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Full Length Research Paper

The determinants of access to trade credit by new SMEs in South Africa

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This study investigates empirically the determinants of access to trade credit by new SMEs in the Eastern Cape Province of South Africa. The review of literature revealed that non-availability of finance especially trade credit is one of the primary reasons for the high failure rate of new SMEs in South Africa. Data was collected through self-administered questionnaire from 417 respondents out of which only 71 were able to access trade credit. The results of the logistic regression indicate that managerial competency, the availability of business plan, belonging to trade associations, previous relationship, location, business size, insurance and incorporation are significant determinants of access to trade credit by new SMEs in South Africa.

Key words: New SMEs, trade credit, logistic regression.

INTRODUCTION

South Africa suffers from high unemployment with an official estimate of approximately 23.5% of the economically active population unemployed (Statistics South Africa Labour Force Survey, 2009). SMEs are therefore 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. SMEs (refer to Table 1 for definition) are also an important source of innovation in the development of new products, services and technologies. The contribution of SMEs to private sector employment (56%) and to gross domestic product (36%) implies a very high labour absorption capacity and highlights the job creating potentials of this sector and its importance to the reduction of unemployment in South Africa (Ntsika, 2002).

Gree and Thurnik (2003) argue that the contribution of the SME sector cannot be sustained without the creation and sustenance of new SMEs. According to Maas and Herrington (2006), a new SME in South Africa can be described as an SME that has been in existence for less than forty two months. Wong et al. (2005) point out that Schumpeter in 1934 was one of the earliest economists to argue for new firm creation.

According to Schumpeter, new firms are the vital force behind the progress of capitalism. The innovative activity of entrepreneurs feeds a creative ‘‘destruction process’’ by causing constant disturbances to an economic system in equilibrium, creating opportunities for economic rent. According to Maas and Herrington (2006) new SMEs are seen as a significant component of the solution to South Africa's development issues which include poverty, income inequality and unemployment. However, the creation rate of new SMEs in South Africa as measured by the total early-stage entrepreneurial activity is one of the lowest in the world. Herrington et al. (2009) observe that in 2008, South Africa ranked 23rd out of 43 countries, with a Total Early-Stage Entrepreneurial Activity (TEA) of 7.8% which was below the average rate (10.6%) of all the countries surveyed by global entrepreneurship monitor. The TEA is a primary measure of new small firm creation used by GEM. South Africa's TEA rate of 7.8% is significantly lower than the average for all efficiency-driven economies (developed countries) (11.4%) as well as the average for all middle to low

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income countries, where South Africa belongs (13.2%). South Africa's low new SME creation rate paints a bleak

Table 1. Schedule of size standards for the definition of SMEs in South Africa.

Type of firm	No. of employees	Turnover	Balance sheet total
Small	1-49	Maximum R13 m	Maximum R5 m
Medium	50-200	Maximum R51 m	Maximum R13 m

Source: Government Gazette of the Republic of South Africa (2003).

picture of the SME sector's current potential to contribute meaningfully to job creation, economic growth and more equal income distribution.

In addition, 75% of 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 GEM participating country (Von Broembsen et al., 2005). 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. According to Maas and Herrington (2006) and Herrington et al. (2009) access to finance is a major problem for the South African entrepreneur. Lack of financial support is the second most reported contributor to low new firm creation and failure, after education and training, in South Africa. Many entrepreneurs raise the start-up capital from their own or family savings, which is often inadequate, rather than approaching formal institutions or other firms for external finance.

FinMark Trust (2006) provides evidence that only 2% of new SMEs in South Africa are able to access bank loans and that the use of suppliers' credit by new SMEs is virtually non-existent. Balkenhol and Evans-Klock (2002) put the use of trade credit by new SMEs in South Africa at only 0.2%. Stiglitz and Weiss (1981) term this phenomenon as credit rationing. According to Stiglitz and Weiss (1981) agency problems such as asymmetric information and moral hazards can impact on the availability of credit and hence the capital structure of new SMEs. Stiglitz and Weiss termed this phenomenon credit rationing. The core of the 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.

This is a contrast to the situation in most developed countries. Statistics Canada (2007) points out that 45% of new SMEs are able to access trade credit. Trade creditors play a dominant role in the new venture creation process. A study by the Kauffman Foundation (2007) on the capital structure decisions of new SMEs in the United States of America finds that contrary to widely held beliefs that new SMEs rely heavily on funding from family and friends, external debt financing such as bank loans and trade credit are the more common sources of funding for many new SMEs during their first year of operation. This is consistent with the pecking order theory, which expects firms to first use internal equity before moving to debt and external equity. Availability of debt finance (both from banks and trade creditors) is one of the reasons for high levels of entrepreneurship and relatively low failure rate of new SMEs in developed countries.

Previous studies on SMEs and access to finance in South Africa such as Hawkins (2002) and Pretorius and Shaw (2004) have completely ignored the impact of trade credit and focused mainly on bank credit. Wilson and Summers (2002) point out that study of enterprise finance in Africa and elsewhere from the supply-side typically focus on bank credit, and more particularly on bank loans. However, banks are not the only principal source of external finance for SMEs. Berger and Udell (2006) note that although trade credit is extremely important to SMEs, it has received much less interest than commercial bank lending which provides only slightly more credit to SMEs. Trade credit provides a cushion during credit crunches, monetary policy contractions or other shocks that leave financial institutions less willing or less able to provide small business finance. Since only a limited number of new SMEs have access to loans from financial institutions, trade credit may often be the best or only available source of external funding for working capital. New SMEs may prefer trade credit financing during the early years when the risk of default is high. Also, trade credit is a substitute to bank credit for firms that are credit-rationed by banks. The question now is whether suppliers accept those requests. If they do, then trade credit could alleviate credit rationing for SMEs. This suggests that trade credit could be one of the solutions to the credit constraints faced by new SMEs in South Africa. According to Smorfitt (2009) new SMEs in South Africa do struggle to raise finance from credit providers. The question is why? There has been little, if any, in-depth research into why trade creditors are not lining up to grant credit to new SMEs in South Africa. That is, the reasons why debt is not available from trade creditors to new SMEs in South Africa. Therefore, it is significant to understand the determinants of access to trade credit for new SMEs in South Africa.

THE OBJECTIVE OF THE STUDY

The objective of this study is to determine the determinants of access to trade credit by new SMEs in

South Africa. The literature revealed that access to trade credit is very limited in South Africa. Understanding the characteristics of new SMEs that sought and obtained trade credit is very important to advising other new SMEs about how to obtain trade credit which is a major source of finance for new SMEs.

TRADE CREDIT: THEORIES AND EMPIRICAL EVIDENCE

According to Huyghebaert et al. (2006) trade credit arises when a firm purchases goods and services for which payment is delayed. It is a spontaneous source of financing, as it arises from ordinary business transactions. Trade credit is usually extended for an intermediate period of thirty to sixty days at which point payment is due. If payment is not made on the date, financing charges are applied and trade credit becomes an alternative method of financing business expenses. Selima (2007) points out that trade credit theory can be broadly classified into four main groups. These are market imperfection asymmetric information, transaction costs, price discrimination and finance. The asymmetric information theory occurs when sellers face uncertainty about their customers' creditworthiness and financial health. Because of asymmetric information sellers cannot reliably make the best selling decisions. Frank and Maksimovic (2004) point out that another theory of trade credit is the transaction costs theory. The combination of the supply of both goods and finance from one source can lead to cost advantages and to a reduction in transaction costs. Furthermore, when the transactions take place on credit, the timing of the payment is less uncertain which enables firms to improve their cash-flow forecasts and simplify cash management. Selima (2007) discusses the price discrimination theory of trade credit and points out that as demand for a product can vary, sellers can manipulate the product price through the variation of the credit terms offered to each separate customer. So varying the trade credit terms gives the seller a more flexible approach to pricing and to discriminate among customers, as it is much easier to adjust credit terms (based on the payment period) than product price in order to respond to fluctuating demand. Frank and Maksimovic (2004) point out that another theory of trade credit is the financing theory. When non-financial institutions offer credit, they play an intermediary role by obviating the need for buyers to obtain finance from their banks to pay for their purchases. Furthermore, customers that are rationed by financial institutions tend to turn to trade credit, considering it a cheap way of getting short-term funds. So suppliers that are financially sound and can relatively easily get access to external funds tend to play this intermediary role by financing their customers' stock through trade credit. Therefore, trade credit becomes an attractive way of obtaining required finance. The financing theory is the most applicable to the availability of trade credit to new SMEs.

According to Huyghebaert et al. (2007) recent evidence from developing countries suggests that trade credit provides a signal to the availability of more bank loans to new SMEs. Trade credit in economic environments with weak informational infrastructure and less developed banking systems can play an even more important role in SME financing because of its strength in addressing the information problem. New SMEs face high failure rates in the early years of their life. This high failure rate limits their access to bank loans and they therefore tend to rely on their suppliers for financing. In addition, suppliers are more lenient than banks towards financially distressed firms. Banks tend to follow a strict liquidation policy when debtors encounter financial distress; if upon default a borrower's liquidation value exceeds its going concern value, banks will liquidate the firm. Suppliers, on the other hand, earn positive rents from selling goods to their customers. These rents arise from the profits suppliers can earn on future sales of their product to the client firm. If a customer is liquidated upon default, such supplier rents are lost. Suppliers therefore have an implicit equity stake in their customers and therefore are more willing than banks to renegotiate their claims or grant additional debt when debtors get into financial problems. In other words, suppliers may be willing to reorganize the defaulted debt even when the firm's liquidation value exceeds its going concern value.

Similarly, Wilner (2000) argues that suppliers are more dependent on their customers than commercial banks. The sunken investments in the customer–buyer relationship also make suppliers more lenient towards financially distressed buyers. Finally, bank loans are frequently secured, and thus more senior than suppliers' credit. Seniority and collateralization may induce banks to liquidate a distressed company prematurely following default. Therefore new SMEs may prefer trade credit financing during the early years when the risk of default is high. In addition, any formal collateral does not usually guarantee trade credit.

Wilson and Summers (2002) note that trade credit, however, is considered to be an expensive financing source if payments are not made within the stipulated credit window. The credit term most frequently adopted by suppliers is "2/10 net 30". This term represents a 2% discount for payment within the 10-day discount period; the net period ends on day 30. Furthermore, the cost of the credit is usually imputed into the cost of goods sold on credit. This may indirectly make trade credit an expensive source of finance. Berger and Udell (2006) add that despite some of the disadvantages associated with trade credit; it is an extremely important source of finance for new SMEs. Furthermore, trade credit has received much less interest from researchers compared to commercial bank lending which provides only slightly more credit to SMEs. Trade credit may also provide a cushion during credit crunches, monetary policy contractions or other shocks that leave financial institutions less willing or less able to provide small business finance. During these times, large firms may temporarily raise funds in public markets such as commercial papers and lend these additional funds to SMEs through trade credit. Since only a limited number of new SMEs have access to loans from financial institutions, trade credit may often be the best or only available source of external funding for working capital.

DETERMINANTS OF ACCESS TO TRADE CREDIT

Managerial competencies

Managerial competencies are sets of knowledge, skills, behaviors and attitudes that contribute to personal effectiveness (Hellriegel et al., 2008). Martin and Staines (2008) examine the importance of management competence in small firm success. They find lack of managerial experience, skills and personal qualities as well as other factors such as adverse economic conditions, poorly thought out business plans and resource starvation are found as the main reasons why new firms fail. The distinguishing feature of high growth and low growth small firms is the education, training and experience of managers. Lyles et al (2004) find that managerial competencies as measured by the education of the founder, managerial experience, entrepreneurial experience, start-up experience and functional area experience positively impact on new venture performance. Other empirical studies such as Smallbone and Welter (2001) and Hisrich and Drnovsek (2002) find that managerial competencies as measured by education, managerial experience, start-up experience and knowledge of the industry positively impact on the performance of new SMEs. In South Africa, Herrington and Wood (2003) point out that lack of education and training has reduced management capacity in SMEs in South Africa and one of the reasons for their high failure rates. This suggests that managerial competency will impact on access to trade credit by new SMEs.

Business information

Pretorius and Shaw (2004) point out that financial information is one of the primary measures of the capacity of a business to effect repayment of credit. Financial information and business information are usually contained in the business plan of the new SME. According to a good business plan is perceived as one of the most essential documents to be prepared by the entrepreneur or small venture owner when setting up a business. Entrepreneurs and small business owners are encouraged to prepare a business plan for presentation to banks, financial institutions and venture capitalists to stand a chance of obtaining financial support. Kitindi et al. (2007) find that creditors, banks and other lenders use financial information provided by firms to analyse their present performance and predict future performance. The researchers find that annual financial statements and audit reports are required by formal lenders in Botswana. Information from the financial statements together with other information obtained through discussions with prospective borrowers is the main sources of information to lenders. Information obtained from the financial statements acts as indicator of borrower's future prospects and ability to service a loan. Therefore banks and other creditors prefer, demand and use financial information to access the performance and the repayment ability of new SMEs.

Networking

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. Shane and Cable (2002) agree that networking can be used to reduce information asymmetry in creditor/debtor relationships. Social obligations between connected parties, and information transfer through social relationships, influence venture finance decisions. Owualah (2002) find that long-standing relationship between a trade creditor and new SME owner does convey any advantage in the case inter-firm trade. In addition, networks and relationships increase a firm's legitimacy, which in turn positively influences the firm's access to external financing. Networks also help a firm learn appropriate behavior and therefore obtain needed support from key stakeholders and the general public. In large part, networking substitutes for the lack of effective market institutions, and can be an effective way for SMEs to access external financing, including bank loans in emerging economies. Networking could be expected to provide to the trade creditors information on legitimacy, which in turn should give the SMEs advantages in accessing trade credit (Ngoc et al 2009).

Location, age and size

Dahl and Sorenson (2007) note that location also impacts on the market potential and growth opportunities of new firms. Geographical proximity to either critical buyers or suppliers produces a form of enhanced environmental scanning that enables new firms to more easily identify and exploit growth opportunities in the market. Gilbert (2008) points out that the geographical area where the firm is launched has implications for its access to markets and resources. Firms located in metropolitan areas may therefore have higher chance of success than those located in rural areas. The South African Presidency (2008) finds that crime is higher in rural areas compared to urban areas and this can impact on the availability of trade credit to new SMEs located in rural areas. For Zimbabwean firms, Fafchamps et al. (1997) found that larger firms were more likely to obtain trade credit. Biggs et al (1994) study trade credit as a source of enterprise finance in Kenya and find that the use of trade credit increases with firm size. Advance payment by clients, on the other hand, appears to be more frequent among relatively small firms. Fafchamps et al. (1997) also finds that younger firms may find it more difficult to obtain trade credit than older firms.

RESEARCH METHODOLOGY

The empirical approach consists of primary research and collection of data through the use of questionnaires in a survey. Wheather and Cook (2000) note that the broad area of survey research encompasses any measurement procedures that involve asking questions to respondents which are then analyzed at the end of the survey when the participant level has been reached. According to Zikmund (2003) there are three basic types of research design: qualitative, quantitative and a hybrid of the two. The present study used the quantitative research design, which Ghauri and Gronhaug (2005) describe as studies whose findings are mainly the product of statistical summary and analysis. The main feature of quantitative research is the heavy reliance of the researcher on data analysis to arrive at findings or conclusions. Survey questions included demographic information, whether the SME sought trade credit and whether the application for trade credit was approved. The questionnaire was pre-tested on 20 new SMEs to improve the content, phrasing, sequence, layout and instructions of a questionnaire. The probability sampling method was used for sampling. Self-administered questionnaire was used for data collection. Participants in the survey were assured strict confidentiality in order to obtain the necessary information. Sensitive questions such as the names and addresses of the respondents were removed from the questionnaire. The population of new SMEs in the four major towns of Eastern Cape South Africa (Port Elizabeth, East London, Mdantstane and King Williams Town) was obtained from the Small Business Development Agency (SEDA) and Yellow Pages Telephone Directory.The population of new SMEs was 737. The minimum recommended sample size using Raosoft sample size calculator was 253. Raosoft takes into consideration four factors in arriving at the sample size. These are the margin of error (5% was used for the study), the confidence interval (95% was used for the study), the population and the response distribution (usually 50%) (Raosoft, 2009). However, 600 questionnaires were distributed because of the limitations associated with self-administered questionnaires such as non-response and 417 returned after repeated visits and telephone calls to the respondents.

The response rate was 69.5%. Data was collected between March and November, 2009. The Kolmogorov-Smirnov test was used to measure the normality of the data. The significance of the Kolmogorov-Smirnov test was greater than 0.05 in all the tests. This implies that the normality of the data can be assumed. According to Allison (2001) a missing value may represent or is a product of an unknown value. There were only three cases of missing values and pairwise deletion method under SPSS was used to treat the missing values. 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. Reliability on the other hand measures the extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability. Reliability and validity were ensured through the following measures: 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 probability sampling method; 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 conclusion. Data analysis for the study included descriptive statistics and logistic regression. According to Freeman et al (2008) when reporting the results of a logistic regression analysis, the estimated odd ratios for the regression coefficients, their confidence intervals and associated P-values should be presented. In addition, it is necessary to give some information about the goodness of fit of the model to the data as measured by the Hosmer and Lemeshow test.

RESULTS AND DISCUSSION

Out of 417 respondents, 331 (79.3%) applied for credit from trade creditors The results indicate that apart from owners' funds, trade credit is a major potential source of funds for new SMEs. Out of the 331 respondents that applied for credit from trade creditors, 71 respondents (21.4% were successful (i.e. applications approved by trade creditors) and 257 (79.6%) were unsuccessful (applications declined by trade creditors). The results are consistent with Stiglitz and Weiss (1981) and Coleman and Cohn (2002) that new SMEs are credit rationed.

Table 2 depicts the determinants of approval of trade credit using logistic regression. The results show that the Hosmer-Lemeshow statistics are not significant, indicating goodness-of-fit is at an acceptable level for in-sample predictive purposes. The odd ratio for property is 1.03.with a p-value of 0.32 indicating that the availability of property is not a significant determinant of access to trade credit. The results are consistent with other empirical studies on the importance of collateral to the availability of debt finance such as Huyghebaert (2006) and Willacy (2009) which find an insignificant relationship between the possession of tangible fixed assets by new SMEs and the use of trade credit. The results also indicate new SME managed by owners with high education (odd ratio 3.66, p-value 0.04) and related business experience (odd ratio 4.83, p-value 0.04) are more likely to be successful in their applications for trade credit. The p-values for new SME owners with business education and working experience are higher than 0.05 indicating that they are not significantly more likely to have their credit applications successful. The results suggest that the managerial competency of the owners of new SMEs (especially high education and related experience) is a significant determinant of access to trade credit by new SMEs. The results are consistent with Lyles et al. (2004) and Martin and Staine (2008) which find that managerial competency significantly positively impact on the availability of all types of debt to SMEs.

New SMEs that are able to produce business plan (odd ratio 6.62, p-value 0.01) are significantly more likely to be successful in their credit applications. The results for business plans produced by an accountant are not significant. According to Kitindi et al. (2007) trade creditors use business plans to evaluate the ability of SMEs to meet repayment of credit obligations. The results are

Table 2. Logistic regression results for the determinants of trade credit approval.

Variable	Odd ratio	Confidence interval (95%)	P- value
Property	1.04	2.05-3.66	0.32
High education	3.66	1.34-8.48	0.04
Business education	1.09	0.69-1.33	0.22
Working experience	1.72	0.82-5.21	0.14
Related experience	4.83	2.30-8.91	0.04
Business plan	6.62	3.11-10.02	0.01
Business plan produced with aid of accountant/consultant	1.45	0.61-7.19	0.33
Belonging to trade association	5.29	4.21-5.38	0.01
Relationship with trade creditor	6.88	5.75-6.29	0.03
Location (city or rural)	4.22	2.86-7.55	0.03
Insurance	5.74	5.58-6.97	0.01
Gender	1.09	1.13-1.67	0.29
Size of business	4.79	2.25-5.22	0.01
Legal status of business	4.25	2.21-7.05	0.04
Intercept	0.21		0.03

Hosmer and Lemeshow test, X2=8.97on 9 degrees of freedom, P-value=0.2251.

results are consistent with the findings of Pretorius and Shaw (2004) and Kitindi et al. (2007) which find that the availability of business plan positively impacts on the availability of debt. In addition, the results indicate that new SMEs belonging to trade associations (odd ratio 5.29, p-value 0.01) and those having previous relationships with trade creditors (odd ratio 6.68, p-value 0.03) are significantly more likely to access trade credit. The results are consistent with Shane and Cable (2002) and Ngoc et al. (2009) which find that relationships and networking interject expectations of trust and reciprocity into the economic exchange that, in turn, activate a cooperative logic of exchange. This logic promotes the transfer of private information and resources and motivates both parties to search for integrative rather than zero-sum outcomes. In this way, embedded ties both create new collaborative opportunities and induce the mutual rather than selfish distribution of rewards.

Location (odd ratio 4.22, p-value 0.03) of the business appears to be a significant factor in the success of credit applications. New SMEs located in the city are significantly more likely to be successful in their credit applications compare to those located in the rural area consistent with Dahl and Sorenson (2007); Gilbert (2008) and the South African Presidency (2008) points out that the crime rate is significantly higher in the rural areas compared to urban areas in South Africa. New SMEs that are insured are also significantly more likely to be successful in their credit applications with an odd ratio of 5.74 and p-value of 0.01. With reference to demographic variables, the results indicate that the gender of the owner of the business is not a significant factor in trade credit approval as indicated by the low odd ratio and insignificant p-value. This is consistent with other studies such as Blumberg and Letterie (2002) and Akarro (2009) which find that the gender of the owners of SMEs is not a significant influencing factor with respect to availability of debt to SMEs. The results indicate that the size of the firm and incorporation are significant factors in the success of credit applications. Medium sized firms are 4.79 times more likely to be success in their credit applications than small firms. In addition, incorporated firms are 4.25 more likely to be successful in their credit applications compared to unincorporated firms. The results are consistent with Bollingtoft et al. (2003) and Barbosa and Moraes (2004).

CONCLUSIONS AND MANAGERIAL IMPLICATIONS

The results indicate that managerial competency (especially high education and related experience), business plan, relationships with banks and the location of the business are important determinants of access to trade credit by new SMEs. In addition, incorporation and the size of the firm are also significant factors. In the light of these findings, the study recommends that to get debt funding from trade creditors, Therefore, to get the required funding from trade creditors, new SME owners must ensure that they have high education and related experience which can improve their managerial competency. Educational institutions should introduce and strengthen entrepreneurial education. When learners are oriented into entrepreneurship from an early age, it becomes easier to develop successful ventures. To improve the related experience of new SME owners "learning from peers" or mentorship approach can be instituted by government agencies to help new SMEs.

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New SMEs should look at using non-executives at an early stage to bring external expertise and guide investment decisions. To improve networking it is important for new SME owners to join trade associations. Good credit history must always be maintained. Agreements such as repayment of credit extended should always be met. In addition, entrepreneurs need to attend seminars and trade fairs to improve their networking.

Owners of new SMEs have to take greater responsibility for their own learning. Therefore, they need to create a positive attitude towards entrepreneurship and training. The present system where government agencies such as the Small Enterprise Development Agency (SEDA) use consultants that write business plans for entrepreneurs which they cannot articulate does make sense, but could potentially be counterproductive. The personal involvement of the entrepreneur in gathering the relevant information and in the writing of the business plan is critical to learn about the industry and to 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 high crime rate especially in the locations in South Africa must be reduced to improve the availability of trade credit. The best way to reduce crime is to make the legal system more efficient (especially the speed of court judgments) so that criminals are promptly arrested and punished. 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. There is also a need for a well-publicized educational campaign against crime. More effective policing is needed, including better police visibility, area coverage and faster response times. New SMEs should be encouraged to insure their businesses. Government can assist in subsidizing the cost of insurance. Government can also help to subsidize once-off security costs such as burglar proofing. Government agencies can also help to subsidise the incorporation cost of new SMEs. The study focused only on trade credit. The determinants of other sources of credit to new SMEs such as bank credit and government were not investigated. In addition, the study focused on the demand side. Further study could investigate empirically the reasons why trade creditors (supply side) do not grant credit to new SMEs in South Africa.

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