

Small and medium enterprises' access to bridging finance: The case of Kingdom Bank Africa Limited.



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Mini-dissertation submitted in partial fulfilment of the requirements for the degree
Master of Business Administration at the Mafikeng campus of North-West
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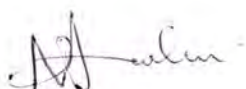
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OCTOBER 2012

DECLARATION

I, Albert Madusise, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Mafikeng campus of North-West University. It has not been submitted before for any degree or examination at this or any other university.



Albert Madusise

Signed at *Mafikeng*

On the *29* day of *October* 2012

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Above all, I thank the Almighty God for leading me throughout my course.

DEDICATION

I dedicate this work to my late parents, Mr and Mrs A. Madusise, for their keen interest demonstrated towards my education.

ABSTRACT

A major problem faced by Small and Medium Enterprises (SMEs) in Botswana is the lack of adequate access to bank finance. This dissertation was carried out to understand the problems faced by SMEs in accessing bank finance in Botswana. The key method was quantitative, supported by some qualitative processes. The case of respondents who had applied for loans at Kingdom Bank Africa Limited was used. A questionnaire and interviews were used to collect data from the respondents. Findings indicated that SMEs encountered problems in accessing bank finance and most of those who managed only got part of the loan applied for. The major challenges encountered by SMEs were information asymmetry and lending criteria. The strategy recommended to improve availability of finance was close collaboration between banks and SMEs. The study will be of interest to banks and financial institutions interested in economic development. SMEs contribute to economic development in various ways: by creating employment, raising living standards and providing innovation. The banks become aware of SMEs frustrations and the need to assist SMEs to address some of these challenges which hamper access to bridging finance.

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CHAPTER 1

INTRODUCTION OF THE STUDY

1.1 INTRODUCTION

This chapter introduces the topic of this dissertation. It discusses the background to the problem to make it easier to understand the context in which the problem occurs. The problem statement is explained and the sub-questions emanating from the problem are identified and highlighted. The research aims and objectives are also highlighted in the chapter together with the purpose of the study.

1.2 BACKGROUND TO THE PROBLEM

Banks are responsible for providing finance to industries and other businesses. However, their importance in funding smaller firms is even more pronounced since most small and medium enterprises (SMEs) are not able to access the capital markets for funds.

SMEs usually account for a country's majority of firms and a significant share of employment (Hallberg, 2001). In many developed and developing economies, SMEs may account for much of the manufacturing sector employment. In some cases, ratios are quite high in relation to the entire workforce (Ayyagari, Beck and Demircuc-Kunt, 2007). In essence, the SMEs sector has come to be regarded as engine of economic development in countries like India where 4.5 million SMEs contribute to about 40% of industrial output and generate 1 million jobs per annum (Sivaramakrishnan, 2007). On the other hand, across countries, the SMEs sector appears to be considerably capital constrained as well. Not only do SMEs face higher financing obstacles compared to large firms, the effect of such constraints appears stronger compared to large firms (Beck, Demircuc-Kunt, Laeven and Maksimovic, 2006). Evidence from research carried out by the European Central Bank in 2009, indicates that large firms had a 72 % success rate in bank loan applications compared to 56% success rate for SMEs .The rejection rate for large

firms was only 5% compared to 18% for SMEs (European Central Bank,2010:7). A similar trend was found to exist in developing countries where 30% of large firms used bank finance compared to 12% of SMEs (Beck, 2007) .This shows how small firms are not able to access as much finance as the large firms.

Evans and Boyan (1989) point out that lack of access to credit services is likely to be an important impediment to starting up small enterprise and for sustained growth. Accordingly, in the case of economies such as that of Botswana, it appears imperative to also obtain an in-depth understanding of the problems faced by SMEs in accessing finance, which is the purpose of the study. There is little literature documenting the special problems encountered by SMEs with respect to obtaining bridging finance.

This study focuses on Kingdom Bank Africa Ltd as a representative of banks providing bridging finance to SMEs. Beck, Kunt and Peria (2008) point out that those banks have shown that they are the main source of external finance for SMEs across countries, yet most SMEs fail to access that finance. Kingdom Bank Africa Ltd opened in Botswana in 2003. It is an International Financial Service Centre (IFSC) and a registered investment bank. The type of projects it funds includes mainly short term transactions where clients have some orders to deliver but have insufficient funds. Kingdom Bank Africa Ltd is one of the banks in Botswana which fund SMEs looking for bridging finance and hence its choice for the purpose of this study.

1.3 PROBLEM STATEMENT

Access to bridging finance has a critical role in accelerating economic development in developing countries such as Botswana. In many developing countries, SMEs are the drivers of the economy yet they are not able to access finance from the banks. There are impressive statistics cited in several sources to give credence to this assertion. In India, for example, SMEs constitute 40% of all industrial output and generate about 1 million jobs to the economy (Sivaramakrishnan, 2007). Though not like India, figures for Botswana are quite impressive. In Botswana, SMEs contribute 30-35% of the GDP and 45% in employment creation (Kaggwa, 2008). CEEDR (2007) points out that there is evidence that some SMEs may still face difficulties in accessing bank finance from lenders.

Despite all the efforts by the Botswana government in this regard the SMEs still lack access to finance. Evidence provided by CSO (2003, 2008) suggests that the credit needs of SMEs are not adequately met. In the 1999 Informal Sector Survey, the major constraint reported by informal enterprises was lack of credit [26.3%] (CSO, 2003). In the 2007 Informal Sector Survey, one of the major kinds of assistance required was better access to loans [52.8%] (CSO, 2008). This implies that banks do not necessarily lend to everybody who can afford the price of credit, but apply some degree of credit rationing using non-price mechanism (Okurut and Botlhole, 2005). Angela Motsa and Associates (2004:42) similarly argued that commercial banks are “not geared towards financing entrepreneurs due to the fact that they (banks) developed in an economy dominated by large companies and thus do not have the skills set for assessing start ups and small enterprises”.

However, banks commented that financing SMEs is not a problem. The real problem is the dearth of commercially viable business projects and entrepreneurs (Pretorius and Shaw, 2004). SMEs further lack the necessary management skills, business experience and entrepreneurial attributes required to successfully access external finance (OECD, 2006). Therefore it seems that banks face difficulties in lending to SMEs.

It is a truism, therefore, that there are underlying disparities between what entrepreneurs need and what banks or financial institutions are able to offer them (Foxcroft, Wood, Kew, Herrington and Segal, 2002). Pretorius and Shaw (2004) illustrate this gap by highlighting the differences in the perception of the needs of banks and those of entrepreneurs as shown in Figure 1.1 below.

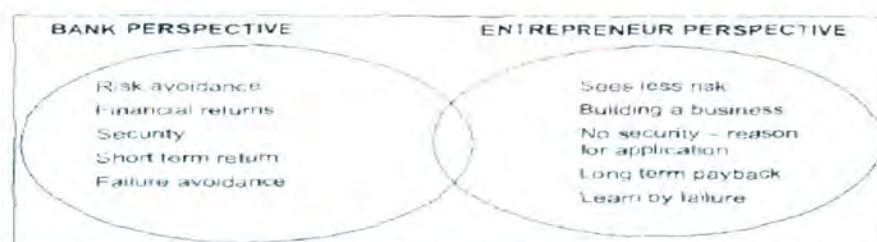


Figure 1.1: Perception of needs of banks and entrepreneurs.

Source: Pretorius and Shaw (2004:240)

The perception of the needs of the banks seems to have an effect on the accessibility of finance by the SMEs.

1.4 RESEARCH QUESTIONS

In the light of the above problem statement, the key research question for this study is, "What is the role of Kingdom Bank of Africa Ltd in promoting access to bridging finance for SMEs in Botswana?" In addressing the key research question, the following sub-questions became the points of departure.

- i. What is the rate of success for SMEs bridging finance applications from Kingdom Bank of Africa Ltd?
- ii. What are the main problems faced by SMEs in accessing bridging finance from Kingdom Bank of Africa Ltd?
- iii. What are the strategies for improving accessibility to bridging finance?

1.5 RESEARCH AIM AND OBJECTIVES

The main aim of the study was to investigate the role of Kingdom Bank of Africa Ltd in promoting access to bridging finance for SME's and determining opportunities available for SMEs in accessing bridging finance with specific reference to Botswana. The following objectives guided the research:

- i. To examine the rate of success by SMEs application for bridging finance from Kingdom Bank of Africa Ltd.
- ii. To identify the main problems in accessing bridging finance, and
- iii. To suggest strategies for improving the accessibility of bridging finance from banks.

1.6 SIGNIFICANCE OF THE STUDY

The SME sector plays an important role in developing economies in the fight against poverty and unemployment. Botswana's unemployment rate was estimated to be 17.5% in 2009 (CSO, 2008) and, as a result, addressing the lack of access to finance by SMEs will go a long way in enhancing the creation of employment opportunities, improvement of household incomes as well as poverty alleviation. The

outcome of this study will, hopefully, help to improve the policy of access to bank finance by SMEs in Botswana.

The main contribution of the study is the identification of what really determines the success rate of the applicants who apply for assistance in bridging finance. The study will, perhaps, give guidance to applicants when they submit business application forms about the information critical to the decision making process of the banks and thereby enhance the success rate of the applications. The findings may also help improve the communication and understanding of the full requirements of the bank when applying for bridging finance.

1.7 LIMITATION AND DELIMITATIONS OF THE STUDY

The reasons for delimiting the research to Kingdom Bank Africa Ltd are several. First, a case study seemed to be able to provide more reliable information due to the focus on the case by the researcher. Secondly, the study was limited to Kingdom Bank Africa Ltd because while some managers were willing to provide information in the banking sector, most did not wish to part with information. This was the justification for the delimitation.

The research was completed but with several limitations. Firstly, the fact that only one bank was investigated due to time constraints and ease of access to information in this research, raises questions of validity and the applicability of the conclusions to all banks in Botswana. However, since this is a case study, it can be used to guide and inform a more comprehensive research in future.

Secondly, the researcher was employed on full time basis making the task of completing the research a very serious challenge. This partly led to the choice of the case study method which would not be a challenge in terms of access to relevant information.

Thirdly, the costs of the research were quite a challenge as the researcher was not being sponsored and had to sponsor himself. Lastly, due to time and resource challenges the study was limited to Kingdom Bank. It would have been much better to widen the field of the research.

1.8 DEFINITION OF TERMS

- **Bridging finance:** This is a loan provided for short term financing ahead of a longer term loan (Viljoen, 2007). In this study bridging finance is short term finance which is designed to assist in providing short term financial solution. It can be borrowed and returned within one year. It can be used in any type of situation; the common ones include finance whilst waiting for another refinance with the banks.
- **Small and medium enterprise (SMEs):** The name refers to an organisation that has few employees, a low turnover, little or no formal structure and is usually managed by one person (Bridge, O'Neill and Cromie, 2009). In this study, a small business is that which is independently owned and personally managed by its owner and which employs between 6 and 25 regular staff and generates between Botswana Pula 60 001 to 1 500 000 annual turnover. In this study, a medium enterprise is defined as a business entity with between 25 and 100 regular employees and generates Botswana Pula 1 500 001 to 5 000 000 annual turnover.
- **Internal source of finance** refers to finance coming from retained earnings of the enterprise and savings (Collier, 2009). In this study, internal source of finance refers to finance which comes mainly from own funds, profits, selling personal assets and depreciation. It may be in the form of start-up capital used when the business is being up. This source of finance is only available for a business which has been trading for more than one year.
- **External source of finance** refers to finance coming from bank loans and equity (Collier, 2009). In this study, external source of finance refers to money which is borrowed at an agreed rate of interest from financial institutions such as banks. This is where the business is allowed to be overdrawn on its account. This means they can still write cheques, even if they do not have enough money in the account. This can be in a form of an overdraft or loan of a period of between 2 and 3 years.

1.9 SUMMARY

In this chapter, the general introduction to the research topic was made. The background to the study highlighting the problems faced by SMEs in accessing bridging finance was briefly dealt with. The chapter briefly described the problem forming the focus of the research. The problem was that of challenges faced by SMEs in accessing bridging finance. The purpose of the research was also highlighted in this chapter. In summary, the purpose of the research was to provide a better understanding of problems faced by SMEs in trying to access bridging finance. Research questions and objectives were also outlined in this chapter. Finally, an overview of the whole dissertation was presented to provide the guiding roadmap of this research.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter reviews the literature on bridging finance for SMEs, types of bridging finance, the role of Small and Medium Enterprises (SMEs), uses of bridging finance, why SMEs apply for bridging finance, factors hindering SMEs accessing bridging finance and the possible ways of improving access to bridging finance. The literature review looked at the previous studies and their findings.

2.2 DEFINING THE TERM SMALL BUSINESS

There is no single, uniformly accepted definition of small enterprise. Different industries and different countries employ different definitions of small business. Usually, the term small business, in retail, wholesale and service sectors, refers to any organisation with a smaller number of employees, compared with small firms involved in manufacturing. Bridge *et al.*, (2009) argue that, there is no single, clear, precise and widely accepted definition of what is small business. Different definitions exist, often because of different purposes such as to support policy applications, taxation or other applications. Beaver (2002) notes that the scale of business needs to be defined for a specific purpose and there is no point in attempting to produce a universally accepted definition of what is a small business.

The Congress in Small Business Act of 1983 in the United Kingdom (UK) defines the small business as one that is independently owned and operated, is not dominant in its field of operation and does not engage in many new or innovative practices. Bridge *et al.* (2009) add that, a small business is one that has few employees, a low turnover, little or no formal structure and is usually managed by one person. They also note that small businesses do tend to share a number of qualities. They are generally businesses that serve the local customers and have limited share of the available market, that are owned by one person or by a small group of people and are managed by their owners who deal with all management issues usually with little

other help and are independent businesses not parts of, or owned by large companies. The management of small businesses is usually independent, and the managers are the owners. A definition of small business based on qualities would be in danger of excluding some businesses that would be regarded as small.

The definition of small business developed in 1982 by the Committee for Economic Development of the United States of America (CEDUSA) is based on a firm fulfilling a minimum of two of the following criteria:

- Management of the firm is independent, with ownership and control held by the managers
- Capital is supplied by an individual or small group.
- The operations are essentially local, with the employees and owners living in the same geographical vicinity. The markets served need not be local in scale.
- The business firm must be small within its industry when compared with the largest firms in its field of operations. This measure can be in terms of sales volume, number of employees, or other significant comparisons.

Storey (1995) on the other hand, regarded firms as being small if they satisfied three criteria:

- They had a relatively small share of their market places
- They were managed by owners or part owners in a personalized way, and not through the medium of a formalized management structure
- They were independent in the sense of not forming part of a large enterprise.

Beaver (2002) argues that small firms have special characteristics that distinguish them from larger corporations, which are presented as,

- Many small firms are heavily reliant on the small number of customers. This means that they are particularly dependent on the performance and health of any one of the customers and are vulnerable if that business turns elsewhere.
- Small businesses are frequently dominated and controlled by one person who has overwhelming influence in the firm. It is evident therefore that the views and values of the owner become dominant in all aspects of the

activities of small enterprises. It is very difficult to separate business and personal decisions.

- Small firms are not public companies. This means they face problems in raising capital and this can be significantly central in their choice of strategies. Small firms seeking to grow or raise finance can become a major strategic issue and relationship with financing institutions such as banks can become a major resource issue.
- Most small firms are unable to exert much influence on their markets. Since they are small they are likely to be price takers and likely to face significant competition.
- Being small, they are likely to operate in a single market or a limited range of markets probably offering a limited range of products or services. This therefore means that the scope of the firm's operations is limited and less of a strategic issue than in large corporations. Being restricted to a particular product that unlike larger firms, they find it more difficult to diversify their business risk.

Most of the definitions given are, however, in effect only attempts to provide proxy of what is the essence of smallness in business units. Smallness is about being autonomous yet having limited resources of manpower, time, skills, expertise and finance and therefore having to depend on external support. It is about coping with greater uncertainty and about carrying greater risk while having few opportunities for spreading risk. The owner thus engages in very little devolution or delegation of authority and decision making powers, hence is involved in all major decision making processes.

2.3 CLASSIFYING SMALL TO MEDIUM BUSINESSES

In the UK, for statistical purposes, the Department of Trade and Industry, (DTI) uses the following classification of small businesses as shown in Table 2.1

Table 2.1 Classification of small to medium firms (DTI) United Kingdom (UK).

Type of Enterprise	Number of employees
Micro firm	0 -9 Employees
Small firm	10 - 49 Employees
Medium firm	50 – 249 Employees
Large firm	Over 250 Employees

Source: Department of Trade and Industry, (DTI) United Kingdom (UK). Adopted from Beaver (2002)

Table 2.2 below shows the definition adopted by the European Commission (EC), in 2009, for the classification of small and medium enterprises:

Table 2.2 Classification of small to medium firms (European Commission)

Type of Enterprise	Number of employees (Maximum)	Turnover (€ million)	Balance Sheet total (€ million) annual
Medium	250 Employees	Less than 50	Less than 43
Small	50 Employees	Less than 10	Less than 10
Micro	10 Employees	Less than 2	Less than 2

Source: European Commission: Adopted from Bridge, O'Neill and Cromie (2009)

The EU also uses the number of employees, size of the balance sheet and the level of turnover as the criteria for defining small and medium enterprises. Table 2.3 below shows the classification of SMEs in Botswana.

Table 2.3 Classification of small to medium firms in Botswana (Olelakan and Mangadi, 2003)

Type of Enterprise	Number of employees	Turnover (Botswana Pula)(BWP)
Medium	25 to 100 Employees	BWP1 500 001 to BWP5 000 000
Small	6 to 25 Employees	BWP60 001 to BWP1 500 000
Micro	Less than 6 Employees	Up to BWP60 000

The number of employees is a commonly used measure as it is attractive for simplicity, but, however as Meginnison (2006) notes, the number of employees has problems of application though not more serious than other quantitative measures. The problems arise from the seasonal nature of small business employment, prevalence of part time work and the existence of unpaid family labour, including children. Small may be employed as a relative term, rather than absolute one. Small business is therefore regarded as simply, a business with scale operations significantly below the average, or below the minimum size usually necessary for efficient operations, in its industry (Meginnison, 2006).

2.4 THE STATE OF SMALL TO MEDIUM ENTERPRISES IN BOTSWANA

The state of SMEs in Botswana is briefly explained here. According to Olelakan and Mangadi (2003:113), "Botswana has long realized the importance of small and medium enterprises in fostering economic growth and creating jobs." This shows the seriousness of the role of SMEs in Botswana. Kaggwa (2008) has pointed out that in Botswana there are 56000 SMEs which have created 125 000 jobs and usually contribute 30-45% of the country's GDP, yet they lack information on government initiatives to assist them and sometimes laws are repressive in the area of SMEs.

However, all the rosy pictures about SMEs in Botswana are dampened by the assertion by Kaggwa (2008) that about 80-85% of the SMEs cease operations 5 years after starting and only 1 out of 100 enterprises grow into larger enterprises. This situation must definitely send bad signals to banks about the viability of providing loans to SMEs. SMEs are thus affected by lack of credit for funding growth initiatives (Olalekan and Mangadi, 2003).

The truth is that SMEs in Botswana face a number of challenges. They lack consistent plans and perform poorly. In their study of Botswana SMEs, Sentsho, Maiketso, Sengwaketse, Ndzinge-Adensu and Kayawe (2007) found out that only 4% of Botswana SMEs followed their plans, especially in hard times. They also pointed out that the businesses were affected by owner management where owners lacked either business skills or financial discipline (Sentsho *et al.* 2007). The Botswana Government has set up programmes through organisations such as CEDA (Citizen Enterprise Development Agency) and LEA (Local Enterprise Authority) to scaffold businesses in the area of funding and business management skills training. Nevertheless, Sentsho *et al.* (2007) have pointed out that most government assistance is either inadequate or far from some SMEs which are located far from urban centres. This point is supported by Kaggwa (2008) who adds lack of infrastructure to support SMEs as a serious challenge. He (*ibid*) also reiterates the cumbersome bureaucracy in applying for such funds. Sentsho *et al.* (2007) also point out that most of the businesses are owned by youths as a result of government youth empowerment programmes. The problem which arises is that youths lack collateral which banks may need as security for loans.

Another key issue affecting Botswana SME access to bank finance is that most SMEs are either unbanked or under-banked (Olalekan and Mangadi, 2003). This led to lack of information about SMEs financial status to aid any bank's decision processes on loans. They (*ibid*) also argue that some were denied loans due to lack of security and others were credit rationed, meaning the bank revised the figures of the loans they applied for downwards, and the money could not meet the targets the loan was intended to achieve.

2.5 THE CASE OF SMES IN INDIA

India has been chosen to anchor this study as one of the developing countries which are developing rapidly due to their recognition of the importance of SMEs in the economy. According to Nagaraja (2007), SMEs contribute 40% of India's industrial output and there are 26 million SMEs producing a million jobs each year. However, several problems affecting Indian SMEs have been noted by several authors (Nagaraja, 2007; Sivaramakrishnan, 2007). Some of the problems similar to the problems faced by SMEs in Botswana are lack of finance, lack of infrastructure and dearth and inadequacy of planning. Lack of knowledge, skills and adequate government support has also been cited as problems affecting Indian SMEs. SMEs have also been cited as having inadequate marketing knowledge, poor staffing and unprofessional family management which militate against growth. In general, most of the authors are in consensus that these factors collectively and/or individually contribute to the negative perceptions which banks have on lending to SMEs.

In the view of Sivaramakrishnan (2007), mechanisms can be developed to improve SME access to finance at policy level. He asserts that if consensus is to be reached on addressing challenges affecting Indian SMEs, a proper definition of SMEs has to be agreed upon by all stakeholders including banks. Bank definition of SMEs affects lending decisions. According to Sivaramakrishnan (2007) fortunately in India, some banks have widened the definition of SMEs to allow most SMEs to be included in funding programmes. These banks have beaten their competitors in this rapidly growing sector of SME credit. These developments have forced other banks and credit professionals to take SME as very serious business. The positive light in which SMEs are now perceived is aptly described by Sivaramakrishnan (2007) who points out;

“However, a positive note is that banks are now more accepting of the unique characteristics of SMEs, which are broadly identified by low capitalisation, limited recognizable assets, geographical diversity, short business lifespan, poor access to capital markets, huge cash intensity in transactions, absence of dependable credit information/history, and other internalised issues of promoters, to enable reasonably good credit decisions, poor financial disclosure on tax and other business issues, high credit risk perceptions coupled with high borrowing cost, low concentration on

non-financial activities and slow acceptance of changes through technology based solutions.”

This observation indicates that, in India, there is a lot more focus and interest in SMEs as compared to Botswana and Botswana could borrow advice from the Indian experience. Sivaramakrishnan (2007) has given several recommendations to address the problems of access encountered by SMEs in accessing bank finance. Lack of information or asymmetry has been blamed for affecting SME access to finance. Banks often make decisions on wrong or inadequate information. Sivaramakrishnan (2007) points out that to address these problems, banks should appoint senior people to keep an eye on the dynamics in SMEs and keep updated databases. The banks also need to get financial information from other businesses dealing with the borrower. These measures can help to extend the lending of banks to SMEs.

Other solutions recommended by Sivaramakrishnan (2007) include the fact that banks should develop proper segmentation of SMEs so as to have proper lending guides based on informed classification. All information on past lending to SMEs should be kept and updated to inform future lending. The above information shows that India has adopted SMEs more seriously and banks are not too negative about SMEs.

2.6 THE ROLE OF SMALL AND MEDIUM ENTERPRISES IN THE ECONOMY

The growing economies of Third World countries, especially Asia, Latin America and Africa, have been hard hit by economic crises and by hyper inflation, continued unemployment, lack of participation of the bulk of the population in economic development, lack of sustainability and serious challenges of citizen empowerment. Small scale enterprises have offered these countries the answer to solving all these issues as they empower people, increase productivity per person in the population, create jobs and make vital contribution to address the problem of inequality. This point is supported by Tedesse (2009) when he points out that the role the SMEs have taken is even of greater significance both in Africa and all over the world. In Sub-Saharan Africa, the SMEs account for over 90% of all enterprises of which 70% to 80% are micro and very small enterprises. In view of this vital position of SMEs in

economies, the policies of governments have been to recognise the fact that SMEs are very important but lack adequate financing.

SMEs can be the key to solving problems of empowerment of grassroots populations and solving the rampant problems of unemployment. Small scale enterprises have the propensity of fuelling all inclusive economic growth and producing many entrepreneurs from previously disadvantaged groups.

One critical advantage of SMEs is that they do not need heavy capital investment. They need small injections of capital and can be both very economic and efficient if there is tight monitoring and accountability. In most cases SMEs tend to use indigenous resources as inputs which makes them very sustainable in the medium to long term.

Another important reason why SMEs must be financed is that they are not subject to long uncertain production runs, but to short and controllable runs whose profitability can be seen in a short time leading to confidence in the business profitability as well as development. SMEs do not remain stagnant, but usually grow into larger businesses slowly and tend to increase the level of employment in a country as well as providing vital informal training ground for large industry.

Small businesses react rapidly to environmental change and are not likely to be affected by global macroeconomic forces which have tended to destroy the larger industries. According to Tedesse (2009), small business are likely to be more resilient to depression and to offer better levels of employment than large ones since small locally owned firms stay in business for the sake of necessity of their local owners as compared to foreign companies which tend to be closed when facing economic crises, therefore SMEs are a very critical component of developing countries.

2.7 SOURCES OF FINANCING OF SMES

Before discussing the key issues relating to SMEs access to finance, it is important to understand how firms choose their sources of finance. There are two main theories in the literature, the trade off theory (Myers, 1984) and the perking order

hypothesis (Cassar and Holmes, 2003). According to the trade off theory, firms reach an optimal capital structure by balancing the benefits of debt (tax and reduction of free cash flow problems) with the costs of debt (bankruptcy and agency costs between stockholders and bondholders). The pecking order hypothesis asserts that due to the presence of information asymmetries between the firm and potential financiers, the relative costs of finance will vary between the financing choices in as much as firms prefer internal sources of finance (retained earnings, savings of existing owners) to external ones (bank loans, leasing, equity) as the costs of external finance are likely to be greater for them therefore profitable firms with retained profits , can use internal finances before accessing outside sources.

The issue of access to external finance by firms can also be traced back to the theory of imperfect information in capital markets. According to Stiglitz and Weiss (1981), from the lenders perspective (or supply side), banks have difficulty in differentiating between good (high quality) and bad (low quality) loan applicants where there is asymmetric information. As a result, banks find it less risky and less costly to lend to large enterprises, and, therefore, rational to apply credit rationing to SMEs which are subject to greater opaqueness and risk.

Empirical evidence suggests that retained earnings are the predominant source of financing among growing SMEs (Baldwin, 1994). However, more successful SMEs use more external sources of financing, such as financial institutions. Yvon (1988) argues that the use of the source of financial capital is an indicator of the owner's willingness to grow his "fund raising ingenuity" and his capacity to manage growth. The SMEs can access short term finance like bridging finance and also manage the growth of the business.

2.8 BRIDGING FINANCE

Viljoen (2007) defines bridging finance as a loan provided for short term financing ahead of a longer term loan. John and Clack (2001) also define bridging finance as any form of short term funding in anticipation of funds, whether from a venture company on the verge of raising new capital or to a home buyer who needs to pay for property before receiving the proceeds on the sale of the previous one. Abbey and Richards (2007) point out that if the client buyer has a related sale, it should be

possible to borrow the deposit from the client's bank on a short term bridging loan. From these definitions, the suggestion is that bridging finance is intended for the short term borrowing which needs faster processing.

Bridging finance is different from trade finance as Chauffour and Malouche (2011) define trade finance as the funding of individual international commercial transaction by financial intermediaries. Hassan and Lewis (2007) point out that trade financing is tied to the acquisition of goods, either through purchase transaction or through leasing operations. From these definitions, trade financing is used for the acquisition of goods whereas bridging loans is short term financing.

2.9 TYPES OF BRIDGING FINANCE

There are two types of bridging finance, closed bridging and open bridging which are described in detail in the next section:

2.9.1 Closed bridging

Essvale Corporation (2007) defines closed bridging loan as the finance available to clients who have already exchanged on the sale of their existing property. This is not risky for the lender as the sale is less likely to fall. For the purpose of this study, the term means the finance that an SME needs before the exchange of the existing property.

2.9.2 Open bridging

Essvale Corporation (2007) defines open bridging finance as loans that clients borrow for their dream property before selling the existing property. For this type of transaction the clients need to have lots of equity in their property.

2.10 USES OF BRIDGING FINANCE

There are many different uses of bridging finance. Bridging finance can be used to maintain a place in a sale chain. It is a loan used to buy another property before an existing one is sold. Bridging finance can also be used as an absolute bargain. When

the opportunity arises to purchase an absolute bargain and funds are required quickly to complete the transaction, bridging finance can be used.

Bridging finance is also used for purchasing a property at an auction. If the owner of the SMEs has successfully bid at any property auction but the transaction needs to be settled within a short period of time the SMEs owner can use bridging finance to access the funds. However, bridging finance will be required in a situation whereby funds are required to continue trading but there is no immediate finance. Bridging finance in such a situation can be used to solve short term cash flow problems.

In addition, when an SME owner wants to fulfil some urgent orders and the capital is required within a short period of time, bridging finance can be applied from the bank. Lastly, banks do not finance business with long term finance if the security is in poor condition and therefore, bridging loan can be applied to use for, example, in renovating dilapidated properties.

2.11 CHALLENGES IN ACCESSING FINANCE BY SMES.

Beck, Demiguc and Honohan (2009) discovered from their study that in many developing countries , less than half the population has access to finance and in most of Africa the figure drops to one in five households. Their study showed that in Africa, most people and companies have no access to finance. In addition, Irwin and Scott (2007), in a survey of 400 SMEs, found that 16% reported difficulty in accessing finance. The lack of access to finance has the impact of slowing down the economic growth.

The lack of access to finance is also faced by many rural SMEs (OECD, 2008). Rural SMEs may also face lack of access to finance because there are few banks in those areas. For example, most big banks are in towns and it is only Post Office Banks that are in the rural areas; but they do not have the capacity to offer loans to SMEs. Therefore SMEs in rural areas will continue to face the problem of access to finance. If they manage to get finance, their main source is some cooperatives in the rural areas but they also do not have the capacity to offer big loans.

Although there are many other factors leading to the failure of SMEs, Fatoki and Garwe (2010) point out that inaccessibility to finance is the second most reported contributor to low firm creation and failure, after education and learning in South Africa. Most SMEs will not succeed in their business without accessibility to finance. In support of that, Herrington and Kew (2009) report that access to finance is the major problem for SMEs failure.

Rogerson (2006) points out that access to finance is not the only challenge faced by SMEs. He also identified other challenges such as inadequate premises, lack of equipment and tools, inadequate markets, theft and transport challenges as attributes to failure. The suggestion is that although there are some challenges, inaccessibility to finance is the primary challenge and other challenges come about as a result of the inaccessibility to finance.

Nieuwenhuizen and Nieman (2009) also point out that a large number of SMEs fail during the first year of operations mainly because of inaccessibility to or lack of finance. During the start up stage, SMEs incur a lot of expenses like rent and paying salaries. If the SMEs have no access to finance they will fail during their early stages.

For most SMEs, access to finance has been a major problem (Beck *et al.*, 2008). Financing SMEs is particularly poor due to several problems summed up by Tedesse (2009) when he argues that the financial sector in most African economies is characterised by very low levels of financial intermediation and weak capital markets which cannot effectively supply financial resources and other products needed by the private sector in particular, and the SMEs sector which lacks the formal finance.

2.12 FACTORS INFLUENCING SMEs' ACCESS TO FINANCE

Studies investigating SME access to finance in both developed and developing economies by Van Eeden, Rakhudu, Sharp and GViviers (2004) ; Mutezo (2005) have identified a range of factors (stringent lending criteria of financial institutions, lack of entrepreneurial and micro finance skills within institutions, information asymmetry , excessive transactional cost, discrimination , SME lack of collateral and own capital contribution, SME lack of management and business skills, SME lack of

investment readiness and poorly developed business plans, SME lack of awareness of business information, lack of monitoring and assistance and lack of government support) within the supply , demand and institutional support environments that constrain SME access to finance.

There are six factors which consistently appear as the dominant factors that hinder access to finance for SMEs across these studies. Any intervention aimed at improving access to SME finance therefore requires a detailed understanding of the cause-effect relationship of these factors.

2.12.1 Information asymmetry

The theoretical model of equilibrium with credit rationing follows from the pioneering work of Stiglitz and Weiss (1981). The model is based on imperfect credit markets characterised by information asymmetry, which makes it too costly for banks to obtain accurate information on the borrowers and monitor the actions of the borrowers. Nigrini and Schoombee (2002) define information asymmetry as a situation whereby prospective financiers and business parties are not informed of the prospects of a business venture or opportunity. This situation leads to imperfection in debt and equity markets, making it difficult for lenders and financiers to access the quality of business and investment propositions.

Studies by Abereijo and Fayomi (2005), Malhotra, Chen ,Crisauoto, Fan, Hamel, Savchenko (2006) ; Beck (2007) ;Ganbold (2008) and Torre, Peria and Schukler (2008), all found that information asymmetry, which is primarily caused by poor accounting records , lack of audited financial statements and inadequate access to SMEs information from credit bureaus, seriously constrain SME access to finance. Ngoc, Le and Nguyen (2009) in a previous study found that it is often difficult and expensive for young SMEs to access bank financing due, in large part, to information asymmetry between the banks and the firms. Information asymmetry is regarded as the primary factor as it raises the level of reluctance and risk aversion of debt and equity financiers.

Many banks seek to maximize their profits through their choice of interest and collateral and many potential borrowers who seek to maximize their profits through

the choice of projects. The borrowers may choose to shift from safe projects that yield normal returns to high risk projects that promise high returns but with a low probability of success and the bank has no control over such actions of the borrowers.

Banks can distinguish bad risks from good risks. High risk borrowers are willing to pay a higher interest rate for a loan. An increase in interest charged by the bank may actually lead to a decline in the expected profit of the bank due to the adverse selection effect (which results from deterioration in the quality of the pool of loan applicants and the incentive effect, which results from a change in the behaviour of borrowers to shift from safe to high risk projects). Under conditions of imperfect credit markets characterized by information asymmetry, interest rates fail to play the market clearing role of equating demand and supply. Rather the banks adopt the strategy of credit rationing using the non-price mechanisms so as to maximize their expected profits.

For markets to allocate resources efficiently, all market participants must have the same relevant information. This is seldom the case; however, in developing countries, the resulting market failures can create biases against small firms.

As SMEs are often not required to adopt international accounting standards in preparing their financial statements, large discrepancies arise in the ways that firms report their financial positions. An assessment of the investment climate in China (Dollar, 2003), for example, points out that Chinese firms may have two or three sets of books for different audiences. Auditing such statements can be labour and time intensive, which raises the cost of loan processing for SMEs. In addition, even audited financial statements can be unreliable. In China, Dollar (2003) points out that audit report findings often reflect negotiations between enterprises and outside auditors, who face sharp competition and are eager to retain clients and obtain fees.

Though some countries have improved financial accounting systems in the SME sector, most lag behind. According to Lefilleur (2009), this lack of accounting information is because of the informal origins of SMEs which lack basic vital documentation which the information banks need to approve loans. This view is supported by Derreumax (2009:19) who points out that "Banks ... feel comfortable

with financial statements validated by auditors.” Derreumax (2009) goes on to state that in contrast to the state of the SMEs, sector banks often demand items such as good structures and business plans. This problem is compounded by lack of access to credible accounting firms whose information can be unfavourable. This leads to the erroneous or low quality information going to banks resulting in bad decisions (Lefilleur, 2009). The credit history of clients is conspicuously absent and banks have no way of verifying the payment conduct of clients. This situation places banks in a quagmire where they cannot lend money without security or collateral (Zhao, Wu and Chen, 2006). This argument is supported by Lefilleur (2009:14) who argues that, “in the context of strong information asymmetry, banks should be able to mitigate risks ... by taking guarantees... collateral often seem to be the necessary prerequisite for loan allocation”. Derreumax (2009) points out that lack of information leads to risk assessments which are mostly inaccurate in terms of under-estimation and over-estimation. Transaction costs, especially in the process of risk assessment and supervision are high due to the absence of trustworthy information.

Business information is defined as the conversion and packaging of raw data into a format that easily enables the user to make a decision pertaining to a business need (Thomas and Ballard, in Chiware, 2008). Access to and awareness of business information has been identified as an impediment to SME growth and development (Chiware, 2008)

SMEs, particularly in developing economies, are not only unaware of the existence of national business information but are also discouraged from using it due to the cumbersome procedures involved in accessing the information (UNIDO, 2003). A study investigating the SMEs financing gap reported that SME surveys in all countries indicate that poor information about the different financing options constitutes a barrier to finance (OECD, 2006)

According to Kitindi, Magembe and Sethibe (2007), creditors, banks and other lenders use financial information provided by firms to analyse their present performance and predict future performance. Information obtained from financial statements acts as an indicator of the borrower's future prospects and ability to service a loan.

2.12.2 Collateral

The value of the collateral offered by a firm also influences the credit rationing behaviour of the banks (Ghosh, Cai and Li, 1999). Collateral serves as the last resort for recovery of the loan in case of default, where the bank can sell the collateral obtained to recover the balance (or part) of the loan. Collateral reduces the effect of information asymmetry between the SMEs and the financial institutions (Chan and Kanatas, 1985). When a borrower has a project with a high probability of a high return, the collateral offered can signal the real value of the project. This signalling role is certainly important when the financial institution has limited information on the firm and the value of the project is estimated lower (Rothschild and Stiglitz, 1977). Thus, collateral could have a signalling value for the bank when considering the creditworthiness of the firm (Bester, 1985). Also, after obtaining the loan and offering the collateral, credit applicants wish to fulfil their obligations and repay on a timely basis in order to avoid losing the collateral. Thus, giving collateral can also solve the problem by reducing the motives to switch to a higher risk project or make less effort to realize the proposed project (Boot, Thakor and Udell, 1991). This implies that firms with a lot of intangible assets, which are difficult to monitor, might incur difficulties in obtaining bank finance (Longhofer and Santos, 2000).

Stiglitz and Weiss (1981) also considered whether a higher value of collateral could reduce the risk and increase the return for the bank. In their model, they came to the conclusion that there is a positive “moral hazard” effect, causing collateral to increase the return for the bank. On the other hand, there is also a negative ‘adverse selection’ effect working when an increasing demand for high value collateral by banks makes the average and marginal borrower to become more risky. So, contrary to the signalling theory, Stiglitz and Weiss (1981), conclude that increasing the demand for collateral will decrease the expected return for the bank, so that offering more collateral will not increase the supply of bank debt to firms. Theoretically, there is no consensus on the influence of collateral on credit rationing.

Bougheas, Mizen and Yakini (2005) suggest that collateral is an important factor for SMEs in order to access debt finance. Collateral reduces the riskiness of a loan by giving the financial institution a claim on the tangible asset without diminishing its claim on the outstanding debt. Collateral can solve problems derived from

asymmetries in valuation of projects uncertainty about the quality of projects and riskiness of borrowers and problems related to the cost of monitoring or supervising borrower's behaviour.

Banks base their financing decisions on credit history, past bank account management, entrepreneurial track record. Due to information asymmetries SMEs often encounter significant shortcomings in these criteria. This in turn results in financiers and lenders placing significant emphasis on the borrower's ability to provide sufficient collateral in order to secure the loan (Tagoe, Nyarko, Anuna-Amarh, 2005).

The willingness and ability to provide collateral is not only an indication of a borrower's creditworthiness or confidence in the viability of the business investment proposition, but also serves as a risk mitigating tool from a lender's perspective (OECD, 2006). The provision of collateral ensures that the borrower bears some risk of loss and that the lender is provided with an alternative source of repayment should the borrower not be able to meet its financial obligations or go insolvent (Nigrini and Schoombee, 2002)

The findings of Rogerson (2006) are not only consistent with the findings of the above mentioned studies but also indicate that banks lack an appetite for risk and are not forward looking or oriented. Loan applications are rejected on the basis of insufficient collateral, regardless of the viability or potential of the prospective borrower's venture (Pretorius and Shaw, 2004)

Chimucheka and Rungani (2010), in their study of applications of finance by SMEs from the bank, found out that 37% of the respondents lacked collateral security. This was found to be the greatest obstacle in assessing finance. Toci and Hashi (2009) also found that high interest rates, collateral requirements and inability to access long term loans were proved to be statistically significant in SMEs financing obstacles in South East Europe.

Kyophilarong and Vongkamsane (2011) point out that 80% of SMEs are not satisfied with financial institutions when they request financial support. They face various constraints in terms of accessing finance, such as high opportunity costs, complex documentation process, and lack of information from the financial institutions

themselves. The authors further point out that credit suppliers require collateral for credit approval, which accounts for about 50% of the application. Kyophilarong and Vongkamsane (2011), in their study, also found that 90% of the request loan applications have been approved, either for the full amount or for a partial amount.

2.12.3 Effect of size on the firm.

Collier (2009) supports the point that lending to SMEs in Africa is risky. This view shows that there is the tendency by financiers to see SMEs as too small and not viable enough to merit financing benefits as compared to large scale producers. As finances are in short supply, funds are channelled towards large industries that have been dealing with the banks for long periods. Small scale enterprises may not have proper referrals in the case of previous formal financial transactions since they depend more on informal borrowing which is hard to verify. Since small scale enterprises involve mostly poor people without much immovable or valuable property banks are hesitant to lend money due to lack of collateral.

2.12.4 Lack of monitoring capacity

The SMEs sector has mostly new players not known to banks, and there is serious lack of bank capacity to monitor their clients. This effort is often too much and banks just tend to prefer to deal with customers who they know from many dealings or those with traceable borrowing records. Still in their initial stages, SMEs have been blamed by banks for applying for loans without collateral compounded by the banks' lack of monitoring mechanisms. Banks also need to be able to assess the capacity of SMEs management to run the enterprises and use capital wisely. Most entrepreneurs for SMEs may lack such skills as marketing, technical skills and an accounting background which make banks hesitate to lend money to them.

2.12.5 Business plan

The importance of a bankable business plan is vital to successfully securing debt or equity financing for any business. The business plan is therefore perceived as the most essential document to be prepared by the entrepreneur throughout the

business and academic world (Pretorius and Shaw, 2004). The purpose of a business plan is to carefully articulate the realisation of a potential opportunity as well as its merits, requirements, risks and potential rewards. Although financiers and lenders place greater emphasis on creditworthiness and the ability to provide collateral, the business plan serves as the point of departure for prospective financiers and lenders to begin their due diligence in order to ascertain the potential as well as the various risks of a business (Timmons and Spinelli, 2007)

Studies by OECD (2006) , Torre *et al* (2008) ,Abereijo and Fayomi (2005) , found that there is often a contrast between SMEs that complain of a lack of the availability of finance, and financiers and lenders who simultaneously complain of a dearth of bankable investment - ready projects and the inability of entrepreneurs to present a business plan that meets their requirements.

Herrington and Kew (2009) indicate that the lack of access to finance for most SMEs is exacerbated by the inability to provide a business plan that meets the requirements of financiers and lenders. An equally important factor that prevents SMEs from securing finance is the submission of business plans that have been entirely developed by business consultants. This weighs negatively on the application as most banks, for obvious reasons, disapprove of this practice (Pretorius and Shaw, 2004)

For an identified business opportunity there is need for a business plan in order to exploit the opportunity. The business plan communicates the manner in which resources, opportunity and the entrepreneurial team will be harnessed.

The business plan is necessary as it clearly articulates the marketing strategy to be adopted and describe the product (Rwigema and Venter, 2004; Hellriegel, Jackson, Slocum, Staude, Amos, Klopper, Louw and Oosthuiizen, 2004). Thus a business plan enables SMEs to secure financing. An entrepreneurial team is necessary to implement the business objectives as outlined in the business plan. Pretorius and Shaw (2004) contend that a good business plan is perceived as one of the most essential documents to be prepared by SME. A business plan is considered by the banks as a way of assessing the viability of the business.

Hannan and Atherton (1997) noted that, for those businesses that developed and used a business plan, ninety three percent (93%) indicated that the business plan had a role in guiding company operations and seventy two percent (72%) responded that it assisted in attracting major customers. A business plan is the key to long term success for new and old business. Most SMEs do not have such plans. The business plan is a framework within which a business must operate. It will ultimately determine whether the business succeeds or fails. For management seeking external support, the plan is the most important sales document that they are ever likely to produce. It acts as the key to raising finance. The preparation of a comprehensive plan will not guarantee success in raising funds or mobilising support, but having no plan at all will more likely result in failure (Cox, 2007). According to Renee (2007), a sound business plan makes a difference between a business that succeeds and a business that fails. Approximately 90% of small businesses fail before two years, according to the Small Business Association. Even after the two year mark has been passed there are no guarantees. This is mainly due to lack of business plan knowledge and the absence of a business plan (Cox, 2007; Renee, 2007)

Pretorius and Shaw (2004) contend that a good plan is perceived as one of the most essential documents to be prepared by the SME. Guffey (2008) goes on to assert that a business plan is essential when you start your own business. Unless you can count on the bank of your relatives you will need financial backing from a bank loan or venture capital supplied by investors. A business plan is critical for securing financial support (Guffey, 2008).

Chimucheka and Rungani (2010), in their study, found that only 28% of SMES had business plans. About 7% failed to access bank finance because they had poor business plans.

2.12.6 Management competencies

Management competencies are sets of knowledge skills, behaviour and attitudes that contribute to personal effectiveness (Hellriegel *et al.*, 2008). Toci and Hashi (2009) examined the importance of management competence in small firms' success. They found lack of managerial experience, skills and personal qualities as

the main reasons why they often fail to access finance. Lyles, Baird, Orriss and Kurarko (2004) found that managerial experience, entrepreneurship and experience impact on new venture performance. Herrington and Wood (2003) point out that lack of education and training has reduced management capacity in SMEs and one of the reasons for their high failure rates. This suggests that access to finance by new SMEs is important.

According to Hirsch and Dinovseck (2002), management competencies as measured by education, management experience, start up experience and knowledge of the business positively impact on the performance of SMEs. This study investigated the challenges faced by SME in Botswana with respect to their access to bridging finance from African Kingdom Bank Ltd.

2.13 POSSIBLE SOLUTIONS TO THE PROBLEMS OF SMES FINANCING

Kauffman (2005) recommends that to bridge the information and familiarity gap between banks and SMEs, the solution rests with the ability to develop smaller commercial banks or branches near SMEs, like rural banks. This would ease assessment and monitoring costs (transaction costs). The bank would be in a better position geographically to make valid assessments of its SME potential and actual clients.

Some banks have developed credit units supported by foreign capital willing to move into the SME sector. Donors can offer banks technical expertise to have the capacity to finance SMEs. The technical units are designed to work with SMEs offering all kinds of services from risk assessment to offering technical advice and on-the-job training. Banks can also enter into partnership with NGOs (Non-governmental organisations) with better knowledge of SMEs. Banks should therefore try to develop such partnerships to avoid overstating and understating the level of risks of a customer. Leffillear (2009) gives the example of Barclays Bank of Ghana and Ghana's "Susu collectors association" as part of such partnerships.

For the mean time, SMEs remain in a state of difficulty since finance is inaccessible. The little that is available is accompanied by large interest rates. In the same vein, intermediaries with interest in certain sections of SMEs need to be developed and

nurtured so that there is a committed focus on the sector to make funding safer (Tedesse, 2009).

Sacerdoti (2009) argues that SME credit also needs much improved information and legal systems. In most countries in Africa, there is still communal land tenure and there are no title deeds. Sacerdoti (2009:8) points out that, "what is needed is mechanism systems for collateral, land title deeds and credit guarantees, that must give sufficient security to creditors, better information systems must be implemented via well developed credit bureaus, leasing needs to be developed by removing leasing and judicial constraints from deducting capital depreciation as well as taxes applied to the repayment of principal by lessees must be suppressed; mutual guarantee schemes need to be developed so that SMEs can benefit from support of other members, instruments are needed to mobilize long term saving and give longer term investment financing, swifter judicial credit recovery procedure..."

Sacardoti (2009) also indicates that some countries have introduced reforms to improve their legal, judicial and administration systems. Countries with credit information systems such as Kenya, Uganda, Zambia and Mozambique have shown great improvement but more still needs to be done.

The informal nature of African SME makes them risky especially if they depend on family management with little or no accounting background. In these cases professional conduct is non-evident and banks cannot take the risk. Tedesse (2009) recommends that SMEs need more than just financial support. He argues that SMEs need advice, training in management especially of finance, marketing, both local and export. If such support is given then SMEs can become viable and be capable of using funds properly and become more focused. This research therefore investigated possible strategies that SMEs can use to enhance easy accessibility to bridging finance from Kingdom Bank Africa Ltd.

2.14 SUMMARY

In this chapter the literature review was presented. The chapter was concerned with what other authors generally say about SMEs. It identified various definitions of SMEs by various authors and classifications, and their problematic nature. The

chapter also highlighted the role played by SMEs in the economy. Possible sources of SME financing were highlighted and discussed in this chapter. The chapter also tried to define the meaning of bridging finance and the uses it is put to. Problems faced by SMEs in accessing bridging finance were also explained in the chapter together with the ways of improving SME access to bridging finance.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

3.1 INTRODUCTION

Research methodology refers to the method by which data are gathered for a research project. It is the blueprint for the collection, measurement and analysis of data in order to achieve the objectives of a research project. Research methodology is important in a research work because it specifies the identification, selection and sampling design. Here the researcher explicitly defines the target population and sampling method used. The researcher also provides the motivation for choosing a specific sampling method. Additionally, the researcher identifies the data collection method used. Furthermore the researcher identifies the methods of data analysis and describes data handling.

3.2 RESEARCH DESIGN

The explanatory research design was used in this research. This method was chosen because there was need to find out why SMEs in Botswana have been having challenges in accessing bridging finance. The case study was found to be the most suitable method because it could give an in-depth knowledge of the problems faced by SMEs in accessing bridging finance. Furthermore, it was found that such in-depth understanding could help to guide further and wider research on the issue of challenges faced by SMEs in accessing bridging finance in general. A case study is one of the many ways of carrying out social science research. Yin (1994), defines case study in terms of the research process. A case study is an empirical inquiry that investigates a contemporary phenomenon within its real life context, especially when the boundaries between phenomenon and context are not clearly evident. Wilson (1979) defines a case study as a process which tries to describe and analyse some entity in qualitative, complex and compressive terms not infrequently as it unfolds over a period of time.

Merriam (1988) points out that unlike experimental survey, or historical research, case study does not claim any particular methods for data collection or data analysis. Any or all methods of gathering data, from testing to interviewing, can be used in a case study, although certain techniques are used more than others.

In brief, the case study method allowed this research to retain the holistic and meaningful characteristics of real life events such as individual life cycles, organisational and managerial process, neighbourhood change, and the maturation of industries (Yin 1994).

3.3 RESEARCH APPROACH

The two main research paradigms used in social science are: quantitative and qualitative research. There is no one best approach to study management research, rather the approach is that which is the most effective for the resolution of a given problem depending on a number of factors including the nature of the problem (Gill and Johnson, 2006).

Quantitative research refers to the systematic empirical investigation of phenomena and quantitative properties and their relationship. That is to say, it emphasises the collection of numerical data, which is deductive approach (Bryman and Bell, 2003). This deductive approach develops theories, hypotheses and designs a research strategy to test the hypotheses (Saunders, Lewis and Thornhill, 2009). Quantitative research approach provides a relation between empirical observation and mathematical expression of quantitative relationships. Quantitative method is based on already decided and well-structured questions, whereby all the respondents will be asked the same questions. Open questions are used to give the respondent the flexibility to answer from different perspectives. The quantitative approach was the main approach used in this research supported by the qualitative method. The questionnaire was used to gather quantitative data.

There are several reasons why the quantitative approach was adopted in this research. Firstly, it ensured high reliability and validity since respondents were asked the same questions. Secondly, the quantitative method was able to predict causal relationships among phenomena related to access to bridging finance by SMEs from

the bank. Thirdly, quantitative method saved time due to allowance for quick and objective analysis of data.

However, the quantitative approach was found to have several shortcomings. Firstly, the data could not explain certain issues in detail like feelings and attitudes of the respondents. The respondents could not express themselves freely and fully because the questions on the questionnaire were too structured.

The shortcomings of the quantitative approach listed above were overcome by adopting the qualitative approach by interviewing the relevant bank employees concerned with SMEs loan approval to find out their attitude and feelings towards SMEs. The main advantage of this qualitative approach was that it made it possible to get more information than offered by the rigid and structured quantitative approach. Qualitative research approach refers to all non-numeric data or data that have not been quantified and can be a product of all research strategies (Saunders *et al.*, 2009). Qualitative research methods mainly use open-ended techniques such as interviews to collect data which explains in detail the data obtained by the quantitative approach. Interviews were used to collect qualitative information from Kingdom Bank Africa Ltd employees handling SMEs loan applications.

Qualitative research methods mainly use open-ended techniques such as interviews to collect data and non - statistical techniques to analyse them (Marczyket, Dematteo and Festinger, 2005). As such, qualitative research is concerned with opinions, experiences and feelings of individuals and produces subjective data. Qualitative research can thus expand our knowledge about the variations in human behaviour (Hancock, 2002). This was because the researcher noted that the problems could have been caused by aspects such as feelings, perceptions and attitudes which bank employees may have towards SMEs.

3.4 RESEARCH METHODOLOGY

3.4.1 Introduction

This section is concerned with the population and sampling issues adopted in this research. It describes the population, sample, sampling method and the data collection tools used and the justifications for adopting the method.

3.4.2 Population

Labovitz and Hagerdorn (1976) argue that population is usually of two kinds, the target population and the study population. The most ideal population for this study was all the 240 owners of SMEs who applied for bridging finance between January 2011 and June 2011 from Kingdom Bank Africa Ltd, Gaborone branch, Botswana. Two employees handling SMEs loan applications were also part of the population. The justification for this choice of population was that these were directly involved in the bridging finance transactions. The target population is the actual population to whom the researcher would like to generalize. The target population for this study was all SMEs in Botswana who applied for bridging finance at Kingdom Bank Africa Ltd, Botswana. The section below describes how the sample was chosen from the population and the sample size.

3.5 SAMPLING METHOD

The following section examines the sampling method selected by the researcher for the study, and the motivation for selecting the sampling method. It also examines the sample size that was used for the research study and, furthermore, explains how the sample size was calculated.

Cooper and Schindler (2003) describe sampling as the procedure by which some elements of a given population are selected as representative of the entire population. The primary purpose of sampling is that by selecting some elements of a population, the researcher can draw conclusions about the entire population. A sampling method can be classified as probability or non probability.

3.5.1 Non-probability sampling

The researcher used non-probability sampling, namely, the convenience sampling method for the study. Non-probability sampling, in the view of Babbie (2004), is a sampling method in which observations are not selected randomly or units of a sample are selected on the basis of availability, personal judgement or convenience. Thus, the probability of a member being chosen was not equal. The rationale for choosing the non-probability sampling technique was that not all SME owners applied for bridging finance. The other reason for adopting this research approach

was that it was the most suitable for selecting a large sample which applied for bridging finance from the bank. However, the researcher was aware of the sample not being representative as it could not be generalised to all banks, but the research could be used to guide and inform more comprehensive research in the area of the challenges facing SMEs in accessing bridging finance from the banks.

3.5.2 The Sample

Merriam (1988) points out that the correct sample size in a study is dependent on the nature of the population and the purpose of the study. The sample size usually depends on the population to be sampled.

The formula below was used for the calculation of the sample since it was relevant to studies where a non-probability sampling method was used (Roberts-Lombard, 2006)

Formula

$$n \geq \frac{N}{1 + \frac{Nd^2}{10\,000}}$$

Where:

N = Total population

d= error estimate with a confidence interval of 95%

n=sample size

Application

$$n \geq \frac{240}{1 + \frac{240(5^2)}{10\,000}}$$

$$n \geq 150$$

The sample size of this study was 152. There were 150 owners of the SMEs who applied for bridging finance and 2 employees interviewed from Kingdom Bank Africa Ltd.

3.6 RESEARCH INSTRUMENTS

3.6.1 Introduction

This section presents the instruments used to gather data from respondents in this research. Questionnaires were used to collect quantitative data while interview questions were used to collect qualitative data.

3.6.2 The questionnaire

The primary research instrument that was used in this study was the questionnaire. Churchill (1998) describes a questionnaire as a booklet of structured standardised procedure, pre-coded and containing open ended questions that are at times used to collect information from the respondents who record their own answers. Sometimes the questions are closed-ended for more reliable quantitative analysis. It can also be regarded as data collection instrument that sets out the question to be asked in a formal way in order to produce the desired information. Furthermore, a questionnaire is a structured sequence of questions designed to draw out facts and opinions and which provides a vehicle for recording the data (Tustin, Ligthelm, Martins and Van Wyk 2005). Appendix A provides a copy of the questionnaire.

The researcher used the questionnaire as a tool for the research study because of the following reasons (Buckingham and Saunders, 2004).

- It is economical in terms of time and money ; and
- The use of questionnaire enables the respondents to remain anonymous and honest in their response.

An example in this study when scaled response was used is when the respondents were asked the extent to which the understandings of financial criteria constrain SMEs in obtaining bridging finance.

3.6.2.1 Questionnaire design

Salkind (1997) states that the questionnaire layout should be presented in an easy to understand format, with pages and questions clearly numbered with clearly stated directions for completing the questionnaire. The layout of the questionnaire was kept

simple to encourage meaningful participation by the respondents. The questions were kept as concise as possible with care taken to the actual wording and phrasing of the questions, the reason being that the appearance and layout of the questionnaire are of great importance in any survey where the questionnaire is to be completed by the respondent (Loubser, 1999). The literature study was used as guidelines for the development of the questions items. The questions that were used in the questionnaire (Appendix A) are; Dichotomous questions; and multiple choice questions.

3.6.2.2 Pretesting

Pretesting refers to the testing of the questionnaire on a small sample of population to identify and eliminate potential questions. All the aspects of the questionnaire should be tested, including wording sequence and layout. The respondents in the pre-test should be similar to those who will be included in the actual survey (Roberts-Lombard, 2006). Pretesting is critical for identifying questionnaire problems. These can occur for both respondents and researchers regarding question content formatting. Problems with question content include confusion with the overall meaning of the question, as well as misinterpretation of individual terms or concepts. Problems with how to skip or navigate from question to question may result in missing data and frustration for both researchers and respondents. Questionnaire formatting concerns are particularly relevant to self administered questionnaire, and if unaddressed may lead to the loss of vital information (Snijkers, 2002).

Pretesting was used in the study to identify flaws in the questionnaire and to determine the time required by a respondent to complete the questionnaire. Ten SMEs owners who were conveniently available were used in the pretesting. Furthermore, in the study at hand, pre-testing the questionnaire was to test its face and content validity, and to identify and rectify problem areas. After pre-testing the instrument, it was refined for the data to be collected.

The result of the pre-test, consequently, led to some amendments to the questionnaire. The researcher was able to obtain most of the required information.

3.6.2.3 Validity and reliability of the questionnaire

The research literature agrees that content validation is a judgemental process that can be done in many ways. According to Cooper and Schindler (2003), a researcher may choose to use a panel of experts to judge how well the instrument meets standards or use his own judgement. This is further supported by Dzansi (2004), that a researcher can use own judgement to judge if the instrument meets the standards. In this study, the decision was made to rely on own judgement and on the outcome of the pre-test. The researcher did, however, study the literature (books, journals, dissertations and theses) to determine how well the research instrument met all the standards.

The use of different types of questions does not affect the validity and reliability of the questionnaire. A study by Panasen, Laukkaken and Niittykangas (2002), on the factors affecting the performance of SMEs in peripheral locations, used both open ended and closed-ended questions. The research instrument was valid in their study. Fatoki (2011) used different questions (open ended, multiple choice, and closed-ended) in his research instrument on the study of impact of debt usage on profitability and was found to be reliable. Chiliya (2007) also made use of different questions (open-ended, dichotomous and closed ended) in his instrument as a measurement tool in a study. The questionnaires were tested for reliability and were found to be reliable.

A study by Mutezo (2005) on obstacles in the access to SME finance used closed questions on demographic information and used both closed and open ended questions on the profile of business activities. The results were accepted as valid. Furthermore, a study by Boschman and Webster (2004) made use of checklists, open ended questions in their study on outsourcing as an operations strategy and the results were accepted as valid.

The above information therefore indicates that the researcher's questionnaire was valid since similar questions were used in the questionnaire used by the studies mentioned above to gather data and measure the stated objectives. This further indicates that the researcher's study was not the first on SMEs field to use open-ended, multiple choice, and close-ended questions on a questionnaire. This makes the research instrument, applied to this study, relevant as a measuring tool.

3.6.3 Interview

A personal interview is a two-way conversation initiated by an interviewer to obtain information from a participant. The differences in the roles of the interviewer and participant are pronounced. They are generally strangers and the interviewer generally controls the topics and patterns of discussion. The greatest value lies in the depth of information and detail that can be secured. It can far exceed the information secured from self administered studies. The interviewer can also do more things to improve the quality of information than with another method. Interviewers can note conditions of the interview, probe with additional questions and gather supplementary information through observation. Interviewers also have more control. The interviewers can also adjust the language of the interview as they observe the problems and effects that the interviewer is having on the applicant. An interviewer can explain what kind of answer is sought, how complete it should be, and in what terms it should be expressed (Cant, 2003; Cooper and Schindler, 2003).

Personal interviews were used in this study as they ensured good cooperation from respondents and increased the quantity of data collected due to their personal nature and the limited effort required of respondents. It enabled the researcher to answer questions about the survey, probe for answers, use follow-up questions and gather information by observation. Appointments were made with the two managers and the interviews took place in their offices. The interview schedule was used and open ended questions were emphasised to allow probing of more detail. Due to the high literacy levels of the two managers interviewed, the researcher was able to reach all respondents without impingements of literacy. Hence quality data was obtained as the researcher clarified all problematic aspects (Tustin *et al.*, 2005).

3.7 DATA ANALYSIS

Data analysis involves the reduction of accumulated data to a manageable size, developing summaries, looking for patterns and applying statistical techniques. It also includes the interpretation of research findings in the light of the research questions, and determines if the results are consistent with the research hypothesis and theories (Cooper and Schindler, 2003). The SPSS (Statistical Package for the Social Science) software was used for data analysis.

3.7.1 Coding of data

All the questions in the questionnaire were coded for easy classification. Coding involves assigning numbers or other symbols to answers so that responses can be grouped into a limited number of classes and categories. The classification of data into limited categories is necessary for efficient analysis. Coding assists the researcher to reduce a large number of replies into a few categories containing critical information required for analysis. Pre-coding is particularly helpful for data entry because it makes the intermediate step of completing a coding sheet unnecessary. Data can be accessed directly from the questionnaire (Cooper and Schindler, 2003). The data was coded using (SPSS), for example, the coding of whether the respondent applied for a loan or not was coded as 1 –applied and 2 –did not apply. From there SPSS did the processing of the result.

Sampling errors were minimised in the survey by using a large sample size of approximately sixty three percent of the population. A large sample size is more representative of the population.

3.8 SUMMARY

In this chapter the research design and approaches used in this research were presented. The chapter explained how both qualitative and quantitative methods (the former in a supportive capacity) were used to unearth facts about factors affecting SME access to bridging finance. Differences between qualitative and quantitative methods were unravelled and the tenets of their combined usage were explained (triangulation). The chapter explained the usage of structured questionnaires and interview questions in the research. Methods of data collection as well as issues of validity and reliability were explained. Issues of data analysis were also explained in this chapter. An issue of how pre-testing was used in ensuring good research questionnaires was also dealt within the chapter.

CHAPTER 4

DISCUSSION OF FINDINGS

4.1 INTRODUCTION

In this chapter the data is presented and discussed. The results of the study are presented using graphs and tables. The research results are compared to previous researches to determine how the results are similar or different.

4.2 PART 1: GENERAL PERSONAL PARTICULARS.

4.2.1 Gender

The gender of respondents showed that one hundred and five (70%) were males and forty five (30%) were females. Table 4.1 below shows the gender of the respondents.

Table 4.1: Gender of respondents

Gender	Frequency	Percent
Male	105	70.0
Female	45	30.0
Total	150	100.0

This information on gender was important to give insight into the proportion of males and females who applied for bridging finance from Kingdom Bank Africa Ltd.

4.2.2 Qualification

The majority of the respondents in the study hold diploma, bachelors or honours degree. Fifty (33.3%) hold a diploma or less, forty four (29.3%) hold bachelors degree, fifty two (34.7%) hold honours degree, four (2.7%) hold masters degree and

no one had PhD. Qualifications were important because banks were likely to perceive a relationship between qualifications and the capacity to manage the business properly. Table 4.2 below shows the qualification of the respondents.

Table 4.2: Qualification of respondents

Qualification	Frequency	Percent
Diploma or less	50	33.3
Degree	44	29.3
Honours Degree	52	34.7
Masters Degree	4	2.7
Total	150	100.0

4.2.3 Age

The majority of the respondents were in the age range 36 to 45 years. Thirty two (21.3%) were below 25 years, eighteen (12%) were between 25 and 35 years, seventy three (48.7%) were between 36 and 45 years and twenty seven (18%) were between 46 and 55 years. Age was important because there was need to find out the age group who applied for the bridging finance. Table 4.3 below shows the age of the respondents.

Table 4.3 : Age of respondents

Age	Frequency	Percent
below 25 years	32	21.3
25 -35 years	18	12.0
36-45 years	73	48.7
46 -55 years	27	18.0
Total	150	100.0

4.3 PART 2: RATE OF SUCCESS OF LOAN APPLICATION

4.3.1 Loan approval

One hundred and twenty three (82%) applications were approved and twenty seven (18%) were rejected. Figure 4.1 below shows the percentage of loans accepted and loans rejected.

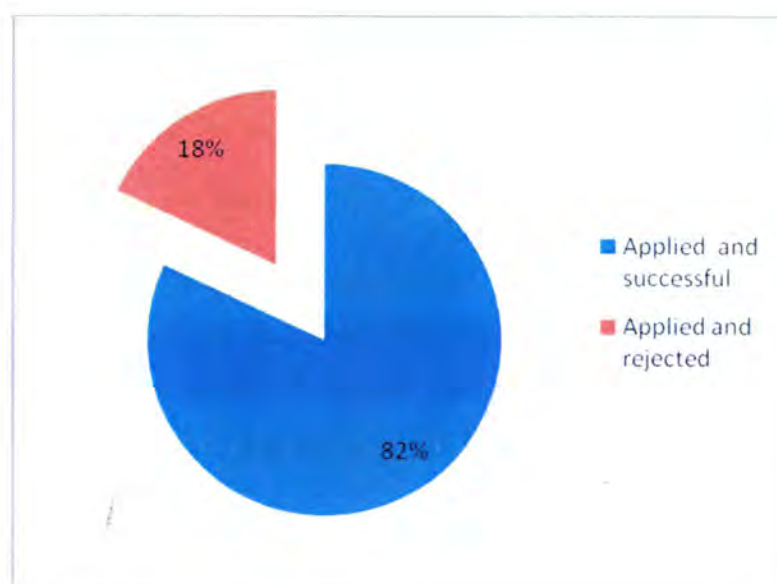


Figure 4.1: Application approval

Although 82% of the respondents had their loans approved and 18% had their loans denied the award of loans was only partial as explained in 4.3.2 below.

4.3.2 Loan granted

Out of the one hundred and twenty three (82%) respondents whose loans were approved, fifty one (34%) of them were granted full loan while seventy two (48%) were given part of the loans. Figure 4.2 shows the ratio of the loan granted.

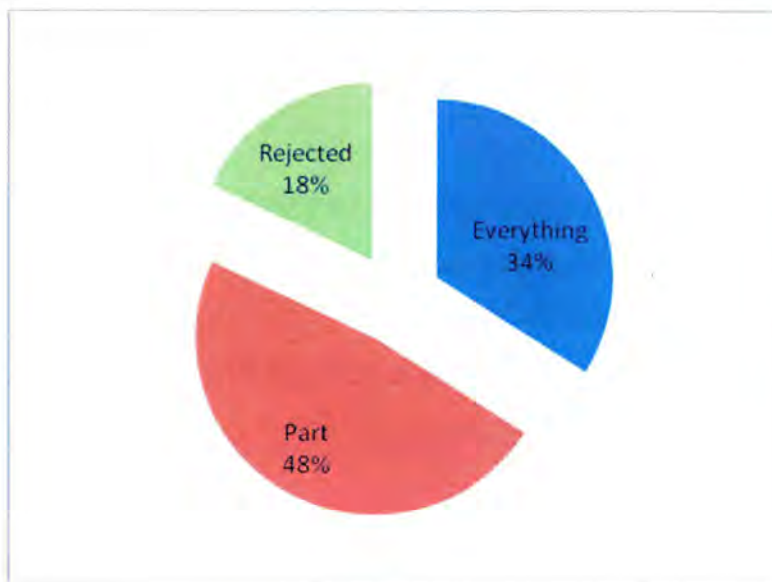


Figure 4.2 : Loan granted

The majority of the respondents were awarded partial loans which were insufficient for the purpose for which the loan was applied (48%). Only 34% got a full loan to fulfil the purpose for which the loan was applied. These results show that SMEs largely failed to get the amount they needed as bridging finance.

4.4 PART 3: PROBLEMS FACED BY SMES IN ACCESSING BRIDGING FINANCE

4.4.1 Demand constraint

4.4.1.1 Management skill

Results from the findings generally show that lack of business management skills affect SMEs access to bridging finance from the banks. The findings of this research are consistent with this concern. About 40% (Appendix D.1) strongly agreed and 44.7% (Appendix D.1) agreed, making the percentage generally agreeing about 84.7% (Appendix D.1), which is very significant. This makes a strong case about the assertion that there is a general dearth of business management skills. This view concurs with the findings in the literature (Van Eeden *et al.*, 2004; Mutezo, 2005) showing that SMEs lacked business skills.

The above information is corroborated by managers when they were interviewed. For example, Manager A, the senior manager interviewed gave the following assertion;

"Sometimes you feel you are throwing money into the abyss. Most of the applicants do not qualify because they do not have any business qualification. How do you expect a person with O' level or JC to run a business unless he or she employs a manager? But the problem is that most of them say 'it's my business I run it my way'. Now our problem is that we need our money back, so we need a real management team to get it back"

4.4.1.2 Financial criteria

Results from the study strongly show how respondents felt about financial criteria affecting SMEs' access to bridging finance. Around 44.7%(Appendix D.2)felt strongly that financial criteria did affect access of SMEs' to bridging finance and the number which generally agreed was 34.0% (Appendix D.2).This is quite a significant figure which shows how respondents felt about financial criteria as a factor affecting SME access to bridging finance.

4.4.1.3 Financial criteria

Evidence from the research survey indicates that about 70% (Appendix D.3) of the respondents strongly concurred that information asymmetry indeed contributed to lack of collaboration between SMEs and banks. This percentage is compounded by 12% (Appendix D.3) who agreed that this factor had serious effects, to make it about 82% (Appendix D.3). This reflects the fact that banks may not have as much information on SMEs that apply for bridging finance or SMEs in general. In fact they may not have as much information as necessary to comfortably lend money to the SMEs whose operational history generally remains murky, compounded by lack of financial and other business records. Most may not be following professional financial and auditing standards well enough to convince banks to lend to them. The banks may then demand hefty collateral or security which most growing SMEs oftentimes do not possess. Only about 12% (Appendix D.3) of respondents disagreed while at least 6% (Appendix D.3) strongly disagreed. This shows that information asymmetry is indeed a serious issue or factor which affects bank access

to bridging finance. These findings concur with what was unearthed in the literature (Stiglitz and Weiss 1981; Abereijo and Fayomi, 2005; Ganbold, 2008).

When managers were interviewed they supported the conclusions above. Views of both managers who were interviewed are as follows:

Manager A;

Look here, my friend. If someone comes here and starts telling you that he is operating a garage in one of the remote villages in Ghanzi, how do we know he is telling the truth? There is nothing on this garage....or this 'businessman' that we can prove.

Manager B

We do not give them loans because we do not have any references about them. We would like to help, but it is not easy. We simply do not know some of them these people.....You see?

4.4.1.4 Financial risk

Strong evidence from the research results shows that financial risk is a factor which actually affects the access of SMEs to bridging finance. About 50.7% (Appendix D.4) strongly felt that this factor had a great impact on SMEs' access to bridging finance. About 16 % (Appendix D.4) agreed that financial risk indeed had an important effect on SMEs' access to bridging finance. Only 21.3% (Appendix D.4) strongly disagreed backed by about 12% (Appendix D.4) who disagreed. The overall result indicates that financial risk indeed has a serious effect on SMEs' access to bridging finance. This is supported by some authors in the literature who asserted that as a result of the risk factor, banks almost always demanded substantial collateral as security against likely SME business failure. The facts in the literature seem to agree with the findings of this research (Rotschild and Steiglitz, 1977; Bester, 1985)

One of the two managers who were on the affirmative level with the results pointed out as below;

“We cannot give money to a doubtful business, unless they can give us a guarantee which we can hold on to if we cannot get our money back. If they give us, fine; if they fail, what can we do for them? Nothing! We have had the experience, so we need to be cautious.”

4.4.1.5 Business plan

It is indeed observed in the research that business plans of SMEs generally had an effect which was very significant on SME access to bridging finance. This is supported by 65% (Appendix D.5) who strongly agreed and about 23% (Appendix D.5) who concurred making it a staggering 88% (Appendix D.5). This indicates that banks were somehow not impressed or convinced by SME business records and plans. SME business plans may be looked down upon by banks because they may be unrealistic or based on shoddy records and assumptions. Only about 12% (Appendix D.5) strongly disagreed. This observation raises serious concerns about the need for SMEs to improve their business plans enough to convince the banks. In the literature, authors such as Derreaumax (2009) and Lefeilleur (2009) agree with the conclusions reached here.

The results of the findings are shown in Figure 4.3 below.

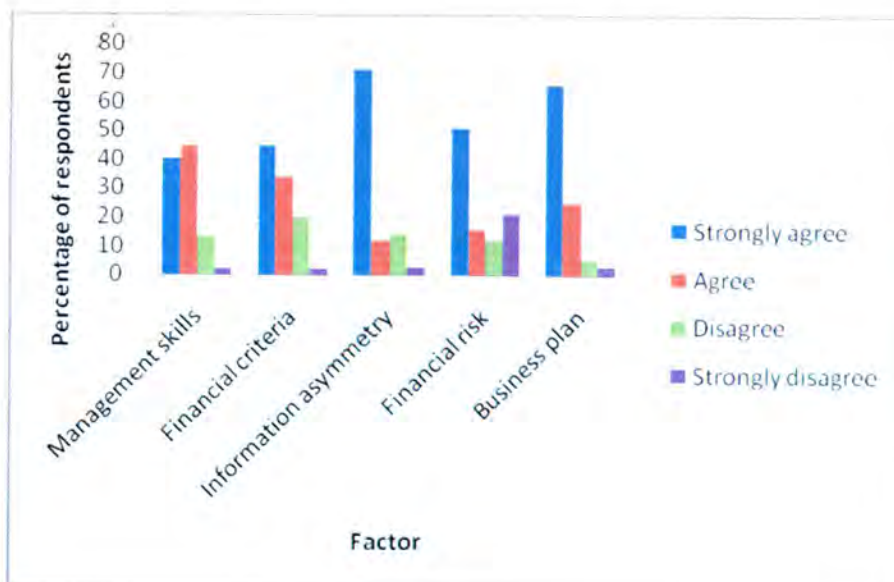


Figure 4.3 : Demand constraint factors

4.5 PART 4: PROBLEMS FACED BY SMES IN ACCESSING BRIDGING FINANCE

4.5.1 Supply constraints

4.5.1.1 Lending criteria

About 73.3% (Appendix D.6) of the respondents strongly agree that the lending criteria of Banks affect access of SMEs to bridging finance. About 18.7% (Appendix D.6) agreed with the view that lending criteria affects access to bridging finance. This means that 92% (Appendix D.6) of the respondents consented with the idea that lending criteria generally affect SME access to bridging finance. Only 8% (Appendix D.6) of the respondents either disagreed or disagreed strongly with the view of the effects of SMEs access to bridging finance. The consensus is that lending rates affect SME access to bridging finance. In the literature, authors such as Torre., *et al* (2008) and Mutezo (2005) support this point.

4.5.1.2 Application process

The research evidence shows that 14.7 % (Appendix D.7) of the respondents strongly agreed that application criteria affect access of SMEs to bridging finance whereas 32.7% (Appendix D.7) agreed. This brought the total of those who agreed with the view that the application process had an effect on access to bridging finance to 47.3 % (Appendix D.7). On the other hand, 20% of the respondents strongly disagreed while 32.7% (Appendix D.7) disagreed. Overall, 52.7% (Appendix D.7) disagreed showing that the application process did not have a very significant effect on SME access to bridging finance.

4.5.1.3 Relevant information

From the research, 81% (Appendix D.8) of the respondents agreed that the availability of information affects access of SMEs to bridging finance but 19% (Appendix D.8) disagreed with this view. This shows the great effect that relevant information access has on access to bridging finance to SMEs. The view that relevant information is important is supported by Lefilleur (2009) and Derreumax (2009).

4.5.1.4 Interest rates

The research findings show that 30% (Appendix D.9) of the respondents strongly agreed that interest rates affect SMEs access to bridging finance, while 16% agreed. It shows that overall 46% (Appendix D.9) of these people concurred with the effect of interest rates on access to SMEs bridging finance. As many as 34% (Appendix D.9) of respondents disagreed on SMEs access to bridging finance while 20% (Appendix D.9) of respondents strongly disagreed that interest rates have such access. Since a total of 54% (Appendix D.9) disagreed, it shows that interest rates have no significant effect on bridging finance. Figure 4.4 below shows the supply constraint to access bridging finance.

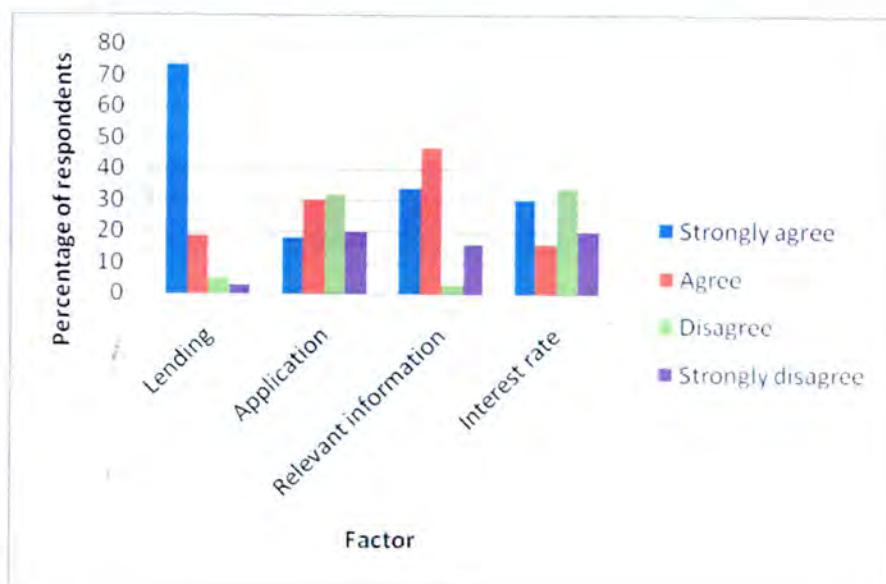


Figure 4.4: Supply constraint

4.6 PART 5: STRATEGIES FOR IMPROVING ACCESS TO BRIDGING FINANCE

4.6.1 Collaboration between banks and SMEs

About 58% of respondents strongly agreed that collaboration between banks and SMEs can help in improving SMEs access to bridging finance while 30% agreed. Collaboration could help improve Banks' knowledge about SMEs and the way they operate. About 10% of the respondents disagreed and 2% strongly disagreed about the fact that collaboration between banks and SMEs had an effect on access to bridging finance. Therefore collaboration between banks and SMEs should be

improved to make access better. Authors such as Sacerdoti (2009) and Tedesse (2009) concur with this view that collaboration between banks and SMEs improves SMEs access to finance. Table 4.4 shows the different views of respondents on collaboration between banks and SMEs.

Table 4.4 :Collaboration between banks and SMEs

Collaboration between banks and SMES	Frequency	Percent
Strongly agree	87	58.0
Agree	45	30.0
Disagree	15	10.0
Strongly disagree	3	2.0
Total	150	100.0

4.6.2 Information awareness

About 36% of respondents strongly disagreed with the view that information awareness improved access to bridging finance for SMEs, while 59.3% agreed. . When SMEs have information about banks, and when banks have information about SME operations SMEs access to bridging finance can improve. About 4.7% of respondents strongly disagreed that information awareness improves SMEs access to bridging finance. SMEs are sometimes not aware of the existence of national business information or they are discouraged from using it because of the cumbersome access procedure (UNIDO, 2003). Generally, the consensus is that there is need to improve information access in order to enhance SMEs access to bridging finance. Table 4.5 below shows the results of information awareness.

Table 4.5 : Information awareness

Information awareness	Frequency	Percent
Strongly agree	54	36.0
Agree	89	59.3
Strongly disagree	7	4.7
Total	150	100.0

4.6.3 Business skills

About 43.3% strongly agreed that improving business skills of SMEs can enhance their access to bridging finance while 18.7% agreed with the assertion. This means that overall, 62% concurred with the fact that improving business skills can be a panacea to improving SME access to finance. On the other hand, 19.3% disagreed and 18.7% strongly disagreed with the point. It follows from the above information that something has to be done to impart business skills to SMEs to improve access to bridging finance. These views are corroborated by Kaggwa (2008) and Sentsho *et al.* (2007). Table 4.6 below shows the views of respondents on business skills.

Table 4.6 : Business skills

Business skill	Frequency	Percent
Strongly agree	65	43.3
Agree	28	18.7
Disagree	29	19.3
Strongly disagree	28	18.7
Total	150	100.0

4.6.4 Information sharing

About 35.3% of respondents strongly agreed that information sharing between SMEs and banks can improve access to bridging finance for SMEs. About 43.3% agreed on the same fact, meaning that 78.6% generally, concurred on the fact that information sharing can improve SME access to bridging finance. About 19.3% of respondents disagree, while 2% disagree strongly with the proposition. This therefore means that improving information sharing can improve access to bridging finance for SMEs. Table 4.7 shows the findings on respondents' views on information sharing.

Table 4.7 : Information sharing

Information sharing	Frequency	Percent
Strongly agree	53	35.3
Agree	65	43.3
Disagree	29	19.3
Strongly disagree	3	2.0
Total	150	100.0

4.7 SUMMARY

In the chapter, data obtained from the research were presented in various formats for clarity. They were presented as pie charts, tables and graphs. Each graph was commented upon to indicate the significance of the data. This was aimed at improving data analysis so that suitable conclusions and recommendations could be reached in Chapter 5.

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter discusses the findings presented in chapter 4 and explains the results indicated in the findings. It explains the meaning and peculiarities behind the findings and tries to clarify the reasons behind the findings. In this chapter conclusions are also reached considering discussions of the findings in Chapter 4. The concluding section is brief and to the point indicating the implications of the findings. Recommendations are given in this chapter taking the findings into account. Suggestions for further research emanating from the study are also highlighted.

5.2 CONCLUSION OF THE STUDY

After taking a close look at the findings and analyses, a number of conclusions have been reached. The first objective of the study was achieved as the findings showed that 82% (figure 4.1) of the loan applications were approved. The applicants who were successful with their applications 34% (figure 4.2) got full loan. Generally, SMEs failed to get the bridging finance they needed from the bank.

The second objective was also achieved as the main problems in accessing bridging finance were identified. Several problems were faced by SMEs in their applications for bridging finance. Firstly, lack of proven management skills had a fundamental effect on SME access to bridging finance. Banks could not approve loans because they felt that SMEs lacked appropriate management skills. This situation proved problematic for the banks because they could not lend to SMEs if they were not sure that the management had the capacity to run the business properly to service the loan. The bank feared that mismanagement could lead to business failures which would affect their chances of getting back their money.

Secondly, information asymmetry proved to be another serious problem or impingement to SME access to bridging finance. There was inadequate information to assist bank managers to process the SME loans. Banks required more customer

information to make reliable risk assessments and see how they could approve lending to clients.

Thirdly, financial risk proved to be another serious obstacle to SMEs attempts to get bridging finance from banks. Banks basically viewed lending to SMEs as a serious financial risk. For security reasons banks tended to demand substantial collateral beyond the reach of most small SMEs to protect themselves from possible financial loss. It could be that SMEs failed to produce the collateral. Business plans of SMEs were seen as shambolic, inadequate, unrealistic or non-existent. The capacity for SMEs to make financially acceptable business plans was called into question by most. Maybe their size and scope caused this perception. Business planning capacity of banks needs to be seriously addressed to resolve this issue.

The fourth problem was associated with lending rates. Lending criteria of banks were also viewed as obstacles to SME access to bridging finance. The research objective was also to define the strategies to improve access to bridging finance by SMEs. There was general agreement that collaboration between banks and SMEs needed to be improved in order to increase the rate of success of SMEs in their application for bridging finance from banks. Secondly, there was general consensus that there is need to improve business and management skills among SMEs..

5.3 RECOMMENDATIONS

The major aim of this study was to investigate the role of Kingdom Bank of Africa Ltd in promoting access to bridging finance for SMEs and opportunities available for SMEs in accessing bridging finance. Having analysed both the findings and the above stated conclusions, recommendations are given in the next section.

5.3.1 Improving business and management skills in the SME sector

Firstly, to improve the current state of affairs, there is need to improve the business skills of SMEs so that they can run their businesses in a credible manner. They can then convince the banks to lend them the money they may need. The SME managers can receive training in modern financial practices and procedures which are clear and convincing. They can also receive training in business management and professional business behaviours. Managers can also be trained in how to make

better business plans which the banks can accept. SME owners must be taught to separate business from personal affairs and the promotion of transparency. When banks notice this trend then they can change their attitude toward the SMEs.

5.3.2. Increasing the collaboration between SMEs and banks

Secondly, there should be more collaboration between banks and SMEs. Banks seeking to expand businesses must actively create interfaces which promote more communication with SMEs. They can promote outreaches to visit SMEs of interest or engage the bodies representing SMEs and promote fairs where they can have discussions or workshops with SMEs since it increases their own business base. Likewise, SME representative organisations might also need to organise workshops with banks to raise their concerns. This may include government involvement to create harmony between banks and SMEs. Thirdly, to remove information asymmetry there is need to generate as much information on SMEs as possible so as to have an up-to-date database on SMEs which banks can easily access and use in decision making. Generating the information can be done in a number of ways. First, banks themselves can employ consultants to monitor and document SME businesses, or they can employ such people who can do research in the SME sector. Another alternative would be to promote university research into the SME sector so as to find out what is happening in the sector.

5.4 SUGGESTION FOR FURTHER RESEARCH

Having gone through the research on the problems faced by SMEs there were some areas of concern which arose which were related to the topic but nevertheless fell out of the scope of this thesis. These areas may require separate research in future. The following areas attracted attention enough to merit further research;

- a) Finding ways and methods of improving the business skills of SMEs so that they can access finance from banks.
- b) How to create interactive interfaces between banks and SMEs to create win-win mutually beneficial relationships

- c) Methods and modalities of improving generation and access to information on SMEs.

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APPENDIX

APPENDIX A: QUESTIONNAIRE FOR SMES

FOR OFFICE USE ONLY: Respondent Code: _____

VOLUNTARY QUESTIONNAIRE FOR SMES APPLICANTS FOR BRIDGING FINANCE BY KINGDOM BANK AFRICA LIMITED

Graduate School NWU
Researcher: Albert Madusise
Supervisor: Dr T.E.B Assan

Note to the respondent

- We need your help to understand the accessibility of bridging finance from Kingdom Bank Africa Limited.
- Although we would like you to help us, you are not compelled to take part in this survey.
- If you do not want to take part, just hand in the blank questionnaire at the end of the survey session.
- What you say in this questionnaire will remain private and confidential. No one will be able to trace your opinions back to you as a person.

The questionnaire has four short parts:

Part 1 asks general personal particulars about you.

Part 2 asks about the accessibility of bridging finance from Kingdom Bank Africa Limited.

Part 3 asks about the demand problems in accessing bridging finance from Kingdom Bank Africa limited.

Part 4 asks about the supply problems in accessing bridging finance from Kingdom Bank Africa limited.

Part 5 asks about ways of improving access to bridging finance from Kingdom Bank Africa Limited.

How to complete the questionnaire

1. Please answer the questions as truthfully as you can. Also, please be sure to read and follow the directions for each part. If you do not follow the directions, it will make it harder for processing the information you have provided.
2. You can mark each response by making a tick or a cross, or circling each appropriate response with a PEN (not a pencil), or by filling in the required words or numbers.

Thank you very much for filling in this questionnaire.

No.	PART 1: GENERAL PERSONAL PARTICULARS <i>Please tell us a little about yourself</i> Please mark only ONE option per question.		PART 3: PROBLEMS FACED BY SMEs IN ACCESSING BRIDGING FINANCE- DEMAND SIDE FACTORS
1.	Gender ☐ Male ☐ Female	6.	Entrepreneurial skills constrain SME access to finance ☐ Strongly agree ☐ Agree ☐ Disagree ☐ Strong disagree
2.	Age category Below 25 years 26 – 35 years 36 – 45 years 46 – 55 years Above 56 years	7.	Financial criteria and requirements constrain SME access to finance ☐ Strongly agree ☐ Agree ☐ Disagree ☐ Strong disagree
3	Highest qualification ☐ JSS ☐ GCE ☐ Certificate ☐ Diploma ☐ Degree ☐ Honours Degree ☐ Masters Degree ☐ PhD ☐ other (specify.....)	8	Poor accounting records, lack of audited financial statements constrain SME access to bridging finance. ☐ Strongly agree ☐ Agree ☐ Disagree ☐ Strong disagree
	PART 2: RATE OF SUCCESS OF LOAN APPLICATION	9	Financial risks constrain SME access to finance ☐ Strongly agree ☐ Agree ☐ Disagree ☐ Strong disagree
4.	Have you applied for a loan over the last 6 months? ☐ Applied ☐ Did not apply Give reasons for your answer.....	10	Availability of bankable/investments ready projects and ability of SME to produce business plans that meet standard requirements constrain SME access to finance. ☐ Strongly agree ☐ Agree ☐ Disagree ☐ Strong disagree
5	If you applied and tried to negotiate for bridging finance over the past 6 months, did you receive all the financing you requested or part of it? ☐ Applied and got everything ☐ Applied but got part of it ☐ Applied but refused ☐ Applied but was rejected		

	PART 4: PROBLEMS FACED BY SMEs IN ACCESSING BRIDGING FINANCE-SUPPLY SIDE FACTORS		PART 5: STRATEGIES FOR IMPROVING ACCESS TO BRIDGING FINANCE
11.	Lending criteria with collateral and own capital contribution requirements constrain SME access to finance ☐ Strongly agree ☐ Agree ☐ Disagree ☐ Strong disagree	15.	Collaboration between the bank and SMEs is important to improve access to finance. ☐ Strongly agree ☐ Agree ☐ Disagree ☐ Strong disagree
12.	Loan application process and procedure of the bank constrain SME access to finance ☐ Strongly agree ☐ Agree ☐ Disagree ☐ Strong disagree	16.	Collaboration to improve access to and awareness of information is necessary ☐ Strongly agree ☐ Agree ☐ Disagree ☐ Strong disagree
13.	Provision of relevant information on financial products and options constrain SME access to finance ☐ Strongly agree ☐ Agree ☐ Disagree ☐ Strong disagree	17.	Collaboration is needed to improve management and business skills ☐ Strongly agree ☐ Agree ☐ Disagree ☐ Strong disagree
14.	The level of interest constrains SME access to finance ☐ Strongly agree ☐ Agree ☐ Disagree ☐ Strong disagree	18.	Collaboration is required to improve information sharing and reduce opaqueness ☐ Strongly agree ☐ Agree ☐ Disagree ☐ Strong disagree

APPENDIX B: INTERVIEW QUESTIONS

FOR OFFICE USE ONLY: Respondent Code: _____

INTERVIEW QUESTIONS FOR STAFF DEALING WITH BRIDGING FINANCE AT KINGDOM BANK AFRICA LTD.

There are various views about the relationship between banks and Small and Medium Enterprises (SMEs). Can I have some of your time to get some clarification on the extent to which SMEs access bridging finance from banks, particularly, your bank? Your responses are entirely voluntary and where you feel you cannot answer there is no problem.

1. What proportions of the applicants are successful with their application?
2. What reasons would you advance for their success or failure?
3. What do you think SMEs should do to improve their chances of successfully getting a loan?

APPENDIX C: ETHICAL CONSIDERATION LETTER

P O Box 404942

Gaborone

14 September 2011

The Managing Director

Kingdom Bank Africa Limited

Box 45078 Riverwalk

Gaborone

Dear Sir

For my Masters degree in Business Administration at the North-West University, I am undertaking a study of, "access to bridging finance: A case of Kingdom Bank Africa Limited".

I am requesting for permission to collect data from SMES who applied for bridging finance.

You are assured that your responses will remain completely confidential. The results will not be the evaluation of your organisation but the information will be confidential and will be used for research purposes only.

If you have any further questions feel free to ask my supervisor Dr. T.E.B Assan at North West University.

Yours faithfully

Albert Madusise

APPENDIX D: RESULTS FROM SPSS

D.1: Results of management skills

Management skills					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	60	40.0	40.0	40.0
	Agree	67	44.7	44.7	84.7
	Disagree	20	13.3	13.3	98.0
	Strongly disagree	3	2.0	2.0	100.0
Total		150	100.0	100.0	

D.2: Results of financial criteria and requirements

Financial criteria and requirements					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	67	44.7	44.7	44.7
	Agree	51	34.0	34.0	78.7
	Disagree	29	19.3	19.3	98.0
	Strongly disagree	3	2.0	2.0	100.0
Total		150	100.0	100.0	

D.3: Results of information asymmetry

Information asymmetry				
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly agree	105	70	70	70
Agree	18	12	12	82.0
Disagree	18	12	12	94.0
Strongly disagree	9	6.0	6.0	100.0
Total	150	100.0	100.0	

D.4: Results of lending or financial risk

Lending or financial risk				
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly agree	76	50.7	50.7	50.7
Agree	24	16.0	16.0	66.7
Disagree	18	12.0	12.0	78.7
Strongly disagree	32	21.3	21.3	100.0
Total	150	100.0	100.0	

D.5: Results of business plan

Business plan				
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly agree	96	65	65	65
Agree	36	23	23	88
Strongly disagree	18	12	12	100.0
Total	150	100.0	100.0	

D.6 : Results of lending criteria

Lending criteria				
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly agree	109	73.3	73.3	73.3
Agree	28	18.7	18.7	92
Disagree	9	6	6	98.0
Strongly disagree	3	2.0	2.0	100.0
Total	150	100.0	100.0	

D.7: Results of application process

Application process					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	22	14.7	14.7	14.7
	Agree	49	32.7	32.7	47.3
	Disagree	49	32.7	32.7	80.0
	Strongly disagree	30	20.0	20.0	100.0
	Total	150	100.0	100.0	

D.8: Results of relevant information

Relevant information					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	53	35.3	35.3	35.3
	Agree	67	45.7	45.7	81
	Strongly disagree	29	19	19	100.0
	Total		100.0	100.0	
		150			

D.9: Results of interest rate

Interest rate					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	45	30.0	30.0	30.0
	Agree	24	16.0	16.0	46.0
	Disagree	51	34.0	34.0	80.0
	Strongly disagree	30	20.0	20.0	100.0
	Total	150	100.0	100.0	