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Full Length Research Paper

Business environmental influences on the availability of debt to new SMEs in South Africa

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This study investigates the impact of the business environment (internal and external environment) on the availability of debt from commercial banks to new SMEs. The literature identifies 78 issues. Exploratory factor analysis reduces the issues to nine factors that include both internal and external factors. The internal factors were labeled as managerial competencies, collateral, networking and business information. The external factors were labeled macro- economy, legal, ethics, crime and corruption. Empirical research was conducted to investigate the impact of the nine factors on the availability of debt finance to new SMEs. The instrument used was the self-administered questionnaire. The statistical analyses included factor analysis, item analysis and correlation. The results show that both internal and external factors significantly impact on the availability of debt finance to new SMEs, but internal factors are more important. Understanding the impact of overall business environment rather than focusing only on the internal environment can help new SMEs owners, commercial banks and government identify measures to improve the availability of debt finance.

Key words: New SMEs, internal environment, external environment, debt finance.

INTRODUCTION

South Africa suffers from high unemployment with an official estimate of approximately 24.5% of the economically active population unemployed (Statistics South Africa, 2009). The country also suffers from high levels of poverty and income inequality. One of the best ways to address unemployment is to leverage the employment creation potential of small businesses and to promote small business development (FinMark Trust, 2006). SMEs are expected to be an important vehicle to address the challenges of job creation, sustainable economic growth, equitable distribution of income and the overall stimulation of economic development in South Africa (Maas and Herrington, 2006).

Gree and Thurnik (2003) argue that the contribution of the SME sector cannot be sustained without the creation of new SMEs. A new SME can be described as an SME that has been in existence for less than forty-two months. According to Maas and Herrington (2006), new SMEs are seen as a significant component of the solution to South Africa's development issues. Without the creation of new SMEs, South Africa risks economic stagnation.

However, despite the noted contribution of new SMEs, the creation rate of new SMEs in South Africa is one of the lowest in the world. According to Herrington et al. (2008) , South Africa's 'total entrepreneurship activity' (TEA) at 7.8% is below the average rate (10.6%) of all the participating countries in the 'global entrepreneurship monitor' (GEM) survey. The TEA is a primary measure of new small firm creation used by GEM. A country at South Africa's stage of economic development would be expected to have a TEA rate in the order of 13%.

In addition, 75% of the new SMEs created in South Africa fail within the first two years of operation. The probability of a new SME surviving beyond 42 months and becoming an established firm is less likely in South Africa than in any other country sampled by the 'global entrepreneurship monitor' (Von Broembsen et al., 2005).

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Various challenges and impediments prevent the creation of new SMEs and as well cause the high failure rates of new SMEs in South Africa. One of these is the non-availability of formal sector financing (Herrington et al. 2008).

Demirguc-Kunt et al. (2006:933) point out that the two primary sources of external finance for new SMEs are equity and debt. External equity in the form of venture capital or the stock exchange is usually not available for new SMEs. Shane (2008) finds that venture capital provided only a small proportion of the equity funding for SMEs. According to the South African venture capital association (2008), there are at least 65 venture capital funds in South Africa controlling a total of R29 billion with an average investment size of R15.4 million. However, investment with SME focus is approximately R1.1 billion which is only 3.8% of the funds.

The lack of venture capital funds makes many new SMEs dependent on bank loans and overdrafts for early-stage financing. Berry et al. (2002) point out that new SMEs rely on bank debt as a source of external financing. Access to bank debt is, paradoxically, a frequently cited challenge for new SMEs. FinMark Trust (2006) finds that only 2% of new SMEs in South Africa are able to access bank loans. Foxcroft et al. (2002) find that 75% of applications for bank credit by new SMEs in South Africa are rejected.

According to Smorfitt (2009), new SMEs in South Africa do struggle to raise finance from banks. The question is why? There has been little, if any, in-depth research into why banks are not lining up to lend to new SMEs in South Africa. The purpose of this study, therefore, is to determine how to improve the availability of debt to new SMEs. The argument of the study was that there are factors in the business environment (internal and external environments) that cause debt not to be available (non-availability) from commercial banks to new SMEs. Understanding the causes of non-availability of debt is important to improving the availability of debt to new SMEs. Similar empirical studies such as Cassar (2004) have focused only on internal factors. The present study makes a significant contribution to the literature on entrepreneurial finance by focusing on both the internal and external environmental factors (business environment).

A limitation of this study is that debt is defined as credit facilities from commercial banks. Other sources of debt such as trade credit and government agencies were not included in the study. Coleman and Cohn (2001:82) reveal that commercial banks are the most significant source of debt for SMEs, channeling more than fifty percent of their requests. Seventy-eight question items related to the business environmental factors that can lead to non-availability of debt were developed through the review of the literature. The question items were administered to one hundred and one commercial bank respondents in a pilot study. Exploratory factor analysis of the responses resulted in the reduction of the seventy-eight item questionnaire to a forty-six item questionnaire and nine underlying factors which are collateral, business information, managerial competencies and networking (internal factors). External factors included ethics, the legal system, the macro-economic environment, crime and corruption.

Research Objectives

The primary objective of the study is:

- To investigate the impact of the business environment on non-availability of debt finance from commercial banks to new SMEs.

The primary objective will be achieved through the following secondary objectives.

- To investigate empirically the impact of internal environment on non-availability of debt to new SMEs.
- To investigate empirically the impact of external environment on non-availability of debt finance to new SMEs.

Capital structure theories

According to Sogorb Mira (2002), the most relevant capital structure theories that explain the capital structure of SMEs are those related to static trade-off, adverse selection and moral hazard (agency theory) and the pecking order theory. Andree and Kallberg (2008) point out that the genesis of modern capital structure theory lies in the work of Modigliani and Miller (1958) in their famous proposition, often referred to as the “irrelevance theorem”. The theorem suggests that, as an implication of equilibrium in perfect capital markets, the choice of capital structure does not affect a firm’s market value. Modigliani and Miller (1963) reviewed the 1958 theory and point out that the capital structure does affect firm value. Since interest on debt is tax -deductible, thereby creating tax savings for the borrower, it becomes possible for firms to minimize their costs of capital and maximize shareholders’ wealth by using debt. This is known as the leverage effect of debt (Modigliani and Miller, 1963:433-444). According to Miller and Modigliani (1963), a firm should have 100% debt in its capital structure. This way, the firm can take absolute advantage of the tax-shield. Scott (1972:45-60) and Kraus and Litzenberger (1973: 911-922) point out that, theoretically, 100% tax shield does not exist in reality because of distress costs.

Sogorb Mira (2002) and Andree and Kallberg (2008) find that the fiscal advantage of debt cannot be applied in the new SME context because new SMEs are less likely to be profitable and the high and expected costs of financial distress may outweigh any potential benefits from the tax shield. The limitations of static trade-off theory suggest the reliance on internal equity by new

SMEs; yet, the reality for growing new SMEs is a reliance on debt and external equity because of the inadequacy of internal equity (Frelinghaus et al., 2005:9).

According to Stiglitz and Weiss (1981:394-397), agency problems such as asymmetric information and moral hazards can impact on the availability of credit and hence, on the capital structure of new SMEs. Stiglitz and Weiss termed this phenomenon credit rationing. The core of Stiglitz and Weiss' argument is that suppliers of finance may choose (due to asymmetric information, adverse credit selection and monitoring problems) to offer an array of interest rates that would leave a significant number of potential borrowers without access to credit. The agency cost argument suggests a low- high-low pattern of relationship for the capital structure of new SMEs. This implies low amount debt at the beginning, high debt as the firm develops and low debt at prime when the firm would have accumulated some retained earnings. Frelinghaus et al. (2005:10) disagree with the pattern of relationship suggested by the agency theory. The authors argue that whilst it is true that firms in latter stages do, in fact, have more debt than firms in prime, agency theory cannot explain why firms in the early stages of development have more debt than firms in prime. According to Myers (1984:575), management has a preference to choose internal financing before external financing. When a firm is forced to use external financing sources, debt issuance is preferred to new equity. Conclusively, the three capital structure theories suggest the importance of debt as a financing source to new SMEs.

LITERATURE REVIEW

Business environment

Smit et al. (2007:62) define a business environment as all those factors or variables, both internal and external to the organization that may influence the continued and successful existence of the organization.

Internal environment

In the capital structure context, the internal environment consists of factors largely controllable by the firm, but which can influence its access to debt and or equity (Barbosa and Moraes, 2004). The internal environmental factors focused on by this study as identified by exploratory factor analysis are collateral, business information, managerial competencies and networking. Collateral are assets that are pledged by a borrower to a lender as security for payment of debt. It helps reduce informational asymmetries and moral hazard problems that arise between banks and entrepreneurs (Coco, 2000:197). Berger and Udell (2002:2129) find that new SMEs are the most informational opaque due to their lack of track record. This suggests that lack of collateral positively associates with non-availability of debt finance to new SMEs. Kitindi et al. (2007:55) find that banks and other lenders use business information provided by firms to analyze their present performance and predict future performance. Financial information reduces information asymmetry. If an entrepreneur has spent time developing a comprehensive and a priory business plan at an early stage in the project, risk perception should be reduced and the likelihood of obtaining capital should increase (Bollingtoft et al., 2003,). This suggests that lack of business information positively associates with non-availability of debt.

Managerial competencies are sets of knowledge, skills, behaviors and attitudes that contribute to personal effectiveness (Hellriegel et al., 2008). Studies by Shane and Stuart (2002:156) and Rudez and Mihalic (2007:191) positively associate managerial competencies with new venture performance. The higher the level of managerial competency exhibited by the owners of a new firm, the greater the viability and survival of the new SME. This suggests that credit providers may not be willing to extend facilities to new SMEs whose owners exhibit a low level of managerial competencies. Coulthard and Loos (2007) describe networking in a small firm context as an activity in which entrepreneurially oriented SME owners build and manage personal relationships with particular individuals in their surroundings. Okten and Osili (2004:1225) examine the impact of network formation on SME growth. The results indicated that the formation of networks helps new SMEs to tap resources in external environment successfully. This suggests that lack of networking can lead to non-availability of debt finance to new SMEs.

External environment

External factors are largely uncontrollable by SMEs and lenders (Beck, 2007). External factors focused on by this study include the macroeconomic environment, the legal environment, ethics, crime and corruption. Economic variables can affect the availability of debt to SMEs. Weak economic conditions can affect sales, revenues, market and growth potential of new SMEs. Weak economic conditions make it difficult for firms to use debt positively and this may affect their ability to repay debt (Barbosa and Moraes, 2004). The Organisation of Economic Cooperation and Development (2006) shows that market imperfections such as those caused by inefficient legal systems can constrain the ability of firms to access external finance. The World Bank country report on South Africa (2003) reveals a relatively inefficient legal system compared to developed countries. There is a shortage of judges and magistrates, backlog of cases and lower creditor protection. This suggests that the inefficient legal system in South Africa could lead to non-availability of finance to SMEs.

Business ethics defines how a company integrates core values such as honesty, trust, respect and fairness into its policies, practices and decision-making (Hellriegel et al., 2008). Lepoutre and Heene (2006:259) find that the single most unethical practice by the owners of new small firms is dishonesty in making and keeping contracts. Creditors risk perception may be influenced by the extent to which they can assess the trust of the entrepreneur or entrepreneurial team. This suggests that ethical perception of the owners of new SMEs could lead to non-availability of debt. Crime and corruption in South Africa are high and widely believed to restrain investment. The World Bank (2008) Investment Climate Survey finds that 30% of enterprises in South Africa rate crime as a major or very severe constraint on investment. The costs of crime to businesses in South Africa are substantial. The direct costs associated with security issues are at the median of 1.1% of sales, 3% of net value-added and 5% of labour costs. The costs of crime are more severe for new SMEs. Furthermore, the rate of corruption in South Africa is relatively high compared to developed countries (Transparency International, 2008). Crime and corruption may affect repayment of credit granted by banks. This could lead to non-availability of debt.

METHOD

The study used the quantitative research design which is mainly the product of statistical summary and analysis. The Eastern Cape Province of South Africa was the study area. The Banking Association of South Africa (2009) point out that there are thirty-five banks in South Africa made up of twenty local banks and fifteen foreign banks. However, the banking sector in South Africa is highly concentrated with the four large banks dominating the retail-banking sector. The banks are ABSA, Standard Bank, First National Bank and NEDCOR. The four banks are responsible for 82% of all assets and 80% of all liabilities in commercial banking in South Africa. The study concentrated on the four major banks. This is consistent with similar previous empirical studies such as Okeahalam (2001) and Pretorius and Shaw (2004). The population of the branches of the four big banks in the Eastern Cape Province was obtained from the branch locators on the websites of the four banks. The population of the branches of the four banks in Eastern Cape was two hundred and ninety four. The RAOSOFT sample size calculator was used to calculate the sample size. RAOSOFT is the statistical software used in the calculation of sample size. It takes into consideration four factors in determining the sample size. These factors include the margin of error, the confidence level, the population and the response distribution (Raosoft, 2008). Using the Raosoft sample size calculator at 5% margin of error and 95% confidence interval, the minimum recommended sample size was 167. However, two questionnaires were distributed in each branch. In addition, questionnaires were distributed in the regional offices. The number of distributed questionnaires was 376.

This study used survey research method. Data for the research study were gathered through self-administered questionnaires. Seven-point Likert scale questions were used except for demographic questions. The questions were put forward negatively (for example, lack of collateral causes non-availability of debt finance).

Data collection was done in 2009. Repeated call backs were made to the respondents to ensure they completed the questionnaires. Links with top officials at the regional offices of the four banks helped to ensure the completion of the questionnaires. Bank managers were only willing to complete the questionnaires in their personal capacities and that their opinions did not reflect the position of their banks, but their personal opinions. Strict confidentiality was promised. Allison (2001:172) points out that a missing value may represent or is a product of an unknown value. In surveys, respondents may not answer certain questions. Missing values presented a problem that had to be addressed in this research before evaluation could proceed. There were only three cases of missing values and pairwise deletion method under SPSS was used. Babbie and Monton (2002:15) point out that validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are. Validity was enhanced by using a statistician and a panel of experts to evaluate the research instrument for conceptual clarity, pre-testing the research instrument in a pilot study, using self-administered questionnaires, which generally have a high response rate using a big sample size with a margin of error of not more than 5% and a confidence level of 95% and comprehensively reviewing the literature for theoretical constructs and empirical conclusions. The Cronbach's alpha was used to measure reliability as suggested by Babbie and Monton (2002:81) . This implies that the Cronbach's alpha can be used to measure reliability. Cooper and Schindler (2003:417) note that a score of 0.7 is the acceptable reliability coefficient.

The empirical research for the study was conducted in two ways; a pilot study and the main survey. The measuring instrument was designed to measure the internal and external environmental variables (the business environment) that impact on the availability of debt finance to new SMEs. For this purpose, an initial 78-item questionnaire was designed. The questionnaire was administered to 101 respondents from commercial banks in a pilot study. Exploratory factor analysis of the responses allowed for content validity using the Cronbach's alpha and resulted in the reduction of the seventy-eight item questionnaire to a 46 item questionnaire and nine underlying factors. Exploratory factor analysis (EFA) is used to uncover the underlying structure of a relatively large set of variables. EFA was performed with the objective of confirming the uni-dimensionality of each sub-scale and to remove the items with insufficient factor loading. Leech et al. (2005:82) point out that items with factor loading of less than 0.3000 can be removed.

DISCUSSION

Table 1 depicts the results of the BTS and KMO. The results (the BTS at 498.065 and the level of significance at P = 0.000) indicated that the data were appropriate for the purpose of factor analysis. The result of the KMO measure of sampling adequacy was 0.780 which indicates that there were sufficient items for each factor. The two tests support the appropriateness of the factor analysis technique.

Table 2 depicts the rotated factor loading, the Eigen values and the Cronbach's alphas. Nine factors with Eigen values greater than one account for 82.561% of the total variance. According to the rules of factor analysis, only factors that have Eigen values greater than one should be retained. Factor one is labeled as collateral. The Eigen value for it is 13.225. The factor includes four items and is internal to the firm. Factor two

Table 1. KMO and Bartlett's test of sphericity.

Kaiser-Meyer-Olkin measure of sampling adequacy (KMO)		0.780
Bartlett's test of sphericity	Approx. chi-square	498.065
Sign.		0.000

Table 2. Rotated factor loading.

Variables	Factor 1 collateral	Factor 2 business information	Factor 3 managerial competency	Factor 4 economic	Factor 5 crime	Factor 6 network	Factor 7 ethics	Factor 8 legal	Factor 9 corruption
No tangible assets (for example building as collateral)	0.8846								
Low level of equity contribution by founder	0.8711								
No guarantee	0.6539								
No current assets (for example inventories) as collateral	0.6217								
The business does not have business plan		0.8918							
Cash flow does not show that credit can be repaid		0.8614							
The business is not financially viable		0.8423							
The business does not have market potential		0.8411							
The business does not have growth potential		0.8407							

Table 2. Contd.

The business plan does not do an excellent job in articulating the opportunity	0.8106		
The business plan is not thorough in its coverage of key issues	0.7978		
The founder does not have suitable business premises	0.7623		
The founder does not have necessary business documentation	0.7107		
The business plan is not produced with the assistance of an accountant/consultant	0.6978		
Bad credit record		0.8995	
Founder is not familiar with the market/industry		0.8827	
Lack of experience relevant to the venture by the founder		0.8429	
Lack of education by the founder		0.7999	
Lack of business skill by the founder		0.7655	
Founder lacks demonstrated managerial ability		0.7217	
Founders has not received any training related to business		0.6218	
Recession in the economy			0.7996

Table 2. Contd.

Continuous fall in the value of real estate (collateral value)	0.7673			
High interest rate	0.5988			
High inflation rate	0.5425			
The business is located in high crime area		0.7429		
The business is not insured		0.7321		
Collateral is located in high crime area		0.6563		
No prior relationship between the bank and the founder			0.8992	
Short professional relationship between the bank and founder			0.7216	
Lack of good reference on integrity and ability of the founder			0.6988	
No verifiable distribution of goods agreement in place			0.6147	
No verifiable supply of input agreement				
The business does not belong to a professional association (for example, chambers of commerce)			0.4231	
Perception of willingness to divert funds to non-core business activities				0.6559

Table 2. Contd.

Perception of payment default	0.5421		
Perception of dishonesty in keeping promises and commitments	0.4557		
False information and paddling of financial statements	0.4219		
The entrepreneur does not have the necessary resources to manage the firm			
Court are not fair and impartial		0.7549	
In the situation of legal action against the customer, it takes a long time to get judgment		0.6322	
Court decisions are not enforced		0.6111	
In the situation of legal action against the customer, it is costly to get judgment		0.5988	
Weak confidence in the legal system to enforce contracts and property rights		0.4547	
In the situation where the credit application is for government contract, the perception that the corruption of government official may delay payment			0.6981
In the situation that legal action is taken against customers to recover loan, the perception that corruption of court official may delay judgment			0.5214

Table 2. Contd.

Eigen values	13.225	6.432	3.740	2.967	2.532	2.356	2.156	1.835	1.322
Cronbach's alpha	0.8105	0.8207	0.7918	0.8113	0.7981	0.7217	0.8551	0.7327	0.7108

(Factors loading less 0.300 have been omitted; factors with high double loading omitted).

is labeled business information. The Eigen value for it is 6.432. It includes ten items and is largely internal to the firm. Factor three is labeled managerial competencies. The Eigen value for it is 3.740. It consists of seven items and is largely internal to the firm. Factor four is labeled as economic. The Eigen value for it is 2.967. It consists of four items and is external to a firm.

Factor five is labeled as crime. The Eigen value for it is 2.532 and it consists of three items. Crime is largely an external factor. Factor six is labeled networking. The Eigen value for it is 2.356. It consists of four items and is internal to a firm. Factor seven is labeled ethics. The Eigen value for it is 2.156 and it consists of five items. Ethics is largely external to a firm. Factor eight is labeled legal system. The Eigen value for it is 1.835. It consists of five items and is external to a firm. Factor nine is labeled corruption. The Eigen value for it is 1.322. It consists of three items and is external to a firm. Cronbach's alphas for the nine factors were above 0.700 indicating the reliability of the factors.

For the main survey, three hundred and seventy questionnaires were sent out. One hundred and seventy two were returned. The response rate was 46%. Confirmatory factor analysis confirmed the nine factors. Demographic results show that most respondents are in the 31 - 40 age group. 68% of the respondents were male and 32% were female. On the average, respondents have post matric qualifications and have between 6 - 10 years experience in banking.

Table 3 depicts the item analysis which included the means, standard deviation, skewness and kurtosis. The Kolmogorov- Smirnov test was above 0.05 which indicated the normality of the data. The results as indicated by the means show that the following variables have scale means above four out of seven (seven point Likert scale was used). Lack of collateral has the highest scale mean of 6.8, followed by lack of business information, 6.2; lack of managerial competencies, 5.5; crime, 5.4; bad macro-economic environment, 4.6 and lack of networking, 4.2, respectively. Legal system 3.4, ethics 2.9 and corruption 2.7 have means below 4. The significance of the findings was confirmed by the Pearson correlation test.

The Pearson correlation was used to test for the direction and strength of relationship between the business environmental factors and non-availability of debt. The results indicate that lack of managerial competency (r = .745, sig. 0.01), lack of collateral (r = 0.956, sig. 0.01), lack of business information (r = .922, sig. 0.03), lack of networking (r = 0.638, sig. 0.01), bad macro-economic environment (r = .664, sig. 0.04) and crime (r = .722, sig. 0.01) have strong significant relationships with non-availability of debt to new SMEs. Inefficient legal environment (r = .146, sig. 0.25), ethical perception (r =.168 0.26, sig. 0.18) and corruption (r =.103, sig. 0.22) have weak and insignificant relationships with non-availability of debt finance to new SMEs.

CONCLUSIONS AND MANAGERIAL IMPLICATIONS

The results indicated that internal factors especially collateral and business information are the most important factors causing non-availability of debt finance to new SMEs. Other internal factors (managerial competency and networking) are relatively important. Out of the five external factors, only crime and bad macro-economic environment have positive and significant correlation with non-availability of debt finance to new SMEs. The results suggest that variables in the internal environment are more important than those in the external environment. To improve the availability of debt finance to new SMEs, collateral and business information are of absolute importance. Banks generally do not finance firms without an equity contribution and tangible collateral. Therefore, there is the need for new SME owners, to plan and save, to have some amount of equity contribution. Without equity, it is virtually impossible to get the required funding from commercial banks. The international best practice is a capital structure of both 50% equity and debt. In addition, to get debt funding from banks, it is necessary for the owner of a new SME to have either business or personal assets to be used as collateral. Therefore, it is about the owner of the new SME first getting his investment ready. Richard (2006) points out that "investors look out for very specific things when they assess requests

Table 3. Item analysis.

	Lack of collateral	Lack of business information	Lack of management competencies	Bad Macro-economy	Crime	Lack of networking	Inefficient legal system	Ethical perception	Corruption
Number of items	4	10	7	4	3	4	5	5	3
Mean	6.8	6.2	5.5	4.6	5.4	4.2	3.4	2.9	2.7
Standard deviation	0.33	0.39	0.82	0.34	0.65	0.72	0.66	0.59	0.31
Cronbach's alpha	0.82	0.87	0.77	0.79	0.83	0.87	0.77	0.78	0.84
Skewness	0.13	0.28	0.11	0.26	0.27	0.12	0.18	0.31	0.15
Kurtosis	0.22	0.13	0.61	0.19	0.18	0.23	0.17	0.54	0.11

P value significant at 0.05.

Table 4. Summary of correlation results.

Factor	R	P-value
Lack of collateral	.956	0.01
Lack of business information	.922	0.03
Lack of managerial competency	.745	0.01
Crime	.722	0.01
Bad Macro-economy	.664	0.04
Lack of networking	.638	0.01
Ethical perception	.168	0.18
Inefficient legal system	.146	0.25
Corruption	.103	0.22

for funding. Entrepreneurs must be made aware of the needs and concerns of particular types of investor".

In addition, the government can assist through the credit guarantee scheme which should be expanded to incorporate the majority of new business owners. Lack of business information and managerial competency is a major factor leading to non-availability of debt. There is the need for personal development by the owners of new SMEs, especially, in the area of business and financial management skills through training. Owners of new SMEs have to take greater responsibility for their own learning. The personal involvement of the entrepreneur in gathering the relevant information and in the writing of the business plan is critical in learning about the industry and the success of the new venture. Entrepreneurs also need to acquire business and financial management skills if they want to get the required funding from investors. The websites of the big four commercial banks have addressed business plan preparation by new SMEs. However, it is important to provide awareness to new SMEs that such facilities exist. The use of computers and internet is very low amongst SMEs in South Africa. Government agencies such as SEDA can subsidize the cost of computers to new SMEs and also offer training on how to use the internet. Similarly, the South African Business

Toolkit was launched in 2008 to assist entrepreneurs to assess their investment readiness through the latest information and communication technologies. Awareness needs to be created for programmes like this through advertisements in local and national media. Subsidies could also be provided to help the owners of new SMEs obtain the professional advice they require to make them business ready.

Furthermore, a mentorship approach can be instituted by government agencies to help new SMEs. Training can be costly for new SMEs. Subsidies, matching contributions to training, tax credits for training or reimbursements for completed training can be used to reduce the cost of training to new SMEs. There is the need to create a positive attitude toward entrepreneurship and training. Educational institutions should introduce and strengthen entrepreneurial education.

It is also important for the owners of new SMEs to network and build relationships with the banks. Bank accounts should be opened and maintained before a business is informed. Relationships should be built with suppliers of raw materials and distributors of the goods produced by new SMEs. Belonging to a trade association can assist in this respect. Crime reduction is of absolute importance. The owners of new SMEs need to take insurance policies against crime. Government has a major role to play in crime reduction because the external environment is largely uncontrollable by the owners of new SMEs. Government should work in partnership with organisations such as Business Against Crime South Africa and Business Unity South Africa. The literature review showed that poverty is one of the causes of crime. There is the need to create work opportunities for the vast number of the unemployed in South Africa. The legal system needs to be more efficient so that criminal cases against businesses can be dealt with quickly. More effective policing is needed, including better police visibility, area coverage and faster response times. Although the inefficiency of the legal environment and ethics are not significant factors in credit non-availability to new SMEs, reforming the legal framework for creditor rights and insolvency proceedings in general, and for secured lending in particular, would greatly enhance the ability of SMEs to access bank loans by pledging collateral. Specialized courts to act against SMEs that default on loan obligations could also facilitate SME finance. Business ethics should be introduced as a major module in the universities and colleges in South Africa to prepare likely entrepreneurs about the importance of ethics. SME owners should be trained on the importance of business ethics.

It is important to understand the limitations of this study and also suggest the areas for further research. The study focuses only on commercial banks. Other providers of funds such as trade creditors and government agencies were not investigated. The study only focuses on the supply side of debt financing and the perception of providers of funds. A dyadic survey to examine the obstacles to credit as perceived by both banks and SMEs could help to further confirm the findings of this study.

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