

**“Challenges Facing the Financial Management of
Small, Medium and Micro Enterprises in Botswana”**

By

M. Dube

**Dissertation Presented as Partial Fulfillment for the
Degree of Master of Business Administration
in the Graduate School of Business
and Government Leadership
North-West University**

Supervisor: Professor M. M. Mulinge

June 2007

ABSTRACT

Using a sample of 66 respondents drawn from Gaborone, this sought to investigate financial management practices among small, medium and micro enterprises (SMMEs) in Botswana and how these affect performance. The survey method, in the forms of self-administered questionnaires and face-to-face interviews, was used to collect the data required for the study. Data were analysed using the SPSS statistical package.

The results showed that SMMEs in Botswana were faced with multiple challenges that undermine their capacity to operate effectively. The top five of these were stiff competition both locally and internationally, short term business requirements and multiple responsibilities of managers, access to finance to expand businesses, poor Management, and poor employees' work ethics. The study also showed that many entrepreneurs within the SMMEs sector have not recognised the importance of adopting financial strategies such as maintaining business plans, planning their business strategies, using good cost structure needed for the attaining competitive edge, marketing strategies, effective administrating of their business operations and cash flows management. This compounded the problem of access to finance since proper financial records are a requirement for a business to apply for loans. In addition, it was found that the majority of managers/owners appreciated the dynamics of affecting a business' profitability. The respondents were well-versed with the factors that they responsible for non-profitability such as poor management, inadequate financing, and competitive pricing, among others.

Based on the findings of the study, it was concluded that the SMMEs in Botswana was faced with many challenges including the lack of access to finance that hampered its viability as a job creator. However the economic benefits of sustainable SMMEs in Botswana are convincing and the potential effects on the citizen empowerment and economic diversification are equally promising. Guided by the objectives of the study a number of recommendations were offered by way of strengthening the SMMEs sector. Among others, these included the call for increased participation of SMMEs in design and implementation of new financial policies, provision of extensive libraries of financial management topics and resources, training in entrepreneurship and managerial skills, ensuring that all businesses funded through government schemes

have their financial management handled by accounting firms for the first three years, encouraging SMMEs to establish sound financing and accounting systems, and improving quality of business advisors.

ACKNOWLEDGEMENTS

I am deeply indebted to my husband, Stephen Dube, and the children, Thato, Taboka and my niece Mpho, whose support and understanding helped bring my study effort to fruition and for having sleepless weekend nights whilst having to look after my toddler Taboka during the weekends which I have travelled to Mafikeng for lectures. Without their love, patience and support, I would not have been able to finish this course. I also want to thank my student colleagues Pastor Alex Kasongo, Jackie Sokwane, Boitumelo Raditloko ,Mantho Mogege, Donald Matlhodi and Doreen Kgakole ,despite our different academic backgrounds ,the team spirit prevailed throughout our study period. Many thanks go to my friend Kadimo Regoeng-Gopolang; despite our age difference, for putting up with all my complaints, depression and more importantly, celebrating my achievements.

I am grateful for the owners and managers of the participating Small, Medium and Micro enterprises who gave up time in order to participate in the research questionnaire, for me to complete the study. I also wish to express my sincere appreciation to my supervisor Prof Munyae Mulinge, whose support; contribution, patience, encouragement and guidance towards the task was extremely valuable. The list will be incomplete if I do not express my special thanks and appreciation to the staff of the Graduate School, University of North West, for their assistance during the period of my study.

DECLARATION

This research project is my original work. Unless otherwise specifically stated, all the references cited have been consulted. The work of which the dissertation is a record has been done by me and has not been previously accepted for a higher degree or professional qualification at any other higher education institution.

Signed: _____

[Mmatlala Dube]

This dissertation has been submitted with my approval as University Supervisor and would certify that the requirements for the applicable MBA Programme rules and regulations have been fulfilled.

Signed: _____

[Professor Munyae M. Mulinge]

LIST OF ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
BDC	Botswana Development Corporation
BIDPA	Botswana Institute for Development Policy Analysis
BWP	Botswana Pula
CEDA	Citizen Entrepreneurial Development Agency
COIF	Citizen Construction Industry Fund
EB	Enterprise Botswana
EU	European Union
IFS	Integrated Field Services
IDC	Industrial Development Corporation
FAP	Financial Assistance Policy
GDP	Gross Domestic Product
JIT	Just in Time
HDPs	Historically Disadvantaged Peoples
LEA	Local Enterprise Authority
LES	Large Scale Enterprises
NDB	National Development Bank
NDP	National Development Plan
ROCE	Return on Capital Employed
SADC	Southern African Development Community
SMME	Small Medium Micro Enterprise
SPSS	Statistical Package for Social Sciences
OECD	Organisation for Economic Co-operation and Development
UK	United Kingdom

TABLE OF CONTENTS

	Page
ABSTRACT.....	ii
ACKNOWLEDGEMENTS.....	iv
DECLARATION.....	v
LIST OF ABBREVIATIONS.....	vi
LIST OF TABLES.....	ix
LIST OF FIGURES AND MAPS.....	xv
CHAPTER ONE: INTRODUCTION	
1.1 Background Information.....	1
1.2 The Study Problem.....	3
1.3 Objectives of the Study	5
1.4 Justification of the Study.....	6
1.5 Organization of the Study	7
CHAPTER TWO: LITERATURE REVIEW	
2.1 Role of SMMEs in Development and Employment Creation.....	8
2.2 Challenges Facing SMMEs.....	11
2.3 The Status of SMMEs in Botswana	15
2.3.1 Government SMMEs Policies and Programmes	16
2.3.2 Challenges Facing SMMEs in Botswana	23
2.4 Role of Financial Management in the Success of SMMEs.....	25
2.4.1 Other Financial Management Related Concepts.....	27
2.5 Stakeholders and Networking Behaviour in SMMEs.....	30
2.6 Managing the Small Business.....	30
CHAPTER THREE: METHODOLOGY	
3.1 The Site of Study and Units of Analysis.....	35
3.2 Study Sample and Selection Procedures.....	37
3.3 Data Collection Methods.....	38
3.4 Data Collection	40

3.5	Data Analysis Methods.....	40
3.6	Ethical Considerations	41
3.7	Limitations of the Study.....	41
CHAPTER FOUR: RESULTS		
4.1	Respondents' Socio-economic Characteristics.....	43
4.2	Characteristics of Businesses Studied.....	45
4.3	Experience in Running Business.....	47
4.4	Challenges Facing SMMEs in Botswana.....	48
4.5	Financial Management Strategies Utilised By SMMEs.....	49
4.6	Utilisation of Funds Obtained Through Government Schemes.....	50
4.7	Profitability of Businesses.....	51
CHAPTER FIVE: DISCUSSION AND CONCLUSIONS		
5.1	Summary of Findings	55
5.2	Discussion of Findings.	56
5.3	Conclusions.....	59
5.4	Policy Recommendations.....	60
5.5	Suggestions for Further Research.....	63
	BIBLIOGRAPHY.....	64
	APPENDIX: RESEARCH QUESTIONNAIRE.....	70

LIST OF TABLES

Tables	Page
1. The Roles of SMMEs , Europe, 2003.....	10
2. 2003 Case by Case Financial Assistance: Citizenship by Sector 1985-1990.....	20
3. Number of FAP Financed Projects by Size: 1985-1990	21
4. The Characteristics of the Owner-Manager, the Firm and Strategy.....	29
5. Contribution of Selected Sectors to Botswana’s Economy 1966 – 2000/01.....	36
6. Table 6: Distribution of Respondents by Age Category.....	44
7. Distribution of Respondents by Profession.....	44
8. Respondents by Number of People Dependent on Their Income.....	45
9. Length of Time Business Has Been in Operation	46
10. Major Problems Facing SMMEs Today	48
11. Financial Management Strategies Utilised by SMMEs	50
12. Source of Capital Used to Start Business.....	51
13. Distribution of Businesses by Annual Turnover in Botswana Pula	52
14. Number of Employees during Start-up Years.....	52
15. Number of Employees at the Time of the Study.....	53
16. Common Factors Contributing to Non-Profitability of SMMEs in Botswana.....	54

LIST OF FIGURES SAND MAPS

Figure:	Page
1. Employment in Botswana by Type of Employer	16
2. NDB Disbursements by Sectors for a Three Year Period.....	18
3. NDB Disbursements by Ownership for the Year Ended March 2006 (325 accounts).....	18
4. Skilled Networking Behaviour: The Key to Enhanced Business Performance.....	30
5. Distribution of SMMEs by the Types of Businesses Owned.....	46
Map:	
Map 1: Botswana: Regional Context.....	37

CHAPTER ONE

INTRODUCTION

1.1 Background Information

Small, Medium and Micro Enterprises (SMMEs) is a broad business sector, which has no standard definition. The European Union (EU) has adopted qualitative definitions of SMME in terms of the size of turnover, net asset values and number of employees (<http://europa.eu/scadplus/leg/en/lvb/n26026.htm>). Such a definition should apply to any entity engaged in an economic activity, irrespective of its legal form. Following the number of employees parameter, for example, the EU defines a small enterprises as having between 10 and 49 employees, a medium-sized enterprise as employing between 50 and 249 occupied persons, and a micro one as having fewer than 10 employees (<http://europa.eu/scadplus/leg/en/lvb/n26026.htm>). In Botswana the government has adopted the criteria proposed the SMME Task Force Report (1997) in defining SMMEs. Consistent with the parameters singled out by EU, the Task Force singled out the three categories of enterprises - that is, annual turnover, total asset, and number of employees – as the core defining features of economic activities in the SMME sector. The definition of SMME in terms of the numbers employed as applied in the EU and in Botswana is also consistent with that employed in both the United Kingdom (UK) and United of America (Enterprise Banking Group, 2006).

SMMEs vary from country to country depending on the size of the economy and the levels of development (BIDPA, 2002). However, the annual turnover and the number of employees are the most common criteria used for classifying enterprise by size. The SMMEs sector is diversified throughout the world. It encompasses small enterprises which do business with medium and large size firms as their market for goods and services, the micro enterprise sector involving the informal sector which is made of entities employing one or two persons including the owner, and medium size firms which are entities that have business dealings beyond their country's borders to seek new markets (Ministry of Commerce and Industry, 1998). The principal characteristics of SMMEs sector are high level of adaptability, given the lack of resources; great creativity in adapting its available resources to, particularly the standpoint of technology, high cost and difficult access to credit; as it is difficult to

obtain credit from the formal financial sector, and SMMEs are forced to resort to informal sources such as high interest individual lenders. The sector is forced to operate in highly competitive market niches, in which large enterprises are also deployed (<http://www.conectando.org.sv/English/Strategy/MSME.htm>).

Over the years, governments around the world have come to recognise the vital role played by SMMEs in helping to achieve industrial and economical development objectives (Ministry of Commerce and Industry, 1998; BIDPA, 2002; Luetkenhorst, 2004; African Development Bank and OECD Development Centre, 2005). They have embraced the fact that SMMEs have many benefits. First, because of its reliance on more labour-intensive production processes than large enterprises the sector is said to create jobs at relatively low capital cost, especially in the fast growing service sector. Second, SMME support (or promote) economic growth by being among the highest contributors to Gross Domestic Product (GDP) of the economy of many countries as well as support a dynamic private sector and livelihoods especially in developing countries. Other benefits of SMMEs include providing a vehicle for introducing a more equitable income distribution; developing a pool of skilled and semi skilled workers as a basis for future industrial expansion; improving forward and backward linkages between economically, socially, and geographically diverse sectors of the economy; providing opportunities for developing and adapting appropriate technological and managerial approaches; and promoting subcontracting arrangements and acting as ancillaries to large scale enterprises (Ministry of Commerce and Industry, 1998; BIDPA, 2002; Luetkenhorst, 2004; African Development Bank and OECD Development Centre, 2005). Furthermore, tax income paid by SMMEs to governments increases the financial resources available to them for the provision of socio-economic and other welfare services.

In light of the varied benefits enumerated above, Luetkenhorst (2004) views SMMEs as the lifeblood of most economies. To illustrate, in Kenya SMMEs employed some 3.2 million people in 2003 and accounted for 18 percent of national Gross Domestic Product (GDP) while in Senegal they contribute about 20 percent of formal manufacturing activity and 70 per cent of industrial jobs (African Development Bank and OECD Development Centre, 2005). In Morocco, on the other hand, 93 percent of all industrial firms are SMMEs and account for 38 per cent of production, 33 per cent

of investment, 30 per cent of exports and 46 per cent of all jobs. Similarly, micro and very small businesses in South Africa provided more than 55 per cent of total employment and 22 per cent of jobs and 62 per cent of production. In Europe SMMEs are socially and economically important since they provide around 65 million jobs and entrepreneurship and innovation (<http://ec.europa.eu/enterprise/>). Such an economical role-played by SMMEs relieves governments in the sense that funds that would have been used in attempt to create employment are invested in the other economical avenues (or in more developmental projects), which create more employment.

Despite the official government recognition of the role of SMMEs in the economies of both developed and developing countries, the sector is faced with multiple problems and challenges are associated with high rates of small business failures. Among the major challenges are the lack of entrepreneurial skills, limited access to finance, inability to seek business opportunities, poor business management; and insufficient working premises (BIDPA, 2002; www.uneca.org/eca-programmes). Other problems related to finance are lack of collateral, inadequate risk capital and complicated lending procedures. In addition, business training, technology, marketing, and business development skills are underdeveloped and not readily available and as a result, operators of the sector have rather low skills (BIDPA, 2002; www.uneca.org/eca-programmes). With specific reference to access to finance, many countries around the world are committed to driving economic empowerment by providing competitively priced finance to SMMEs on account of their high development impact (www.oecd.org/dev/aeo). Funds are made available and affordable at low interest rates in order to promote entrepreneurial culture. Nevertheless, the efficient utilization of those funds to create sustainable small businesses remains a major challenge.

1.2 The Study Problem

In Botswana, the micro enterprise sector plays a crucial role in people's efforts to meet basic needs and to help marginalised groups such as the unemployed youth, female heads of households, disabled people and rural families to survive, given that the formal economy is unable to absorb the increasing labour supply (BDIPA2001). According to the Ministry of Finance and Development Planning (2003) in Botswana,

SMMEs are considered as economic growth mechanisms in promoting citizen empowerment. It is estimated that the Botswana SMMEs sector's contribution to GDP was between 30-45 percent, and account for 50 percent of formal employment (BDIPA, 2001). For small enterprises, there is ample evidence that their labour intensive absorptive capacity is high, their average capital cost per job created lower than that for large enterprises and their role in technology innovation is vital.

The development of the Small, Medium and Micro Enterprise in Botswana has enjoyed great support of the Government financially and otherwise. Botswana Government continues to make funds available for providing business management and technical training through specialised training materials and trainer education facilitated by University of Botswana and other institutions such as Enterprise Botswana for SMMEs (<http://www.mti.gov.bw>). This is a reflection of the Botswana government's commitment to the economic empowerment of its citizens. Such a commitment has also been evident through the large number programmes that have been put in place since independence to encourage citizens to participate actively in the main stream of the economy. These have included the Localisation Policy; Financial Assistance Policy (FAP); Micro Credit Scheme of Small, Medium and Micro Enterprises Policy; Credit Guarantee Scheme; Reservation Policy; Central Tender Board Preferences; Local Procurement Programme; Arable Lands Development Programme; and Citizen Entrepreneur Mortgage Assistance Equity Fund.

Most recently Government approved the establishment of the Citizen Entrepreneurial Development Agency, which consolidated some of the schemes listed above, notably FAP and the SMME policy, in order to promote citizen participation in the economy (Ministry of Finance and Development Planning, 2001). Furthermore, in 2002, budgetary funds were allocated to launch three programmes managed by CEDA aimed at supporting small- and medium-scale enterprises. CEDA provides credit at highly subsidised interest rates along with managerial and mentoring services to domestic enterprises. A venture capital fund that provides credit at commercial interest rates and a credit guarantee fund to encourage bank lending to small businesses have also been established (International Monetary Fund, 2006). CEDA also provides support to the SMME sector through training and mentoring

programme, which are provided for new and expansion business projects (CEDA, 2004). Also, the sector would benefit from The Commonwealth Secretariat's, initiative to improve skills in the area of SMMEs as Botswana is a beneficiary by virtue of her membership. The initiative provides funds for a programme focusing on assisting Commonwealth countries in developing small business practices, policies and strategies in the context of poor growth and economic development. Its aim is to help Small Medium and Micro Enterprises face global competition (<http://www.thecommonwealth.org/news>).

Despite the large amount of funds committed by the government of Botswana to the development of small business enterprises, existing evidence shows that in Botswana, like in the rest of the Southern African Development Community (SADC) member countries, half of newly established SMMEs go out of the business before the end of their third year of operation due to lack of mechanisms to guide them (SADC Secretariat, 1997). These failures are evident through poor financial performance by many SMMEs and failure to service their loans from CEDA and other financial institutions such as the National Development Bank. In particular, the financial management of SMMEs in Botswana remains a major challenge. Yet, no efforts, that we are aware of, have been made to assess the major challenges, including those related to financial management practices, facing SMMEs in Botswana. This study is designed as a step in that direction. It is geared toward the identification of the challenges that affect the performance of SMMEs in the country, with an emphasis on those related to financial management practices.

1.3 Objectives of the Study

The primary objective of the study is to investigate financial management practices among Small, Medium and Macro Enterprises (SMMEs) in Botswana broadly defined and how these affect performance. Its specific objectives are to:

- a) Identify the major challenges, facing SMMEs in Botswana today.
- b) Identify financial management practices and styles utilised by owners and managers of Small Medium and Micro Enterprises in Botswana.
- c) Assess whether business funds obtained through the government schemes are put to effective use.

- d) Establish the level of profitability of SMMEs and the factors contributing to non-profitability.

1.4 Justification of the Study

This study is important in three ways. First, it will contribute to the stock of existing theoretical knowledge about financial management practices with respect to the Small, Medium and Micro Enterprises in Botswana. There exists no research that we are aware of focusing on financial management practices among SMMEs in Botswana. Through the proposed, additional knowledge about financial management practices among SMMEs will be increased. By identifying challenges facing the financial management practices of the SMMEs sector, the study will create knowledge that could improve the financial performance of the sector that would benefit Ministry of Finance and Development Planning, Ministry of Trade and Industry, The Small Business Council, as well as the financial institutions participating in SMMEs funding programme such as CEDA, NDB, Barclays Bank of Botswana, First National Bank of Botswana, Standard Bank of Botswana and Stanbic in monitoring financial performance of SMMEs by contributing knowledge that can enhance the development of policy to guide the provision of financial assistance to the sector. In addition the study will contribute information that could inform management practices to be adopted by the SMMEs in Botswana in future.

By identifying challenges facing financial management of SMMEs sector, the study will create knowledge that could bring change in the financial management within the sector. Also, the Ministry of Finance and Development Planning might now realise the need to formulate and set up requirements for SMMEs to qualify for government schemes when planning strategies to provide subsidised loans in the future.

As previously mentioned, there is a mentoring and training programme in place provided by CEDA as support service to the Sector, but there is no mention of reporting requirements of SMMEs and this study might guide in the right direction towards justifying the need for periodic reporting by SMMEs. However, given the rate at which the SMMEs fail to operate beyond five years such requirements are imperative. According to Bawany(<http://haygroup.com>), a firm's future success depends on self-learning as it monitors its performance and change as needed. He further mentioned that a deep understanding of the continuous shifts in business,

economic, technological, and competitive environment and its ability to create, construct, and craft strategies in response to the business environment are paramount to its success. Bawany further states that, a business faces different sets of challenges, and requires a unique solution for success and businesses must reinvent continuously.

As mentioned earlier that businesses need owners' to have deep understanding of the continuous shifts in business, economic, technological, and competitive environment. This study might also stimulate development of a policy document by the government in setting reporting requirements gap that currently exists, such that all SMMEs should be managed by professionals such as Accounting and Legal firms, for the first three years in order to grow. Such professionals are perceived to have thorough understanding of business, economic and competition on a continuous basis.

1.5 Organisation of the Study

The study is structured into five chapters. Chapter one provides the general background information to the study covering the study problem, the objectives of the study, and justification of the study. Chapter two presents the theoretical description and imperial literature in the subject area of SMMEs in general and the financial management concepts in particular. It presents the concept of SMMEs including their characteristics as well as highlights the role of SMMEs in economic development and the main challenges facing them. Chapter three keys on the methodology utilised to carry out the study including the site of the study and units of analysis, the study sample and selection procedures, data collection techniques, data analysis methods, ethical issues and limitation of the study. The results of the study are presented chapter four. Finally chapter five summarises these results, discuss them and draws conclusions guided by the study problems and its consequent objectives .It also suggests recommendations and opportunities for supportive policies to promote the quality of financial management practices in the SMMEs sector.

CHAPTER TWO

LITERATURE REVIEW

This chapter focuses on the theoretical and empirical literature relating to Small Medium and Micro Enterprises (SMMEs). The chapter is organised into six sections. Section one presents the role of SMMEs in economic development and employment creation while section two highlights the main challenges facing SMMEs. Sections three examines the status of SMMEs in Botswana including Government policies and programmes for the promotion of these enterprises and major challenges facing the sector. Sections four and five dwell on financial management strategies and Stakeholders and Networking Behaviour in SMMEs, respectively. The final section (six) focuses on the management of SMMEs.

2.1 Role of SMMEs in Development and Employment Creation

Although the term 'SMME' is commonly used, it is seldom defined and what constitutes a small, medium, or micro enterprise is by no means clear or uniform, even within individual countries (<http://www.iisd.org>). Classifying enterprises into Small, Medium and Micro Enterprises (SMMEs) can be based on a firm's assets, sales or the number of employees working for the firm. The definition may vary among countries or institutions along with the differences in economic level or wealth of the countries (<http://www.aslicom.my/documents/msme.pdf>). Following this scheme, the European commission (2003/361/EC) recommends qualitative definitions of small, medium macro enterprises in terms of the size of turnover, net asset values and number of employees that applies to any entity engaged in an economic entity, irrespective of its legal form. However, a small entity in one country is likely to be very different in nature from small equivalent sized company in another country.

Consistent with the recommendation by the European Commission, the European Unions (EU) and the United Kingdom (UK) have adopted qualitative definitions of SMME in terms of the size of turnover, net asset values and number of employees, though it appears to be arbitrarily based on no research or rationale (Association of Chartered Certified Accountants, 2005; <http://europa.eu/scadplus/leg/en/lvb/n26026.htm>). They define small enterprises as those having between 10 and 49 occupied persons and a turnover threshold and balance sheet total of 10 million Euros. Medium-sized

enterprises, on the other hand, are those having between 50 and 249 occupied persons with a turnover threshold of 50 million Euros and whose threshold for the balance sheet total to 43 million Euros. Finally, micro-enterprises are those having fewer than 10 occupied persons and a threshold of 2 million Euros (<http://europa.eu/scadplus/leg/en/lvb/n26026.htm>). As pointed out earlier, such definitions should apply to any entity engaged in an economic activity, irrespective of its legal form. Despite the absence of a standard definition, all SMMEs are characterized by certain common features. These include small size; centralised management; a low level of labour specialisation; simple, informal and direct internal and external information systems; and intuitive, implicit and short-term strategy (www.oliviertorres.net/travaux).

Recent years have seen increasing attention on the SMME sector in both developed and developing countries as governments and policy makers increasingly recognize major role-played by the sector in economic growth in employment creation in particular. In European countries, for example, the sector accounts for a significant proportion of work experience and economic activity. In 1988 out of 18 million enterprises in the EU more than 99 percent were SMMEs employing about 66 percent of the workforce and producing 55 percent of all goods (Ekonomika, 2004). By 2003, of the 19 310 000 business enterprises in Europe, only 40 000 (0.2 percent) were large scale enterprises (LSEs); the remaining 19 260 000 (or 99.8 percent) were SMMEs (European Commission, 2003). As evident from Table 1, of the SMMEs, 1 260 000 (6.5 percent) were small enterprises, 180 000 (0.9 percent) were medium-sized enterprises, and 17 820 000 (92.6 percent) were micro enterprises. The 19 260 000 SMMEs provided jobs for 97 420 000 people and contributed about 12 percent of exports.

In most emerging markets, especially in the developing countries, SMMEs play an equally important role in economic development, job creation and in the emergence of a dynamic private sector. The enterprises are credited with having been the engine of economic growth in many of the 'success stories' of the developing world (World Economic Reform 2004-2005). However, due to the absence of social protection, most SMMEs in the developing countries operate on a very small scale, mostly in the informal economy, under poor working conditions and high job insecurity. Their

value addition in terms of business remains low, largely due to their inability to upgrade themselves in terms of business practices, technology and skills and thus benefit from market opportunities (www.org/docs/ecosc/meeting/2006).

Table 1: The Roles of SMMEs, Europe , 2003

Feature	SMMEs				Large Scale Enterprises (LSE)	Total
	Micro	Small	Medium-Sized	Total		
Number of enterprises (in '000)	17 820	1 260	180	19 260	40	19 300
Employment (in '000)	55 040	24 280	18 100	97 420	42 300	139 720
Occupied persons per enterprise	3	19	98	5	1 052	7
Turnover (in '000 Euros) per enterprise	440	3 610	25 680	890	319 020	1 550
Value added (in '000 Euros) per enterprise	120	1 180	8 860	280	126 030	540
Percent Share of exports in turnover	9	13	17	12	23	17
Value added (in '000 Euros) per occupied person	40	60	90	55	120	75
Percentage Share of labour costs in value added	57	57	55	56	47	52

Source: European Commission (2003).

Like elsewhere in the world, governments in the Southern Africa Development Community (SADC), have recognized the importance of SMMEs in economic development and job creation. South Africa, for example, South Africa has made great efforts in combat the ever-increasing unemployment in the country and to enhance economic growth by introducing various schemes to finance the development of more entrepreneurs. The schemes are mainly managed by the Industrial Development Corporation (IDC) of South Africa and have been especially priced at interest rates as low as prime less five (5) percent in order to accelerate economic growth through partnerships with entrepreneurs who have interest in development objectives such as job creation, building sustainable businesses, and supporting Small Medium Enterprise development (<http://www.idc.co.za>). Having realised that emerging entrepreneurs have a key role to play in the development of the economy, the IDC has made adjustments that allow it to give new business people the support they need to establish businesses that are sustainable in the long term. Since most emerging enterprises are involved with SMEs, SMEs constitute the majority of the institution's clients. In 2004, for example, 73 percent of all the funding applications approved were for SMEs. The financed SMEs created 6.65 jobs per R1 million investments

compared to non-SMEs financed enterprises, which created 2.74 jobs per R1 million investment (<http://www.idc.co.za>). According to the IDC (2006) report, although only approximately 27 percent of the value of the funding approved was allocated to SMEs, these approvals created nearly 40 percent of the total number of jobs (10 330 jobs).

2.2 Challenges Facing SMMEs

According to Barrow (1998:36 - 37), new start-up businesses fail because of the following eleven basic reasons:

- i) **Lack of Expertise:** Barrow (1998) argues that starting a new business from scratch calls for remarkable versatility. According to him, the owner-manager is normally a jack of all trades. He/she types the invoices with one finger in the evenings, does the books at the weekend, sells on Monday, makes the goods from Tuesday and delivers when they can. In Barrow's (1998) view, people with a history in large firms sometimes find it difficult to become a jack of all trade.
- ii) **No Product/Marketing Strategy:** The business owner must define who will buy the product or service offered and why before he/she begins to offer it.
- iii) **Over-optimism about Market Size:** In Barrow's (1998) view, it is a fundamental misconception to believe that people are simply sitting waiting to be sold to. As such, new businesses need to conduct research into the market they are aiming at, to see who the competitors are and make some reasoned estimate of what their anticipated sales will be.
- iv) **Understanding the Start-up Time:** There is often a great deal to do before the customers come along; premises to be found and fitted out, equipment and stock to be bought. According to Barrow (1998), the entrepreneur should estimate how long these processes will take and add on a bit more time.
- v) **Lack of Working Capital:** If the entrepreneur has not calculated correctly he/she could easily run out of money. Scarce cash is tied up, and money is flowing in one direction only until customers start buying in reasonable numbers. Barrow (1998) advises entrepreneurs to assess their capital

requirements with a good safety margin at an outset because a well-prepared cash flow forecast will help one decide how much is needed and when.

- vi) **Start-up Cost Too High:** In Barrow's (1998) view, new businesses should be lean and mean. He advises entrepreneurs not to spend too much on fixtures, fittings and equipment too soon. According to him, people with a background in big business often start with extravagantly high standards. They expect an electronic typewriter and photocopier close to hand, and to sit in an executive-type office from the outset. These overheads have to be spread across the products/service sold and you can lose your competitive edge by being too greedy.

- vii) **Consequences of Early Growth:** Burrow (1998) points out that many people think their problem are over once customers start to roll in - but they may have only just begun. A business changes its shape and size very rapidly in its early days. As sales grow, ever increasing sums of cash are needed to fuel that growth. And the danger is overtrading, i.e. growing faster than cash resources allow.

- viii) **Mistaking Cash for Profit:** Businesses also fail because too often entrepreneurs yield to the temptation to use the cash that flows into the business to maintain their living standards before it has had any automatic deductions knocked off it. Where this is the case, the entrepreneur is unable to pay bills from suppliers.

- ix) **Wrong Location:** Where one conducts business and how much rent is paid is vital. An entrepreneur should not be tempted to take premises just because the rent is cheap; no customers may pass that way. Equally, one should not take on an expensive high street site one's business turnover is unlikely to cover the costs. Initial market research should help one to identify a suitable location.

- x) **Selecting and Managing People:** Big companies can afford to make the odd mistake when selecting staff. Small businesses cannot afford to get it wrong.

- xi) **No Management Accounts:** According to Barrow (1998), new business people often see regular accounting as a bureaucratic nonsense carried for the benefit of tax. For them the end of the first year is often the end of the business.

SMMEs confront many of the same or closely related factors as identified by Barrow (1998). Specifically, they are faced with various problems resulting from their size and nature of their operations. Challenges including limited access to finance, business training, marketing, globalisation and technology development confront the sector (<http://www.asli.commy/documents/msme.pdf>). Economical challenges are those that come as result of economical changes such as globalisation which subject SMMEs to face supply chain pressures, either from regional or international buyers (www.iied.org/pubs/search). The supply chain pressures, either from local or international buyers are mostly related to affordability and applicability of SMMEs. Generally, SMMEs operators lack information as well as appreciation for services and can hardly afford to pay services required to improve the quality of their products to compete internationally. The challenges arising from increasing globalisation of the economy and the advent of the knowledge society, in a nutshell include keener competition that comes not only from local competitors but also from big and small companies all over the world, as a result of easier and greater access to new markets and new customers through information technology such as internet and e-commerce (European Commission, 2002; <http://www.iisd.org>). Growing demands from more sophisticated customers expose SMMEs to global competition, as customers are looking for more competitive pricing, more efficient delivery of goods and services, more professional and value adding services. And with greater and more direct access to market information through the internet and e-commerce, global customers become more informed customers (Flourie, 1996, as cited by Tom Fox).

Barriers to growth include access to finance, the role of government and skills shortages. The two most important factors are availability of finance and market demand (Chell, 2001). Access to capital is not only a constraint for SMMEs to grow, but also it is considered an important factor in developing SMMEs. For some banks, financing SMMEs may be difficult, as banks usually regard lending to SMMEs a high risk and unprofitable due to unavailability of accurate, reliable information on enterprises' financial condition and performance, unconvincing and weak business

plan, weakness in SMMEs's management, market links, governance ,and information technology. Weakness among banking staff (such as loan officers not being sufficiently trained in lending to SMMEs), bank weaknesses in identifying the characteristics of SMMEs and higher overheads due to a high number of customers with small loan size, also affect SMMEs access to capital (<http://www.asli.com.my/documents/msme.pdf> accessed on 3/2/2007). Furthermore, there is a legal issue in enforcing contract or business issue to obtain and enforce collateral (<http://www.asli.com.my/documents/msme.pdf> accessed on 3/2/2007).

With specific reference to Africa, the financing of SMMEs is affected by shortage and inadequacy of financial institutions for SMMEs support; this is a major obstacle for SMMEs development (www.uneca.org/eca_programmes/). In Senegale, Cameroon and Gabon, for example, the sectors are said to be handicapped by the fact that most financial institutions are not equipped to serve due to internal management weaknesses, unqualified staff, and most of staff lack experience and motivation (www.uneca.org/eca_programmes/). The African sectors are also faced with matters such as high interest rates, high collateral requirements, and restrictions of collateral to specific assets. These arise because some commercial banks are often said to discriminate SMMEs because they are considered high-risk clients with little resources to provide collateral (www.uneca.org/eca_programmes/). In Nigeria, SMMEs' access to working capital in a form of short-term loans and overdraft facilities are said to be highly limited (www.uneca.org/eca_programmes/).

South Africa, on the other hand, has a low survival rate among start-up businesses compared to other developing economies. It is understood that the SMEs sector is of particular importance to the economy because of the contribution it makes to job creation. Estimates suggest that 80 percent of new job opportunities created in South Africa are in the SME sector (www.uneca.org/eca_programmes/). A particular concern though, as indicated by the low survival rate among start-ups, is that 35 percent of these new jobs are again lost within two years (www.uneca.org/eca_programmes/). This means that it is important to identify the challenges that SME's are facing, such as access to funding and other resources such as information. However, for the small business sector to make a meaningful contribution to the economy it needs to be integrated into the mainstream of the

economy. This is going to require a concerted effort both from the public and private sectors. A dynamic SME sector can make an important contribution not only in employment creation but also in opening up the economy to all or many South Africans thereby creating greater equity in the economy and also addressing the lack of business enterprise ownership among historically disadvantaged peoples (HDPs).

2.3 The Status of SMMEs in Botswana

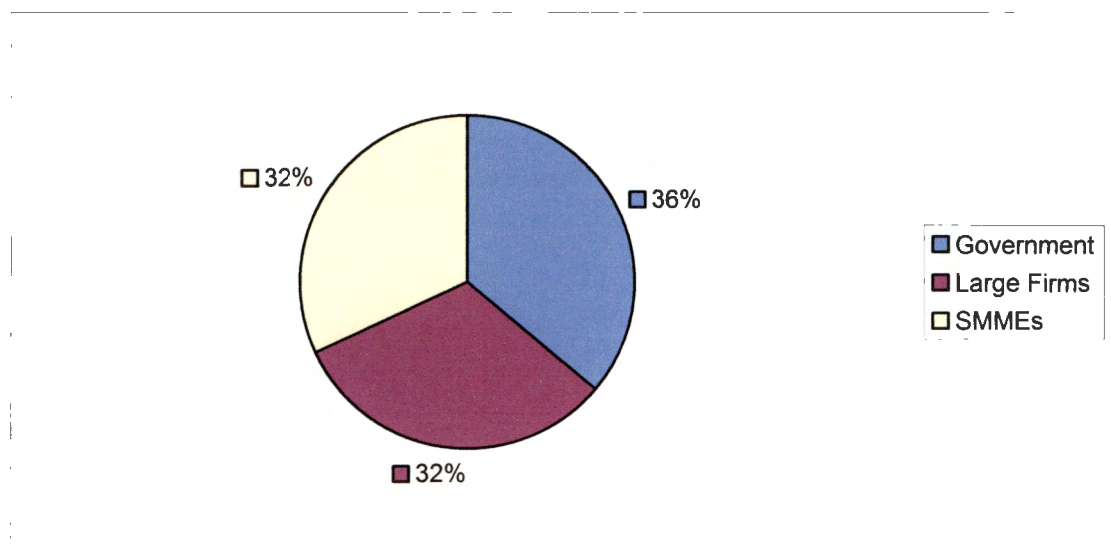
As pointed out earlier, SMMEs is a broad business sector, which has no standard definition. In Botswana the government has adopted the criteria proposed by the SMME task force report (1997) in defining the sector. Consistent with the parameters identified by the EU, the task force singled out the three features of enterprises - that is, annual turnover, total asset, and number of employees - as the core defining characteristics of economic activities in the SMME sector. This means that Botswana utilizes the same parameters as those utilized in the EU and the UK to distinguish small, medium and micro enterprises. Similar parameters are also employed in the United of America (Enterprise Banking Group, 2006).

Although official statistics on SMMEs are lacking in Botswana, the SMMEs task force of 1999 estimated that there were 56 300 such businesses operating in the country then (Ministry of Commerce and Industry, 1999; BIDPA, 2000). The report defines small enterprises as those that operate in a more structured way and may have links to medium or large-scale firms as markets for their goods and services. They have less than 25 employees and an annual turnover of between Botswana Pula (BWP) 60 000 and 1 500 000. There are an estimated 6 000 small enterprises in Botswana (Ministry of Commerce and Industry, 1999; BIDPA, 2000). Medium enterprises, on the other hand, are those firms that have a more outward looking approach to marketing their products. They may be involved in exporting and have links to larger firms, both of which present good opportunities for growth. Such firms have between 25 and 100 employees and an annual turnover of between BWP1.5 Million and 5 Million. There are estimated 400 - 500 medium size enterprises in Botswana. Finally, Micro enterprises are those that may employ up to six (6) people; typically they employ only one (1) or two (2) people, including the owner, and may even be part-time operations (Ministry of Commerce and Industry, 1999; BIDPA, 2000). Micro enterprises operate in an unstructured way, usually from residential

premises, and lack formal registration. They can have a turnover of up to BWP 60 000 a year. The number of such enterprises in Botswana is estimated to be around 50 000.

To symbolize its acknowledgement of the increasing importance of the SMME sector, the Botswana government, through parliament, approved the country's Small, Medium and Micro Enterprises policy in December 1998 (Ministry of Commerce and Industry, 1999). The main objectives of the policy were to foster citizen entrepreneurship and empowerment, promote SMMEs exports, achieve economic diversification, encourage the development of a competitive and sustainable SMME community and promote efficiency in the delivery of services. The policy further stated that job creation is one of the most important contributions made by SMMEs. As of 1999, it was estimated that the approximately 56 300 SMME businesses operating in Botswana employed about 125 000 people. The sector's contribution to GDP was estimated at 30 to 45 percent (see Figure 1) and accounted for 50 percent of formal employment (SMMEs Task Force, 1998).

Figure 1: Employment in Botswana by Type of Employer



Source: BIDPA (2002)

2.3.1 Government SMMEs Policies and Programmes

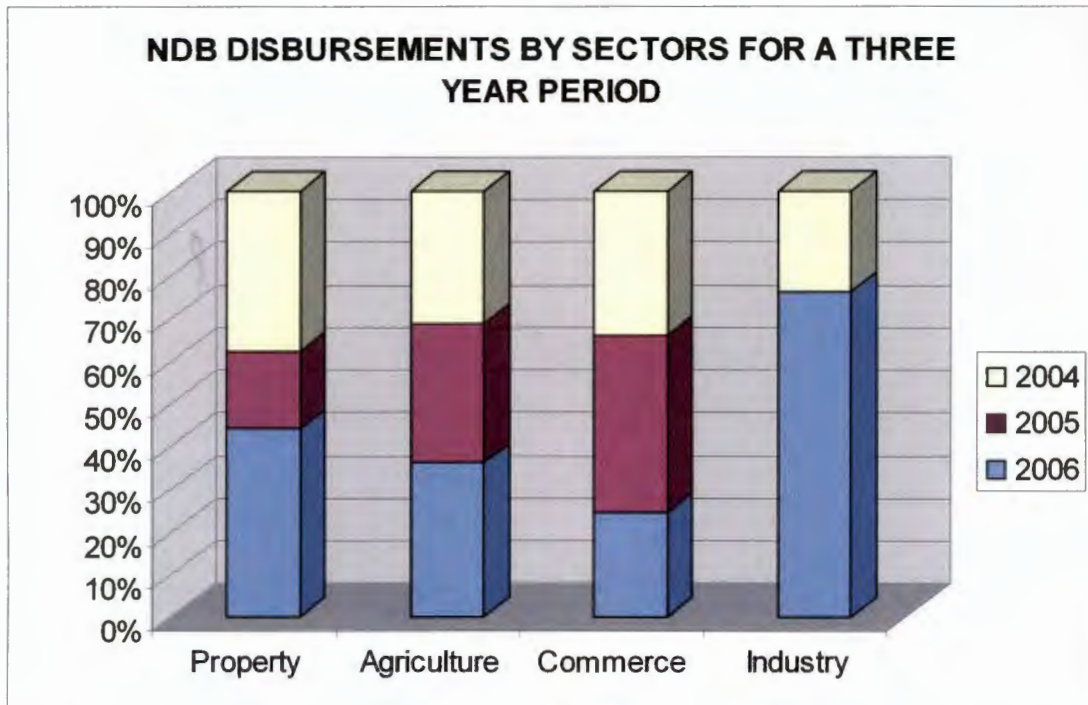
Like other economies, SMMEs are the backbone of Botswana's economy and are renowned for their flexibility, creativity, innovativeness and agility (Ministry of Finance and Development Planning, 1999). To assist the sector, the government of

Botswana has developed and implemented a number of policies and programmes as well as established institutions over the years (Ministry of Commerce and Industry, 1998). At the policy level, the National Development Plan (NDP) 9 states that the Government will continue to facilitate the development of a vibrant and efficient sector to address the unemployment problem and such efforts will be pursued to facilitate the increased participation of Batswana in business. With reference to programmes and institutions, on the other hand, a number of initiatives have been designed to set up funding mechanisms and schemes to promote citizen empowerment and to address poverty and employment related problems through SMMEs. Chief among the organizations tasked to develop SMMEs are the National Development Bank (NDB) the Citizen Entrepreneurial Development Agency (CEDA) and the Local Enterprise Authority (LEA). The Government has been strengthening the capacity of these institutions in terms of financial resources and personnel mainly to promote support towards SMMEs (Ministry of Finance and Development Planning, 2003).

The NDB which was established in 1963 as a government owned establishment. The Bank's objective is to provide a varied range of financial services to business ventures in the Agriculture, Commerce, Tourism, Manufacturing/Industry and Real Estate sectors. It provides financial assistance to both new and existing businesses in the form of loans ranging from BWP 20 000 to 4 000 000 (National Development Bank, 2006). The trends over a period of three years for the disbursements by sectors show that SMMEs, which fall across all the sectors, have benefited from the bank (see Figure 2). According to the NDB's mandate of economic development, diversification of NDB business allows more citizens projects to benefit. As evident from Figure 3, disbursements figures show that Batswana dominate the Bank's lending, although foreign owned entities and joint ventures are also assisted (NDB, 2002; 2006).

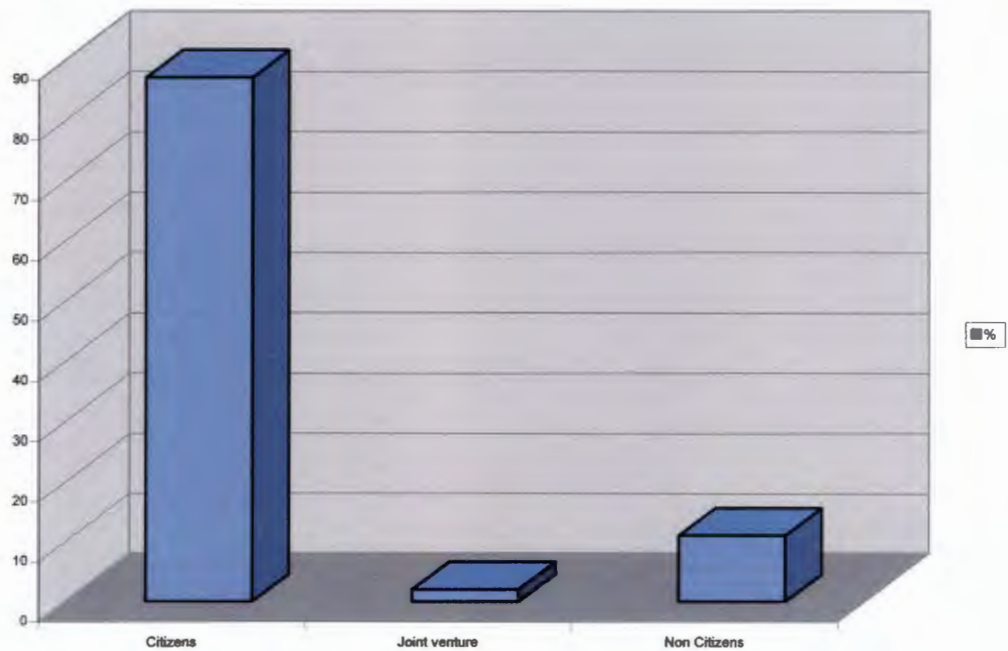
Another government initiative for funding citizen businesses is the Botswana Development Corporation (BDC). Established in 1970 to be the country's main agency for commercial and industrial development, the BDC's objective was to assist in the establishment and development of commercially viable businesses across all sectors. Its role is to provide financial assistance to investors with commercially viable projects, support projects that generate sustainable employment for Batswana and add to the skills of the local workforce, and encourage citizen participation in

Figure 2: NDB Disbursements by Sectors for a Three Year Period



Source: National Development Bank (2004 2005, 2006)

**Figure 3: NDB Disbursements by Ownership for the Year Ended March 2006
(325 accounts)**



Source: National Development Bank (2006)

business (Botswana Development Corporation, 2004). Furthermore, the BDC supports the development of viable businesses which use locally available resources, produce products for export or to substitute imports, foster linkages with the local industry and contribute to the development of Botswana's resources and to the overall economy (<http://www.bdc.bw>; Botswana Development Corporation, 2003).

A third initiative by government to promote SMMEs was the Financial Assistance Policy (FAP) initiated in 1982. According to Valentine (2003), much of Botswana's success in the industrial sphere is attributable to this innovative financial support program, which since its introduction in 1982 has been the cornerstone of the government's industrial policy. The FAP was established with the objective to facilitate the development of new productive enterprises and the expansion of the existing ones with the purpose of creating employment for citizens and assisting in diversifying the economy, which was overly dependent on large scale mining and cattle sectors. The policy also aimed to facilitate rapid industrialisation; assist in diversifying the economy across regions, away from the major urban and peri-urban areas; promote rural industrialisation; promote sustained employment of unskilled labour, assist in addressing Botswana's employment problem; promote the acquisition and upgrading of the skills of Botswana citizens through training; and assist in the promotion of citizen participation in the ownership of productive assets (Valentine, 2003). FAP's major strategy was to use public direct financial assistance to aid in improving the profit-risk tradeoffs, which was to be accomplished in a way that would not generate enterprises that would require long-term subsidies.

Table 2 presents case-by-case statistics of financially assisted projects highlighting Citizenship by Sector for the years 1985-1990. As evident from the Table, 64 percent of all enterprises funded were citizen owned compared to 27 percent, six (6) percent and one (1) percent foreign owned, joint ventures, and organization owned enterprises, respectively. Grants provided by FAP, among others, comprised of capital, labour and training grants. Capital grants assisted entrepreneurs in overcoming the financial impediment of starting and expanding productive enterprises. On the other hand, labour grants were provided towards payment of wages under the assumption that citizen labour, most of which were coming from a rural primarily self employment crop and livestock agricultural background,

Table 2: Case by Case Financial Assistance: Citizenship by Sector 1985-1990

Production Group	Citizen		Foreign		Joint Ventures		Organisations	
	No	percent	No	percent	No	Percent	No	Percent
Meat and Meat Products	19	90	2	10	0	0	0	0
Dairy Agro-based	24	86	1	4	2	7	1	4
Food processing	8	47	7	41	0	0	1	6
Bakery	10	71	2	14	2	14	0	0
Textiles	68	55	11	33	2	6	0	0
Tanning & Leather	2	29	5	71	0	0	0	0
Chemical & Rubber	2	33	3	50	1	17	0	0
Wood & Wooden Products	3	30	4	40	3	30	0	0
Paper Products	5	38	6	46	1	8	1	8
Metal Products	11	52	9	43	1	5	0	0
Building Materials	15	88	1	6	1	6	0	0
Furniture	8	62	5	38	0	0	0	0
Other	6	26	13	57	1	4	3	13
Total	181	64	75	27	18	6	4	1

Source: Republic of Botswana (1991: 237); Valentine (1993)

possessed low productivity (Valentine, 2003). Training grants were provided to help facilitate the upgrading of citizen's skills and tax-holiday grants (FAP ACT, Ministry of Finance and Development planning, 1981, Valentine, 1993). During the period 1985-1990, many medium scale projects across the various types of business benefited from these grants as evident from Table 3. The Botswana Government has over the years also provided short term to medium term assistance to citizen investors in different sectors of the economy, who are faced with difficulties as a result of depression of markets (Ministry of Finance and Development Planning, 2001). For example, Citizen Construction Industry Fund (COIF) was established in 1997/98 to assist citizen construction companies to recover from depression in the construction market of the early nineties. The fund provided loans to citizen contractors at an interest rate of 9 percent per annum. Most recently, (in 2001) the Government of approved the establishment of Citizen Entrepreneurial Development Agency (CEDA) to promote citizen empowerment. CEDA was established to consolidate some of the existing schemes notably FAP and SMMEs, as well as some future citizen economic empowerment schemes, in order to promote citizen

Table 3: Number of FAP Financed Projects by Size: 1985-1990

Location	Medium-Scale	CFA a P'000	Medium - Scale	AFA b	Large-Scale	P'000
Gaborone	72	25,962	42	61,329	7	15,002
Francistown	17	4,464	23	34,677	-	-
Lobatse	16	3,886	2	473	-	-
Selebi-Phikwe	13	5,741	16	32,165	1	3,203
Jwaneng	2	293	3	829	-	-
Southern	17	3,249	1	700	1	1,580
South East	16	3,719	13	12,756	1	1,907
Ngamiland/Maun	4	530	1	95	-	-
Chobe	2	129	1	42	-	-
North-East	2	258	-	-	-	-
Central -Tutume	7	1,691	2	495	-	-
Serowe	6	1,446	1	148	-	-
Bobong	1	41	-	-	-	-
Mahalapye	5	1,613	-	-	1	1,751
Kgatleng	4	640	2	699	3	13,308
Kweneng	17	3,951	3	10,447	-	-
Total	201	57,673	110	155,855	14	36,751
Percentage of Total	61.8	23.0	33.8	62.3	4.3	14.7

Sources: Republic of Botswana (1991:237); Valentine (1993)

participation in the economy. Its mandate is to manage and monitor some of Government's financial and technical assistance to Batswana wishing to go into business or expand existing businesses (BDIPA, 2001). The agency was established in response to calls to the Government to restructure its assistance and support to citizen entrepreneurs. Its objectives are to (CEDA 2003, 2004, 2005):

- a) Foster citizen entrepreneurship and empowerment through encouragement of local entrepreneurial culture and increasing the level of entrepreneurial skills.
- b) Achieve economic diversification in line with the national development Plan 8 theme of sustainable economic divers.
- c) Encourage the development of competitive and substantive citizen enterprises by rewarding competitiveness and discouraging inefficiency.
- d) Create sustainable employment opportunities through development promoting the development of vertical integration and horizontal linkages between citizen

enterprises and primary industries in agriculture, mining and tourism, through effectively pursuing the many small business opportunities associated with the exploitation of natural resources, improve efficiency in the delivery of services to business, in particular the small business support services, e.g. advisory and training services, which have been of inferior quality and poorly marketed in the past, by delivering these services more effectively and more thorough preparation.

As a result, CEDA places emphasis not only on finding, but also on development of citizen entrepreneurs through training and mentoring (Ministry of Finance and Development Planning, 2003). Based on the Budget Speech (2005), the CEDA has introduced mechanisms such as training and mentoring programme in order to identify skills gaps, train on entrepreneurial development, basic accounting and sector specific issues.

The youth are most affected section of the society with respect to challenges such as unemployment, HIV/AIDS and poverty. In response to this the Government has created a fund under CEDA to provide agricultural loans to youth aged between 18 and 35 years. Through this Young Farmers Fund, young people will have improved access to finance and entrepreneurial training and then be able to engage in sustainable agricultural activities better equipped with requisite skills for running farming businesses. The major objectives of the fund are to ([http://www.ceda.co.bw/Young percent20Farmers percent20Fund.html](http://www.ceda.co.bw/Young%20Farmers%20Fund.html)):

- a) Foster youth enterprises in agriculture through effective pursuit of opportunities in the agricultural sector.
- b) Encourage the development of competitive and sustainable youth enterprises rewarding competitiveness and discouraging inefficiency.
- c) Create sustainable employment opportunities for young people through development of sustainable agricultural projects.
- d) Promote the development of vertical integration and horizontal linkages between enterprises and primary industries in agriculture.
- e) Minimise migration of young people to urban centres through creation of opportunities in rural areas.

A final government initiative towards the enhancement of the SMME sector worthy mentioning here is the Local Enterprise Authority (LEA). Established through the Small Business Act of 2003, the authority is tasked with monitoring the growth of the

SMME sector and playing an advocacy role in addressing the problems and needs of the sector (www.mti.gov.bw). The main reason for the establishment of LEA was to consolidate the business skills training, management and technical support services which government provides through Integrated Field Services (IFS) Division of the department of Industrial Affairs and Enterprise Botswana (EB) in order to provide such support services in a consolidated manner under one organisation. Through LEA, the government intended to create a coordinated and focused one-stop-shop authority that will provide support services to the local industry needs of SMMEs, encompassing training, mentoring, marketing and technology support (www.mti.gov.bw).

The functions, among others, include to develop a new generation of sustainable and competitive enterprises in Botswana; promoting industrial/sectoral development and economic diversification through the application of new and appropriate technologies and internationally recognised best practices; to effectively implement SMME strategies, policies, and programmes for local entrepreneurship promotion and development; to equip entrepreneurs with relevant and applicable business and technical skills for business development and growth and to create a conducive business environment which will make the SMME entrepreneurs to prosper and play an active role in the economic growth and diversification and employment creation (Botswana Daily News, 2007). Training programmes under the authority will be specifically designed to inculcate an entrepreneurial culture that will create citizen businesses that can be competitive in both domestic and international markets. These objectives are echoed in the Budget Speech of 2003, in which it is stated that, if the objectives of economic diversification, developing citizen entrepreneurship, employment creation, citizen economic empowerment, and poverty alleviation are to be realised, any business promoter, whether small, medium, or large, needs to know the fundamentals of business, namely, what to produce, how to produce, where to sell, how to get products to the market place, and whether there would be sufficient profit to warrant the effort (Ministry of Finance and Development Planning, 2003).

2.3.2 Challenges Facing SMMEs in Botswana

Although the SMMEs Task Force Report (1998) singled out the lack of entrepreneurial skills and poor management as the major challenges facing SMMEs in

Botswana, the sector is faced with a wider variety of problems (Ministry of Commerce and Industry, 1998: 4 - 5). These included the following:

- a) Survival rate of SMMEs is low among start-up businesses, as between 80-85 percent would disappear within five years of start-up.
- b) Lack of access to finance is a major constraint to start-up businesses, as many financial institutions would require some form of security which might be property or excess funds in fixed deposit accounts for loans to be approved. However, as many citizens do not have assets to secure such financing.
- c) Lack of entrepreneurial skills limit citizens to take up business opportunities that are not exploited.
- d) Lack of business start up training needed to improve prospects for business survival.
- e) Lack of information on Government Assistance Programmes: A lack of information about available sources of assistance is a further handicap as only a very small number of micro and small enterprise owners are aware of Government assistance programmes.
- f) Lack of marketing skills: According to the Task Force Report, there were frequent complaints registered during the consultations with the business community, particularly by small entrepreneurs that they were not able to compete with larger companies.
- g) Shortage of Business Premises: A lack of premises has been another major constraint to SMMEs. A survey conducted by the Integrated Field Services (1994) indicated that 76 percent of those interviewed were carrying out their manufacturing businesses on residential premises.
- h) Excessive Government Laws and Regulations: The complexity, rigidity and proliferation of Government Laws and Regulations often impede SMME development; also complying with these regulations takes much time, effort and money which SMME owners/managers cannot afford.
- i) Lack of Data on SMMEs: The Task Force identified the lack of data on the SMME sector as a critical constraint; more specifically on new entrants in each category of enterprises, their survival and growth, number of business failures, breakdown by gender, by region, by sector.

Lisenda (1997) mentioned that characteristics and sources of finance are sources of problems facing Small Medium Micro Enterprises in Botswana. He further stated that working capital is a constraint due to terms and conditions from both private financial institutions and Government aided development banks. Southern African Development Community (SADC) Secretariat (1997) reported that the numbers of

SMMEs in all of Southern African Development Community that succeed in moving from micro to small scale is less than one (1) percent of all the new start-ups due to poor business management. Motlaleng (2007 – see Mmegi , January 2007 p.B6) observed that after decades of focus on the small businesses potential of diversifying the economy, large segments of small businesses are not competitive , either with bigger firms or foreign competitors. He further mentioned that there is lack of adequate capital investment, entrepreneurial and business skills amongst high percentage of small businesses.

2.4 Role of Financial Management in the Success of SMMEs

Literature focusing on financial management of business has been considered in answering questions as to how general financial concepts are being applied in small enterprises. A selected review of literature is used to put the research problem at hand in context, and discuss how these are being adopted in SMME in Botswana. Arnold (1998) states that financial management is necessary for the survival of the business and for its growth, hence all stakeholders, to some extent, have an interest in seeing sensible financial decisions being taken. According to him, financial management in business should have the objectives to (Arnold, 1998):

- a.) Achieving a target market share: These may be in the form of improved profitability, survival chances. Usually the winning of a particular market share is as an objective because it acts as a proxy for other, more and profound objectives, such as generating the maximum returns to shareholders.
- b.) Keeping employee agitation to a minimum: The returns to the organisation's owners are kept to a minimum level in order to reduce workplace tension.
- c.) Survival: There are circumstances where the overriding objective becomes the survival of the firm.
- d.) Creating an ever-expanding empire: This objective proposes that some managers drive a firm forward, via organic growth or merger, because of a desire to run an ever-larger enterprise.
- e.) Maximisation of profit: This is a much more acceptable objective; although not everyone would agree that maximisation of profit should be the firm's purpose.
- f.) Maximisation of long-term shareholder wealth: The maximisation of the returns to shareholders in the long term is considered to be a superior goal

Barrow (1998:116), states that all business need sound financial management –and small firms are no exception to that rule. Proper management accounts with pro forma cash flows, profit and loss accounts and balance sheets are essential if a firm is to survive and prosper, as is variance analysis comparing what was planned with what actually occurred. Financial management leverages information from numerous resources including accounting, regulatory and marketing operations to enable managers to make better business decisions in strategic planning, budgeting and financial reporting. It is therefore very important that business owners must understand how to leverage their business information into actionable financial intelligence; their business needs to stay competitive in today's global market (<http://www.bettermanagement.com>).

The assumed objective for finance is that the company should make investment and financing decisions with the aim of maximising shareholder wealth (Arnold, 1998; Brigham, Gapenski, and Ehrhardt, 1999). Arnold (1998) further mentioned that finance consists of three interrelated sub areas, namely: a) Money and capital markets which deals with many of the topics covered in macroeconomics, b) investments which focuses on the decisions of individuals and financial institutions as they choose securities for their investment portfolios, and c) financial management, which involves decisions within the firm. Each of these areas of finance interacts with the others such that good decisions in one area cannot be made without knowledge of the other areas (Brigham, et al, 1999).

In reviewing the efficiency of the financial management practices in small enterprises, the philosophy of Just in Time (JIT) as a method of operational planning and control or efficiency reasons with regard to inventory management, is the critical part of working capital and an approach adopted by many firms towards retaining a competitive edge. JIT is defined as 'a disciplined approach to improving overall productivity and eliminating waste (Pycraft, 1995). It provides for the cost-effective production and delivery of only the necessary quantity of parts at the right quality, at the right place, while using a minimum amount of facilities, equipment, materials and human resources. JIT is dependent on the balance between the supplier's flexibility and the user's flexibility. It is accomplished through 'the application of elements which require total employee involvement and teamwork' (Pycraft, 1995: 529).

Understanding of financial reports is essential to anyone who wants to control a business (Barrow, 2001), as this helps in thorough understanding of business objectives, including making a satisfactory return on investment, maintaining a sound financial position, and having satisfactory returns. To be satisfactory returns must give a fair return to shareholders, bearing in mind the risk they are taking; make enough profit to allow the company to grow; be good enough to attract new lenders; and provide enough reserves to keep the real capital intact (Barrow, 2001). Both investors and managers are concerned about cash flow projections as well as profit projections because the ability to take advantage of growth opportunities often depends on the availability of the cash needed to buy new assets, and the cash flow from existing assets is often the primary source of the funds needed for profitable new investments (Brigham, et al, 1999). Firms can be thought of as having two separate but related bases of value. That is, existing assets and growth opportunities. While the former provide profits and cash flows, the latter represent opportunities to make new investments, which will increase future profits and cash flows (Brigham, et al, 1999: 44 - 55).

2.4.1 Other Financial Management Related Concepts

Central to the process of financial management is a number of concepts that include profitability, capital budgeting, capital expenditure proposals, and firm's growth and development. These are important to the success of any business including small businesses in the SMME sector. It is to the brief discussion of these that we now turn.

Profitability

According to Barrow (2001), there are two main ways to measure a business's profitability, being return on capital employed (ROCE) and profit margins. ROCE ratio is calculated by expressing the profit before long-term loan interest and tax as a percentage of the total capital employed. The strength of this ratio lies in the overall view it takes of the financial health of the whole business. Financial institutions might look to this ratio to see if the business could support more long-term borrowing. The main financing criteria are the ability of the business to make acceptable profits within a reasonable period of time but with high development impact. The applicant must demonstrate the capability to perform on the contract/ tender. The project must have

strong cash flows and meaningful financial contribution is expected from owners (Barrow (1998).

Capital Budgeting

Capital budgeting, on the other hand, refers to investment decisions involving fixed assets. It is the whole process of analysing projects and deciding whether they should be included in the capital budget (Brigham, et al, 1999). This process is of fundamental importance to the success or failure of the firm, for its fixed asset investment decisions. All departments of a firm, e.g. production and marketing among others, are vitally affected by the capital budgeting decisions. Hence, all executives, no matter what their primary responsibility, must be aware of how capital budgeting decisions should be made (Weston and Copeland, 1988). A well-managed firm will go to great lengths to develop good capital budget proposal (Brigham, et al, 1999).

Capital Expenditure Proposals

Business firms must also develop sound capital expenditure proposals. These must cover projects replacement, replacement for cost reduction, and expansion of existing products/ markets (Brigham, et al, 1999). Projects replacement expenditure covers the maintenance of business which consists of expenditure necessary to replace worn-out or damaged equipment used to produce profitable products. These projects are necessary if the firm is to continue in its current businesses. The purpose of replacement for cost reduction expenditure is to lower the costs of labour, materials or other items such electricity. Finally, expansion of existing products/ markets refers to expenditures to increase output of existing products (Brigham, et al, 1999). These decisions are more complex because they require an explicit consideration of future demand in the firm's product markets.

Firm's Growth and Development

A firm's growth and development even its ability to remain competitive and to survive, depend upon a constant flow of ideas for new products and ways to make existing products better and a lower cost (Brigham, et al, 1999). Factors affecting the growth of firms according to Storey (1994) include the characteristics of the owner-manager, the firm and business strategy. Table 4 presents these dimensions and their characteristics. On the characteristics of the owner-manager, Storey (1994) mentioned that motivation is important in that individuals pushed into self-employment are less

likely to found successful growth businesses, the more highly educated are more likely to found high growth businesses, more rapidly growing firms are more likely to be founded by groups and middle aged owners are more likely to found rapidly growing firms. The characteristics of the firm reflect decisions made by the owner-manager, such as time when business started, business sector, legal form, ownership pattern, size and location. Based on his review, Storey (1994) concluded that younger firms grow more rapidly and there are sectoral differences, limited companies grow more rapidly than sole traders or partnership, location is important in that firms located in accessible rural areas grow more rapidly than those in urban or inaccessible rural areas and that the smallest firms are least likely to grow. Storey (1994) further mentioned that strategy concerns decisions taken by owner-manager with discrete operational or functional areas, as training, finance and planning. Basing on the identified 14 areas in figure 4 concluded that growing firms are more likely to have

Table 4: The Characteristics of the Owner-Manager, the Firm and Strategy

The entrepreneur/resources	The firm	Strategy
Motivation	Age	Workforce training
Unemployment	Sector	Management training
Education	Legal form	External equity
Management experience	Location	Technological sophistication
Number of founders	Size	Market positioning
Prior self -employment	Ownership	Market adjustments
Family history		Planning
Social marginality		New products
Functional skills		Management recruitment
Training		State support
Age		Customer concentration
Prior business failure		Competition
Prior sector experience		Information and advice
Prior firm size experience		Exporting
Gender		

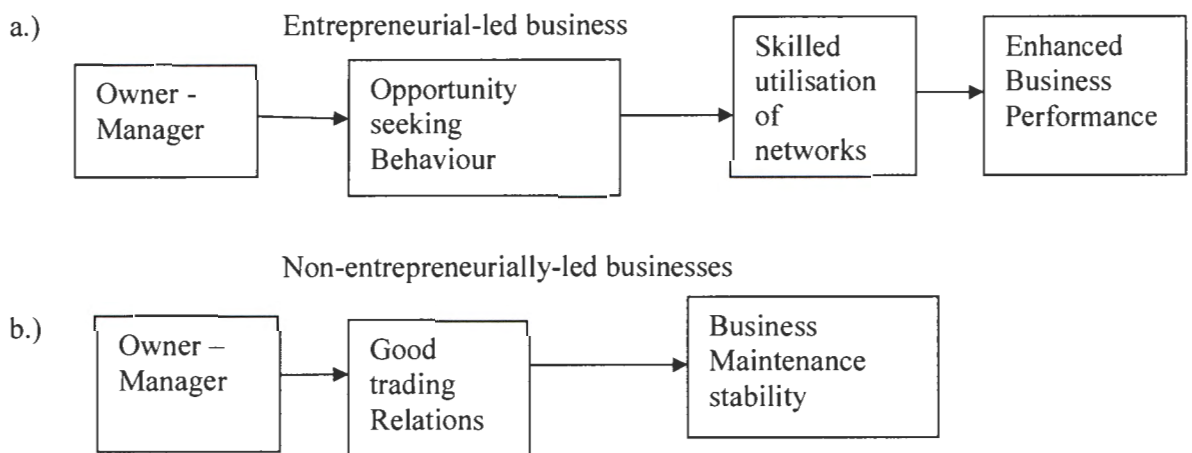
Source: Storey (1994: 123)

owners who share equity with outside individuals, have made conscious decisions on market positioning and occupy particular niches or segments, tend to introduce new products, and growth is associated with a willingness on the part of the owner-manager to devolve decision making to non-owning-managers.

2.5 Stakeholders and Networking Behaviour in SMMEs

Chell (2001) states that owner-managers are often in a very different position to directors of large corporations as they may be the sole or principal owner and there is more likely to be family involvement. She further mentioned that advocates of entrepreneurs suggest that networking is a fundamental part of entrepreneurial behaviour, in that in seeking business growth, the entrepreneurs pursue opportunity development through networking activity. Illustrating the comparison of the entrepreneurially-led business and the non-entrepreneurially-led, figure 5 shows that entrepreneurially-led businesses are the growth businesses of tomorrow, whereas the non-entrepreneurially-led businesses tend to form the stable core of owner-managed businesses whose owner-managers pursue personal goals associated with life style and family welfare.

Figure 4: Skilled Networking Behaviour: The Key to Enhanced Business Performance



Source: Chell (2001:153)

2.6 Managing Small Businesses

Managing any business is as much an art as a science (Barrow, 1998: 128-129). According to Drucker (cited by Barrow, 1998), the five basics of the managerial role are to set objectives, to organise, to motivate and communicate, to measure performance, and to develop people. All these could be achieved by having proper

managerial strategies among others such as mission statement. The mission statement is a statement of direction intended to focus you and your management team's attention on what you do best and for whom you do it. The mission statement comes first and the action plans follow later. The mission statement should explain what business you are in and should include some of the following (Barrow, 1998: 130):

- i) Market /customer needs-who are we satisfying?
- ii) With what product/service will we meet that need? What are our capabilities, both our particular skills and knowledge and our resources?
- iii) What market opportunities are there for our product or services and what threats are there from competitors?
- iv) What do we enjoy doing most?
- v) What do we want to achieve both now and in the future?

The ultimate aim of management should be to create an enterprise that enjoys competitive advantage. To build competitive advantage management must be sensitive to the business environment in which the firm operates, including the constraining and facilitating aspects of that environment (Chell, 2001). The firm should position itself strategically and decide how it should best deploy its resources to gain competitive advantages that enable it compete locally, regionally, and, if possible, internationally. Achieving global competitiveness is also a matter of strategic thinking at the firm level (Chell, 2001: 46). According to Chell (2001: 287 - 289), a firm's competitive position and ultimately its performance is affected by the following twelve factors:

1. **Strategy/direction:** Chell (2001) argues that this concerns the long-term goals being pursued by the owner-manager and the decisions being taken in order to achieve their goals.
2. **Human resource policies and practices:** Human resource management is a much-neglected area of small business management. It is arguable that human resource practice is probably underdeveloped in the small business environment. Slevin and Covin as cited by Chell (2001) argue that having effective human resource practices -planning, staffing, appraisal, compensation, and training and development is essential to the competitive performance of a business venture.

3. **Intra-business unit communication:** Burns and Stalker as cited by Chell (2001) argued for businesses to develop organic rather than mechanic organisational structures so that they might respond flexibly and effectively in turbulent and hostile business environment.
4. **Total quality management:** According to Chell (2001), the quality movement of the past decades has given the business community a new and complete vocabulary of how to raise quality standards of both process and product within a business. Porter (cited in Chell, 2001) also pointed out that the firm is more likely to be effective if it is to pursue tactics that give it higher-order advantages; ones which are difficult for competitors to imitate.
5. **Product/service development and improvement:** Chell (2001) argues that continuous improvement of products and services to customers is critically important if the business is to maintain a competitive edge.
6. **Marketing and sales:** Chell (2001) mentioned that the question of whether a firm is market-led or product-led is still pertinent despite all the energies that have been devoted to realising market economies. Market-led companies are responsive to customer needs and produce what the customer wants. Clearly, building up customer and brand loyalty are part of the competitiveness tactics that may be deployed.
7. **Vendor relationships:** According to Chell (2001), how are customers regarded, relationships with customers, and response given to customers are some of the concerns the owner-manager needs to address if they are to have an effective sales department.
8. **Process improvement:** Chell (2001) mentioned that these can achieve efficiencies and cost savings and they are not solely about increased quality control. Improved performance can be passed on to the customer, for example, through shorter delivery times and to the business through increased margins.

9. **Participative management:** Participation management is probably a non-obvious competitive tactic. The strategic benefit for the company is involvement of employees in performance, engendering a belief that the company's performance and image matter.
10. **Organisation structure:** Organisational structure implies and also constrains strategic options and behaviour. The emphasis is on more flexible and responsive structures, small spans of control, networked and virtual structures which enable the firm to be more effective and sensitive to its environment.
11. **Culture:** Chell (2001) states that culture is underpinned by deep-seated values and beliefs. For the new company, shaping this character is all important in developing reputation and presenting a positive external image.
12. **International competition:** The horizons of the owner-manager can be near or distant. The extent to which that individual and their firm recognise that must operate in a global world affects their competitiveness.

A firm can be able to sustain its competitive advantage through the following (Porter, cited in Chell, 2001):

1. Identifying higher-order advantages e.g. skills and capabilities which potential rivals find more difficult to duplicate.
2. Proliferating its advantages and not relying on a single advantage.
3. Constant improvement and upgrading.
4. Spotting industry changes, moving early to exploit them and thereby cutting off the competition.
5. Being prepared to change.

Pycraft (1995) reinforces Porter's views by emphasizing that, for any organisation to succeed in the long term it should consider operations-based objectives through the following five basic performance objectives:

- a) Do things right: This refers to satisfying customers by providing error-free goods and services which are fit for their purpose, which give quality advantage to the company.
- b). Do things fast: That is, minimising the time between a customer asking for goods or services and the customer receiving them in full. This gives the company a speed advantage.
- c) Do things on time: This is about keeping the delivery promises which you have given to your customers, giving a dependability advantage to its customers.
- d) Be able to change what you do: This refers to being able to vary or adapt the operations activities which could be due to some unexpected circumstances.
- e). Do things cheaply: This refers to producing goods and services at a cost which enables them to be priced appropriately for the market while still allowing for return to the organisation.

CHAPTER THREE

METHODOLOGY

This chapter describes the approach used by the study to collect the data used to assess the challenges facing financial management of Small Medium and Micro Enterprises sector in Botswana. It details the site of study and units of analysis, the sample and sample selection procedures, the methods of data collection, the data analysis techniques, ethical issues and the limitations of the study.

3.1 The Site of Study and Units of Analysis

This study was undertaken in Gaborone, the capital city of Botswana. Botswana is a land locked country with a population of 1 680 869 (Central Statistics Office, 2003). The country is semi-arid and has a land area of 582 000 square kilometres, about the same size as Kenya and France. Botswana is boarded by Namibia to the West, Zimbabwe to the north-east and South Africa in the south, with the Kalahari Desert occupying much of the western and central regions (see Map 1). Most of the population reside along the eastern part of the country where the rainfall is less irregular and the soils are more fertile (Central Statistics Office, 2003; Ministry of Finance and Development Planning, 2003).

At Independence Botswana was dependent mainly on agriculture for a livelihood. Beef production was the mainstay of the economy in terms of output and export earnings, communication and infrastructure were not developed except for the railway line (Ministry of Finance and Development Planning, 2003). Since independence the country has recorded remarkable social and economic transformation, with the discovery and production of minerals, resulting in both growth and change in the structure of the economy as evident from Table 5. The Table shows that by 1985/1986 mining had become the leading economic sector dwarfing agriculture which was the dominant sector in 1966. During that period (1985/86), the mining sector's share of the economy was 48.9 percent while that of agriculture stood at 5.6 percent. Although the sector's share of the economy had declined to 36.5 percent by 2000/2001, it remains the dominant economic sector in Botswana up to the present day. Botswana's key to sustainable development centres on global competitiveness, good governance

and stringent fiscal management (Ministry of Finance and Development Planning, 2003).

Table 5: Contribution of Selected Sectors to Botswana's Economy 1966 – 2000/01

Economic Activity	1966	1975/76	1985/86	2000/01
Agriculture	42.7 %	20.7%	5.6%	2.6%
Mining & Quarrying	-	17.5%	48.9%	36.5%
Manufacturing	5.7%	7.6%	3.9%	4.1%
Water & Electricity	0.6%	2.3%	2.0%	2.4%
Construction	7.8%	12.8%	4.6%	5.8%
Trade, Hotels & Restaurants	9.0%	8.6%	6.3%	10.3%
Transport	4.3%	1.1%	2.5%	3.8%
Banks, Insurance & Business Services	20.1%	4.7%	6.4%	10.9%
General Government	9.8%	14.6%	12.8%	16.0%
Social and Personal Services	-	2.8 %	2.5%	4.0%

Source: Ministry of Finance and Development Planning (2003)

The specific site of the study was Gaborone. Gaborone is the capital city of Botswana. The city is highly populated due to favourable factors such as being the administrative and commercial capital of the country, its strategic location, the availability of reliable water supply and its proximity to the cross continental railway line (tourism africa.co.za). The city has an estimated population of 208 411, representing 12.2 percent of the total population of the country (Central Statistics Office, 2003). Gaborone was considered to be a suitable site for the study because, being both the administrative and commercial capital of Botswana, it has a high and fast growing number of SMMEs. In addition, the site was convenient for the researcher work works and resides in Gaborone. The study was carried out on a part-time basis and required time after working hours. The study targeted different types of businesses funded through CEDA, NDB, and other financial institutions such as banks that are participating on the programme. These businesses were used as units of analysis. However, it was the business owners and managers who were the specific informants for the study.

Map 1: Botswana: Regional Context



Source: http://upload.wikimedia.org/wikipedia/en/2/2a/Botswana_map.png [May 8, 2007]

3.2 Study Sample and Selection Procedures

According to the Ministry of Commerce and Industry, (1998), there are approximately 56 300 Small, Medium and Micro Enterprises and these include about 50 000 micro-enterprises, 6 000 small enterprises and 300 medium size enterprises operating in Botswana. This means that of all SMMEs 88.9 percent are micro-enterprises, 10.6 percent are small enterprises and 0.5 percent, are medium size enterprises. To select the desired sample for the study, non-probability sampling was used. This is a sampling technique in which units of the sample are selected on the basis of personal judgement or convenience and the probability of any particular member of the population being chosen is unknown (Bailey, 1994). The advantage of non-probability

sampling is that it is much less complicated, much less expensive, and can be done on a spur-of-the moment basis to take advantage of available respondents without the statistical complexity of a probability sample (Bailey, 1994:93-94).

Specifically, convenience sampling, which is one of the types of non-probability sampling, was used. It refers to sampling where the investigator merely chooses the closest live persons as respondents or units or people who are most conveniently available (Bailey, 1994; Zikmund, 1997). In the case of this study, reliance on convenience sampling meant that the researcher interviewed only those individuals who were available and willing to participate in the study. Convenience sampling, also termed haphazard or accidental sampling, was used to select enterprises from categories of small, medium and micro enterprises within the sector financed by government schemes such as CEDA, NDB and other financial institutions. The primary advantage of the method is that, relative to other methods, it is very easy to execute (http://ccnmtl.columbia.edu/projects/qmss/samp_type.html).

In all 100 enterprises were targeted by the study. Because official statistics documenting the number of SMMEs located in Gaborone city were not available, the researcher opted to apportion the 100 enterprises proportionately according to the representation of each category in the national total of 56 300 enterprises. This means that 89 percent of the sample was allocated to micro enterprises, whilst 10 percent was allocated to small enterprises and the remaining one (1) percent allocated to medium size enterprises.

3.3 Data Collection Methods

The survey method was used to collect the bulk of the data utilised for this study. This is a method of collecting data in which a specifically defined group of individuals are asked to answer a number of identical questions (Babbie, 1992; Baker 1999). The primary objective of survey research is to determine variation in the responses of various groups of people. This kind of research method is the most common type of research used in social science or any other types of research (Babbie, 1992; Baker 1999). Survey research involves the administration of questionnaire through interviews or mails to a sample of identified respondents. It was considered to be the

most appropriate for our study because it produced quantifiable data, which are easy to analyze.

The questionnaire was administered to owners /managers of 89 micro-enterprises, 10 small enterprises and one (1) medium size enterprise. Data were collected through self- administered questionnaires and face-to-face interviews conducted by the researcher. Self- administered surveys were utilised in cases where the business owner's/manager's level of literacy allowed him/her to fill the questionnaire independently whereas face-to-face interviews were conducted with respondents who could not complete the survey questionnaire without the assistance of the researcher. The aim of the questionnaire was to gather information from the respondents about background information about their business, sources of finance for starting and sustaining businesses, challenges facing business enterprises, and financial management strategies and styles utilised by business operators. The study targeted business owners, managers, and executive managers because they are the drivers of the businesses and are also responsible for the formulation of financial strategies. It was therefore presumed that they would be able to explain their financial management practices clearly. Since the respondents were not widely dispersed, it was possible to distribute and collect the questionnaires from them with ease.

To improve the accuracy and relevance of the questionnaire, a piloting exercise was conducted comprising a group of five (5) respondents randomly selected from the population. The pilot study was mainly used to assess the relevance, accuracy, and clarity of questions and ease of respondents' understanding of the questions. The comments and concerns raised during the piloting exercise were used to modify the research questionnaire with the view to increasing clarity and ease of understanding of the questionnaire among respondents.

To supplement data realised through surveys, informal interviews were also conducted with various stakeholders in the sectors such as accountants who provide accounting services, employees of the financial institutions who provide financial advices to the sector and Lawyers. In addition, documentation available within the SMMEs business sector; annual reports from CEDA, NDB and banks; and statistical reports from the relevant government ministries, such as Ministry of Finance and

Development Planning and Ministry of Trade and Industry, were reviewed. A review of individual business profiles from the Midweek Sun was also considered to observe the initiatives made by the various individuals within the sector to finance their business from their personal resources.

3.4 Data Collection

Data were collected from business owners/managers in Gaborone January 2007 to March 2007. As indicated earlier, data collection involved reliance on either a self-administered questionnaire or face-to-face interviews with respondents. However, in every case the process commenced with the researcher explaining the purpose of the study to the potential respondent then allowing him/her the chance to ask questions by way of seeking clarifications. Once the purpose of the study was clarified to the satisfaction of the potential respondents, the researcher requested him/her to requesting him/her to serve as an informant for the study. Where consent was obtained, a self-administered questionnaire was given to the respondents or a face-to-face interview was conducted. Where a consenting respondents indicated that he/she did not have time at that moment for face-to-face interview, an appointment was made on an appropriate date during which the researcher would return and conduct the interview.

Respondents who opted for self-administered questionnaires were allowed two weeks to complete the surveys before the researcher returned to collect them. In cases where the questionnaires were not completed within the agreed two weeks, an additional five (5) days period was allowed. Where a respondent reported having misplaced the questionnaire, a new one was supplied. After the expiry of the five (5) days, any respondent who had not completed the questionnaire was judged to have been unwilling to participate in the study and the researcher brought the data collection process to a close.

3.5 Data Analysis Methods

The data realized by the study were analysed utilising the SPSS-PC quantitative data analysis software. The analysis was mainly descriptive and entailed the computation and utilisation of descriptive statistics especially frequency distributions, percentages and means. These were utilised to construct a descriptive profile of the study sample

and to depict the respondents' views about the financial management challenges facing SMMEs in Botswana. Where possible, data were presented utilizing tables, charts, and graphs.

3.6 Ethical Considerations

Speaking about ethics in social research, Denscombe (2003:134) stressed the need for researchers to respect the rights and dignity of the participants; avoid any harm, physical or otherwise to the research subjects, and to operate with honesty and integrity. Consistent with these views, this study was conducted in such a way that its respondents did not suffer in any way from their involvement in the research process. This was achieved as follows. First, the researcher was open and honest with all respondents. She was as explicit as possible about the nature of the research as well as the participants' roles therein. Second, respondents were informed that participation in the study was voluntary and any failure to participate or to complete the questionnaires would not result in any penalty. Third, respondents were assured that any information they divulged would be treated in the strictest confidence and no sensitive information would be disclosed to a third party. Answers to all questions would be kept completely confidential and no names or any information that would be used to identify particular respondent was employed in reporting the research findings and responses were used only in combination with responses from other participants. Finally, respondents were assured that all data would be kept under lock and key the whole time the study was in progress and only the researcher would have access to them. All surveys would be destroyed at the end of the study.

3.6 Limitations of the Study

The study was disadvantaged by several factors, which undermined the quality of its findings and the conclusions drawn thereof. First, the researcher had limited time and money, with which to accomplish the study. Due to time limitation, the study was only restricted to Small, Medium and Micro Enterprises in Gaborone. Also the researcher had to limit the number of questionnaires administered as well as the depth of analysis conducted, taking into consideration the fact that the researcher was a part-time student. Secondly, the use of non-probability sampling to select the sample meant selection of the sample from the population, which was only at the convenience of the researcher. As such, the results of the study might not be a true reflection of the

financial management challenges facing the SMMEs sector in Botswana in general and in Gaborone in particular. As a matter of fact, the use of convenience sampling to select the study's sample meant that the sample could not be reliably deemed as representative and consequently, the findings could not be taken to offer a broad overview of the SMME sector in the whole of Botswana. That is, the study did not yield results that could be generalized to SMMEs sector in Botswana as a whole.

The size of the sample interviewed for the study also compounded the problem of generalizability of the findings. A sample of 100 respondents is too small a number for the research to extrapolate the research findings to the whole population, particularly taking into consideration the sample selection technique employed. Another limitation was that some respondents were reluctant to disclose their annual turnover and financial management strategies because they wished to protect such information from their competitors. This meant that the researcher could not access their financial statements, which were needed to assess the financial performance and profitability of the sector.

CHAPTER FOUR

RESULTS

This chapter presents the findings of the study. It is divided into seven sections. The first section discusses the socio-economic characteristics of the respondents and the second and third sections focus on the characteristics of business and experiences in running business, respectively. In the fourth section challenges facing SMMEs in Botswana are presented, whilst section five discusses the financial management strategies utilised by SMMEs. Section six discusses how funds obtained through the government schemes are utilised. The last section (seven) looks at profitability of businesses within the sector.

4.1 Respondents' Socio-Economic Characteristics

A total of 100 questionnaires were distributed to respondents as follows: 89 Micro Enterprises, 10 to Small Enterprises and one (1) to Medium Enterprise. Of this number the researcher received 69 back but three questionnaires were not satisfactory completed. This represented a response rate of 66%. This rate is fairly representative within the sector and is consistent with the response rate within the sector. For instance; The Task Force held extensive consultations with business owners and other interested parties throughout the country and only received 23 written submissions (Ministry of Commerce and Industry, 1999).

Those interviewed for this study included 52 (78.8 percent) females and 14 (21.2 percent) males. The respondents ranged in age from 26 years to 82 years; the mean age was 41.2 years. Table 6 presents the distribution of the respondents by age group. As evident from the Table, 31.8 percent were youth aged between the ages of 26 and 35 while 44.0 percent were young adult aged between 36 and 45 years. The remaining 24.2 percent were adult aged between 46 and above years. Asked to indicate their age at the time they started their businesses, 7.6 percent said they did so when they were between 18 and 25 years, 45.5 percent when they were between 26 and 35 years and 39.4 percent reported that they started their first business when they were between 36 and 45 years. The remaining 7.6 percent included those who had ventured into business when they were aged between 46 and 55 years.

Table 6: Distribution of Respondents by Age Category

Age Group	Number	Percent
26 - 30 years	4	6.0
31 - 35 Years	17	25.8
36 - 40 Years	10	15.2
41 - 45 Years	19	28.8
46 – 50 Years	7	10.6
51 + Years	9	13.6
Total	66	100.0

Concerning educational attainment, the results showed that the respondents' level of education ranged from none to Masters Degrees. Whereas 3.0 percent of the respondents said they had no education at all, 3.0 percent reported that they had attained Junior Secondary level of education, 16.8 percent indicated that they had attained Senior Secondary schooling, and 34.8 percent reported that they had attained College Diplomas. The remaining 34.8 percent and 7.6 percent reported that they had Bachelors and Masters Degrees, respectively.

Those interviewed for the study had varied professional backgrounds. Table 7 presents the distribution of the respondents by profession. Based on the Table, 28.8 percent of the interviewees were in accounting profession, 18.2 percent had a background in social services, 16.6 percent were in marketing, and 10.6 percent said they were in the education profession. Other professions listed by the respondents

Table 7: Distribution of Respondents by Profession

Profession	Number	Percent
Accounting	19	28.8
Social Services	12	18.2
Marketing	11	16.6
Education	7	10.6
Finance	5	7.6
Banking	5	7.6
Management	5	7.6
Law	1	1.5
Insurance	1	1.5
Total	66	100.0

included finance and banking (7.6 percent each), banking (7.6 percent), management (7.6 percent), Law (1.5 percent), and insurance (1.5 percent).

The study also sought information about number of persons who were dependent on the respondents' incomes. The results showed that these ranged from zero to ten; the mean number of dependents was 3.3 persons. As evident from Table 8, 10.6 percent of the respondents reported that they had no dependants whereas 13.6 percent had between 1 and 2 dependants. The remaining 51.5 percent and 24.2 percent had between 3 and 6 and 7 and 10 dependents, respectively.

Table 8: Respondents by Number of People Dependent on Their Income

Number of dependants	Number	Percent
None	7	10.6
1-2	9	13.6
3-4	20	30.3
5-6	14	21.2
7-10	16	24.2
Total	66	100.0

4.2 Characteristics of Businesses Studied

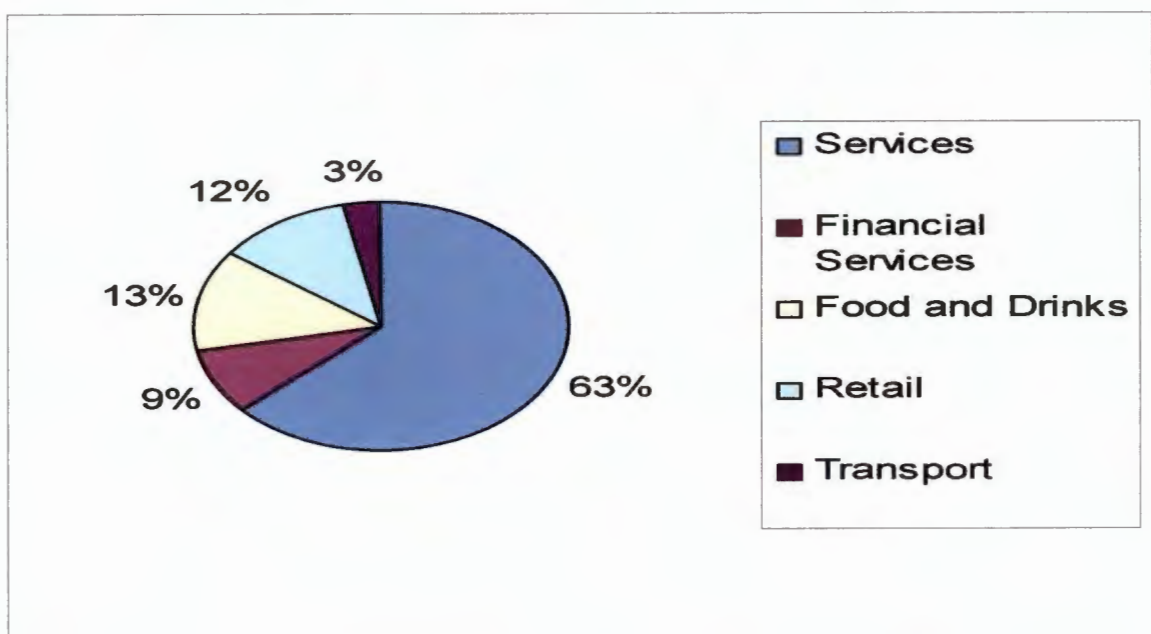
As indicated earlier, this study focused on 66 small, medium and micro businesses. Of this number 45.5 percent were Sole Proprietors, 18.2 percent were Partnerships, and 36.4 percent were Private Companies Limited. The businesses had been in existence for periods ranging from less than one (1) year to 15 years; the mean period of operation was 4.30 years. Table 9 presents the distribution of the businesses by the length of time they have been in operation. It shows that 16.7 percent of the businesses studied had been in operation for less than 1 year, whilst 25.8 percent had been in operation for between 1 and 2 years. The remainder included businesses that had been in operation for 3 to 6 years (33.4 percent), 7 to 10 (15.1 percent) and over 10 years (9.0 percent). The specific categories of businesses studied were varied. As evident from Figure 6, 62.2 percent of them were in the service sector, 9.1 percent were in financial services, 13.6 percent were in food and drink, and 12.1 percent in retailing businesses. The remaining 3.0 percent were in transport sector.

Table 9: Length of Time Business Has Been in Operation

Length of time in operation	Number	Percent
Less than 1 year	11	16.7
1-2 Years	17	25.8
3-4 Years	13	19.7
5-6 Years	9	13.7
7-8 Years	3	4.5
9-10 Years	7	10.6
Above 10 years	6	9.0
Total	66	100.0

The results showed that 42.4 percent of the businesses covered by the study were exclusively female-owned while 19.7 percent were owned by males only. The remaining 37.9 percent were owned jointly by females and males who were either husband-wife couples or were male-female business partners who were not in a marital union. Overall, the participation of females in the SMMEs sector stood at 83.8 percent compared to 16.2 percent male participation. Concerning the citizenship of business owners, the study showed that Batswana dominated SMMEs. Of the total

Figure 5: Distribution of SMMEs by the Types of Businesses Owned



businesses studied 84.4 percent of were owned by citizens of Botswana, compared to 7.6 percent and 7.6 percent owned by permanent residents and temporary residents, respectively. The study also sought information about the type of ownership business operated. Whereas 68.2 percent were wholly owned by citizens, 6.1 percent were business owned jointly with foreign companies, 16.7 percent were franchise businesses and the remaining 9.1 percent were businesses operated as branches of foreign companies.

4.3 Experience in Running Business

Those interviewed for the study held varied positions in the businesses they were operating. The results showed that 75.8 percent of them were occupying Senior and Executive Management positions while 24.2 percent were middle level managers. The interviewees had been running the businesses they were in-charge for periods ranging from less than one year to more than 10 years. Specifically, 25.8 percent had less than a year's experience, 39.4 percent had 1 to 5 years' of experience, 19.7 percent had had 5 to 10 years of experience and 15.2 percent had more than 10 years of experience in operating the business. Asked to rate their experience in running a business, 19.7 percent of the respondents felt that they had very limited (minimal) experience, 16.7 percent considered their experience to be limited, and 27.3 percent rated their experience as average. The remaining 18.2 percent and 18.2 percent rated their experiences as extensive and very extensive, respectively.

The study further requested information about the roles played by owners/managers of the business. The study results showed that 42.4 percent were responsible for financial and administrative duties, whilst 21.2 percent were performing Human Resources responsibilities and 36.4 percent equally shared the roles of Operations Management and Executive Management. Of the interviewees, 92.4 percent indicated that they like responsibility and being in charge of the business operations. With respect to sticking to decisions once they have been made, 93.9 percent of the respondents indicated that they always maintained their business decisions. Those studied included 63.6 percent who were well schooled in the mechanics and forms of running a business and 90.9 percent said that they were able to communicate effectively and persuade others to go along with their ideas.

4.4 Challenges Facing SMMEs in Botswana

One of the objectives of the study was to identify the major challenges, facing Small Medium and Micro Enterprises in Botswana today. Table 10 presents the challenges identified by the respondents ranked according to the level of support they received. As evident from the Table, as many as nineteen challenges were listed by the respondents. The top most challenge facing SMMEs in Botswana today emerged to be ‘stiff competition both locally and internationally’; this challenge was listed by 65 (or 98.5 percent of all respondents interviewed for the study. This was followed very closely by ‘short term business requirements and multiple responsibilities of managers’, which was identified by 63 (or 95.5 percent) of the interviewees. Tied for the third place by received 92.4 percent support were the challenges ‘to access to finance and expand businesses, ‘poor

Table 10: Major Problems Facing SMMEs Today

Problem	Frequency	Percent
Stiff competition both locally and internationally	65	98.5
Short term business requirements and multiple responsibilities of managers	63	95.5
Access to finance to expand business	61	92.4
Poor Management	61	92.4
Poor employees’ work ethics	61	92.4
Lack of Entrepreneurial skills	60	90.9
Lack of necessary Management skills	59	89.4
Inadequate use of financial information	56	84.8
Reliance on business project proposals that are not economically feasible	55	83.3
Being unprepared to compete to improve market position	54	81.8
Inadequate skilled business personnel	54	81.8
Decision-making constrained by inadequate information	53	80.3
Inadequate awareness about Government programmes	53	80.3
Lack of training in business start up skills	51	77.3
Inappropriate cost structure strategies	49	74.2
Poor Cost /benefit evaluations	49	74.2
Lack of concrete business plans	49	74.2
Lack of appreciation of the dynamics affecting business’ profitability	44	66.7
Non availability of business financial records	31	47.0

Note: Do not add to 100 percent; respondents gave more than one challenge

Management', and 'poor employees' work ethics'. Other challenges rated highly by the respondents included the following: Lack of entrepreneurial skills (90.9 percent), lack of necessary Management skills (89.4 percent), inadequate use of financial information (84.8 percent), business project proposal that are not economically feasible (83.3 percent), being unprepared to compete to improve market position (81.1 percent), inadequate skilled business personnel (81.1 percent), Decision-making constrained by inadequate information (80.3 percent), and inadequate awareness about government assistance programmes (80.3 percent). See Table 10 for other challenges listed by the respondents.

4.5 Financial Management Strategies Utilised by SMMEs

A second objective of our study was to establish the financial management strategies and styles employed within the SMMEs sector in Botswana in achieving their business objectives. Specifically, it sought to establish whether small, medium and micro enterprises do practices the best generally accepted financial management concepts in their day-to-day business operations. The results showed that, on average, less than 50 percent of the SMMEs employed financial strategies in managing their businesses that are conducive to business growth and success. Table 11 summarises the financial management practices by the various businesses at the time of the study ranked by the frequency of use. Based on the Table, 56.1 percent of businesses reported that they paid creditors on time, 54.5 percent reported utilizing good pricing strategies, 53.0 percent maintained business financial records, and 53.0 percent said that they followed their cash flow statements regularly.

Other financial management practices utilized by less than 50 percent of the businesses included monthly bank reconciliation (45.5 percent), managing costs effectively (37.9 percent), reliance on financial and legal professionals (36.4 percent), and applications of functional disciplines (30.3 percent). Only 27.3 percent, 25.4 percent and 22.7 percent of the businesses reported utilizing the important financial management practices of preparing final accounts regularly, maintaining a detailed business budget, and preparing cash flow projections, respectively. With reference to use of financial and legal professionals, those who did not use them explained it through the following factors: Cost, lack of information about such services, and the lack of understanding of consultant reports.

Table 11: Financial Management Strategies Utilised by SMMESs

Financial Management Practices	Frequency	Percent
Creditors are paid on time	37	56.1
Good pricing strategies are employed to enhance business competitiveness	36	54.5
Maintaining business financial records	35	53.0
Cash flow statements are followed regularly	35	53.0
Timeous performance of monthly reconciliation of all bank accounts	30	45.5
Costs are managed effectively	25	37.9
Reliance on financial and legal professionals	24	36.4
Applications of functional disciplines are employed	20	30.3
Final accounts prepared regularly	18	27.3
Detailed budget for business operations maintained	16	25.4
Cash flow projections are followed regularly	15	22.7

Note: Do not add up to 100 percent; respondents gave more than one response

4.6 Utilisation of Funds Obtained Through Government Schemes

Only 24.2 percent of all respondents interviewed reported that they had enough money to start their business. Asked to indicate the sources of the initial capital invested in starting their businesses, 36.4 percent said that they had started their business using personal savings while 9.1 percent utilised family savings. The remainder included 3.0 percent who started their businesses utilising money borrowed from FAP, 3.0 percent who had obtained loans from CEDA, 9.1 percent who had borrowed their start-up capital from NDB, and 27.3 percent who relied on loans from financial institutions other than CEDA, FAP or NDB. As evident from Table 12, other sources of start-up capital included a combination of individual savings and loans (4.5 percent) and a combination of family savings, individual savings and loans (7.6 percent). Further analysis showed that overall, 60.5 percent had utilised government schemes and loans to finance their initial start up capital.

To establish whether funds obtained through government schemes are effectively put in use the study focused on the type of assets owned by businesses. The results showed that 62.1 percent of the business owned assets in the form of working capital.

This was followed by stocks, which were owned by 37.9 percent of the businesses. Other assets owned by businesses included machinery (27.3 percent) and buildings (24.2 percent).

Table 12: Source of Capital Used to Start Business

Source	Frequency	Percentage
Personal Savings	24	36.4
Family Savings	6	9.1
FAP Loan	2	3.0
CEDA Loan	2	3.0
NDB Loan	6	9.1
Loan from other financial institutions	18	27.3
A combination of individual savings and a loan	3	4.5
A combination of family savings, individual savings and loan	5	7.6
Total	66	100.0

4.7 Profitability of Businesses

The final objective of this study was to gain an understanding of SMMEs measures of profitability and factors contributing to profitability. Table 13 presents the distribution of businesses studied by annual turnover. Based on the Table, this ranged from less than BWP 10 000.00 to 2.1 million and above. Whereas 15.2 percent of businesses reported that they realized an annual turnover of BWP less than 10 000.00, 18.2 percent reported annual turnovers of between BWP 10 000 and 30 000.00. The remainder included 21.2 percent whose annual turnovers lay between BWP 30 001.00 and 50 000.00, 28.8 percent with turnovers of BWP 50 001.00 to 100 000.00 and 16.6 percent with annual turnovers in excess of BWP 100 000. Overall, the results showed that 54.6 percent of SMMEs studied were Micro Enterprises with annual turnovers ranging from less than BWP10 000.00 to less than P60 000.00, while 36.5 percent are Small Enterprises with annual turnover of over P60 000 to P1 500 000.00 The remaining 9.1 percent represented Medium Enterprises with annual turnover of P2.1 Million and above. The study also employed other indicators of profitability such as whether the business was affected by competitive pricing, payment of creditors on time, and being able to pay workers on time. The results showed that although 81.8

percent of the businesses reported being affected by competitive pricing, 75.8 percent said they paid their creditors on time and 87.9 percent reported that they were able to pay their employees on time.

Table 13: Distribution of Businesses by Annual Turnover in Botswana Pula

Annual Turnover	Frequency	Percentage
Less than P10 000	10	15.2
P10 001- P20 000	8	12.1
P20 001 – P30 000	4	6.1
P30 001 – P40 000	8	12.1
P40 001 – P50 000	6	9.1
P50 001- P100 000	19	28.8
P300 001- P400 000	1	1.5
P400 001- P500 000	1	1.5
P1.1 Million -P2Million	3	4.5
P2.1Million and over	6	9.1
Total	66	100

An additional measure of business growth and, hence profitability, utilised by this study was the number of employees businesses had during the start-up period and the number at the time of the study. With respect to the former, the results showed that the number of employees ranged from none to 100 persons. Table 14 presents a detailed breakdown of businesses by number of start-up employees. As evident from

Table 14: Number of Employees during Start-up Years

Number of Employees	Number	Percent
None	2	3.0
1 Person	16	24.2
2 Persons	7	10.6
3 Persons	17	25.8
4 Persons	9	13.6
5 Persons	5	7.6
30 Persons	4	6.1
99 Persons	5	7.6
100 Persons	1	1.5
Total	66	100.0

the Table, only 3.0 percent of the business had no employees at the opening period; that is, they were run single-handed by the owner). The bulk of the businesses (81.8 percent) initially employed five (5) or less persons while the remaining 15.2 percent employed 30 or more persons.

Turning to the number of employees at the time of the study, the results revealed that these ranged from one (1) to 100 persons. Table 15 presents the distribution of businesses by number of employees at the time of the study. Based on the Table, 30.3 percent of the businesses employed between 1 and 2 persons, 24.3 percent had between 3 and 4 employees and 21.2 percent employed between 5 and 6 persons. The remaining 10.6 percent and 13.6 percent had between 10 and 15 employees and 45 + employees, respectively.

Table 15: Number of Employees at the Time of the Study

Number of Employees	Number	Percent
1 Person	11	16.7
2 Persons	9	13.6
3 Persons	10	15.2
4 Persons	6	9.1
5 Persons	12	18.2
6 Persons	2	3.0
10 Persons	5	7.6
15 Persons	2	3.0
45 Persons	1	1.5
99 Persons	7	10.6
100 Persons	1	1.5
Total	66	100.0

The study found that most of the businesses had carried out retrenchments during their existence. Specifically, only 6.1 percent of the businesses reported that they had never done. Those businesses that had carried out retrenchments in the past included 6.1 percent which had do so once and 72.7 percent which had conducted such an activity twice, and 4.5 percent which had retrenched employees five (5) times. The remaining 3.0 percent, 6.1 percent and 1.5 percent reported that they had conducted retrenchments six (6) times, 11 times, and 13 times, respectively.

Further analysis revealed that the majority of managers/owners do not appreciate the dynamics of affecting a business' profitability. The number of business owners who had no previous experience in the business they operated comprised 62.1 percent of the respondents. Yet these were the same people who held key responsibilities such as Executive Management, Financial and Administrative duties, and Operations and Human resources Management, among others, in their businesses. The study also showed that a significant number of the respondents were managing their businesses on full time basis. A number of factors were singled out by the respondents as contributing to non-profitability. As evident from Table 16, the number one contributor to non-profitability was poor management; it was identified by 92.4 percent of the respondents, and then followed by inadequate financing (90.9 percent), competitive pricing (81.8 percent), and short term and multiple responsibilities of owners (81.8 percent). Other factors identified by the respondents included lack of planning (74.2 percent), inappropriate cost structure (72.4 percent), and lack of cash flow projections (47.0 percent).

Table 16: Common Factors Contributing to Non-profitability of SMMEs in Botswana

Factors	Frequency	Percent
Poor management	61	92.4
Inadequate financing	60	90.9
Competitive pricing	54	81.8
Short term and multiple responsibilities of owners	54	81.8
Lack of planning	49	74.2
Inappropriate cost structure	49	74.2
Lack of cash flow projection	31	47.0

Note: Do not add to 100; respondents identified more than one factor

CHAPTER FIVE

SUMMARY, DISCUSSION AND CONCLUSIONS

This chapter summarizes and discusses the main findings of the study. The chapter is structured into five sections. The first section presents a summary of the key findings while section two interprets the results of the study. In the third and fourth sections conclusions are drawn and some recommendations for addressing challenges identified by the study findings offered, respectively. The fifth section presents some suggestions for further research.

5.1 Summary of Findings

A total of 66 respondents drawn from SMMEs in Gaborone were analysed for this study. The respondents included service provision businesses, financial services, retail, food and drink, and transport. Of the businesses surveyed, 43.2 percent were owned by sole proprietors, 16.2 percent were partnership, and 40.6 percent were operated as private companies. Whereas 67.6 percent of them were owned by the citizens, 10.8 percent were joint ventures with foreign company, 18.9 percent were franchise businesses, and 2.7 percent were branches of foreign companies. The businesses had been in operation for periods ranging from less than one year to more than 11 years.

The study found that small, medium and micro enterprises in Botswana today are face with many challenges that undermine their capacity to operate effectively. While the respondents enumerated as many as nineteen challenges, the six top most ones emerged to be ‘stiff competition both locally and internationally’, ‘short term business requirements and multiple responsibilities of managers’, ‘access to finance to expand businesses’, ‘poor Management’, ‘poor employees’ work ethics’, and ‘lack of entrepreneurial skills’. With reference to the financial management strategies and styles employed within the SMMEs sector, the results showed that, on average, less than 50 percent of the SMMEs employed financial strategies in managing their businesses that are conducive to business growth and success. An analysis of the sources of the initial capital invested in starting businesses showed that overall, 60.5 percent had relied on government schemes and loans.

Concerning profitability, the study showed that the annual turnover of businesses ranged from less than BWP 10 000.00 to 2.1 million and above with only 45.4 percent of them recording annual turnovers in excess of BWP50 000.00. In addition, it emerged that 54.6 percent of SMMEs studied were micro enterprises with annual turnovers ranging from less than BWP10 000.00 to less than P60 000.00, 36.5 percent are small enterprises with annual turnover of over P60 000 to P1 500 000.00, and the remaining 9.1 percent represented medium enterprises with annual turnover of P2.1 Million and above. The study also showed that 75.8 percent of businesses paid their creditors on time and 87.9 percent that they were able to pay their employees on time. Furthermore, most businesses had experienced growth in terms of number of employees; they had more employees relative to when they were initially set up. Further analysis revealed that the majority of managers/owners appreciated the dynamics of affecting a business' profitability. In this regard, the respondents identified a number of factors that they considered to be responsible for non-profitability. These included 'poor management', 'inadequate financing', 'competitive pricing', and 'short term and multiple responsibilities of owners', among others.

5.2 Discussion of Findings

This section discusses the core findings of the study. This study was set to establish the challenges facing the financial management of the SMMEs in Botswana. The study is guided by four objectives as follows: identify the major challenges facing SMMEs in Botswana today, identify financial management strategies and styles utilised by owners and managers of Small Medium and Micro Enterprises in Botswana and assess their reliability, assess whether business funds obtained through the government schemes are put to effective use and gain an understanding of SMMEs measures of profitability and factors contributing to non-profitability. Although the discussion of findings will mainly target the unique issues evident from the data, as much as possible the process will be guided by the study objectives.

To recap, by promoting and supporting the SMMEs sector, the Government of Botswana aims to accelerate economic diversification and growth and to reduce dependence on the mining sector by empowering its citizens. This will be attained through the provision of financial assistance schemes. Despite the fact that the respondents were drawn from different segments of the SMME sector and therefore

differed from each other in numerous ways, the study identified similarities among challenges facing the sector. It showed that SMMEs in Botswana were facing multiple challenges. For instance, the results showed that many businesses were faced with competition both locally and internationally and that owners faced lack of funds to start and expand their business operations because they could not afford to provide the collateral assets required by the financial institutions. These findings are consistent with what was documented by the 1997 Task Force Report on SMMEs as well as with those by previous studies (see e.g., <http://www.asli.commy/documents/msme.pdf>; Barrow, 1998; Chell, 2001; European Commission, 2002). Barrow (1998) for example singled out lack of working capital and lack of expertise as some of the factors that make new businesses in general flop. Similarly, Chell (2001) views availability of finance and market demand as the two most important factors in the success of any business.

As indicated above, access to finance remains one of the barriers to business growth within the sector. The clear message from the study is that obtaining financial assistance for both new business or to expand an existing one is difficult due to the fact that most citizens are unable to provide collateral required by the financial institutions including CEDA and NDB to access these funds. The situation is compounded further by the lack of financial management strategies and the lack of financial planning; these are important factors explaining the high number of SMMEs that do not make into their third years. As evident from the results of this study, not enough entrepreneurs have recognised the importance of adopting financial strategies such as maintaining business plans, planning their business strategies, effective administrating their business operations and cash flow management. In general, most SMMEs have shown an inability to adjust to changing circumstances is responsible for their failure to access finance. Many businesses are not prepared to adopt effective financial management practices in their business environment. Preparing viable Business plans and practising good business management could have helped very much in many cases. Indeed, the study established non-profitability in the SMME sector in Botswana is related to poor management, lack of planning, inappropriate cost structure and lack of cash flow projections, among others. Jointly, these factors have been shown to frequently cause businesses to fail to achieve business growth (Chell.2001; Storey, 1994). Furthermore, poor management issues, financial or

otherwise, are often related to poor financial conditions, inadequate accounting records, and lack of good managerial advice.

Normally, financial institutions require submission of the financial statements whenever businesses apply for funding and these can only be available when proper business records are kept. As evident from the study results, business records are not properly maintained in the SMMEs sector. This disadvantages businesses within the sector from obtaining loans. Additionally, poor cash flow management lead to mistaking cash for profit (Barrow, 1998); in that the cash that flows into the business has not had any of the deductions knocked off it and too often entrepreneurs yield to the temptation to use this cash to maintain their living standards and then fail to service the business loans. As a result, many businesses lack working capital to keep the business running hence the need to borrow from families and personal savings. This then further compounds the problem of access to finance resulting in no significant growth within the sector.

According to Chell (2001), opportunities need to be carefully assessed for their ability to contribute to the firm's profit. Growth in turnover alone is no guarantee of profitability. Also, the entrepreneur's personality traits (Storey, 1994) are critical to the success of a business. This study showed that most businesses are mainly micro enterprises operated by family members and do not have the capacity to employ considerable number of workers. As these micro enterprises are not operated with good financial and business strategies in place, they generate minimum turnover. Thus, many of them fail to repay their loan facilities and are subjected to foreclosure processes by the financial institutions as well as fail to change the standards of living of their owners in any noticeable manner since the owners end up losing their property towards repaying their business debts. The study results further showed that the owner-managers personality influence the decision to adopt the financial management strategies. This was evident from the fact that 61.6 percent of the respondents lacked experience and training in business management and had adopted inappropriate strategies in relation to competitive pricing, cost structure, and inappropriate accounting for cash such as treating cash as profit. This is consistent with the views expressed in the literature review that the characteristics of the owner-manager is one of the factors affecting the growth of the firms and that individuals

pushed into self-employment are less likely to found successful growth businesses, as instead the business is run to meet the owner's personal, lifestyle goals rather than focused on strategic business objectives.

Understanding profitability within SMME sector is not an easy task. Measures of profitability include turnover, assets acquired, number of employees. Profitability within the SMME sector is usually regarded to be too low. This emanates from the many factors that contribute to non-profitability such as stiff competition locally and internationally, poor pricing structure, lack of marketing strategies and inability to compete by the sector (Chell, 2001). Concerning competition, 81.8 percent of the respondents indicated that SMMEs are not prepared to compete to improve their market position due to inability to sell their products and services. This is mainly caused by lack of both a competitive strategy and marketing strategies. These are critical factors in achieving business growth and competitive edge (Chell, 2001; Storey, 1994). Chell, (2001) mentioned that increased business margins could be achieved through process improvement, which would facilitate efficiencies and cost savings.

As evident from the results of this study, poor management is a major factor in the non-profitability of many of the businesses studied. Where good management is lacking there would not be cost savings and efficiency. In the context of employment creation, the results showed that Botswana, like other African countries and European countries enjoys the social benefit of growth of employment from the sector considering the number of employees at the time of the study. Based on the results of the study, these ranged from one (1) to 100 persons though some of the businesses have undertaken retrenchments during their existence due to economic factors which have ultimate direct effect on the business performance and profitability. Factors such as globalisation, for example, have brought stiff competition as the business world has now become a global, village accessible to all customers through e-commerce (Chell, 2001).

5.3 Conclusions

Based on the results of this study, several conclusions can be made centred on the objectives of the study. First, the SMMEs in Botswana face multiple challenges. The

top four challenges are stiff competition, short term requirements and multiple responsibilities of managers, access to finance for expansion of business, and poor management. Such challenges continue to hamper business growth in the sector. Failure to practice good business and financial practices may lead to continued failure to operate beyond three years, as the root causes of business failure can be traced to problems in management. A second conclusion that emanates from the findings of the study is that the economic benefits of sustainable SMMEs in Botswana are convincing, and the potential effects on the citizen empowerment and economic diversification are equally promising. In terms of the country's development, SMMEs create employment for quite a significant number of individuals in Botswana. The SMMEs sector has the capacity to create substantial employment though the limitations in size, poor financial management, and lack of collateral assets continue to hinder this economic benefit. Thirdly, it can be concluded that SMMEs are not aware of information on access of finance. This is evident from the fact that 81.1 percent of the respondents suggested that inadequate awareness about Government financial programmes is a challenge as majority of the citizen lacks such knowledge. Fourthly, funds obtained through the government schemes are put to effective use, but however, lack of financial planning and lack of good managerial skills limit business growth and competitiveness within the sector. Lastly, the SMMEs sector should focus on qualifying for funds from government schemes by developing workable business plans based on adequate market research.

5.4 Policy Recommendations

Based on the major findings of this study, the interpretation of those findings, and the conclusions drawn from them, the following recommendations are offered with the view to improve the financial management of SMMEs in Botswana:

1. **Increased participation of SMMEs in the design and implementation of new financial policies:** Participation of SMMEs in design and implementation of new financial policies is quite limited, as such the lack of representative structures for SMMEs means that they are not represented in ongoing formulation processes.

2. **Provision of extensive libraries of financial management topics and resources:** Organisations such as CEDA, LEA, NDB and the Ministry of Commerce and Industry should provide extensive libraries of financial management topics and resources to help SMMEs develop effective strategies and best practices for financial management.

3. **All businesses funded through government schemes should have their financial management handled by accounting firms for the first three years:** Consistent with Southern African Development Community (SADC) Secretariat (1997) reported that the numbers of SMMEs in all of Southern African Development Community that succeed in moving from micro to small scale is less than 1 percent of all the new start –ups due to poor business management. Further to that Honourable Sebetlela linked the country’s economic empowerment schemes such as these with a blind date as they lack strategic directions.(Mmegi ,2006), there is need to enforce in accountability and transparency of the SMMEs financial operations by requiring that all businesses which have utilised the Government schemes should have their financial management handled by Accounting firms for the first three years . This can help achieve better financial management, which can then lead to better credit control, monitoring of performance, better pricing strategies, marketing and capital expenditure decisions as well as ensuring that funds sourced from the Government schemes are utilised for intended purposes only.

4. **Training in entrepreneurship and managerial skills:** There is a need to review the current school curricula by authorities responsible for education in order to ensure that schools give more scope for the inculcation of entrepreneurial attitudes and a general awareness about self-employment opportunities in Botswana.

5. **Increasing research focusing on the SMMEs business environment:** The Ministry of Commerce and Industry and other relevant bodies such as LEA and CEDA should collect and analyze statistics relating to SMMEs' operational activities. This will enable the Ministry to keep its fingers on the pulse of SMME operation. Every year, the Ministry should publish

Information Paper on Small and Medium Enterprises in Botswana, which will be a valuable reference for both SMMEs and other government agencies.

6. **Strengthening SMMEs' quality management capabilities:** The Ministry of Commerce should undertake an ongoing promotion of SMME quality management and quality upgrading work in all industries. This should provide assistance with the drawing up of quality management systems and manuals, and holds presentations on quality management case studies, along with opportunities for SMMEs to familiarize themselves with quality management.
7. **Encouraging SMMEs to establish sound financing and accounting systems:** The organisations charged with the responsibility of facilitating growth of the SMME sector in Botswana such as LEA and CEDA should be working to strengthen the provision of diagnostic guidance to SMMEs in the area of financing, helping SMMEs to improve their ability to secure loan credit guarantees. These organisations should aim at expanding the provision of guidance to SMMEs in the area of financing management, accounting, company control, helping SMMEs to improve their ability and efficiencies of business operation even if it requires sitting in the SMMEs board of Directors.
8. **Improving quality of business advisors:** The organisations such as LEA and CEDA should ensure that significant progress is made towards providing high quality advisers with skills appropriate to the SMMEs sector by subjecting advisers to continual assessment and obtaining professional references from Bodies such as the Botswana Institute of Accountants and The Law Society of Botswana for practicing Accountants and Lawyers respectively as accountants and Lawyers are the major dominating captains of the business industries.
9. **Improving governance:** The Government and the organisations responsible for the schemes should work towards establishing good governance with a well regulated business environment with an uniform and understandable framework, but however, not over-burden business with an excessive amount of regulation which may lead to the possible suppression of business within the sector.

10. **Investment readiness:** The results of the study showed that not many business owners were ready to start their businesses since about 74.2 percent did not have business plans in place. The government organisations responsible for establishing SMMEs should encourage individuals to firstly work towards being investment ready in order to raise funding and also to optimise their business success through sound business management systems.

5.5 Suggestions for Further Research

Not much research has been conducted around the challenges facing the financial management of Small, Medium and Micro Enterprises in Botswana. Many researchers such as Lisinda (2003) have done more work in establishing the problems facing SMMEs in Botswana. Thus, there is a need for more comprehensive research that will seek to quantify the effects of the challenges facing the financial management of SMMEs in the country. Such a study will enable policy makers and other stakeholders to formulate strategies to deal with the challenges facing the financial management of SMMEs from an informed point of view. Given that the magnitude of this study was affected by limited resources such as time, finances, it is imperative that a much more comprehensive study is carried out covering all types of businesses within the SMMEs sector. Such a study should target a much larger sample of businesses in the sector and should also include sites outside of Gaborone. Only this way will a thorough understanding of the challenges and the factors impeding the success of the SMMEs sector in Botswana be possible.

BIBLIOGRAPHY

- Adelman, P.J. and Marks A.M, (2004) *Entrepreneurial Finance for Small Business*
Available on World Wide Web <http://www.iied.org.pubs/search.php>
- African Development Bank and OECD Development Centre: 2004 .African
Economic Outlook (2004-2005) *networking to develop the economies*.
Available on World Wide Web <http://www.14donline.net/may07/1208.pdf>.
- Alexander, E., Gay, J. Mbere, N. and Setimela, M. (1983) *Informal Sector
Businesses in Four Botswana Communities*. Gaborone: Government Printer
- Arnold, G. (1998) *Corporate Financial Management*. London, UK: Financial Times
Pitman Publishing
- Blanco, H. (2003) *How can large companies contribute to environmental
improvements in SME suppliers and contractors? The case of ISO 14,001
certification of five suppliers to Escondia Mining Company in Chile, case
study for the UN Global Compact presented in the Learning Forum, Belo
Horizonte, Brazil, December 2003*.
- Babbie E. (1992). *The Practice of Social Research* [6th edition].Belton, California:
Wadsworth Publishing Company
- Brealey. R. A, Myers.S.C. , (2001), *Fundamentals of Corporate Finance*, London,
UK: Mc Graw-Hill Irwin
- Bailey.K.D (1994) *Methods of Social Research*, New York, USA: The Free Press
- Baker, T.L (1999) *Doing Social Research*. Boston: McGraw-Hill
- Barclays Bank (1999).Barclays National Entrepreneurial Index; source *Barclays
Small Business Bulletin*, Issue 2, 1999;
Available: www.smallbusiness.barclays.co.uk/news/press_rel_07.htm
- Barrow, C. *Financial Management for the Small Business* (2001) London UK:
Prentice Hall London
- Barrow, .C. (1998) *The Essence of Small Business*, London UK: Prentice Hall Europe
- Bawany, S.(Undated) '*Managing in the knowledge based- economy'- creating and
sustaining organisation's Competitive advantage through knowledge
management*, Available on Word Wide Web:(<http://haygroup.com>)
- The Botswana Institute for Development Policy Analysis (2000) *Financial Assistance
Policy (FAP) Fourth Evaluation*, Ministry of Finance and Development
Planning, Gaborone: Government Printer
- Botswana Daily News, April 2007, No.70 *Local Enterprise Authority background*

- Brigham, E. F, Gapenski L.C. (1999) *Financial Management: Theory and Practice*. Fort Worth: Dryden Press
- Brockington, R. B. (1983) *Financial Management*. Southampton Great Britain: The Guersey Press Co. Ltd
- Burns, P. & Dewhurst, J., (1996). *Small Business and Entrepreneurship* New York USA: Anthony Rowe Ltd
- Citizen Entrepreneurial Development Agency Annual Report, (2003)Gaborone, CEDA
- Central Statistics Office. (2003). *Population and Housing Census: National Statistical Tables Report*. Gaborone: Government Printers
- Chell, E. (2001) *Entrepreneurship: Globalisation, innovation and development*, UK: Thomson Learning
- Chell, E., Haworth, J. and Brearley, S.(1991). *The Entrepreneurial Personality: Concepts, Cases and Categories*, London: Routledge
- European Union (2001) *Creating an entrepreneurial Europe (CEE). The activities of the European Union for small and medium-sized enterprises (SMEs)*. Belgium: European Communities.
- Charles, H.D. and Vladica, .F. (Undated) *Adoption and use of Internet Technologies and E-Business solutions by Canadian Micro-Enterprises*. Available: <http://www.ryerson.co/ncsdevis/publications> accesses 3/2/07
- Denscombe, M.(2003). *The Good Research Guide: For Small-Scale Research Projects*. [2nd Edition]. Maidenhead. Philadelphia: Open University Press
- Enterprise Banking Group (2006) *Botswana Small and Medium Enterprise under Banked Market Research* .Available at www.finmarktrust.org.za
- European commission (2003/361/EC) *SMMEs Definition*. Available at http://europe.eu/enterprise/consultations/sme_definition/index.htm
- Freear, J. (1980) *The Management of Business Finance*. London ,UK: Published by Pitman Publishing Ltd
- Flourie, F. (1996) *A Survey of the Implementation of ISO14001 and of ISO 14004 by SMEs in South Africa*. Johannesburg , South Africa Bureau of Standards
- Grundy, T., Johnson, G., Scholes, K. (1998) *Exploring Strategic Financial Management*. London,New York Toronto Sydney Tokyo Singapore Madrid Paris Europe: Prentice Hall.

- Hisrich, R.D., and Peters M.P. (2002). *Entrepreneurship*. New York USA: Published by McGraw-Hill/Irwin
- Hussey, J. and Hussey, R.(1997). *Business Research: A practical Guide for Undergraduate and postgraduate students*. London: Palgrave Publishers
- Johnson, M.A. (1998). "An Overview of Basic Issues Facing Micro –Enterprise Practises in the United States," *Journal of Developmental Entrepreneurship*, 3(1), 5 -21
- Lisenda, L., (1997) *Small and Medium-Scale Enterprises in Botswana: Their Characteristics, Sources of Finance and Problems, Working paper No. 14*. BIDPA, December 1997.
- Luetkenhorst (2004) *E-discussion Forum on Sub national Innovation Systems and Technology Capacity Building Policies to enhance competitiveness of SMEs*. Available at <http://www.stepi.re.kr/main/notice/downadd.asp?no.3205>
- Mc Laney, E.J.,(2000) *Business Finance Theory and Practice*, London, UK: Financial Times Prentice Hall
- Mead, D.C., and Liedholm, C., (1998) 'The Dynamics of Micro and Small Enterprises in Developing Countries,' *World Development*, Vol, No.1, pp61-74.
- May, T. (2001). *Social Research* Great Britain: Biddles Limited, Guildford and King's Lynn
- Ministry of Commerce and Industry (1998). *Policy on Small Medium and Micro Enterprises in Botswana*, Gaborone Government Printer
- Ministry of Finance and Development Planning (2003). *National Development Plan 9 2003-2008/9*. Gaborone: Government Printers
- Mouton J. (1998) *Understanding Social Research*. Pretoria ,South Africa : J.L.van Schaik Publishers
- National Development Bank Act (Chapter 74:05), Gaborone: Government Printer
- National Development Bank (2006) *Annual Report 2004-6* Gaborone : National Development Bank
- Noreen,G. (2003) *Managerial Accounting*. New York, USA: Mc Graw -Hill
- Ndzingo ,S. and Chinyoka, S.V. (1997) *Small Business, A guide*. Gaborone :Mmegi Publishing House

- European Commission Observatory of European SMEs, 2003, SME in Europe
 .Available at
http://ec.europa.eu/enterprise/enterprise_policy/analysis/doc/smes
- OECD (1998) *Women Entrepreneurs in Small and Medium Enterprises*, OECD, Paris.
- OECD, 2004. *Promoting Entrepreneurship and Innovative SMEs in a Global Economy. Towards a more responsive and inclusive globalisation*. Paris: Organisation for Economic Cooperation and Development.
- Peo Holdings (Pty) Ltd (2001) *Information Pack for Business Development Manager*, Unpublished document
- Phaleng Consultancies (Pty) Ltd (1995), *Third Evaluation of the Financial Assistance Policy*, Gaborone: Government Printer.
- Porter, M.E. (1980). *Competitive Strategy-Techniques for Analysing Industries and Competitors*, New York: The Free Press
- Porter, M.E (1990) *The Competitive Advantage of Nations*, London: Macmillan.
- Pycraft, M. et al *Operations Management*, (1997) Southern African edition
- Raynard , P. and Forstater, M. (2002) *Corporate social responsibility: Implications for Small and Medium Enterprises in Development Countries*, Vienna: UNIDO,.
- Rudjito (Undated) *Strategies for Developing Micro, Small, and Medium Enterprises*. Available at <http://www.wsli.Co.my/documents/msmes.pdf> accesses on 3/2/2007
- Samuels, J. M., and Wilkes.F.M. (1986) *Management of Company Finance*. Berkshire Great Britain: Published by Van No Strand Reinhold (UK) CO. Ltd R.J.Actford, Chichester
- Small Business ACT, 2003 Gaborone: Government Printer
- Ministry of Commerce and Industry (1998) *Small, Medium and Micro Enterprises Tasks Force Report*, Government Printers. Gaborone, April 1998.
- Somolokae, G. (1992) *The Informal Sector and small-scale enterprise development in Botswana*. Gaborone: University of Botswana
- Stokes, D. (2002). *Small Business Management*, UK
- Storey, D.J. (1994). *Understanding the Small Business Sector*. London: Routledge
- Sunny, G. and Babikanyisa, V. (1994). *The Second Best. The Role and constraints of the Non-formal Sector in Botswana* .Gaborone: University of Botswana.

Tom, F. (2005) Small and Medium –Sized Enterprises(SMEs) and Corporate Social Responsibility A *Discussion paper*) of Catholic University of Valparaiso .Available at <http://www.iied.org/sm/cr/documents/CSR> and SMEs.pdf

Valentine .T. (1993) *Botswana's Financial Assistance Policy and the Indigenization of Industrial Employment*. Available at <http://alpha.montclair.edu/~lebelp/CERAFRM051Valentine1993.pdf>

Watkins .J.A., (2003) *Thesis/Dissertation/Research Reports* ,UK: Published by Van Schaik Content Solutions

Weltman, B. and Silberman, J. (2006) *Small Business Survival* .Published by John Wiley & Sons, Inc, New Jersey

The World Bank (2001) *World Development Report 2000/2001*.The World Bank, Washington, DC. Available at <http://www.rice.edu/energy/index.htm>

Worthington, I. and Britton .C. (2000), *The Business Environment*, London, UK: Financial Times Prentice Hall

Zikmund, W. (1997) *Business Research Methods*, USA: Harcourt Brace College Publishers

Web Sites:

<http://www.afdb.org/portal/page>

<http://www.bdc.bw>

http://ccnmtl.columbia.edu/projects/qmss/samp_type.html

<http://www.conectando.org.sv/English/Strategy/MSME.htm>

<http://europa.eu.scadplus/leg/en/lvb/n26026.htm>

http://ec.europa.eu/enterprise/policy/analysis/docs/smes_observatory_2003_report_7_en

www.mti.gov.bw

www.une.ca.org/eca-programmes

www.oecd.org/dev/aeo

<http://haygroup.com>

<http://www.iisd.org>

www.oliviertorres.net/travaux

www.ekonomika

www.valintine

Http: www.asli.com.my/documents/msme.pdf

www.members.at accaglobal.com

www.smallbusiness.barclays.co.uk/news/press_rel_07.htm

<http://www.bettermanagement.com>

<http://www.idc.co.za>

<http://www.eurocom.gr/Eurprj/transmete/docs/pubic/d311.htm>

<http://www.itcilo.it/english/actrav/telearn/global/ilo/seura/mikro.htm>

<http://gem.co.za>

<http://www.tourism.africa.co.za>

<http://www.thecommonwealth.org/news>

[http://www.un.org/Docs/ecosou/meeing/2006/2006/accessed 3/2/07](http://www.un.org/Docs/ecosou/meeing/2006/2006/accessed%203/2/07)

[http://www.ceda.co.bw/young person20farmers percent20fund .html](http://www.ceda.co.bw/young%20person20farmers%20percent20fund.html)

<http://en.wikipedia.org>

www.gdrc.org/icm/wind/uis-wind.html/html/govdocs/rdp/rural4.html?rebookmark=1

<http://www.polity.org.za>

www.ryerson.co/ncsdevis/publications

APPENDIX: RESEARCH QUESTIONNAIRE

SURVEY OF SMMEs IN BOTSWANA

Dear Respondent,

This questionnaire is part of a research that is designed to gain an understanding of the operations of Small, Medium and Micro - Enterprises [SMMEs] in Botswana. It assesses the financial and managerial challenges facing these enterprises as well as the financial and management strategies utilized by them. Your contribution to this project is crucial. You are in a unique position to help identify the major problems militating against the success of SMME's in Botswana.

Your participation in this survey is highly appreciated. Answers to all questions are voluntary and all answers will be kept completely confidential. Your responses will be used only in combination with the responses from other participants. No names or any information that could be used to identify particular respondents will be employed in reporting the research findings. All surveys will be destroyed at the end of the study.

I would appreciate if you could take some time to respond to the questions on the following pages of the questionnaire. Most questions require that you simply check the appropriate box for the response that most accurately represents your present work situation. Please ensure that your answer marks are heavy enough to distinguish them from any erased answer marks. The survey should take between 15 to 20 minutes to complete and you are encouraged to complete it all at once. Please answer the questions in order without skipping around. Be sure to read each carefully.

There is no "right" or "wrong" answer to any of the questions. However, you should be as candid as possible and also ensure that responses to closely related questions are not contradictory.

Warm regards,

Mmatlala Dube

SECTION I: BACKGROUND INFORMATION

QUESTIONS 1 THROUGH 14: The following questions are intended to gather information regarding your business and your experience in running a business. Please circle one answer or fill in the gap for each question.

1. Type of Business:
 - Services to companies
 - Agriculture
 - Financial Services
 - Tourism
 - Food and Drink
 - Clothing
 - Transport
 - Building and Construction
 - Others [**Specify**] _____

2. How long have you been operating this business? _____ [**Enter actual years and months**]

3. Which of the following best describe your entity?
 - Sole proprietor
 - Partnership
 - Private Limited
 - Others [**Specify**] _____

4. Which of the following best describes ownership of your company?
 - Wholly owned by citizens
 - Joint-venture with foreign company
 - Franchise
 - Branch of a foreign company
 - Subsidiary of a foreign company
 - Others [**Specify**] _____

5. Which of the following best describes citizenship status of the owner/manager of this business?
 - Citizen of Botswana
 - Permanent Resident
 - Temporary Resident
 - Others [**Specify**] _____

6. Please indicate the gender which best describes ownership of your business:
 - Males only
 - Females only
 - Husband and wife
 - Males and females
 - Others [**Specify**] _____

7. Which of the following best describes the position you hold in this business?
- Middle management level
 - Senior management and executive
 - Other [Specify] _____
8. How long have you been involved in running/operating a business?
- Less than 1 year
 - 1 to 5 years
 - 5 - 10 years
 - 11 – 20 years
 - More than 20 years
9. Please indicate your role(s) in this business by ticking one or more of the following boxes:
- Financial and administration
 - Operations/services management
 - Human resources/administration
 - Executive management
 - Other [Specify] _____
10. How would you rate your experience in operating the type of business you are running currently?
- None
 - Very limited
 - Limited
 - Average
 - Extensive
 - Very extensive
11. Would you rate yourself as someone who loves responsibility and likes to be in charge?
- Yes
 - No
12. Are you the type of person who makes a decision on a matter and then sticks to the decision even when challenged?
- Yes
 - No
13. Are you well schooled in the mechanics and forms of running a business (that is, tax records, payroll records, income statements, and balance sheets)?
- Yes
 - No

14. Are you able to communicate effectively and persuade others to go along with your ideas?

- Yes
- No

SECTION II: CHALLENGES FACING SMALL MEDIUM AND MICRO ENTERPRISES IN BOTSWANA

QUESTION 15(a) THROUGH 15 (s): The following questions address challenges facing the financial management of Small Medium and Micro Enterprises in Botswana. Select from the following statements to indicate your agreement and disagreement with the following statements by ticking under yes or no.

Item	Challenges	Yes	No
a)	Lack of necessary management skills		
b)	Short term business requirements and multiple responsibilities of managers which make the development of strategic policies very difficult		
c)	SMMEs are <u>not</u> prepared to compete to improve their market position.		
d)	Managers/owners do not appreciate the dynamics affecting a business's profitability		
e)	Most business entities do <u>not</u> adopt appropriate strategies for respective cost structure		
f)	There is <u>not</u> a great use of financial information and tools to plan		
g)	The business project's proposals are <u>not</u> made on its economic feasibility		
h)	Most businesses do <u>not</u> assess the quantitative effects of the dynamics on profitability		
i)	For financial decision making businesses are faced with lack of technically skilled personnel to evaluate the impact on the organisation		
j)	All the financial decisions do <u>not</u> evaluate the cost/benefit		
k)	Decision making is constrained by lack of information		
l)	Lack of access to finances for expanding existing businesses		
m)	Inadequate awareness about Government assistance programmes		
n)	Lack of training in business start -up skills		
o)	Lack of training in entrepreneurial skills		
p)	Poor management		
q)	Lack of concrete business plans to guide the operations of the business		

Item	Challenges	Yes	No
r)	Poor work ethics among employees		
s)	Stiff competition from related businesses both locally and regionally		

SECTION III: FINANCIAL MANAGEMENT STRATEGIES AND STYLES

QUESTION 16(a) THROUGH 16 (i): The following questions assess the financial and management strategies employed by your business. Please indicate if your business maintains any of the following by ticking one box only:

Item	Financial management strategies and styles	Yes	No	Don't know
a)	Business records such as cash book, expenses ledger and debtors are maintained			
b)	Performance of monthly reconciliation for all bank accounts is done timeously			
c)	Final accounts are prepared regularly			
d)	A detailed budget for the business operations is maintained by drawing up detailed forecasts for cash flow, profit and loss and balance sheet			
e)	Good pricing strategies are employed to enhance businesses' competitiveness and to increase market share			
f)	Creditors are paid on time			
g)	Cash flow projections are followed regularly			
h)	Costs are managed effectively			
i)	Application of functional disciplines of marketing, accounting and financial management are employed			

SECTION IV: SOURCES OF FINANCE AND PERFORMANCE OF SMMEs

QUESTION 17 THROUGH 29: The following questions are designed to identify the sources of finance for and the performance Small, Medium and Micro Enterprises in Botswana.

17. Which of the following assets do your business own [you may tick more than one]?
- Working capital
 - Buildings
 - Machinery
 - Stock
 - Other[Specify] _____

18. Did you have enough money to fund the start up of your business?
- Yes
 - No
19. What was the source of the initial capital used to establish your business?
- Personal savings
 - Family savings
 - FAP loan
 - CEDA loan
 - NDB Loan
 - Loan from other financial institutions
 - Loan from friends and/or family members
 - A combination of individual savings and loan
 - A combination of family savings and loan
 - A combination of individual savings, family savings and loan
 - Other[Specify] _____
20. How many employees did your business have at its initial opening? _____
[Enter actual number]
21. How many employees does your business have today _____ [Enter actual number]
22. Has your business carried out any retrenchments (downsizing) of employees during the time it has been in existence?
- Yes
 - No
23. Which of the following best describes your annual turnover?
- Less than P10 000
 - P10 001 - 20 000
 - P20 001 - 30 000
 - P30 001 - 40 000
 - P40 001 - 50 000
 - P50 001 - 100 000
 - P 101 000 - 200 000
 - P201 000 – 300 000
 - P 301 000 - 400 000
 - P 401 00 - 500 000
 - P 501 000 - 1 Million
 - P 1.1 – 2 Million
 - P2.1 - 3 Million
 - P 3.1 - 4 Million
 - P 4.1 - 5 Million
 - Over 5 Million
 - Unknown

24. Are you affected by competitive pricing within your business sector?
- Yes
 - No
25. Do you pay your creditors on time?
- Yes
 - No
26. Are you able to pay your workers on time?
- Yes
 - No
27. Do you regularly follow your cash flow statements?
- Yes
 - No
28. Does your business make use of the services of finance and legal professionals?
- Yes [Skip to Q. 30]
 - No
29. If your business does not rely on professional financial and legal services indicate the factors that prevent it from using such services:
- Cost
 - Lack of information about professional services
 - Lack of understanding of consultants' reports
 - Other [Specify] _____

SECTION VI: BIOGRAPHIC DATA

Questions 30 through 36: The final set of questions is intended to collect information business owner/manager personal background. Please fill in the blank or tick the correct answer that best describes you.

30. What gender are you?
- Female
 - Male
31. What year were you born [e.g., 1962] _____

32. How old were you when you first started your business?
- Less than 18 years
 - 18 – 25 years
 - 26 – 35 years
 - 36 – 45 years
 - 46 – 55 years
 - Over 55 years
33. What is the highest level of formal schooling you have completed?
- None
 - Primary School Graduate
 - Junior Secondary School Graduate
 - Senior Secondary School Graduate
 - College Diploma
 - Bachelor's Degree
 - Masters Degree
 - Other [specify] _____
34. Which of the following best describes your profession?
- Accounting
 - Finance
 - Banking
 - Legal
 - Education
 - Insurance
 - Property
 - Social services
 - Other [Specify] _____
35. How many people other than you are dependent on the income deriving from your business?
- None
 - 1 – 2
 - 3 – 4
 - 5 - 6
 - 7 – 10
 - More than 10
36. **If you have any comments, please feel free to state them here:**
- _____
- _____
- _____
- _____

[Thank you very much for your cooperation].