Full Length Research Paper

The impact of inaccessibility to bank finance and lack of financial management knowledge to small, medium and micro enterprises in Buffalo City Municipality, South Africa

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This study investigated the impact of inaccessibility of bank finance and lack of financial management knowledge to small, micro and medium enterprises (SMMEs) in the Buffalo City Municipality. The objectives of the study were to determine the impact of lack of financial management knowledge on access to finance, to investigate effects of lack of bank finances to the success and growth of SMMEs, to determine the impact of financial illiteracy to the success and growth of SMMEs and to identify possible solutions to the problem of inaccessibility of bank finance and lack of financial management knowledge. A questionnaire was used to gather data from respondents. Simple random sampling technique was used. Data was analysed using descriptive statistics. Findings of this research showed that SMMEs in the Buffalo City Municipality find it difficult to access bank finance. The research results also showed that inaccessibility of bank finance have a greater impact on survival and success of SMMEs. It also highlighted that lack of financial management knowledge have an impact on survival and growth of SMMEs. SMMEs are encouraged to explore other financing options and also to take responsibility for acquiring skills and knowledge that will lead them to success.

Key words: SMMEs, impact, inaccessibility of finance, financial management, knowledge, bank.

INTRODUCTION

The small, medium and micro enterprises (SMMEs) sector is globally regarded as the driving force in economic growth and job creation. These businesses play a major role in creating jobs and wealth in any economy. Central to the growth of an economy is the development of a vibrant SMME sector which is the key to resolving many societal challenges, including unemployment (Entrepreneur SA, 2005).

SMMEs form the backbone of South Africa's economy, not just in terms of their contribution to national gross domestic product, but especially in terms of employment. According to 2009 estimates, a staggering 74% of South Africans active in the economy are employed by SMMEs

(The Business Place, 2009). SMMEs are often the first to be offering new products in the market and they are more flexible than large organisations (Boone and Kurtz, 2006). This therefore means that SMMEs can meet and satisfy customers' or the population's needs better than bigger businesses that lack flexibility.

According to Visagie (1997), in most areas in South Africa, where active population is too small to justify large enterprises, the only source of economic activity is that provided by SMMEs. This justifies why this sector has received much attention from the government in recent years.

Despite support provided by the government in South Africa, SMMEs still face challenges. The main problem faced by owners and operators of SMMEs is the inaccessibility of bank finances. The lack or inaccessibility of bank finances is a serious constraint during the formation of new ventures as well as at later stages as business

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requires additional inflows of capital to support expansion and growth (Nieuwenhuizen and Groenewald, 2004).

Inadequate bookkeeping and lack of financial management knowledge are also challenges that have negative impacts on SMMEs. According to Schagen and Lines (1996), financial illiteracy is the inability to make informed judgements and to take effective decisions regarding the use and management of funds.

Problem statement

In South Africa, a disappointingly high number of SMMEs fail during the first few years of operation (Nieman and Nieuwenhuizen, 2009). Inaccessibility of bank finance is one of the major challenges that South African SMMEs face among others. In addition to this, most owners and operators of SMMEs are financially illiterate, which leads to mismanagement of business finances causing most SMMEs to fail. According to Nieman and Niewenhuizen (2009), the largest percentage of SMMEs fails during the first two years of their existence due to cash flow problems that arise because they could not manage growth. Cash flow problems can occur as a result of inaccessibility of bank finances or lack of financial management knowledge. Unemployment in the Eastern Cape Province and South Africa at large is a challenge to the nation and SMMEs play a major role in curbing this problem. SMMEs need to be supported and they also need to be able to access resources they need, to survive and grow. Inaccessibility of bank finance and financial illiteracy are real challenges faced by SMMEs. The impact of these challenges needs to be assessed so as to come up with useful and relevant solutions that can contribute to the success of South African SMMEs.

Objective of the study

The primary objective of the study was to investigate the impact of inaccessibility of bank finance and lack of financial management knowledge to the growth and success of SMMEs in the Buffalo City Municipality. The purpose of this study stems from the fact that SMMEs play an important role in the South African economy in terms of employment creation, sustainable output growth, the equitable distribution of income and the overall stimulation of the economy. Considering the role played by SMMEs in the South African economy and the challenges they are facing, it is in the interest of the country at large to investigate the impact of these challenges.

Secondary objectives

i. Determine the impact of lack of financial management knowledge on the accessibility to finance.
ii. Investigate the effects of lack of bank finances to the success and growth of SMMEs.

iii. Determine the impact of lack of financial management knowledge (financial illiteracy) to the success and growth of SMMEs.
iv. Identify possible solutions to the problem of inaccessibility of bank finance and lack of financial management knowledge.

Research hypotheses

H_0: SMMEs in the Buffalo City Municipality, South Africa find it difficult to access bank finance

H_1: SMMEs in the Buffalo City Municipality, South Africa can easily access bank finance

H_0: Inaccessibility of bank finance does not have greater impact on survival of SMMEs

H_2: Inaccessibility of bank finance has a greater impact on survival of SMMEs

H_0: Inaccessibility of bank finance does not have greater impact on growth of SMMEs

H_3: Inaccessibility of bank finance has a greater impact on growth of SMMEs

H_0: Lack of financial management knowledge (financial illiteracy) does not have an effect on access to bank finance

H_4: Lack of financial management knowledge (financial illiteracy) has a negative effect on access to bank finance

LITERATURE REVIEW

Theoretical construct

According to Sogorb (2002), the most relevant capital structure theories that explain the capital structure of SMMEs 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 which is referred to as the irrelevance theorem. The irrelevance 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 (1958) based their irrelevance theorem on certain perfect market assumptions which included no corporate taxes, no brokerage or floatation cost for securities, and symmetrical information.

According to Fatoki and Odeyemi (2010), the initial perfect market assumptions, on which the 1958 theory of

Modigliani and Miller was based, were reviewed in 1963 with the introduction of the tax benefits of debt. This is attributed to the fact that a perfect market does not exist in the real world. 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. According to Miller and Modigliani (1963) a firm should have 100% debt in its capital structure. In this way, the firm can take absolute advantage of the tax-shield. Scott (1972) and Kraus and Litzenberger (1973) point out that theoretically, 100% tax shield does not exist in reality because of distress costs.

Sogorb (2002) and Andree and Kallberg (2008) found that the fiscal advantage of debt cannot be applied in the SMME context because some SMMEs are unlikely to be profitable and therefore may not be able to use debt in order to get tax shields. Daniel et al. (2006) point out that in the case of most SMMEs, the expected costs of bankruptcy is quite high and the expected costs of financial distress may outweigh any potential benefits from the tax shield.

SMMEs also have limited access to external equity capital such as venture capital and the stock market. This implies that most SMMEs will have to rely only on internal equity which is often inadequate as a source of capital. According to Fatoki and Odeyemi (2010), the limitations of static trade off theory suggest the reliance on internal equity by SMMEs. Yet, the reality for growing SMMEs is a reliance on bank finance (debt) and external equity because of the inadequacy of internal equity (Frelinghaus et al., 2005).

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 SMMEs. 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.

Stiglitz and Weiss (1981) stressed that agency problems such as asymmetric information and moral hazards can impact on the availability of bank finance to SMMEs. Stiglitz and Weiss termed this phenomenon credit rationing. The Stiglitz-Weiss model of bank lending explains why bank finance (credit) rationing occurs, and why many existing SMMEs who wish to borrow at the existing interest rate, and is willing to pay higher interest rate, are still unable to obtain bank finance. The model also shows the relationship between bank finance (credit) rationing and loans to small scale enterprises.
According to Fatoki and Odeyemi (2010), the Stiglitz and Weiss' theory therefore suggests that there are significant numbers of SMMEs that could use funds productively if they were available, but cannot obtain finance from the

formal financial system. In terms of agency cost theory, SMMEs are expected to have the least debt and thus depend on internal equity and that debt levels will gradually increase as the firm develops and becomes established (Fatoki and Odeyemi, 2010).

Frelinghaus et al. (2005) 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, the agency theory cannot explain why firms in the early stages of development have more debt than firms in prime.

According to Myers (1984) the pecking order theory suggests that there is no well-defined optimal capital structure, instead, the debt ratio is the result of hierarchical financing over time. Management has a preference to choose internal financing before external financing. When a firm is forced to use external financing sources, debt is preferred to equity.

Nguyen and Ramachandran (2006) however argue that the pecking order theory may not apply to SMMEs because they suffer from information asymmetry. Small size is likely to lead to severe information asymmetries between the SMME owners and potential lenders because SMMEs are unlikely to have adequate and reliable financial statements. According to Bose and Cotheren (1997), information asymmetry can negatively affect SMME access to debt capital.

Empirical review

According to Fatoki and Garwe (2010), inaccessibility of finance is the second most reported contributor to low firm creation and failure, after education and training in South Africa. Herrington and Wood (2003) also concluded that lack of education and training has reduced management capacity in new firms in South Africa. Lack of education and skills can as well mean or lead to lack of financial management knowledge. In support of this notion, Fatoki and Garwe (2010) also concluded that lack of knowledge and training is one of the reasons for the low level of entrepreneurial creation and the high failure rate of SMMEs in South Africa.

In their study, Herrington et al. (2009) suggested that access to finance is the major problem for South African SMMEs. Cassar (2004) makes it clear that inaccessibility of finance can be a constraint on SMME growth. A research conducted by Naude and Havenga (2004) indicated that most entrepreneurs, specifically SMMEs, struggled with accessing finances from banks due to excessive red tape and administrative burden. They argued that financial institutions rarely finance start up businesses, they are bureaucratic, lack knowledge or understanding of the owners or operators of SMMEs (entrepreneurs), and are not willing to assist and are wary in providing finance to people who do not have a business record.

Access to finance and financial illiteracy are not the only challenges faced by SMMEs, Rogerson (2006) in the study conducted in the Free State province on SMMEs identified access to finance, inadequate premises, lack of equipment and tools, inadequate markets and marketing, theft, registering and transport challenges as attributes to failure rate in that province.

From the findings of Rogerson (2006), inaccessibility to finance is the primary challenge and all other challenges can be said to be as a result of inaccessibility to finance. The findings of the study by Mutezo (2005) reveal the fact that conventional financing mechanisms do not allow for cost effective provision of finance to large numbers of entrepreneurs or SMMEs seeking small quantities of finance. Mutezo (2005) argues that poverty and lack of assets indicate that many people do not have the colla-teral needed to access formal financing. According to Mutezo (2005), entrepreneurial activity is hampered by lack of access to finance. Poor management is a common reason for the failure of small organisations. A lack of business training and knowledge often leads to bankruptcy (Boone and Kurtz, 2006).

Mutezo (2005) asserts that the key factor militating against increased investment in SMME sector is the structure of the financial sector. He argued that the financial sector is composed by concentrated banking sector targeting corporate accounts and competing with smaller niche banks. He added that there is a strong dearth of strong alternative financial institutions providing credit to self-employed for productive purposes. A larger portion of the SMME sector is said to have no access to adequate and appropriate forms of credit and equity or financial services.

The study by Bbenkele (2007) revealed that SMMEs especially those from rural areas have a poor understan-ding of the services that banks offer and they also lack understanding of the bank loan procedures. Bbenkele (2007) argues that this lack of information and knowledge leads to SMMEs' weak bargaining position in terms of interest paid, asset and liability disclosure, misuse of loan funds and generally bad preparedness when applying for business loans.

In an article, Christianson (2005) supports that SMMEs face problems in accessing finances. He asserts that SMMEs in South Africa are often quoted as not being able to access money from banks to grow their businesses. Inaccessibility of bank finance is seen as the biggest inhibitor of growth. The main problem facing the development of SMME's in both developed and deve-loping countries is access to finance and this has also been supported by the work of Bosa (1969), Levy (1993) and Keasey and Watson (1994). Other commentators have however refuted this fact and feel that the problem is not really inaccessibility of bank finance but how SMMEs apply for finances. South Africa is included in this predicament as a developing country and the government has tried different options to improve accessibility of finance. Despite various government initiatives, many SMMEs still have difficulties in accessing finance in South Africa.

Fin (2006) finds that only 2% of new SMMEs in South Africa are able to access bank loans. According to Foxcroft et al. (2002), 75% of applications for bank credit by new SMMEs in South Africa are rejected. This suggests that SMMEs without finance may not be able to survive and grow. According to Phillips and Wade (2008), SMMEs without access to finance may find it difficult to purchase necessary technology.

RESEARCH METHODOLOGY

Both primary data and secondary data were used to conduct this research. The research was conducted by the researcher moving from one business to another, distributing self administered questionnaires. The questionnaire was pre-tested before it was used to collect data. Data was collected from SMMEs in the Buffalo City Municipality, specifically East London in South Africa. The researcher used simple random sampling, a probability sampling technique in which each element has a known and equal chance of selection. This method also helps to eliminate bias in selecting sample elements. According to Cooper and Schindler (2006), it is the purest form of probability sampling.

Validity refers to whether an instrument actually measures what it is supposed to measure given the context in which it is applied. Babbie and Monton (2002) identify four major types of validity which are face validity, criterion related validity, content validity and con-struct validity. The researcher used the following steps to ensure the validity of the study as pointed out by Cooper and Schindler (2003): 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, and comprehensively reviewing the literature for theoretical constructs and empirical conclusions. Babbie and Monton (2002) point out that reliability is concerned with consistency of measures. The Cronbach's alpha was used as the measure of reliability.

The collected data was analysed by the Statistics Department at the University of Fort Hare. The packages which were used included the Statistical Analysis System (SAS) V8 for descriptive analysis. Statistica and SPSS are some of the packages that were used. The chi-square test for independence was used to test for association, and cross tabulation was also used to determine the distribution of respondents. Chi-square is used most frequently to test the statistical significance of results reported in tables (Barreira, 2004). According to Barreira (2004), chi-square allows for decisions about whether there is a relationship between two or more variables; if the null hypothesis is rejected, one can conclude that there is a statistically significant relationship between the variables.

RESULTS AND DISCUSSION

Population characteristics

A hundred and thirty two questionnaires were distributed and 109 of them were completed and returned. Of res-pondents, 55% were owners and 45% were managers. Sixty-two percent of respondents were male and 38% were female. Fifty one percent of respondents were owners or managers of small enterprises, 9% for medium enterprises and 40% owned or managed micro enter-prises. Only 20% of these SMMEs managed to register in

Table 1. Impact of inaccessibility of bank finance on growth of SMMEs.

Growth effect		Frequency	Percent	Valid percent	Cumulative percent
	Affected positively	6	5.5	5.5	5.5
	Did not affect at all	8	7.3	7.3	12.8
Valid	Affected negatively	57	52.3	52.3	65.1
	Strongly affected negatively	38	34.9	34.9	100.0
	Total	109	100.0	100.0	

a period of less than one year of operation. It took one to two (1 to 2) years for 45% of them to register and more than two years for the remaining 35% to formally register their businesses. Only 28% of SMMEs of these SMMEs had business plans. All respondents consider themselves financially literate but only 44% confirmed that they had adequate financial management skills. Seventy nine out of 109 (73%) SMMEs once applied for bank finance but only 8 (10%) managed to access it. Thirty (30) out of 109 SMMEs (28%) never applied for bank finance.

Reasons for not applying for bank finance

SMMEs (28%) that never applied for bank finances gave four main reasons. The majority (53%) said they did not know the procedures. Another 23% said they lacked knowledge on the sources of finance available at banks. Only 7% said high interest charged by banks discouraged them from borrowing. The remaining 17% had enough capital to start and run their businesses.

Reasons why SMMEs applications for finance were unsuccessful at banks

Twenty five percent (25%) of SMMEs that failed to access bank finance said they never got any response from banks clarifying why they could not offer them the much needed loans. Lack of financial deposit affected 17% of SMMEs that failed to access funds. It is lack of collateral security which proved to be the greatest obstacle in accessing finance by SMMEs, contributing 37%. Only 7% failed to access bank finance because they had poor business plans. The other reason why other SMMEs were not funded by banks was that their business ideas were said to be 'not viable'. The other reason is that there are no loans for foreigners since Khula does not guarantee loans given to non-South African citizens. Six percent (6%) of SMMEs that failed to access bank finance were foreign owned and that alone was a reason for them not to access finance. There are no SMMEs in East London that failed to access finances because of lack of financial management knowledge showing that this factor is not relevant in access to finance. It may however have impact on growth and survival.

Impact of lack of financial management knowledge on the accessibility of bank finance by SMMEs

SMMEs in East London are of the view that lack of financial management knowledge has an impact on access to bank finance. Only 12.8% admitted that it does not have any impact on access to bank finance. Over eighty six percent (86.2%), which is the majority, are of the view that it has affected their businesses negatively, especially when it comes to accessing funds, with one percent (1%) feeling they have been strongly affected.

Effects of inaccessibility of bank finance to the success and growth of SMMEs

The majority (76.1%) of respondents expressed their view of impact of inaccessibility of finance on survival of SMMEs revealing that it has a very negative impact. It is surprising that 11% of respondents said this had a positive impact on SMMEs. Nearly 13% argued that inaccessibility of finance had no impact on SMMEs in East London. 36.7% of respondents are of the view that it affects them negatively, yet, 39.4% are of the view that the impact is not only negative but also strong.

The majority (87.2%) of respondents said inaccessibility of bank finance had a negative impact on growth of their firms. Over seven percent (7.3%) on the other hand, argued that inaccessibility of finances never affected growth of their firms, yet, nearly 6% claim that this impacted the growth of their businesses positively. Table 1 shows summarised results from respondents on their view of the impact of inaccessibility of bank finance on the growth of SMMEs.

Results from respondents show that they view inaccessibility of finance as having a negative impact on growth. More than 86% said were affected negatively and this may mean that they are totally depending on bank finances, which is not advisable. They also have to make use of their retained earnings to grow or else, explore other options to fund the growth of businesses.

Lack of business skills, flexibility, skilled labour, innovation and flexibility in SMMEs in East London is attributed to inaccessibility of bank finance. Inaccessibility of finance has also affected SMMEs negatively in factors like transportation, information technology, exporting activities, visibility and also, relationships with suppliers.

According to Nieman and Nieuwenhuizen (2009), these factors contribute to the success of a business venture.

If SMMEs in East London make use of poor raw materials as shown by the results, the quality will obviously be below standard. If poor quality products are to be sold at a higher price, sales are most likely to be lost and in the long run, the business will fail.

Impact of lack of financial management knowledge on the success and growth of SMMEs

Lack of financial management knowledge has been said to have a negative impact by 75% of respondents. Of the remaining 25%, 18% said this strongly affected their businesses negatively. Only eight respondents (7%) argued that it never affected their businesses.
Lack of financial management knowledge also has an impact on investment decisions, survival of SMMEs, orientation towards the future, innovation, lack of business skills and SMME flexibility. Most, if not all of these factors, affect business success

The results showed that lack of financial management knowledge has a negative impact on investment decisions. Only 2.8% of respondents said it does not have an effect. At least sixty nine percent were affected negatively and the remaining 27.5% said it strongly affected them negatively. According to Nieman and Nieuwenhuizen (2009), and Correia et al. (2008), knowledge of financial management is crucial in making investment decisions.

Lack of financial management knowledge affected survival of the majority (73%) of SMMEs in East London negatively. About 24% of respondents were not affected at all. Only 2% said were affected positively with 1% saying it strongly affected the survival of businesses negatively. Nieman and Nieuwenhuizen (2009), point out that most SMMEs that fail to manage their finances will fail. Fatoki and Garwe (2010) agreed that lack of education and training is one of the major causes of failure in SMMEs in the Eastern Cape Province of South Africa.

Lack of financial management knowledge also affected SMME's orientation towards the future. Nieman and Nieuwenhuizen (2009) made it clear that successful entrepreneurs focus much on the future. Poor financial planning and management will lead to failure and no future. More than 80% of respondents indicated that they were affected negatively and were only focusing to achieve short term financial goals, not strategic goal of their ventures.

More than 70% of respondents indicated that lack of financial management knowledge did not affect their innovativeness. On the other hand, nearly 30% of respondents showed that this was limiting their entrepreneurial spirit and innovativeness.

Nearly 68% also showed that lack of financial manage-ment knowledge affects SMME flexibility especially in making financial decisions. Depending too much on consultants and experts will limit SMME flexibility in

making financial decisions that are crucial to the business. Nieman and Nieuwenhuizen (2009) stresses that SMME owners must themselves be able to interpret and understand financial statements.

The main challenges faced by SMMEs as a result of inaccessibility of finance include inability to expand or slow growth of businesses, inability to compete with bigger firms in the market, inability to employ skilled labour, failure to register, poor quality goods or services, poor marketing and bad reputation or images created.

Poor decision making leading to high failure rate and closure of businesses, failure to grow due to uninformed budgets, mismanagement of businesses, failure to access finance due to inadequate documentation and poor presentation are challenges faced by SMMEs because of lack of financial management knowledge.

Testing of hypotheses

The hypotheses were tested individually and the results are presented thus:

H_1: SMMEs in Buffalo City Municipality, South Africa find it difficult to access bank finance

A p-value (probability level) of 1.0 obtained from the test of association using the chi-square distribution is greater than 0.05 which means that we do not reject the null hypothesis (H_0). This means that SMMEs do apply for finance but it is not guaranteed that they will get it. In actual fact, if SMMEs cannot access finance through applying for it, it is very unlikely that there is another way of accessing it.

H_2: Inaccessibility of bank finance does not have greater impact on survival of SMMEs

A p-value (probability level) of 0.042 obtained from a test of association using the chi-square distribution is less than 0.05 and this means we reject the null hypothesis for there is an association between these two factors. These findings are in line with those of Fatoki and Garwe (2010), who said that SMMEs in East London fail because of inaccessibility and lack of finance. Nieman and Nieuwenhuizen (2009) agree that an acceptable and disappointingly large number of SMMEs fail during the first years of operation mainly because of inaccessibility to or lack of finance. Nieuwenhuizen and Groenewald (2004) also highlighted that inaccessibility of finance is a serious constraint during the formation of ventures as well as at later stages as businesses require additional cash flows. Inaccessibility of finance can justify the reasons for high failure rate of SMMEs in East London.

H_3: H_0 Inaccessibility of bank finance does not have greater impact on growth of SMMEs

A p-value (probability level) of 0.032 obtained from a test

of association using the chi-square distribution is less than 0.05 (5%) which means that there is an association between these two factors. Pearson product moment correlation (r) of 0.65 is closer to 1 and shows that there is a very strong positive correlation and we reject the null hypothesis. These results are in line with those of Nieuwenhuizen and Groenewold (2004) who found that inaccessibility of bank finance is a serious constraint during the formation of new ventures as well as at later stages as businesses require additional inflows of capital to support expansion and growth. Without access to bank finance SMMEs will hardly grow. All businesses require financial resources in order to start trading and to fund growth (Fatoki and Garwe, 2010). According to Cassar (2004), lack of access to finance can be a constraint on business growth.

H_4: H_0 Lack of financial management knowledge does not have an effect on access to bank finance

A p-value (probability level) of 0.33 obtained from a test of association using the chi-square distribution is far greater than 0.05 and this means we do not reject the null hypothesis (H_o). This will mean that inaccessibility to finance by SMMEs in East London may be attributed to factors other than financial management knowledge. Factors that may be having an impact include lack of collateral security, lack of information, and also lack of support from institutions like Khula and the government. According to Mutezo (2005), poverty and lack of assets indicate that many SMMEs do not have collateral needed to access finance. Foxcroft et al. (2002) also stress the fact that collateral is a problem to the bulk of disadvantaged entrepreneurs in the SMME sector. According to Mutezo (2005), although support providers are in place, SMMEs through either ignorance or lack of information can still remain unknowledgeable about the availability and accessibility of financial resources.

These results are in line with an investigation into the programmes being used in South Africa to develop the SMME sector by Pretorious and Van Vuuren (2003). Their research found that the core focus of the programmes from Khula and SEDA are more relevant to larger and existing businesses than for small businesses and start ups. They argued that there is a general tendency of Khula and Department of Trade and Industry programmes to focus on larger and existing ventures as their target audience and very few of their programmes are aimed at micro and small enterprises.

MANAGERIAL IMPLICATIONS AND RECOMMENDATIONS

The following are key findings of this research:

i. Although lack of financial management knowledge has no impact on the accessibility of bank finance in East London, it affects SMMEs severely on survival and success. Most SMMEs fail because of lack of financial management knowledge.
ii. There are other factors other than lack of financial management knowledge that affect SMMEs' access to finance.
iii. Inaccessibility of finance does not have a greater impact on growth of SMMEs. This is mainly because after SMMEs are established, they can seek other sources of finance other than bank finance.
iv. Although Khula Enterprise Finance and SEDA may be delivering their services, SMMEs in East London are not aware of the services and help they can get from these organisations
Based on the findings of this study, the following recommendations are suggested.

SMMEs

Inaccessibility of bank finance and lack of financial management knowledge are real challenges to SMMEs in East London. SMMEs however, ought to understand that they are responsible for their own success or failure. SMMEs need to take time to explore all financing opportunities and also how they can gain more financial management knowledge. It is SMMEs that are supposed to look for institutions that support them, not the other way round. SMMEs also need to show seriousness when applying for bank loans and in preparing business plans. Making use of experts at their disposal (Khula and SEDA) can help ease the problem of inaccessibility to finance.

Financial literacy trainings offered to SMMEs in the Eastern Cape Province need to be taken seriously. These trainings are of benefit for they can help ease other challenges affecting SMMEs, especially lack of financial management knowledge and access to finance. Inaccessibility of bank should not kill the entrepreneurial spirit. SMMEs should now not depend only on bank finance. They can explore other options to grow and start businesses. Money from family, friends and fools can work for their good for it is usually interest free. SMMEs need to realise that their success is dependent on what they want to achieve and how they plan to achieve it, not on banks or the government. This is why some SMMEs are excelling while others are failing even if they are operating in the same area and doing the very same business.

The government

The majority of SMMEs are not aware of government initiatives that are meant to improve the SMME sector. There is a need to educate SMMEs on useful government services and how they can access them. The government should also monitor the services offered to SMMEs by banks. Although the government has a role to

play, it has to be careful not to create a spirit of dependency for it destroys the entrepreneurial spirit in SMMEs. SMMEs need to be supported but must not be allowed to be over dependent on the government.

Banks

Although it is sometimes suggested that SMMEs can explore other financing alternatives, bank finance remains common and useful to them. Banks need to realise that their actions and attitude towards SMMEs has an effect on SMMEs and the nation at large. Banks should not just turn down SMMEs' applications for finance without explanation.

SEDA and Khula enterprise finance

Although they may be working hard, SEDA and Khula are very invisible on the ground. Their services are crucial to develop the SMME sector yet very few SMMEs know where to locate them. Some SMMEs do not even know the role of these organisations. It is suggested that massive road shows targeting SMMEs will help SEDA and Khula to be visible and at least effectively help to develop the SMME sector in the Eastern Cape Province. Working with universities and schools will also help improve awareness of their services to the general public. Khula and SEDA need to also extend their services to non-South Africans who own businesses in the republic for they are equally important in terms of employment creation. Although Khula have created working relationships with commercial banks, effective monitoring on whether banks are really offering loans to SMMEs is still crucial.

LIMITATIONS OF THE STUDY

The study was limited to SMMEs in the Buffalo City Municipality. The study concentrated only on one municipality in the Eastern Cape Province of South Africa. Because of the limitations pointed out, care should be exercised in the interpretation and application of the results of this study and the generalisation of the findings to the whole province or country.

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