance of risk and performance indicators during the firm's life cycle is different. Results suggest complementing the model and theory over a ten-year period as relevant. This means that the firm's life cycle theory is applicable in the real world such that solutions match an SMME's life cycle in Botswana.

2.2.4 Financing Challenges of Manufacturing SMMEs

A study by Mazanai & Fatoki (2012) in South Africa sought to examine from literature, the problem of access to finance, available financing gaps, and the reasons for the gaps in South Africa's SME financing. These issues were discussed in relation to the credit rationing theory. The study established that access to finance by SMEs in South Africa is a major challenge that hinders SME growth and development; thus preventing benefits of SMEs to South Africa such as employment creation, poverty alleviation and economic growth. The study recommended regular policy changes that could solve SME access to finance challenges. Furthermore, Mazanai & Fatoki (2012) suggested that progress in solving the challenges must be constantly monitored and revised. Although the study lacked empirical evidence because it was literature based, the suggestions for regular policy changes could be useful to Botswana legislators and policy makers to avoid use of outdated policies that do not specifically help SMMEs.

According to Han (2013) commenting on the credit rationing theory, states that the main obstacle to effective operation of credit market is that there exists asymmetric information between lenders and borrowers. The asymmetric information leads to adverse selection and moral hazard problems. As mentioned by Stiglitz & Weiss (1981), when credit risk and failure of interest rate tools increases; the credit rationing phenomenon takes place as financial institutions purpose to increase profitability while reducing risk. Han (2013) further argue that in comparison to large firms, SMEs are more likely to be controlled by banks and their credit rationing policy because they lack valuable mortgages and they suffer from asymmetric information problems.

Han (2013) carried out a study to explore causes of financing challenges of Chinese small and medium-sized enterprises and suggest relevant solutions. The study is very relevant to the current study which seeks to discover the financing challenges of manufacturing SMMEs in Botswana, the causes and prospects. Han (2013) affirms the significance of the credit rationing theory. Findings and conclusions of the study were that the government should institutionalize financial support to SMMEs by credit guarantees as has been done in USA, Germany and UK. Chinese government should deepen marketization reform of commercial banks to help SMEs and set up new financial institutions to encourage competition.

Similarly, Huang *et al.* (2014) carried out a study in China and discovered that the financing gap is the bottle neck that restricts the development of China's SMEs. They analyzed their data using financing theories of SMEs information dissymmetry and credit rationing. They concluded that the root cause of financing difficulties among Chinese SMEs is the serious information asymmetry that exists among financial institutions, leading to adverse selection and moral hazard. They recommended that the Chinese government should develop a growth enterprise board market responsible for developing the multi-level financial market. Thus, Huang *et al.* (2014)'s study concurred that the credit rationing theory is relevant in today's world, particularly in China. Since China is a developing country, the results of Huang *et al.* (2014)'s study could be relevant and set a foundation for the current study on SMME financing challenges in Botswana.

Another study by Ghimire & Abo (2013) investigated the challenge of inadequate funding among SMEs operating in Cote D’Ivoire. They collected data from both urban and rural areas. The paper found information asymmetry and inadequate collateral as two major constraints that limit the flow of credit from banks to SMEs. Conclusions were that the phenomenon is more recurrent in the micro-enterprises compared to small or medium enterprises. The study supported the credit rationing theory. Findings of the study lay a foundation for the current study as Cote D’Ivoire is a developing country just like Botswana.

Furthermore, in 2003/2004, BIDPA carried out a study to unearth the performance and competitiveness of SMMEs in Botswana. They discovered that vehicles, textiles, and beef represent significant shares of manufacturing sector exports. Unfortunately, after the closing of the Hyundai Car Manufacturing Plant in Botswana, manufacturing statistics went down a bit. Among other issues, the study concluded that in terms of financing challenges (Marwa, 2014), high costs for finance exacerbate importation costs of raw materials and other inputs by SMMEs. Banks are more risk-averse and prefer to lend at favourable rates only to firms that appear to be more financially viable. For most commercial banks, collateral requirements are very high; and SMMEs often lack credit history thereby failing to qualify for financing.

Additionally, in terms of management challenges, respondents said that the education system in Botswana does not adequately train people with relevant skills for the job market. It trains job seekers rather than job creators. Hence, there is a huge gap between what the industry needs and what the institutions of work force training deliver. There are no synergies between training and industry, thus manufacturing SMME owners struggle in their managerial roles (Jefferis, 2014; BIDPA, 2004).

Kapunda (2005) carried out a study in SADC whose main objective was to examine critically the importance, performance, and underweighting of the industrial sector in the selected SADC countries thereby providing alternative approaches, industrial opportunities, and recommendations. The focus was on Botswana, Tanzania, and Zambia (Kapunda, 2005:1).

The study by Kapunda (2005) notes advantages of industrialization as; firstly, diversification away from the primary sector towards manufacturing reduces risks and vulnerability to the long-term deteriorating commodity terms of trade and the associated loss in real income. Secondly, unlike the primary sector, the industrial sector has more forward and

backward linkages with other sectors especially agriculture and mining. Thirdly, industrialization contributes significantly to employment creation with implementation of the right technique. Fourthly, industrialization has relatively greater possibilities of technological transfer and adaptation and creation of technology. In general, industrialization ensures economic independence in the long-term (Kapunda, 2005:176).

However, Kapunda (2005:2) argues that industrialization in Africa has less respect than it deserves. The sources of under-weighting industrialization in Africa are essentially (i) David Ricardo's Ricardian law of comparative advantage which over-emphasizes agricultural and mining development in Africa at the expense of industrial development even in the long run; (ii) the unbalanced industrial growth theory in Africa; and (iii) over-emphasis on foreign investment.

Currently, with the lack of growth in the sector, one may conclude that the Kapunda's assertions are a reality in Botswana, although a fresh survey would assist in coming up with new conclusions about manufacturing sector challenges.

The Central Statistics Office (Botswana) (CSO) conducted an economic census in 2006/7 fiscal year (conducted every five years) that became a major source of manufacturing statistics. In terms of economic surveys, the CSO undertakes monthly, quarterly, and annual surveys to collect data used in the compilation of manufacturing statistics it produces. The different surveys are to have fully enumerated and sampled strata. Establishments employing 50 or more employees are all included in the sample while those employing less than 50 employees emerge from the business register by strata and then stratified according to the International Standard Industrial Classifications (ISIC) division. A systematic random sample comes from each ISIC division depending on the number of establishments in that particular ISIC division.

The CSO collection programme for most market activities consists of monthly price surveys, quarterly surveys, bi-annual surveys and annual surveys (United Nations Statistics Division, 2007). This survey done every five years is handy. However, with the dynamic nature of businesses it might be better for the CSO to consider reducing the period to every two or three years. Five years is too long a time to measure progress of SMMEs. Nevertheless, if CSO fails to reduce the years, it is justifiable on costs and time constraints.

BIDPA (2007) carried out a survey on manufacturing SMMEs in Botswana. They cited the motivation for the survey as the fact that one of the ways for economic diversification is the development of manufacturing small and medium enterprises (SMEs). This motivation came

from the fact that it has now been established globally that SMEs are a major source of entrepreneurial development, industrial development as well as economic growth, and hence employment creation for poverty reduction (Nkwe, 2012). This SME study, which covered a sample of 142 SME firms countrywide, indicates that the role and contribution of SMEs to the economy of Botswana is still very small. The study indicates the hindrances to SMEs contribution to the economy as shown in Table 2.4:

Table 2.4: Challenges faced by manufacturing SMMEs in Botswana according to BIDPA (2007)

Lack of information on SME programmes due to inadequate publicity of available SME programmes	Lack of effective implementation of programs that are meant to support SME activities
Inadequate institutional support such as the administrative bottlenecks SMEs encounter when they register as companies, the need for SMEs to come to Gaborone for registration, and the generally high cost of factory shells for business operations	The limited commercial bank financial support for SMEs which makes them solely dependent on government for support
The inherent government procurement policy bias towards large firms limits SMEs opportunities for business development	SME lack of access to reliable and bigger markets which is due to their inability to produce larger output and thus satisfy large domestic and foreign markets unless they are organized into clusters

(BIDPA, 2007; Nkwe, 2012)

According to BIDPA (2007), one of the major factors, affecting success of SMMEs is “limited commercial bank financial support.” This is a further indication that SMMEs are indeed faced with a challenge of access to finance.

In terms of management of SMMEs, the BIDPA study also observed that educational qualifications and experience of managers of the SME firms are reasonably satisfactory (BIDPA, 2007). However, there is a need to complement the managers’ knowledge and experience

through retraining, mentoring and institutional support (BIDPA, 2009), taking into account the current dynamic nature of doing business, especially with the advent of globalization and the competition coupled with it (BIDPA, 2007; BIDPA, 2009; Republic of Botswana, 2010). The study was quite comprehensive although it does not offer enough practical steps to solve the SMME challenges.

A survey by Okurut *et al.* (2011) on factors influencing credit rationing in Botswana states that SMEs fail to get financing from financial institutions due to poor records, lack of profitability and performance of the SMEs' bank accounts. The researchers recommended capacity building for SMEs and improved turnaround time for loan processing by local banks. The study lays a foundation for the current study on financing challenges of manufacturing SMMEs.

On the other hand, Mwobobia (2012) carried out research aimed at establishing the economic empowerment schemes set up by the Botswana government to help SMMEs. The objectives of the study were to i) identify the types of SMMEs operating in Botswana ii) the main empowerment schemes set up by the Botswana government iii) the challenges faced in the process of putting into practice those schemes and the recommendations put forward. The study employed desktop research approach. Findings revealed that the Botswana government has put in place powerful schemes such as Youth Grant Fund, and Young farmers, CEDA fund among others. The challenges faced in implementing the schemes are among others; failure by entrepreneurs to repay loans, project abandonment, duplication of effort due to lack of overall coordination by different stakeholders, limited resources and capacity. The study recommends further research especially on the accessibility of financial aid by SMMEs in Botswana (Mwobobia, 2012). The recommendations of Mwobobia's study for further studies on financial access for SMMEs influenced the birth of this current study.

Noting the Mwobobia (2012)'s recommendations, the observation is that manufacturing SMMEs are usually started by one or two individuals who invest their own capital into the business. According to empirical evidence, SMMEs remain small and investing own capital, possibly due to failure to qualify for credit among financial institutions. However, at a later stage, there comes a need for the enterprise to grow. At that stage, the entrepreneur(s) require more capital for expansion, failure of which means stagnation and frustration. Botswana

manufacturing SMMEs face the challenge of financing and high level management particularly when they want to export their products.

Mwobobia (2012), referring to the Local Enterprise Authority (LEA), the Authority's key sectors are manufacturing, tourism, agriculture, and any services that support the three business sectors. In particular, LEA targets women, youth, and the unemployed. Part of the strategy is to encourage businesses to use locally available natural resources and raw materials, within the identified sectors (Republic of Botswana, 2012). In addition, the Authority endeavours to build competencies in quality and efficiency, and to encourage import substitution and export oriented products and services. The work done by LEA therefore, calls for ways to understand challenges by SMMEs in the stated sectors in order for appropriate assistance.

A study by Fatoki (2014) in Gauteng Province echoes the fact that micro enterprises (just as small and medium enterprises) encounter difficulties in accessing debt and equity finance. In the study, 46 out of 96 participants returned questionnaires. The study discovered that the main reason why micro enterprises struggled to get financing was lack of collateral. Recommendations from the study include the following:

“training and communication on the requirements of banks and trade creditors can help to make new SMME owners to get investment ready and thus improve the availability of debt. Commercial banks can create awareness of their funding requirements especially the importance of collateral through advertisements and communication with microenterprises.”

(Fatoki, 2014: 4)

While the findings of the above study were spot on, the recommendations do not seem to be authentic enough to assist micro enterprises to access finance. This is because there is no amount of ‘training’ as suggested in the study that can make people aware of need for collateral and go further to make the SMMEs to have collateral. More practical recommendations on how SMMEs can raise the collateral or other means to go around the challenge of collateral would have been expected from a study of this magnitude.

In a different study, Habiyaime (2013) found out that local manufacturing firms lag behind in productivity compared to foreign owned firms because local firms lack access to

technology. One of the causes of lack of access to technology is lack of financing (Mapfaira *et al.*, 2014). While foreign firms can easily import technology from their country of origin, local firms struggle to import technology as they lack expertise and capital. The researcher concludes from literature that if more local SMMEs in the manufacturing sector are to rise to prominence, there is need for finance to be availed to them so they compete with foreign owned firms.

2.2.5 Factors influencing SMME Borrowing from Commercial Banks

According to Haron *et al.* (2013) some of the factors that influence financial institutions to lend money to firms, include collateral security, keeping of up-to-date-records and good management. On the other hand, Messah and Wangai (2011) in their study carried out in Kenya among small-scale investors concluded that education level of an entrepreneur; the number of dependants, gender, and household income are significant factors that influence small-scale entrepreneurs to borrow credit from formal credit institutions.

Similarly, Sorooshian *et al.* (2010) cited in Fatoki and Asah (2011:170) assert that factors that can influence the capital structure and performance of SMEs include firm characteristics and entrepreneurial characteristics. Firm characteristics are traits or features specific to the firm, which either positively or negatively affect the firm performance. Firm characteristics include factors such as the age of the firm, the size of the firm and the availability of collateral and business information. Entrepreneurial characteristics are those traits or attributes that are specific to the owner of the firm, which can influence the performance of the firm negatively or positively. Entrepreneurial characteristics include the managerial competency of the owner of the firm, networking, marital status, length in position at work and gender (Mutoko & Kapunda, 2015c; Sidik, 2012; Makhbul, 2011; Fatoki, 2013).

On the other hand, in a study of manufacturing SMEs in Vietnam by Nguyen and Luu (2013) literature suggested that factors influencing borrowing include characteristics of business owner/manager or characteristics of the firm. Individual characteristics included ability to network. Firm characteristics included size of firm, location of firm and age of the firm. Literature to them that a bigger, older firm located in the city was likely to borrow money from formal institutions such as banks, while smaller, younger firms located in small areas were likely to struggle to get financing, hence they borrowed informally from friends and relatives or relied

on trade credit. Literature in Botswana suggests a similar trend (Kapunda *et al.*, 2007; BIDPA, 2012)

The findings of the study by Nguyen and Luu (2013) were that among factors influencing access to financing by firms were the owner/manager's age, education, professional experience and management skills. Furthermore, they concluded that owners/managers that networked well had better chances of getting financing for their firm. They discovered that contrary to popular belief, location of a firm did not necessarily increase or decrease chances of get financing. Lastly, they found out that a firm's owner or manager's characteristics such as age, ethnic factors, and professional experience does significantly affect the ability to borrow from formal sources. For instance, firms whose managers are older and have higher professional experience tend to have higher probability of accessing formal external funds than others.

However, in a dissimilar study, from that of Nguyen and Luu (2013), in South Africa, Mukumba (2014) differed in approach. Mukumba suggested that resource constraints did not need personal or firm characteristics. Rather, one had to use critical factors such as good product performance and attracting repeat customers. Mukumba's argument diversifies scholarly thinking to avoid thinking in one way – characteristics of firms and entrepreneurs, but rather to consider other business elements.

A study carried out by Zarook (2013) examined effects of management skills of SMEs on access to financing in Libya. A quantitative study method based on 557 responses of 600 distributed questionnaires to SMEs in several regions in Libya. Findings suggest that education levels and management experiences have significant effects on access to finance. However, political connection and business planning have no significant effect on access to finance. The study concludes that the study results are surprising and contrary to those of previous studies. It recommends further studies using bigger samples. The study agreed with Messah & Wangai (2011) who got similar results on education level and management experiences in Kenya. Nevertheless, Ogubazghi & Muturi (2014) in their study of SMEs in Eritrea discovered the opposite of the two earlier studies. Their findings were that educational level of the owner does not have a significant effect on access to bank loan. Therefore, findings cannot be the same, it depends on the sample, industry and possibly country where the research takes place.

While the study by Zarook (2013) is insightful, the researcher did not explain the meaning of the significance or non-significance of the factors in context. In addition, no significant recommendation came out of the study to improve SME development and policy development. This causes the study to fail to contribute effectively to the knowledge bank and SME development. More studies on this are therefore necessary.

A study by Haron *et al.*, (2013) in Malaysia aimed at examining whether management's character, collateral, and borrowing capacity influenced bank loan approval. 63 bank officers participated in the study by responding to questionnaires. Findings showed that according to bank officers, all three variables had a significant effect on the likelihood of loan approval by the financial institutions. Recommendations are that SMEs should be better prepared with collateral before applying for loan, have a good relationship with financial institution, and have a good financial record. Furthermore, government agencies supporting SMEs should educate SMEs to equip them with skills for required documentations by lending financial institutions.

Ogubazghi and Muturi (2014) carried out a study on the effect of age and educational level of owner/managers on SMMES' access to loans in Eritrea. A sample of 87 small and medium scale-manufacturing enterprises came from the city of Asmara using proportionate systematic sampling. Using logistic regression, the study revealed that age of the owner/manager plays a significant role on SMMES' access to bank loan, at 5% significance. Contrarily, educational level of the owner/manager does not have significant effect on access to bank loan. Mutoko & Kapunda (2015a) affirm the perception of there being no significance of the entrepreneur's educational level. However, in Ogubazghi & Muturi (2014), there was no justification for educational level not having a significant effect on access to bank loan.

Findings by Ogubazghi & Muturi (2014) are that young owners or professional managers found it difficult to get financing from banks. However, the researchers did not explain why this is so in their conclusions. Nevertheless, the study recommends that policy makers and other stakeholders should promote young entrepreneurs. While this sounds like a noble idea, again, the researchers left this point hanging in their recommendations. Further clarification would have been helpful to the reader. However, the study gives some insights into firm owners' characteristics and their influence on borrowing success.

On the contrary, there was a study by Abdesamed & Wahab (2014) entitled '*Financing of Small and Medium Enterprises (SMEs): Determinants of bank loan application*' in Libya. Logistic regression tests demonstrated that a firm owner's business experience does not have a significant relation with the firm's tendency to apply for a bank loan. Collateral, loans with interest, firm's size, and firm owner's education were negatively related to the firm's tendency to apply for a bank loan.

However, a firm's relationship with bankers and its business plan had a positive relationship with the firm's tendency to apply for loans. A small firm is likely to apply for a loan as compared to a larger firm. A firm with a business plan is likely to apply for a loan. However, the researchers did not suggest recommendations for policy makers and SMMEs (Abdesamed & Wahab, 2014).

Maziku (2012) carried out a survey in Tanzania investigating the existence of credit rationing among SMEs in commercial bank loan market. Data was collected from both supply-side and demand-side of financing. The researcher included firm-specific attributes related to informational asymmetries, and thus expected to affect credit rationing. Findings suggest that the phenomenon exists and depends on entrepreneur and firm characteristics, relationship characteristics, loan characteristics and supply conditions. Recommendations include a couple of policy implications to reduce credit rationing for SMEs. While the study focuses only on SMEs and leaving out micro enterprises, it still lends relevance to the current study.

Therefore, factors that influence financial institutions to lend money to SMMEs are many. Nevertheless, in general, the main factors can be classified into both entrepreneurial and the firm as stated above. Following perusal of the various factors found in literature, this study applies both firm owner factors and firm factors through the multinomial logistic model as follows: gender, number of years in position, marital status, highest level of formal education of the owner and annual turnover. These factors form a mix that cut across most studies in the concerned discipline.

2.2.6 The Role of Commercial Banks in SMME Support

To gain an understanding of challenges faced by commercial banks; it is crucial to understand the role played by banks to SMMEs. Corrigan (1982) wrote a renowned article arguing that banks are special because: a) they provide transaction services and administer the payments system of a nation; b) they provide backup liquidity to the economy; and c) they are transmitters of monetary policy. Due to banks' special functions in any economy, the central government sets some controls and support mechanisms to make sure banks thrive and help develop the financial aspect of the economy.

Beck (2013) suggests that bank finance is the main alternative for most African SMMEs. Furthermore, it seems easier and safer for banks to lend money to larger and more established enterprises than to SMMEs, small and micro enterprises being the worst affected by lack of credit. Banks find it safer to provide transactional services to SMMEs compared to credit services as they shy away from non-repayment by SMMEs. Therefore, there is need for the relationship between SMMEs and banks to be strengthened so that there will be maximum benefits to both banks and SMMEs.

A study by Rasool *et al.* (2013) titled *The Role of Commercial Banks in Production of Small and Medium Enterprises in Pakistan* revealed that commercial banks are the core source for SME borrowing and hence rationally affect the production of SMEs in terms of working capital requirement. The study recommends a fiscal policy adjustment as well as monetary and capital market innovations. This is be deemed to avoid SME sector vulnerability in global and regional competitiveness.

Beck (2013: 75) argues that if the financial sector is to have its main affect assisting African economies, it should provide credit and other financial services to enterprises. However, Beck continues to argue, "*It is not so much the overall level of credit, but rather the allocation of credit to the most credit-needy and – more importantly – credit-worthy that matters.*" As such, since commercial banks are some of the major financial players of any nation, they should not only emphasize on giving SMMEs transactional services, but also extend credit services to deserving SMMEs and possibly devise ways to educate the undeserving SMMEs so that they too can be ready to borrow successfully.

2.2.7 Challenges faced by Commercial Banks when working with SMMEs

Commercial banks are one of the major possible financiers for SMMEs. However, there are impediments that restrict commercial banks from being able to finance SMMEs. Most of the impediments emerge from SMME weaknesses (Mutoko, 2015; Okurut et al., 2011; Sekwati, 2010).

A study was carried out by Mwobobia (2013) on *The Role of Banks in Empowering Women Entrepreneurs in Small and Micro Enterprises (SMEs): A Case of Co-operative Bank of Kenya*. Mwobobia used random sampling approach on 100 women entrepreneurs. He used questionnaires and interviews as main research instruments. Findings showed that cooperative bank has financed various small-scale women entrepreneurs in Umoja market, majority of who are sole proprietorships. The challenges faced by the bank include among others: failure by some borrowers to pay back loans, some clients divert funds borrowed from the bank into non-business activities and poor financial management. Mwobobia (2013) study recommendations include: extension of loan repayment period for clients, giving of loans in terms of assets rather than just cash, educating customers on the significance of timeous loan repayment, training women entrepreneurs on money, budgeting and general management aspects. While the study applies to all SMMEs, the researcher would be keen to know how this specifically applies to manufacturing SMMEs as they face peculiar challenges.

According to Haron *et al.* (2012), character/management plays a significant role on the probability of loans approved by bank credit officers. They regarded character as the firm owner/manager's personality, record of accomplishment of management style and repayment of loans. This therefore means that an owner/manager that has problematic management style, poor leadership skills and a poor record of accomplishment of repayment of loans finds it hard to get financing for both self and for business. Even though the commercial bank might be willing to finance such an owner/manager, character can be the obstacle to financing. These assertions need testing on manufacturing SMMEs and commercial banks in the current study to gain fresh insights on the challenges and misunderstandings between the two parties.

Etemadi & Mougouie (2015) carried out a study comparing the Olson model and a firm's life cycle theory. The Olson model anchors on book value of the firm, accounting profit, and earnings. Contrarily, according to the life cycle theory, significance of risk and performance

indicators during the firm's life cycle is different. Results suggest complementing the model and theory over a ten-year period as relevant. This means that the firm's life cycle theory is applicable in the real world such that solutions match an SMME's life cycle in Botswana.

Nevertheless, some scholars have tested the financial growth cycle model and found it not valid. For example, Gregory *et al.* (2005) tested the model on a sample of 954 United States of America SMEs drawn from a 1994-1995 National Survey of Small Business Finances. Their study devised three types of financing: insider funding, mid-term loan/venture capital and long-term loan/public equity. Their analysis involved the effect of a firm's age, information availability, and size in relation to the type of financing. Their findings suggested that the Berger-Udell Model did not fully explain the relationship between firm characteristics and decisions on capital structure. They argued that contrary to the model, only firm size was an accurate predictor of capital structure decisions. Furthermore, they argued that since large firms are more likely to use long-term debt/public equity as opposed to insider funding; the growth cycle of SMEs does not seem to follow only the Berger-Udell Model.

2.2.8 Why Research on the Manufacturing Sector?

Over the years, the manufacturing sector contributed to economic growth and success in a number of developed nations such as Taiwan, Hong Kong, Canada, Netherlands, Korea, China, Germany, Japan, United States of America, United Kingdom, Singapore, Denmark, Switzerland, New Zealand, South Korea, Spain, Italy, France, and Norway (Alderman, 1999).

Among the developing countries, a few countries are more industrialized than others are. These include Brazil, Ghana, Ethiopia, China, India, and South Africa (UNIDO, 2013). Botswana has potential to join these more industrialized developing nations and one of the ways to do this is through SMME development especially in the manufacturing sector.

Manufacturing sector is one of the sectors earmarked by the Botswana government for diversifying the economy from diamond exports (Habiyaime, 2013) which have started slowing down over the past few years and are expected to keep slowing down (World Bank, 2013; Republic of Botswana, 2015b). Despite the Botswana government's efforts in promoting the manufacturing sector as an economic diversification tool, the industry remains in an 'infancy

stage', contributing significantly less to the economy, compared to other sectors such as tourism and agriculture. This study is therefore, hoped to inform the government and interested stakeholders on the specific challenges affecting manufacturing SMMEs. Consequently, it is anticipated that such information will develop the sector.

According to *The Business Monitor International* (2014:20) Botswana's under-developed manufacturing sector (contributing just 3.8% to GDP in 2010) is unlikely to be a major driver of economic growth through year 2021, unless some measures are taken to grow manufacturing SMMEs. The underdevelopment of manufacturing sector in Botswana is an impediment to national economic diversification because manufacturing is one of the potential areas for economic growth (Republic of Botswana, 2015b).

According to BIDPA (2007: 16), manufacturing accounted for only 5% of Botswana's GDP. Furthermore, according to Botswana Central Statistics Office (2015b:16) manufacturing sector has been declining in its annual percentage change in Real GDP as follows: 2011 (11.4%), 2012 (3.7%), 2013 (6.5%) and 2014 (0.4%). This signals a fall in value added to the national earnings by the manufacturing sector at a time when the nation expects better growth in the industry to diversify the economy. Similarly, according to SACU (2014:8) "*the manufacturing sector in Botswana continues to experience a sluggish growth even though the sector has potential to contribute towards economic growth and employment creation.*" This is a clear sign that a survey on the manufacturing sector challenges could pave way for a discovery of ways to help SMME sustenance and boost growth in the sector.

Numerous researchers have studied SMEs problems in general, especially service, and trade SMEs (Fatoki, 2014; Gbandi & Amissah, 2014; Jefferies, 2014; Shemi, 2013; Mannathoko, 2011). Furthermore, manufacturing SMMEs have slow growth, yet they carry much potential to boost the Botswana economy (Mannathoko, 2011). The manufacturing sector reportedly accounted for 5.6% and 5.2% of GDP for the years 2008 and 2013 respectively (SACU, 2014:9). In 2012, employment level for the manufacturing sector was only 36 829 people. The main causes for poor growth in the manufacturing sector in 2013 include limited indigenous capital and skills as well as a limited input base and small market (SACU, 2014:9; Okurut & Ama, 2013; Jefferies, 2014). Literature review has identified general SMME problems without clearly

focusing on the manufacturing sector (Okurut *et al.*, 2011; Mwobobia, 2012; Republic of Botswana, 2014a). If other sectors are performing better regardless of challenges, then it means that the manufacturing sector has its own peculiar challenges that warrant specific investigation.

According to the World Bank (2015), the Botswana diamond sector has been the main driver of growth standing at 23.9% in 2013. Unfortunately, due to troubled commodity markets, mining grew by only 4.3% in 2014. The quest to diversify the economy through the private sector (which includes manufacturing) is made difficult by the general continuous downward sloping of the private sector in terms of growth – 2011 (9.4%), 2012 (7.4%), 2013 (6.9%) and 2014 (4.3%). This downward spiral of growth is evidence that the manufacturing sector, among other sectors is faced with mammoth challenges (Shemi, 2013; Mannathoko, 2011). Therefore, for manufacturing to grow there is need for an understanding of the depth of challenges faced by manufacturing SMMEs that have in the past resulted in closure of manufacturing firms (McCaig *et al.*, 2015; Chicho-Matenge & Ongori, 2013; World Bank, 2013; BIDPA, 2009); and to come up with practical solutions.

There are huge opportunities for Botswana SMMEs in the manufacturing sector as shown by empirical evidence from other countries (Government of Ghana, 2014; Fatoki, 2014; Gbandi & Amissah, 2014). Furthermore, the survey is expected to boost productivity of manufacturing SMMEs.

2.2.9 Sources of Finance for SMMEs

2.2.9.1 Overview of Sources of Finance for SMMEs

In order to solve SMME financing challenges, it is essential to understand the available sources of finance for SMMEs. Sources of finance available to SMMEs include internal sources and external sources. Internal sources include personal capital (savings) and ploughing back profits (Kapunda, 2015; Katz & Green, 2011). External sources include borrowing from family and friends; commercial banks, development banks (Republic of Botswana, 2011; Ndagu & Obuobi, 2010), micro lenders, angel investors; trade credit (buying on credit from suppliers and paying say, after a month), venture capitalists and government enterprises (Abdulsaleh and Worthington, 2013; Mutoko, 2015).

Often, the owner finances the business both internally, through ploughing back profits (Katz & Green, 2011) and externally through funding from commercial banks and other financial institutions (Ndagu & Obuobi, 2010; Kaplan *et al.*, 2010). In Botswana, external funding for SMMEs can include grants and funds from CEDA, youth grants and other government schemes (CEDA, 2014).

Another way for SMMEs to finance and manage their ventures effectively is through bootstrapping. Bootstrapping refers to doing more with less in terms of resources invested in a business, and controlling the resources without owning them (Barringer & Ireland, 2016; Moore *et al.*, 2010; Abdulsaleh and Worthington, 2013; Mutoko, 2015; Padachi, 2012). If Botswana SMMEs implement bootstrapping, they can be able to gain access to resources that are essential to start and run a venture without having the money to purchase them. In support of this view Olin, (2007) mentions, "*Entrepreneurship is creating something of value from practically nothing*".

Bootstrapping techniques include: no or low rent; bartering for goods and services instead of using cash; trading intellectual property rights; renting or leasing equipment (borrowing equipment or machinery for a while and paying for usage); resorting to purchasing used equipment rather than new and costly equipment (Barringer & Ireland, 2016; Mutoko, 2015); suppliers' and customers' help, for example introduction to their networks, technical support, sharing market data, and delayed payments; cooperative purchases, such as buyers' club; outsourcing, for instance, hiring a part-time book-keeper and a part-time lawyer, rather than fulltime employees which is more costly; and contingent litigation, where a law firm can help in huge lawsuits (Kaplan & Warren, 2010; Katz & Green, 2011). Based on this, any SMME can use bootstrapping to finance and empower their operations as it is cheap and easily available. However, although bootstrapping techniques are cheap and available for SMMEs, they may not be sufficient to finance major projects and business tenders. In such cases, SMMEs will have to seek external financing.

Apart from getting lending from commercial banks and micro-lending institutions whose interest rates are higher, provision of financial assistance from government organs is in the form of loans at subsidized interest rates, and back-up business training and mentoring services to enhance the sustainability of these enterprises. The Citizen Entrepreneurial Development Agency

(CEDA) is a government-backed enterprise formed by the Botswana government in 2004 to provide a holistic approach to the financing, development and promotion of viable sustainable citizen-owned enterprises (CEDA, 2012; Republic of Botswana, 2012; BIDPA, 2012). CEDA lends from P500 to P150 000 at 5% interest per annum payable over a period of five (5) years for the small-scale category of enterprises. CEDA lends from P150 001 to P2 million at 7.5% interest per annum payable over a period of 7 years for medium scale enterprises (CEDA, 2012; Republic, 2012; Mwobobia, 2012).

However, some of the entrepreneurs get financing from CEDA yet they have never done business before, or they start with a grant that is greater than any amount of money they have ever handled. This results in poor management of the money and/or misuse of money.

In Botswana, there is a recently formed Venture Capital Fund to facilitate funding of projects. The projects could be both locally and foreign owned (Republic of Botswana, 2012). Other venture capitalists in Botswana include PEO Venture Capital, Venture Partners Botswana, and Botswana Development Bank (Mutoko, 2015).

Nevertheless, not every potential entrepreneur will get financing from the above sources. Some are left to try sourcing funds from other financial institutions such as banks and credit schemes (BIDPA, 2012). Unfortunately, banks are not as willing to fund SMMEs for fear of risk of failure (Republic of Botswana, 2010; Kaplan & Warren, 2010).

The major challenge faced by SMMEs borrowing from banks and short-term lenders is high interest rates (Okurut & Ama, 2013; Wang & Yang, 2014; Okurut *et al.*, 2011). Coupled with this is the fact that it takes time for most start-ups to realize first profits. When this happens, research shows that manufacturing SMMEs struggle due to borrowing from expensive sources that are different from government sources (BIDPA, 2012; Moore *et al.*, 2010). It is clear from empirical evidence that manufacturing SMMEs tend to struggle to get cheap finance with reasonable payback periods.

All organizations succeed or fail at the mercy of management and leadership. Entrepreneurs who can manage resources effectively are in demand the world over, Botswana not excluded. Such manufacturing SMMEs will make profits, keep the best of staff, and grow their businesses to dizzy heights (Mutoko, 2015). Most organizations are in need of good management, which includes physical resources management, human resources management, and financial

management. True managers have opportunities to steer SMMEs to success and growth (Chan, 2014; Katz & Green, 2011).

2.2.9.2 Micro-Credit - the Grameen Bank Model

According to Shukran and Rahman (2011) micro-credit is a small amount of loan given to the poor to develop their standard of living. This small amount of loan (\$50 to \$150) can help people to come out of the cycle of poverty by generating income. Micro-credit loaned to poor people can help them to have start-up capital as micro enterprises and for expansion.

The Grameen Bank has its roots in Bangladesh, Asia. The area of Bangladesh is about 147,570 square kilometres. The population of Bangladesh according to the population census of 2011 is approximately 156,866,042. The inflation rate was 6.97 as on June 2014 (BBS, 2014), a figure, which suggested that, prices of goods and services in the country were high such that the ordinary person struggled to raise capital for running business.

In 1972, Professor Yunus became head of the Economics Department at Chittagong University (Bangladesh) where he formulated and tested his initial ideas of banking to the poor (Mamun, 2012; Shukran & Rahman, 2011; Rouf, 2011). In 1983, Yunus formally opened the Grameen Bank and in 2006, and awarded the Nobel Peace Prize that he shared with the Grameen Bank (Grameen Research Inc., 2012). He took advantage of his position as head of Economics to better the lives of others in a practical way, which is something to be replicated by other academics and business people in Botswana.

As Professor Muhammad Yunus refined a micro-credit approach to breaking the cycle of poverty, he also developed a specific method that enhanced the efficacy of micro-credit; popularly known as the Grameen Method (Grameen Research Inc., 2012). The bank employs over 25000 people. In his own words, on 31 May 2013, during the 48th Annual Meeting of the African Development Bank (2013) he says, *"I was teaching economics at university, but I could no longer stand the poverty in my country. That is why I have launched this project, because banks would only lend money to rich people and never to poor people."* Professor Yunus' initiative to help poor masses with micro-credit was a great substitute for traditional commercial bank financing which is not usually available for SMMEs.

Grameen Bank prioritizes its loans to women living in rural areas, because of their prior exclusion from the banking and credit system (Mamun, 2012). Now, thanks to this initiative, they can create their own enterprises (Rouf, 2011). According to Yunus, the Grameen Bank works like a traditional bank, but with very low interest rates. It is also run in conjunction with various commercial banks that extend small loans to micro enterprises at very low interest rates (Grameen Research Inc., 2012; Shukran & Rahman, 2011; Esty, 2011). Due to the success of his micro-credit bank, Yunus has further created over four clinics for treatment of the poor. This has enabled several million people in Bangladesh to undergo cataract surgery, thereby preserving their eyesight (AfDB, 2013).

Botswana could benefit immensely from the Grameen Bank Model if marginalized rural men and women get financing. Since in Bangladesh, many women and youths have been financed (Mamun, 2012; Shukran & Rahman, 2011; Rouf, 2011; Esty, 2011); in Botswana, if implemented, the Grameen Bank could help most homes because women tend to be breadwinners. Sponsoring rural people will also help reduce rural-urban migration (Republic of Botswana, 2012) which is resulting in many people flooding urban centres; putting pressure on resources, and yet there are few job opportunities. Commercial banks in Botswana could extend small loans to SMMEs using the Grameen Bank Model and increase sources of finance for SMMEs.

2.2.9.3 Empirical Evidence on Sources of Financing for SMMEs

A study by Evbuomwan *et al.* (2013) on Sources of finance for micro, small and medium enterprises in Nigeria found that 75.7% of SMME respondents used own funds for business, 20.3% relied on commercial banks for financing; 2.7% financed their firms through share capital, and 1.3% depended on suppliers' credit or trade credit. The conclusion reached was that SMMEs dominate the Nigerian economy in terms of activity and employment especially agriculture and manufacturing sectors. Recommendations were new policies to support SMMEs and fixing electricity challenges to reduce disruption of activities in industry (Evbuomwan *et al.*, 2013). Although the study was not clear in specific recommendations to increase SMMEs' sources of finance, it forms a platform for further studies to solve the challenge of access to financing by SMMEs in Nigeria and elsewhere in Africa.

Bulan & Subramanian (2016) mention that the firm life cycle of dividends theory contends that a firm's optimal dividend policy depends on the firm's stage on the life cycle. The idea behind the argument is that a firm follows a life-cycle route from beginning to maturity. The firm's journey is characterized by a shrinking opportunity set, decreasing growth rate, and declining cost of raising external finance. As the firm becomes more mature, the optimum payout ratio increases. The study agrees with the life cycle theory as findings suggest that mature firms pay out dividends while younger firms rarely manage to pay out dividends.

The study by Bulan & Subramanian (2016) also corresponds with Thanatawee (2011) who carried out a study in Thailand and discovered that larger and more profitable firms with higher free cash flows and higher retained earnings/equity ratios tend to pay higher dividends. Findings from that paper support both the free cash flow and life cycle theory. The same applies to SMMEs, as majority of micro, small and medium enterprises are relatively young, are not listed on the stock exchange and they rarely pay out any dividends.

Xiao (2014) published a paper focusing on the evolution of external financing environment for SMEs and how it affects firms' growth decisions. He argues that asymmetric information makes financing of projects costly. According to the life cycle model, as a firm grows, so grows the collateral; and that increases the firm's chances of acquiring external financing. This was also alluded to by Robb & Robinson (2012). Nevertheless, Xiao (2014) posits that high growth rate is not necessarily associated with high firm value. This suggests that while the life cycle model helps to explain growth of firms following a particular cycle; not all firms necessarily follow the same routine cycle. Each firm is unique and growth is likely to differ among firms depending on various factors.

The need for a modified pecking order theory is reiterated by Narmandakh (2014) who analysed the determinants of capital structure of Mongolian listed firms employing accounting data from the year 2010 to 2013, 23 firms. In the study, focus was on pecking order theory. The researcher proved that firms first use internal sources funds before they seek debt and equity as sources of finance.

A study by Okurut & Ama (2013) investigated environmental factors that affect performance of a nationally representative sample of 590 women and youth microenterprises in

Botswana. Furthermore, the study determined the extent the microenterprises have utilized the government institutional credit and capacity building programs to expand their firms. Results suggest that lack of capital, poor management and lack of markets are the main challenges of microenterprises.

Findings of Okurut & Ama (2013) are that women and youth microenterprises are generally profitable. They are engaged mainly in the trade and services sectors. The women and youth microenterprises struggled to access available government institutional credit and capacity building programs (e.g. Citizen Entrepreneurial Development Agency [CEDA] and Youth Development Fund) and (Local Enterprise Authority (LEA)) to expand their enterprises. Recommendations of the study are to improve the investment climate for microenterprises through enhanced access to institutional credit. There is a suggestion that a government microfinance institution that uses collateral substitutes in the delivery of credit to the micro-entrepreneurs be created to cater for the credit needs of the microenterprises.

However, the study by Okurut & Ama (2013) is not specifically on manufacturing SMMEs and it majored on micro enterprises; leaving out small and medium enterprises. Nevertheless, since Botswana generally has more micro enterprises than small and medium enterprises, Okurut & Ama's research could lay a good foundation for the current study and future studies of SMMEs. There is no recent available survey of financing challenges of manufacturing SMMEs, hence the essence of the current study.

2.2.10 Success Rate of Manufacturing SMMEs

There is no one way agreed by scholars for measuring success of enterprises. Some scholars argue measurement of success by profitability. Such proponents argue that as long as a firm is making profits, it is successful (Laforet, 2013). The more profits, the firm makes, the more profitable it is (Agnihotri, 2013). However, the argument can have its own flaws because some firms, according to plan, may start making profits after a certain period; say after five years. In that case, it would implies that before year five such a firm is not successful, although it meets its targets in terms of output, employment figures, and effectiveness.

Other scholars determine enterprise success by efficiency and effectiveness (Laforet, 2013). These proponents argue that as long as a firm is effective and efficient, it can be termed successful (Tajeddini, 2015). The main contention with this kind of definition is on the meaning of effectiveness and efficiency. One may argue that a firm is both effective and efficient, but what if it is not profitable.

Thirdly, some scholars propose success of an enterprise as measured by business continuity or ability to leave a legacy (Pettigrew, 2011). Taking continuity for instance, according to Arroio and Scerri (2014), keeping entrepreneurial firms running is a hard task. Out of 100 family businesses in Brazil, only 30 per cent reach the second generation and only 5 per cent are carried on to the third generation. Approximately, 70 per cent of these firms go out of business with the death of the founder. The Brazil situation could possibly apply in many other countries to explain success in terms of legacy or continuity.

The flaw with defining success in a firm through continuity is that the period against which success is measured is very long and not specific. For this reason, some scholars propose that a firm is successful if it can trade in business for over ten years without closing its doors. However, while the thinking is more timed and easy to measure; it is flawed in that it neglects the fact that some businesses can still be open past the ten-year mark, yet making losses, employing one person (the owner) and possibly just getting by.

Due to the flaws in each of the above mentioned definitions of success of SMMEs, it might be better to define success of SMMEs looking at profitability, turnover, and meeting targets, that is, effectiveness. This is the approach taken by the researcher in this study.

2.2.11 Factors Influencing Exploitation of Opportunities by Manufacturing SMMEs

Messah & Wangai (2011) carried out a study to find out factors that influence demand for credit among small-scale investors in Kenya. Results show that an entrepreneur's number of dependants, household income, and education level are significant factors influencing small-scale entrepreneurs borrowing from credit institutions. In the SME sector, demand for credit among male entrepreneurs is higher than that of female entrepreneurs. Recommendations include SME operators can improve credit market participation by maintaining proper accounting and

bookkeeping systems. They additionally need to increase knowledge levels and business skills. The government needs to improve efficiency and facilitate participation of SME operators in local and international trade fairs to increase their exposure to wider markets. Furthermore, the factor of gender inequality in favour of males reduces demand for credit by female entrepreneurs.

The findings and recommendations from the study by Messah & Wangai (2011) are balanced. They can provide insightful pointers for SMEs and policy makers. The study touches on both firm characteristics and owner/manager characteristics influencing access to finance (Mutoko & Kapunda, 2015c). This makes the study very relevant and useful for policy makers and SME development.

In Botswana, manufacturing SMMEs have huge opportunities to sell products locally, to the Southern African region, to Africa at large, and to the global village. However, entrepreneurs can only succeed in utilizing opportunities by creating value for their customers.

Moore *et al.* (2010:6) assert that to capture entrepreneurial opportunity business people need critical resources: (1) people, such as customers, suppliers, professional firms; (2) assets such as inventories, buildings, and equipment; and capital to finance the venture. The entrepreneur needs tact and skill to harness these resources. Their assertion supports the cause for the current study of SMME challenges of managing and financing in Botswana in the manufacturing sector. This is because entrepreneurship is not easy; otherwise, all people would be entrepreneurs. Creativity and resourcefulness are necessary to have for manufacturing SMME owners and their employees for sustainability.

2.2.12 Conclusion

In this sub-section, various empirical studies established that SMMEs have challenges; in particular, financing challenges stand out. The studies mentioned herein are mainly from other countries because there is shortage in Botswana on challenges of SMMEs, more so, challenges of manufacturing SMMEs. The few studies available in Botswana are a bit old, dating back as early as 2005 and 2007. It therefore suffices to have the current study taking recommendations from earlier studies for further studies. The next section contains theoretical and conceptual frameworks that set a foundation for the study.

2.3 Theoretical Frame Work

According to Miles & Huberman (1994: 18), a theoretical framework is an explanatory tool “*which explains either graphically or in narrative form, the main things to be studied – the key factors, constructs or variables – and the presumed relationship among them.*” To further distinguish between framework, theoretical framework, and conceptual framework; Polit & Hungler (1999: 110) write, “*A framework is the conceptual underpinnings of a study ...*” This means that a framework is a foundational tool that links concepts under study. A framework can help a reader to follow concepts displayed by the researcher.

Polit & Hungler (1999) go on to specify that when a study stems from a theory, the framework applicable is a **theoretical framework**. When a study has roots in a particular conceptual model, the framework is termed a **conceptual framework**. However, scholars usually use the terms theoretical framework and conceptual framework interchangeably. This section includes a critical evaluation of theories pertaining to financing of SMMEs. The chapter concludes with a synopsis of the position taken within the theory discussed herein.

Several theories abound on corporate financing. Since the publication of a paper by Modigliani & Miller (1958) on the capital structure – the way in which firms are financed through a combination of internal cash-flow, debt, equity, hybrid securities and so on; various scholars have carried out studies to either validate or try and modify the M-M Theory as the Modigliani & Miller (1958) theory is commonly known. The scholars have endeavoured to study effects of market imperfections on capital structure and the firm-level determinants of capital structure (Hul, 2014). In this section, the researcher overviewed some of the theories that emerged from the M-M Theory to come up with suggestions for success of SMMEs in the manufacturing sector. Financing theories under review include *trade-off theory*, *perking order theory*, *firm’s life cycle theory*, and *credit rationing theory*.

2.3.2 Trade-Off Theory of Capital Structure

According to Kraus & Litzenberger (1973) and Myers (1984), the trade-off theory postulates that the optimal leverage ratio of a firm is determined by trading off costs and benefits of borrowing. In this situation it is hoped that the firm’s assets and investments are held constant. The trade-off theory emerged from the M-M Theory emanating from Modigliani & Miller

(1958). The M-M Theory argued that the capital structure of a firm was irrelevant to its value. Thus the main argument is that a firm will most likely make a decision between financing options by setting off potential tax benefits of debt against potential bankruptcy costs. Thus, Modigliani & Miller (1958) make assumptions that business mainly takes place in a perfect market. They postulate that in a perfect market there are no market frictions, for instance tax, asymmetric information cost and transaction cost.

Therefore, from Modigliani & Miller (1958)'s assertions, it can be concluded that a firm chooses both the amount of debt finance and equity finance through striking a balance between cost and benefits. As debt goes up, the marginal benefit of borrowing goes down, while the marginal cost increases. So every firm has to check the balance of cost and benefit of borrowing lest it puts itself in trouble. The theory triggered more studies on capital structure of a firm, and one of the theories that came from that process is the trade-off theory.

Pursuant to the trade-off theory, Modigliani & Miller (1963) argued that the major benefit of debt is that it could safeguard a firm's income from income taxes. They looked at it from the perspective that interest paid on debt can be deducted from income taxes paid on earnings. Thus every manager has to consider which benefits are deductible so as to counter any of the firm's costs.

Hul (2014) agrees with the trade-off line of thought. The researcher states that a firm is most likely to choose the amount of debt and equity financing by weighing the benefits against costs of debt. Costs of borrowing mainly include costs of possible financial distress and bankruptcy costs. Therefore when a firm has an optimal capital structure then the benefits and costs of debt offset each other, hence a balance is accomplished; that is, a trade-off is reached.

Of interest is the agency theory postulated by Jensen & Meckling (1976). The agency theory stated that there are agency costs triggered by conflicts between shareholders and managers of firms. Both parties are likely to have conflicting interests, with managers interested in business growth while shareholders are interested in higher profitability resulting in more dividends. While the theory applies mostly to listed companies, it also applies to SMMEs as not all SMMEs are owner-managed. Firms that are not owner-managed are likely to have pronounced agency costs. The agency costs theory is closely linked to the trade-off theory in terms of costs and

benefits balancing. It is also related to a certain extent to pecking order theory when looking at transaction costs.

However, some scholars have refuted the claims of the trade-off theory arguing that the theory lacks empirical relevance. For instance, Miller (1977) argued that the trade-off theory is not realistic. He said that taxes are large and a firm is almost sure to pay taxes, but on the other hand, bankruptcy of a firm is uncertain and rare. Miller (1977) therefore suggested that if the trade-off theory was on-point, then most firms would have higher debt levels than is witnessed in industry. Fama and French (2002) confirmed predictions shared by both the pecking order theory and the trade-off theory by suggesting that more profitable firms and firms with fewer investments have higher dividend payouts. However, they further confirmed the pecking order theory, but at the same time contradicting the trade-off theory, saying that profitable firms are less levered.

Myers (1984) did not spare the trade-off theory either. He argued that the trade-off theory was less realistic in the real world sense. Myers (1984) consequently went on to postulate the pecking order theory. Welch (2004) also criticized the trade-off theory by denying that firms can undo impact of stock price shocks as suggested by the trade-off theory. Similarly, Rahman & Arifuzzaman (2012) tested the trade-off theory and pecking order theory by using Shyan-Sunder and Myers (1999) approach to examine the capital structure behavior of UK firms. They aimed to find out whether UK firms follow pecking order or trade-off model. Their study concluded that neither the trade-off theory nor the pecking order theory is appropriate for giving conclusive result for UK firms' capital structure behavior. As a result they suggested further research on the capital structure. This shows that the two theories do not always apply to every industry – there are other factors that come into play in capital structure of firms.

Nevertheless, the trade-off-theory has remained one of the main theories of corporate finance found in many corporate finance textbooks and cited by many scholars. The wide use of the trade-off theory amidst criticism is due to the theory's flexibility when used empirically.

The trade-off theory is usually used in comparison or competition against pecking order theory. Therefore, some of the empirical evidences of the trade-off theory are discussed in combination with the next theory – pecking order theory in 2.3.3.

2.3.3 Pecking Order Theory

The pecking order theory of financing is a theory that was proposed by Myers (1984) and Myers & Majluf (1984). The theory addresses an immediate need for funding in an asymmetric information context. It is based on the existence of a pecking order and it gives a coherent rationalization for corporate finance choices. Myers (1984) states that firms would rather choose to finance their operations and projects with a low degree of asymmetric information rather than using a high degree of asymmetric information. The reason for firms to make this kind of decision is that costs of financing tend to increase when the firm acquires finance from outside creditors who have less borrower information, thus may want to minimize risk by charging more in interests. The theory suggests funding a firm's operations and expansion first through internal financing before external financing (Aabi, 2014: 6).

Matemilola *et al.* (2012: 136) simplify the pecking order theory further. They state that the theory lays out the link between a firm's capital structure and dividend and investment policies. The theory suggests that firms choose to utilize retained earnings to pay dividends and to fund new investment. Thus the pecking order theory ranks retained earnings at the top of the pecking-order, and then debt follows next as a means of finance. However, borrowing cannot go on forever, there is always a credit limit; which then leads firms to finance their operations and assets using equity.

Myers & Majluf (1984) suggested that funding a firm should begin with internal financing to external financing in this order: cash-flow/debt/issue of shares. In other words, the cheapest form of financing should precede any external financing which is usually more expensive both in terms of time and money.

Zoppa & McMahon (2002) affirm that according to the pecking order theory, when a firm needs finance, it first relies on internal finance. However, if there is need for external finance, a firm would rather issue the safest security first. For instance, a firm seeking external finance would possibly start with debt, then hybrid securities such as convertible bonds. In that order, external equity would come last as an option. They conclude that "*businesses adhere to a hierarchy of financing sources and prefer internal financing when available; and if external financing is required, debt is preferred over equity,*" (Zoppa & McMahon, 2002: 3).

They further argue that since most SMEs are owner managed, the owners would rather finance their business using internal financing in order to maintain control of their business (Zoppa & McMahon, 2002: 4). Thus, SMME owners/managers are most likely to prefer financing their firms internally firstly because they may not have collateral and secondly because they do not want to wield power (control) to financiers that may ask for a stake in the firm.

According to Scherr *et al.* (1990) the pecking order theory was initially meant for large enterprises that seek external financing in bigger ways such as issue of shares; however, it has since been discovered that the theory applies to SMEs as well. Scherr *et al.* (1990)'s conclusions concur with the findings of Zoppa & McMahon (2002: 16) although the latter went on to conclude that there is further substantial empirical evidence suggesting the need for a modified pecking order theory that more fully reflects the special circumstances and nuances of SME financing.

On the other hand, findings of Narmandakh (2014)'s study were that leverage in Mongolian firms decreases with profitability and liquidity. Since leverage decreases with asset tangibility, it was concluded that this is in contradiction to the predictions by the pecking order theory. Discoveries were that Mongolian firms tend to use retained earnings over debt. However, whenever debt is needed, short term debt is preferred over long-term debt, although equity is preferred over long-term debt. Therefore, Narmandakh (2014) concluded that there is moderate support for modified pecking order theory rather than the traditional pecking order theory among Mongolian listed firms.

Basing on prior empirical evidence (Ang, 1991; Holmes & Kent, 1991; Cosh & Hughes, 1994; and Fama & French, 2002); conclusions by Zoppa & McMahon (2002) suggest the modified pecking order theory to suit SME financing would look like this: reinvestment of profits; short-term debt financing (trade credit and personal credit card financing); long-term debt financing (long-term loans from owners/managers, family and friends); new equity capital injections from existing owners and owner-managers, family and friends; and finally new equity capital from uninvolved parties (including new owners, owner-managers, venture capitalists, business angels and second board listing) (Zoppa & McMahon, 2002: 16-17).

The pecking order theory is not without criticism though. Fama & French (2005) make two arguments against pecking-order. Firstly, enterprises usually do not issue equity frequently. Secondly, equity is rarely or never issued under coercion. They therefore conclude that pecking order theory by itself cannot fully explain firms' capital structure decisions. Similarly, other scholars also criticize the pecking order theory for reasons ranging from the theory's appropriateness to large enterprises and inappropriateness to small, medium and micro enterprises to failed hypothesis tests in some instances (Helwege and Liang, 1996; Shyam-Sunder and Myers, 1999; Frank and Goyal, 2003; Bolton and Dewatripont, 2005).

Regardless of the criticisms of pecking order by some scholars, the theory remains one of the most used theories of corporate finance because of its widely accepted use in various empirical studies. For instance, recent studies have demonstrated the validity of the pecking order theory. Serrasqueiro & Caetano (2014) carried out a study in Portugal to analyze whether the capital structure of SMEs are closer to the assumptions of trade-off theory or to those of pecking order theory. Empirical evidence suggested that the most profitable and oldest SMEs rarely use debt, which concurs with pecking order theory; while SMEs with greater size resort more to debt, corroborating with both trade-off theory and pecking order theory. The conclusion was therefore, that when younger and smaller, SMEs have limited internal finances; they should be object of public financing support to enhance funding of firm activities.

In another recent study in The Netherlands, Hul (2014) explored the important firm-level factors determining the capital structure of Dutch SMEs. The trade-off theory and pecking order theory were tested. The findings suggested the capital structure of Dutch SMEs is mainly influenced by the firm-level factors – 'profitability', 'liquidity,' and 'non-debt tax shields.' The conclusion therefore was that the pecking order theory has the most explanatory power for the capital structure of Dutch SMEs. Similarly, Matemilola *et al.* (2012: 137) in their study combined trade-off theory and pecking order theory in one model. They mention that trade-off theory predicts a positive relation between debt and profit and a negative relation between debt and investment opportunities which tends to contradict pecking order theory.

Consequently, Narmandakh (2014)'s conclusions agree with Zoppa & McMahon (2002: 16)'s conclusions arguing the need for use of a modified pecking order theory.

In conclusion, there are valid arguments that pecking order theory was originally meant for big corporations with lots of options when it comes to financing. However, a closer look at the pecking order theory shows that it has some elements that can be applied to SMMEs in Botswana. Consequently, the current study will use a modified credit rationing theory containing one element of pecking order theory.

2.3.4 Financial Growth Cycle Model (Berger-Udell Model)

The financial growth cycle model was postulated by Berger & Udell (1998). The model tries to interpret the way firms finance their business by explaining that as firms grow bigger, older and gain greater informational transparency; their financial needs and financing options change as they move from one stage of the cycle to another (Robb & Robinson, 2012). According to Berger & Udell (1998), as a firm grows, it attracts venture capital (intermediate equity), then mid-term loans (intermediate debt); and as the firm gains greater informational transparency, it qualifies for public equity or long-term debt. The firm passes through the following stages introduction, growth, maturity and decline (Kallunki & Silvola, 2008).

Kim & Suh (2009) completed a study which presents evidence of an inverted-U-shaped relation between leverage and retained earnings (RE) – which is their proxy for financial life cycle stage. Their findings suggest that: (i) firms with low RE have low leverage because of overdependence on external funding resulting from financial constraints, (ii) firms with medium RE have high leverage because they actively use debt as a financing method, and (iii) firms with high RE have low leverage because they generate lots of internal finance, resulting in exceeding external funding requirements. The results demonstrate that the size of a firm determines its financing options, particularly as the firm goes around its life cycle.

However, the results of Kim & Suh (2009) contradict Myers (1993) who says, “*Firms whose investment opportunities outrun internally generated funds are driven to borrow more and more.*” One would assume that further research is needed in this regard as the study shows low leverage for both small and large firms. One would have expected larger firms to have higher leverage than both small and medium SMMEs because of the different financial muscles per time.

Nevertheless, the life cycle theory tends to work in conjunction with other theories. For instance, the pecking order theory and trade off theory have certain stages where they tally with the life cycle theory (Zoppa & McMahon, 2002: 16-17). Pecking order theory suggests that during the early years of a firm, it struggles to obtain external financing; thus the firm relies on internal funding. That start-up and early stage of pecking order is the same as the introductory stage of firm life cycle theory. Therefore the theories should not be considered to work individually; but rather they can work in unison.

2.3.5 Credit Rationing Theory

The credit rationing theory was hypothesized by Stiglitz & Weiss (1981) advocating that asymmetric information (superior private information compared to what the other party knows) and agency problems (conflict between management and firm owners/shareholders) are the driving forces behind credit rationing behaviors of credit providers to SMEs. Credit rationing is closely related to the financing gap which refers to the difference between the demand for funds by SMEs and the supply of funds (Mazanai & Fatoki, 2012).

In their argument, Stiglitz & Weiss (1981:393) ask a question, “*Why is credit rationed?*” As they try to justify reasons for credit rationing, they say, “... *the bank is not able to control all the actions of the borrower; therefore, it will formulate the terms of the loan contract in a manner designed to induce the borrower to take actions which are in the interest of the bank, as well as to attract low-risk borrowers*” (Stiglitz & Weiss, 1981: 394). Therefore, credit rationing mainly happens because banks want to reduce risk. The risk is linked to information asymmetry. With information asymmetry, it can go either way – either the bank knows what borrowers do not know, or the borrower knows what the bank does not know. The party lacking information is at risk and suffers in decision-making.

In the relation between banks and borrowers, information asymmetry leads to two major risks for the banks - moral hazard and adverse selection. Moral hazard, defined as a situation where the borrower knows their intentions, they misuse the loan and most likely fail to pay back the loan (Huang *et al.*, 2014: 29; Ghimire & Abo, 2013; Mutoko *et al.*, 2015). Adverse effect refers to a situation where information related to the borrower’s credit, project risk and benefits are known by borrowers than financial institutions (Ghimire & Abo, 2013; Huang *et al.*, 2014:

29). To further the discussion, Ghimire & Abo (2013: 33) argue that existence of information asymmetry between banks and potential SME borrowers has severe implications in the banks' lending methodologies. To avoid effects of using imperfect client information, in the absence of insufficient financial information; banks over rely on requesting high collateral values to reduce the risks associated with adverse selection and moral hazards. A good lender-borrower relationship can be a solution for information asymmetry. Thus information asymmetry plays a huge role in the relations between financial institutions and SMME borrowers.

Furthermore, as banks want to secure their money when lending; the issue of information asymmetry causes transaction costs to go up (Huang *et al.*, 2014). This is because before banks issue out a loan, they have to do due diligence – diligent search of potential borrower's credit-worthiness. Those costs are passed on to the borrower in addition to interest charges in the event that the loan goes through. This further makes borrowing expensive for SMMEs, thus causing them to shy away from debt and prefer internal financing instead.

In summary, this current study reviewed four main theories of financing decision by the firms. The first theory is trade-off theory, which stipulates that a firm's decision to finance or expand its business will be based on the firm's leverage, if the leverage is increasing, it will be better for the firm to finance further investment by selling part of its company. But on the contrary, if the leverage is reducing, it will be proper for that firm to finance its investment through borrowing or even with its retaining earning. This approach to firm financing decision is highly related to the second theory, the pecking order theory as well as the third theory - the financial growth cycle model. These theories are most applicable to large corporations but rarely compatible to small firms, like SMMEs in Botswana.

Therefore, the most suitable theory among the four theories reviewed in this section that is applicable to SMMEs in Botswana, especially manufacturing industry is the fourth theory, the credit rationing theory. This theory has two parts, namely, the moral hazard, which is the intention of default that the borrower conceived or later conceives before borrowing. The second part is the adverse selection that is the conditions or measures that the lender considered before lending. According to the lender's point of view, the lending is a function of available information that the lender would collect about the borrower in a cost-effective manner. This

information includes the financial information of the firms, the age of operation, demographic characteristics of the business owners, managerial issues, and the likes. It is from these identified variables, that this study was based in its adaptation of the model specified in the methodology section.

However, due to the essence of some parts of the pecking order theory to the complicated nature of SMME interpretation; the current study will use a modified credit rationing theory that is one element of the pecking order theory to discuss results. The main element taken from pecking order theory is the fact that firms tend to use internal financing strategies before seeking debt and share equity. Although the pecking order theory is mainly for large corporations, the researcher found the aspect of internal funds such as ploughing back profits and use of personal savings applicable to SMMEs useful and applicable. Thus, by fusing that element of pecking order theory into the credit rationing theory, it implies that the model used in this study is a modified credit rationing theory.

2.4 Conceptual Framework

According to Miles and Huberman (1994: 18), a conceptual framework refers to a visual or written presentation that *“explains either graphically, or in narrative form, the main things to be studied – the key factors, concepts or variables; and the presumed relationship among them.”* Weaver-Hart (1988) argues that a conceptual framework is merely a thinking tool, not a theory. On the other hand, Rudestam & Newton (1992) postulate that a conceptual framework is a less-developed theory. This means that a theory is ‘tried and tested’; and it is widely accepted. Contrarily, a conceptual framework is a useful tool to ignite further thoughts in a field, although it is not yet tested and tried enough. In times that are more recent, numerous authors and scholars have reiterated the role and essence of conceptual frameworks (Jabareen, 2009; Havie, 2011; Sidik, 2012; Berman & Smyth, 2015; Kumar & Rao, 2015).

In this study, the researcher proposes a conceptual model in Figure 2.3 in Appendix J.

Figure 2.3 in Appendix J shows the conceptual framework proposed for this study. H₀₁ represents hypothesis one, which assumes that factors influencing SMME borrowing include firm income (net profit or annual turnover), marital status, gender, highest education

qualification, and number of years in position. H₀₂ represents hypothesis two, which assumes that lack of financing is a major factor militating against growth and success of manufacturing small medium and micro enterprises. H₀₃ represents hypothesis 3, which presumes that commercial banks are not willing to finance SMMEs.

The proposal for the conceptual framework stems from literature review. It suggests that factors that influence SMME borrowing include entrepreneurial characteristics (gender, marital status, number of years in position, and educational qualifications) and firm characteristics (turnover). Furthermore, the proposed framework suggests that a combination of factors influencing borrowing and the purported negative attitude by banks to lend money to SMMEs can be a major setback. That, coupled with poor management of money, poor or no record keeping and weak/outdated industrial policies and lack of industrial incentives can contribute immensely to financing challenges; which in turn cause manufacturing SMMEs to fail to take advantage of opportunities that could possibly make them thrive and grow. Thus, in order to improve the plight of SMMEs, there is need to look into improving characteristics that limit borrowing capabilities, minimize banks' attitude towards SMMEs and implementation of policies that promote manufacturing sector.

The researcher opted to propose the conceptual framework as it gives a detailed overview of the concepts in the study. The conceptual framework could help SMMEs, government and other stakeholders to understand the complexity of the relationship between commercial banks and SMMEs and solving of SMME financing challenges.

2.5 Conclusion

In this chapter, there was an overview of definitions of SMMEs to give the reader a clear comprehension of the study at hand. The theoretical framework was presented and critically evaluated – showing a number of theories relevant to corporate finance and challenges faced by SMMEs in terms of access to finance; as well as relationship between commercial banks and SMMEs. The conceptual framework for the study in this chapter emerged from variables discussed in detail within the context of challenges of manufacturing SMMEs; how these challenges affect manufacturing SMMEs and the possible solutions imbibed in opportunities. The dependent variables, independent variables, and intervening variables of the study were

stipulated to give the reader an understanding of the concepts and variables at play in SMME financing.

Other related studies revealed that some of the top most SMME challenges include financing and managing. While the studies identified SMME challenges or constraints, they ran short of practical solutions. More so, the studies aimed at examining all SMEs, thus they lack specific details on the challenges and opportunities of manufacturing SMMEs as a niche; but the current study does not only look at SMEs as others do, but it includes micro-enterprises' challenges.

The study does not just look into challenges of SMMEs, but goes further to consider available and potential SMME opportunities. Furthermore, the research aims at a specific niche market neglected in terms of development and research, that is, manufacturing SMMEs.

Recommendations of the study will increase the body of knowledge on SMMEs; encourage government to protect SMMEs against unfair international competition, and to support SMMEs. They also help financial institutions and SMMEs to understand each other to solve the financing challenges. Furthermore, recommendations will assist educational institutions to offer relevant industry courses that can solve both financing and management challenges faced by SMMEs.

So a study on financing challenges of manufacturing SMMEs agrees with literature (Okurut *et al.*, 2011; Mutoko, 2015b; Kapunda, *et al.*, 2007; BIDPA, 2012). The next chapter looks at methodology and data analysis.

CHAPTER THREE

METHODOLOGY

3.1 *Introduction*

The purpose of this study is to examine the gravity of financing challenges, rationale and opportunities of manufacturing SMMEs in Botswana. The chapter outlines the research methodology that the researcher used in the study. It includes the research philosophy, research design, research approach, research strategy, population, sample, sampling techniques, data-collection techniques, and data analysis procedures.

According to Dawson, (2009:23) research methodology is the philosophy or general principle, which guides the research. It refers to the overall approach to studying a topic. Research methodology includes constraints, dilemmas, and ethical choices within research (Dawson, 2009:14). On the other hand, Saunders *et al.* (2012:4) define methodology as “*the theory of how research should be undertaken*”. In this study, it then follows that research methodology is the general principle, which guides the way in which both the qualitative and quantitative research were carried out. However, methodology differs from research methods that are tools, which the researcher will use to gather data (Collins & Hussey, 2009:73).

3.2 *Research Philosophy*

Immanuel Kant published an article titled, “*Critique of Pure Reason*” in 1781 that caused a revolution in philosophy (O’Gorman & MacIntosh, 2015: 54). Kant argued that apart from direct observation there are other ways of knowing about the world. Kant postulated that people should not view objects in isolation, separate and unchangeable. The author argued that opposing philosophies could be logical and contradictory and/or incomplete at the same time. Hence, Kant warned emerging researchers to avoid being too subjective with a particular philosophy of choice, but to apply an open mind to research and select the most appropriate philosophy (O’Gorman & MacIntosh, 2015: 54). These concepts support ideas on philosophy by other scholars over the years. Saunders *et al.*, (2012:127-137), echo Kant’s thoughts by suggesting that research philosophy relates to knowledge development and the nature of knowledge. This suggests that one’s views of things and life determines the nature of knowledge one develops and

uses. According to Saunders *et al.*, (2012:127-137), there are four schools of thought in research approach namely: interpretivism, positivism, realism, and pragmatism (see Saunders et al. 2012 for more information).

The current research stems from a pragmatist perspective to give the researcher an opportunity to utilize the diverse methods of collecting data. Pragmatism advocates a combined subjective and objective point of view to answer the research question, with subjectivism asserting that social phenomena come from the perception and consequent actions of social actors, and objectivism representing the position that social entities exist in reality external to and independent of social actors (Saunders *et al.*, 2012: 130-132). Pragmatism is the most suitable philosophy in this context with a view to satisfying the objectives of the research. By recognizing the importance of separate viewpoints, the researcher can use methods of collecting data that enable the collection of credible, accurate, and reliable data for the purpose of the research (Bell & Waters, 2014; Bell, 2010).

3.3 Research Design

According to Saunders *et al.* (2012:159-160), research design is the general plan of how a researcher goes about answering research question(s). It contains clear objectives derived from research question(s), specifies sources from which the researcher intends to collect data; how the researcher proposes to collect, and analyses these, discuss ethical issues and constraints that are likely to be encountered in research, for instance, money, time, location and access to data.

A researcher can decide to follow a “*single quantitative or qualitative (mono method) or multiple methods research design*” (Saunders *et al.*, 2012: 160). The decision as to which design is to be used should come through a consideration of what outcomes the researcher wants to achieve. If the researcher wishes to explore attitudes, behaviour, and experiences of participants, then researcher may use **qualitative design** employing methods such as focus groups, semi-structured interviews, or open-ended questionnaires to get in-depth opinion from participants (Dawson, 2009: 14-15, 31). Researchers adopting a qualitative perspective are keen to comprehend individuals’ perceptions of the world (Bell & Waters, 2014: 9). Miles & Huberman (1984: 37) stipulate, “*Qualitative research is essentially an investigative process, not unlike detective work. One makes gradual sense of a social phenomenon, and does it in large part by*

contrasting, comparing, replicating, cataloguing, and classifying the object of one's study." Therefore, qualitative research can be detailed and it can bring out results that reveal the opinions and perceptions of a sample; which are likely to represent the whole population, although in some cases it does not represent the whole population (Trochim & Donnelly, 2008).

Contrarily, if the researcher wishes to generate statistics with large-scale survey research, the researcher can use **quantitative design** employing methods such as structured interviews and closed-ended questionnaires (Dawson, 2009: 15, 31). Quantitative researchers use techniques that are likely to produce quantified and, if possible, generalizable conclusions (Bell & Waters, 2014: 9).

In some cases however, a researcher may choose to employ both qualitative and quantitative designs, popularly known as **multiple methods research design** (Saunders *et al.*, 2012: 161). Using multiple methods research design is alternatively known as **triangulation**. Numerous researchers believe that triangulation is a good way of approaching research as it enables one to counteract the weaknesses in both qualitative and quantitative research (Dawson, 2009: 20; Saunders *et al.*, 2012:159-160; Bell & Waters, 2014; Bell, 2010; Trochim & Donnelly, 2008). By using the multiple methods research design, the researcher takes advantage of use of numeric data and non-numeric data; which helps to come up with a more comprehensive analysis and data findings. This design is also beneficial in that it fulfils the expectations of both qualitative and quantitative readers and scholars.

In this study, the researcher utilizes multiple methods research design (triangulation). This is because of the two-pronged nature of the study – administration of a structured questionnaire to SMME owners/managers and conducting of a semi-structured interview among commercial bank managers. Notably, some of the questions in the SMME questionnaire required participants to give their opinions on certain matters. That means the SMME questionnaire sought to collect mainly quantitative data, but through some open-ended questions in the questionnaire, qualitative data emerged to complement quantitative data.

3.3.1 Quantitative Design

Using the survey strategy, the researcher designed a structured questionnaire to ask questions on a reasonable sample of SMME owners/managers from a suitable population of

manufacturing SMMEs across Botswana. The rationale for choosing to use the databases of Local Enterprise Authority (LEA) members and members from Botswana Manufacturers' and Exporters' Association (BEMA) database was that there are few manufacturing firms in Botswana of which majority are not registered. Therefore, the easiest and most authentic way to get a list of manufacturing SMMEs was to request databases from the two mentioned organizations and use the 329 as the population for the study.

Nevertheless, the design of the structured questionnaire combined both closed-ended questions to generate statistics in quantitative form and open-ended questions that asked respondents to give their personal opinion on certain matters (Dawson, 2009: 31). Those personal opinions by their nature are not quantitative, but rather qualitative. Therefore, responses to questionnaires were not all quantitative – some were qualitative. What that means is that among some figures and tables that help explain quantitative data, there are some thematic paraphrases from personal opinions of SMME respondents, which are of course qualitative. Bell & Waters (2014: 119) supports the idea of combining quantitative and qualitative data in one instrument,

"No approach depends solely on one method any more than it would exclude a method merely because it is labelled 'quantitative', 'qualitative' ... You may consider that a study making use of a questionnaire will inevitably be quantitative, but it may also have qualitative features... Methods are selected because they will provide the data you require to produce a complete piece of research." (Bell & Waters, 2014: 119)

As Bell & Waters (2014) attest, in this study, the combination of both qualitative and quantitative data in the questionnaire helps clarify SMME owners/managers' responses in a more detailed way and that helps enhance understanding by the reader. While a purely quantitative questionnaire, containing tick able questions would help; combining with open-ended questions seeking participants' opinions on financing challenges and sources of finance bring up richer findings.

3.3.2 Qualitative Design

There was administration of a semi-structured interview to commercial bank managers representing the three Botswana commercial banks in the sample. According to Dawson (2009:28) “*semi-structured interview is the most common type of interview used in qualitative social research... the same questions are asked in each interview. However, the researcher also wants the interview to remain flexible so that other important information can still arise.*” Thus the researcher used semi-structured interview to ask same questions in each interview, but allowing each commercial bank manager to say more according to their operations and experience.

The researcher chose the semi-structured interview because he realized from literature review that there were no vivid explanations as to why there is tension between commercial banks and SMMs in terms of financing. Therefore, it was necessary to avoid questionnaire on the bank managers, as they were few and questionnaire is remote and lacks personal touch (Bell & Waters, 2014). On the other hand, a semi-structured interview allows the researcher to get the information quickly (Dawson, 2009) and at the same time, it gives the researcher an opportunity to observe the respondent’s body language (Saunders *et al.*, 2012).

The semi-structured interview was also helpful over unstructured interview. This is because with structured interview, the results can be easier to compare from one respondent to another. An unstructured interview would mean that each respondent would take their own route in answering questions and beyond, which would of course make it hard to compare results of the three bank managers’ interviews. Therefore, semi-structured interview was best choice in this study.

3.4 Research Approach

A research approach refers to the way a researcher reasons. It is another term for inductive and deductive or abductive research approach (Saunders *et al.*, 2012: 680). The researcher chose to use both the inductive and deductive research approaches to go hand-in-hand with the pragmatism philosophy adopted.

3.4.1 Deductive Approach

Deductive approach to research refers to an approach where the researcher starts with theory developed from literature and s/he designs a research strategy to test the theory (Saunders *et al.*, 2012: 144). This approach deals with deriving a proof or using evidence to test a hypotheses, that is, use of a prior argument to research (O’Gorman & MacIntosh, 2015: 54).

The schematic representation of deductive reasoning appears in Figure 3.1.

Figure 3.1: The Schematic Representation of Deductive Reasoning



(Adopted from Trochim & Donnelly, 2008: 17)

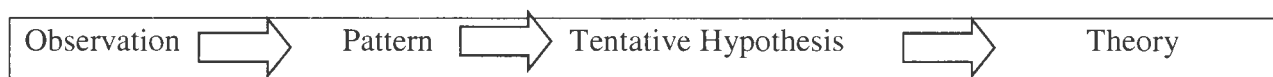
Figure 3.1 shows that in deduction, the researcher starts with thinking up a theory related to the topic at hand. The researcher then narrows that down into more specific hypotheses that can be tested. As observations take place, the researcher narrows down further to address the hypotheses. This then eventually leads the researcher to be able to test the hypotheses with specific data. Testing the hypotheses is the stage of either confirmation or no confirmation of the original theories. Also known as *top-down approach*, deductive reasoning usually works from the more general to the more specific (Trochim & Donnelly, 2008: 16). In this study, literature contains theories on financing of SMMEs which are used to formulate hypotheses. Data is collected and analyzed. In the end, confirmation or rejection of the hypotheses is done.

3.4.2 Inductive Approach

Inductive approach to research refers to an approach whereby the researcher begins by collecting data to explore a phenomenon and generates or builds a theory (often in the form of a conceptual framework) (Saunders *et al.*, 2012: 145). This approach deals with deriving knowledge from empirical investigation, that is, post research argument (O’Gorman & MacIntosh, 2015: 54)

The schematic representation of inductive reasoning appears in Figure 3.2.

Figure 3.2: The schematic representation of inductive reasoning



(Adopted from Trochim & Donnelly, 2008: 17)

Figure 3.2 shows that in induction, the researcher begins with specific observations and measures, go on to detect patterns and regularities, formulate tentative hypotheses for further exploration, and ultimately develop general conclusions or theories. Also known as *bottom-up approach*, inductive reasoning usually works from specific observations to broader generalizations and theories (Trochim & Donnelly, 2008: 17; Collis & Hussey, 2009). In this study, there are interviews of commercial bank managers; the data is coded and recorded. The researcher derives meaning from the data thematically. Then there is development of tentative hypotheses and finally a theory formulated.

3.4.3 Why use both deductive and inductive Approach?

The reason why the researcher adopted this deductive and inductive research approach is the realization of the difference between the two approaches chosen for this research. Qualitative research goes with inductive approach where the researcher ends with a theory. There is derivation of theory from the research findings (Bell & Waters, 2014; Collis & Hussey, 2009). The quantitative research goes hand-in-hand with deductive approach where there is use of a theory/model before research findings emerge to provide answers to the research questions. Nevertheless, with qualitative research, data collection and analysis takes place first before a theory or theories/models develop (Collis & Hussey, 2009).

Use of both deductive and inductive approaches may ultimately satisfy the research objectives by providing apt and accurate information. Where applicable, theory comes first and tested to check its feasibility (Bell, 2010; Collis & Hussey, 2009). The strengths of using both deductive and inductive approaches is coming up with the best possible explanation as to why manufacturing SMMEs struggle with financing. By using both approaches, responses from both SMMEs and commercial bank managers enrich the findings.

3.5 Target Population

This refers to the full set of cases from which a sample emerges, which is those targeted for the study (Saunders *et al.*, 2012: 259; Collis & Hussey, 2009). In this case, there are two target populations used in this study – one for manufacturing SMMEs and the other for commercial banks. This study targeted 100 manufacturing SMMEs and at least 3 commercial banks out of 7 commercial banks in Botswana. The study used both qualitative and quantitative methods as discussed earlier.

3.5.1 Target Population of Manufacturing SMMEs

The target population of manufacturing SMMEs was derived from a population of registered SMMEs in the manufacturing sector across the country; and it is shown in Table 3.1.

Table 3.1: Target Population of Manufacturing SMMEs

Districts	Registered SMMEs
Gaborone	185
Francistown	60
Maun	34
Serowe	25
Ghanzi	19
Kasane	6
Total	329

Table 3.1 shows the proportion of registered SMMEs out of a population of 329. That means, for instance, 185 SMMEs out of the 329 dwell in Gaborone, while 60 SMMEs out of 329 are Francistown, and so on.

The determination of the sample size was based on the information that LEA and BEMA had for the manufacturing industry in Botswana. According to LEA, the registered manufacturing SMMEs under their jurisdiction are 209 and 120 from Botswana Manufacturers' and Exporters' Association (BEMA) members' list. The researcher used the targeted population of SMMEs in Gaborone, Francistown, Maun, Kasane, Serowe, and Ghanzi. These cities and towns represented the whole country of Botswana in terms of coverage. It gave the researcher a

target population of 329. There are 185 SMMEs in Gaborone, 60 in Francistown, 34 in Maun, 25 in Serowe, 19 in Ghanzi, and 6 in Kasane.

Prospective participants were SMME owners/directors/managers. The main target for the survey was the owners as they carry the authority to make decisions and give out information (particularly sensitive firm information), they are hoped to possess the top-most and relevant information about their firms. Failure to get response from the owners meant that the researcher had to administer the research instrument to the senior most employees – mostly director, manager, or accountant.

3.5.2 Target Population of Commercial Banks

According to Republic of Botswana (2015) Botswana currently has seven commercial banks, namely, Barclay Bank, Standard Chartered Bank, Stanbic Bank, First National Bank, Bank Gaborone, Bank of Baroda, and Capital Bank. In addition, there are three statutory banks, namely the National Development Bank, the Botswana Savings Bank, and the Botswana Building Society. The researcher selected commercial banks for the interviews because of their active participation in financing SMMEs as at the time of the research and the fact that commercial banks are the main source of financing in most economies (Okurut *et al.*, 2011).

3.6 Sampling Technique

A sample is the actual units that a researcher selects from a population of interest to participate in the study (Trochim & Donnelly, 2008: 34). Selecting a sample helps the researcher to fairly generalize results to the population from which the sample was drawn. There are two sampling techniques, namely, probability and nonprobability sampling. In probability sampling, each member of the target population has an equal chance of been included in the sample. The different types of probability samplings include random sampling, systematic sampling, and stratified sampling (Saunders *et al.*, 2012). In the nonprobability sampling, members are selected from the population in some non-random manner. Its types include convenience sampling, judgement, quota sampling, and snowball sampling. This study adopted stratified random sampling because it reduces sampling error (Bell & Water, 2014). In this study, the researcher intended to study the manufacturing industry in Botswana. The strata are different districts in Botswana, where the manufacturing industry is located. In this sampling technique, the

researcher identified the relevant strata, namely, Gaborone, Francistown, Maun, Serowe, Ghanzi, and Kasane. In addition, random sampling with replacement is used to select a sufficient number of participants from each stratum, which is a reflection of the entire population of the manufacturing industry.

Furthermore, the stratified random sampling is divided into proportionate and disproportionate stratification. The former is that the sample size of each stratum is proportionate to the population of the stratum. It implies that each stratum has the same sampling fraction. This provides equal precision than simple random sample of the same size (Dawson, 2009). Its gains in precision are even greater when studying the same phenomenon, in this case, manufacturing industry. In disproportionate stratification, the sampling fraction may vary from one stratum to another. With this method, the researcher tends to maximize precision for a single important survey measure. Nevertheless, the gain in the precision may not accrue to other survey measures. In this study, the researcher adopts proportionate stratification technique, in order for the sample to reflect the entire opinion of manufacturing industry and the commercial banks in Botswana.

3.6.1 How to Assign Sample to Strata

With proportionate stratification, the sample size of each stratum is proportionate to the population size of the stratum. Strata sample sizes are determined by the following equation:

$$n_h = (N_h / N) * n$$

Where n_h is the sample size for stratum h , N_h is the population size for stratum h , N is total population size, and n is total sample size. In this study, the appropriate sample size identified by the creative sample calculator is 100. The outcome is presented in Table 3.2.

Table 3.2: Sampling for Manufacturing SMMEs

Districts	Registered SMMEs	Proportionate sample
Gaborone	185	56
Francistown	60	18
Maun	34	10
Serowe	25	8
Ghanzi	19	6
Kasane	6	2
Total	329	100

Table 3.2 depicts the proportionate samples derived from each district's population, for instance, out of Gaborone's population of registered manufacturing SMMEs, 56 SMMEs form the research sample. There are total of 329 registered manufacturing industry in Botswana, according to the authority in Botswana that monitors SMMEs, which are Local Enterprise Authority (LEA) list of clients and Botswana Exporters Manufacturers' Association (BEMA). Areas covered in the survey were Gaborone and surrounding areas, Francistown, Serowe, Kasane, Ghanzi, and Maun.

The questionnaire circulated among the target population of 329 manufacturing SMMEs of which 100 responded. This is in cognisance of Saunders *et al.* (2012), who argue that for some research it is possible to survey the full population. However, researchers should not assume that a whole population survey gives more valuable data than a sample (Bell & Waters, 2014). A sample can easily represent the target population, while at the same time cutting on costs, saving time and energy (Dawson, 2009).

In the questionnaire to manufacturing SMMEs, section A inquired about demographic information of participants (manufacturing SMME owners/managers) and firm information. Participants' information included their gender, age, position, and number of years in position. Firm information included form of operation, kind of business, type of manufacturing business, business model (export/local or both), and ranking of challenges faced by manufacturing SMMEs. Section B had questions on success rate of Manufacturing SMMEs. Section C asked for management challenges of SMMEs (highest level of formal education of the owner, management structure, what challenges are faced, and what solutions are available). Section D inquired about

financing challenges, sources of financing, start-up capital, number of times of borrowing from commercial banks, available solutions to financing challenges. Section E asked about opportunities of SMMEs and income levels of SMMEs. Section F inquired on characteristics of successful SMMEs (See Appendix K).

The researcher personally administered a semi-structured interview to three commercial banks heads of SMME Division using homogenous purposive sampling. The three commercial banks selected out of a possible seven commercial banks had active SME support initiatives. The banks include Capital bank, Bank of Baroda and Stanbic Bank. The sampling method used was homogenous purposive sampling because out of the seven commercial banks, there was need for the researcher to inquire from banks that were hands-on supporting SMMEs, rather than interviewing participants from all banks, yet some banks did not have SMME support mechanisms yet. Therefore, the researcher chose the three commercial banks on that basis.

Following Palys (2008: 697)' assertions, it is worth noting that interviewing all commercial banks would not have been very useful. Therefore, use of homogenous purposive sampling on three commercial banks out of seven specifically matches the following research questions of this study:

Research Question 4: *“What role do commercial banks play in helping manufacturing SMMEs?*

The question seeks to understand the various roles played by commercial banks. This helps when interpreting responses from commercial bank participants.

Research Question 5: *What challenges do commercial banks face when trying to finance SMMEs?* This question seeks to hear it first hand from commercial banks as to what challenges they face when intending to finance SMMEs. Commercial banks have always been blamed for being unfriendly to SMMEs who need funding. How true is that and why is that so, if true?”

As seen in the study's research questions, it only makes academic sense to interview officers of commercial banks that are actively involved in SMME financing so that they can share their experiences and motives. That is the reason for choosing three commercial banks out of the population of seven as at the time of survey. Apart from the three commercial banks selected as participants at the time of survey, there could be some commercial banks, which later became active in SMME financing, but those will be out of the scope of this research.

3.7 *Instrument for the Study*

The data collection was done by using three research approaches, namely: documentary analysis/evidence, questionnaire, and interviews. The researcher piloted the questionnaires before the main data collection among 12 manufacturing SMMEs to check the effectiveness and efficiency of the questionnaire. The pilot study was done in September 2014, followed by fine-tuning of the questionnaire according to feedback received from the SMME participants of the pilot survey. The SMME participants in the pilot survey were left out in the main study to avoid repetition of findings. The data for the main study was collected between October 2014 and April 2015.

3.7.1 Documentary Evidence

The documentary analysis, a qualitative approach, reviewed existing literature on financing and managing manufacturing small, medium, and micro enterprises (SMMEs). Furthermore, it reviewed the records of reported cases to identify the challenges and opportunities that SMMEs encounter, particularly in financing their businesses. The current law as contained in the Industrial Property Act 1996 and related documents were analysed in the light of provisions made to protect manufacturing SMMEs in Botswana.

3.7.2 Questionnaire

The questionnaire (see Appendix K) had eight parts; Part A of the questionnaire solicited general information on the demographic and firm Information. Part B captured the success rate of Manufacturing SMMEs in the past 10 years. Part C contained six questions on challenges of managing SMMEs. Part D contained 10 questions on challenges of financing SMMEs. Part E contained four questions on business opportunities for SMMEs. Part F contained three questions on financial history of the SMMEs. Then part G contained three questions on the SMMEs other issues. All these parts contained both open-ended and closed-ended questions.

The questionnaires were distributed by email and physical delivery to offices of 329 manufacturing SMMEs distributed over Gaborone and surrounding areas; Francistown; Kasane; Maun; Serowe and Ghanzi. The researcher ensured that all potential participants in the study

were contacted at their work place. The nature of the study was explained and each individual had an opportunity to decline or participate in the study. For those who volunteered to participate, the researcher administered a questionnaire in English. Confidentiality was maintained by assigning a code number to each questionnaire. The participants were informed that there was no payment for participation. At the end of the data collection, 100 questionnaires were returned giving a response rate of 100 percent. As regards the validation of the questionnaires, this was done by testing them on a representative population, as those being studied and drawn from the sample, for content, ambiguity, clarity, data quality, and time needed for the survey before being used for the main study.

3.7.3 Interviews

Furthermore, interview questions to commercial banks were emailed in advance to heads of SME Banking in the banks chosen, and then interviews were done face-to-face. As suggested by Kothari (2004: 17), the researcher used personal interviews following a rigid procedure and seeking answers to a set of pre-conceived questions. The interviews were carried out in a semi-structured way where output was determined largely by the interviewer's questioning techniques and the respondent's willingness to answer questions. The interviews were audio recorded with permission from interviewees. An interview form was also filled in to help with coding and analysing the data. Audio messages recorded were very useful in that, the interviewer had an opportunity to listen to the conversation repeatedly during analysis. However, before the final administration of the questionnaires, a pilot study had been conducted to check the validity of the instrument for data collection.

3.8 Pilot Study

The SMME questionnaire was the main instrument for data collection, while a semi-structured interview to commercial bank managers augmented the questionnaire. Therefore, before the main study was undertaken, it was crucial to undertake a pilot study by questionnaire.

According to Morin (2013), pilot studies can contribute invaluable information to assist with the conduct of important inquiry. Morin (2013) further states therefore that a pilot study needs a plan and execution to address some of the potential issues before implementing the larger study.

Some of the benefits of a pilot study include the fact that a pilot study is an opportunity to train the researcher(s) prior to initiation of the larger study (Leon *et al.*, 2011). Additionally, the pilot study helps to assess the feasibility of the proposed study to avoid latent devastating consequences of embarking on a large study, which could potentially ‘sink’ the whole research effort (Thabane *et al.*, 2010). In the current study, prior to main questionnaire distribution, the researcher conducted a pilot study to ensure that the data collection instrument was not ambiguous, valid, simple to understand, reliable and complete able in time.

Kothari (2004: 27) who contends, “*in case of social research, it is considered advisable to do some field observation and as such the researcher may undertake some sort of preliminary survey or what is often called pilot survey*”, supports carrying out a pilot study. A pilot study should therefore precede the main study to expose weaknesses of the instrument if any before it is too late. In this study, a pilot study is therefore, defined as a small-scale version of a research done before the main study and it comprises of a minute part of the sample.

The pilot study took place on a sample of twelve manufacturing SMMEs in Gaborone and surrounding areas taken out of a population of 329 Botswana registered manufacturing SMMEs. These 329 manufacturing SMMEs were obtained from databases of Local Enterprise Authority (LEA) members and members from Botswana Manufacturers’ and Exporters’ Association (BEMA). Of the twelve SMME owners/managers, selected by simple random sampling, three were medium enterprises, four small enterprises, and five micro enterprises.

In the pilot survey, the twelve questionnaires were hand-distributed to the randomly selected SMME owners/managers in Gaborone. Ten SMMEs responded to the questionnaire, which made an 83% response rate. Inevitably, in the final study, the researcher excluded the entrepreneurs that participated in the pilot study. Consequently, the researcher re-arranged some questions in the questionnaire due to recommendations from respondents who either felt the questions were unclear, difficult, or repetitive. This made the main questionnaire more refined and robust.

3.9 Reliability and Validity

According to Bell & Waters (2014: 120-122), any selected data collection procedure was critically examined to assess the extent to which it is likely to be reliable and valid. Thus, any data collection procedure that is left to chance may end up producing unreliable and invalid results. Thus, reliability and validity have a combined role to ensure good quality research.

Bell & Waters (2014: 121) define *reliability* as “*the extent to which a test or procedure produces similar results under constant conditions on all occasions. A clock that runs 10 minutes slow some days and fast on other days is unreliable.*” On the other hand, Saunders et al. (2012: 192) define *reliability* as “*whether your data collection techniques and analytic procedures would produce consistent findings if they were repeated on another occasion, or if they were replicated by a different researcher.*” The authors have corresponding thoughts on the meaning of reliability. Therefore, researchers should make sure that their procedures have a pattern that will most likely produce the same results under the same conditions. By so doing, it increases the level of reliability.

Furthermore, Sapsford & Jupp (2006: 1) define *validity* as “*the design of research to provide credible conclusions.*” Their argument is that data should be able to measure or characterise the authors’ claim, and interpretations should be able to follow from them. A research structure determines the conclusions that can be drawn from it and the conclusions that should not be drawn from it (Sapsford & Jupp, 2006: 1). On the other hand, Saunders et al. (2012: 684) give two definitions of validity: (i) “*the extent to which data collection method(s) accurately measure what they were intended to measure.*” (ii) “*the extent to which research findings are really about what they profess to be about.*” Both the earlier and latter authors agree that validity refers to the ability of a piece of research to live up to the claims of the researchers.

Bell & Waters (2014: 121) posit that lack of reliability in research may suggest lack of validity. However, it does not necessarily translate to the fact that a reliable item is valid. Thus an item could possibly produce the same or similar responses on all occasions, but not be measuring what it is supposed to measure.

In this study, efforts were made to ensure reliability and validity. Some of the steps taken by the researcher include:

A pilot study was carried out among 12 manufacturing SMMEs in Gaborone, Botswana to test the questionnaire and get feedback from the participants. From the feedback, questionable aspects of the questionnaire were corrected. These aspects included the fact that some questions were clear, while some questions were repetitive. The pilot study paved way for a corrected and improved questionnaire, which was then administered to the sample, excluding the 12 SMMEs that had taken part in the pilot study.

3.10 Model Specification

Descriptive statistics (frequency distributions, means) were used to investigate the different types of opportunities and challenges that the manufacturing SMMEs face in Botswana. In addition, one of the objectives of the study is to determine the factors that influence the ability of the manufacturing SMMEs in Botswana to get access to loan from financial institutions, especially commercial banks. The theory that is guided with the model adopted for this study is a modified credit-rationing theory. The theory is based on asymmetry information theory, which deals with the problem associated to moral hazard and adverse selection. In the financial setting or lending to the SMMEs, moral hazard entails an action that the borrower will exhibit after getting the loan, which may result in a default in the process (Huang, 2014; Ghimire & Abo, 2013; Maziku, 2014). This default or failure to repay the lender at the agreed period, results in a loss of financial resources from the lender and such compounded activity, might lead to a collapse of the sector. However, as propounded by Huang (2014), the adverse selection is a set of procedures or measures put in place by the lender to minimise the rate of default. Nevertheless, for this study, some elements of pecking order theory are infused into the credit rationing theory. The main element taken from pecking order theory is the fact that firms tend to use internal financing strategies before seeking debt and share equity. Although the pecking order theory is mainly for large corporations, the researcher found the aspect of internal funds such as ploughing back profits and use of personal savings applicable to SMMEs. Thus, by fusing some elements of pecking order theory into the credit rationing theory, it implies that the model used in this study is a modified credit rationing theory.

In this study, the research asserted that as the Botswana economy is still developing, there is a need to assist the manufacturing industry to be sustainable in the long-term. Its sustainability

will assist in creating employment and hence economic growth. It is on this premise that the study developed an objective to assess the factors that influence lending to SMMEs manufacturing industry in Botswana. In order to address the factors objective, the researcher needs to specify a regression model. There are different types of regression models, namely, linear regression, logistic regression, polynomial regression, stepwise regression, ridge regression, lasso regression, and elasticnet regression (O’Gorman & MacIntosh, 2015). However, the type of regression model used per time is mostly dependent on the choice of the dependent variables. It is also dependent on the independent variables, whether to specify a simple model with only one independent variable or multivariate model, with more than one independent variable.

For example, in a linear regression model, the dependent variable must be continuous and the independent variable can be either continuous or discrete. In a logistic regression model, the dependent variable takes a binary variable like yes = 1 and no = 0. This is in the case of this study where the dependent variable takes a binary variable as ‘have gotten’ or ‘applied for a loan before’ as 1 and ‘have not applied for a loan’ or ‘have not received any loan before’ as 0. In this study, logistic regression model is the appropriate model to apply in order to derive or obtain the factors that influence lending to SMMEs manufacturing, in other words, what lenders considered before lending to firms in order to hedge or minimise loan default (adverse selection). The study has specified this model with five independent variables, which makes the logistic model to be called multivariate logistic regression model. The model is specified as:

$$\log\left(\frac{p}{1-p}\right) = f(X_1, X_2, X_3, X_4, X_5) \quad (1)$$

Where, $\log\left(\frac{p}{1-p}\right)$, represents the log of probability of the respondent getting borrowing (p) while 1-p is the probability of not getting loan or applying for loan. It is also the dependent variable and a binary variable which take 1 as received or apply for loan and 0 denotes either as have not apply for any loan or has not receive any loan. The X’s variables are the independent or explanatory variables are defined as follows -

X_1 connotes gender or sex of the respondents, which is a binary variable captured as $X_1 \left[\begin{array}{l} 0=\text{male} \\ 1=\text{female} \end{array} \right]$ and the base category is female.

X_2 connotes number of years the respondents are in position which is a binary variable captured as $\left[\begin{array}{l} 0=1-10\text{years} \\ 1=11\text{ years and above} \end{array} \right]$ and the base category is 11 years and above.

X_3 denotes the marital status of the respondents, which is captured as a binary $X_3 \left[\begin{array}{l} 0=\text{not married} \\ 1=\text{married} \end{array} \right]$ and married, is used as the base category.

The fourth explanatory variable X_4 is captured as $X_4 \left[\begin{array}{l} 0=\leq 13\text{years of schooling} \\ 1=>13\text{years of schooling} \end{array} \right]$ and as a binary variable with >13years of schooling as the base category.

X_5 represents the different level of categories which is captured as an ordered variable with three categories which used the third category (P1.1million and above) as the base category. It can further be represented as $X_{51} \left[\begin{array}{l} 1=\text{Below P50000-P100000} \\ 3=\text{P401000-over P500000} \end{array} \right]$ and $X_{52} \left[\begin{array}{l} 2=\text{P101000-P400000} \\ 3=\text{P401000-over P500000} \end{array} \right]$.

In summary equation (1) can be rewritten as

$$\log \text{Loan} \left[\begin{array}{l} \text{Have not borrowed} \\ \text{Have borrowed} \end{array} \right] = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_{51} X_{51} + \beta_{52} X_{52} + \mu \quad (2)$$

The dependent variable is borrowing status, whether you have borrowed or not. In this study, the definition of getting loan ('have borrowed') consists of applying for the loan and getting it, which is captured as 1 in the binary setup. The 'not borrowed' consists of people who either apply for the loan and do not get the loan, as well as people who do not apply for the loan (other assumptions are held constant). 'Not borrowed' is captured as 0 binary. Independent variables are annual income, education, number of years in position, marital status, and gender.

$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_{51}$ and β_{52} = parameters to be estimated

μ = error term

3.11 Data Analysis

The current study used a cross-section data, which contained both qualitative and quantitative data, was captured, coded, and analysed using the Statistical Package for Social Sciences (SPSS) computer programme. All variables, including the response to the open-ended questions, closed-ended questions, and interviews, were coded before being captured using the SPSS computer programme (Martin & Acuna, 2002). The use of SPSS software was informed by the ability of the software to appropriately create appropriate and neat graphical presentations of questions, data for reporting, presentation, and publishing. A further benefit of using SPSS is its ability to handle a large amount of data with efficiency, given its wide spectrum of statistical procedures purposefully designed for social sciences (Hung & Young, 2015).

Data were analysed using descriptive measures such as percentages, means, standard deviation, and inferential statistics such as the t-test to test for differences in mean and logistic regression. Graphical and tabulations representation helped to further illustrate the results obtained. Thematic analysis of qualitative data was done through classifying the data along themes, which were directed by the research hypotheses for establishment of articulated links between data and key patterns that emerged from the study (Hung & Young, 2015).

3.12 Ethical Considerations

Ethical approval was obtained from the North-West University authorities prior to the beginning of the field research involving human beings. This includes people who were involved in interviews and questionnaires. Individual consent was sought before interviewing or giving a questionnaire to research targets.

Permission to research was sought from Botswana's two relevant ministries: the Ministry of Trade and Industry, and the Ministry of Finance and Development Planning before the survey was done.

The following ethical concerns were outlined to respondents: confidentiality, consent of participants, protection of respondents, giving advice, data protection, and anonymity of respondents. The participants were informed that participation in the study was voluntary, and

that there would be no payment made for participation and they were free to withdraw from participating at any time. They were assured of confidentiality of information obtained, as the instruments would be coded to ensure anonymity. For security of data, the collected data would be kept securely under lock. Participants willing to participate in the study gave written consent, before being interviewed.

3.13 Conclusion

In this chapter, the methodology employed has been considered. The research process, research philosophy, research approach, research design, target population, and sampling were reviewed as well as data analysis methods used. After data analysis, there is a conclusion and recommendations, which hopefully can be used by third parties for decision-making.

CHAPTER FOUR

RESULTS AND INTERPRETATION

4.1 Introduction

Chapter 3 looked at the research methodology. This chapter presents research findings, while the next chapter discusses the findings. The goal of any survey is to find answers to questions and to find solutions to problems. Key findings from literature were that SMMEs in general face financial, management and lack of market challenges. The literature findings suggested that SMMEs rarely survive beyond ten years and if relevant stakeholders can assist them, they can boost GDP, create employment, and reduce poverty levels. The study adopts a pragmatic mixed methodology for primary research to answer the research questions outlined in chapter one.

This chapter discusses findings from manufacturing SMME participants and commercial bank participants. The chapter lays out how the researcher analysed data after collection so that meaning could be derived and data can become information leading to recommendations. It draws the reader's attention to the analysed information gathered from the field.

The chapter is closely aligned to the research questions, objectives and literature reviewed to enable the researcher to address the research problem at hand.

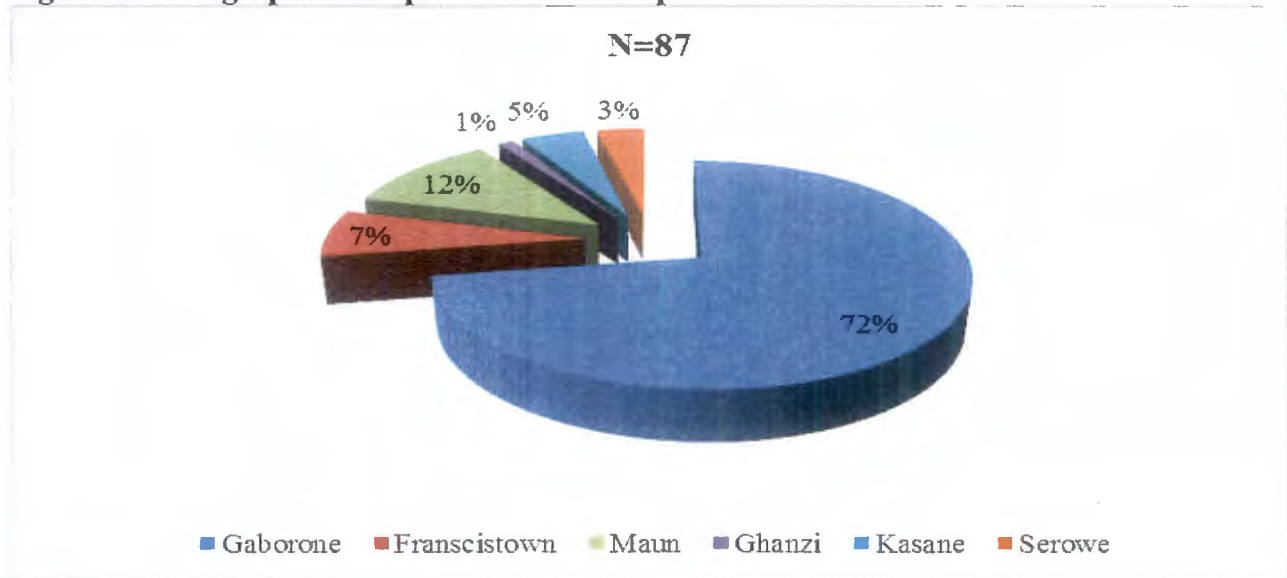
A total of 100 respondents comprising 71 males and 27 females aged between 19 and 79 were provided with a structured questionnaire using random stratified sampling technique. Furthermore, three bank managers from three different commercial banks were presented with a semi-structured interview. The bank managers were selected using homogenous purposive sampling to interview banks that are similar in keenness to support SMMEs. The banks involved were Stanbic Bank, Bank of Baroda and Capital Bank.

Section 4.2 presents findings on demographic information of manufacturing SMME participants as per questionnaire results. Section 4.3 presents reliability and validity analysis of research questions for SMMEs. Sections 4.4 to 4.10 contain findings for each of the seven objectives presented one after the other. Section 4.11 presents the conclusion to the chapter.

4.2 Demographic Information of the Manufacturing SMMEs in Botswana

Respondents of manufacturing SMMEs were asked to indicate their geographical location. The results are shown in Figure 4.1. A census of 100 SMME owners responded to the questionnaire as shown in Figure 4.1.

Figure 4.1: Geographical Disposition of the Respondents

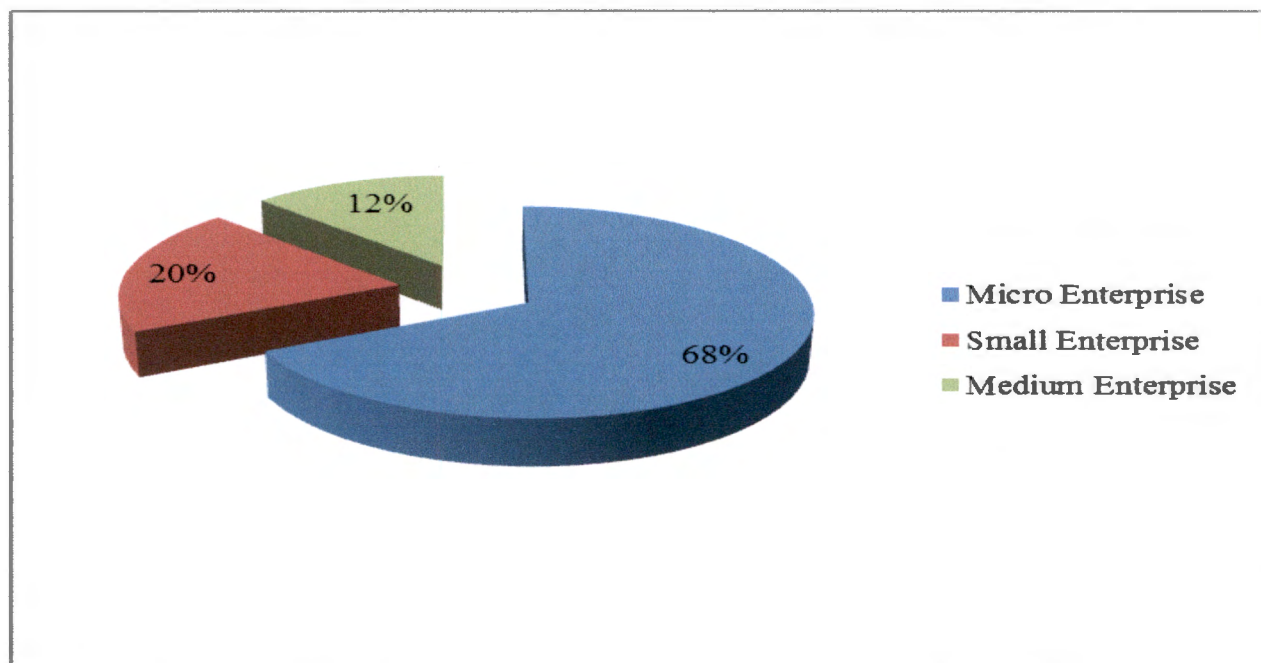


Source: Research findings, 2015

Figure 4.1 shows the geographical coverage of this study, which includes Gaborone, Francistown, Maun, Kasane, Serowe and Ghanzi, of which most of the respondents are from Gaborone (72%). The majority of the businesses are situated in Gaborone, being the capital city where there are more amenities. Gaborone represents the southernmost part of the country, while the northern part of Botswana has businesses scattered around the rest, like Francistown, Maun, Kasane, Serowe and Ghanzi. It can be noted that 72% of manufacturing SMMEs are based in and around Gaborone. However, this is only a sample.

Furthermore, each SMME was asked to indicate how many employees they had engaged and how much turnover they earned per year. Therefore, results were classified into small, medium, and micro enterprises as shown in Figure 4.2.

Figure 4.2: Percentage of SMMEs that are Micro, Small, and Medium (N=96)



Source: Research findings, 2015

As indicated by Figure 4.2, 68% of manufacturing SMMEs are micro-enterprises, 20% are small enterprises, and 12% are medium enterprises. There are more micro enterprise as compared to SMEs. This suggests that most programs for SMMEs should be tailored to micro enterprises so that they can grow and become big corporations.

Additionally, participants were requested to write their positions in their organizations. Therefore, geographical dispositions were analysed in comparison to positions held by the SMME questionnaire respondents. (To see the geographical dispositions and positions, turn to Table 4.1 in Appendix C).

Table 4.1 in Appendix C depicts that the majority of the participants (71.1%) are directors in all the participated areas and followed by managers (19.3%). The other positions that are held by the respondents at the time of data collections include fashion designer, partner, accountant, senior locksmith, workshop controller, and foreman. Although it was difficult to get hold of owners (directors) to fill in questionnaires, the researcher made it a point to pursue the directors so that findings could be as accurate and relevant as possible. For this reason, 71% of the

questionnaire respondents are directors who are more conversant of the business operations and challenges. Asking owners (directors) is deemed to increase the validity and usefulness of the data. If ordinary employees had responded to the questionnaire, the data would have been inadequate because employees would not have been in a position to answer all questions adequately as much as owners would do.

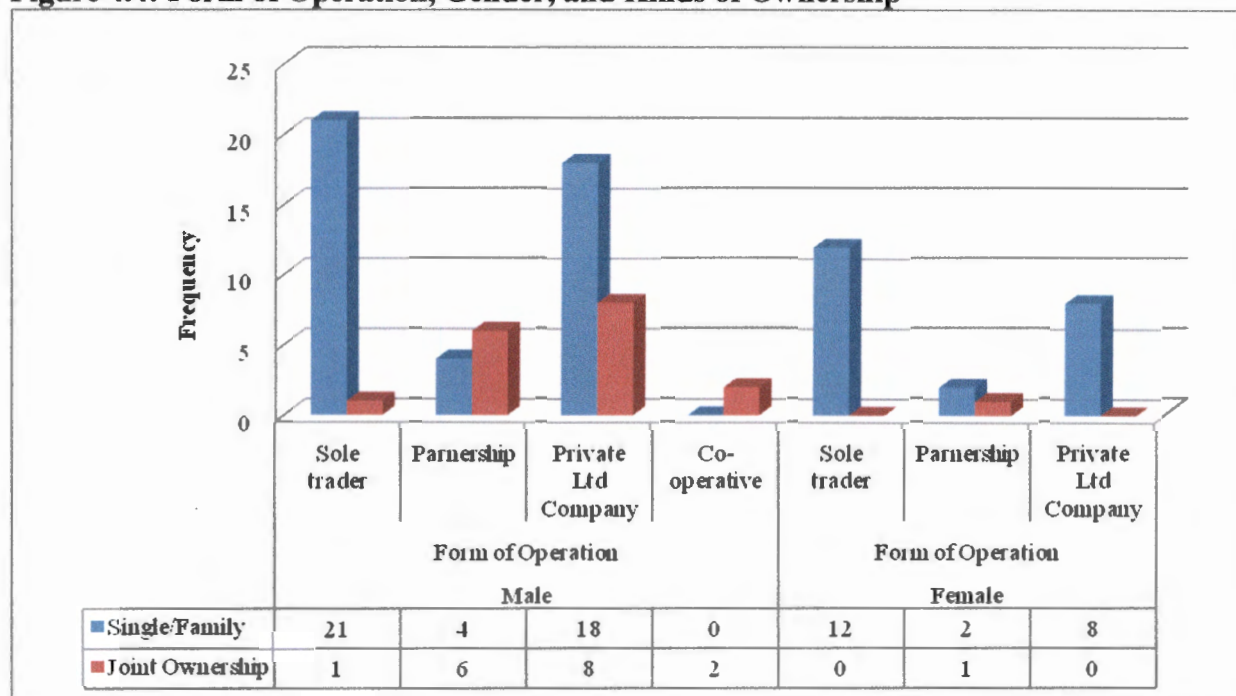
19.3% of the questionnaire respondents are managers. Apart from business owners and directors, managers that responded to the questionnaire are deemed to understand business challenges because they operate the enterprise daily; hence, this increases the reliability of results as well.

Geographical dispositions were also analysed in comparison to nationality of the SMME questionnaire respondents. For an illustration of the comparison of geographical dispositions to nationality of SMME respondents, see Figure 4.3 in Appendix D.

According to Figure 4.3 in Appendix D, the nationality of the respondents against their business locations in Botswana is shown. The findings show that majority of the participants (47) are Batswana and most of them (29) located in Gaborone. Furthermore, the rest of Batswana businesses are located in Francistown (5), six in Maun, three in Serowe another 3 in Kasane and three in Ghanzi. For 22 Zimbabwean participants, eighteen of their businesses are located in Gaborone, 3 in Maun and one in Francistown. The rest of the participants from different countries' businesses are located in Botswana's capital city, Gaborone; except for one South African participant, that has a business in Gaborone, Maun, and Kasane. It can be noted that the majority of participants are Batswana. This is because Batswana are the indigenous group; followed by Zimbabweans who have a history of entrepreneurship and majority of whom having fled political instability in their home country to settle in Botswana as affirmed by Nyanga (2012).

Moreover, SMME participants were expected to indicate their form of operation, gender, and kind of ownership to find out the distribution. Figure 4.4 follows with the form of operation versus gender and kinds of ownership of participants.

Figure 4.4: Form of Operation, Gender, and Kinds of Ownership



Source: Research findings, 2015

From Figure 4.4, most of the males' single/family businesses are sole traders ($n=21$) and just one of them is jointly owned. Eighteen of the private limited companies owned by males are single/family. As regard to their female counterpart, the entire sole trader ($n=12$) that attempted this question was run as a single/family business. Of those participants in partnership business, six of the males are engaged in a joint ownership business and four of them run a single/family business. For the female partner business, two of the businesses are jointly owned and a business is single/family business. Furthermore, most of the participants that are in private limited company are male ($n=26$) and female ($n=3$). The results also show that two male participants are in co-operative businesses. The majority of businesses for both males and females follow the same pattern, that is, sole traders have the highest percentage followed by private limited companies. There are no females running co-operatives as per the sample.

According to this study, it can be concluded that there are more men than women in business. In manufacturing, the prevalence of males over females could be explained by the fact that the industry is highly technical and labour-intensive which requires muscular engagement, which favours males, compared to their female counterparts. It can also be concluded that

partnerships are too few among both female and male manufacturing SMMEs. This means that citizens are not taking advantage of international partnership opportunities.

Respondents were also classified according to how many employees they engaged. The classification was done according to the Botswana government definition as stipulated by Republic of Botswana (2010) which states that micro-enterprises employ six people and below; small enterprises employ seven to 24 people; and medium enterprises employ 25 to 100 people. (For the percentages of participants that are micro, small, or medium enterprises, see Figure 4.4).

4.3 Reliability and Validity Analysis

Apart from the use of a pilot survey to check the credibility and effectiveness of the questionnaire before the main study; to test the reliability and validity of results, two main aspects of the questionnaire were used. The first instrument was the responses from a question to SMMEs asking them to rank general challenges, which they faced in business. The second was responses to a question given to SMMEs to rank characteristics of successful SMMEs. Tables 4.2 and 4.3 show the reliability and validity analysis from responses to challenges of SMMEs.

Table 4.2: Reliability and Validity Test of the Challenges of SMMEs

Reliability statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.873	0.877	13
	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Lack of capital	-.019	.893
Lack of accounting records and misuse of money	.503	.867
Lack of education for the entrepreneur	.621	.861
Shortage of skilled labour and poor or no business skills	.325	.875
Tough regulations	.557	.864
Lack of market	.502	.866
Tough competition	.445	.869
Negative attitude to work by the entrepreneur	.846	.846
Poor people management	.552	.863
Failure to deliver on time and poor quality of products/service	.866	.847
Negative attitude to work by employees and employee absenteeism	.839	.851
Poor working capital management	.362	.874
Poor operations management	.896	.842

Source: Research findings, 2015

Table 4.2 shows the thirteen items for the business challenge instruments. The reliability test shows a high Cronbach's Alpha of 0.873. Generally, correlation among the responses is high. When using Cronbach's alpha, the rule of thumb is that reliability is higher when the alpha is closer to 1 (Tavakol & Dennick, 2011). It implies that a value of at least 0.7 is the norm (Warmbrod, 2014). Any figure below 0.7 implies that there is less reliability. Therefore, it can be assumed according to high correlation that the instrument is reliable and it represents an appropriate measure of SMMEs' challenges.

Table 4.3 shows the respondents ranking from 1-13 regarding the challenges they face while running their businesses in Botswana.

Table 4.3: Ranks of the Challenges of SMMEs in Order of Importance (1-13)

	1	2	3	4	5	6	7	8	9	10	Total	Rank
Lack of capital	38	6	8	4	5	3	2	3	2	2	73	1
Lack of accounting records and misuse of money	7	9	9	2	5	5	4	1	1	1	44	6
Lack of education and experience by the entrepreneur	5	6	3	4	5	4	3	2	2	0	34	8
Shortage of skilled labour and poor or no business skills	10	5	8	9	4	6	3	1	1	1	48	4
Tough regulations	10	1	6	8	6	2	5	4	2	2	46	5
Lack of market	14	15	5	6	7	6	2	4	0	2	61	2
Tough competition	10	9	8	6	8	5	7	2	1	1	57	3
Negative attitude to work by the entrepreneur	4	1	2	5	3	5	1	0	1	1	23	13
Negative attitude to work by employees and Employee absenteeism	4	3	3	4	5	3	5	4	1	2	34	8
Poor people management	4	4	4	3	3	5	3	1	3	2	32	11
Failure to deliver on time and poor quality of products/service	4	1	3	3	7	5	2	2	3	4	34	8
Poor working capital management	5	3	8	6	3	4	3	3	0	1	36	7
Poor operations Management	4	2	4	4	1	5	3	4	0	2	29	12

Source: Research findings, 2015

From Table 4.3, most of the respondents highlighted challenges as follows: respondents cited lack of capital (73) as the number one challenge. SMMEs feel that lack of capital hinders growth and expansion. For instance, of 73 respondents that identified lack of capital as one of their challenges, 38 of them ranked it as number one and two of them rank it at number 10.

Aside from lack of capital, some SMMEs believe that lack of market (61) in the manufacturing sector is a major concern. They claim that after making products, sometimes it is difficult for them to know where to sell. They cry foul that it is very expensive to import raw materials and then compete against companies that are bigger and originate from the same countries where local SMMEs get raw materials and machinery. *"To make matters worse, Botswana is a small market, yet we are expected to compete equally with foreign companies."* complains another SMME owner. What the respondent means is that Botswana has a small market of only 2 million people, but the SMMEs compete unfairly against international players

that are large and have large capital and skills base. For instance, local SMMEs import raw materials from China and South Africa. Thus, when they make their products, it is difficult for them to compete on the market with South African and Chinese firms that use cheaper raw materials.

Tough competition (57) follows next indicating that manufacturing SMMEs struggle to compete with large manufacturers and foreign companies. Competition is stiff especially noting that SMMEs are under-financed; hence, they struggle with working capital challenges and lack of capital for expansion.

Shortage of skilled labour and poor or no business skills (48) is one of the main challenges faced by manufacturing SMMEs. This is due to the highly technical nature of manufacturing, which is compounded by the unavailability of highly skilled personnel locally and unwillingness of the government to give workers and residents permits to skilled expatriates.

The manufacturing sector is highly regularized, that is why many SMMEs suggest that tough regulations (46) are a huge challenge.

A lack of accounting records and misuse of money (44) were cited as main challenges for a majority of SMMEs "*live from hand-to-mouth*", as one respondent put it. This suggests that SMMEs tend to make money and use it without keeping proper records; a habit which ultimately leads to SMMEs failing to get external financing as banks do not lend money to businesses that do not keep proper records (for more details see Table 4.3).

The literature review suggests lack of capital, poor management and lack of markets as main challenges of SMEs in general. Similarly, this particular study has found out that lack of capital is a major challenge for manufacturing SMMEs followed by lack of market share. However, manufacturing SMMEs have peculiar challenges such as tough competition, shortage of skilled labour and poor or no business skills, tough regulations and lack of accounting records and misuse of money.

Tables 4.4 and 4.5 show the reliability and validity analysis from responses to characteristics of SMMEs.

Table 4.4: Reliability and Validity Results

Cronbach's Alpha	Cronbach's Alpha based on Standardized Items	N of Items
.852	.860	14
Item-Total Statistics		
	Corrected Item-Total Correlation	Cronbach's Alpha
Desire for independence/ Unwillingness to be given orders by a boss	.347	.853
Patience and a never-give up attitude	.135	.860
Ability to work without supervision	.534	.840
Time-keeping ability	.646	.833
Possessing technical skills	.405	.848
A dream to be financially free/ Desire for more in life	.533	.840
Think outside the box/ Innovative and creative	.468	.844
Hard working – working long hours	.356	.852
Ability to manage people and other resources	.678	.832
Have big picture thinking – looking into the future	.402	.848
Resilience – ability to bounce back after a fall	.660	.835
Good with numbers and/record-keeping	.622	.835
Experience in the area of interest	.663	.833
Ability to manage money	.683	.833

Source: Research findings, 2015

The reliability test result from Table 4.4 shows that the Cronbach's Alpha is high, that is 0.852. It also implies the fourteen items used to capture main characteristics of successful entrepreneurs in Botswana. It reflects the true characteristics of the entrepreneurs in Botswana, particularly manufacturing SMMEs. It also reflects the higher Cronbach's Alpha for the individual's item. The validity is captured by corrected item-total correlation despite a higher level of correlation in most of the items.

Table 4.5 shows ranking of main characteristics of successful entrepreneurs from 1-14 in descending order.

Table 4.5: Main Characteristics of Successful Entrepreneurs from 1-14 in Descending Order

	<i>Rankings in descending order</i>														
<i>Characteristics</i>	1	2	3	4	5	6	7	8	9	10	11	12	13	14	Total
Desire for independence/ Unwillingness to be given orders by a boss	4	2	1	3	1	1	1	1	1	2	3	4	2	7	33
Patience and a never-give up attitude	31	7	5	6	4	1	2	3	0	3	2	1	1	2	68
Ability to work without supervision	12	12	6	3	7	4	4	5	1	3	4	2	2	0	65
Time-keeping ability	10	5	7	5	3	4	3	2	3	6	2	4	0	1	55
Possessing technical skills	13	5	9	4	3	3	2	2	6	6	1	1	1	2	58
A dream to be financially free/ Desire for more in life	11	6	8	2	2	1	1	2	1	4	2	3	2	3	48
Think outside the box/ Innovative and creative	11	7	8	7	6	5	4	3	5	3	1	2	2	1	65
Hard working – working long hours	16	4	8	5	7	4	3	4	3	3	0	1	0	4	62
Ability to manage people and other resources	11	5	6	8	4	5	7	2	1	3	2	0	0	2	56
Have big picture thinking – looking into the future	9	5	6	7	6	7	2	3	2	4	2	3	1	1	58
Resilience – ability to bounce back after a fall	10	4	3	7	8	6	8	0	2	2	3	1	1	0	55
Good with numbers and/record-keeping	9	2	6	6	2	0	8	5	3	5	3	0	2	0	51
Experience in the area of interest	8	4	6	4	7	7	2	4	2	5	1	1	2	1	54
Ability to manage money	15	7	6	4	8	9	6	1	2	4	3	1	2	1	69

Source: Research findings, 2015

Table 4.5 shows the order of the intensity of the ranked main characteristics of successful entrepreneurs from 1-14. The result shows that 31 respondents rank, “*Patience and a never-give up attitude*” highest. No doubt this is one of the major characteristics needed by SMMEs because the total number of participants that mention “*Patience and a never-give up attitude*” is 68% which is only number two to “*Ability to manage money*” standing at 69%. Other characteristics highly ranked include “*Ability to work without supervision*”, meaning that successful entrepreneurs do not need constant monitoring in their work; “*Think outside the box/ Innovative and creative*”, which suggests that an entrepreneur cannot succeed if s/he is not creative or

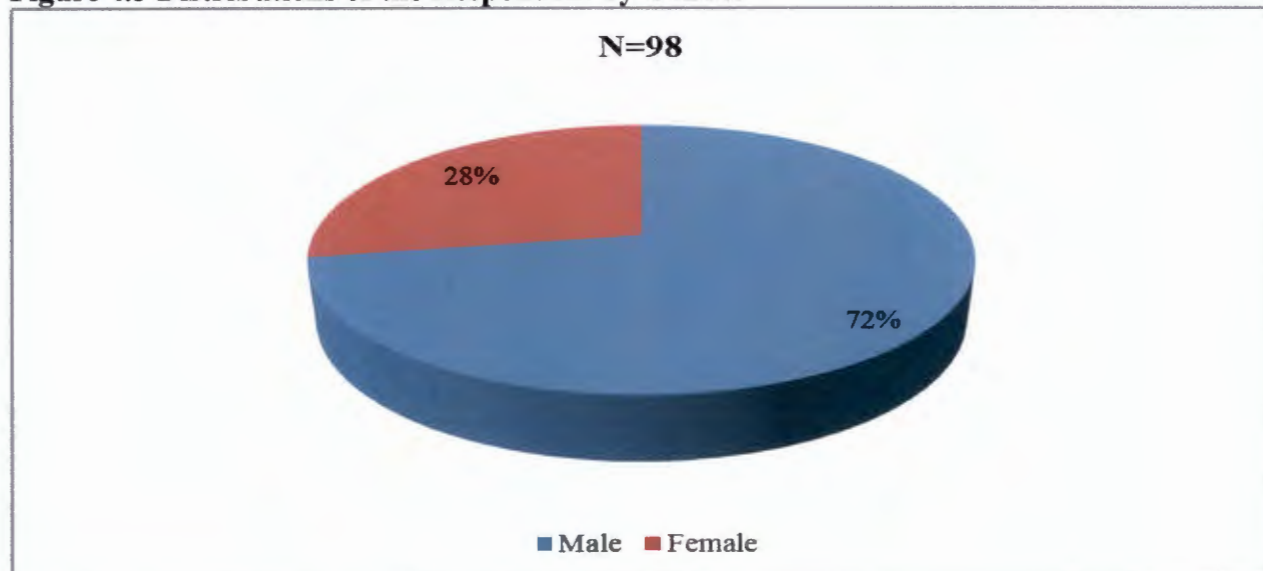
innovative because the world of business is dynamic; and “*Hard working – working long hours*” which means that it is believed that entrepreneurs need to work hard if they are to become successful. The findings proved wrong the researcher’s initial assumption when the study began that “*Desire for independence/ Unwillingness to be given orders by a boss*” would be one of the main characteristics of successful entrepreneurs. All the main SMME characteristics mentioned herein confirm the validity of the personality traits theory.

According to Table 4.5, the characteristic “*Desire for independence/ Unwillingness to be given orders by a boss*” scores a total of 33%, which is the least of all. This suggests that SMME owners who only think of independence may find business tough. Other studies suggest that ambition could be a characteristic of SMME, but according to this study, personal traits seem to overrule ambition. This means that achievement theory and theory of entrepreneurship are not backed by this study. If this study backed the two theories, characteristics such as “*Desire for independence/ Unwillingness to be given orders by a boss*” and “*a dream to be financially free/ Desire for more in life*” would have been highly ranked by participants, which did not happen (the rest of the rankings are shown in Table 4.5).

4.4 Objective One: Factors that Influence Manufacturing SMMEs’ Borrowing

In order to achieve this objective based on the modified credit rationing theory, the multivariate logistic regression model was adopted. The variables in the model are discussed below, which is very important to understand the nature or behaviour of the variables included in the model. This is because the multivariate logistic regression used in this study is sensitive to the nature of the variable. The explanatory variables include the age, gender, and length of time in position, marital status, education, and firms’ income levels (annual sales). The dependent variable is loan. Figure 4.5 illustrates the distribution of manufacturing SMME respondents by gender.

Figure 4.5 Distributions of the Respondent by Gender



Source: Research Findings, 2015

Figure 4.5 demonstrates that the majority of the participants (72%) are male while 28% of them are female and 2% of participants did not indicate their gender. Having the majority of participants (72%) being male suggests that the manufacturing sector in Botswana is male-dominated. This is possibly because the sector needs particular skills and stamina, which females generally lack.

Demographics of the participants were also analysed comparing nationality, marital status, age and gender. For the illustration of comparing nationality, marital status, age and gender, see Table 4.6 in Appendix E.

4.4.1 Gender Distribution

According to Table 4.6 in Appendix E, most of the male participants are Batswana (44.3 %), followed by Zimbabweans (32.9%) and 5.6% are South African. The majority of their female counterparts are Batswana (77 %) while Zimbabwean and Serbian are 7.8% and 3.8% respectively. While Figure 4.5 illustrates that 72% of all participants are males and 28% females, Table 4.4 in Appendix I shows a different scenario where 44.3% of males are Batswana immediately followed by Zimbabweans at 32.9%. On the other hand, Batswana females fully dominate the manufacturing sector (76.9%) compared to other females from other countries. It

can be concluded that there are more males in the manufacturing sector than females, and the majority of the SMMEs are citizen-owned. This suggests that manufacturing sector is a masculine industry that deters female business owners. Thus, there is need for gender equality measures to be implemented or to encourage females to collaborate with males.

4.4.2 Marital Status Distribution

The results from Table 4.6 in Appendix E also show that majority of the male respondents are married (66.2 %) as opposed to most of the female participants that are single (57.7 %). Furthermore, only one of the participants was widowed and a male. The fact that married people dominate the manufacturing sector suggests that most businesses are family-owned and mature people mainly do manufacturing, while younger people prefer to seek employment rather than running business.

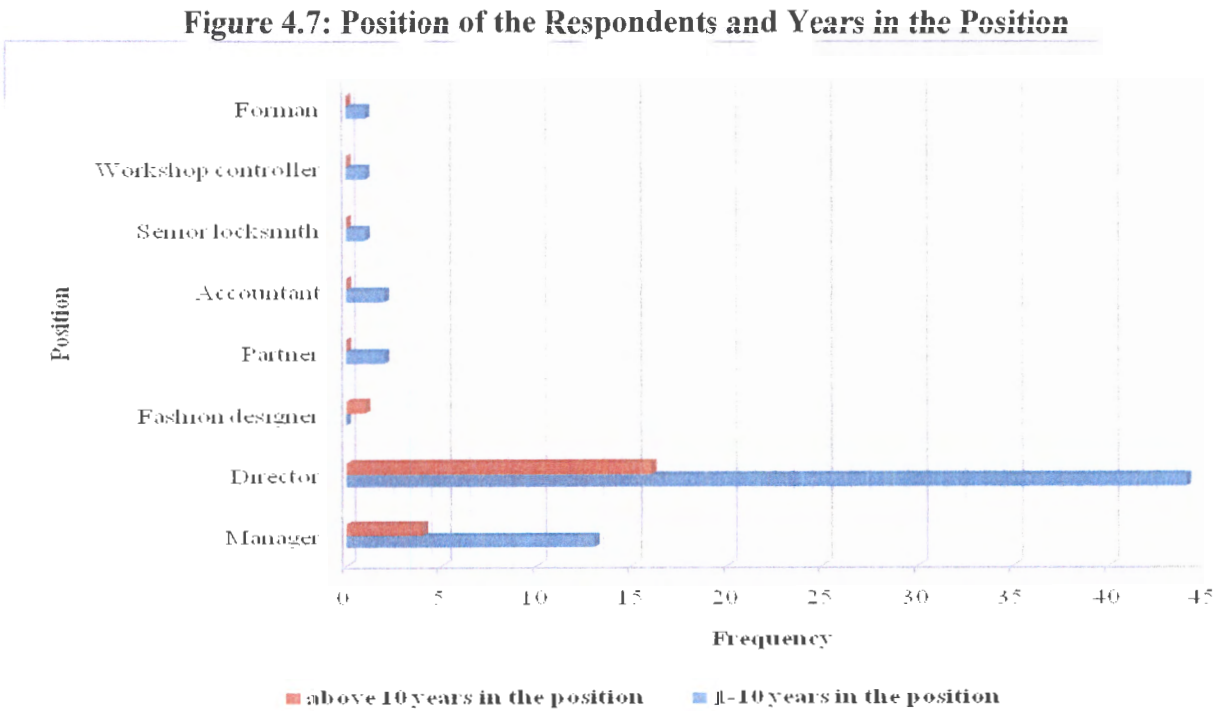
4.4.3 Age Distribution

Moreover, Table 4.6 in Appendix E reveals that most of the participants are between the ages of 20-40 years for both male (51.5%) and female (60.0 %) and the rest are above 40 years old. This suggests that youths dominate the manufacturing sector to create jobs, as there is high unemployment of 20% as mentioned by Republic of Botswana (2014).

4.4.4 Positions and Gender Distribution

Furthermore, Figure 4.6 in Appendix F goes on to illustrate position of respondents by gender to help the reader understand positions of respondents considering their gender. Figure 4.6 in Appendix F confirms that of the 65 male respondents that declared the position they occupy in their company, the majority of them (n=49) are directors, 11 of them are managers and just one each are fashion designer, accountant, senior locksmith and foreman respectively. Furthermore, of the 25 female respondents that attempted this question, most of them are also directors (n=16), 5 of them are managers, receptionist and partners; where two each and just one of them is an accountant. Having more directors as study participants increases chances of obtaining reliable data.

Furthermore, respondents’ positions are compared to their years of experience in business as shown in Figure 4.7.



Source: Research findings, 2015

From Figure 4.7, majority of participants (n=49) who are directors have been in the position for between 1-10 years and 16 of them have been in the position for more than ten years. It further shows that majority of the respondents have occupied the listed positions within ten years and only fashion designer has been in the position for more than ten years. It therefore follows that majority of businesses have not operated for over ten years. This notion agrees with Burns (2011) that most businesses do not survive in the long-term. Most businesses that have survived beyond ten years are actually medium enterprises, which have passed through the testing phase of entrepreneurship.

4.4.5 Level of Education of SMME Owners/Directors/Managers

Table 4.7 illustrates the relationship between manufacturing SMME education levels and kinds of business.

Table 4.7: Highest Education Level and the Kind of Business

		Kind of business					
		Single/Family		Joint ownership		Total	
		Frequency	Percent	Frequency	Percent	Frequency	Percent
Highest level of formal education of the owner	Primary school	12	17.1	1	5.9	13	14.9
	Secondary school	13	18.6	2	11.8	15	17.3
	Certificate	12	17.1	3	17.6	15	17.3
	Diploma	20	28.5	7	41.1	27	31.0
	Bachelor's Degree	9	12.9	2	11.8	11	12.6
	Master's/PhD	2	2.9	2	11.8	4	4.6
	Did not go to school	2	2.9	0	0	2	2.3
	Total	70	100	17	100	87	100

Source: Research findings, 2015

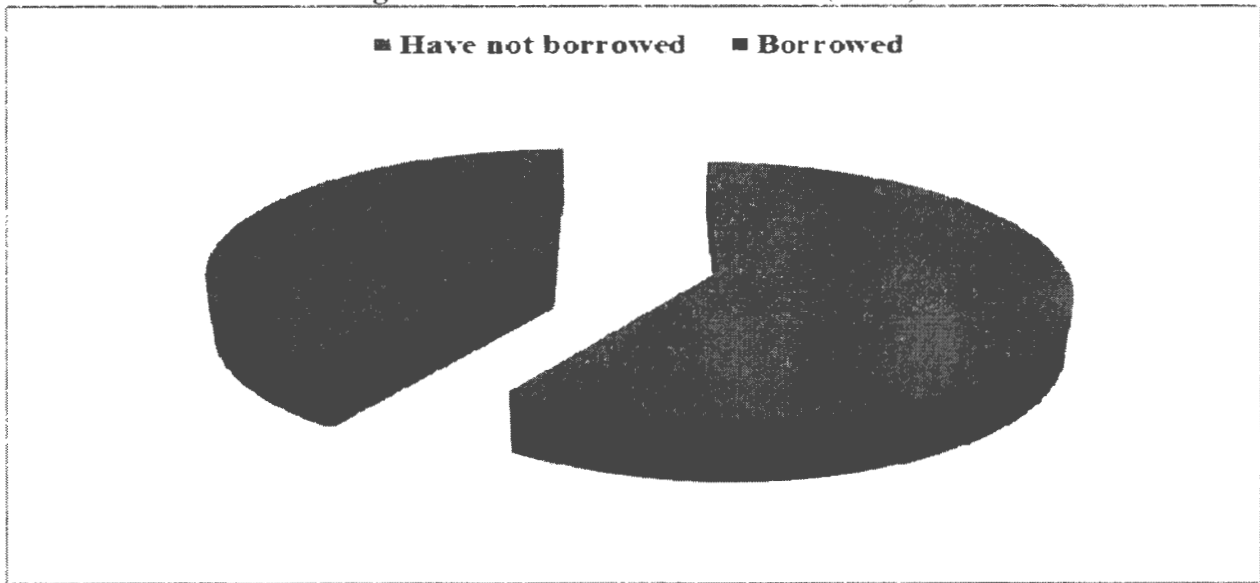
From Table 4.7, the majority of these participants (31.0 %) have diploma as their highest qualification, 17.3 % of them have certificates, 14.9% with primary school qualification, 12.9% have bachelor degrees, and just 4.6% of them have master's/PhD degree. Of the 70 participants that ran single/family business, majority of them have diploma (28.5%) as their highest qualifications and 2.9% of them have masters/PhD. For those that ran a joint ownership business, majority of them (41.1%) also have diploma as their highest education qualification and 17.6 % of them have some forms of certificates as their highest education qualifications. Generally, about 49% of manufacturing SMMEs have limited educational qualifications.

If 66% of participants possess tertiary certificates and above, 32% have primary and secondary education and only 2.3% of manufacturing SMMEs have not gone to school; one would assume that majority of businesses should be successful, yet it is not so. It can be concluded that while formal schooling, is handy, SMMEs need training in industry specific skills and knowledge.

4.4.6 SMME Borrowing from Commercial Banks

Participants were asked to indicate whether they have ever borrowed money from commercial banks. Figure 4.8 shows the results.

Figure 4.8: Borrowed for Business (N=91)



Source: Research findings, 2015

According to Figure 4.8, most of these businesses have not borrowed money for the business (59.0 %) while 41.0% of them have borrowed. Due to difficulties in borrowing, 59% of SMMEs have never borrowed. Interestingly, the fact that majority of manufacturing SMMEs have never borrowed, tallies with results from commercial bank interviews where banks agree that they rarely finance SMMEs unless they meet requirements such as dishonest ones, those without good records and those without collateral security. Most SMMEs, however, do not meet requirements hence they do not qualify for financing.

To derive sufficient meaning from factors influencing manufacturing SMMEs' borrowing, multivariate logistic regression analysis is used in this study as illustrated in Table 4.8 and other tables following.

4.4.7 Multivariate Logistic Regression Results

H₀₁: Factors influencing SMME borrowing include firm income (net profit or annual turnover), marital status, gender, highest education qualification, and number of years in position.

Table 4.8: Case Summary of the Variables Used in the Multivariate Regression Analysis

		N	Marginal percentage			
Have you taken loan before?	Have not borrowed	39	58.2			
	Borrowed	28	41.8			
Gender	Male	49	73.1			
	Female	18	26.9			
No. of years in position	0-10	53	79.1			
	11 and above	14	20.9			
Marital status	Not in married	29	43.3			
	Married	38	56.7			
highest level of formal education of the owner	<= 13 years of schooling	21	31.3			
	> 13 years of schooling	46	68.7			
Annual turnover	Below P50000-P100000	34	50.7			
	P101000-P400000	17	25.4			
	P401000-over P5000000	16	23.9			
Valid		67	100			
Not indicated		33				
Total		100				
Effect	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC of Reduced Model	BIC of Reduced Model	-2 Log Likelihood of Reduced Model	Chi-Square	Df	Sig.
Intercept	50.820	66.252	36.820 ^a	0.000	0	
Gender	48.862	62.090	36.862	.0420	1	.837
years in position	55.322	68.550	43.322	6.502	1	.011
marital status	59.654	72.883	47.654	10.835	1	.001
highest level of formal education of the owner	51.674	64.902	39.674	2.854	1	.091
Annual turnover	53.518	64.541	43.518	6.698	2	.035
Pseudo R-Square						
Cox and Snell			.280			
Nagelkerke			.376			
McFadden			.241			

Source: Research findings, 2015

Table 4.8 shows the case summary of the variables used in the multivariate regression analysis, model fitting criteria, and Pseudo R-Square. The variables used in the model are loan variable, which is captured as have ‘*not borrowed*’ as reference category and ‘*borrowed*’ is the base and dependent variable. The independent variables include *gender*, *marital status*, *annual turnover*, *highest education qualification*, and *number of years in position*. The Pseudo R-Square shows from the Nagelkerke statistic, which is the same as r-square in a time-series analysis showing that the explanatory variables explain 37.6 % variation in explained variable.

Table 4.9 demonstrates the effect of marital status, annual turnover, gender and highest education qualification and number of years in position on loan.

Table 4.9: Multivariate Logistic Regression Results

Have you taken loan before			B	Std. Error	Wald	df	Sig.	Exp(B)
Have not borrowed		Intercept	-2.001	1.110	3.248	1	.072	
	Gender	Male	.157	.761	.042	1	.837	1.170
		Female	0 ^b			0		
	No. of years in Position	1-10	1.954	.810	5.813	1	.016	7.057
		11-50	0 ^b			0		
	Marital status	Not in married	-2.233	.761	8.617	1	.003	.107
		Married	0 ^b			0		
	Highest level of formal education of the owner	<= 13 years of schooling	1.128	.689	2.677	1	.102	3.089
		> 13 years of schooling	0 ^b			0		
	Annual turnover	Below P50000-P100000	1.969	.835	5.554	1	.018	7.160
		P101000-P400000	1.630	.907	3.231	1	.072	5.105
		P401000-over P5000000	0 ^b			0		
a. The reference category is: 'Borrowed.'								

Source: Research findings, 2015

The result of the multivariate logistic regression in Table 4.9 shows that an increase in *married* people participating in loan applications by a unit reduces the odds of *not married* people receiving by 1.223 units of getting the loan as compared to married people. The result is statistically significant at 1.0 %. This implies that as the number of married people's application of loan increases, the rate at which the not married people to receive a loan for their businesses will reduce by 1.233 units. It also means that lenders see marriage as a source of being responsible and as such, it is an obligation for the couple to make sure their loans are paid in order not to be blacklisted in all financial matters. Furthermore, in Botswana, lenders, more especially, in an organised financial institution permit both partners to sign jointly for a loan before been approved.

The result also shows that an increase for turnover by a unit will increase the odds of those businesses whose turnover is within P101000-P400000 of getting the loan by 0.630 units more as compared to those with an annual turnover of P401000- over P5000000. This effect is statistically significant at 10.0 %. Furthermore, a unit increases in the turnover of business by a unit increase the odd of those businesses with annual turnover of below P50000-P100000 by

0.969 units more as compared to those with turnover of P401000-over P5000000. It implies therefore, that applicants with higher turnover are most likely to get a loan as compared to those with less sales turnover.

In addition, the result shows that female SMME owners are more likely to get loans compared to their male counterparts in Botswana. Women in Botswana are regarded as responsible that is why generally in schools, there are more females performing better than males. In positions of power in the corporate world, there are many women at the top. Most homes have women as breadwinners. Historically, women have been known to be more loyal than men are. Based on these observations, it can be understood why females in Botswana would be more likely to get loans than males.

Furthermore, an increase in the SMME owners' educational level increases the odd of those SMMEs with highest education level of less than or equal to thirteen years of schooling by 0.128 units more than those with educational level greater than thirteen years of schooling. These effects, however, are statistically insignificant. This implies that the factor of owners' educational level does not necessarily help to increase chances of obtaining a loan among manufacturing SMMEs in Botswana, according to the sample.

The results also show that an increase in the number of years that the SMME owner/director/manager in a position increases the odd of those who are in position between 1-10 years by 0.954 units more than those still holding the position more than 10 years. These effects, however, are statistically insignificant. This implies that the factor of length of SMME owner/director/manager in position does not influence chances of getting a loan (see discussion in chapter 5).

4.5 Objective Two: Financing Challenges Faced by Manufacturing SMMEs in Botswana

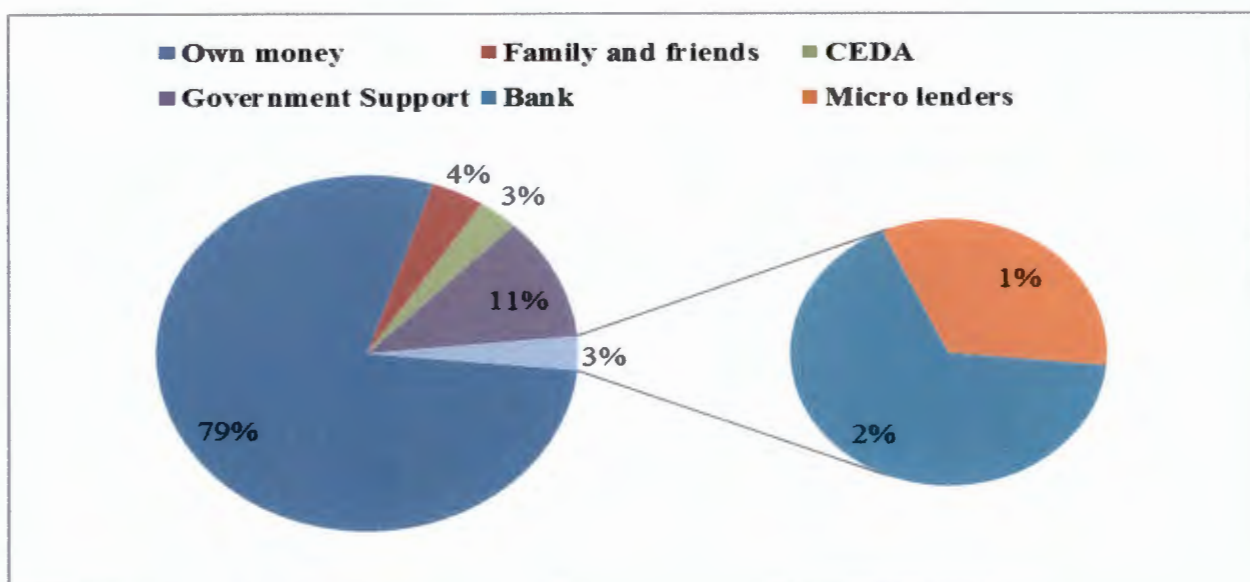
H₀₂: Lack of financing is a major factor militating against growth and success of manufacturing small medium and micro enterprises

In addressing this objective, the following questions were asked to the participants by the researcher. These questions include - How did you initially finance your business? How much money did you initially use to finance your business? How many times have you borrowed money from financial institutions for business since the business started? Information on how much money they borrowed, the waiting period between application for the loan and obtaining the loan, how the business money was sourced, and the effect of financing challenge in the business and how it was solved. Furthermore, the researcher tested for the reliability and validating of some of the questions in the instrument was conducted. The results of these outcomes are presented below.

4.5.1 Sources of Manufacturing SMME Start-up Capital/Finance

SMME participants were asked how they initially financed their businesses. The results are shown in Figure 4.9.

Figure: 4.9: How did you initially Finance your Business (N=98)



Source: Research findings, 2015

Figure 4.9 shows that the majority of manufacturing SMMEs use their 'own money' (79.0%) to start and run their business. This supports the theory of internal financing where business owners do not borrow money when they start operating and they plough back profits for the business to progress as affirmed by Fatoki and Asah (2011) and World Population Review

(2014). Manufacturing SMMEs have no choice, as they are small and usually do not have collateral security and premises; hence, they do not qualify for loans (external financing). 4.0 % get their capital from '*family and friends*', 3.0 % of them from CEDA, 11.0 % from '*government support*', 2.0 % from '*banks*' and 1.0 % of them from '*micro lenders*'. With 11% getting '*grants and loans from government*' and 3% getting loans from '*CEDA*' (government funded agency); it forms 14% financing support from government. The government and financial institutions therefore need to finance more manufacturing SMMEs to increase chances of survival. The result demonstrates that manufacturing SMMEs mostly engage the internal funds theory, which suggests that firms use their own funds, and retained profits to finance the business rather than borrow (external funds theory).

Furthermore, Table 4.10 depicts the main sources of SMME initial finance as per kinds of business.

Table 4.10: Main Source of Initial Finance of Business by Kinds of Business

		Kind of business					
		Single/Family		Joint ownership		Total	
		Frequency	Percent	Frequency	Percent	Frequency	Percent
How did you initially finance your business	Own money	54	79.4	14	77.8	68	79.1
	Family and friends	2	2.9	2	11.1	4	4.6
	CEDA	1	1.5	0	0	1	1.2
	Government Support	9	13.2	2	11.1	11	12.7
	Bank	1	1.5	0	0	1	1.2
	Micro lenders	1	1.5	0	0	1	1.2
	Total	68	100	18	100	86	100

Source: Research findings, 2015

Table 4.10 depicts the main source of start-up finance for manufacturing SMMEs versus kind of business. For instance, most of the businesses use their '*own money*' (79.1%), 12.7% of both the single/family and jointly owned businesses are *supported by government* and 4.6% of the businesses are financed by *family and friends* for both single/family and joint businesses. It can be concluded from these statistics that manufacturing SMMEs rarely borrow, not because they do not need money, but because they cannot afford to borrow. As a result, their businesses remain micro or small, operating at a loss and/or folding up.

4.5.2 Amount of manufacturing SMME Start-up Capital

When manufacturing SMMEs start or run a business, either they use internal financing or external financing, thus supporting the claims of the pecking order theory. SMME participants were asked to state the amount of capital which they used to start-up their firms. The results are portrayed in Table 4.11.

Table 4.11: Initial Capital for the Start-up Business

		Kind of business					
		Single/Family		Joint ownership		Total	
		Frequency	Percent	Frequency	Percent	Frequency	Percent
How much money did you initially use to finance your business	P10 000 and Below	32	47.8	7	43.8	39	47
	P10 001 – 50 000	16	23.9	4	25	20	24.1
	P50 001 – P100 000	7	10.4	3	18.7	10	12
	P100 001 – P200 000	7	10.4	0	0.0	7	8.4
	P1000000 and above	5	7.5	2	12.5	7	8.4
	Total	67	100	16	100	83	100

Source: Research findings, 2015

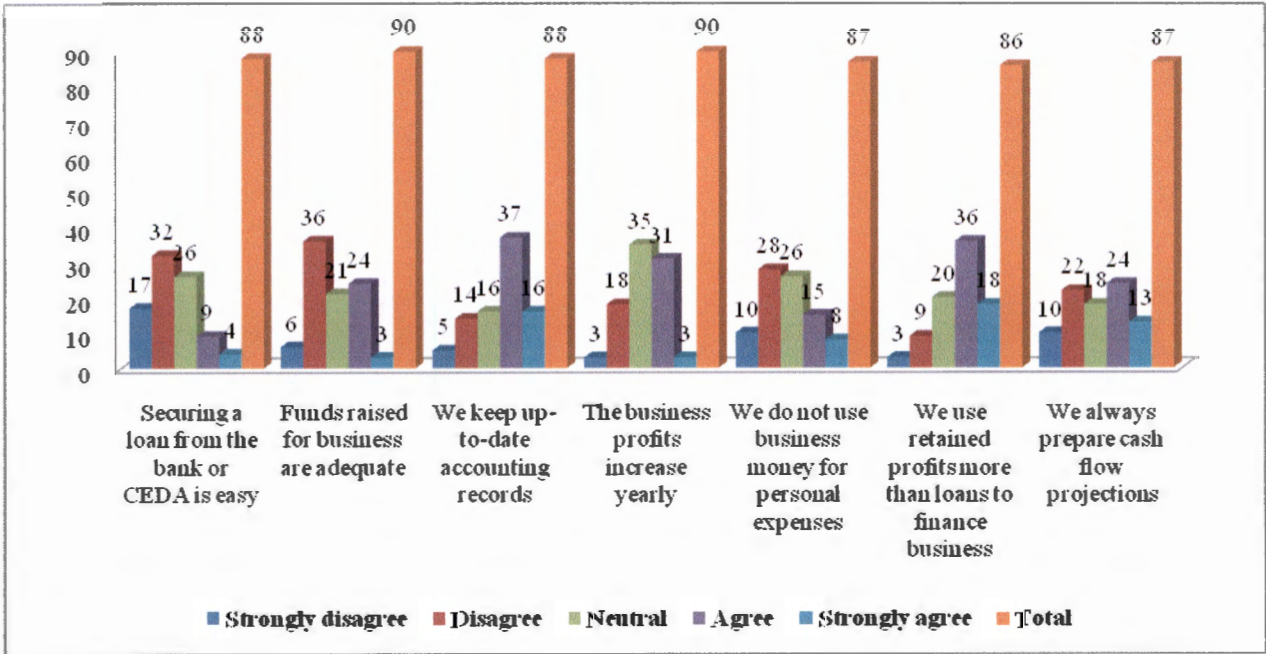
Table 4.11 depicts that most of the initial capital for single/family business (47.8%) is below P10 000 and the joint businesses stand at 43.8%. Businesses starting with a capital of P10 001 – 50 000 have a total percentage of 24.1%. The results show that the bulk of the businesses are self-financed with initial capital 50 000 and below. This is enough proof that most SMMEs are self-funded because there is no easy access to finance (for more see Table 4.11).

In the next sub-sections, results for financing history and financing challenges of manufacturing SMMEs are presented in articulation to the hypothesis given.

4.5.3 Financing Behaviour and Financing History of Manufacturing SMMEs in Botswana

Participants were asked questions concerning their ability to keep accounting records, use of business money for personal use, ease of borrowing, preparation of cash flow projections, increase of and retention of profits. The options for participants ranged from strongly disagree (1) to strongly agree (5). The results of the survey are shown in Figure 4.10.

Figure 4.10: SMMEs Financing History



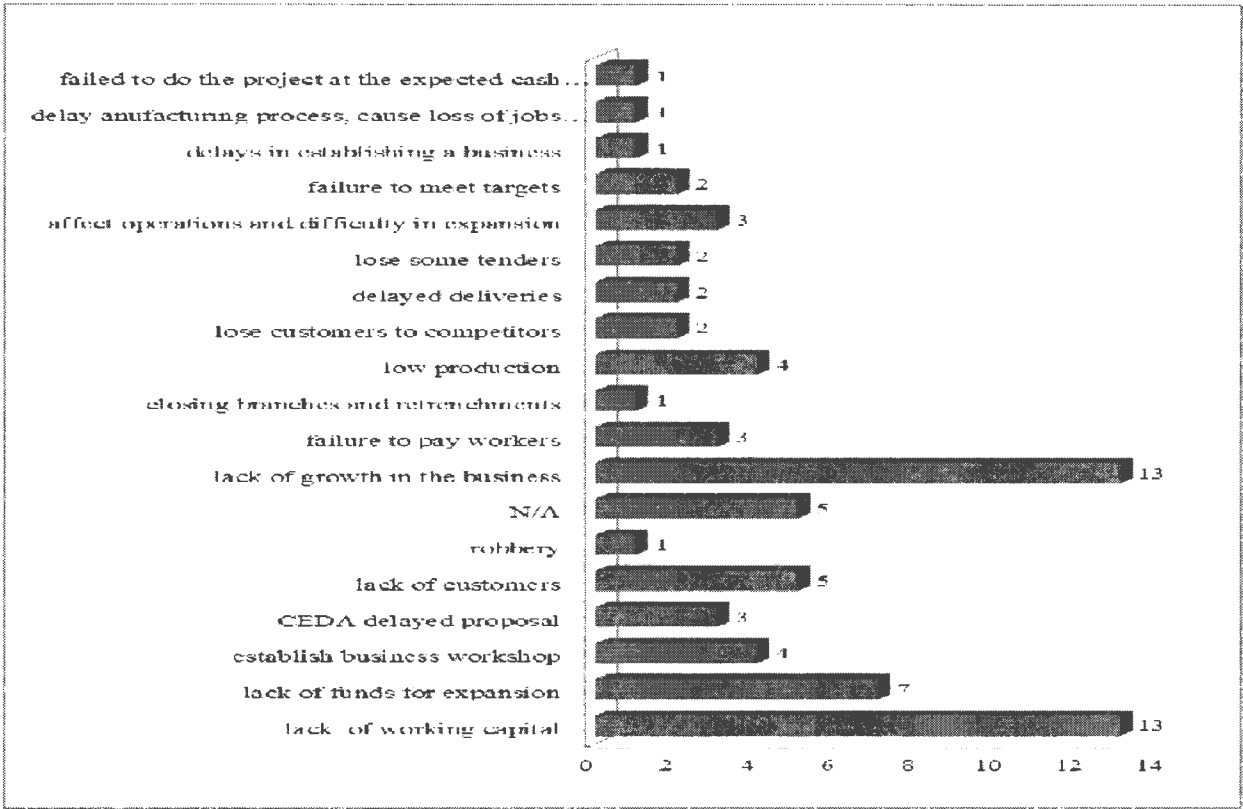
Source: Research findings, 2015

From Figure 4.10, most of the participants (n=36) disagree that funds raised for business are adequate while only three of them strongly agreed that their funds raised were adequate. The result of this current study showed that most of the participants (n=32) disagree that securing a loan from either bank or CEDA was easy and nine of them agreed that securing a loan from either bank or CEDA was easy. The results demonstrate that SMMEs struggle with a lack of capital. Furthermore, the findings show that 31 of the participants agreed that manufacturing SMMEs are keeping up-to-date of their accounting records while eighteen of them disagreed that they were keeping up-to-date accounting records. The majority of SMMEs show that they misuse business money by using it for personal expenses. This aggravates the already existing financing challenges. Majority of SMMEs plough back retained profits into the business.

4.5.4 Financing Challenges Faced by Manufacturing SMMEs in Botswana

SMME participants were requested to indicate in the questionnaire, the financing challenges which they face in business. Figure 4.11 considers the financing challenges that affect manufacturing SMMEs.

Figure 4.11: Financing Challenges that Affect Businesses (N=73)



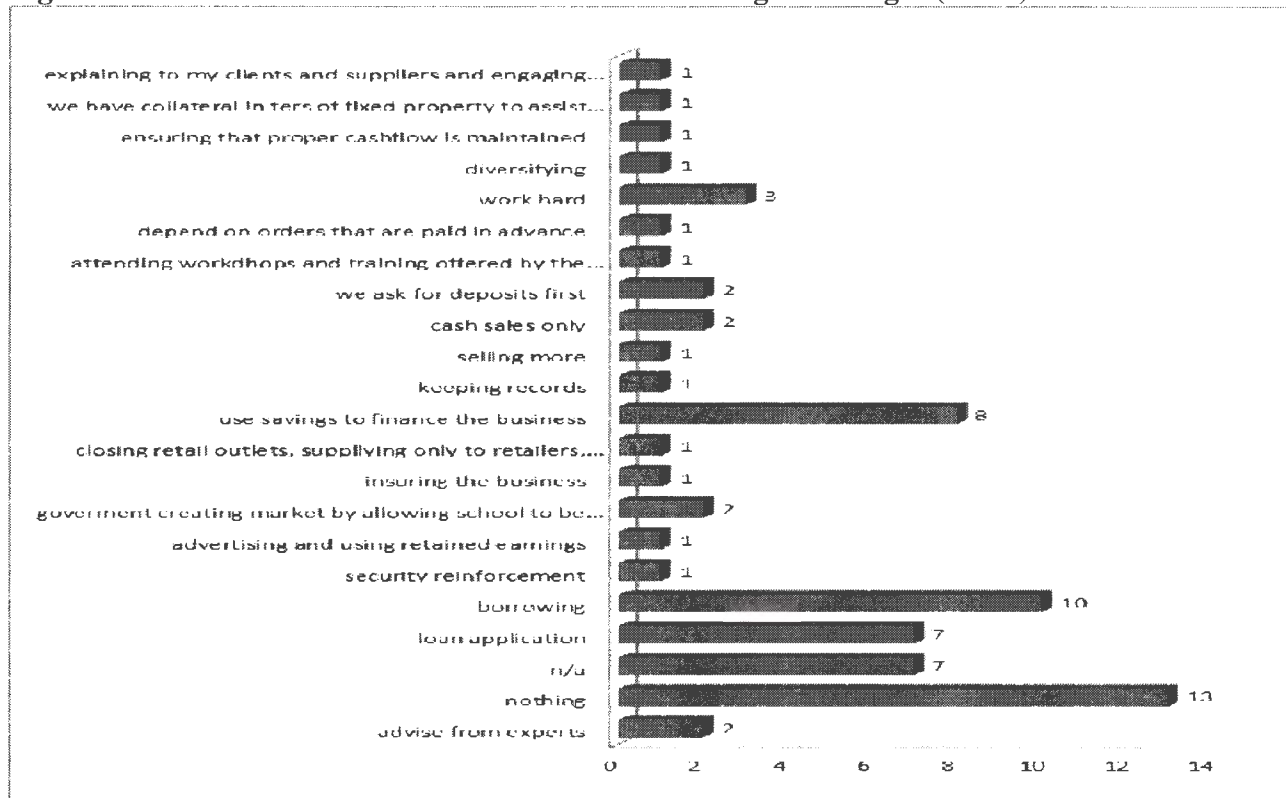
Source: Research findings, 2015

Figure 4.11 shows some of the financing challenges that affect manufacturing SMMEs in Botswana. Lack of working capital tops the list of financing challenges (13%). This is directly linked to the other challenge cited as a major challenge – lack of growth in the business (13%). Furthermore, ‘*lack of funds for expansion*’ (7%) is mentioned as a big financing challenge among others. Other challenges include *lack of customers*, *losing of tenders* and *failure to meet targets*. However, a few of the participants mention that their reasons for not borrowing are “*need to grow slowly, one step-at-a-time without risking borrowing*”, “*we don’t like borrowing*”, and “*the cost of borrowing is too high*”. Overall, manufacturing SMMEs do not borrow because they cannot afford it. Rather they sometimes prefer not to borrow because of their reasons.

4.5.5 How Manufacturing SMMEs in Botswana Solve their Financing Challenges

Participants were required to mention ways in which they solved their financing challenges. According to responses from participants, manufacturing SMMEs try to solve their financing challenges as shown in Figure 4.12.

Figure 4.12: How the Businesses Solved their Financing Challenges (N=68)



Source: Research findings, 2015

Figure 4.12 reveals that 7 out of 68 SMMEs solve their financing challenges through external financing (loan application). The majority of manufacturing SMMEs (13) do nothing about financing. 10 borrow money from friends/relatives. 7 say that they do not need any finance – their businesses are financially stable. A few participants use savings to finance business, that is, internal finance. These save part of the profits, which they later plough back into the business, than those SMMEs that borrow money from financial institutions. Other measures include getting advice from experts, security reinforcement, diversifying, and engaging someone to follow up payment. It can be concluded that manufacturing SMMEs tend to solve financing challenges the easier way, that is, borrowing from friends and family and falling back on their

retained profits; while a few manage to get financing from financial institutions, particularly commercial banks.

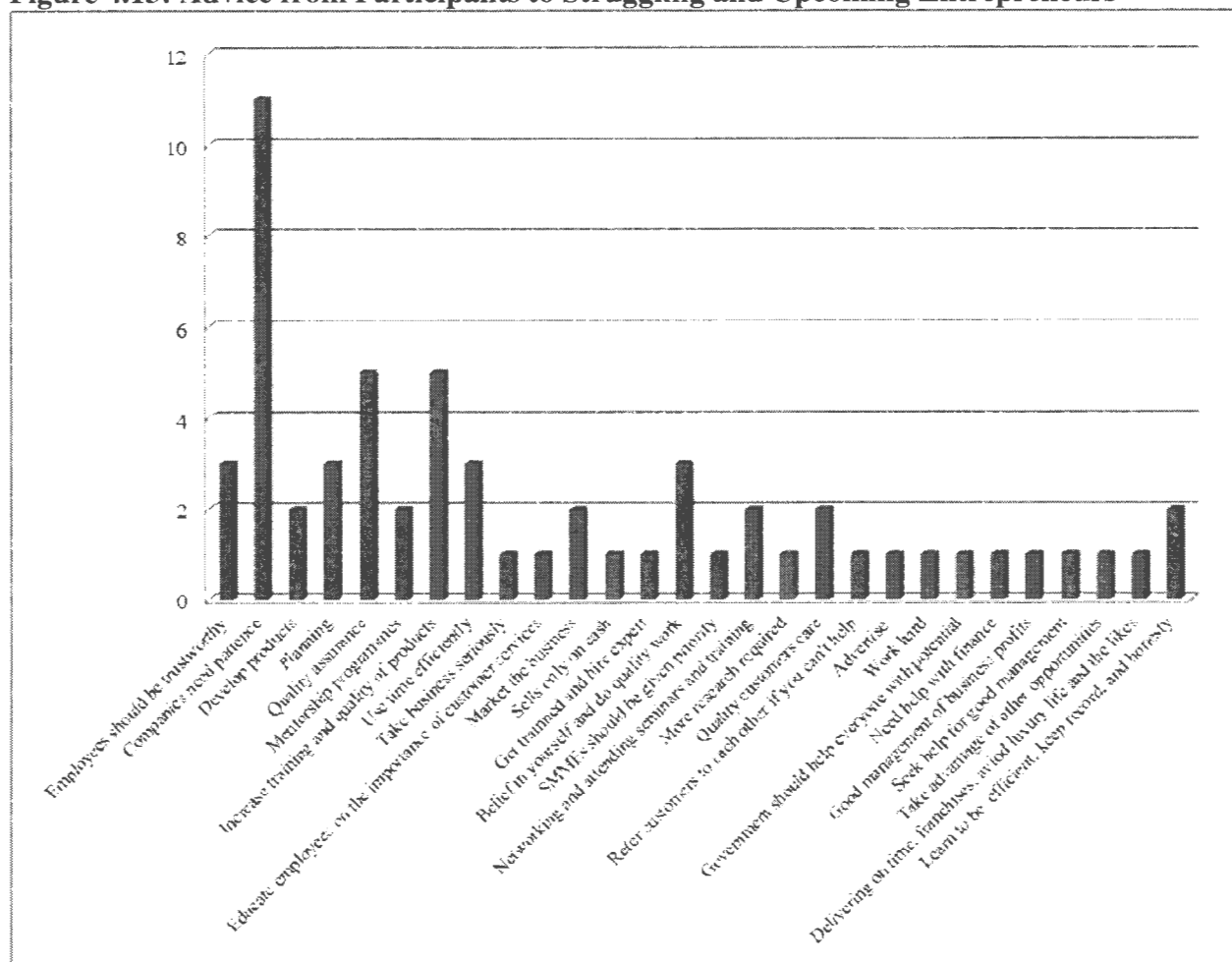
4.6 Objective Three: Practical Solutions to Financing Challenges of Manufacturing SMMEs in Botswana

Apart from the conclusions and recommendations that will come in chapter 6, this subsection presents suggestions from manufacturing SMME participants to various stakeholders.

4.6.1 SMME Advice to Struggling and Upcoming Entrepreneurs

Respondents were asked for their advice to struggling and upcoming SMMEs. Figure 4:13 illustrates their responses.

Figure 4.13: Advice from Participants to Struggling and Upcoming Entrepreneurs



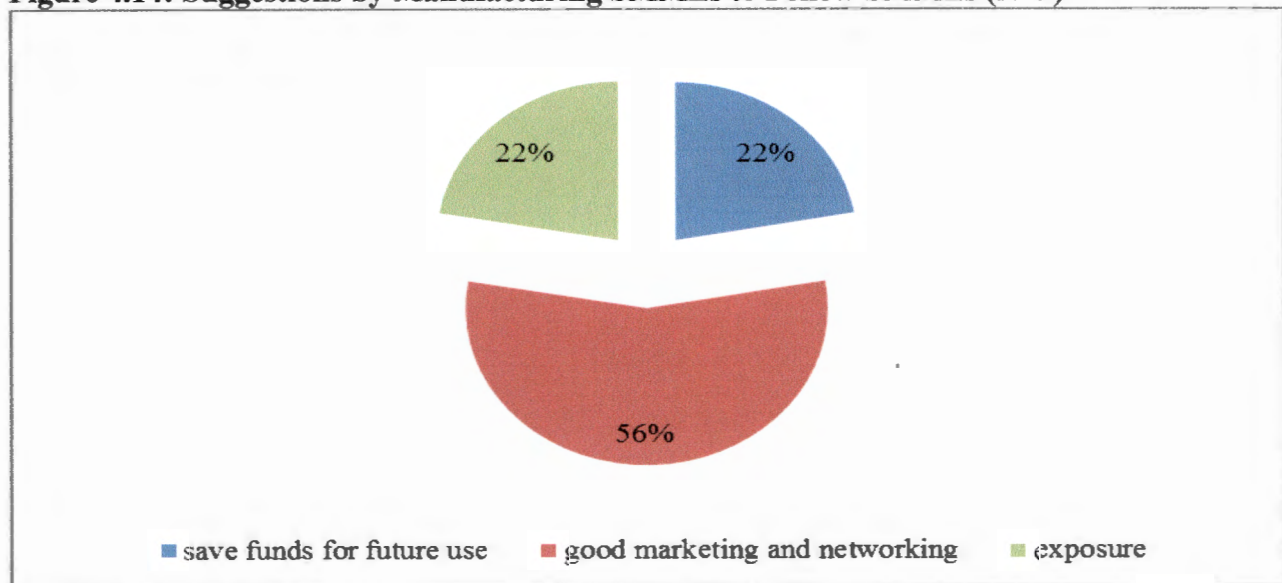
Source: Research findings, 2015

According to Figure 4.13, advice given by the participants to struggling and upcoming entrepreneurs includes *'be patient in business'*, *'get a business mentor'*, *'make your business unique from existing businesses'*, *'involve in research'*, *'good management of profits'*, *'quality in delivering and honesty'*. *'Patience'* followed by *'quality assurance'* and *'training'* of staff are needed. Therefore, the majority of SMMEs believe that in order to improve, entrepreneurs should train and empower their staff members. This in turn boosts productivity.

4.6.2 SMMEs' Advice to Fellow SMMEs

Furthermore, participants were asked for suggestions to their fellow manufacturing SMMEs.

Figure 4.14: Suggestions by Manufacturing SMMEs to Fellow SMMEs (N=9)



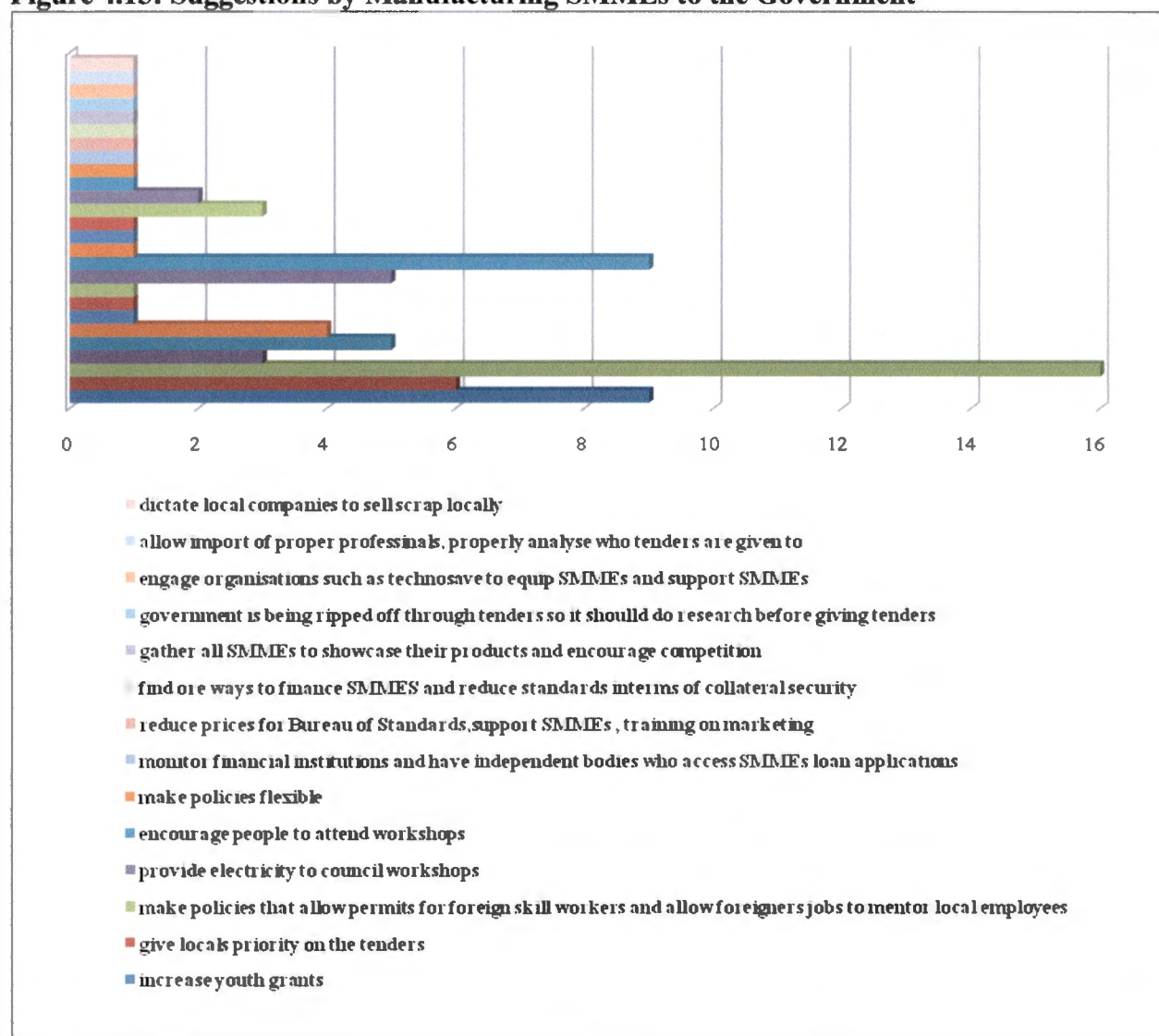
Source: Research findings, 2015

As shown in Figure 4.14, manufacturing SMMEs recommend to their fellow SMMEs that if they want to survive in business they should '*save funds for future use*'. That is, they should use their retained earnings to expand their businesses. They should also employ good marketing and networking strategies and get exposure by living their comfort zone.

4.6.3 Suggestions by manufacturing SMMEs to the Government

SMME respondents were asked for suggestions to the Government in order to improve the manufacturing sector of Botswana. The results are demonstrated in Figure 4.15.

Figure 4.15: Suggestions by Manufacturing SMMEs to the Government



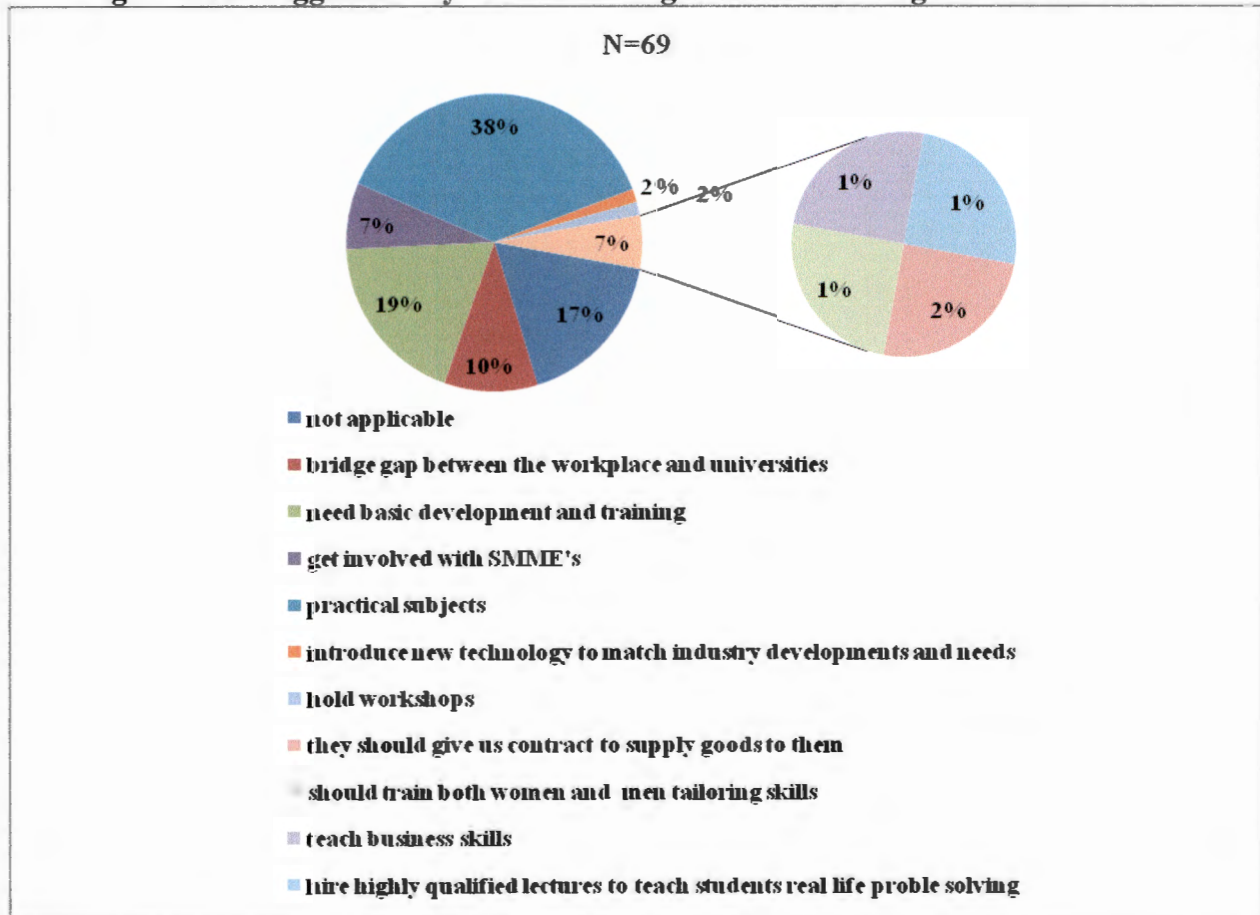
Source: Research findings, 2015

Figure 4.15 shows the help SMMEs need from government for their development and exploitation of opportunities. The results show that of those that answered this question, most of them (n=15) would like government to make policies that permits foreign skilled workers to work freely without fear of repatriation. That is, that government should not make permits for foreigners' a difficulty, government should also help them to nurture their businesses and encourage foreign investors. Furthermore, some manufacturing SMMEs say that government should increase youth grants.

4.6.4 Suggestions by Manufacturing SMMEs to Colleges and Universities

Then participants responded to a request for suggestions to colleges and universities to play a part in supporting SMMEs. Results are shown in Figure 4.16.

Figure 4.16: Suggestions by Manufacturing SMMEs to Colleges and Universities



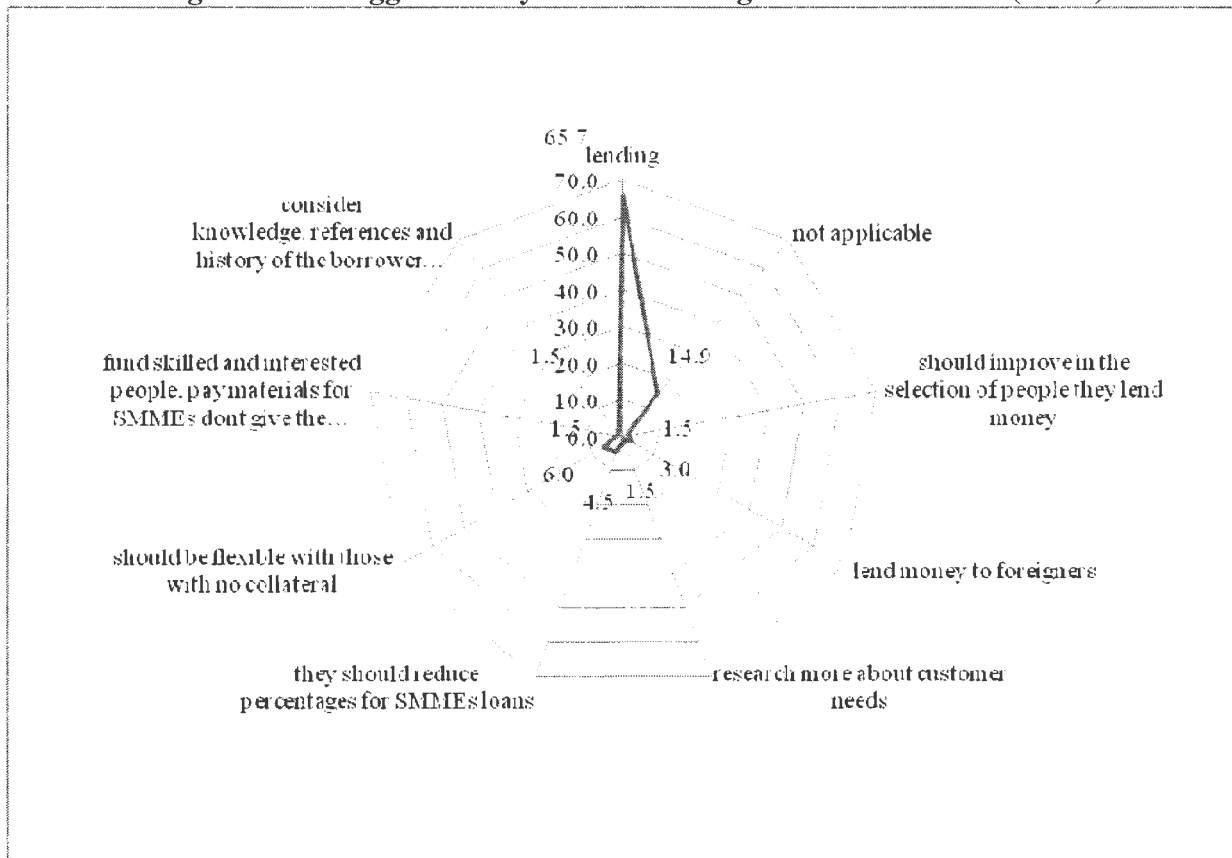
Source: Research findings, 2015

According to Figure 4.16, respondents also highlight the needs of partnership with colleges and universities. For instance, 38.0 % of them say that there is a need for practical subjects, 7.0% of them said that colleges and universities should teach business skills and 10.0 % said that colleges should bridge the gap between the workplace and universities.

4.6.5 Suggestions by Manufacturing SMMEs to Banks

SMME respondents were also asked for suggestions to commercial banks that could improve the working relationship between manufacturing SMMEs and commercial banks as shown in Figure 4.17.

Figure 4.17: Suggestions by Manufacturing SMMEs to Banks (N=67)



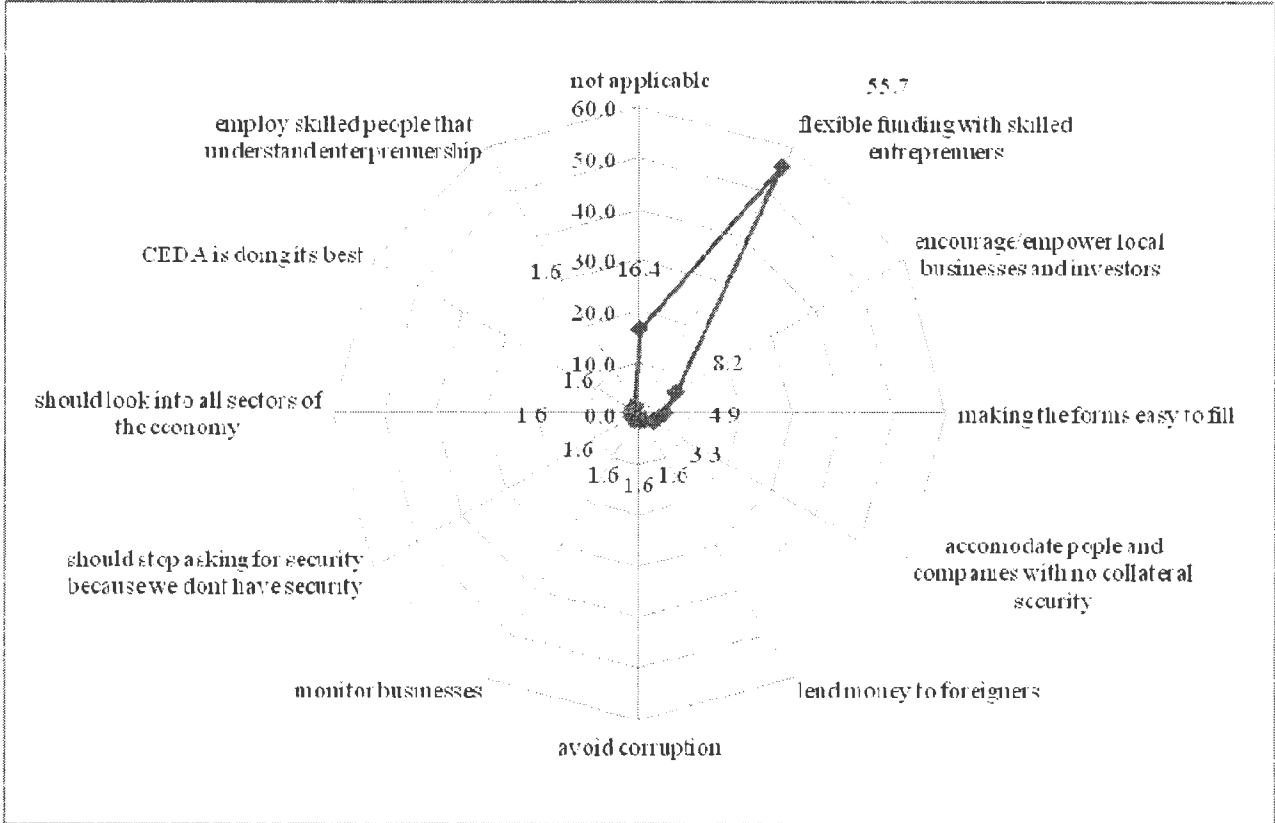
Source: Research findings, 2015

According to Figure 4.17, respondents say that banks need to involve them fully by making loanable resources available for them when needed. The banks should also reduce the interest rate. Banks need regular research about customer needs to avoid assuming that all customers are non-payers.

4.6.6 Suggestions by manufacturing SMMEs to Citizen Entrepreneurship Development Agency (CEDA)

Furthermore, participants were requested to give suggestions to CEDA so that CEDA can help more SMMEs. The results are shown in Figure 4.18.

Figure 4.18: Suggestions by Manufacturing SMMEs to CEDA



Source: Research findings, 2015

Figure 4.18 shows the assistance which SMMEs in Botswana need from CEDA. The results show that CEDA should encourage/empower local businesses and investors, and they should make funds available for entrepreneurs. Furthermore, majority of the participants (55.7 %) said CEDA should avail flexible funds for skilled entrepreneurs and 3.3 % said that CEDA should make their assistant accessible by foreigners.

4.6.7 Suggestions by Commercial Banks to Manufacturing SMMEs

This sub-section contains a summary of suggestions from commercial banks to SMME improvement in terms of financing. These suggestions were given by commercial bank

participants during the interviews. Some of the advice that the commercial banks would like to give to struggling and upcoming entrepreneurs/SMMEs concerning challenges of financing and managing SMMEs could be summed up as, one participant put it across (Bank1) SMMEs should *“not ask for a type of financing which you cannot repay, do not start up business because someone is in it or you are unemployed, you should have a proper training backup for what business you need to venture on and do what you are passionate about.”* In other words, SMMEs should be serious and committed to their business if they want banks to take them seriously.

The commercial banks considered the following as the major challenges of manufacturing SMMEs. These include *misuse of funds, small market, cost of raw materials are expenses thereby making the SMMEs in Botswana not competitive as compared to their trading partners.* Also cited is *lack of expertise and trusted partners.* The participated commercial banks therefore recommend that if the SMMEs in Botswana need to develop their manufacturing sector they should take hold of the following: 1) *government should avail proper training to SMMEs.* 2) The SMMEs should *build a good reputation with the banks.* 3) They should *avail a guarantee collateral.* 4) They should *work very hard to avoid starting up their businesses with loans and they need specialized personnel.* In addition, the participating commercial banks' correspondents said that the number of loans a bank can give is dependent on the level of the collateral; local SMMEs should be dedicated and work hard and as well *become self-disciplined.*

4.7 Objective Four: Role Played by Commercial Banks in Helping Manufacturing SMMEs

4.7.1 Demographics of Commercial Banks that Took Part in the Survey

The research interviewed three commercial banks namely Capital bank, Bank of Baroda and Stanbic Bank. All the banks are located in Gaborone, the capital city of Botswana, but have branches in other urban centres across the country. The participated banks support all forms of operations as well as all types of SMMEs. According to the correspondence, the Stanbic Bank has helped more than 15000 SMMEs, while Capital Bank has helped over 300 SMMEs and Bank of Baroda has helped over 500 SMMEs in the past ten years.

4.7.2 Positions and Details of Bank Interviewees

The positions of the banks representatives were the Head of Public Sector from Capital Bank (age 35 – 40 years), the Senior Branch Manager (age – 45 to 55 years) from Bank of Baroda and the Head of SME Banking from Stanbic Bank (age 35 – 40 years). The researcher did not choose these three managers, but they were suggested by the management of each bank to represent the bank in the survey because of their influential role and position pertaining SMME support. These were deemed to be the most appropriate participants by each bank.

4.7.3 Why the Three Commercial Banks were Chosen out of Seven Commercial Banks

The banks have branches countrywide, for example, Capital Bank has four branches in Botswana and have been in operation in Botswana for six years, while Bank of Baroda has three branches and the bank has been in operation for fourteen years and Stanbic has eleven branches countrywide and has been in operation for 23 years.

These three commercial banks were chosen out of a total of seven for the following reasons:

- These commercial banks had active programs for SMME financing and mentoring in Botswana (at that time. Note that there may be other banks that have joined the bandwagon, but they will be out of the scope of this study)
- The banks have vast experience ranging from six years to 23 years
- The sample is a good mix of Stanbic Bank, which has been in operation for almost 23 years, Capital Bank, and Bank of Baroda, which are relatively new banks that have come up with new strategies to attract customers through financing and educating SMMEs thereby attracting government and national attention.

4.7.4 The Role Played by Commercial Banks in Helping Manufacturing SMMEs

During interviews, commercial bank participants were asked about the role they play in supporting manufacturing SMMEs. The role that commercial banks in Botswana play in helping the SMMEs is illustrated in Table 4.13 in Appendix G.

4.7.5 Summary of the Role of the Participating Banks

As illustrated by Table 4.13 in Appendix G, bank participants affirm that in general they give SMMEs both short-term and long-term finance. Nevertheless, they mainly find it easier to finance those SMMEs with collateral to reduce their chances of recovering the loans from SMMEs. The bank participants assert that the response rate of SMMEs financing is good. Apart from financing SMMEs, bankers say they also give other support services such as mentorship, internet banking, and guidance. Generally, the participating banks have financed a total of over 16 000 SMMEs since they started operating in Botswana. They also further highlight that the success rate of SMMEs financed by commercial banks is reasonably high, possibly because of the commercial banks' strict screening process before financing SMMEs.

4.8 Objective Five: Exploration of Challenges Faced by Commercial Banks When Trying to Finance Manufacturing SMMEs in Botswana

H₀₃: Commercial banks are not willing to finance SMMEs

During the interviews, commercial bank participants were asked about the challenges, which they face when financing manufacturing SMMEs and the factors that influence them to allow SMMEs to borrow from their respective banks. The challenges cited by the participants include SMMEs' lack of accounting records, mixing business money with personal money, heavy debts, failure to save money for the future, and lack of collateral security. Table 4.14 in Appendix H, depicts a summary of the participants' sentiments on the matter of banks' challenges when trying to support manufacturing SMMEs.

4.8.1 Major worries of commercial banks about SMMEs

Other worries of the commercial banks when lending to SMMEs include *risk factors* such as poor financing management, small *market size*, *lack of collateral security* (Haron *et al.*, 2013), *lack of honesty* and SMMEs carrying *unrealistic dreams and unattainable proposals*.

4.8.2 How banks deal with their worries

The ways in which commercial banks deal with their worries when lending money to SMMEs include:

4.8.2.1 Blocking Bank Accounts Temporarily

The banks block the client's account so that they cannot withdraw money from the account when the bank transfers the money into the account temporarily for records purposes. Some dishonest SMMEs had been rushing to withdraw the money before due time. By locking the money, therefore, the bank secures the money away from applicants who want to dishonestly misuse the business money. Dishonest SMMEs clearly demonstrate that they are not serious with business. Rather they are concerned with personal gain at the expense of business growth.

4.8.2.2 Obtaining Financial History

Banks gather information concerning SMMEs' financial history that includes: past financing from elsewhere, records of cash flows over the years, SMME applicants' other sources of income and dependence. However, *"financial history is not easy to get because the majority of manufacturing SMMEs do not keep up-to-date accounting records"* (Bank 1).

4.8.3 Conclusions on Challenges faced by Banks in Financing SMMEs Manufacturing

Bank participants say that the factors that determine external financing include *viability of the idea, client behaviour, and reputation of SMMEs, having ties with the bank, the level of turnover and collateral security*. However, negative tendencies by manufacturing SMMEs result in a blame game where SMMEs blame the bank for not supporting them and banks are also protecting themselves from indebted clients and protecting funds, which rightly belong to the public. In any case, as Bank 3 mentions: *"banks are not in the business of losing money."* SMMEs therefore need to *"clean their hands before blaming bankers"* (Bank 1). This means that SMMEs need to keep records, come out of debt, avoid using business money for personal reasons, and learn to avoid borrowing for every little financial need.

4.9 Objective Six: Exploration of the Challenges that Hinder Manufacturing SMMEs from Tapping into Available Opportunities

To understand how SMMEs are tapping into the opportunities in Botswana and the challenges they face in the process of opportunity exploitation, one has to consider the business model for each participant as shown in Table 4.15 below.

4.9.1 Business Model of Manufacturing SMMEs

Participants were asked to state whether they sold their products in Botswana only, in both Botswana and exportation or just exportation.

Table 4.15: Kinds of Business and Business Model

		Kind of business					
		Single/Family		Joint ownership		Total	
		Frequency	Percent	Frequency	Percent	Frequency	Percent
Business model	Exportation	0	0	0	0	0	0
	Selling within Botswana (local)	61	87.1	13	72.2	74	84.1
	Both local and Exportation	9	12.9	5	27.8	14	15.9
	Total	70	100	18	100	88	100

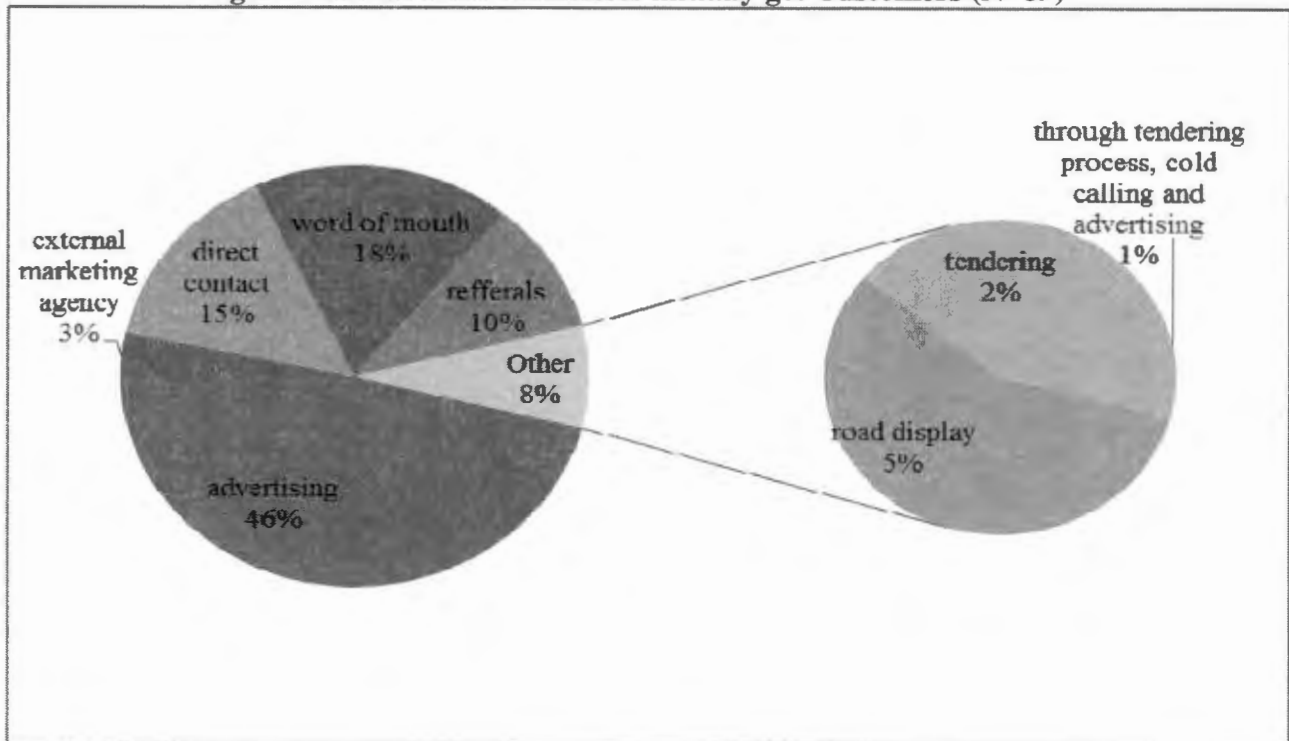
Source: Research findings, 2015

From Table 4.15, majority of manufacturing SMMEs (84.1%) are involved in selling within Botswana while 15.9% of them operate both local and internationally and none of the respondents are strictly in exportation. This scenario is a clear indication that Botswana manufacturing SMMEs are still scrambling for a share of the small local market (two million people) and very few firms (15.9%) are taking advantage of the over two hundred million worth of customers in SADC. However, in Botswana most manufacturing SMMEs sell locally. This suggests that SMMEs need help for international and global exposure.

4.9.2 How the Businesses Initially get Customers

To gain an understanding of how firms explore their markets, it is necessary to consider how the SMMEs get their customers. Participants were asked to state how they initially got their customers, and their responses are as shown in Figure 4.19 below.

Figure 4.19: How the Businesses initially get Customers (N=89)



Source: Research findings, 2015

According to Figure 4.19, the SMMEs businesses initially get their customers through newspaper 'advertising' (46%). In Botswana, newspaper adverts are very effective in bringing in business, particularly *The Botswana Advertiser*, *The Ngami Times* and *The Northern Advertiser*. However, for advertising to work efficiently, a firm needs to advertise consistently; which is not possible when an SMME has financial challenges as is the case of most of the manufacturing SMMEs in Botswana.

Botswana is a small market; hence, 'word of mouth' (18%) is a very effective tool of marketing. SMMEs need to make sure that they offer quality products and service so that satisfied customers can spread the 'good news about the business.' Participants that vouch for, 'direct contact' (15%) mention roadside *displays*, *distribution of fliers and business cards*, and *door-to-door marketing* as very effective marketing ways. The other ways of marketing include use of 'external marketing agency', and 'referrals' and through 'getting tenders' from government. Although manufacturing SMMEs are marketing their products and services, there is room to take advantage of local, regional and global markets. This, however, is limited by

SMMEs' lack of knowledge and experience of markets abroad as suggested by Shemi (2013), Haron *et al.* (2013).

4.9.3 SMME Opportunities and the Challenges Faced in Tapping into the Opportunities

To understand SMME opportunities and the challenges faced in tapping into the opportunities, one can look at Table 4.17.

Table 4.17: Business Opportunities that exist and Challenges faced by Manufacturing SMMEs in Botswana

Business opportunities that exist for SMMEs in Botswana		
	Multiple Responses	Percent of Cases
	N=27	
exportation to SADC, Africa and USA	7	25.9
manufacturing of steel in Botswana	6	22.2
n/a	3	11.1
common markets are good but no support	2	7.4
passion for business	1	3.7
Wild fruits	1	3.7
Agriculture	4	14.8
Benchmarking	1	3.7
manufacturing in SADC, BOTSWANA AND AFRICA,	2	7.4
practical work and art	1	3.7
farming, tailoring, shoe fixing, goods transportation , fishing and canning	1	3.7
Designing	1	3.7
fabrication, cut-make and trim, fabrics, mine equipment plastic scrap	1	3.7
Challenges faced in tapping into the available business opportunities		
	Multiple responses	Percent of cases
	N=63	
lack of ethnical employees	1	1.6
high costs of production	2	3.2
skilled manpower is scarce	9	14.3
inability to grow beyond local market	2	3.2
Licensing	1	1.6
Transport	1	1.6
market access	4	6.3
lack of finance	23	36.5
Competition	6	9.5
lack of land	4	6.3
illegal businesses in manufacturing	1	1.6
importing equipment from outside the country	1	1.6
low phone network coverage and internet	2	3.2
poor management handovers and high turn over	1	1.6
no money in circulation in the economy	1	1.6
government policies	1	1.6
rejection of work permits by government	1	1.6
lack of business knowledge	1	1.6
lack of working capital and raw materials	1	1.6
Corruption	1	1.6
late payments by customers and competition	1	1.6

Source: Research findings, 2015

Discussion of Table 4.17 is done below and is divided into manufacturing SMME opportunities and challenges of manufacturing SMMEs when tapping into opportunities.

4.9.3.1 Manufacturing SMME Opportunities

The SMMEs identify the following as their business opportunities. These include exportation to SADC, Africa and USA – one participant says, *“Botswana imports more products than she exports. It’s time for local SMMEs to exploit international markets the same way China, India, South Africa, Lesotho and Swaziland.”*; manufacturing of steel in Botswana; agriculture – *“Botswana meat and meat products are in demand in Africa and European Union. Batswana should therefore take advantage of this industry”*, says one participant. Another participant says, *“We have more cattle in Botswana than the people. We need to take advantage of cattle bi-products such as bones and leather and increase our exports”*; manufacturing in SADC, Botswana and Africa; design and tailoring; shoe fixing; goods transportation; fishing and canning; and fabrication; cut-make and trim; fabrics, mine equipment and processing of plastic scrap – *“Most people know about metal scrap, but few know about plastic scrap. SMMEs can collect plastic scrap and re-cycle them. By so doing it will reduce littering and bring income simultaneously”*.

The ideas given were brilliant, although the majority of respondents, especially micro-enterprises left the questionnaire blank on the opportunities section. This demonstrates SMMEs scant knowledge of existing opportunities, as the majority of participants that engage in exportation are medium enterprises. It can be concluded that micro and small enterprises lack exposure to knowledge on opportunity spotting and maximization.

4.9.3.2 Challenges of Manufacturing SMMEs when Tapping into Opportunities

As revealed by Osotimehin *et al.* (2012) and Gbandi & Amisah (2014), the current study reveals that *‘Lack of finance’* tops the list of challenges in tapping into opportunities at 23%. Lack of financing therefore features as a main challenge for SMMEs in Botswana, manufacturing SMMEs included. Therefore, it is difficult for SMMEs to tap into opportunities when they lack finance.

‘Scarce skilled labour’ stands at 9%. Again, the manufacturing industry stands out as a highly technical area that requires skilled personnel. When firms have no access to skilled labour, it is difficult for them to exploit opportunities. One participant puts it this way: *“we want to produce for SADC and global market. But how do we do it when we don’t have skilled workers?”* Another one says, *“Manufacturing industry is highly technical. However, there are*

no skilled employees and managers in Botswana. Unfortunately, when we hire expatriates, they struggle to get workers permits.” When expatriates do not get workers’ permits in Botswana, and at the same time, there are no skilled workers in Botswana, this cripples manufacturing firms due to lack of experience and qualified workforce. A number of respondents share his sentiments. Others furthermore say, *“Apart from simplifying permits issuance to qualified expatriates; there should be efforts from government to train students with high skills tailor-made for industry.”* What this entails is that government is expected to issue work permits to expatriates as a temporary measure, but for long-term solutions on skilled labour, there is need for training of citizens on practical skills that are wanting in Botswana.

As Shemi (2013) proposes, ‘*Competition*’ (6%) among SMMEs is tough in Botswana because the local market is small. It therefore follows that business opportunities that can easily be exploited by any enterprise attract tougher competition. However, with international markets and arrangements such as the Southern African Customs Union (SACU), African Growth and Opportunity Act (AGOA) and SADC, SMMEs need to engage and be able to tap into opportunities. They should also join associations such as BEMA and Textile Association of Botswana so they share ideas with colleagues and get exposure, empowerment, and support from the association.

Other challenges hindering SMMEs from exploiting opportunities include *‘late payments by customers’*, *‘corruption’* among government other officers, and *‘shortage of raw materials’* which results in high importation costs and delayed receiving of materials, *‘lack of business knowledge’*, *‘rejection of work permits by government’*, tough or lack of favourable *‘government policies’* – for example, some respondents cry foul: *“government should protect local industries by making stringent laws against importation of certain finished products.”* Another one says; *“In Zambia, big international companies can bring 70% of materials from their home country and they source 30% from within Zambia. This helps local Zambian SMMEs to get business. Nevertheless, in Botswana it is not so. We compete directly with huge multinationals.”* Some participants say: *“There is no reason to keep operating as a manufacturer in Botswana. South Africa has far more opportunities and incentives compared to Botswana. We are not protected at all. We are winding up here (Botswana), relocate to South Africa, and then sell to Botswana. It’s painful because our 800+ employees will remain unemployed (sighs).”* This is a plea to the government to protect citizen-owned firms by not giving all rights to foreign firms, but to allow

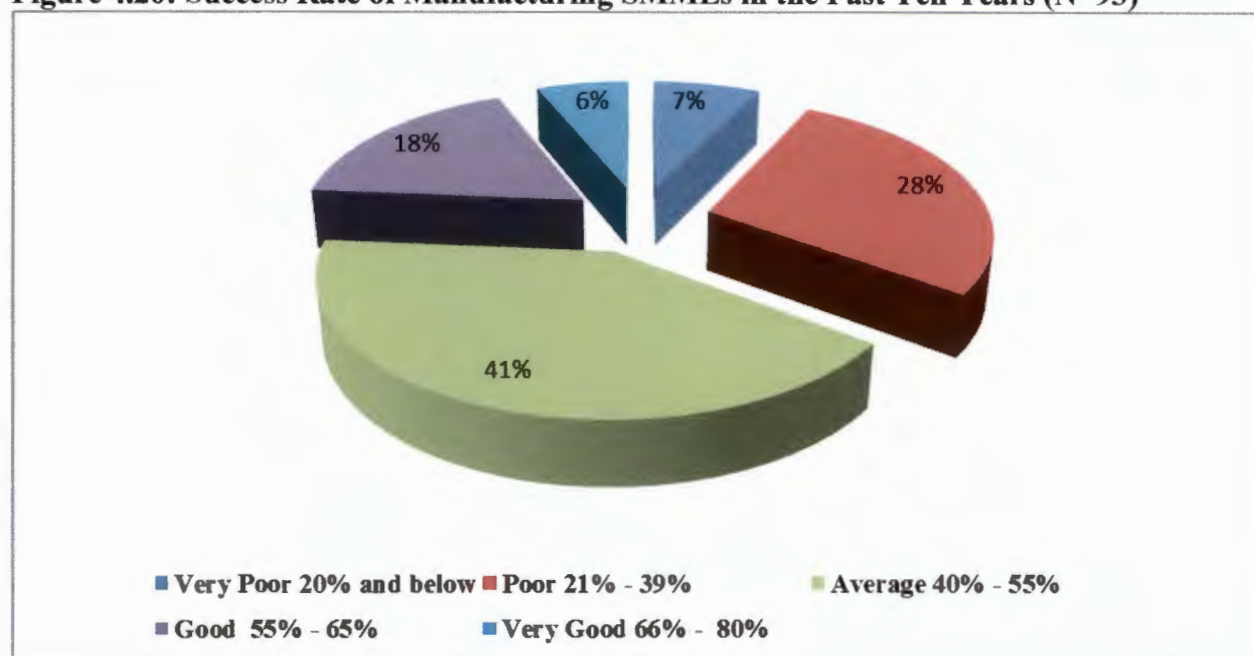
local companies to share profits with the foreign firms through part-provision of products or services.

All the suggestions from SMMEs suggest that the majority of manufacturing SMMEs are not satisfied with the current support structures. If government and other stakeholders do not act quickly, more companies will either close shop or exit the country to settle in neighbouring countries and sell to Botswana. Botswana will continue to receive goods from such companies, but thousands of workers would lose jobs in the country. If companies close or leave Botswana, this is terrible as it works against the government’s great initiative to reduce the high unemployment level of 20% and reduce poverty; as well as to diversify the economy from diamond mining which is nearing exhaustion.

4.10 Objective Seven: Assessment of the Current and Past Success Rates of Manufacturing SMMEs in Botswana

Respondents were asked for their opinion of manufacturing SMMEs’ success rate in the past ten years. The question was meant to try to gauge how the success rate of manufacturing SMMEs has been in terms of profitability and growth. Their responses are as shown in Figure 4.20 and Table 4.18.

Figure 4.20: Success Rate of Manufacturing SMMEs in the Past Ten Years (N=93)



Source: Research findings, 2015

From Figure 4.20, the majority of the participants (41%) rate average on their success in the past ten years, 28% rate poor, 18% good, 6.0 % believe that they are doing very well (66 % - 80%), and 7% very poor (see figure 5.5 for more information). Generally, the results show that majority of manufacturing SMMEs (76%), that is, 7% very poor plus 28% poor plus 41% average has performed below expectation and it is a cause for concern. This is a clear sign that SMMEs are in dire need of help to increase their chances of success.

Furthermore, Table 4.18 below illustrates the success rate of manufacturing SMMEs by the kind of business they engage in.

Table 4.18: Success Rate of Manufacturing SMMEs in the Past Ten Years by Kind of Business

		Kind of business					
		Single/Family		Joint ownership		Total	
		Frequency	Percent	Frequency	Percent	Frequency	Percent
Success rate of Manufacturing SMMEs in the past 10 years	Very poor 20% and below	5	7.1	1	5.9	6	6.9
	Poor 21% - 39%	22	31.4	4	23.5	26	29.9
	Average 40% - 55%	29	41.4	6	35.3	35	40.3
	Good 55% - 65%	11	15.8	4	23.5	15	17.2
	Very good 66% - 80%	3	4.3	2	11.8	5	5.7
	Total	70	100	17	100	87	100

Source: Research findings, 2015

From Table 4.18, the majority of the single/family business (41.4%) rate average on their business success within ten years of operation, 31.4% of them assert that their success rate is poor and 15.8 % of rate their success as good. Of those joint business owners, 23.5% rate poor, 35.3% rate average and 23.5% rate good to their business success and 5.9 % of them believe that they are not doing well and 11.8% believe that their business is doing very well. Both illustrations demonstrate that the SMMEs are struggling in their businesses; hence the need for a survey such as this one.

4.11 Conclusion

This chapter has presented the results from the questionnaire survey that was administered to manufacturing SMMEs and results from interview questions that were done with participants from the commercial banking sector. The findings show that manufacturing SMMEs face a number of challenges, chief of which is financing challenges. That is followed by capacity development challenges, competition, and lack of access to markets. Commercial banks have revealed that most SMMEs, apart from lack of collateral, fail to secure debt due to character challenges. The next chapter discusses the findings of this study.

CHAPTER FIVE

DISCUSSION OF FINDINGS

5.1 Introduction

Without a discussion of findings, the reader fails to understand the value of the research. Therefore, it is imperative that the researcher writes this chapter. Chapter 4 presented the findings from literature review and empirical results of the study. This chapter discusses and gives a critical analysis of the study findings against empirical literature. Results of the three hypotheses tested in this study and the credit rationing theory are put to test and discussed. Analysis and discussion of findings from both the manufacturing SMMEs respondents and from commercial bank participants is discussed under each objective as sub-headings from Section 5.2 to 5.8.

5.2 Objective One: Factors that Influence Manufacturing SMMEs' Borrowing

H₀₁: Factors influencing SMME borrowing include firm income (net profit or annual turnover), marital status, gender, highest education qualification, and number of years in position

The objective was to examine the various factors that cause manufacturing SMMEs either to obtain commercial bank funding or to fail to get the financing. While literature suggested various factors that influence SMME borrowing, all of the factors fell into either firm characteristics or entrepreneurial characteristics (Ene & Ene, 2014; Abdulsaleh & Worthington, 2013; Biswas, 2014; Nkuah *et al.*, 2013; World Bank; Haron *et al.*, 2013; Messah & Wangai, 2011). In this case, entrepreneurial characteristics mean the character and behaviour of the SMME owner or director or manager. After carefully considering the factors mentioned by most scholars, the researcher chose to test the most recurrent of those factors: firm income (net profit or annual turnover), marital status, gender, highest education qualification, and number of years in position.

Using the multivariate logistic regression model, the study variables used in the model are loan variable, which captured the dependent variable as have '*not borrowed*' as reference category and '*borrowed*' as the base. The independent variables include *gender, marital status, annual turnover, highest education qualification, and number of years in position.*

The hypothesis has been tested in this study through running multivariate logistic regression analysis. According to the results, the researcher could not reject the null hypothesis for firm income (annual sales turnover), marital status, and gender. These three factors are statistically significant. This implies that the factors influencing manufacturing SMME borrowing according to the research sample are annual sales turnover, marital status, and gender. However, the other two variables – length of time in position and level of educational qualification are statistically insignificant. The researcher rejects length of time in position and level of educational qualification. It implies that the two are not factors that influence SMME borrowing among Botswana manufacturing SMMEs.

Possible reasons for the three factors being statistically significant are explained in the following paragraphs. Nevertheless, as for the two variables that were rejected because they were statistically insignificant; the brief justifications are included herein. Length in position by an SMME owner or manager does not necessarily translate into ability to borrow and manage the money and to pay back. Educational level does not necessarily translate into being smart in business and having a character that bankers accept. Therefore, length of position of SMME owner/director/manager and level of education have been mentioned as some of the major factors that influence ability of a firm to obtain bank financing (Messah & Wangai, 2011; Zarook, 2013). However, in this study, they were found to be statistically insignificant.

Results show the numbers of SMMEs in the manufacturing sector is higher among males compared to females. This is probably because manufacturing has been culturally viewed as a heavy industry that needs masculine gender. However, in Botswana, more females are breadwinners compared to males. That means females should find ways to start manufacturing firms or to collaborate with males or with international investors. That is a way of getting more females to fend for their families while at the same time growing the economy. These views are echoed by Maziriri & Chinomona (2015) whose study in South Africa discovered that

impediments to women entrepreneurs, among others, included lack of education and training, lack of access to finance and gender discrimination. There is therefore a need for gender equality as far as the manufacturing SMMEs are concerned, to boost chances of maximum industry growth.

Women in Botswana are regarded as more responsible than males that is why generally in schools, there are more females performing better than males. In positions of power in the corporate world, there are many women at the top. Most homes have women as breadwinners. Historically, women have been known to be more loyal than men are. The responsibility of females over males is historically dates back to the years when males used to go and work in the mines in South Africa. During that time, females were completely in charge of the home. It believed that females have kept that role to this day. Based on these observations, it can be understood why females in Botswana would be more likely to get loans than males. The notion that females SMMEs have potential to be successful is confirmed by findings of Okurut & Ama (2013) who discovered that women and youth microenterprises are generally profitable. They are engaged mainly in the trade and services sectors. The women and youth microenterprises struggled to access available government institutional credit and capacity building programs (e.g. Citizen Entrepreneurial Development Agency [CEDA] and Youth Development Fund) and (Local Enterprise Authority (LEA)) to expand their enterprises. Recommendations of their study were to improve the investment climate for microenterprises through enhanced access to institutional credit. There was a suggestion that a government microfinance institution that uses collateral substitutes in the delivery of credit to the micro-entrepreneurs be created to cater for the credit needs of the microenterprises. Thus, their study findings agree with the findings in this study, although their research was on general micro-enterprises and the current research is on manufacturing SMMEs.

Generally, there are fewer marriages in Botswana, meaning that most SMMEs are single. Results show that married people seem to get financing easier than singles. This is most likely so because banks need collateral security when lending money. Thus, a married person is most likely to obtain a loan because the spouse can help with collateral security or both their collateral increases chances of borrowing. For that reason, banks tend to request a marriage certificate as part of the loan application process to verify that one is married. Recently, the Botswana laws

require that when one is applying for a loan, the spouse must sign. No spouse would be willing to sign for a reckless spouse. This is because by signing for the spouse; that spouse is endorsing their partner. Therefore, banks take consolation in the other spouse being willing to risk their signature and name, as compare to a single person applying alone. It also means that lenders see marriage as a source of being responsible and as such, it is an obligation for the couple to make sure their loans are paid in order not to be blacklisted in all financial matters. Furthermore, in Botswana, lenders, more especially, in an organised financial institution permit both partners to sign jointly for a loan before been approved. Thus, unmarried people are disadvantaged in this regard.

Scholars have debated the effect of an entrepreneur/director/manager's education or qualifications on business success (Nkuah, 2013; Haron et al., 2013; Nguyen & Luu, 2013; Ogubazghi & Muturi, 2014). For instance, Messah and Wangai (2011) in their study carried out in Kenya among small-scale investors concluded that education level of an entrepreneur; the number of dependants, gender, and household income are significant factors that influence small-scale entrepreneurs to borrow credit from formal credit institutions. Similarly, in Libya, findings of Zarook (2013) were that education levels and management experiences have significant effects on access to finance. Some scholars, however, have argued on the contrary. For instance, Ogubazghi and Muturi (2014)'s study on the effect of age and educational level of owner/managers on SMMEs' access to loans in Eritrea revealed that educational level of the owner/manager does not have significant effect on access to bank loan. Abdesamed & Wahab (2014) who say firm owner's education is negatively related to the firm's tendency to apply for a bank loan support this. Thus, the results of the current study confirm the findings of Ogubazghi and Muturi (2014) and those of Abdesamed & Wahab (2014).

A firm's income has been described as a major factor influencing SMME borrowing. In this study firm income was measured using sales turnover. The questionnaire required each participant to show how much turnover is earned per annum by their firm. The higher the annual turnover for a firm, the more likely the firm qualifies for a bank loan.

The findings agree with Fatoki (2013) who suggests that the greatest determinant of a business is the entrepreneur. In other words, if the entrepreneur develops him/herself, then *ceteris paribus* the business gets more successful.

In conclusion, this study has established that the factors influencing manufacturing SMME borrowing in Botswana are SMME owner/director/manager's gender, marital status, and sales turnover. These findings helped the researcher not to reject the hypothesis, which implies that the three factors are significant. Therefore, the study concluded that length of Botswana manufacturing SMME owner/director/manager in position and level of educational qualifications does not influence borrowing.

5.3 Objective Two: Financing Challenges Faced by Manufacturing SMMEs in Botswana

H₀₂: Lack of financing is a major factor militating against growth and success of manufacturing small, medium and micro enterprises

In this study, it was shown that the majority of the participants are micro manufacturing enterprises, which entails that there is a need to understand the manufacturing micro problems the same way as SMEs. As the results also show, most SMMEs use either their own money or loans from their relatives and friends. That shows a great level of commitment by SMME owners to their enterprises. However, from the results, SMME growth and development have been distorted by many factors, namely, lack of capital, lack of access to markets, shortage of skilled labour, tough competition, tough regulations and lack of accounting records. Numerous studies have asserted that most of the big corporations in the world started small, and then they gradually grew to corporation status. This entails that micro enterprise in Botswana, if effectively supported can become a corporation in future (Osotimehin et al., 2012; Abdulsaleh & Worthington, 2013; Gbandi & Amissah, 2014; Lekhanya & Mason, 2014; Fatoki, 2014; Haron, et al., 2013).

Manufacturing SMME respondents were asked in the questionnaire to rank challenges of SMMEs. The 13 items included in Table 4.2 were derived from literature review as an

instrument to investigate what challenges were peculiar to the manufacturing sector in Botswana. The challenges were to be ranked in descending order, that is, they were to be ranked from number 1 to 13, starting with the most serious challenge to the least important challenge of SMMEs. The instrument was also used to test for reliability and validity of the research. Indications from Table 4.2 are that the reliability test shows a high Cronbach's Alpha of 0.873. Generally, correlation among the responses is high.

The level of reliability shown by the reliability test is a demonstration that the instrument is an appropriate measure of SMMEs' challenges. Furthermore, according to Table 4.3, the top most four challenges of manufacturing SMMEs (in descending order) are lack of capital, followed by lack of market, then tough competition and shortage of skilled labour. Looking at the four factors, one could see the picture of how manufacturing SMMEs struggle for market as the Botswana market is small, yet the international markets have stiff competition. Also locally, SMMEs compete against cheaper products from China, India etc. With stiff competition and lack of access to markets, it means manufacturing SMMEs do not make much profit to be able to do internal financing.

Nevertheless, it is hard for firms to get debt financing unless they have collateral security. The situation is made worse by lack of skilled labour that is mainly foreign. Meanwhile the government restricts issuing of work permits to skilled foreign professionals that could boost manufacturers; yet conversely most citizens shun manufacturing jobs, opting for white-collar jobs or the citizens lack the necessary skills. Thus, manufacturing SMMEs find themselves in a cycle of frustration – no skilled labourers, thus low production. Coupled with lack of markets and tough competition; lack of working capital and capital for expansion is imminent. This cycle results in people losing jobs and manufacturing SMMEs either shutting down or just getting by.

Results show that SMMEs mainly finance their businesses using internal financing (owner's savings, retained profits, new capital injection from owner/manager) as compared to external financing (debt and equity). In a way, the modified credit rationing theory assumptions are evident in the results. The theory suggests that firms prefer to finance their businesses starting with internal finance for these reasons – they do not have collateral, to reduce chances of failure to pay back and to avoid high interest rates (Huang, 2014; Mwobobia, 2012). According

to the study results, 59% of the SMME respondents have never borrowed money for their firms, while 41% have borrowed. Either this is a clear indication that SMMEs fail to borrow or they are not keen to borrow.

A study by Padachi *et al.* (2012) in Mauritius on manufacturing SMEs concluded that SMEs use informal sources of working capital such as shareholder loans and bootstrap finance. Their findings consent to the current study findings, which mention use of internal financing as the major source of funding. This is caused by difficulties in SMEs obtaining loans. Although Padachi *et al.* (2012)'s was limited to SMEs and the current study covers micro-enterprises; comparison between the two studies shows close similarities. However, a study by Zoppa & McMahon (2002)'s study in Australia on mixed SMEs did not agree that SMEs do not borrow because of bank credit rationing. Rather they concluded that businesses adhere to a hierarchy of financing sources and prefer internal financing when available. The distinguishing word there is 'prefer.' Therefore, it should be noted as also evidenced in the current study findings that there are some SMMEs that do not intentionally get loans or they want to grow their businesses slowly, but surely with risk of them losing collateral to the bank.

The reasons for SMMEs not borrowing are the same as suggested by the theory above. Correspondingly, the fact that majority of manufacturing SMMEs have never borrowed tallies with results from commercial bank participants who assert that banks rarely finance SMMEs unless they met requirements such as good records and collateral. Thus, SMMEs are forced by circumstances to rely on limited internal finance, as they do not qualify for loans and issuing share equity that are suggested by the modified credit rationing theory. This scenario complicates business for Botswana manufacturing SMMEs as the sector requires a large capital outlay for warehouses, workshops, equipment, machinery, salaries/wages for a large workforce (typical of manufacturing sector), and in some cases importation of raw materials. The sad reality for Botswana manufacturing SMMEs is that most of them end up just surviving or they wind up.

Furthermore, results according to Figure 4.9 depict that 79 per cent of participants started their businesses and are most likely to be financing their firms using 'own money' or internal financing sources, as the pecking order theory purports. The rest got initial finance either from family and friends (4 per cent), government support (including CEDA, 14 per cent) and only 2

per cent from commercial banks and 1% from micro lenders. Commercial bank lending is so low because of the challenges faced by loan applicants when trying to borrow – lack of collateral, long application process which causes applicants to lose patients and lose business opportunities; and assumption by SMMEs that banks do not want to lend them money, poor financial history and high interest rates. The situation arises from the fact that an SMME owner/manager would obviously want to get a loan as quickly as possible to take advantage of an opportunity before competitors take it away. However, as the modified credit rationing theory assumes, banks are aware of information asymmetry; hence, they are not keen to lend money without first verifying the applicant's history and capability to pay back.

A study by Evbuomwan *et al.* (2013) in Nigeria on a sample of mixed SMMEs indicated that 75.7 per cent of SMME respondents used own funds for business, while only 20.3 per cent used commercial bank finance. Their results are almost similar to the empirical findings of the current study. The main similarity is that in current study, the percentage for SMMEs that used own funding is 79.0 per cent, while Evbuomwan *et al.* (2013)'s study had 75.7 per cent of own funding. The main difference is that Evbuomwan *et al.* (2013)'s study shows 20.3 per cent for SMMEs that borrowed from commercial banks, while in current study it is 2 per cent. The difference is massive on the latter. Thus, there is a need to assist local SMMEs so that they can access more commercial bank loans just as their counterparts in Nigeria. The current study results support a study by BIDPA (2007) among manufacturing SMMEs. The study concluded that limited commercial bank financial support for SMEs makes them solely dependent on government support. However, the paradox is that the Botswana government, going through financial lows due to low demand of minerals, may not be able to keep supporting SMMEs. Hence, commercial banks have to chip in and finance more SMMEs, lest they collapse.

Financing is the main challenge for SMMEs. Table 4.11 illustrates that during start-up, almost 48 per cent of manufacturing SMMEs start business with self-finance of BWP 10000 or less. They are limited in finance; hence, they start small, lacking major amenities that could possibly boost their chances of succeeding in the sector. Only about 24 per cent of the participants start with BWP10001 – BWP50000, this is inadequate for a manufacturing firm that can supply big customers and grow into exportation.

If banks were not doing credit rationing, SMMEs could possibly collaborate with the SMMEs by financing and mentoring them. Similarly, while the government has been supporting SMMEs through CEDA, Youth Fund and other initiatives, focus should have been on giving loans of that are not too big such as BWP 1 million to one company; but probably BWP 100 000 to BWP200 000 per firm. In that way, more SMMEs would have benefited in the manufacturing sector. Contrarily, if banks did not do credit rationing, they would run a risk of lending money to firms that fail to pay back as commercial bank study results demonstrate that majority of manufacturing SMME owners/directors/managers lack character. They are mostly indebted and sometimes they divert loans for personal money consumption. If that happens, then the firms do not benefit, commercial banks get bankrupt and the money lost by banks, being customers' money, means that the nation experiences more financial problems. Therefore, there is need for a balance between banks' lending in time, but still taking enough time to crosscheck financial history of applicants.

Arguably, literature shows that other SMMEs in service and retail industry are doing better (Jefferies, 2014; Shemi, 2013; Mannathoko, 2011; Okurut *et al.*, 2011). The obvious reasons for Botswana service industry to perform better than the Botswana manufacturing sector include – there is little capital outlay needed in the service industry; there is rarely a need to hire many people; there is rarely any need to hire huge equipment and machinery, warehouses and workshops; and service industry rarely needs to hire experts, which are expensive. Thus, comparison of performance among industries can be unfair because the financing needs and level of operations are never the same. This explains one of the reasons why manufacturing SMMEs are lagging behind.

The hypothesis has been tested in this study through questions asked in the SMME questionnaire. For instance, when participants were asked to rank challenges, which they face; lack of capital came as the number one challenge. Therefore, considering all the questions where majority of respondents responded in the affirmative that financing challenges are a hindrance to SMME development; the result is that the researcher has failed to reject the null hypothesis. It is therefore, implied that lack of financing is indeed a factor militating against growth and success of manufacturing SMMEs. This is because both literature review (Okurut *et al.*, 2011; BIDPA, 2012; Mwobobia, 2012; Acquah & Mosemanegape; Okurut & Ama, 2013; Kim & Suh, 2009)

and the current study have proven beyond any doubt that lack of financing is a major hindrance to development of manufacturing SMMEs in Botswana.

5.4 Objective Three: Practical Solutions to Financing Challenges Faced by Manufacturing SMMEs in Botswana

H₀₃: There is no unique solution to financial challenges faced by Botswana manufacturing SMMEs.

The trend suggests that the majority of SMMEs in the manufacturing sector are micro-enterprises, followed by small enterprises and finally medium enterprises. Most entrepreneurs tend to run businesses for survival and a few of the micro enterprises survive to grow into small businesses and let alone medium enterprises (Makgala, 2013). The trend agrees with the Republic of Botswana (2010) which shows the results of the 1998 SMME Policy with more micro-enterprises followed by small enterprises and lastly medium enterprises. Therefore, financing and managing assistance to SMMEs should not just focus on SMEs, but also they should be tailor-made for micro-enterprises as they are in the majority. This study has equally proven, as suggested by Okurut *et al.* (2011), not only that there are high numbers of sole traders and family owned SMEs in Botswana; but, also that the same applies to micro enterprises. This is because there are low barriers of entry for micro-business and these businesses are meant to support the family, thereby remaining micro over the years. Practical solutions are expected to help micro and small enterprises to grow into big corporations.

Practical solutions in this study come in three main ways. The first way is the conclusions, policy implications, and recommendations by the researcher in chapter 6. The second way is through recommendations by manufacturing SMME respondents to various stakeholders – government, CEDA, commercial banks, start-up and struggling entrepreneurs and other manufacturing SMMEs. The third way refers to suggestions by commercial bank respondents to manufacturing SMMEs.

This section considers the second and third ways mentioned above. In the second way, manufacturing SMME participants were asked by the researcher (through the questionnaire) to

suggest ways in which various stakeholders could provide assistance to SMMEs and also the SMME respondents were to suggest ways for sustenance of other SMMEs. In the third way, commercial bank participants (through interviews) were asked to suggest ways in which manufacturing SMMEs could improve their chances of success and success in borrowing.

According to results, SMME participants mainly suggest that up-coming SMMEs and other SMMEs should be patient in business. They should not give up too early. It would have been expected that most of the advice would be on seeking funding or saving money as suggested by literature (Narmandakh, 2014;), the participants mainly suggest that other SMMEs should engage in good marketing and networking (Figure 4.14). The latter illustrates that SMME success is not only a matter of getting financing, but making sure to get and keep customers. This agrees with Haron *et al.* (2013) who suggests that financing alone is not enough; rather SMMEs should improve other aspects of their firms. On the same note, Mukumba (2014) in his cross-sectional survey of South African SMEs concluded that resources constraints among SMEs need critical success factors such as good product performance and attracting repeat customers. This goes a long way to illustrate that, although financing is the main challenge; SMMEs and other stakeholders need to have a holistic outlook on challenges so that suitable and long-term solutions can be implemented.

The main suggestion to the government by SMME respondents (Figure 4.15) include that government should come up with policies that favour issuing of workers' permits to skilled expatriates. This is critical for manufacturing SMME development because SMMEs in this sector highly need special skills, which are not available now in Botswana. Thus, when government policies frustrate hiring of expatriates, it negatively affects business. At the same time, it defeats the purpose of spending time and money seeking foreign direct investment when the foreigners come to invest and they suffer from lack of work and residents permits. Furthermore, SMMEs would like to collaborate with foreign investors to run business; but currently the policies are not conducive.

Colleges and universities in Botswana are implored upon to collaborate with industry by consulting the manufacturing industry before launching courses. This will ensure that graduates are relevant to industry, which is not the case now. Most graduates are not industry-ready – they

are full of theory, which does not help employers. Thus, many graduates remain unemployable. That is why Figure 4.16 suggests mainly that tertiary institutions should switch to groom graduates using practical subjects. Tertiary institutions are also encouraged to bridge the knowledge gap between the workplace and the tertiary institutions. This could be done by offering more short-courses through evening school and during weekends. By so doing, existing employees and managers can increase their knowledge base.

Financial institutions such as commercial banks and government support enterprises have been urged by SMME respondents to reduce loan application procedures so that time and opportunities are not wasted in the process. There is an encouragement for the institutions to also research enough so that they can avoid assumptions that all SMMEs are non-payers. Overall, this is meant to reduce the asymmetrical information problem between the supply-side and demand-side of financing.

The hypothesis has been tested in this study through asking questions via questionnaire to participants concerning suggestions for solving financial challenges. The researcher failed to reject the null hypothesis, as the various responses given were not applicable to all SMMEs. It is therefore, implied that while there is no one unique solution for financing challenges of manufacturing SMMEs, commercial banks could play a major role in financing the firms.

5.5 Objective Four: Role Played by Commercial Banks in Helping Manufacturing SMMEs

H₀₄: Commercial banks do not play a significant role in financing Botswana manufacturing SMMEs.

This objective sought to understand the roles played by commercial banks in supporting manufacturing SMMEs. As illustrated in Table 4.13 in Appendix G, the main roles of commercial banks can be summed up into short-term financing and long-term financing. Short-term financing includes purchase orders, motor vehicle financing, working capital and term capital, invoice discounting. Long-term financing includes property loans and business

development loans. The other roles include business guidance, business protection insurance and internet banking.

Empirical results of this study showed a significant relationship between commercial bank roles and the corresponding needs of manufacturing SMMEs. Rasool et al. (2013) who carried a study in Pakistan on mixed SMEs using cross-sectional research echo this. Their findings were that commercial banks are the core source for SME borrowing. While their study was for general SMEs, they excluded micro enterprises and the study was not specific on manufacturing SMMEs. However, their study shed some light on the essence of the role played by commercial banks, which agrees with current results.

However, not all the bank participants offer the same roles. For instance, Bank2 only gives short-term and long-term loans, but does not finance SMMEs with purchase orders and invoice discounting. In the study sample, only Bank1 that gives business guidance to customers. Meanwhile, Bank3 gives business protection insurance, which other banks do not offer. Although the banks differ here and there in their roles, they have a number of similarities - all the banks require collateral security from applicants, they provide internet banking, they all offer long-term loans if one qualifies, and all of them carry out due diligence before they finance any prospective client.

While banks are keen to support all SMMEs, they are also bound by a duty to keep cash depositors' money and to abide by government laws and regulations. For instance, in the renowned article, Corrigan (1982) argued that banks are special because: a) they provide transaction services and administer the payments system of a nation; b) they provide backup liquidity to the economy; and c) they are transmitters of monetary policy. Due to banks' special functions in any economy, the central government sets some controls and support mechanisms to make sure banks thrive and help develop the financial aspect of the economy.

However, banks tend to be risk averse when it comes to financially supporting SMMEs. For instance, a study by BIDPA (2004) on the manufacturing SMEs revealed that high costs for finance exacerbate importation costs of raw materials and other inputs by SMMEs. Banks are more risk-averse and prefer to lend favourably to financially viable firms. Commercial banks'

collateral requirements are very high; and SMEs lack credit history. Consequently, up to date, it does not look like commercial banks have changed their stance of being risk-averse in Botswana.

Looking at the roles of commercial banks helps one to understand information asymmetry where the banks take time to choose whom not only to give funding; but to whom to serve in the first place. This is because they have missing information about the prospective client (Messah & Wangai, 2011; Maziku, 2014). Therefore, for them to be profitable, they have to be careful in their dealings and minimise risk. Unfortunately, that behaviour, termed credit rationing ends up disadvantaging genuine applicants.

The hypothesis has been tested in this study through asking interview questions to heads of SMME banking of three commercial banks in Botswana. The author rejected the null hypothesis as respondents revealed that they assist SMMEs in various ways, although sometimes SMMEs limit themselves due to various reasons such as lack of records, being indebted and lack of transparency.

5.6 Objective Five: Exploration of Challenges Faced by Commercial Banks When Trying to Finance Manufacturing SMMEs in Botswana

H₀₅: Commercial banks are not willing to finance SMMEs

This objective sought to establish the challenges, which commercial banks face when trying to finance SMMEs.

Most studies focus on SMME challenges and therefore, miss the bankers' perspective. Basing on the questions answered by bank participants and almost similar questions asked to SMMEs, for instance, the question on whether SMMEs keep records; results demonstrate that commercial banks refuse to finance an SMME for a solid reason. They are willing to finance SMMEs, provided the SMMEs take time to understand bank requirements. Therefore, the researcher rejected the hypothesis. This means that while the assumption of most people is that commercial banks are unwilling to finance SMMEs, the reverse is true, although banks are cautious in lending due to information asymmetry.

The above perception is echoed by Ghimire & Abo (2013) who carried out a study of mixed SMEs in Cote D'Ivoire. Their conclusions were that existence of information asymmetry between banks and potential SME borrowers has severe implications in the banks' lending methodologies. Thus, they argue that information asymmetry and inadequate collateral are two major constraints that limit the flow of credit from banks to SMEs. This is also supported by the current empirical findings. Nevertheless, it is not always the case that SMMEs suffer from credit rationing. This latter view is illustrated by Kremp & Sevestre (2013) who studied French SMEs and concluded that French SMEs did not suffer from a strong credit restriction during the financial crisis of 2008 and beyond. However, their conclusions are quite specific to France's situation and do not get support from other studies.

The expectations of commercial banks, when unmet result in failure of SMME applicants to obtain funding. The requirements include 1) keeping up-to-date records according to Bank of Botswana standards. This helps banks to track financial history of the firm that wants to borrow, 2) getting ready with collateral security. This assures the bank that in case the client fails to pay, the bank has security. Bankers want SMMEs to remember that bank money is not theirs; banks are just an intermediary between cash depositors and cash borrowers. Therefore, banks have to be extra cautious in lending, lest they lose depositors' money and get into trouble; 3) SMMEs should tell the truth about their history so that banks can be able to assist them accordingly. Telling lies about financial history and being generally dishonest create more misunderstandings between the bankers and the prospective client; and 4), SMMEs need to save part of their profits to demonstrate responsibility and maturity. Banks are not keen to keep financing SMMEs that sometimes earn many profits, but then keep on borrowing money at will. This behaviour by SMMEs gives a wrong picture to lenders.

The above findings establish the same connotations as the study done by Mwobobia (2013) on *The Role of Banks in Empowering Women Entrepreneurs in Small and Micro Enterprises (SMEs): A Case of Co-operative Bank of Kenya*. Mwobobia used random sampling approach and on 100 women entrepreneurs. The challenges faced by the bank include among others: failure by some borrowers to pay back loans, some clients divert funds borrowed from the bank into non-business activities and poor financial management. Mwobobia (2013) study recommendations include: extension of loan repayment period for clients, giving of loans in

terms of assets rather than just cash, educating customers on the significance of timeous loan repayment, training women entrepreneurs on money, budgeting and general management aspects. While the study may apply to all SMMEs, the researcher would be keen to know how this specifically applies to manufacturing SMMEs as they face peculiar challenges.

On the other hand, as depicted by results of this study, Beck (2013: 75) argues that if the financial sector is to have its main affect assisting African economies, it should provide credit and other financial services to enterprises. However, Beck continues to argue, *"It is not so much the overall level of credit, but rather the allocation of credit to the most credit-needy and – more importantly – credit-worthy that matters."* As such, if commercial banks are some of the major financial players of any nation, they should not only emphasize on giving SMMEs transactional services, but also extend credit services to deserving SMMEs and possibly devise ways to educate the undeserving SMMEs so that they too can be ready. Thus, while they are careful with information asymmetry, banks need to be more flexible. Nevertheless, According to Haron *et al.* (2012), character/management plays a significant role on the probability of loans approved by bank credit officers. They regarded character as the firm owner/manager's personality, record of accomplishment of management style and repayment of loans. This therefore means that an owner/manager that has problematic management style, poor leadership skills and a poor record of accomplishment of repayment of loans finds it hard to get financing for both self and for business. Even though the commercial bank might be willing to finance such an owner/manager, character can be the obstacle to financing. This coincides with results of the current study emanating from the supply-side, where banks mentioned that they sometimes fail to fund certain SMMEs due to dishonesty.

Therefore, it can be concluded that commercial banks are willing to finance SMMEs, but not all SMMEs *'have clean hands'* as one participant expressed. A financing relationship is a two-way process. It is also the role of would-be-borrowers to do their homework and keep good records before thinking of seeking for loans. The same applies to getting finance from angel investors and venture capitalists; and to a certain extent getting financing from loved ones. They too want to know how organised the borrower is, how prepared (by way of business plan) and how much the SMME owner/director is willing to put down as a deposit into their business. Otherwise, why would one expect other people to invest in their business when they themselves

are not willing to put down capital into the business (Mutoko, 2015)? Therefore, commercial banks are not mean; rather they are extra cautious due to history.

Nevertheless, while commercial banks can be understood when being extra cautious with SMMEs, they also need to remember that not all SMMEs are the same. Thus, commercial banks need to take time to understand each client as an individual entity. This could increase chances of a better relationship between SMMEs and commercial banks.

The hypothesis has been tested in this study through interview questions to heads of SMME banking of three commercial banks in Botswana. Findings caused this study to reject the hypothesis because commercial banks explained reasons why they fail to finance most SMMEs. It is therefore, implied that while SMMEs blame commercial banks for failing to lend them money; the firms need to improve financial management to increase chances of attracting funding.

5.7 Objective Six: Exploration of the Challenges that Hinder Manufacturing SMMEs from Tapping into Available Opportunities

H₀₆: Manufacturing SMMEs find it hard to exploit available opportunities

In this objective there was need to investigate what causes Botswana manufacturing SMMEs not to take advantage of any available opportunities.

SMME participants complain about costly imported raw materials. However, one wonders whether all manufacturing necessarily need to import raw materials. Botswana has some of the most abundant cattle bi-products such as hides, bones, meat, and horns, which could be processed and exported. One then wonders why no manufacturer of note is producing large sums of products from bi-products of cattle. Furthermore, one wonders why with all the trees in Botswana, the country still imports small things like matches and toilet paper. Additionally, Botswana has some of the most abundant sunshine in the world (BITC, 2016; World Bank, 2012), available almost all-year-round, but why does Botswana rely mainly on importing

electricity rather than have some SMMEs supplying solar energy? Why do SMMEs not tackle the power supply challenge, reduce power cuts, and even export power to other countries indeed? Could there be SMMEs that can exploit these opportunities? What could be lacking among manufacturing SMMEs?

A study by Kapunda (2005) on the manufacturing SMEs postulated that advantages of industrialization include diversification away from the primary sector towards manufacturing. Unfortunately, more than ten years later, the manufacturing sector in Botswana is still ‘in its infancy.’ While the government is now facing extinction of diamonds (the major revenue source); the only hope is diversification. It implies therefore that manufacturing SMMEs need to develop quickly and help diversify the economy.

One of the main key skills for success among entrepreneurs is the ability to identify and utilize opportunities. Botswana manufacturing SMMEs have an opportunity to export and grow their market beyond the borders of Botswana (Mutoko, 2014). This helps them to deal with the query of ‘*Botswana market is too small.*’ We are now in a global village and SMMEs need to take cognisance of that. However, results reveal that only 15.9% of manufacturing SMMEs are involved in selling both to the local market and exporting. 84.1% of the firms merely sell locally (See Table 4.15). As mentioned by Mwobobia (2012), Nkwe (2012) and Mutoko (2014), opportunities are there across the borders, but SMMEs struggle for local market share of 2 million people; thereby neglecting a bigger market of SADC of approximately 200 million people, and better still the market of Africa of about 1 billion people. According to Naidu and Chand (2012), SMMEs in the manufacturing sector of industrialized countries are mainly export-oriented. However, in Botswana most manufacturing SMMEs sell locally. This suggests that SMMEs lack information for international and global exposure.

Results in Figure 4.19 demonstrate that most SMMEs rely on advertising in newspapers in order to get customers. It suffices that in Botswana, firms tend to rely on word of mouth and networking to get more customers, as compared to newspaper adverts. However, results show that most SMMEs rely on 18% word of mouth marketing. This suggests that most participants have not built strong networks that can give them more customers, thus developing opportunities for business growth.

While financing challenges have been discovered as the main impediment of SMMEs (Singh & Singh, 2014; Lekhanya & Mason, 2014; World Bank, 2011; Kapunda *et al.*, 2007), other challenges such as management challenges and “*skills shortages*” (Deloitte, 2016:5) play a key role in whether a firm gets financing or not. This is emphasized by SADC (2014:22) “*challenges facing the SME sector include operational capacity; limited management and entrepreneurial skills ...*” Management challenges such as record-keeping, resource management and financing challenges such as lack of access to finance play a critical role in business start-ups (BIS, 2012; Mutoko & Kapunda, 2015b). (See results on SMME management challenges in Appendix I). Thus, manufacturing SMME challenges should never be viewed in isolation; but rather they need to be viewed with a big picture so that appropriate solutions can be tailor-made for the sector.

The ideas given by respondents for improving SMMEs’ exploitation of opportunities were brilliant, although the majority of respondents, especially micro-enterprises left the questionnaire blank on the opportunities section. This demonstrates SMMEs’ scant knowledge of existing opportunities, as the majority of participants that engage in exportation are medium enterprises. It can be concluded that micro and small enterprises lack exposure to knowledge on opportunity spotting and maximization.

As Shemi (2013)’s study discovered, ‘*Competition*’ among SMMEs is tough in Botswana because the local market is small. It therefore follows that business opportunities that can easily be exploited by any enterprise attract tougher competition. However, with international markets and arrangements such as the Southern African Customs Union (SACU), African Growth and Opportunity Act (AGOA) and SADC, SMMEs need to engage and be able to tap into opportunities. They should also join associations such as BEMA and Textile Association of Botswana so they share ideas with colleagues and get exposure, empowerment, and support from the association.

Majority of SMME participants demonstrate that they are busy in their operations, but do not know much about opportunities both locally and abroad. Sadly, Botswana has many by-products of meat, which could be processed and exported, but SMMEs have not gotten enough knowledge and expertise on how to grow their enterprises to that level. Apart from the issue of opportunities, participants mentioned overall that their biggest challenge causing them not to

expand is lack of capital and shortage of skilled labour. The latter assertion is in consistence with the findings in Table 4.3, which state lack of capital as the number one challenge hindering SMME development. This supports the null hypothesis on financing challenges – that financing challenges are a major factor militating against manufacturing SMME growth and success. However, on another note, SMMEs' failure to utilize opportunities implies that financing challenges are possibly increased by the SMMEs' failure to use opportunities.

The hypothesis has been tested in this study through asking SMME participants via questionnaire. The researcher failed to reject the null hypothesis as respondents confirmed that they fail to maximize opportunities due to challenges of which chief is lack of financial capital. It is therefore, implied that one way to solve financing challenges of manufacturing SMMEs in Botswana is through commercial bank lending.

5.8 Objective Seven: Assessment of the Current and Past Success Rates of Manufacturing SMMEs in Botswana

H₀₇: The success rate of Botswana manufacturing SMMEs is low

The objective was meant to find out how many of the manufacturing SMME participants are successful considering their profitability and growth.

Success rate of SMMEs is usually difficult to measure. However, in this study, it was measured by the level of growth and continuity over the years (Pettigrew, 2011) and profitability (Laforet, 2013; Agnihotri, 2013) where each participant answered questions on the level of their firm's – sales turnover, gross profit, and net profit. High profits and turnover would imply success, while low profits would mean low success. Results have not been favourable in this regard, as Figure 4.20 shows that approximately 76 per cent of participants had performed average or poor over the past ten years. This however, resonates well with literature, which depicts that generally manufacturing sector in Botswana has remained in infancy over the years (Sigauke *et al.*, 2014; World, 2011; Kapunda, 2007; Ndaloma, 2007; BIDPA, 2012; Okurut & Ama, 2013).

Indications from Table 4.18 are that single/family businesses rate success over the past ten years as good at 15.8 per cent, while joint owned business mention 23.5 per cent as good.

This implies that joint owned businesses seem to be doing better than single/family businesses. In conclusion, joint-owned businesses (which are joint ventures between citizens and foreigners) have an added advantage, for example, a Motswana in business with a South African partner derives an advantage over single/family business in the networks and wealth experience brought in by the expatriate. Therefore, single/family businesses need to seek collaborations with other more knowledgeable and more connected people to increase their success chances. Similarly, potential SMMEs in manufacturing need to be open to possibilities of collaborating with foreign investors that throng the country due to its good standing in the international arena on peace, middle-level country status among others (BIDPA, 2012; Republic of Botswana, 2015b; Republic of Botswana, 2016).

A study by Abdulsaleh & Worthington (2013) in Australia among mixed SMEs supported the above-mentioned notion that larger firms have an upper hand in obtaining finances as compared to SMMEs. Thus, if SMMEs in Botswana can collaborate with bigger firms, they will find their financing and other challenges being alleviated, that will increase their success rate. On the other hand, an explanation for the lack of success by local SMMEs as indicated by the current study could come from a study by Sigauke *et al.* (2014) in Francistown, Botswana, among mixed SMMEs. Their study findings were that citizens own less sophisticated firms such as pharmaceutical etc. compared to foreigners. Citizens are reluctant to go into business, preferring rather to be employed. Then with the current rate of unemployment above 20 per cent, it is ideal for SMMEs to be trained to be ready for entrepreneurship rather than seeking employment, which in any case is very scarce.

The hypothesis has been tested in this study through comparing facts from literature review and responses from questionnaires to manufacturing SMMEs. The main determinants of success included net profits, gross profits, and sales turnover. The researcher failed to reject the null hypothesis because findings indicated that manufacturing SMMEs are not as successful as they ought to be.

5.9 Conclusion

This chapter has presented the results from the questionnaire survey that was administered to manufacturing SMMEs and results from interview questions that were done with participants from the commercial banking sector. The findings show that manufacturing SMMEs face a number of challenges, chief of which is financing challenges, then in descending order – lack of market, tough competition, shortage of business skills, tough regulations and lack of accounting records. Commercial banks have revealed that most SMMEs, apart from lack of collateral, fail to secure debt due to character challenges. The next chapter lays out main findings of the study, conclusions, policy implications, and recommendations.

CHAPTER SIX

MAIN FINDINGS, CONCLUSION, POLICY IMPLICATIONS AND RECOMMENDATIONS

6.1 *Introduction*

Chapter 5 discussed the empirical results of the study, linking the results to empirical findings of the literature review. The study was organised as follows: chapter 1 looked at the research problem, research questions, and research objectives, significance of study and definition of terms. Chapter 2 contains a discussion of literature review. Chapter 3 looked at the methodological aspects of the study. Chapter 4 presented study findings and analysis. Chapter 5 discussed the empirical study findings. This chapter briefly summarises the main findings, presents conclusions of the research, give policy implications and makes recommendations.

6.2 *Summary of Main Findings*

This thesis explores the gravity of the main challenges faced by manufacturing small, medium, and micro enterprises (SMMEs) in Botswana, their causes and opportunities.

This study has established that the factors influencing manufacturing SMME borrowing in Botswana are SMME owner/director/manager's gender, marital status, and sales turnover. The study found that length of SMME owner/director/manager in position and level of educational qualifications does not influence borrowing.

From the results, manufacturing SMME growth and development have been hindered by many factors, namely (in descending order), lack of capital, lack of access to markets, tough competition, shortage of skilled labour, tough regulations and lack of accounting records. Alleviating these challenges implies that SMME development will be enhanced.

According to findings, majority of SMME participants were micro-enterprises as compared to SMEs. This resonates with the 1998 SMME Policy Paper, which also showed a high number of micro enterprises over SMEs (Republic of Botswana, 1999). The paradox is that while manufacturing sector in Botswana has very little research done; majority of the studies on SMMEs in general tend to neglect micro enterprises and assume that they are just there to feed families and not to grow big. This suggests that financiers, policy makers and other stakeholders

need to focus most efforts to develop micro-enterprises so that with time they grow into SMEs, large enterprises and then corporations.

There is a problem related to scarcity of data on manufacturing SMMEs in Botswana. Thus, the study contributes significantly to the knowledge bank. One hundred manufacturing SMMEs around Botswana using random stratified sampling technique filled in structured questionnaires. Furthermore, three out of seven commercial banks that have SMME banking support (selected using homogenous purposive sampling technique) were administered with semi-structured interviews to find out their working relationship with SMMEs.

While there are obvious reasons for SMMEs to fail to get loans, for instance, lack of collateral security; according to results, SMMEs admit one of their weaknesses as being a lack of up-to-date accounting records, which commercial banks affirm to be a major weakness of SMMEs that causes commercial banks to be unable to finance them. According to commercial banks' participants, other SMME weaknesses include poor banking history, unrealistic dreams, and indebtedness.

The hypothesis that commercial banks are unwilling to finance SMMEs has been rejected. This is because looking from both results from SMME respondents and commercial bank participants, there is enough proof that most of the time, SMMEs fail to get financing because of demand-side short-comings – no record-keeping, dishonesty with financial history, lack of collateral, indebtedness etc. as opposed to the common misperception that banks just do not want to finance SMMEs. Nevertheless, commercial banks should not be so over cautious about fear to lose money to untrustworthy and incompetent SMMEs such that the banks treat clients the same. By so doing, they may miss good potential clients through the generalizations. The implication therefore is that commercial banks should treat each applicant individually and research on them as is necessary. An understanding of the information asymmetry problem by both the demand-side and supply-side could help smoothen the working relationship between the two parties; thereby resulting in further SMME development.

In conclusion, majority of SMME participants demonstrate that they are busy in their operations, but do not know much about opportunities both locally and abroad. Sadly, Botswana has many bi-products of meat, which could be processed and exported, but SMMEs have not

gotten enough knowledge and expertise on how to grow their enterprises to that level. If the SMMEs get enough information and training on marketing and exportation, they could take advantage of the 200 million market of SADC and 1 billion market of Africa. Possibly they could go ahead to explore the several billions of the world. Conclusion and recommendations with policy implications are made to SMMEs, government, commercial banks, and tertiary institutions to develop manufacturing and other SMMEs.

6.3 Conclusions

The analysis of results above created some fascinating findings concerning SMME challenges from both the SMME views and commercial banks' views. It has been found that manufacturing SMMEs are struggling not only with lack of finance, but also with other hindrances. In the process, thousands lose their jobs; which increases unemployment. All stakeholders can collectively come up with solutions for the challenges faced by manufacturing SMMEs. The conclusions are written below as per research objectives.

Objective 1: To determine the factors that influence manufacturing SMMEs' borrowing

The factors influencing SMME borrowing, according to the results are gender, marital status, and sales turnover. It is upon SMME owners to make sure sales volumes go up yearly; get married if not yet, and for males to collaborate with females in business for both gender equality and the benefit of females being able to get loans ahead of their male counterparts. Collaborations with foreign investors could even give better returns in the form of more experience, capital availability, and expertise from the foreign investor.

Objective 2: To examine the financing challenges faced by manufacturing SMMEs in Botswana and their causes.

While the Botswana government has come up with many initiatives for SMME development, most of them were tailored towards SMEs and not micro enterprises. A shift in the direction of micro-enterprise development could result in micro enterprises growing to become corporations. The government alone cannot finance SMMEs. Rather the help of commercial banks could make a big difference, provided the information asymmetry risk is reduced.

Objective 3: To develop practical solutions to financing challenges faced by manufacturing SMMEs in the country.

The study proves that the credit rationing theory is evident in the Botswana manufacturing sector. There is the challenge of information asymmetry between commercial banks and manufacturing SMMEs. A modified credit rationing theory was used in this study, incorporating both the information asymmetry theory and the pecking order theory idea that firms will first use internal sources of finance before they try debt and equity. While the evident element of information asymmetry from credit rationing theory was proven to exist in Botswana manufacturing sector, the pecking order element was also found to be evident because most SMMEs in the sector depend on internal sources of financing such as owner's savings and ploughing back profits.

Objective 4: To evaluate the role played by commercial banks in helping manufacturing SMMEs

The study concluded that commercial banks play a major role in support of manufacturing SMMEs. Commercial banks differ in the support services, which they offer – including short-term and long-term finance. However, the financing service is a bit limited due to client unreadiness to provide what the banks require when one is borrowing money.

Objective 5: To assess challenges faced by commercial banks when trying to finance manufacturing SMMEs.

While banks have been blamed in the past for not being willing to financially support SMMEs. However, this study shows that, SMMEs have themselves to blame for not getting funding. Some of the reasons include lack of accountability, lack of transparency, and excessive indebtedness elsewhere. If SMMEs can reduce the asymmetric information gap, they increase chances of getting finances from commercial banks.

Objective 6: To investigate the challenges that hinder manufacturing SMMEs from tapping into available opportunities.

According to the results, manufacturing SMMEs in Botswana have extensive business opportunities, but ‘lack of finance’ is their biggest challenge, followed by ‘lack of market.’ The third biggest challenge of SMMEs – ‘tough competition’, could easily be solved once the first two are done with. This is because ‘lack of market’ (due to SMME reliance on local market only, without exportation) is the main cause of ‘tough competition.’ However, if exportations begin, the competition gradually goes down. The fourth challenge of ‘skilled labour’ needs a relaxation of policy on employment of expatriates to help local companies to survive, while tertiary institutions begin to produce graduates that are industry ready. The fifth major challenge of SMMEs – ‘tough regulations,’ also falls in the hands of policy makers to bring incentives that promote SMME development. Finally, the sixth main challenge – ‘lack of records’ is the onus of SMMEs to execute and get themselves ready for commercial bank and investor requirements.

Objective 7: To assess the current and past success rates of manufacturing SMMEs in Botswana

The success rate of firms, considering net profits, gross profits and sales turnover shows that it is minimal over the years. Therefore, since SMMEs are more in number in the manufacturing sector, it is noble for government policy makers and commercial banks to support SMMEs into success.

In conclusion, based on the analysis of findings, the researcher concludes that the aim of this study was adequately realised given that the key challenges of SMMEs were explored. Furthermore, while the study is not exhaustive, the researcher is satisfied that the twofold research of SMMEs and commercial banks at the same time brings authentic results that can help SMME development and the economy. The researcher is convinced from the findings that if no serious action is taken by relevant stakeholders to revive the manufacturing sector, capable SMMEs will keep closing down or just living ‘living from hand-to-mouth’, thereby compounding the current national challenges of unemployment, poverty, lack of diversification and higher imports over exports.

6.4 Policy Implications and Recommendations

The study recognizes the role played by the Botswana government, financial institutions and other stakeholders in developing and supporting SMMEs. New policies are needed to boost the manufacturing sector SMMEs in Botswana. Some outdated policies on SMME development need to be revised. Therefore, to support the SMMEs, particularly in the manufacturing sector, the researcher suggests the following policy implications and recommendations to specific stakeholders. The conclusions are written below as per research objectives.

Objective 1: To determine the factors that influence manufacturing SMMEs' borrowing

Tertiary institutions have to hire skilled and qualified instructors/lecturers that have industry experience to enable them to deliver value, not only theory to students. This is important because the practical quality of instructors/lecturers determine the practical quality of graduates that later become entrepreneurs or employees in the manufacturing sector. This in turn determines profitability of firms.

Since married couples are more likely to obtain bank funding, according to this study, government and other stakeholders should promote marriage among residents and citizens, as compared to cohabitation.

Results show that males dominate the manufacturing sector. However, according to this study, females have a higher chance of receiving bank financing as compared to males. This is because females are traditionally breadwinners in Botswana and more responsible than males. Therefore, more females need to be lured into investing in the manufacturing sector or to collaborate with males to increase chances of financing.

Profitability is key to the success of any firm. Since SMMEs are struggling with accounting records, shortage of skills, and scarce resources, they should engage in regular formal and informal training to keep abreast with the changing business environment so they can remain relevant. The formal training can include sending management and/or staff on refresher courses, workshops, seminars, and short courses. Informal training can include personal development encouraged by having a company library, which helps staff and/or management to study and

remain open-minded, and abreast of changes in the industry. One of such forms of training should be acquisition of money management skills such as ‘finance for non-finance managers,’ which is offered by local institutions such as Botswana Accountancy College and BAISAGO University.

Objective 2: To examine the financing challenges faced by manufacturing SMMEs in Botswana and their causes

Due to financing challenges, which are partly caused by information asymmetry, SMME owners/directors/managers ought to develop a good working relationship with bankers. They need to approach different banks for financing and let bankers understand their vision and operations rather than assuming that banks are simply unwilling to finance them. Furthermore, they need to be transparent in all their dealings with the bank to build trust;

Government should implement policies that encourage entrepreneurial skills development and financial literacy at primary school and then secondary school to cultivate the entrepreneurial spirit and financial literacy from an early age to reduce youths’ reliance on employment seeking;

Organizations such as CEDA and the Youth Development Fund and banks should avail micro-loans from P1000 to P20000 so that micro-enterprises can start small and grow. Big funds for newbies can confuse them and throw them off balance.

Objective 3: To develop practical solutions to financing challenges faced by manufacturing SMMEs in the country.

SMMEs need to involve others SMMEs when they win a tender, which they cannot finance. It is better for them to share profits than to lose the tenders due to selfishness. This is one way of financing their projects.

Since it is not easy for SMMEs to get loans, they should follow the modified credit rationing theory. Thus, they should endeavour to use internal sources of finance through bootstrapping (Padachi, et al., 2012; Mutoko, 2015). These include using personal savings; new capital injection by loved ones; ploughing back profits; buying raw materials in bulk instead of

in singular; letting customers pay a certain percentage in advance; negotiating longer payment periods with suppliers; encourage quick payment by customers by offering them discounts; sharing offices rather than wasting space in big facilities; trade credit; buying second-hand equipment, motor vehicles, furniture and machinery; and leasing instead of buying fixed assets;

Legislators should come up with a policy in favour of manufacturing SMMEs so that when SMMEs bid for government tenders, they should have an edge. For instance, it can be suggested that 70% of tenders should go to SMMEs and 30% goes to large enterprises, particularly micro-enterprises, since they are the majority. By so doing SMMEs will have a chance to grow into corporations.

Government should put policies in place for tertiary institutions to revise their courses to fall in line with industry demands, also so that before colleges and universities introduce new courses, they consult with industry lest they introduce courses that add no value to graduates and to the economy. Additionally, government vocational institutions need to revamp their courses to suit industry demand. This can help meet the SMMEs' need for skilled workers.

The government and private sector should join hands to create a centre for entrepreneurial training and development to equip high school leavers and/or tertiary graduates with industry readiness practical skills and personal financial skills.

The government should invite the founder of the Grameen Bank, Professor Yunus of Bangladesh, to come and address financial institutions and other stakeholders on how to set up the Grameen Bank Model in Botswana. This will help micro-finance in Botswana.

Furthermore, the government needs to be more flexible with workers' permits for scarce-skilled expatriates to help alleviate the shortage of skilled labour in the manufacturing sector. Currently, SMMEs claim that there is a shortage of skilled labour in Botswana yet at the same time when SMMEs bring in specialised expatriates, they struggle with work permits. Therefore, government policy on labour issues needs to be revised to suit international standards of doing business.

Currently, the job market is saturated with graduates that do not match industry demands. Therefore, tertiary institutions need to revise their courses to fall in line with industry demands.

When introducing new courses, they should consult with industry lest they introduce courses that add no value to graduates and to the economy.

Objective 4: To evaluate the role played by commercial banks in helping manufacturing SMMEs

Commercial banks can be very pivotal to the success of SMMEs. Therefore, they should reduce paperwork for loan applicants as it discourages potential SMME applicants.

Commercial banks should consider lending money to the unbanked SMMEs. In Botswana, many SMMEs own cattle, vast pieces of land and other resources yet they have no bank accounts. Banks should therefore consider those resources as collateral security.

Mindful of information asymmetry, commercial banks should also be considerate on a case-by-case application to avoid assuming that all SMMEs are failures as this blocks some potential SMMEs from getting financing.

Objective 5: To assess challenges faced by commercial banks when trying to finance manufacturing SMMEs.

Commercial banks should collaborate with SMME applicants through mentorship and advising the clients to ensure success rather than just financing them and desert them.

SMMEs must keep up-to-date business records for accountability purposes and for maintaining good banking requirements.

SMME owners should avoid unnecessary debt, which affects working capital and ends up causing the owner or firm to be blacklisted, thereby failing to qualify for bank finance.

Government can implement a policy that gives incentives to commercial banks so that they can give more financing to SMMEs. Possibly government can come up with incentives such as tax reduction to lure commercial banks into financing and mentoring SMMEs.

Objective 6: To investigate the challenges that hinder manufacturing SMMEs from tapping into available opportunities.

Since manufacturing SMMEs are struggling with lack of market share, they ought to join associations such as the Botswana Exporters' and Manufacturing Association and the Textile Association of Botswana so they share ideas with colleagues and gain international/global exposure.

To enlarge their market and to tap into bigger opportunities, SMMEs need to engage in aggressive networking with other SMMEs both locally and abroad to widen their horizons, thus enlarging their markets. They ought to enquire from embassies how entrepreneurs can penetrate foreign markets.

Since the government is the main customer of the private sector, it should support SMMEs by buying from them rather than buying from international companies thereby increasing imports while local manufacturers are struggling in business. If government buys from local SMMEs, it is hoped that they grow, leading to exportation and foreign currency benefits to the economy, among other benefits. It is recommended that government should put a policy in place, which requests all government departments to buy a certain percentage of their requirements from local companies to empower them. For instance, all government departments can be requested to buy 50% of their needs locally and 50% from abroad. Apart from supporting local SMMEs, this policy will also reduce imports, increase exports, and enhance economic performance.

The government ought to put in place policies that limit international finished products in Botswana in order to support local SMMEs' market access. Other countries such as Zambia have policies that require foreign companies to buy a certain percentage (30%) of materials from within the host country.

Objective 7: To assess the current and past success rates of manufacturing SMMEs in Botswana

SMMEs ought to avoid mixing business money with personal money as it destroys the business. One way of doing this is either engaging the services of a bookkeeper or a part-time accountant.

The government should spearhead forming of tertiary institutions that train the highly scarce skills needed in the manufacturing sector to solve financial and skills shortage challenges in the long-term and reducing reliance on foreign labour. Thus increasing manufacturing SMME success rate.

Government should collaborate with the private sector to sponsor research. for example there is a scarcity of original research results of SMMEs; for instance, currently there is no definite figure of all SMMEs operational in Botswana. Funding should be set aside for research to take place; otherwise, entrepreneurship efforts will not work if crucial data is missing;

Botswana has been blessed with great past and present state presidents. The same way that the current president started an impactful housing scheme, it is advised that he should start a campaign for research and for financing/mentoring SMME start-ups.

6.5 Study Contributions

Firstly, the study sheds light into the gravity of the challenges facing manufacturing SMMEs in Botswana, thereby laying a solid foundation for SMME development in the sector. The research has demonstrated the significance and peculiarity of manufacturing SMMEs in the country. It has dwelt on understanding of the heterogeneity in terms of problems faced by SMMEs, especially in Botswana. In carrying out a needs assessment study for the growth of manufacturing sector, it is an informative research area, which is of paramount importance for appropriating diversification policies. The study will instigate the need for comparative study. Even the previous studies have shown that manufacturing sector is a key sector for diversification (BIDPA, 2007; Mannathoko, 2012; Shemi, 2013). Furthermore, during the course of this study, an officer of the Botswana Economic Diversification Drive (EDD) office who needs information on the particular challenges affecting SMMEs in the manufacturing sector -- sector specific research, told the researcher. This will inform diversification officers on the peculiar challenges facing manufacturing SMMEs and the opportunities thereof.

Secondly, the findings, through the multivariate logistic model, have demonstrated the relationship between the key variables of this study. The variables are gender, marital status, and level of sales turnover. Not only are the variables statistically significant, but they are a

revelation to current SMMEs, potential investors, policy makers and financial institutions. This could help the stakeholders in their decision-making.

Thirdly, in order to aid understanding, the researcher modified the credit rationing theory (with a bit of pecking order theory), which will help advance understanding and further debate on SMME development in Botswana. This is the first known study in Botswana focusing on manufacturing SMMEs to combine demand-side and supply-side factors of financing, and looking at both challenges and opportunities; more so modifying the credit rationing theory. Most studies concentrate on demand-side only (SMEs) or micro-enterprises without inquiring from supply-side (banks). However, this study takes advantage of combining both sides of the financing equation to bring out results that are more comprehensive.

Fourthly, manufacturing is pivotal to industrial development and in the past few years the manufacturing industry has '*remained in infancy*' (McGaig, *et al.*, 2015; Mackintosh *et al.*, 2015). Unfortunately, the few studies done in Botswana on the manufacturing sector are over a decade old; citing need for fresh research as the current one. It is hoped that the study findings will assist policy makers in determining appropriate policies and strategies that can help manufacturing industry to sustainably grow and increase its contribution to Botswana's economy.

Fifthly, the essence of this study findings and appropriate utilisation of the outcome would help the targeted participants (manufacturing industry) to understand the problems this sector is facing and the ways to address it. This transformation would assist both new investors bringing in foreign direct investment and local SMMEs in decision-making; hence, they better their performance. Therefore, the findings will establish ways in which the sector can become competitive locally, regionally and globally in the long-term.

Sixthly, the advent of Botswana's Economic Stimulus Program (ESP) in 2016 meant to boost the economy is aimed at the sectors – manufacturing, agriculture, construction, and tourism. The results of the study come at the right time to guide officers responsible for the stimulus program to understand manufacturing sector challenges so they know how to help the SMMEs in the sector and new entrepreneurs in the sector.

Seventhly, during literature review, the researcher struggled with getting recent and relevant literature on Botswana SMMEs, worse still specifically on manufacturing SMMEs. Therefore, these current results will contribute to the body of existing scarce literature not only for SMMEs, but also to sector specific. Before this current study, although there are some studies on SMEs (Habiyarimye, 2013; World Bank, 2013; Okurut *et al.*, 2011), in Botswana; none of the studies was specific on examining peculiar challenges faced by the manufacturing SMMEs. The scarcity of data on in-depth problems of manufacturing SMMEs in Botswana remains a major hindrance to SMME development. This study, therefore, builds onto the locally scarce data; and it therefore, bridges the knowledge gap by exploring the gravity of specific challenges of manufacturing SMMEs in Botswana and the available prospects.

Eighthly, the study unveiled 'lack of market' as the second biggest challenge of manufacturing SMMEs, after 'lack of capital/ financing challenges'. However, literature and observation show that Botswana has many opportunities, for example, cattle meat bi-products, plastic scrap processing and solar power generation. Furthermore, there are more opportunities for SMMEs in SADC (200 million people) and Africa (1 billion people) as a whole. The findings will help the SMMEs to enlarge their horizon and venture into exportation, thereby increasing foreign currency in Botswana.

6.6 *Limitations of the Study and Recommendations for Further Studies*

The researcher admits that likely shortcomings in the research could help to improve upcoming studies. The following limitations were identified in this study:

It was not easy to get enough willing participants because some questions were deemed by SMMEs as sensitive, for instance, questions on the profitability of a firm. Therefore, some SMME owners were resisting taking part in the study; nevertheless, the researcher insisting to participants on confidentiality, which helped to encourage participants to take part, mitigated the limitation.

The study was also limited because the survey involved the whole country; the researcher did not have enough time and resources to cover all regions as he did with Gaborone (the capital city). As a result, although the study sample covered the whole country, majority of participants were based in Gaborone. There was no immediate mitigation for this limitation.

Literature review was a bit complex due to the shortage of literature on the manufacturing sector in Botswana. However, this was mitigated by getting insights on SMMEs in general and literature on manufacturing sectors in other countries.

The body of knowledge can only grow through further studies. Thus, the following recommendations are made for further studies:

In future studies should use a larger research sample of SMMEs in manufacturing, possibly including unregistered SMMEs in the whole country. This could assist to have an overview of all SMMEs, rather than only the registered.

It is recommended that a major study should be carried out comparing manufacturing sector in Botswana and the rest of Southern African Development Community (SADC) to other countries' manufacturing sectors in the region. Such a study could give the bigger picture of performance of manufacturing sectors in the whole region, thus, teaching local SMMEs more.

6.7 Conclusion

This chapter has looked at the final elements of the research, summing up the main findings, giving conclusions and recommendations to the reader. The chapter highlights how the study employed a modified credit rationing theory to interpret data obtained from both demand-side and supply-side of financing. Using information from both angles has enriched the findings. The multivariate logistic regression model results indicate that the main factors influencing manufacturing SMME borrowing in Botswana are marital status, gender, and sales turnover. Major challenges facing the sector include (in descending order) lack of capital, lack of access to markets, shortage of skilled labour, tough competition, tough regulations and lack of accounting records. It therefore implies that SMMEs in this sector can take advantage of the three factors influencing borrowing and there is need for different stakeholders to unite and alleviate the challenges faced by manufacturing SMMEs in Botswana. By so doing, the success of SMMEs will result in reduction of unemployment, economic diversification, poverty reduction, and increase in GDP.

7.0 Final Conclusion

The study aimed to answer the main research question:

To what extent does financing challenges affect Botswana manufacturing SMMEs survival, why and what are the opportunities?

Literature points out lack of financing as the main challenge of SMMEs. This central question sought to examine the gravity of financing challenges to Botswana manufacturing SMMEs. In the process of answering this central question, other challenges facing the sector were unveiled, including their causes and prospects.

In the final analysis, and based on study findings, the researcher concludes that the aim of this research was satisfactorily realised. This is because the two-pronged approach of getting data from both the demand-side of financing (manufacturing SMMEs) and supply-side of financing (financial institutions, especially commercial banks) has produced useful insights into SMME development. The use of both qualitative and quantitative approaches to collect data has enriched the findings such that a number of stakeholders may benefit from the study.

Literature on SMME development was reviewed in a broader context, and then narrowed down to sector specific. The main hindrance in literature review was the shortage of literature on the manufacturing sector in Botswana. However, literature on SMMEs in general and literature on manufacturing sectors in other countries gave some useful insights. Literature review coupled with use of a modified credit rationing theory has been able to bring up sound recommendations to various stakeholders.

The study engaged in a thorough examination of the challenges faced by manufacturing SMMEs in Botswana, which brought about the results from interviews with commercial bank managers, results from factors influencing SMME borrowing as shown by the multivariate logistic model, and responses from SMME questionnaires. Therefore, the researcher is convinced that the study will make a huge contribution to the body of knowledge, to policy makers on economic diversification, to manufacturing SMMEs, to financial institutions and to other stakeholders.

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APPENDIX A: A COMPARISON OF THE VARIOUS RESEARCH STRATEGIES

Table 3.4: A Comparison of the Various Research Strategies

Research strategy	Characteristics	Strengths	Weaknesses
Survey A research strategy where the researcher goes into the field to get people's views, without being directly influential or participatory	Associated with deductive approach Includes questionnaire, structured interviews and structured observations Mainly used to answer 'what', 'where', 'how much' and 'how many' questions Mainly used for descriptive and exploratory research	Cost-effective and efficient means of gathering information about a population Makes it possible to accurately estimate the characteristics of a target population without interviewing all members of the population. Particularly useful when the population of interest is very large or dispersed across a large geographic area.	Does not allow researchers to develop an intimate understanding of individual circumstances or the local culture that may be the root cause of respondent behavior Respondents are not comfortable to share sensitive information in a survey. Survey research is experiencing widespread decline in response rates.
Experiment The purpose of an experiment is to study the probability of a change in an independent variable causing a change in another, dependent variable	Uses predictions known as hypothesis, rather than research questions Used in exploratory and explanatory research to answer 'what', 'how' and 'why' questions.	Conducted in a laboratory rather than in the field, thus the researcher has greater control over sample selection and research process.	Not suitable for most business and management research that need research questions, rather than hypothesis. External validity is likely to be more difficult to establish
Archival analysis Uses administrative records and documents as the principal source of data	It constitutes secondary data analysis	Allows research questions which focus on the past, be they exploratory, explanatory or descriptive	The records may not contain the precise information needed to address the research questions
Case study Explores a research topic or	Opposite of experimental strategy	Suitable for triangulation Can bring out specific results	Results may not apply to other situations or

phenomenon within its context, or within various real-life contexts	Can generate answers to the question 'why', 'what' and 'how'. Can make use of multiple cases	to the context	organizations The research can be intense and demanding There are chances of respondents refusing with information because it is sensitive
Ethnography A qualitative field research for studying culture	Used for studying groups Was designed to study cultures	Researcher benefits from first-hand information and experience	There is a problem of representation Some respondents may not be free to disclose facts
Action research Process of inquiry designed to develop solutions to real organisational problems through a participative and collaborative approach	More action-oriented Suitable for part-time students carrying out studies in their organisation Has longitudinal nature – suitable for medium- or long-term research projects	The researcher transfers skills to others in the process Combines both data gathering and change facilitation Allows re-evaluation of process by team members – developing a culture of problem-solving Consultants and academics can use information for real-life challenges Has potential to offer worthwhile and rich experience for participants	Not easy to locate the right context, suiting the research strategy and collaborations There is the concern of how many action research cycles are deemed sufficient
Grounded theory A theory that is grounded in in or developed inductively from a set of data Helps researcher to generate theory grounded in available data	Used to develop theoretical explanations of social interactions and processes in a wide range of contexts including business and management	Can move between deductive and inductive Allows researcher to progress with research without bias to a particular theory	Time-consuming, intensive and reflective Concerns of less significance at the end or just descriptive results
Narrative inquiry A story; a personal account which interprets an event or sequence of events	In narrative inquiry the participant is the narrator, while the researcher is the active listener	Can produce deep information	Some participants may not be free to express themselves Analysis process may be demanding for the researcher

Adopted from Saunders *et al.* (2012:173-190); the Regents of the University of Michigan, (2013); Trochim & Donnelly (2008)

APPENDIX B: A COMPARISON OF RESEARCH SAMPLING METHODS

Table 3.6: Research Sampling Methods

Probability sampling method	Non-probability sampling method
Probability sampling is any sampling technique that uses random selection. Each unit in the population must have an equal chance of being selected. Probability sampling is generally more preferred as it is regarded more accurate, representative of the whole population and rigorous compared to non-probability sampling (Trochim & Donnelly, 2008: 42; Saunders <i>et al.</i>, 2012: 261-262).	Non-probability sampling is any sampling technique that does not involve random sampling. This usually does not fully represent the population. Therefore it is not as much used and depended upon as probability sampling. However, non-probability sampling is good for applied social research where probability sampling is not ideal (Trochim & Donnelly, 2008: 48; Saunders <i>et al.</i>, 2012: 261-262). Dawson (2009: 50-51) chooses to divide sampling techniques into probability sampling and purposive sampling. Although Dawson uses different terminology, her explanation of purposive sampling is the same as non-probability sampling by Trochim & Donnelly (2008) and Saunders <i>et al.</i> (2012: 261-262).
• Simple Random Sampling According to Trochim & Donnelly (2008: 43) simple random sampling is a sampling method that involves drawing a sample from a population so that every possible sample has an equal probability of being selected (Saunders <i>et al.</i>, 2012: 273). Kothari (2004: 15) supports this assertion by giving examples as follows: <i>"For example, if we have to select a sample of 300 items from a universe of 15 000 items, then we can put the names or numbers of all the 15 000 items on slips of paper and conduct a lottery. To select the sample, each item is assigned a number from 1 to 15 000."</i>	• Accidental, Haphazard, or Convenience Accidental, Haphazard, or Convenience refers to an unorganised survey, for instance, a television crew asking questions to people on the street. The challenge with this sampling method is that it is difficult to prove that the method is representative of the whole population (Trochim & Donnelly, 2008: 49; Saunders <i>et al.</i>, 2012: 273).
• Stratified Random Sampling Stratified random sampling is a sampling method that involves dividing your population into homogenous subgroups and then taking a simple random sample in each subgroup (Trochim & Donnelly, 2008: 44; Saunders <i>et al.</i>, 2012: 276-277).	• Purposive Sampling Purposive sampling is where the researcher samples with a purpose in mind (Trochim & Donnelly, 2008: 49-50; Saunders <i>et al.</i>, 2012: 287-289). Purposive sampling comes in a number of ways:

	○ Modal Instance Sampling Modal instance sampling is a sampling method where the researcher samples the mode or most frequent case or the typical case. This sample is termed modal instance sample, for example, using three variables – age, education, income – leaving out other variables such as religion etc. ○ Expert Sampling Expert sampling is use of a sample of people with known or demonstrable experience and expertise in some area. ○ Quota Sampling Quota sampling is a sampling method in which you sample until you achieve a specific number of sampled units for each subgroup of a population (Trochim & Donnelly, 2008: 50; Saunders <i>et al.</i>, 2012: 284-285). Kothari (2004: 16) argues that in stratified sampling the cost of taking random samples from individual strata is expensive that interviewers are simply given quota to be filled from different strata, the actual selection of items for sample is left to the interviewer's judgement. ○ Heterogeneity Sampling (Sampling for Diversity) Heterogeneity sampling is a sampling method where the researcher includes all opinions or views, but, is not really concerned about representing the views proportionately. It is almost the opposite of modal instance sampling (Trochim & Donnelly, 2008: 50; Saunders <i>et al.</i>, 2012: 287-288). ○ Homogenous sampling Homogenous sampling is the opposite of heterogenous sampling. Subgroups with similar characteristics are selected for the sample (Trochim & Donnelly, 2008: 50; Saunders <i>et al.</i>, 2012: 287-288). ○ Snowball Sampling Snowball Sampling is a sampling method where the researcher begins by identifying people who meet the criteria for
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	inclusion in the study. Those people then recommend others whom they know who meet the same criteria. It is most useful when the researcher is trying to reach populations that are inaccessible or hard to find. This method may hardly lead to representative samples, but at times it is the most convenient and available method (Trochim & Donnelly, 2008: 50; Saunders <i>et al.</i> , 2012: 289-290).
• Systematic Random Sampling According to Trochim & Donnelly (2008: 45-46) system random sampling is a sampling method in which you determine randomly where you want to start selecting in the sampling frame and then follow a rule to select every xth element the sampling frame list (where the ordering of the list is assumed to be random) (Saunders <i>et al.</i>, 2012: 275). Kothari (2004: 15) exemplifies it this way. <i>"In some instances the most practical way of sampling is to select every 15th name on a list, every 10th house on one side of the street and so on."</i>	
• Cluster (Area) Sampling Cluster sampling is a sampling method that involves dividing the population into groups called clusters, randomly selecting clusters, and then sampling each element in the selected clusters. This method is useful when sampling a population that is spread across a wide geographic area (Trochim & Donnelly, 2008: 47; Saunders <i>et al.</i>, 2012: 278). Kothari (2004: 16) agrees that cluster sampling involves grouping the population and then selecting the groups or the clusters rather than individual elements for inclusion in the sample.	
• Multi-Stage Sampling Multi-stage sampling is a sampling method that combines several sampling techniques to create a more efficient or effective sample than the use of any one sampling type can achieve on its own (Trochim & Donnelly, 2008: 47-48; Saunders <i>et al.</i>, 2012: 279-280).	

APPENDIX C: GEOGRAPHICAL DISPOSITION AND POSITIONS

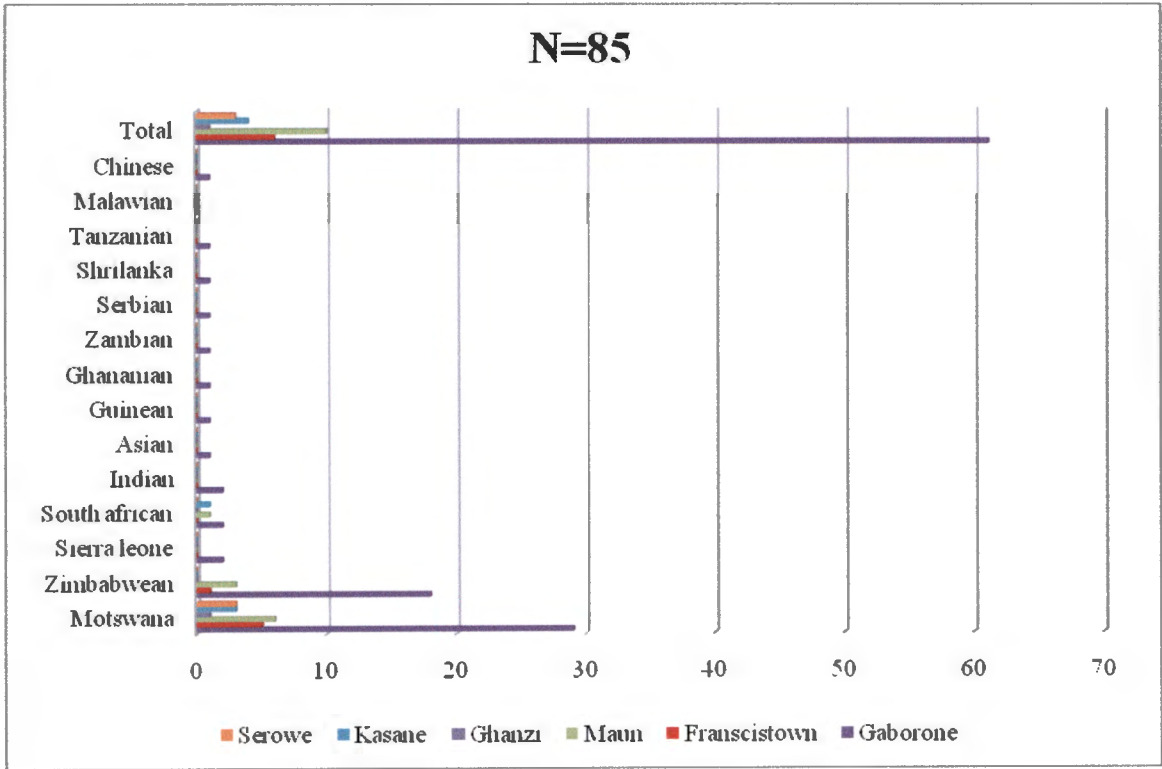
Table 4.1 Geographical Disposition and Positions

	Gaborone		Francistown		Maun		Ghanzi		Kasane		Serowe		Total	
	Count	%	Count	%	Count	%	Count	%	Count	%	Count	%	Count	%
Receptionist/Office Assistant	2	3.2	0	0	0	0	0	0	0	0	0	0	2	2.4
Manager	14	23.3	2	33.3	0	0	0	0	0	0	0	0	16	19.3
Director	38	63.3	4	66.7	9	100	1	100	4	100	3	100	59	71.1
Fashion designer	1	1.7	0	0	0	0	0	0	0	0	0	0	1	1.2
Partner	1	1.7	0	0	0	0	0	0	0	0	0	0	1	1.2
Accountant	1	1.7	0	0	0	0	0	0	0	0	0	0	1	1.2
Senior locksmith	1	1.7	0	0	0	0	0	0	0	0	0	0	1	1.2
Workshop controller	1	1.7	0	0	0	0	0	0	0	0	0	0	1	1.2
Foreman	1	1.7	0	0	0	0	0	0	0	0	0	0	1	1.2
Total	60	100	6	100	9	100	1	100	4	100	3	100	83	100

Source: Research findings, 2015

APPENDIX D: NATIONALITY AND GEOGRAPHICAL DISPOSITION OF THE RESPONDENTS

Figure 4.3: National and Geographical Disposition of the Respondents



Source: Research findings, 2015

APPENDIX E: NATIONALITY, MARITAL STATUS AND AGES OF THE RESPONDENTS BY GENDER

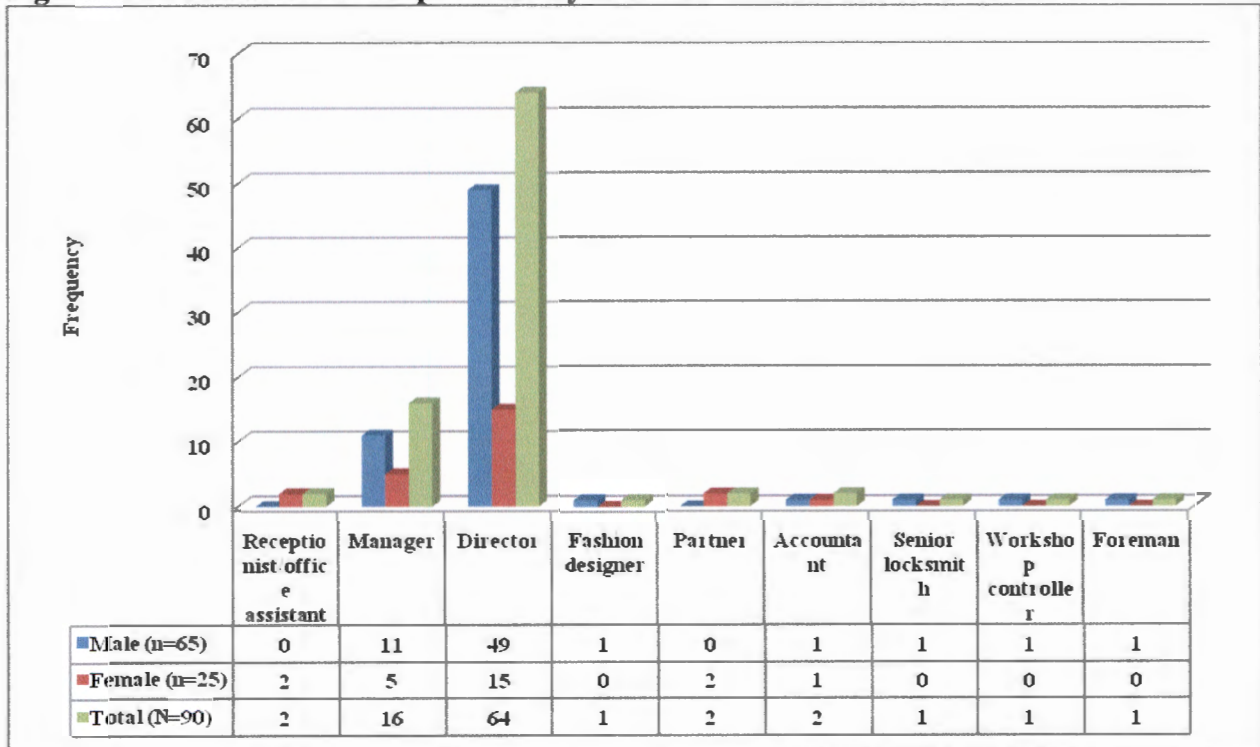
Table 4.6: Nationality, Marital Status and Ages of the Respondents by Gender

		Male		Female		Total	
		Frequency	Percent	Frequency	Percent	Frequency	Percent
Nationality of the respondent	Motswana	31	44.3	20	77	51	53.2
	Zimbabwean	23	32.9	2	7.8	25	26
	Sierra Leone	2	2.9	0	0	2	2.1
	South African	4	5.6	0	0	4	4.3
	Indian	2	2.9	0	0	2	2.1
	Asian	1	1.4	0	0	1	1
	Guinean	1	1.4	0	0	1	1
	Ghanaian	1	1.4	1	3.8	2	2.1
	Zambian	1	1.4	0	0	1	1
	Serbian	0	0	1	3.8	1	1
	Sri Lanka	0	0	1	3.8	1	1
	Tanzanian	2	2.9	0	0	2	2.1
	Malawi	2	2.9	0	0	2	2.1
	Chinese	0	0	1	3.8	1	1
	Total	70	100	26	100	96	100
Marital status	Single	21	32.3	15	57.7	36	39.6
	Married	43	66.2	11	42.3	54	59.3
	Widowed	1	1.5	0	0.0	1	1.1
	Total	65	100	26	100	91	100
Age categorised	20-40	35	51.5	15	60.0	50	53.8
	41-79	33	48.5	10	40.0	43	46.2
	Total	68	100	25	100	93	100

Source: Research findings, 2015

APPENDIX F: POSITION OF THE RESPONDENTS BY GENDER

Figure 4.6: Position of the Respondents by Gender



Source: Research findings, 2015

APPENDIX G: THE ROLE OF BANKS IN SUPPORTING MANUFACTURING SMMEs

Table 4.13: The Role of Commercial Banks in Supporting Manufacturing SMMEs

	BANK1	BANK2	BANK3
Short term finance	Bank1 started actively supporting SMMEs in 2014. The bank representative said Bank1 offers both short-term financing and long-term financing. <i>Short-term financing</i> comes in the form of <i>government purchase order (GPO)</i> financing at 10% with a turnaround time of seven days. The representative said: “<i>With GPO, if a client wins a tender, say, to supply the government and has no money; our bank can pay the client’s supplier. The client delivers the goods to the supplier; and then when the customer pays through the bank. Our bank then pays our client and gets a commission.</i>” The bank also gives <i>invoice discounting</i> which started in 2014. With invoice discounting the bank helps a client to pay a debt and get a commission for doing so. Invoice discounting 80% fining	Bank2 offers <i>short-term finance</i> in the form of <i>working capital</i> and <i>term capital</i> for SMMEs in Botswana. Bank2 started financing the SMMEs since 2001. The Bank 2 correspondent said that they helped them by charging them 20-25% of interest on their profit. No invoice discounting of purchase orders.	Short-term finance at Bank 3 involves financing government tenders (GPO), business protection insurance, vehicles financing. Medium loans for property Vehicle of asset finance Guarantees Business protection insurance. Internet banking
Long-term finance	<i>Long-term financing</i> involves giving of personal and business loans. For clients to get the loan they or their loved ones need to have collateral security. On long-term financing, the bank representative says, “<i>we only give long-term financing to applicants that have collateral security. Otherwise we risk</i>	Avail with collateral	<i>Long-term finance</i> at Bank 3 includes loans for <i>buying properties</i>. However, mortgages are now much more restricted. Generally, commercial banks in Botswana are going through liquidity challenges due to high default rate among customers and the property slump (Republic of Botswana, 2015). Thus Bank 3,

	<i>losing our money.</i> " This assertion agrees with questionnaire for manufacturing SMMEs where participants cry foul that they cannot get external financing due to lack of collateral security such as buildings. While SMMEs may justifiably need banks to consider them for loans without asking for security; banks are not social organizations. Banks are in business and they have to make profits rather than make avoidable losses.		among other banks, has reduced giving out of property mortgage loans. Character of owner is key
Other issues	Apart from financing, Bank 1 gives <i>business guidance</i> to SMMEs.		Apart from financing, Bank 3 also offers <i>internet banking</i>.

APPENDIX H: CHALLENGES FACED BY COMMERCIAL BANKS

Table 4.14: Challenges faced by Banks when Financing Manufacturing SMMEs

Bank 1	Bank 2	Bank 3
Some of the factors identified by the participant from Bank1 that influence the bank to help the SMMEs include, <i>"SMMEs struggle to finance business especially when they win big tenders"</i> . In other words, the bank gives them short-term guarantee loans for tendering purpose. Strict adherence to the Checklist Seeding - Sending payments from government/council through bank	Major considerations Security Turnover	Bank 3 correspondent says, <i>"Our bank does not work on sentiment but rather on the financial history of the SMMEs before rendering any help."</i> Collateral security Most SMMEs have no security.

Challenges Faced By Banks

Challenges	Bank 1	Bank 2	Bank 3
Lack of accounting records	The participant from Bank 1 said: "We normally hold meetings with clients and tell them how to keep proper accounting records. However, when they come for another meeting asking for financing, when you ask them for records, they do not have records or they have unacceptable records. For that reason, it becomes difficult to sponsor their projects."	Businesses don't prepare financials in accordance with guidelines of Bank of Botswana No justification of records	"We check what the figures are saying figures never lie"
Mixing business money with personal money	Poor money management Misuse of money.	Poor personal and business management by owners/manager	The respondent of Bank3 puts it this way: "Many SMMEs just mix business and personal money, thereby misusing finances and hindering proper financial management. This in turn results in business failure or perpetual financial problems."
Failure to save money for the future	Bank1 explains: "We normally teach our clients to avoid borrowing for every little need and want. For example, if we finance a client's tender for BWP1 Million. Next time when the same client wins a tender for BWP20 000, we don't expect the client ask for financing as we assume they saved some		Failure to fund themselves after lots of tenders

	money from the previous big tender."		
Heavy debts	Bank1 elaborates: "Most of the SMMEs have been black listed by Information Trust Company (ITC) because they have been reported for having unpaid debts for the next 7 years so they are rejected for any form of financial assistance. However, at our bank we are more tolerant such that even when a person has been blacklisted at ITC, if they show some commitment to a good working relationship with the bank; we can finance their business, but cautiously."	Most SMMEs are indebted, thus risky.	Will they pay back 5cs in lending-collateral.capability to pay.character.capital.
Lack of collateral security	Security is a must	Security is a given	Security is a must
Dishonesty related to asymmetric information	Many business people are not honest hence it blocks them from support.	As Bank 2 puts it. "Some SMME loan applicants are dishonest. When they apply for GPO; we are not supposed to give the SMMEs cash to finance their tenders. Rather we should pay direct to their suppliers to avoid funds misuse. After funding approval, we transfer the money into the applicant's bank account for record purposes before we transfer the money from his/her account to suppliers. But some dishonest SMMEs rush to withdraw the money from their account before we transfer to suppliers. They then quickly use the money for personal expenses. So we have learnt that as soon as the money enters the applicant's account, as a bank we lock the money."SMMES need to be more transparent –show true and fair picture of financials.	Lack of honesty from SMMEs in terms of operations and financials
Other	"financial history is not easy to get because the majority of manufacturing SMMEs do not keep up-to-date accounting records" (Bank 1)	Bank 2 elaborates. "Some manufacturing SMMEs carry dreams that are too big and unattainable. So as a bank we have to sit with them and clarify to them the need to scale down their dreams and proposals to become realistic.	Many SMMEs carrying unrealistic dreams and unattainable proposals. Bank 3 mentions: "banks are not in the business of losing money."



		Otherwise we cannot finance unrealistic ideas and projects." Market size and demand is too small.	
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APPENDIX I: FINDINGS ON MANAGEMENT CHALLENGES

Table 4.19: Management Structure of the Kind of Business

		Kind of business					
		Single/Family		Joint Ownership		Total	
		Frequency	Percent	Frequency	Percent	Frequency	Percent
Management Structure	run the business alone	41	62.2	7	38.7	48	57.1
	director, manager	8	12.2	3	16.5	11	13.1
	account manager, business manager	5	7.6	1	5.6	6	7.0
	sales officer, operations, accountant	1	1.5	1	5.6	2	2.4
	operations ,finance	1	1.5	1	5.6	2	2.4
	marketing, secretary	0	0	1	5.6	1	1.2
	secretary, owner	2	3	0	0	2	2.4
	production manager and marketing manager	1	1.5	0	0	1	1.2
	sales manager and supervisor	2	3	0	0	2	2.4
	marketing manager, operations manager, accounting manager	1	1.5	0	0	1	1.2
	operations manager	0	0	1	5.6	1	1.2
	MD, finance manager, marketing manager manufacturing manager, and sales manager	0	0	1	5.6	1	1.2
	Supervisor	0	0	1	5.6	1	1.2
	operation manager and general manager	0	0	1	5.6	1	1.2
	managing director and finance manager	1	1.5	0	0	1	1.2
	marketing agent, book keeper, clerical, production supervisor marketing manager	1	1.5	0	0	1	1.2
	operations manager, sales manager, accounts manager	1	1.5	0	0	1	1.2
	marketing and finance manager	1	1.5	0	0	1	1.2
	Total	66	100	18	100	84	100

Source: Research findings, 2015

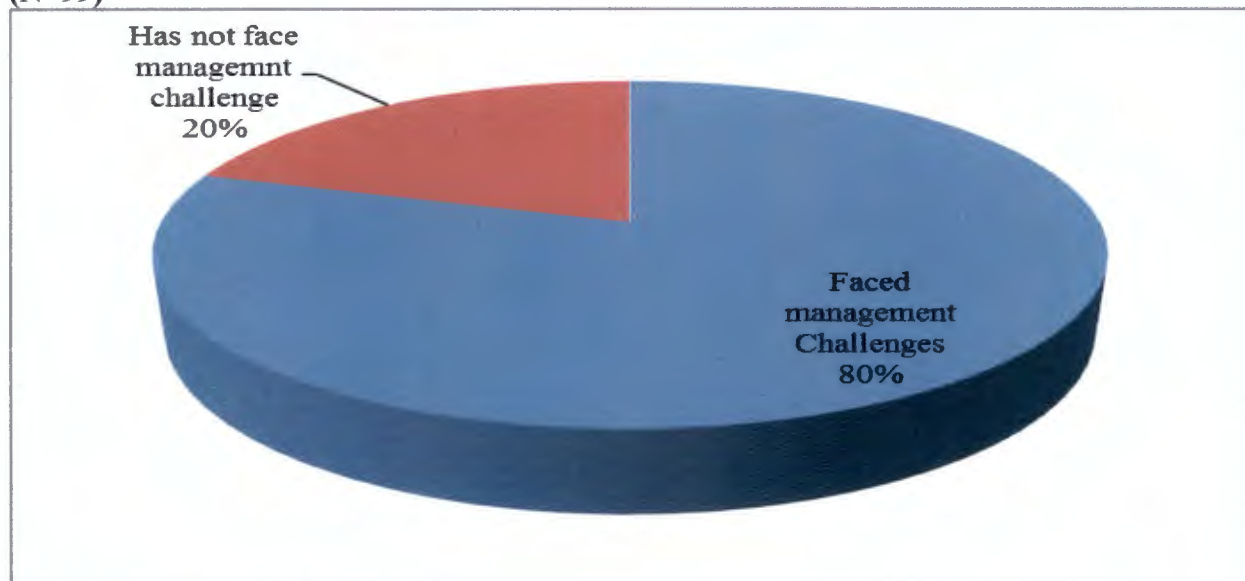
The results in Table 4.19 show that majority of the respondents who run single/family businesses (62.2 %) manage them alone and the same with joint business owners (38.7 %). Some of these businesses have accountants, managers, secretaries and financial managers working for them. No wonder the majority of the SMMEs remain micro or small and struggle to

run business affairs. This is because when they are busy managing everything, and they lose focus of other business aspects.

Manufacturing SMMEs are not exempt from management challenges. However, the main management challenge emanates from the fact that owners tend to run their businesses alone, without delegating duties; hence they fail to manage staff, money and operations efficiently and effectively (Moore *et al.*, 2010). The scenario where business owners try to manage on their own fulfils the Theory of the Functional structure of a Firm (Ndagu & Obuobi, 2010).

Figure 4.21 shows proportion of manufacturing that face management challenges.

Figure 4.21: Have faced Management Challenges since Inception of the Company (N=99)



Source: Research Findings, 2015

Figure 4.21 reveals that most of these participants (79.0%) have faced some management challenges since the inception of their company and only 20.0% of them have no management challenges. It can be concluded that majority of manufacturing SMMEs are negatively impacted on by management related issues, either due to lack of knowledge or due to lack of delegation and being “*jack of all trade and master of none*” as one participant said. Management challenges have been discovered to negatively affect SMMEs. This is in line with Mutoko (2014) and Shemi (2013) who argue that SMMEs struggle with management issues that negatively affect business.

In the current study, participants were asked to mention the management challenges which they face in business and the results are shown in Figure 4.21. Then they were asked how the management challenges affect their businesses. Table 4.20 shows how management challenges affect manufacturing SMMEs.

Table 4.20: Ways in which Management Challenges affect Kinds of Business

		Kind of business					
		Single/Family		Joint Ownership		Total	
		Frequency	Percent	Frequency	Percent	Frequency	Percent
Management challenges	Reduction in profit	7	13.5	4	28.8	11	16.7
	Bankruptcy	0	0	1	7.1	1	1.5
	Limited business growth	9	17.4	1	7.1	10	15.2
	Inefficient in business duties	4	7.8	0	0	4	6.1
	Loss of customers	3	5.8	1	7.1	4	6.1
	Imported skilled labour	1	1.9	0	0	1	1.5
	Delayed deliveries	5	9.6	1	7.1	6	9.1
	Poor production	10	19.3	2	14.4	12	18.3
	Working under pressure and over working	1	1.9	0	0	1	1.5
	Losses & fines	1	1.9	0	0	1	1.5
	Lack of growth	2	3.8	1	7.1	3	4.5
	Customers not paying	1	1.9	1	7.1	2	3
	Poor records keeping	0	0	1	7.1	1	1.5
	Loss of time	0	0	1	7.1	1	1.5
	Makes business difficult to run	1	1.9	0	0	1	1.5
	No working capital	1	1.9	0	0	1	1.5
	Poor management of the business	1	1.9	0	0	1	1.5
	Directly pay employees cash in hand	1	1.9	0	0	1	1.5
	Wastage and loses incurred by the business	1	1.9	0	0	1	1.5
	Low turnover, customers not aware of the business	1	1.9	0	0	1	1.5
	Customers complaints	1	1.9	0	0	1	1.5
	Expensive raw materials	1	1.9	0	0	1	1.5
	Total	52	100	14	100	66	100

Source: Research findings, 2015

Table 4.20 displays that the majority of manufacturing SMMEs (18.3%) face poor production as the worst effect of management challenges. When there is poor production,

management has many questions to answer and many decisions to make. Another major effect of management challenges faced by these businesses is a reduction in profit (16.7%). When profits decline, managers get worried about what to do next as most cannot afford external financing, but rather depend on retained profits - internal financing. Another worrisome effect of management challenge for SMMEs is limited business growth. When business stops growing, SMMEs get worried and they can fail to pay suppliers, hence fail to supply quality to customers. Delayed deliveries are another major effect of management challenges at 9.1%. This could arise because of poor production levels as mentioned before. Both poor production and delayed deliveries could emanate from shortage of skilled labour, employee absenteeism, negative attitude to work by employees and lack of capital as mentioned already in Table 4.20 (the other effects of management challenges are presented in Table 4.20 above).

Furthermore, participants were asked how they attempt to solve their management challenges. The responses are shown on the next page.

Table 4.21 below indicates how manufacturing SMMEs solve their management challenges.

Table 4.21: How the Challenges are Solved by the Business

		Kind of business					
		Single/Family		Joint ownership		Total	
		Frequency	Percent	Frequency	Percent	Frequency	Percent
How do you solve the management challenges	Form of close relationship with staff	2	3.8	1	6.3	3	4.4
	Loan	1	1.9	2	12.5	3	4.4
	Focus on business not people	2	3.8	1	6.3	3	4.4
	Meetings and refresher courses	4	7.7	0	0	4	5.9
	Cannot be solved	8	15.4	0	0	8	11.8
	Advertising	2	3.8	1	6.3	3	4.4
	Outsourcing	2	3.8	1	6.3	3	4.4
	Training staff	5	9.6	0	0	5	7.4
	Sub contract	0	0	1	6.3	1	1.5
	Engage experts	4	7.7	2	12.5	6	8.8
	Working with shifts	1	1.9	0	0	1	1.5
	Cut salaries	1	1.9	1	6.3	2	2.9
	Use savings	0	0	1	6.3	1	1.5
	Changed place of operation	1	1.9	0	0	1	1.5
	Write off some debtors	0	0	1	6.3	1	1.5
	Gained knowledge and experience	1	1.9	0	0	1	1
	We do not sell on credit anymore	1	1.9	1	6.3	2	2.9
	Engage counsellors	2	3.8	0	0	2	2.9
	Resilience	1	1.9	0	0	1	1.5
	Settle their challenges with customers and suppliers	0	0	1	6.3	1	1.5
	Have done nothing	5	9.6	0	0	5	7.4
	Have requested the council to put electricity	1	1.9	0	0	1	1.5
	Rely on business records	1	1.9	0	0	1	1.5
	We hire part time employees	1	1.9	0	0	1	1.5
	Get mentorship	2	3.8	0	0	2	2.9
	Diversified into training and consultancy	2	3.8	0	0	2	2.9
	Explain to the customers in advance	1	1.9	0	0	1	1.5
	Total	52	100	16	100	68	100

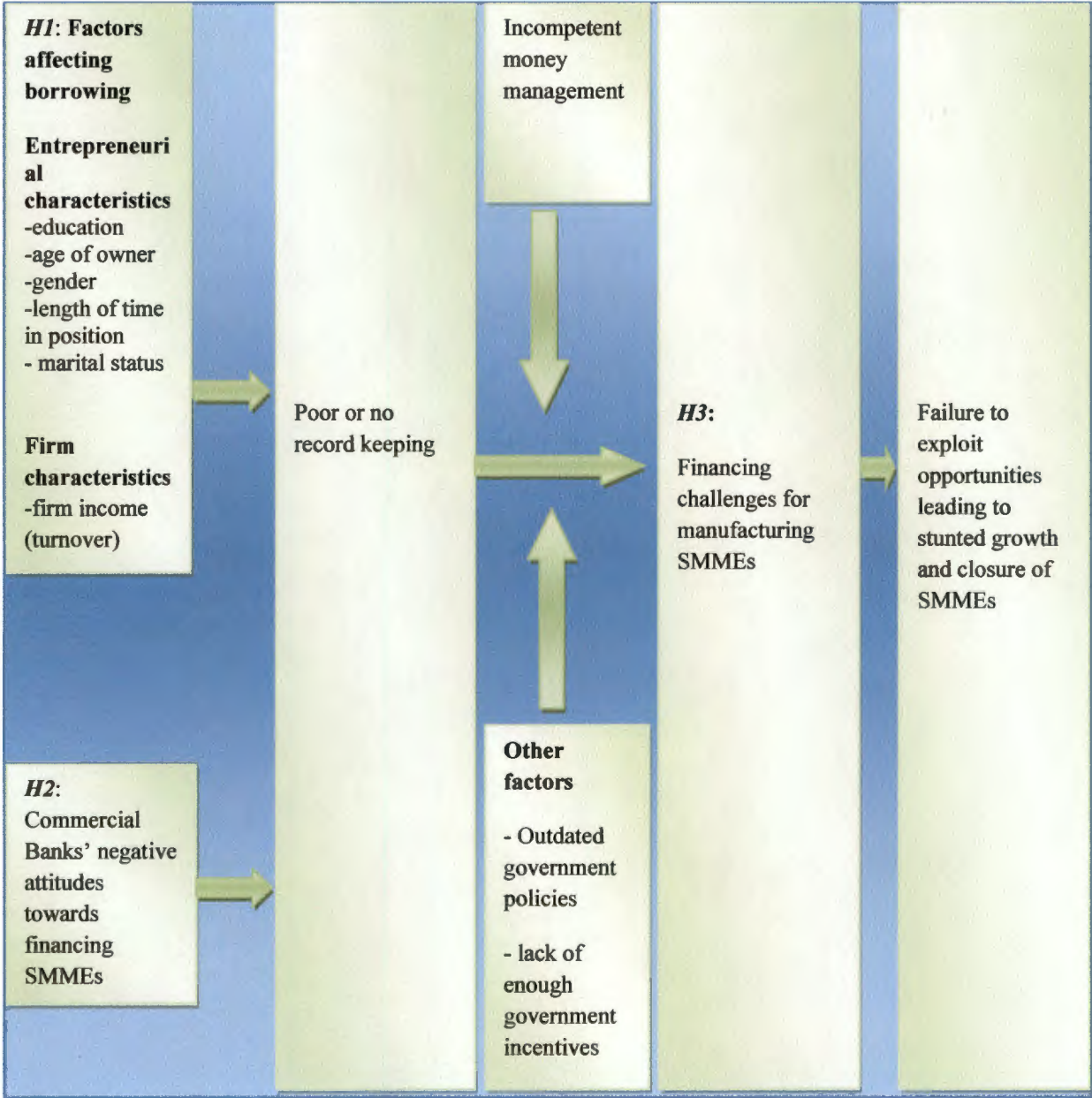
Source: Research findings, 2015

Table 4.20 reveals the various measures the businesses engage in solve their management challenges. The top measure suggested is 'engage experts' (8.8%). Those who suggested this measure argued that in areas where SMME owners and managers lack expertise, they should hire part-time accountants, financial advisers or consultants to give relevant advice and guidance. Another 7.4% suggested that SMMEs should engage in 'Training staff'. It can be

argued that management challenges in an organization are a signal of lack of training. Training directors, managers and staff empowers and equips them with necessary skills and know-how (Mwobobia, 2012). These measures include forming a '*close relationship with staff*' (4.4 %), which helps to boost employee confidence and unity thereby positively impacting production; hold '*meetings and refresher courses*' (5.9%) for employees, which helps staff to know each other, follow one cause and work as a team; and another 4.4 % '*suggest outsourcing*', which helps to bring in skilled labour that otherwise is not in the firm. These measures are helpful. However, the biggest challenge with all these measures is that firms find it hard to employ skilled labour as Botswana lacks such, and at the same time, it is not easy to import skilled labour from other countries – work permits are not easy to access – unless the government gets more flexible.

APPENDIX J: CONCEPTUAL FRAME WORK

Figure 2.3: Conceptual Model of Financing SMMEs



Researcher’s Compilation (2016)

APPENDIX K: SURVEY QUESTIONNAIRE TO SMMEs

Questionnaire for SMMEs

RESEARCH TITLE: '*FINANCING MANUFACTURING SMALL, MEDIUM AND MICRO ENTERPRISES (SMMEs) IN BOTSWANA: CHALLENGES AND OPPORTUNITIES*'

The study is aimed at evaluating financing challenges and management challenges of manufacturing SMMEs in Botswana. You are encouraged to respond to all questions in all sincerity.

Section A: Demographic and firm information

Name (Optional):
Gender:
Age: What is the age of the owner?
Nationality:
Marital status:
Tel/Mobile:
Physical address:
Postal address:
Email address:
Name of company:
Position in company:
How many years in this position:
Number of employees:
Number of years in operation:
Location of business:
Number of branches country-wide

Tick the appropriate:

Form of operation: Sole Trader/Partnership/Private Ltd Company/Co-operative/Other (if other, please specify)

Kind of business: Single/Family/ Joint Ownership/Other (if other, please specify)

Type of manufacturing Business: e.g. Design and Tailoring

.....

Objective 6: Which of the following applies to your business model?

A. Exportation	B. Selling within Botswana (local)	C. Both local and exportation
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Please rank the following challenges of SMMEs in order of importance - Please rank from 1-10: 1 being the strongest:

Challenge	Tick	Number
Lack of capital		
Misuse of money and lack of accounting records		
Lack of education and lack of experience by the entrepreneur		
Shortage of skilled labour and poor or no business skills		
Tough regulations		
Lack of market		
Tough competition		
Negative attitude to work by the entrepreneur		
Employee absenteeism and negative attitude to work by employees		
Poor people management		
Failure to deliver on time and poor quality of products/service		
Poor working capital management		
Poor operations management		

Section B: Objective 7

In your own approximation, how is the success rate of Manufacturing SMMEs in the past 10 years?

A. Very Poor 20% and below	B. Poor 21% - 39%	C. Average 40% - 55%	D. Good 55% - 65%	E. Very Good 66% - 80%	F. Excellent 81% - 100%
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Section C: Objective 1 – Level of Education

1. Education: What is the highest level of formal education of the owner?

A. Primary School	B. Secondary School	C. Certificate	D. Diploma	E. Bachelor Degree	F. Master’s/PhD	G. Other (Specify)
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2. How does your management structure look like? E.g. do you have a marketing manager, operations manager, an accounting manager, etc.? Or do you run the business alone?.....
3. Have you faced any management challenges since you started business?
If yes, please write more
.....
4. How do management challenges affect your business?.....
5. How do you solve the management challenges?
6. Do you get advice, training and mentorship from LEA?.....
If Yes, explain how LEA has helped you

If No, explain why you haven't sought help from LEA
 7. Which other organization advises trains or mentors you?
 Explain how it has helped you in managing your business

Section D: Objective 2 and Objective 3 – Challenges and Solutions of financing SMMEs

1.	How did you initially finance your business?	Tick
A	Own money	
B	Family and friends	
C	CEDA	
D	Government support	
E	Bank	
F	Micro-lenders	

2.	How much money did you initially use to finance your business?	Tick
A	Below P10 000	
B	P10 001 – 50 000	
C	P50 001 – P100 000	
D	P100 001 – P200 000	
E	Other (specify)	

3.	How many times have you borrowed money from financial institutions for business since the business started?	Tick	Was it a loan, overdraft or other?	Approximate interest rate at time of borrowing
A	Once			
B	Twice			
C	Thrice			
D	Four times			
E	Never			

If you borrowed money for business, how much was the money?.....

What did you use it for?.....
 If you never borrowed; explain why?.....

What level of collateral security did you have at the time of borrowing? Please tick the box below:

Below 35000	36000 to 60000	61000 to 100000	101000 to 200000	201000 to 300000	301000 to 400000	401000 to 500000	501000 to 1 million	1.1 Million to 2 Million	Over two million
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How long was the waiting period between application for loan and getting the loan approved?

2 Weeks	1 Month	2 months	3 Months	4 Months	5 Months	6 Months	7 Months	8 Months	Over 8 Months
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4. Kindly answer the following questions by putting a cross (x) in the appropriate box.

	Item	Strongly agree (5)	Agree (4)	Neutral (3)	Dis agree (2)	Strongly disagree (1)
A	Securing a loan from the bank or CEDA is easy					
B	Funds raised for business are adequate					
C	We keep up-to-date accounting records					
D	The business profits increase yearly					
E	We do not use business money for personal expenses					
F	We use retained profits more than loans to finance business					
G	We always prepare cash flow projections					

5. Have you faced any financing challenges since you started business?

If yes, please write more about it

6. How do financing challenges affect your business?.....

7. How do you solve the financing challenges?.....

8. Do you get financing from CEDA?

If Yes, explain how CEDA has helped you

If No, explain why you haven't sought help.....

9. Which other organization finances you?
 Explain how the organization has helped you in financing your business

Section E: Objective 6 – Challenges of Business Opportunities for SMMEs

1. How did you initially get customers?

2. In your opinion, what business opportunities exist for SMMEs in Botswana, SADC, Africa and the world at large?

Botswana.....

SADC.....

Africa.....
World.....

3. What challenges do you face in tapping into the available business opportunities?
.....
4. What suggestions do you make for SMMEs to better exploit business opportunities?
.....

Section F: Financials – Objective 1 (Income/Turnover)

Annual turnover (sales value):

Below 50000		51000 to 100000	101000 to 200000	201000 to 400000	401000 to 800000	801000 to 1 Million	1.1 Million to 2 Million	2.1 Million to 3 Million	3.1 Million to 5 Million	Over 5 Million
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Annual net profit:

Below 35000	36000 to 60000	61000 to 100000	101000 to 200000	201000 to 300000	301000 to 400000	401000 to 500000	501000 to 1 million	1.1 Million to 2 Million	Over two million
-------------	----------------	-----------------	------------------	------------------	------------------	------------------	---------------------	--------------------------	------------------

Do you pay yourself a salary? If yes please tick the range of your salary below.

Monthly salary:

Below 3000	3100 to 5000	5100 to 7000	7100 to 8000	8100 to 10000	10100 to 12000	12100 to 15000	15100 to 20000	20100 to 30000	Over 30000
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Section G: Other issues – Reliability and Validity

1. What do you consider the major challenge of your business?
.....
2. In your opinion, what are the main characteristics of successful entrepreneurs? Please rank from 1-14. 1 being the strongest.

Characteristics	Tick	Number
Desire for independence/ Unwillingness to be given orders by a boss		
Patience and a never-give up attitude		
Ability to work without supervision		
Time-keeping ability		
Possessing technical skills		
A dream to be financially free/ Desire for more in life		
Think outside the box/ Innovative and creative		
Hard working – working long hours		
Ability to manage people and other resources		
Have big picture thinking – looking into the future		
Resilience – ability to bounce back after a fall		
Good with numbers and/record-keeping		
Experience in the area of interest		
Ability to manage money		

3. For further development and exploitation of opportunities by manufacturing SMMEs, what do you request the following stakeholders to do?
Government.....

Colleges and Universities.....
Banks.....
CEDA.....
Other stakeholders (Please
specify).....

Thank you very much for your participation in this survey.

APPENDIX L: INTERVIEW QUESTIONS FOR BANKS

Interview questions for banks

RESEARCH TITLE: ‘FINANCING MANUFACTURING SMALL, MEDIUM AND MICRO ENTERPRISES (SMMEs) IN BOTSWANA: CHALLENGES AND OPPORTUNITIES’

The study is aimed at evaluating the relationship between commercial banks and SMMEs and the financing challenges faced by both parties. You are encouraged to respond to all the questions in all sincerity.

Section A: Demographic and firm information

- Name (Optional):
- Gender:
- Nationality:
- Age:.....
- Marital status:
- Position in the organization:
- How many years in this position:
- Number of employees:
- Number of years in operation:
- Location of organization:
- Number of branches country-wide
- Age: What is the age of the top most person in your organization?
(a) 18-25 (b) 26-40 (c) 41-60 (d) 60+

Tick the appropriate:
Form of most operations supported: Sole Trader/Partnership/Private Ltd Company/Co-operative/Other (if other, please specify)
Type of SMMEs supported: Micro-enterprises/ Small Enterprises/ Medium Enterprises/ Large Enterprises/ any of these

Section B: Objective 4

- 1. How many SMMEs do you work with or have helped in the past ten years?
.....

Section C: Objective 4 – Role of Commercial Banks to SMMEs

- 1. What role does your organization play in helping SMMEs manage their businesses?
.....

Section D: Objective 1, Objective 2, and Objective 3 and 4 – Challenges of financing SMMEs

- 1. Since when did your bank help SMME sector with financing?..... In your own opinion, what are the factors influencing your bank to help SMMEs?
- 2. What has been the response rate of SMMEs to the move by your bank to finance SMMEs?.....
- 3. What are the factors that determine external financing by your bank to SMMEs?

-
4. Approximately how many SMMEs have been financed by your bank since inception?
 Micro-enterprises Small enterprises..... Medium enterprises.....
 Large enterprises.....
5. Of all the SMMEs you have helped, what is the success
 rate?.....
6. What challenges does your bank face when trying to finance
 SMMEs?.....
7. What proportion of SMMEs in the country are aware of your lending facilities to SMMEs?
8. What strategies do you put in place to reach out to SMMEs in rural areas with lending programs?

9. What has been the rate of repayment of loans by SMMEs in the past 5
 years?.....
10. What has been your lending interest rate to SMMEs in the past two years?

11. What are your main worries when lending money to SMMEs?

12. How do you minimize and/or deal with your main worries when lending money to SMMEs?

Section E: Objective 6 – Opportunities for SMMEs

1. Would you be interested to partner with Botswana SMMEs – financing, training and mentoring to exploit opportunities, rather than just lending? Please elaborate:

2. In Bangladesh there is a lending micro-lending programme done by the Grameen Bank. Rural women are lent small loans at very low interest rates without collateral security. The program has helped alleviate poverty in Bangladesh and other countries. Would you be interested to apply it in Botswana to empower particularly Micro-enterprises, hence alleviating poverty?

3. What challenges do you think may hinder your bank from using the Grameen Bank Model?

Section F: Objectives 3 – Practical Solutions for SMME Financing

1. What advice would you give to struggling and upcoming entrepreneurs/SMMEs concerning challenges of financing and managing SMMEs?

2. What do you consider the major challenge of manufacturing SMMEs?

3. What do you recommend for further development of Manufacturing
 SMMEs?.....
4. Please provide additional comments on any of the aspects that were highlighted in this survey

Thank you very much for your participation in this survey.

APPENDIX M: LITERATURE REVIEW SYNOPSIS

Authors	Year	Country & Firm types	Period	Type of data	Models or theories	Main findings
Osoimehin <i>et al.</i>	2012	Nigeria	2012	Cross-sectional	Life cycle	Financial constraints and lack of management skills hamper the efficient performance of SMMEs
Nishanth&Zakkaria	2014	India (mixed SMEs)	2014	Cross-sectional	Pecking order theory and credit rational theory	70% of SMMEs availed credit from public sector banks, 11% avail multiple loans from banks, 2.74% avail loans from private sector banks. 81% of respondents use both owned and borrowed funds
Ene & Ene	2014	Nigeria (mixed SMEs in Africa)	2014	Cross-sectional	Credit rational theory	Access to finance still a major SME challenge
Abdulsaleh& Worthington	2013	Australia (mixed SMEs)	2013	Cross-sectional	Pecking order theory and credit rational theory	Larger firms find it easier to obtain financing as compared to SMEs
Chicho-Matenge	2013	Botswana (micro enterprises – street food vendors)	2013	Cross-sectional	Enterprise growth theory	Street food vending is a source of income and it creates employment for the urban poor. But they need government support for them to succeed
Biswas	2014	India (manufacturing MSMEs)	2014	Cross-sectional	credit rational theory	There is a substantial amount of gap in the overall finance for the MSME sector

Ikem <i>et al.</i>	n.d.	Nigeria (mixed SMEs)	n.d.	Cross-sectional	credit rational theory	SMEs in Nigeria have poor accounting system. SME's access to finance depends largely on the quality of accounting information they can generate which is determined by their accounting practices.
Mishra	2013	India (mixed MSMEs)	2013	Cross-sectional	credit rational theory	MSMEs struggle to get financing
Bazza <i>et al.</i>	2014	Nigeria (mixed SMEs)	2013	Cross-sectional	Trade-off theory	Conventional sources of financing are grossly inaccessible, costly and not feasible. Islamic financing is feasible; though inadequate, it is relatively accessible and costless
Nkuah <i>et al.</i>	2013	Ghana (mixed SMEs)	2013	Cross-sectional	credit rational theory	There are significant positive relations between characteristics of a firm and access to credits. Financial activities such as business registration, documentation/recording, business planning, asset ownership, etc. impact heavily on SMEs access to bank credits.
Singh & Singh	2014	India (manufacturing and other MSMEs)	2013	Cross-sectional	Pecking order	Lack of financial resources for innovation, difficulty in accessing bank loans, lack of government subsidies, slow loan application process, and lack of favorable policies
Babafemi <i>et al.</i>	2015	Nigeria (mixed SMEs)	2015	Cross-sectional	Pecking order	Many programs implemented to support SMEs, but little to show for it
Chinomona & Maziriri	2015	South Africa (mixed SMEs)	2015	Cross-sectional	Human capital theory	Impediments to women entrepreneurs: lack of education & training, lack of access to finance, gender discrimination, negative attitudes and inadequate resources
Sigauke <i>et al.</i>	2014	Botswana (mixed SMMEs in Francistow	2014	Cross-sectional	Human capital theory	Citizens own less sophisticated firms such as pharmaceutical etc compared to foreigners. Citizens are reluctant to go into business.

		n)				preferring rather to be employed
Mukumba	2014	South Africa (mixed SMEs)	2012-2013	Cross-sectional	Life cycle theory	Resource constraint need critical success factors – good product performance & attracting repeat customers
Sharma & Gounder	2012	Fiji (mixed MSEs)	2012	Cross-sectional	Pecking order theory	Proof against pecking order. 50% of MSEs prefer bank finance.
Gbandi and Amissah	2014	Nigeria (manufacturing SMEs)	2013	Cross-sectional	Credit rationing and pecking order theory	Lack of adequate technology, unfriendly business environment, poor funding and management skills
Republic of Botswana	2000	Botswana (mixed SMMEs)	1998	Cross-sectional	Life cycle theory	Lack of access to finance, excessive government laws and regulations, and lack of entrepreneurial skills
Lekhanya& Mason	2014	South Africa (mixed rural SMEs)	2014	Cross-sectional	Credit rationing theory and human capital theory	<i>Skills shortage and access to finance</i>
World Bank	2011	Botswana (mixed SMEs)	June-July 2009	Cross-sectional	Human capital theory	Micro-enterprises - one-person managed and struggle with management skills and financing handicaps, thereby impeding growth
Kapunda, Magembe and Shunda	2007	Botswana (mixed SMEs)	2007	Cross-sectional	Industrial theory	Lack of funds, stiff competition, bad debts, high rental charges, unreliable workforce, lack of training, limited markets, and high cost of utilities.
Ndaloma	2007: VI	Botswana (Mixed SMEs)	2007	Cross-sectional	Life cycle theory	Financial support, financial management, market, and administration
Acquah and Mosemanega pe	2007	Botswana (Mixed SMEs)	2007	Cross-sectional	Pecking order theory	Start-up capital and total costs incurred in the business played a vital role in business performance

BIDPA	2004	Botswana (Manufacturing SMEs)	2003/ 2004	Cross-sectional	Credit rationing theory	High costs for finance exacerbate importation costs of raw materials and other inputs by SMMEs. Banks are more risk-averse and prefer to lend favourably to financially viable firms. Commercial banks' collateral requirements are very high; and SMMEs lack credit history
Kapunda	2005	Botswana (Manufacturing SMEs)	2004- 2005	Cross-sectional	Industrial theory	Advantages of industrialization include diversification away from the primary sector towards manufacturing
BIDPA	2007	Botswana (Manufacturing SMEs)	2007	Cross-sectional	Credit rationing theory	Limited commercial bank financial support for SMEs makes them solely dependent on government for support
Okurutet <i>et al.</i>	2011	Botswana (mixed SMEs)	2011	Cross-sectional	Credit rationing theory	Poor records, lack of profitability and performance of the SMEs' bank accounts hinder borrowing.
Mwobobia	2012	Botswana (mixed SMEs)	2012	Cross-sectional	Human capital theory	Failure by entrepreneurs to repay loans, project abandonment, duplication of effort due to lack of overall coordination by different stakeholders, limited resources and capacity.
Padachiet <i>et al.</i>	2012	Mauritius (Manufacturing SMEs)	2012	Cross-sectional	Pecking order theory	SMEs use more informal sources of working capital such as shareholder loans and bootstrap finance.
Fatoki	2014	South Africa (mixed SMEs)	2014	Cross-sectional	Pecking order theory	Lack of collateral hinders SMME borrowing
Habiyarimye	2013	Botswana (Manufacturing SMEs)	2012- 2013	Cross-sectional	Pecking order theory	Lack of access to technology is caused by lack of financing
Haron <i>et al.</i>	2013	Malaysia (Mixed SMEs)	2013	Cross-sectional	Credit rationing theory and Research model	Firm manager's character, collateral, and borrowing capacity influenced bank loan approval

Messah and Wangai	2011	Kenya (mixed SMEs)	2011	Cross-sectional	Credit rationing	Factors influencing borrowing: 1) Firm characteristics - age of the firm, the size of the firm and the availability of collateral and business information. 2) Entrepreneurial characteristics - managerial competency of the owner of the firm, networking, marital status, length in position at work and gender
Nguyen and Luu	2013	Vietnam	2012-2013	Cross-sectional	Trade-off theory and Human capital theory	Younger firms located in small areas struggle to get financing & they borrow from friends and relatives or relied on trade credit. Factors influencing access to financing by firms were the owner/manager's age, education, and professional experience and management skills.
Zarook	2013	Libya (manufacturing and service SMEs in various Libyan regions)	2012-2013	Cross-sectional	Conceptual model	Management experiences and education levels have significant positive effects on access to finance; in contrast, business planning, and political connection have no significant effect in regard to access to finance.
Ogubazghi & Muturi	2014	Eritrea (Mixed SMEs)	2014	Cross-sectional	Credit rationing theory	Age of the owner/manager plays a significant role on SMMes' access to bank loan. Contrarily, educational level of the owner/manager does not have significant effect on access to bank loan.
Abdesamed & Wahab	2014	Libya (mixed SMEs)	2014	Cross sectional	Credit rationing theory and bank model	Collateral, loans with interest, firm's size, and firm owner's education were negatively related to the firm's tendency to apply for a bank loan.
Rasool <i>et al.</i>	2013	Pakistan (Mixed SMEs)	2013	Cross-sectional	Credit rationing theory	Commercial banks are the core source for SME borrowing

Mwobobia	2013	Kenya (mixed SMEs)	2013	Cross-sectional	Credit rationing theory	Bank challenges - failure by borrowers to pay back loans, some clients divert funds borrowed from the bank into non-business activities and poor financial management.
Evbuomwan <i>et al.</i>	2013	Nigeria (mixed SMEs)	2013	Cross-sectional	Trade-off theory	75.7% of SMME respondents used own funds for business, 20.3% relied on commercial banks for financing
Okurut & Ama	2013	Botswana (mixed SMEs)	2013	Cross-sectional	Investment theory	Lack of capital, poor management and lack of markets are the main challenges of microenterprises
Arroio & Scerri	2014	Brazil (mixed SMEs)	2014	Cross-sectional	Life cycle theory	70 per cent of firms go out of business with the death of the founder.
Messah & Wangai	2011	Kenya (mixed SMEs)	2011	Cross-sectional	Credit rationing theory	Entrepreneur's number of dependants, household income, and education level are significant factors influencing small-scale entrepreneurs borrowing from credit institutions.
Matemilola <i>et al.</i>	2012	South Africa	2004-2009	Longitudinal	Trade-off theory and Pecking order theory	Fixed assets and profit are determinants of capital structure
Zoppa & McMahon	2002	Australia (mixed SMEs)	1995-1996 To 1997-1998	Cross-sectional (comparative)	Pecking order theory	Businesses adhere to a hierarchy of financing sources and prefer internal financing when available
Narmandakh	2014	Mongolia (mixed SMEs)	Accounting data from the year 2010 to 2013	Longitudinal	Pecking order theory	Modified pecking order theory to suit SME financing: reinvestment of profits; short-term debt financing (trade credit and personal credit card financing); long-term debt financing (long-term loans from owners/managers, family and friends); new equity capital injections from existing owners and owner-managers, family and

						friends; and finally new equity capital from uninvolved parties
Fama & French	2005	USA	1973 – 2002	Longitudinal /panel	Pecking order theory	Pecking order theory by itself cannot fully explain firms' capital structure decisions.
Serrasqueiro & Caetano	2014	Portugal		Cross-sectional	Trade-off theory and Pecking order theory	Most profitable and oldest SMEs rarely use debt, which concurs with pecking order theory; while SMEs with greater size resort more to debt, corroborating with both trade-off theory and pecking order theory
Hul	2014	The Netherlands (Mixed SMEs)	2010-2012	Panel	The trade-off theory and pecking order theory	Capital structure of Dutch SMEs is mainly influenced by the firm-level factors – 'profitability', 'liquidity,' and 'non-debt tax shields.'
Bulan & Subramanian	2016	USA (mixed SMEs)	2015-2016	Cross-sectional	Life cycle of dividends theory	Mature firms pay out dividends while younger firms rarely manage to pay out dividends
Thanatawee	2011	Thailand (mixed SMEs)	2011	Cross-sectional	Free cash flow and life cycle theory	Larger and more profitable firms with higher free cash flows and higher retained earnings/equity ratios tend to pay higher dividends
Kim & Suh	2009	Korea (mixed SMEs)	2009	Cross-sectional	Financial life cycle stage	Size of a firm determines its financing options along its life cycle
Xiao	2014	China (mixed SMEs)	2013-2014	Cross-sectional	Life cycle model	Not all firms necessarily follow the same routine cycle
Etemadi & Mougouie	2015	Iran (Mixed industries – stock exchange)	2003-2013	Panel	The Ohlson model and a firm's life cycle theory	Complementing the model and theory over a ten-year period is relevant.
Gregory <i>et al.</i>	2005	USA (mixed SMEs)	1994-1995	Panel	Financial growth cycle	Only firm size was an accurate predictor of capital structure decisions.

					model	
Ghimire & Abo	2013	Cote D'Ivoire (mixed SMEs)	2013	Cross-sectional	Credit rationing theory	Existence of information asymmetry between banks and potential SME borrowers has severe implications in the banks' lending methodologies.
Han	2013	China (mixed SMEs)	2013	Cross-sectional	Credit rationing theory	SMEs are controlled by banks and their credit rationing policy because they lack valuable mortgages and they suffer from asymmetric information problems.
Huang	2014	China (mixed SMEs)	2014	Cross-sectional	Information dissymmetry and credit rationing theory	Chinese SMEs face information asymmetry that exists among financial institutions, leading to adverse selection and moral hazard.
Ghimire & Abo	2013	Cote D'ivoire (mixed SMEs)	2013	Cross-sectional	Credit rationing theory	Information asymmetry and inadequate collateral are two major constraints that limit the flow of credit from banks to SMEs.
Maziku	2014	Tanzania (mixed SMEs)	2013-2014	Cross-sectional	Credit rationing theory	The informational asymmetries phenomenon exists and depends on entrepreneur and firm characteristics, relationship characteristics, loan characteristics and supply conditions.
Kremp & Sevestre	2013	France (mixed SMEs)	2013	Cross-sectional	Credit rationing theory	French SMEs did not suffer from a strong credit restriction during the financial crisis.