Facilitating banking finance access for BBBEE firms in the Southern Cape area.

BY

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DECLARATION:

In accordance with Rule G4.6.3, I hereby declare that the above-mentioned treatise/ dissertation/ thesis is my own work and that it has not previously been submitted for assessment to another University or for another qualification.

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ABSTRACT

Studies have shown that BBBEE parties are unsuccessful in raising banking finance due to a number of reasons. The objective of the enactment of the Broad Based Black Economic Empowerment (BBBEE) Act is primarily to promote the participation of black people in the economy. The measurement of BBBEE is determined by the codes of good practice for Qualifying Small Enterprises (QSE), which consists of seven elements namely: ownership, management control, employment equity, skills development, preferential procurement, enterprise development and socio-economic development. Enterprises with annual turnover ranging from R5 million and R35 million qualify as QSE. These elements measure the level of BBBEE status.

The enactment of the National Credit Act replaced the Usury Act, 1968 and the Credit Agreements Act, 1980. The objective of the act is to promote accessibility to the credit market and to prevent the over-indebtedness of consumers. The Act is applicable to natural persons with contractual capacity and juristic persons with monetary assets or annual turnover of less than R1 million.

This study aims to establish the facilitation of access to banking finance for BBBEE SME'S within the George and Mossel Bay area as these towns form part of the Garden Route Business Banking Division of Nedbank. The effect of the BBBEE and NCA on the accessing of banking finance was studied and analysed.

Credit applications are subject to stringent credit scoring systems to rate applicants, monitor performance and manage accounts. The Basel rating which measures the minimum level of capital a bank should hold to protect investors determines the interest rate charged for loans. These ratings affect the accessibility of banking finance.

A framework for bank and SME relationship building shows the relationships between:

- The accounts manager's role in relationship management;
- Branch staff role in relationship management;

- Corporate policies as part of relationship management.

A survey was conducted in the form of a questionnaire in order to obtain primary information from two sample groups, banking officials and BBBEE clients to establish the relationship between the two sample groups. Quantitative techniques were used and the data obtained from the two sample groups were analysed.

The study revealed that the by establishment of relationships between BBBEE clients and banking officials would facilitate access to banking.

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CHAPTER ONE

1.1 INTRODUCTION

According to the department of trade and industry (DTI, 2007), the Black Economic Empowerment (BEE) policy in South Africa is a pragmatic strategy that aims to realise the country's full economic potential. Despite many economic gains during the country's 12 years of democracy the growth rate was 4.9 percent in 2005. This was indicative that the racial divide between rich and poor remained and that such inequalities could have a profound effect on political stability. This resulted in the enactment of the Broad Based Black Economic Empowerment (BBBEE) Act in 2004.

The objectives of the BBBEE Act (Government Gazette, Vol 463) are to:

- promote the attainment of the constitutional right to equality;
- increase broad-based and significant participation of black people in the economy;
- endorse a higher growth rate;
- increased employment and more equitable income distribution;
- promote access to finance.

Bierman (2005:25) indicated that the reason that BBBEE parties were unsuccessful in raising funds lies in its business financial statements not reflecting sufficient income, to provide financial institutions the comfort that the business can repay a loan.

The research undertaken in this paper investigates how the banking sector can assist in facilitating access to finance for Small Medium Enterprises (SME) specifically focusing on BBBEE enterprises. The focus is on the BBBEE SME in the Southern Cape, more specifically the George and Mossel Bay area as these are the towns, which forms part of the Garden Route area being serviced by the Business Banking Division of Nedbank.

1.2 RESEARCH PROBLEM QUESTION

According to Chidzero, Riopelle and Webster (1996:22) most banks do not lend to SME'S because they are not familiar with such clients and do not realise the potential profitability of lending to this market segment. The bank's employees are often not skilled to evaluate and manage SME projects. Methodologies to reduce the increased transaction costs and perceived higher risks associated with lending to small firms have not been readily available. Politics take precedence over profits in some banking sectors and usually favour large borrowers over small ones (Chidzero et al, 1996:22).

Bierman (2005:21) states that it is difficult to prove that a start-up business will succeed. Such ventures have no historical financial statements to confirm credit history. Financial institutions are extremely suspicious and often request copies of sales contracts or letters of undertaking from potential customers to evaluate the success of the new ventures.

According to Chidzero et al (2006) in order to address these problems, banks need to incorporate SME'S into their credit program and equip staff with the necessary skills to provide a service to those groups. Banks need to provide technical assistance to strengthen organisational and staffing capabilities to handle SME lending requirements (Chidzero et al, 1996).

The research problem would be: How banks could assist in facilitating access to finance to Small Medium Enterprises (SME'S) specifically focusing on BBBEE enterprises. The focus is on the BBBEE SME'S in the Southern Cape, more specifically the George and Mossel Bay area.

1.3 SUB PROBLEMS

In order to develop a research strategy to deal with and solve the main problem, the following sub-problems have been identified.

i. What are the reasons for unsuccessful credit applications by BBBEE enterprises?
ii. How does the current credit scoring affect the success of granting finance?
iii. How does the National Credit Act (NCA) affect granting of credit?
iv. What effect does the Basel risk rating have on SME'S?
v. What can be done to facilitate access to credit facilities?

1.4 PURPOSE OF THE RESEARCH

Table 1.1 reflects an estimate of the size of commercial banks' SME credit exposure.

Table 1.1: An estimate of the main bank's SME book

	Standard Bank	Nedbank	Absa	FNB	Total
SME clients	360 000	N/a	170 00	N/a	
Non-borrowers	226 800	N/a	N/a	N/a	370 000
Borrowers	133 200	N/a	N/a	N/a	
Total book	R5 bn	R5-8 bn	R3-7 bn	R2-4 bn	R20 bn
Average loan size	R 39 039	N/a	R47 058	N/a	R54 000
Market share	34%	33%	20%		100%

Source: Abedian, Coovadia, Davel, Falkena, Madungandaba, Masilela, Rees, Von Blottnitz, 2001, Internal report

Table 1 raises the following comments:

- R20 billion in SME exposure approximates to five percent of total bank exposure;
- Khula guaranteed exposure to commercial banks is approximately R168 million, 0.8 per cent of aggregate commercial bank SME exposure;
- 370 000 SME borrowers represent between 10 per cent and 40 per cent of the estimated number of SME'S in the country;
- In terms of loan usage for SME loan exposure approximately;
  - 61 per cent of the amount comes from installment sale finance;
  - 27 per cent is short-term overdraft facilities;
  - 11 per cent comes from term/revolving loan facilities;
  - one per cent is other form of financing (factoring, discounting finance). (Abedian et al, 2001)

It can be seen from table 1 that SME only equates to five percent of total bank exposure. The purpose of this research is to facilitate banking finance access through the establishment of relationships to improve the credit worthiness of BBBEE firms within the Southern Cape area. The value of the outcome will increase the percentage loan exposures significantly, resulting in economic growth through job creation.

1.5 DELIMITATION OF THE RESEARCH

The study will be confined to SME particularly to BBBEE companies who fit the definition of small, medium enterprises within the Southern Cape area. Specifically, companies situated within Mossel Bay and George as most BBBEE companies are situated within these two towns in this area. These areas form part of the Garden Route area serviced by the Business Banking Division of Nedbank.

1.6 KEY ASSUMPTIONS

The main assumption in this research is that the banking sector needs to streamline its process and establish and maintain client – banker relationship to facilitate access to finance for BBBEE SME'S. This will enhance the sustainable growth of SME'S in the Mossel Bay and George area and will result in alleviating the unemployment rate within the various communities. The facilitation of access to finance for BBBEE SME'S can then be implemented in other areas within South Africa.

1.7 OBJECTIVE FOR THE STUDY

The objective of this study is to identify the reasons for declining of credit application of BBBEE SME'S and to find a solution to overcome barriers to the problem. Both the owners of BBBEE SME'S and officials of the banking sector will be involved in the data collection process in order to establish what each party expects from each other in order to facilitate banking finance access.

1.8 RESEARCH DESIGN

The research presented in this paper is quantitative action research based on grounded theory and is concerned with the investigation of the following question: How to facilitate access to banking facilities for SME'S, specifically BBBEE companies in the Southern Cape area?

The research process in this study is as follows.

1.8.1 Literature Review

Secondary data, in the form of books, published and unpublished reports; the Internet, publications, academic journals and other publications will be used for this research. The focus area of the literature review will be on the BBBEE SME and facilitating access to banking finance. Financial institutions such as banks will also be reviewed to understand general dynamics at play within this sector.

1.8.2 Sample Group

The sample group will be a sub - sample of the BBBEE SME'S that are located in the Western Cape Province and operating in Mossel Bay and George area as these towns form part of the Garden Route area serviced by the Business Banking Division of Nedbank. Only companies that fit the definition as stated in table 1.2 of small to medium enterprises with BBBEE status will be considered. The contact details of these companies will be obtained from a Real Enterprise Development (RED Door), which is sub-directorate within the Department of Economic Development and Tourism. The objective of RED Door is to promote small and or black-owned enterprises. The local economic developments at the George, Mossel Bay and Eden District municipalities will also be contacted to verify the existence and information of these entities.

Staff members who deal directly and indirectly with clients from Nedbank will be requested to participate to establish their perception of BBBEE SME'S.

1.8.3 Data Collection

A quantitative action research based on grounded theory and structured surveys will be used as a means to collect primary data. The survey will be fixed to the questions set consisting of five sections as follows:

I. Industry type and size;
II. Access to banking finance;
III. Common reasons for declining credit applications;
IV. BBBEE SME 's general perception of the banking sector;
V. Identify process to facilitate access to finance.

Electronic mails will be sent to the regional managers informing them about the research to be conducted and to request approval to obtain information that can assist in collecting data. Letters will be send to all BBBEE companies in the demarcated area that had facilities declined requesting their participation, giving full details and purpose of the research. A confidentiality indemnity contract will be drawn up to assure all participants that all data to be collected will not be disclosed to third parties. All participants will be requested to sign a participatory consent form, which will allow a participant to withdraw if not comfortable with the research project.

1.8.4 Data Processing and Analysis

The collected data will be analysed and results presented in the form of tables, percentages and graphs. The results will be used to draw conclusions and formulate recommendations.

1.9 DEFINITION OF CONCEPTS

1.9.1 Broad Based Black Economic Empowerment (BBBEE)

According to the Act, 2003 BBBEE empowerment means the empowerment of all black people, which includes women, disabled people, and inhabitants of rural areas through diverse but integrated socio-economic strategies, which include:

- increasing the number of black people that manage, own and control enterprises and productive assets;
- facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises;
- human resource and skills development;
- achieving equitable representation in all occupational categories and levels in the workforce;
- preferential procurement and
- investment in enterprises that are owned by black people.

1.9.2 Small Medium Enterprises (SME)

In South Africa the National Small Business Act 1996 defines five categories of business as follows:

Survivalist enterprise is considered pre-entrepreneurial and includes hawkers, vendors and subsistence farmers.

Micro enterprise usually lack formality in terms of registration and includes, spaza shops, minibus taxis and household industries.

Very small enterprises operate in the formal market and have access to technology and include mining, electricity, manufacturing and construction sectors.

Small enterprises are generally more establish than very small enterprises and exhibit more complex business practices.

Medium enterprises are often characterised by the decentralisation of power to an additional management layer.

Table 1.2 illustrates the differences between these enterprises as set out by the Act (1996).

Table 1.2: Definitions of SME

Enterprise	Survivalist	Micro	Very Small	Small	Medium
			Depending on industry size		
Number of employees	Fewer than 5	Fewer than 5	Fewer than 20	Fewer than 50	Fewer than200
Annual turnover	Less than minimum income standard or the poverty line	Less than R150 000	Less than R500 000	Less than R25 million	Less than R50 million
Gross assets, excluding fixed property	Less than R100 000	Less than R100 000	Less than R500 000	Less than R4,5 million	Less than R18 million

Source: National Small Business Act: 1996

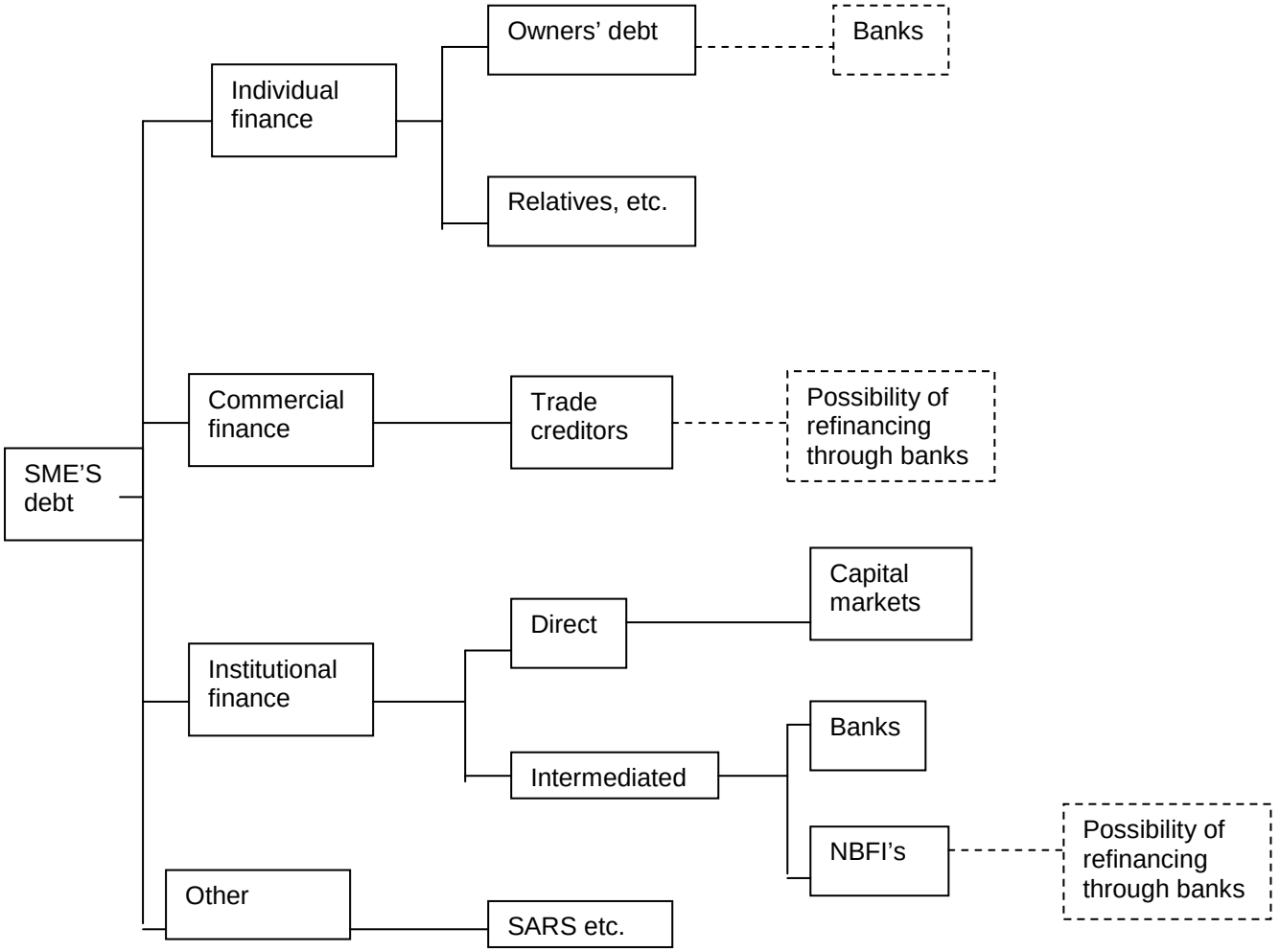
1.10 PRELIMINARY LITERATURE STUDY

The following literature study has identified problems with regards to granting of funding to SME'S.

1.10.1 The role of banks in providing debt finance to SME'S

According to Abedian et al (2001) the bank is not the only source of debt finance for SME'S. In Figure 1.1 the multiplicity of options and players in the provision of debt finance to SME'S is represented.

Figure 1.1: Sources of debt finance for the SME and the role of banks



SARS: South African Revenue Service

NBFIs: Non-Bank Financial Intermediaries

SOURCE: Abedian et al 2001 Internal report

The following issues describe the impact on SME finance:

- owners access to credit;
- direct access to capital market;
- bank products and
- non-bank intermediation (Abedian et al, 2001).

1.10.1.1 Owners access to credit

The provision of finance for micro and small enterprises is intrinsically linked to access to personal finance in the banking sector and microlending industries as owners have access to finance in their personal capacities.

1.10.1.2 Direct access to capital market

SME seeking debt finance can approach investors directly or indirectly through financial intermediary such as banks.

1.10.1.3 Bank products for SME financing

Since the credit-risk profile of SME'S may be too high, banks can risk only a relatively small percentage of its investors money in SME'S. The following products are available to SME'S:

- Bank overdraft facilities;
- Bank loans;
- Factoring and invoice discounting;
- Asset based finance;
- Equity finance.

1.10.1.4 Non-bank financial intermediaries

In SA the access to credit supplied by non-banks such as retailers and micro-lenders is an important part of intermediated debt finance.

1.10.2 Methods of risk assessment

According to a survey conducted by Abedian et al (2001), more research is required to improve the knowledge on methods of risk assessment and credit decision. The survey conducted among several Western Cape institutions involved in SME finance gives some indication that, compared to the average of institutions with an exposure to SME'S, commercial banks:

- strongly rely on the existence of collateral and
- use the greatest variety of means to assess risks.

According to Abedian et al (2001:87) banks have increased their involvement as far as direct loan support to SME'S is concerned, but remains discreet about it. The cost of administering loans and granting borrowers the necessary business support remains a challenge. It seems that mentorship schemes are still not efficient enough to be generalised on a long-term basis.

Abedian et al (2001) concluded that some consumer groups specifically SME and those excluded from financial services need more help to make choices. Resources devoted to consumer awareness should accommodate the information problems experienced by SME'S.

According to Abedian et al (2001:88) the high level of concentration in the South African banking sector has negative implication for SME finance and is aggravated given that SME'S tend to be even less able to benefit from the competition between banks than the average bank client. The reason this has been:

- the preference for local banks;
- the structure of the system itself and
- the lack of information on SME'S.

1.10.3 SME in Pakistan

A study done by State Bank of Pakistan on the SME sector concluded that Pakistan's economy had potential for development but could not derive optimal benefits despite effort from various policy makers. The SME'S in Pakistan are facing problems such as lack of sound collateral, bankable business plans and absence of adequate business service providers. Research by banking institutions revealed that SME'S are a better credit risk, despite the lack of collateral, as the default rate of this sector is much lower than that of large enterprises. According to SME Bank of Pakistan, SME'S throughout the world have provided tremendous opportunities to financial institutions to design various tools for the sector's development (e.g. Program Lending Schemes, Credit Scoring, Venture Capital Financing).

SME Banking in Pakistan is committed to playing a strategic role in advancing the economic growth through market research, product development and lending while providing state-of-the art service to SME'S (SME Sector, Online 2007).

1.10.4 Racial discrimination in mortgage lending in Washington DC

According to Blank, Green, McNeil and Venkatachalam, (2006) financial institutions are often guided by racial as well as economic factors in making lending decisions. Data collected and analysed from banks by whom in Washington DC through structured interviews, when posed the question:

" Are black borrowers less creditworthy than white borrowers?" revealed the following:

One respondent indicated that generally, the credit history of minorities is more problematic than that of whites, leading to a lower borrowing capacity for the former population.

Another respondent asserts that minorities tend to have worse credit histories and spend more on consumer goods and have less stability in employment.

Some of the qualitative findings suggested lenders claimed that they made efforts to market to minorities and treat them fairly, yet some respondents still reported their perception that minorities tended to have more "problematic application". The lack of minority lending officers at the banks, combined with the lack of knowledge of minorities about lending institutions could affect outcomes from the approval process (Blank et al, 2006:24).

1.11 LIST OF INTENDED CHAPTERS

1.11.1 Intended Chapters

The research has provisionally been planned to include the following chapters:

Chapter 1: Introduction to the research treatise

Chapter 2: Literature Review on the role of SME and the objective of BBBEE

Chapter 3: Literature Review on the role of financial institutions

Chapter 4: Detailed description of the research methodology

Chapter 5: Interpretation of the data, justification of data as evidence and validation

of evidence as knowledge as well as stating the theory

Chapter 6: Summary, Conclusion and Recommendations

1.12 CONCLUSION

This chapter outlined the purpose of the research to find a solution to facilitate access to banking finance for SME'S, specifically BBBEE companies in the Southern Cape area. The research will focus on reasons for unsuccessful credit applications, the effect of credit scoring, and NCA and Basel risk rating on accessing financing. The research will investigate alternative solutions in facilitating access to finance.

The following chapter illustrates the literature study on SME'S.

CHAPTER TWO

2. THE ROLE OF SME AND THE OBJECTIVE OF BBBEE

2.1 INTRODUCTION

Chapter two will address the current literature on the definitions of SME'S and their impact on the economy. The objectives of the BBBEE Act and the National Credit Act (NCA) and its impact on the SME'S will be discussed.

2.2 DEFINITIONS OF SME

According to the International Finance Corporation (Financing small, 2003:1) SME'S vary from country to country as they are categorised based on the firm's assets, number of employees, or annual sales. IFC defines SME'S as businesses with total assets less than fifteen million US dollars and employees less than three hundred people. SME'S are defined as business with less than twenty employees in countries with smaller economies (Financing small, 2003:1).

A general trait of SME according to The Asia-Pacific Economic Cooperation (APEC, 2002) is that it employs less than one hundred people. No consensus exists on what differentiates a micro firm from a small or a medium one. A micro enterprise commonly employs less than five people (What is an SME?, 2003:173).

The most common criterion to define SME'S for a statistical purpose is the number employed, however various economies use capitalisation, assets, turnover and production capacity as a criterion to define SME. APEC (2002) defines SME across all economies as employing less than one hundred people and categorises as follows:

- less than five employees for micro firm that includes self employed managers;

- employs between five and nineteen people for small firms and
- employs between twenty and ninety-nine people for medium sized (What is an SME, 2003:178).

Migiro and Wallis (2006:3) state, as SME'S are defined differently between countries so it differs across sectors. Definitions are based on quantitative measures such as number of employees and turnover of assets, while other definitions are based on qualitative methods.

The definition of an SME depends on the country being considered.

Kenya, one of the African countries, categorises enterprises as follows, primarily by the number of employees:

- less than five employees are referred to as micro-enterprises;
- between five to forty nine workers are classified as small-scale enterprises;
- from fifty to ninety nine workers are classified as medium-scale enterprises and
- from one hundred or more workers are categorized as large-scale enterprises (Migiro & Wallis, 2006:3).

According to Migiro and Wallis (2006:3), numerous studies in classifying SME'S in the literature have attempted to define the characteristics of SME'S. Studies revealed that many of the processes and techniques that have been applied in large businesses and SME'S respectively do not necessarily provide similar outcomes.

2.2.1 A South African definition of SME

According to the National small business Act (1996), small business is defined as:

A separate and distinct business entity, including cooperative enterprises and non - governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy mentioned in column 1 of table 2.1 below and which can be classified as a micro, a very small or a medium enterprise by satisfying the criteria

mentioned in column 3,4 and 5 of the table opposite the smallest relevant size and class as mentioned in column 2 of the table.

Table 2.1: Definition of small business across sectors

Sector or sub-sectors in accordance with the Standard Industrial Classification	Size or class	Total full-time equivalent of paid employees Less than:	Total annual turnover Less than:	Total gross asset value (fixed property excluded Less than:
Agriculture	Medium	100	R 4.00m	R 4.00m
	Small	50	R 2.00m	R 2.00m
	Very small	10	R 0.40m	R 0.40m
	Micro	5	R 0.15m	R 0.10m
Mining and Quarrying	Medium	200	R30.00m	R18.00m
	Small	50	R 7.50m	R 4.50m
	Very small	20	R 3.00m	R 1.80m
	Micro	5	R 0.15m	R 0.10m
Manufacturing Electricity, Gas and Water	Medium	200	R40.00m	R15.00m
	Small	50	R10.00m	R 3.75m
	Very small	20	R 4.00m	R 1.50m
	Micro	5	R 0.15m	R 0.10m
Construction	Medium	200	R20.00m	R 4.00m
	Small	50	R 5.00m	R 1.00m
	Very small	20	R 2.00m	R 0.40m
	Micro	5	R 0.15m	R 0.10m
Retail and Motor Trade and Repair Services	Medium	100	R30.00m	R 5.00m
	Small	50	R15.00m	R 2.50m
	Very small	10	R 3.00m	R 0.50m
	Micro	5	R 0.15m	R 0.10m
Wholesale Trade, Commercial Agents and Allied Services	Medium	100	R50.00m	R 8.00m
	Small	50	R25.00m	R 4.00m
	Very small	10	R 5.00m	R 0.50m
	Micro	5	R 0.15m	R 0.10m
Catering, Accommodation and Trade	Medium	100	R10.00m	R 2.00m
	Small	50	R 5.00m	R 1.00m
	Very small	10	R 1.00m	R 0.20m
	Micro	5	R0.15m	R 0.10m
Transport, Storage and	Medium	100	R20.00m	R 5.00m

Communications	Small Very small Micro	50 10 5	R10.00m R 2.00m R 0.15m	R 2.50m R 0.50m R 0.10m
Finance and Business Services	Medium Small Very small Micro	100 50 10 5	R20.00m R10.00m R 2.00m R 0.15m	R 4.00m R 2.00m R 0.40m R 0.10m
Community, Social and Personal Services	Medium Small Very small Micro	100 50 10 5	R10.00m R 5.00m R 1.00m R0.15m	R 5.00m R 2.50m R 0.50m R 0.10m

Source: National Small Business Act, 1996

2.2.2 The impact of SME on economic development

According to Buckley (1997:67), SME start-ups create jobs, as they are more labour intensive than larger firms. SME'S are seen as job generators and play an important role in the world economy. They also contribute to technological advances in the development and transferring of certain technology, where a niche market for small firms exists.

SME'S role in the economy regardless of its size is to enhance the quality of human resources, foster innovation and penetrate new business opportunities and provide job opportunities. The low start-up costs enable SME'S to establish and reposition rapidly to volatile market and economic changes. SME'S have created a niche market for themselves and successfully coexist with big enterprises (Financing small, 2003:1).

According to the Department of Trade and Industry (DTI, 2005), the high unemployment rate is the driving force behind the South African government supporting SME'S who is the vehicle of job creation. SME'S worldwide play a crucial role in absorbing labour, entering new markets and expanding economies (Integrated Strategy Online, 2005).

The South African government continually expressed its expectation for SME'S to be the key engine of job creation. In recent years SME'S accounted for 80 percent of

formal-sector job growth and approximately 50 percent of private-sector employment in SA (Moola, 2008:16).

2.3 THE OBJECTIVE FOR BBBEE

The objective of the BBBEE Act as described by DTI (2004) is to:

- Promote economic participation of black people;
- Change the racial constitution of management and ownership structures;
- Increase access to economic activities, infrastructure and skills development as well as owning and managing of new and existing enterprises to communities and black women;
- Promoting broad-based participation in the economy by black people through investment programmes;
- Facilitating access to economic activities by empowering rural and local communities;
- Facilitating access to finance for black economic empowerment.

2.3.1 Code of Good Practice

The Code of Good Practice was developed to present a standard framework for the measurement of BBBEE across all sectors of the SA economy. This will allow all industries to be equal when presenting their BBBEE credentials. The Code of Good Practice is to provide transparent and comprehensive criteria for the measurement of broad-based BEE (DTI, 2007:5).

2.3.2 The measurement of BBBEE

The objective of the framework for codes of good practice for Qualifying Small Enterprise (QSE) scorecard is to specify the elements of BBBEE. Enterprises with annual turnover ranging from R5 million and R35 million qualifies as a QSE (DTI, 2007:7). The framework consists of seven elements with an applicable scoring:

Table 2.2: Measurement of BBBEE

Element	QSE Scorecard point
Ownership	25
Management Control	25
Employment Equity	25
Skills Development	25
Preferential Procurement	25
Enterprise Development	25
Socio-Economic Development	25
Total	100

Source: DTI (2007:17-18)

Each element has a weighted score out of 100 points, which expresses the BBBEE contribution of companies. Supplementary statements explain how each element should be measured. QSE only need four of the seven elements to qualify as a BBBEE contributor (DTI, 2007:19).

Enterprises with an annual turnover of less than R5 million qualify as exempt micro-enterprises and are deemed to have BBBEE status (DTI, 2007:9).

2.3.3 Challenges facing BBBEE enterprises

Local businesses top challenge remains to be access to adequate funding. Start-up businesses particular those involved in BBBEE transaction. Common challenges are the following (Standard Bank, 2007:24):

- lack of equity funding to acquire shares;
- lack of collateral to secure conventional bank finance;
- lack of skills in business or financial management;
- high preparation cost of tender proposals for smaller business and
- inability to meet performance targets due to limited resources.

2.4 THE NATIONAL CREDIT ACT (NCA)

According to Gillingham (2008) the National Credit Act (NCA) could play a vital role in preventing financial disasters and position South Africa ahead of consumer credit legislation around the world. The two main objectives according to the National

Credit Regulator (NCR), are to strengthen the country's credit system and to address the issue of over-indebtedness (Gillingham, 2008:20).

2.4.1 The objective of NCA

Purpose of the Act (2005) is to promote a fair, transparent, sustainable and accessible credit market and to advance the social and economic welfare of South Africans. Correcting imbalances, in negotiating credit power and to prevent over-indebtedness of consumers. The Act (2005) also protects consumers by promoting the development of a credit market, promoting responsibility and equity in the credit market place to those who have historically been unable to access credit. Natural persons who have contractual capacity as well as juristic persons with monetary asset value or annual turnover of less that R1 million are protected by the Act (NCA, 2005:30).

2.4.2 Right of consumers

The act enforces the rights of consumers be they contractual natural persons and juristic persons to apply for credit from a credit provider. Credit providers may not unfairly discriminate directly or indirectly against consumers. The reason that credit has to be declined should be communicated on request to consumer (NCA, 2005).

All correspondence and information should be in the official language understandable to consumer. The consumer has the right to receive documents pertaining to any credit agreements. Credit providers have a legal obligation to protect the consumer's credit rights as set out in the Act (ABSA, 2007:29).

2.4.3 Development of accessible credit market

The national credit regulator is responsible for the development of accessibility of the credit market by serving the needs of historically disadvantage, low income and remote, isolated persons or communities. The credit regulator also monitors the credit availability, market share, and small business access to credit market as well as levels and social effects of indebtedness of consumers (NCA, 2005:46).

According to Nomsa Motshegare of the NCR (Gillingham 2008) the NCA applies to all individuals and to businesses with a turnover of less than R1 million. The NCA allows much more scope for lending to small and micro enterprises as small

businesses are generally entrepreneurs (Gillingham, 2008:21).

2.4.4 The effect of NCA on SME/BBBEE

Whilst the aim of the NCA (2005) is to protect consumers, credit providers (banks) are compelled to inform consumers about their rights and of relevant information contained in a loan agreement (NCA, 2005). This process requires credit providers to revisit operational procedures and product documentation. The establishment of new business processes, the supplying of additional information and the conducting of detailed affordability assessments will result in an increase in the price of credit. Small businesses lack the benefits of scale and a price increase in credit will put them in a disadvantageous position, as they are not able to offset additional costs with revenue from other areas of their operations (Small businesses, 2007). The NCA however prescribes maximum interest rates that could be charged. It seems that granting of credit has become less accessible for consumers and more cumbersome and expensive for credit providers (Small businesses, 2007:57).

2.5 CONCLUSION

Literature confirms that definitions of SME'S differ across sectors based on turnover and number of employees. SME'S are seen as the main drivers for job creation. The objective of BBBEE Act is to promote access to finance for black economic empowerment. The NCA aims to alleviate the challenges facing SME in accessing credit. In order to promote the development of SME, financial institutions need to facilitate access to finance. Chapter three deals with the role of financial institutions specifically the banking sector.

CHAPTER THREE

3. THE ROLE OF FINANCIAL INSTITUTIONS

3.1 INTRODUCTION

This chapter discusses the role of financial institutions, specifically the banking sector. The barriers in accessing finance are briefly discussed. The different types of banking facilities available for SME'S and collateral will be explained. Khula credit Indemnity Scheme's role in assisting SME will be discussed. The use of credit scoring to rate applicants, and the effect of Basel II rating by the banking sector will also be dealt with. A preliminary framework in relationship building to facilitate access to credit will be analysed.

3.2 BARRIERS TO ACCESS TO BANKING FINANCE

According to the PECC Finance Forum (APEC, 2002) the lack of perfect reliable information on the financial condition and performance; unimpressive and weak business plans; limitation in SME'S management, market links, governance and information technology makes it difficult for banks to provide finance to SME'S. Financial institutions often lack the expertise to deal with SME'S who often require borrowing small amounts for which flexible terms and conditions are not available. SME'S are also incapable of pledging required collateral. Bank staff is not sufficiently informed about lending growth of SME'S and lack training. Unsatisfactory lending arrangements are caused by failing to identify the characteristics of SME'S (Financing small, 2003). SME'S are faced with challenges such as:

- lack of access to market information;
- lack of technology;
- incompetent human resources and
- lack of access to capital (Financing small, 2003:2-3).

Banks are hesitant to grant SME'S access to finance because they perceive SME'S as too risky, and costly as returns on loans are too low (Nigrini & Schoombie, 2002:737). Banks are reluctant to lend to SME'S, as accounting records required to

appraise an applications are not always available. Collateral requirements are often attached to loans to enforce repayment. High interest rates are levied when SME'S are unable to pledge adequate collateral. The interest rate equates to the level of risk involved (Nigrini & Schoombie, 2002:737).

According to Sunday (1999:659) the financial constraints of SME'S are due to lack of information. Lenders as a rule are not keen to increase their interest rates if the undesirable selection and incentive effects of a rate increase does justify the net increase in expected profits. SME'S are generally perceived as lacking the level of reputation to make them prospects for funding. The lack of reputation is due to having a higher bankruptcy rate and lower collateral net worth (Sunday 1999:659).

3.3 TYPES OF BANKING CREDIT FACILITIES

According to the four major banks of South Africa, Standard Bank, Nedbank, First National Bank (FNB) and ABSA (as observed by the author) the following credit facilities are available for SME'S:

3.3.1 Overdraft

An overdraft is a fluctuating or fixed amount allocated to a client's business account. The amount is determined by the business performance and is an ideal way to manage cash flow. Cash is readily available and interest is charge only on the portion used (Nedbank Online, 2008).

3.3.2 Flexi business loan

FNB (Online 2005) offers a flexi business loan, which is a revolving credit loan from R50 000 to maximum of R200 000, repayable in fixed monthly instalments. The repayment period is between twelve and sixty months. Interest is only payable on the utilised portion of the loan and funds can be withdrawn up the amount of original limit after 25 percent of loan amount has been repaid.

3.3.3 Leverage finance

Leverage finance, a medium term loan, is a loan, which is repayable in monthly instalments over a period of two years to a maximum of ten years. The monthly repayments include interest and capital amount. This type of loan is linked to prime rate suitable for funding of capital expenses such as acquisitions of shares, ownership transfers, BBBEE transactions and leveraged recapitalisation. The loan amount is up to R50 million (FNB Online, 2005).

3.3.4 Business mortgage

Business Mortgage caters for the needs of professionals to acquire or renovate a residential property where up to 50 percent of the property is being used for business purposes. The loan amount is 80 percent of property-assessed value to a maximum of R10 million with repayment period of twenty years (Standard Bank Online, 2008).

3.3.5 Bankers' acceptance

Standard Bank (Online 2008) offers bankers' acceptances which are bills drawn by the client on the bank for periods of between 30 and 365 days. Once the bank accepts the bill, an amount equal to its face value, less finance charges, is immediately paid into the client's account. On the expiry or maturity date of the bill the full amount is payable to the bank. Companies with a strong a three-year profit record and a substantial capital base will be considered for this type of facility**.**

3.3.6 Property finance

Property finance is a loan for the funding of acquisition, development, extensions of commercial and industrial properties. Properties that are funded include shops, sectional title and existing residential properties, which are zoned primarily for business purposes. Loan amounts are from R500 000 to in excess of R100 million. Registration of first mortgage bond in favour of the bank serves as primary security (ABSA Online, 2008).

3.3.7 Debtor factoring

Debtor factoring is the conversion of trade debtors into cash through factoring. The client allows the bank to take over the debtor book at a percent less than total value. The bank collects the outstanding debtors and pays the credit the percentage that was agreed upon. The bank charges the client a commission for the accepting the risk of non-payment by debtors. The client may borrow funds against future collections at an agreed interest rate (Lovemore & Brummer, 2003:60). Standard Bank usually purchase trade debtor book at 75 percent (Standard Bank Online, 2008). This amount is paid on the date of purchase and all future debtors are paid in a similar portion.

3.3.8 Vehicle and asset finance

Vehicle and asset Finance are loans for the acquisition of business vehicles fleet, specialised equipment used in production facilities. This type of loans is finance over the life span of the vehicle of asset (Nedbank Online, 2008).

3.4 KHULA INDEMNITY SCHEME

Khula indemnity or credit guarantee Scheme is suitable for businesses that lack the necessary collateral to secure a business loan. ABSA provides assistance in evaluating the financial requirements of an enterprise and apply for Khula Credit Guarantee Scheme that will benefit small businesses should it qualify for guarantee (Essential Guide, 2004:163).

3.4.1 Khula funding

During 1996 Khula Enterprise Finance Limited was established to concentrate on the development and promotion of SME'S in South Africa (Khula Enterprise Finance Online, 2008). Khula offers a credit guarantee scheme to many small businesses that do not have assets to pledge as security for a bank loan. Khula credit Indemnity Scheme is a guarantee issued to financial institutions that approved finances to

entities with inadequate collateral. The Indemnity scheme shares the financing risk with banks to ensure the SME'S gain access to funding (DTI online 2008).

3.4.2 Current agreements with Khula

Khula guaranteed loans are available at Standard Bank with a maximum amount of finance of R3 million or less. The indemnified amount of the Khula guarantee ranges from 50 to 90 percent. Khula scheme pays the bank the amount of the indemnified percentage should the business fail to fulfil its repayment obligation to the bank.
Standard bank requires that a business contributes ten percent of the borrowed amount, which could be in the form of cash or equipment (Standard Bank online, 2008).

Nedbank strives to partner business owners by assisting them to grow from start-up to maturity stage of the business cycle. On 24th January 1997 Nedbank and Khula Enterprise Finance Limited entered into an agreement to allow SME'S access to a maximum loan of R1 million. The agreement permits funding ranging from R10 thousand to R 3 million (Nedbank online, 2008).

3.5 BANK LENDING FACILITIES AND COLLATERAL

All firms go through different life cycle from conception to decline as shown in table 3.1. During each life cycle a firm experience various financial issues in order to progress to next level of growth (Stokes, 2002: 329).

Table 3.1: The financial life cycle of a small firm

Stage	**Likely sources of finance**	**Financial issues**
Conception	Personal investment	Under capitalisation, because of inability to raise finance
Introduction	Bank loans, overdrafts	Control of costs and lack of information
Development	Hire purchase, leasing	Overtrading, liquidity crisis
Growth	Venture capital	Equity gap, appropriate information systems
Maturity	All sources	Weakening return on investment
Decline	Sale of business/liquidation	Finance withdrawn. Tax issues if business is sold

Source: Stokes 2002:329

According to Stokes (2002:320), four categories of financing such as permanent capital, working capital, asset finance and international trade finance are available small business during the various stages of its life cycle:

- Permanent capital also known as equity capital is the equity investment in shares and is used to finance the start-up costs in the life cycle of enterprise; The developmental and expansion stage of the life cycle are also funded by capital. Equity capital funded by investors provides a stake in the ownership of the business;
- Working capital is a short-term finance to bridge the period before revenue is received to pay suppliers and overhead costs. This source of finance is usually needed in the growth phase of a business;
- Asset finance is medium to long-term finance to purchase tangible assets, the term of the borrowing depends on the useful life of the asset;
- International trade finance is foreign exchange contracts to guard against currency fluctuations when a business is involved in international trade.

Table 3.2 illustrates the various sources of financing for small businesses, which are available during the different stages of a business life cycle:

Table 3.2: The uses and sources of funds for a small business

A small firm needs			
Permanent capital • start up • expansion and development • innovation • refinancing	**Working capital** • debtor/creditor gap • seasonal fluctuations • bridging finance • short-lived assets	**Asset finance** • plant and machinery • equipment and furniture • buildings • vehicles	**Finance for international trade** • growth through international trading
So it requires			
Equity capital	*Short-term finance (up to 3 years*	*Medium-to long-term finance*	*Specialist and export finance*
For which the main sources are			
• personal investment • venture capital institutions • public sector sources • public equity	• clearing banks • finance houses • factoring companies • leasing companies • public sector sources	• Clearing banks • Venture capital institutions • Pension funds • Insurance companies • Finance houses • Leasing companies • Public sector sources	• Clearing banks • Factoring companies • Export houses • Finance houses

Source: Stokes 2003:320

According to Deakins and Freel (2003:121-122), collateral is assets that may be pledged as security to ensure commitment from lenders and protects the bank to recover losses in case of default. The provider of finance requires security to serve as a buffer for liquidity constraints and uncertainty. Collateral provides a recovery method against potential losses the bank where it considers risks to be high. Collateral does not reduce the probability and needs to be revalued at intervals because of valuation problems or depreciation considerations.

3.6 VALUE OF COLLATERAL AT NEDBANK

Nedbank (Online, 2008) places a percentage value on the different types of security being offered as collateral for facilities granted. Table 3.3 reflects the values attached to each type of security.

Table 3.3: Security values

SECURITY	VALUE
Fixed property	80% of market value
Fixed deposits	100% of face value
Surrender value of Life assurance policies	90% of current surrender value
Shares in listed companies and unit trust	50% of current market value
Cession of debtors	Average 25% depending of strength of book
Special notarial bond over equipment only	20% to 33% of approved value of equipment
General notarial over stock and equipment	10% of approved value stock and equipment

Source: Nedbank Online, 2008

3.7 CREDIT SCORING MODELS WITHIN THE BANKING SECTOR

Credit scoring originated in 1941 when a study of 37 firms that distinguished good loans from bad loans was published. Established techniques of statistical discrimination have subsequently been developed and new classificatory algorithms researched and tested. Credit scoring involves the pre-screening of a potential applicant by using risk assessment tools to assess the risk associate with lending to an organisation or an individual. Most major banks use credit scoring to rate applicants, monitor performance and manage accounts. Credit - scoring helps a lender to distinguish between applicants that will meet repayment obligations and those have a greater probability of default (Crook, Edelman and Thomas, 2007:447).

Credit scoring is a computerised system used by banks for credit analysis of applications by business customers. The credit scoring is based upon the application of predictable variables for individual or business rating. Information such as income, age of business or individual and period at address are used to assess application. The computer system generates a rating or scoring based on variables, which will

determine the acceptance or rejection of an application. Application may be rejected due to credit judgement or poor credit history (Deakins & Freel, 2003:125).

According to Crook et al (2007), credit scoring is one of the most successful applications of statistics and operation research. Credit scoring resulted in a large increase in lending of twenty eight percent and twenty two percent in the Netherlands and France respectively.

According to Berger & Frame (2007:5-7), credit scoring is a statistical approach to determine the probability that a credit applicant might become delinquent or default on payment. Small businesses in the United States have historically faced considerable problems in accessing funding for creditworthy projects (Berger & Frame, 2007). The difficulties in accessing funds were attributable to lack of credible information about the small businesses. Information for small businesses is generally much more obscured than large corporations because audited financial statements are not always available to yield credible financial information regularly. Financial institutions use various lending technologies to address this opacity problem.

Choices among technologies used by financial institutions to evaluate small business credit applicants vary across institutions and applicants. Many institutions make use small business credit scoring (SBCS), a lending technology to evaluate applicants for micro credit under $ 250 thousand. SBCS uses statistical methods in analysing consumer data about the owners of businesses together with relative limited data about the entity to predict future credit performance. The data is based on hard quantitative information on the owner is obtainable from consumer credit bureaus and information on the business is obtainable from commercial credit bureaus (Berger & Frame, 2007:6).

3.7.1 Requirements for applying for lending facilities

Banks are easily accessible for entrepreneurs and provide short-term debt finance that in theory is attractive. Theoretically banks face issues where providers and borrowers have different sets of information in assessing propositions from entrepreneurs. Banks experience two types of problems: adverse selection and moral hazard (Deakins & Freel, 2003:118-119).

Adverse selection occurs when the bank refuses finance for a venture that would have been successful or provides finance for a venture that subsequently fails. These selections occur when the bank bases its decisions on risk assessment of the proposition on incomplete of incorrect information. Banks should have the skills and resources necessary to increase the frequency of correct decisions (Deakins & Freel, 2003:118-119).

Moral hazard creates a monitoring problem for the bank, as it is difficult to control. There is no guarantee that an entrepreneur will act in the best interest of the bank after raising a bank loan. Banks will thus require security, which contributes to the problems facing entrepreneurs without substantial equity and insufficient security (Deakins & Freel, 2003:118-119).

Banks are looking now more at SME'S and empowerment sector's commercial contracts than at the balance sheet (Future sales, 2007:58). SME'S often struggle to obtain finance due to poor balance sheets. The ability to service loan repayments from valid commercial contracts could ensure the granting of finance for assets, as assets serve as collateral for debt. Borrowers still have to pass a rigid credit screening process to prove the ability to service loan repayments (Future sales, 2007:58).

According to Standard Bank (2007:23) the information required for financing transactions differs in relation to the structure of the business. The application for financing should be accompanied by the following minimum information:

- latest annual financial statements and current management accounts;
- projected cash flow and income statement;
- owner's professional status and experience;
- background information of business and its role-players;
- financial requirements, needs and duration of repayment and
- owner's financial contribution to the business and description of assets that could be pledged as security for loans (Standard Bank online, 2008).

The banks need the above information to perform an affordability assessment as prescribed by the NCA. Reckless credit lending has severe consequences for credit providers who grant credit to consumers who cannot afford to repay the credit agreement (The National Credit, 2008:35).

3.8 PURPOSE OF BASEL

During 1988 a committee made up of the central banks of many Western countries introduced Basel Capital Accord (Basel I), which is a capital measurement system. This system required for the implementation of a risk-based regulatory framework for capital adequacy. The framework measures the minimum level of security and reliability of banks as well as their financial position. The risk-based ratios measure the comparison between capital held and risks taken. This framework requires banks to hold at least eight percent of their risk-weighted assets as capital. Basel I framework however proved to be incompatible for larger, complex banks a new capital adequacy requirement was established, Basel II (Carey & Flynn, 2005:713).

During 2004 the Basel committee revised the Basel I framework by reinforcing the reliability and stability of the international banking system. The major benefit of the revised framework known as Basel II is to promote the adoption of stronger risk management practises by the banking industry. Basel II allows banks to select from various approaches suitable for their operations and financial markets to determine their capital requirements (International convergence, 2004:2).

3.8.1 The impact of BASEL on the banking sector

Banks often use an internal risk rating system to grade borrowers into different categories of credit riskiness. The grading of borrowers is useful in the calculation of capital requirements as set out in the Basel framework. The grading scale is vital in determining the probability of default connected to each grade and is key the factor of the capital allocation process. The fundamentals of the internal rating system are to allocate a credit quality indicator to a borrower, classify borrower into classes of grades and to measure the riskiness of particular grade (Foglia, Iannotti & Marulo Reedtz, 2001:422).

According to Singh (2003:112), the central focus of a bank's system of accountability lies with its compliance function to ensure that financial regulation set by relevant regulatory authorities are being adhered to. The banking systems of controls must comply with the laws, rules and standards governing all its business activities as prescribed by the Basel Committee. The adherences to its compliance functions such as policies, regulations and standards will reduce the risk of loss or failure.

3.8.2 The effect of BASEL on SME'S

SME'S depend heavily on banks in the start-up stage of their existence and tend to have a low capital base. The internal rating allocated to borrowers at banks is designed to more accurately assess the true risk of a loan application. The lack of providing reliable information will result in allocating a poor credit risk rating of grading score to SME'S. Poor grading score is more likely to result in a decline in borrowers loan application (Norton, 2003:40).

3.9 CUSTOMER SATISFACTION WITHIN BANKING SECTOR

Banks have ignored the importance of delivering "error-free banking" which is crucial in retaining clients (Lim, 2007:6). The Nielsen Company's bi-annual Retail Banking report (Dec 2007) revealed that one in eight customers expressed dissatisfaction with competitive interest rates on credit cards. One in ten customers perceive not to be valued by their primary bank provider (Lim, 2007:6).

In recognition of the long-term value of customers, banks have shifted from transactional-based marketing approached to a relationship-based approached. Bank's sales and profitability are affected by customer satisfaction (Vimi & Khan, 2008).

Customer relationship management (CRM), a cross-functional approach in establishing and maintaining regular interaction with customers, has become an objective for businesses (Day, 2001:1). The function of CRM is to gather accurate and applicable information about customers to ensure the administration of customer

experience, evaluating quality and gauge customer satisfaction. Businesses build customer relationships by identifying, predicting and directing customer concerns (Betz, 2008:36).

3.9.1 Customers perception of quality service

According to Schiffman and Kanuk (2000:146- 147) services are intangible, variable, perishable and are simultaneously produced and consumed. These characteristics make it difficult to assess the quality of services. Customers use tangible features to evaluate quality of services. In order to maintain consistency of quality marketers standardise services. Various researchers according to Schiffman and Kanuk (2000), believe that a customer's assessment of service quality is a function of the degree and direction of the disparity between the customer's expectations of service and the customer's perception of the actual service being delivered.

The SERVQUAL scale measures the gap between customer's expectation and customer's perception based on the following factors tangibility, reliability, responsiveness, assurance and empathy.

Table 3.4: Servqual factors measuring service quality

Factors	Description
• Tangibles	Appearance of tangible facilities
• Reliability	Ability to perform service dependable and accurately
• Responsiveness	Willingness to help customers and provide prompt service
• Assurance	Competency and courtesy of employees to convey trust and confidence
• Empathy	Caring, individualized attention the entity provides its customers

Source: Schiffman & Kanuk, 2000:147

3.9.2 Servqual model to measure quality of service

Prabhakaran and Satya (2003:166-168) used the SERVQUAL model to measure the quality of service in the banking sector and based on respondent's information concluded the following:

Tangibility - accessibility to bank's location suggests convenience and personal touch seems to be crucial to the customers;
Reliability - customers are meticulous that agreed terms and conditions should not be adversely manipulated;
Responsiveness – customers generally favour an amiable bank which eager to assist them in their baking needs;
Assurance – prompt service is the trademark of assurance and is a survival strategy in a competitive world;
Empathy – each customers need or problem is unique, individualised service differentiate banks from each other and is an important factor in retaining.

Borrowers are not only satisfied with the accessing of finance but also the process of obtaining it. Quality service demonstrated through factors such as tangibility, reliability, responsiveness, assurance and empathy is key in a highly competitive environment (Prabhakaran & Satya, 2003:169).

3.10 PROCESSES CURRENTLY USED BY OTHER BANKS

According to Asad (2004) during January 2002 the Government of Pakistan established SME Bank to solely cater to the needs of the SME sector. The bank offers specialised financial products and services to facilitate the needs of the niche market and to fuel SME development. The bank offers financial assistance in form of credit facilities and business support services. The bank anticipates that business plans and lending activities instigate by them will inevitably promote the SME sector. This will contribute to achieving Gross Domestic Product (GDP) growth and alleviate levels of unemployment and poverty (Asad, 2004:9).

The success of Hong Kong Bank of Canada (HSBC), which is the seventh largest bank in Canada, can be attributed to SME lending. The banks primary focus is on long-term service by establishing relationships with small businesses from start up to maturity phase. Specialised teams whose core function is to prevent business failure focuses on solving problems as it arises. Branch managers are authorised key

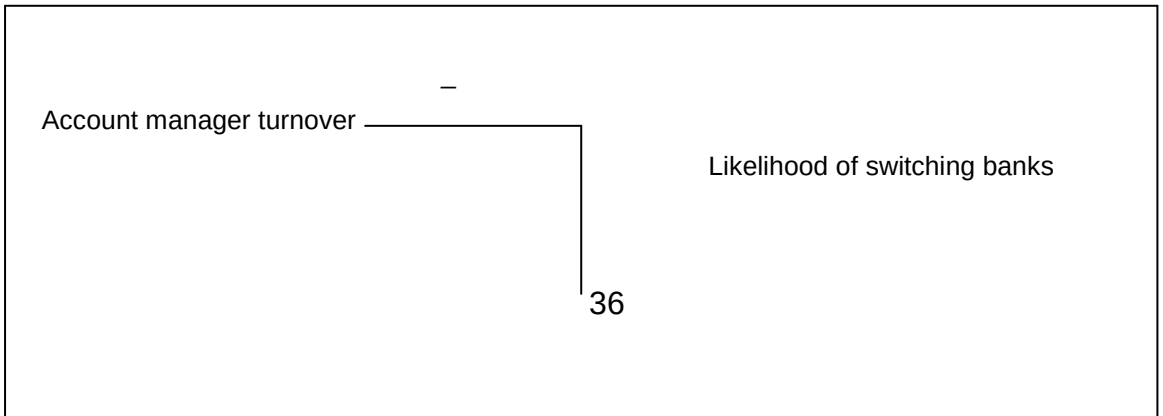
decision makers and have greater flexibility in lending activities than other institutions (Building not bashing, 1999).

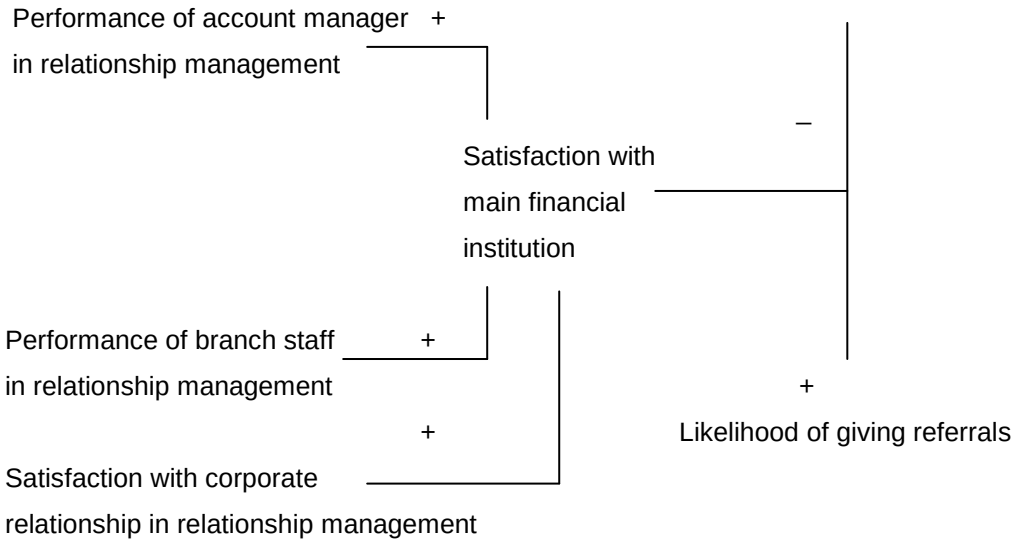
A study by Ibbotson and Moran (2003) on the role of banks in the growth and development of SME'S in Northern Ireland found that banks in some regions established dedicated small business centres. The centres employ small business officers that provide expertise and support to small business customers. The role of the business officers is similar to that of a relationship manager. Each officer is responsible for an allocated number of individual customers so that personal contact can be maintained with the customers (Ibbotson and Moran, 2003:94).

3.11 PRELIMINARY FRAMEWORK FOR BANK AND SME RELATIONSHIPS

One potential strategy in overcoming barriers of SME access to banking finance is to establish sound relationships between banks and its customers. (Madill, Feeney, Riding, & Haines Jr., 2002:86). Figure 3.1 illustrates a preliminary framework, designed to establish the importance of relationship management between SME and banks (Madill et al 2002:86).

Graph 3.1: A preliminary framework for Bank/SME relationships





Source: Madill et al 2002:88

The account manager turnover envisages to adversely affecting SME'S satisfaction with its primary banker. The performance of the account manager and branch staff in managing the relationship are assumed to have a satisfactory affect on SME'S. It is hypothesized that the satisfaction with corporate relationship policies and procedures contribute to the overall satisfaction with financial institution. Satisfied SME'S are likely to refer others to their banks and reluctant to switch banks. The customer has alternatives to change from banks with little or no relationship termination cost (Madill et al, 2002:87).

3.11.1. The accounts manager's role in relationship management

The accounts or services manager is the contact person responsible for managing a customer's portfolio at the bank. The development of the relationship between accounts manager and customer depends on the rewards or benefits both participants derive from the relationship. The accounts manager's responsibility is to provide a premiums service to the customer. Personal encounters with and mutual understanding of customer needs will foster trust and commitment (Bove and Johnson, 2000).

3.11.2 Branch staff role in relationship management

The branch staff performance depicts the bank's organisational culture that should display contractual and competence trust. The role of branch staff is to be polite in daily transactions with SME. They must respond rapidly to SME requests by tending to SME company needs. Staff should be well informed, considerate, approachable and approving of the SME business (Madill et al 2002:91).

3.11.3 Corporate policies as part of relationship management

According to Parvatiyar and Sheth (2001) corporate policies are vital for strategic relationship management between employees and customers. The corporate policies should stipulate the role requirements of employees responsible for managing customer relationship. Employees who lack the knowledge and expertise to effectively service customers must receive necessary training. The policies should include communication strategies, process alignment, employee motivation and evaluation procedure for relationship management. Policies should include flexibility in structuring of credit to sufficiently meet the needs of customers (Parvatiyar and Sheth, 2001).

3.12 FIRST NATIONAL BANK'S (FNB) SOLUTION TO BEE

FNB has created a practical and holistic solution to facilitate BBBEE transactions (FNB solutions, 2005). The solutions include BBBEE intelligence and advisory services, pairing, full service financial solutions, business mentoring and a dedicated unit:

- BBBEE intelligence and advisory services are a web guide that provided advice on best- practice for BBBEE;
- Pairing is the partnering of buyer and sellers in BBBEE equity transactions;
- Structuring and funding consists of FNB leveraged finance for transactions less than R30 million and Rand Merchant Bank leveraged for transactions above R30 million. The funding is based upon sustainable and projected cash flows adequate to fund operations. Specialists are available to customise BBBEE solutions;

- Full service financial solutions offer comprehensive solutions from transactional banking through networking of FirstRand partners;
- Business Mentoring provides coaching, mentoring, advice and planning programs to businesses;
- Dedicated unit focus specifically on BBBEE solutions, supported by a countrywide network of skilled relationship managers, which provide expert advice.

3.13 CONCLUSION

This chapter dealt with the role of financial institutions in the facilitating of access to finance. Banks offer various types of facilities and require collateral for these types of lending. Collateral has different values attached to them and banks require security for their lending facilities. The credit scoring and Basel rating affect the success or rejections of application. Banks have different ways of servicing SME'S and a preliminary framework for customer relationship will be used as a guide to facilitating access to finance. The following chapter will discuss the research method to be performed in the investigation of problem statement.

CHAPTER FOUR

4 RESEARCH METHODOLOGY

4.1 INTRODUCTION

The primary aim of this research is to facilitate banking finance access for BBBEE firms in the Southern Cape area. The establishment of a customer relationship is used as a framework for the empirical study. Chapter three underlined the different types of banking facilities available to SME'S as well as the importance of customer-banker relationships. A literature study identified critical elements needed to ensure the effective implementation of processes to successfully establish and maintain customer relationships.

This chapter focuses on the research paradigm used for this study. The research design, methodology, data collection is discussed. The sampling procedure and size used is explained. The method of data analysis, which will be done in successive chapters, is also discussed.

4.2 RESEARCH PARADIGM

According to Collis and Hussey (2003) research is a systematic and methodical process of enquiry and investigation that increases knowledge. In order to conduct research systematically, appropriate methods to collect and analyse data needs to be used to ensure that a reliable outcome is achieved. A research problem referred to a specific problem has to be addressed or a general issue have to be explored and analysed (Collis and Hussey, 2003).

The word paradigm means a set of hypotheses about the social world and about what formulates appropriate techniques and topics for inquiring into that world. It is a basic belief based on the simple way of viewing the world and an observation of how science should be done (Punch, 2005:31).

According to Neuman (2003:70) the definition of research paradigm simply means a basic direction to theory and research. Scientifically, paradigm is a whole system of beliefs that includes the basic hypothesis, the main questions to be answered, the research techniques to be used and how to conduct good scientific research.

The term research paradigm refers to the evolution of scientific practice based on people's beliefs and hypothesis about the world and the nature of knowledge. Research paradigm is the general approach to research. The two main research paradigms are positivistic and phenomenological or interpretivist. Research methodology is the approach to the entire process of the research study (Collis and Hussey, 2003:17,46).

Positivist paradigm is defined as "a*n approach to social science that combines a deductive approach with precise measurement of quantitative data so research can discover and confirm casual laws that will permit predictions about human behaviour".* Interpretative or phenomenological paradigm is the systematic analysis of qualitative data that focuses on achieving an understanding of how people interact and sustain their social worlds (Neuman, 2003).

Qualitative studies, which consist of nominal data, conduct in-depth inquiry where the variables are usually not controlled so that autonomy and natural development of action and representation can be captured. Data are mostly in form of words. Quantitative studies, which consist of numerical data aim to understand enquiry by controlling all the variables in the actions and representations of the participants. The difference between these two paradigms is that qualitative focuses on in-depth enquiry while quantitative focuses on understanding the enquiry (Henning, Smit & Van Rensburg, 2004:3).

The positivist paradigm was adopted for this study, using a deductive approach as adequate literature exists to facilitate access to banking finance through the establishing customer-banker relationship. Quantitative data was collected for this study.

4.3 RESEARCH DESIGN: SURVEY

A Survey is a quantitative and/or qualitative research method depending on the nature of the data. Data is collected from a range of respondents usually a sample drawn from a population (Punch, 2005:156).

4.3.1 Data source

Collis and Hussey (2003:160) identified two main sources of data, primary and secondary. Primary data is collected at source in an uncontrolled situation asking questions by making observations or controlled situation by making experiments. Secondary data is existing data, which is obtainable from books, documents and films. Primary data was used for this study

4.3.2 Question design

Neuman (2003) described two types of questions applicable to surveys, open- ended questions and closed-ended questions. The difference is that respondents are free to offer any answer to open-ended question as apposed to close-ended question where respondents have to select from a fixed set of answers. Ratings can be assigned to answers. One such rating is the Likert scale also known as summated-rating or additive a scale, which is commonly used in survey research. Likert scales need a minimum of two categories such as “agree or “disagree” to an answer. A score is allocated to scale and respondents score on the scale is computed by adding the number of responses given by the participants.

A survey with closed-ended questions using a Likert scale of two and five was used for this research. Quantitative primary data was collected to establish what is needed to facilitate access to banking finance.

4.4 SAMPLING

Sampling is concerned with answering the question “f*rom whom will the data be collected?”* Quantitative research may use probabilistic sampling to emphasize representativety or purposive sampling to study relationship between variables. Two

of the sixteen sampling strategies in qualitative inquiry are random and stratified. Random sampling is use when probable focused sample is too large. Stratified purposeful sampling demonstrates subgroups to facilitate comparisons (Punch, 2006).

4.4.1 Sample procedure

The sample group consisted of a sub-sample of BBBEE SME'S as well as banking officials that are located in the Western Cape Province and operating in the Mossel Bay and George area as these areas forms part of the Garden Route being serviced by the Business Banking Division of Nedbank. Only companies that fit the definition of small and medium enterprises from the sample group were selected to participate. Real Enterprise Development (RED Door), which is sub-directorate within the Department of Economic Development and Tourism, was contacted to provide details of BBBEE SME'S. The objective of RED Door is to promote small and or black-owned enterprises. Mrs Ndumi's (September 2008) response to the author's request was that RED Door was unable to assist the author, as all companies audited did not qualify for BBBEE status and referred author to Association of BEE Verification Agencies (ABVA). The ABVA Administrator could only provide companies responsible for BBBEE verification. The author then contacted the Supply Chain Management departments at George and Eden District Municipalities. These departments are responsible for granting contracts to SME'S within the George and Mossel Bay area. A list of entities across the country was obtained of which the author had to try, by means of telephone area code numbers starting with 044 identify clients that operates within the George and Mossel Bay area. The author identified 30 entities with area codes 044, which implies that the entities operate in the George or Mossel Bay area. Twenty of the entities, which make it 66 per cent of the population, were telephonically contacted. Only 13 of the entities could be reached, as the contact details of the other seven entities no longer exist. The 13 entities were telephonically informed about the questionnaire before e-mailing it to the participants. Only seven completed questionnaires were received. Seven questionnaires seem to be too few to make a meaningful study. A further 10 entities operating in the George area that were not on the list provided by the Municipality were randomly selected and personally visited and asked to complete questionnaire to get a bigger sample group. This made the population total 40 of which a sub-

sample of 23 (57 per cent) was selected to participate in the survey. Seventeen of the 23 participants respondent making the response rate 74 per cent.

An electronic mail was sent to Nedbank Business Banking's, Garden Route Area Manager requesting authorisation for staff officials to participate in the survey. The branch manager sent the mail to all the staff of which only 19 are directly or indirectly servicing clients.

The questionnaire was twofold to establish the perception from both the client and the banking official's perception, with regard to accessing of banking finance for BBBEE SME'S.

4.4.2 Data Collection

Quantitative action research based on grounded theory and structured closed ended question in form of survey was used as a means of collecting primary data. The answers to questions were based on two and five Likert type scale, which respondents selected from options incorporated in survey. The questions in the survey covered the following sections:

I. Company background to establish Industry type, current banker and BBBEE status;
II. Access to banking finance;
III. Common reasons for declining credit applications;
IV. BBBEE SME'S general perception of the banking sector and
V. Identify processes to facilitate access to finance.

Electronic mails were sent to the regional managers informing them about the research to be conducted and to request approval to obtain information that can assist in collecting data. Letters were sent to the sample group requesting their participation, giving full details and purpose of the research. A confidentiality indemnity contract was drawn up to assure all participants that all data collected would not be disclosed to third parties. All participants were requested to sign a

participatory consent form, which allowed them to withdraw from research project for reasons known to them.

4.5 DATA ANALYSIS

Data analysis can be done using descriptive and or inferential data. Descriptive statistics describe basic patterns in the data. Inferential statistics is applied mathematics or statistics based on quantitative data collected from a random sample to draw a conclusion about a population (Neuman, 2003:533).

Inferential and descriptive statistics is a group of statistical techniques that include tabulations, correlations, regression and factor analysis as well as the use of statistical graphics (various charts and plots) to analyse survey data sets (Mouton, 2006: 153).

Both descriptive and inferential statistics were used given the small sample size. The collected data was analysed and results presented in the form of tables, percentages, charts and graphs. The results were used to draw conclusions and formulate recommendations**.**

4.5.1 Reliability and validity

Reliability is the aspect of credibility of the findings. Should someone else conduct the same research and findings can be repeated, then research is reliable. Validity is the accuracy of the representativety of the measurement instrument. (Collis and Hussey, 2003).

The correlation between the response from the bank officials and BBBEE clients will confirm the reliability of the findings. The analyses of the survey will validate the information received from the questionnaire.

4.6 CONCLUSION

The findings will be presented to the management of Nedbank as a basis for the implementation of processes and establishment of relationships with BBBEE clients. The general comments from bank officials and BBBEE respondents in the establishment of relationship obtained from the survey will be discussed with management to bridge possible communication gaps.

The next chapter describes the analysis obtained from the data collected from the participants.

CHAPTER FIVE

5.1 INTRODUCTION

In this chapter the information obtained from the questionnaires sent to the banking officials and the BBBEE SME'S were analysed and interpreted to determine the reasons for difficulty in accessing banking finance and to establish how to facilitate accessing to banking finance.

The objective of the study was to determine how to facilitate accessing to banking finance for BBBEE SME'S. This section is twofold, firstly it discusses the findings of accessing of banking finance to BBBEE SME'S from the banking officials perspective. Secondly it discusses the finding of the BBBEE SME'S perspective of accessing of banking finance

5.2 SAMPLE OF BANKING OFFICALS

Chapter three identified two sample groups to be studied. In order to understand the impact of sample one, the banking officials role and responsibility of each is explained.

5.2.1 Role and responsibility of each official

The staff at Nedbank works in teams known as Client Services Teams (CST). The CST'S consist of the following officials:

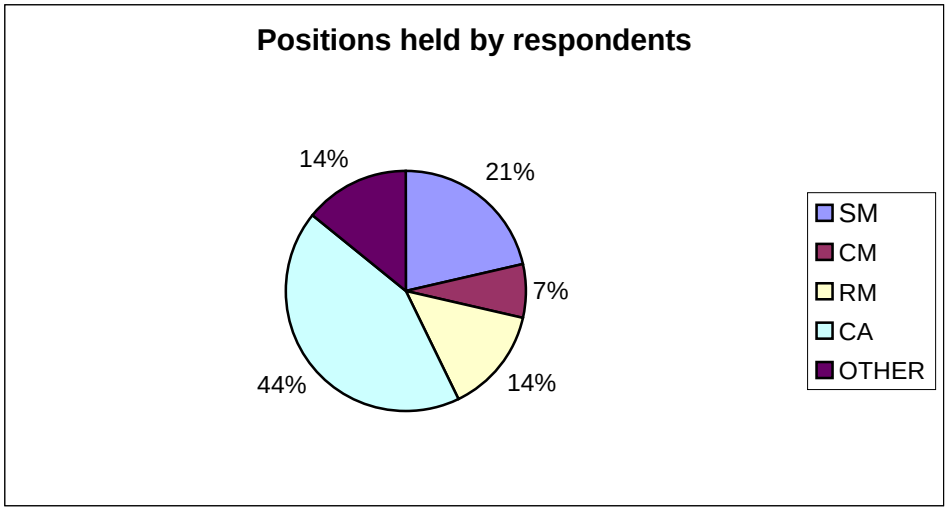
- Relationship Manager (RM) also known as Business Manager (BM) has close contact with customers and must look for business to achieve sales targets;
- Service Manager (SM) is responsible for all administrative issues relating to customers, payouts and queries and assists client with financing request in the absence of the RM;
- Credit Manager (CM) does the approval/disapproval of applications and supervise credit analyst;

- Credit Analyst (CA) analyse financial statements and complete application and recommend application supposed to pre-approve application;
- Area Sales Manager (ASM) is the branch manager and immediate superior of Relationship managers;
- Area Credit Manager (ACM) is immediate supervisor of credit managers.

5.2.2 Sample response

An email was sent to Area Sales Manager (ASM) of Nedbank Business Banking who is responsible for George and Mossel Bay offices explaining purpose of survey. He was very willing to assistant and even together with Area Credit Manager complete survey as well. Other positions in pie charts represent the Area Managers. The ASM sent the e-mail to all 40 officials in the Garden Route area, of which only 19 have an impact on the service delivered to external clients. Of the 19 officials only 14 responded to the survey thus making the response rate 74 percent.

Graph 5.1: Positions held by the respondents

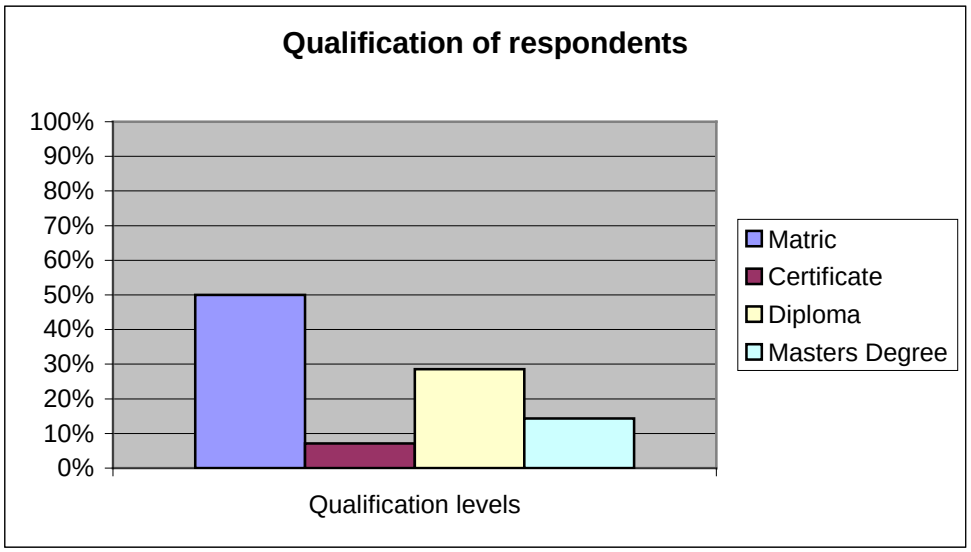


As can be seen from graph 5.1, 44 per cent of the respondents are Credit Analysts. The Service Managers represents 21 per cent of the respondents. Relationship Managers and Other positions represent 14 per cent of the respondents respectively. Credit Managers represent seven per cent of the respondents. This is an indication of the various roles of each respondent.

5.3 GENERAL CHARACTERISTICS OF BANKING SAMPLE

5.3.1 Qualifications of respondents

Graph 5.2: Qualification levels of the respondents



As can be seen from graph 5.2, 50 per cent of the respondents are in a possession of a Matric Certificate. Seven per cent have a certificate in short courses. Twenty nine per cent of the respondents have banking related Diploma and 14 per cent have a Masters Degree. This information shows that respondents are qualified in their respective field of work. This is important as explained in chapter three as a branch staff performance depicts the bank's organisational culture that should display contractual and competence trust.

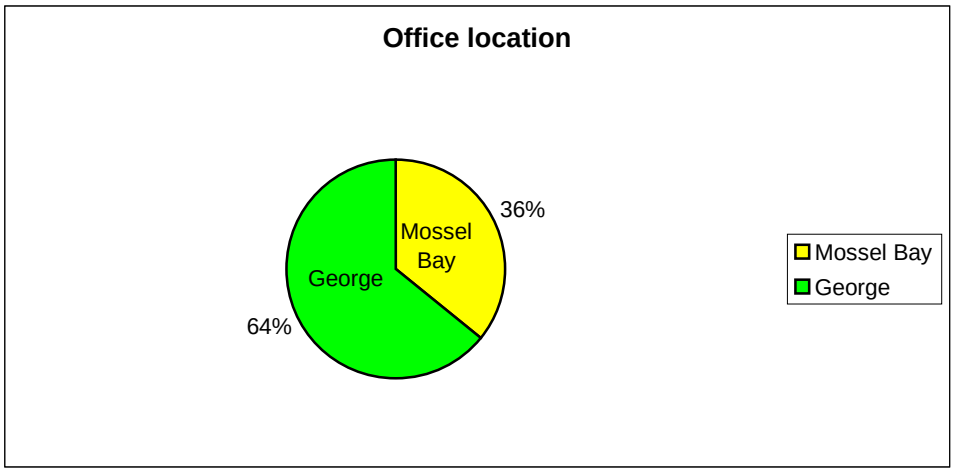
5.3.2 Experience levels of respondents

Graph 5.3: Experience levels of respondents

The respondents were asked to reveal the number of years employed at Nedbank. Graph 5.3, depicts that zero per cent had banking experience less than five years. Seven per cent have between five and seven years banking experience. The remaining 97 per cent have more than seven years banking experience. This information shows that the respondents are competent and have the relevant experience to perform their jobs efficiently.

5.3.3 Geographical area

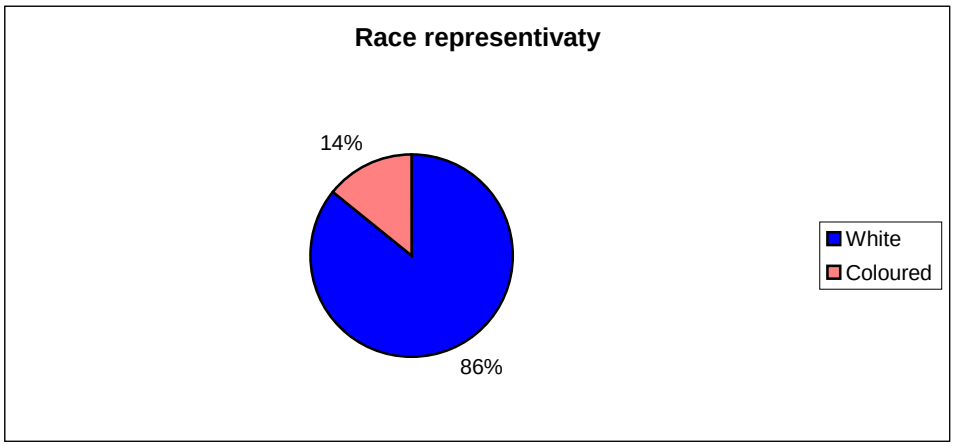
Graph 5.4: Office location of respondents



Graph 5.4, shows that 64 per cent of the respondents are located in the George office and the Mossel Bay office represents 36 per cent of the respondents. The reason for this is that the George office is seen as the regional office for the Southern Cape Area, while Mossel Bay serves as a branch of the George office.

5.3.4 Race of respondents

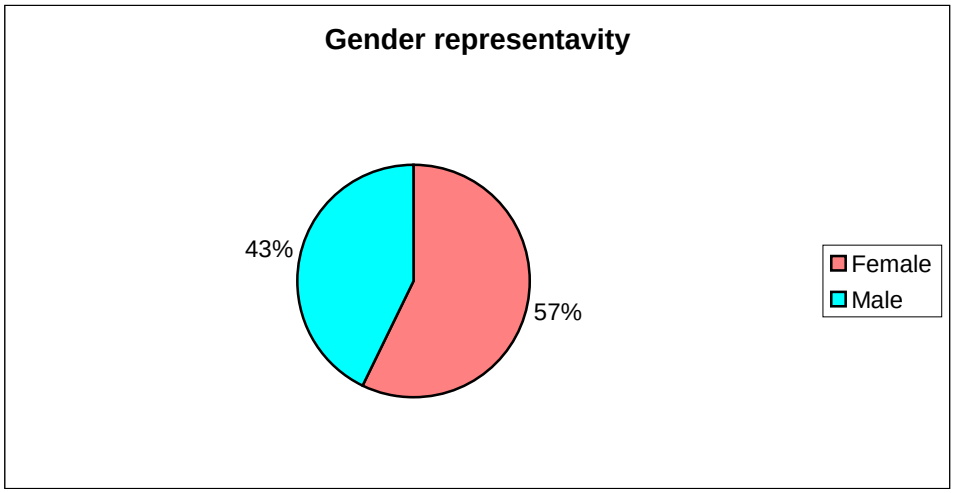
Graph 5.5: Race of respondents



As can be seen from graph 5.5, 86 per cent of the respondents are white. The coloured respondents represent 14 per cent. It is evident that the respondents are not evenly represented in terms of race.

5.3.5 Gender representavity

Graph 5.6: Gender representavity of respondents



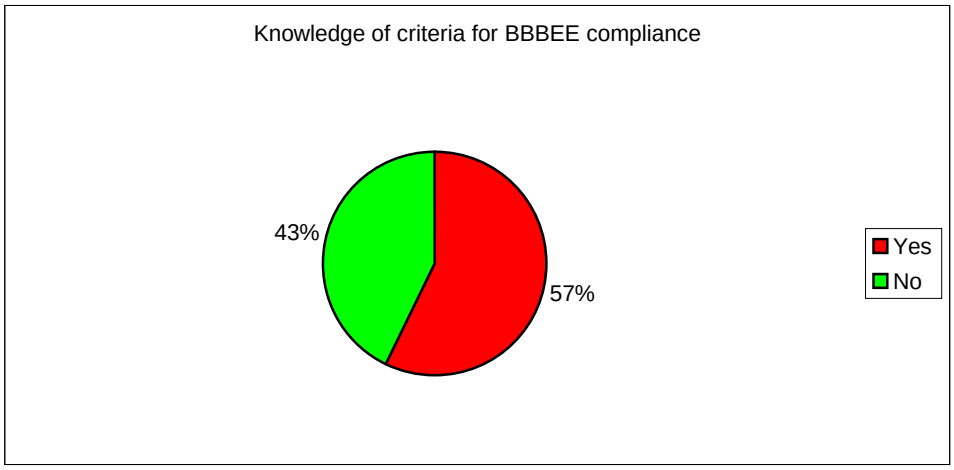
Graph 5.6 Shows that the respondents consist of 43 percent male and 57 per cent female. This gives and almost even gender distribution of respondents.

5.4 RELATIONSHIP WITH BBBEE CLIENTS

In order to establish relationship between respondents and client the author investigated whether the respondents were familiar with the concept of BBBEE status and the needs of their BBBEE clients.

5.4.1 Knowledge of BBBEE status

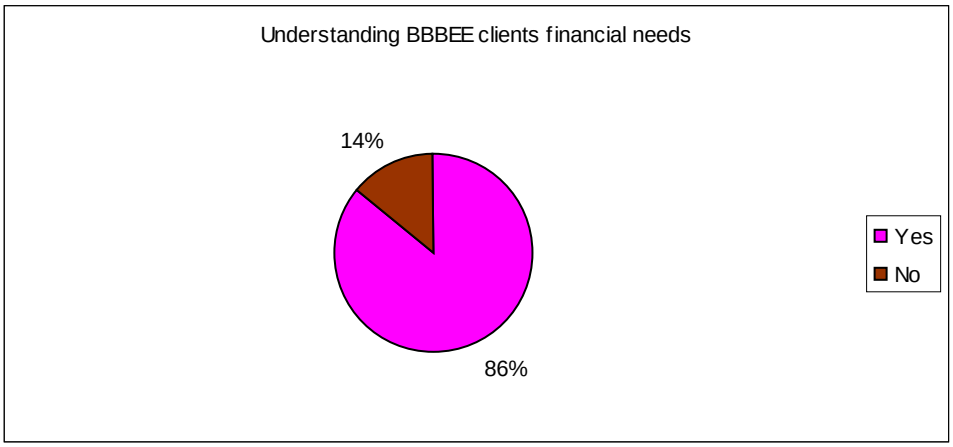
Graph 5.7: Knowledge of BBBEE status



Chapter two explained the criteria for BBBEE status. Graph 5.7, reflects that only 57 per cent of the respondents are familiar with the criteria to be BBBEE compliant. Forty three per cent of the respondents do not know the criteria to be BBBEE compliant. Fifty seven per cent of the respondents would be able to identify a BBBEE client.

5.4.2 Understanding financial needs of BBBEE clients

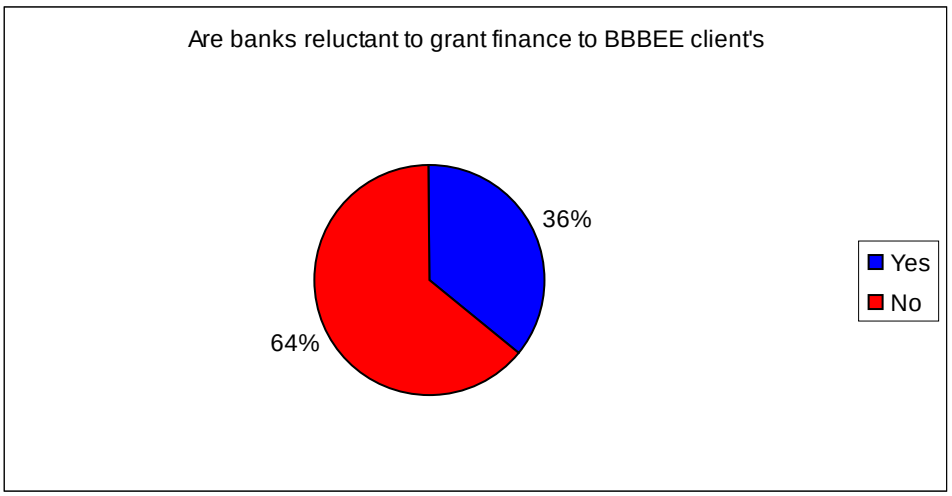
Graph 5.8: Respondents understanding BBBEE client's financial needs



As can be seen from graph 5.8, 86 per cent of the respondents understand the financial needs of BBBEE clients, while 14 per cent are not familiar with the needs of BBBEE clients. The majority of the respondents are able to assists BBBEE clients in accessing the correct type of finance.

5.4.3 Reluctance to grant finances to BBBEE clients

Graph 5.9: Banks reluctance to grant finance



Graph 5.9, shows that 64 per cent of the respondents disagree that banks are reluctant to grant finances to BBBEE clients. The remaining 36 per cent agree that banks are reluctant to grant finances. The information presents that banks are

moving slowly away from being reluctant to grant finances but still has room for improvement.

5.4.4 Reasons for declining of applications

Although 64 per cent of respondents indicated that banks are not reluctant to grant finance as shown in graph 5.9. It is interesting to note that the respondents have identified reasons why applications where declined as shown in table 5.1 below.

Table 5.1: Bank respondents' reasons for declining applications

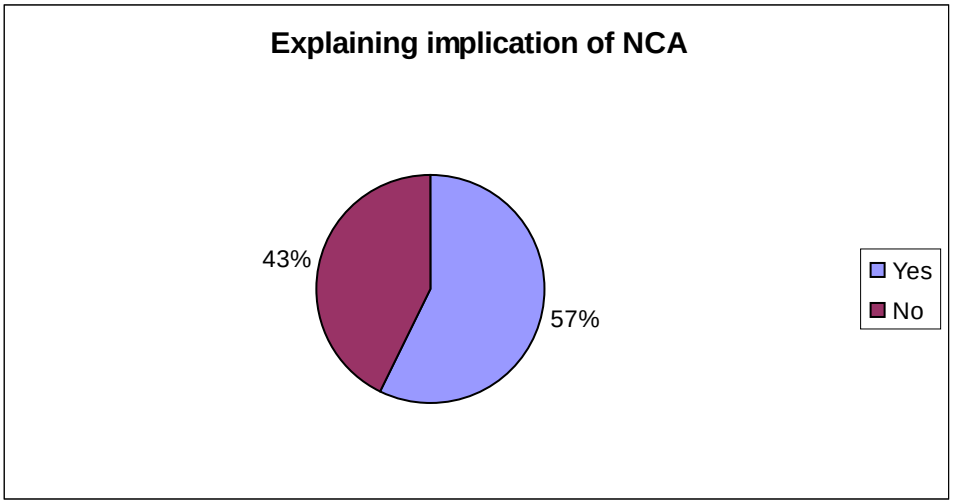
	Respondents identified reasons for decline	Respondents did not identify any reasons for decline	Total responses	% Response to reasons for decline
Business skill	6	8	14	43%
Financial information	3	11	14	21%
Collateral	3	11	14	21%
Affordability	7	7	14	50%
Credit judgment	3	11	14	21%

Table 5.1 shows that lack of affordability was the number one reason for decline as indicated by 50 per cent of the respondents. Lack of business skills was the second reason for decline of application as identified by 43 per cent of the respondents. Lacks of financial information, inability to provide collateral and credit judgment were identified as the third reason for decline as indicated by 21 per cent of respondents respectively. This information provides a clear picture of the main reason why BBBEE SME'S access to banking finance is declined. This information contradicts the respondents' answer that banks are not reluctant to grant finances to BBBEE SME'S.

5.4.5 Implication of NCA on credit application

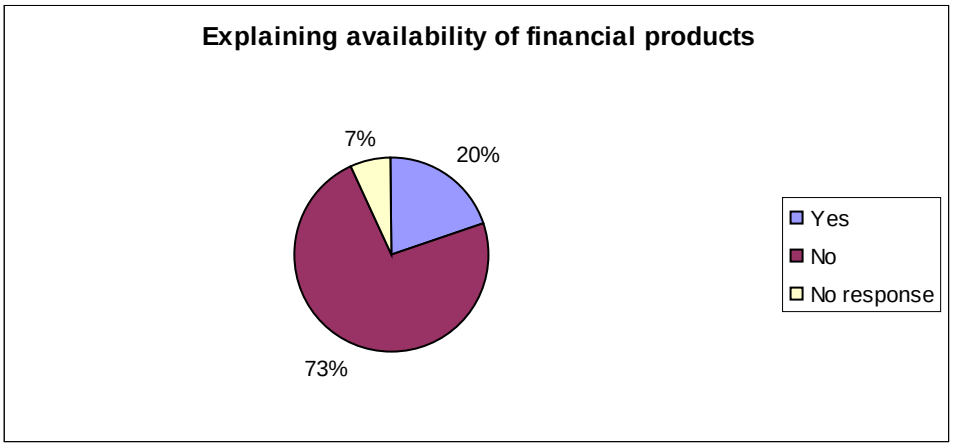
As explained in chapter two the NCA restricts providers of financial credit to avoid reckless lending. The respondents were asked if they have explained the impact of the NCA to BBBEE clients. Graph 5.10,, shows that only 57 per cent of the respondents have explained the implication of NCA on credit application to BBBEE clients. Forty three per cent of the respondents did not inform their clients. This implies that the clients are not aware of the implication of NCA and thus are not familiar what information is required to assess credit applications.

Graph 5.10: The implication of NCA



5.4.6 Availability of the different types of credit facilities

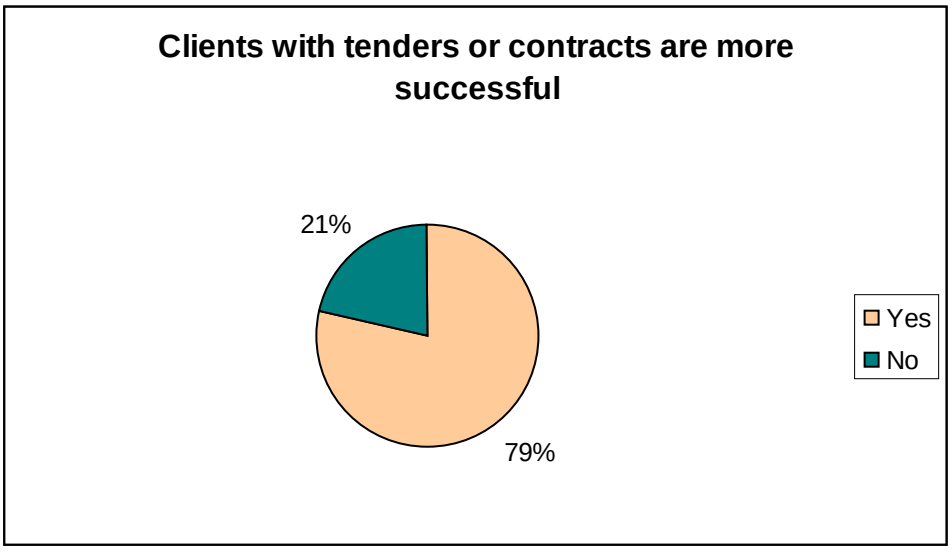
Graph 5.11: Availability of financial products



Chapter three explained the different type of banking facilities available to clients. As can be seen from table 5.11, only 20 per cent of the respondents explained the availability of the different type of financial products to the BBBEE clients. Seventy three per cent of the respondents did not attempt to inform their clients about the credit facilities. Seven per cent of the respondents chose not to answer the question. If clients were familiarised with different types of credit facilities, alternative solutions could have been offered where applications were declined.

5.4.7 BBBEE clients with government contracts or tenders

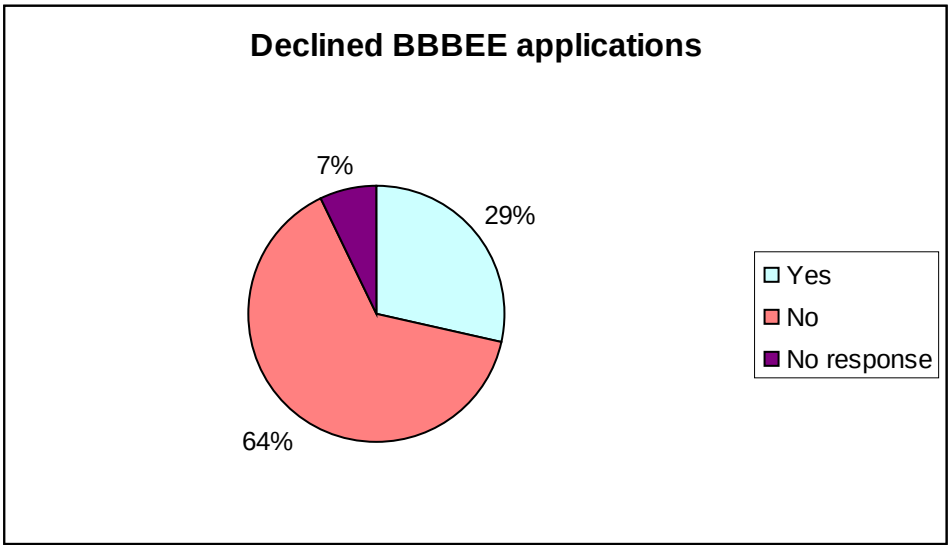
Graph 5.12: Government contracts/tenders affect success of application



Some banks as explained in chapter three that they are more willing to assist BBBEE clients who have been awarded government contracts or tenders. Graph 5.12 presents that 79 per cent of the respondents agreed that clients with government contracts or tenders are likely to be successful in obtaining banking finance. 21 Per cent disagreed that clients with contracts and tenders are not more successful than others. The reason for granting to BBBEE with contracts or tenders is that it provides a definite source of income to service loan repayments.

5.4.8 Rejection of BBBEE clients' application

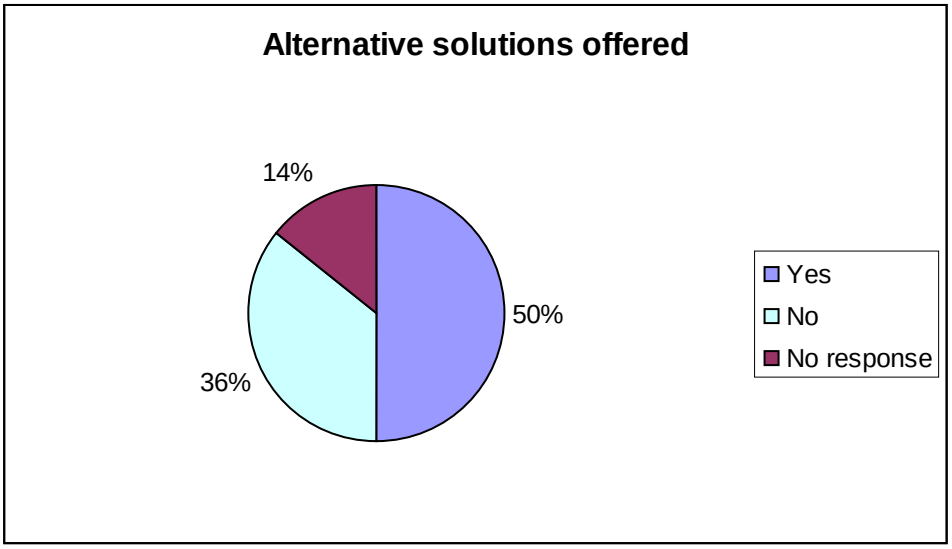
Graph 5.13: BBBEE applications are more likely to be declined



Graph 5.13, shows the likelihood of BBBEE applications being declined. 64 Per cent of the respondents disagreed that BBBEE applications have not been declined. 29 Per cent agreed that their BBBEE client applications were declined. Seven per cent of the respondents chose not to answer.

5.4.9 Offering of alternative credit facilities

Graph 5.14: Alternative solutions offered

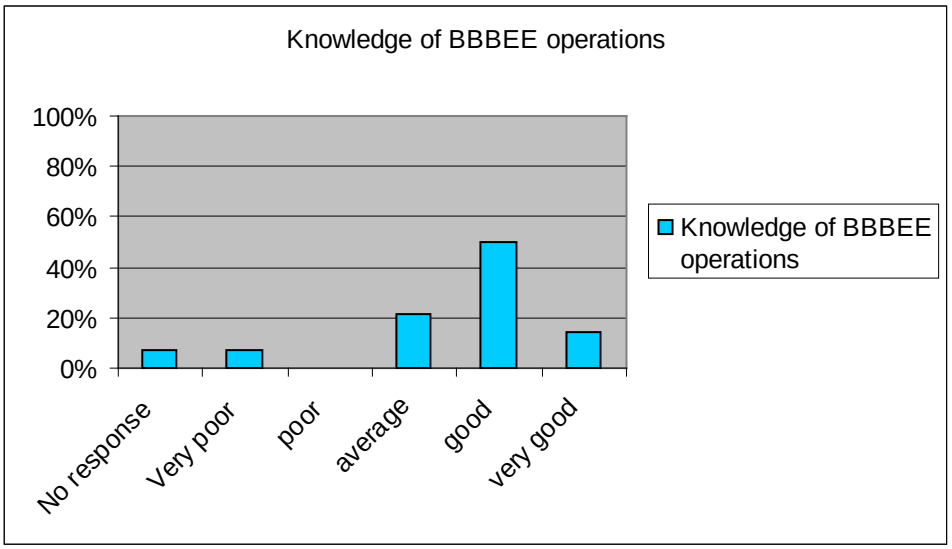


In the instances where BBBEE client's application have been declined and alternative has been offered. Graph 5.14, shows that 50 per cent of the respondents offered alternative financial credit. Thirty six per cent did not offer an alternative, while 14 per cent chose not respond to question. The finding in Graph 5.14 are contradicting to findings in graph 5.15, as 64 per cent of the respondents in graph 5.15 said that none of their BBBEE clients application where declined. However graph 5.4, shows that 50 per cent of the respondents offered alternative products.

5.5 BANKING OFFICIALS' PERCEPTION OF BBBEE SMES

5.5.1 Respondents knowledge of BBEE clients business operations

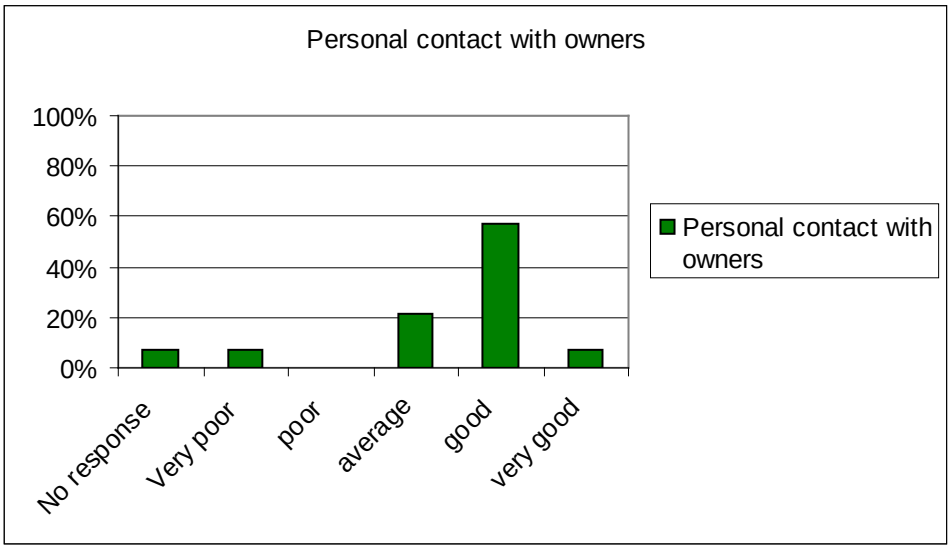
Graph 5.15: Knowledge of BBBEE operations



As can be seen from graph 5.15, seven per cent of the respondents rate their knowledge of their BBBEE operations as very poor. Twenty one per cent indicated that their knowledge of their BBBEE clients operation is average. Fifty per cent of the respondents have a good idea of their BBBEE client operations. Fourteen per cent of the respondents have a very good understanding of their BBBEE clients business. Seven per cent of the respondents chose not to reveal their knowledge of their BBBEE client's business.

5.5.2 The extent of personal interaction with BBBEE owners

Graph 5.16: Personal contact with BBBEE owners

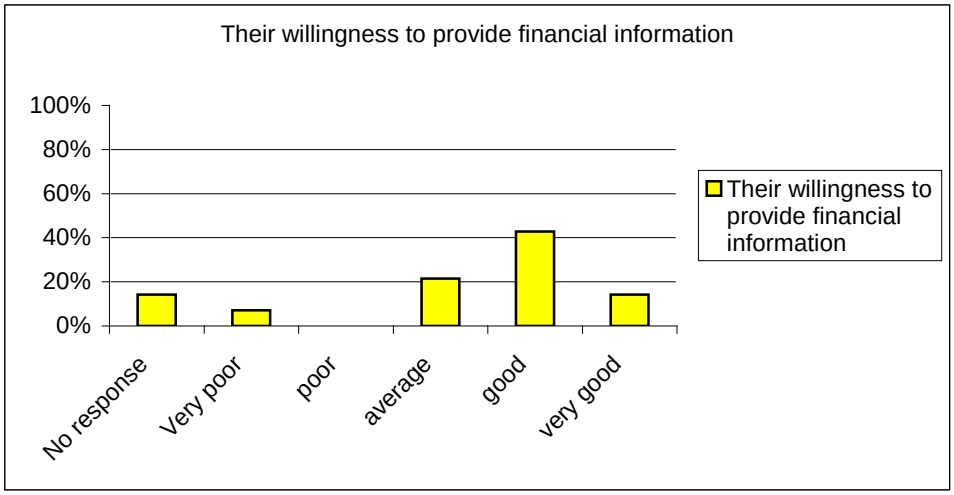


Chapter three explained the importance of relationship between staff and clients. Graph 5.16, shows, that seven per cent of the respondents have very poor interaction with BBBEE owners. 21 Per cent of the respondents have average contact with BBBEE owners. 57 Per cent have good interaction with BBBEE owners. Seven per cent of the respondents have indicated that they have very good interaction with BBBEE owner. Seven per cent of the respondents chose not to disclose the status of their interaction with BBBEE owners. Interaction with owners is vital to establish the continuity of the business as well as sustainability of management.

5.5.3 Obtaining financial information

Banks have indicated as explained in chapter three that the submission of financial statements is a requirements for loan assessments.

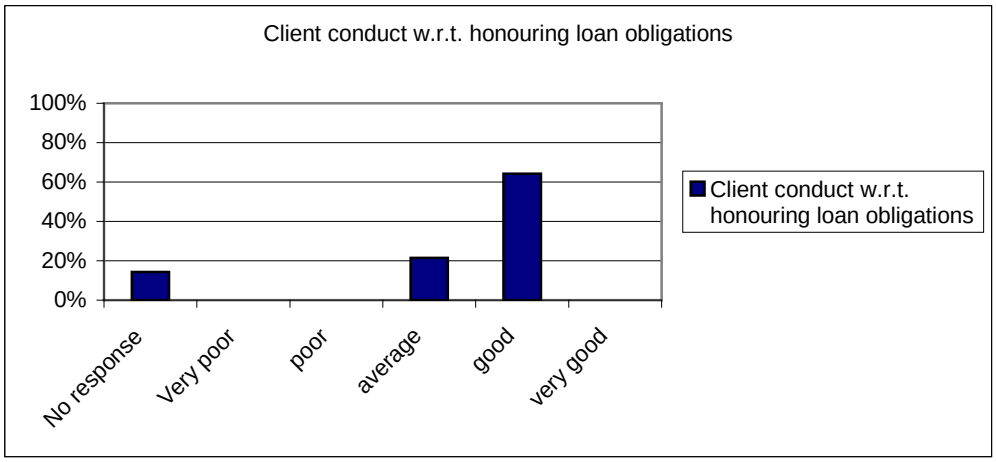
Graph 5.17: BBBEE client willingness to provide financial information



According to the respondents as shown in graph 5.17, seven per cent have indicated that BBBEE client willingness to provide financial information is very poor. Twenty-one per cent of the respondents have indicated that obtaining financial information is average. Twenty-one and 14 per cent have indicated that obtaining financial information is good and very good respectively. Fourteen per cent of the respondents chose not to disclose this information.

5.5.4 Honouring of loan obligations

Graph 5.18: BBBEE client's conduct of honouring loan obligations

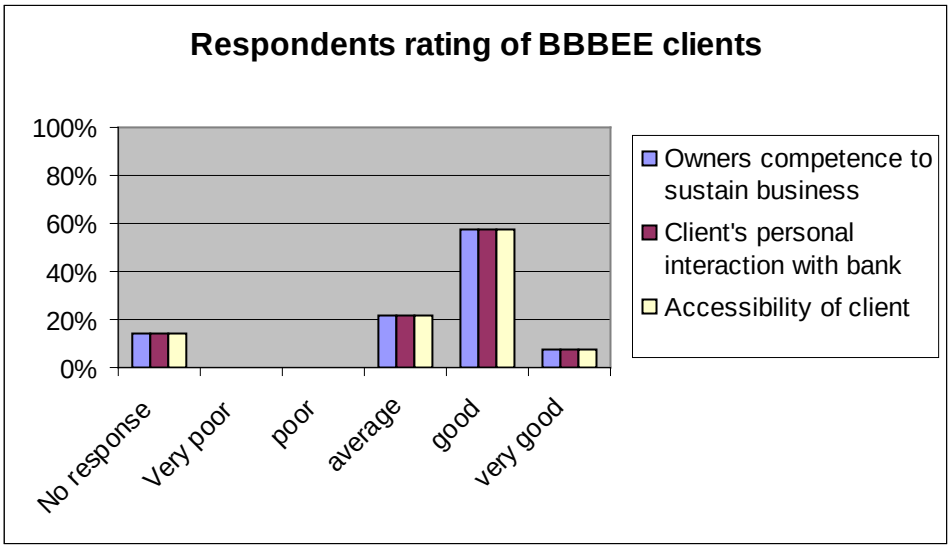


BBBEE clients as discussed in chapter three are perceived to be risky in terms of repay loans. Graph 5.18, shows otherwise, 21 per cent of the respondents confirmed that BBBEE clients conduct of honouring loan obligation is average. The majority of

the respondents representing 64 per cent said that BBBEE client conduct of honouring loan repayments is good. Fourteen per cent chose not to disclose this information. BBBEE clients have a good record of service loan obligations.

5.5.5 Perception of BBBEE clients

Graph 5.19: Respondents perception of BBBEE clients



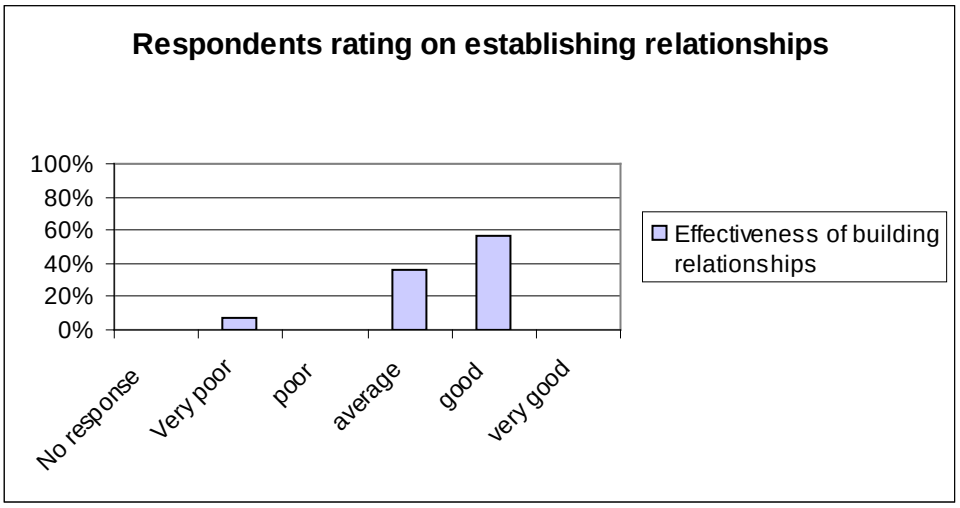
Graph 5.19, shows the respondents' perception of BBBEE client in respect of:

- Owner competence to sustain business;
- Personal interaction with the bank;
- Client accessibility.

The information obtained had the same outcome for all three aspects. Twenty-one per cent of the respondents rated the BBBEE clients as average. Fifty seven per cent of the respondents are of the opinion that BBBEE clients are good, while seven per cent perceive BBBEE clients as very good. Fourteen per cent chose not to disclose their perceptions.

5.5.6 The benefit of establishing relationships

Graph 5.20: The impact of establishing relationship with BBBEE clients

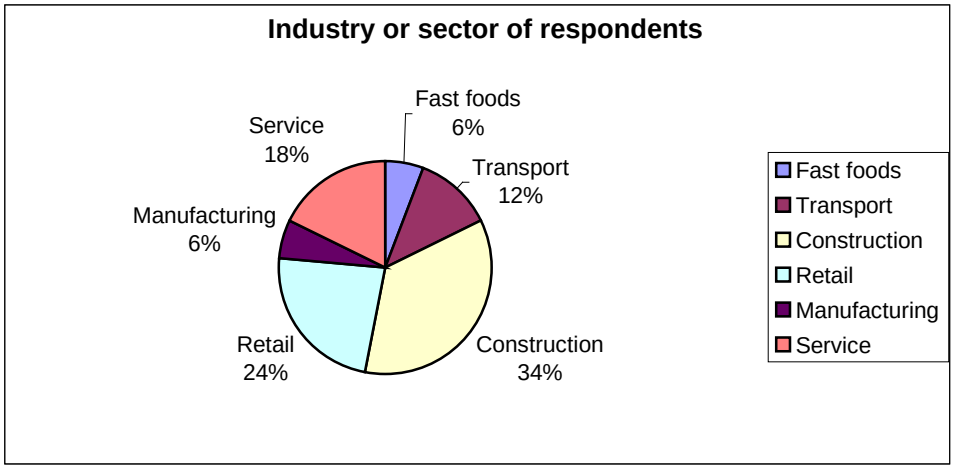


Relationship between banks and clients is important for the success of service delivery and retaining of clients as discussed in chapter three. Graph 5.20 shows the effect establishing relationship is to the bank. Seven per cent of the respondents are of the opinion that building a relationship with BBBEE client will not affect service delivery. Thirty six per cent of the respondents have indicated that building relationships will have an average effect on service delivery. Fifty seven per cent of the respondents are convince that relationship with BBBEE client will be good for the bank.

5.6 SAMPLE OF BBBEE SME

A total of 23 questionnaires were sent out of which 17completed questionnaires were received. This represents a 74 per cent response rate.

Graph 5.21: Industry or sector of respondents



Graph 5.21, indicates that 34 per cent of the respondents are in the construction sector. Twenty four per cent represent the retail sector, while 19 per cent are in the transport sector. The service sector represents 18 per cent of the respondents, which consists of consultants, administration and servicing of equipment. The Manufacturing and Fast foods sector each represent six per cent of the respondents. The respondents are thus will represented across the different sectors.

5.7 GENERAL CHARACTERISTICS OF BBBEE SAMPLE

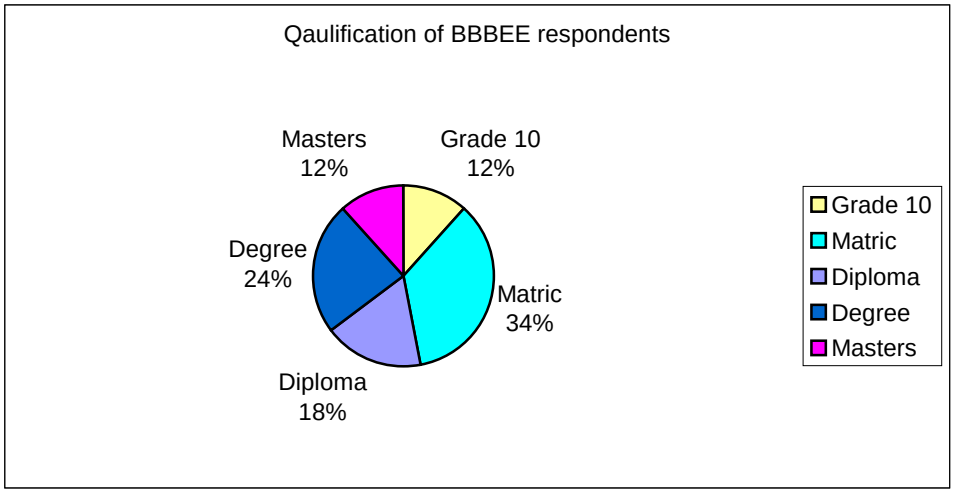
5.7.1 BBBEE status

All the respondents have BBBEE status through ownership although not verified, as Micro enterprises are exempt from BBBEE verification process.

5.7.2 Qualification of respondents

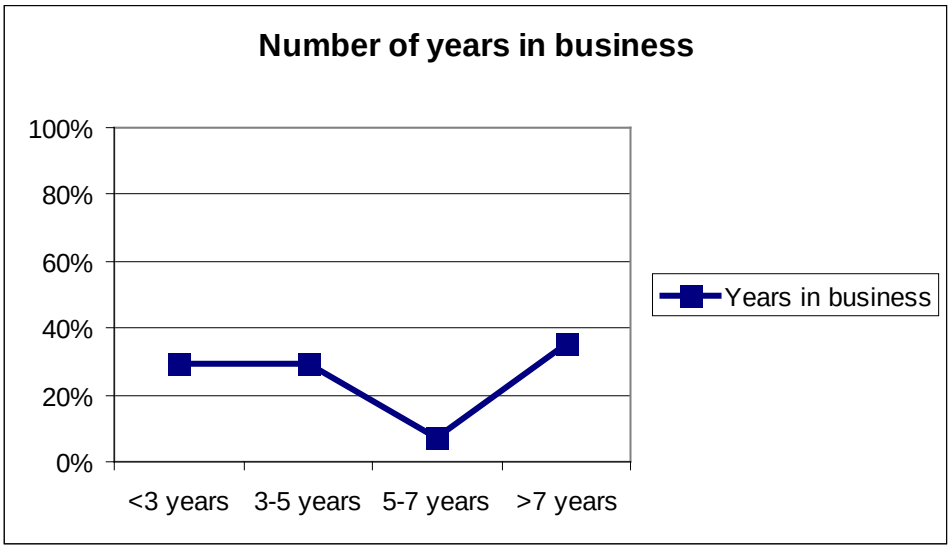
Graph 5.22 shows the qualification of each of the respondents. Twelve per cent of the respondents have a passed grade ten while 34 per cent are in a possession of a Matric certificate. Eighteen per cent of the respondents have a Diploma in their relevant field of work. Twenty four per cent of the respondents are in a possession of a Degree while 12 per cent have a Masters degree. The findings show that most of the respondents have the necessary qualification to conduct their field of business.

Graph 5.22 Qualification of BBBEE respondents



5.7.3 Length of time in business

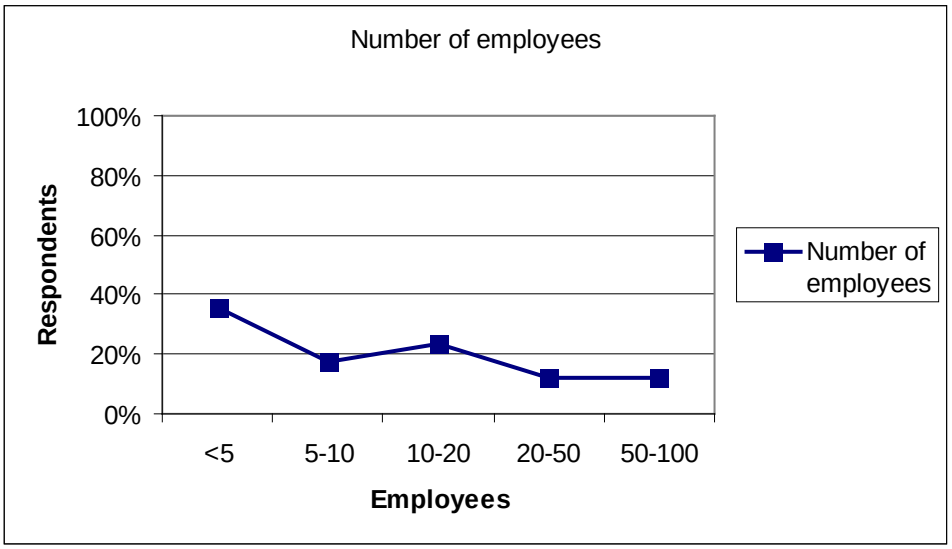
Graph 5.23: The length of time in business



As shown in graph 5.23 the respondents have been in business for a few years. Twenty nine per cent of the respondents have been in per cent for less than three years while another 29 per cent have been in business between 3 to 5 years. Seven per cent of the respondents have been in business between 5 to 7 years while 35 per cent has been in business for more than 7 years. In summary 58 per cent have less than 5 years experience while the remaining 42 per cent have more than 5 years. This shows the level of experience of the respondents.

5.7.4 Number of employees

Graph 5.24: Number of employees of respondents

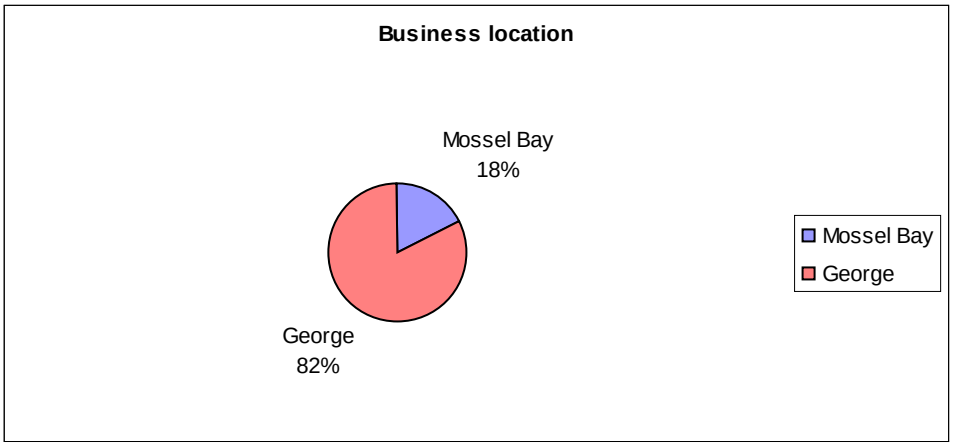


Graph 5.24 shows the number of employees of each respondent in order to categorise the business into SME. Thirty five per cent of the respondents have less than 5 employees, classifying them as Micro enterprises. Eighteen per cent of the respondents have between five and ten, classifying them as Very small enterprises. Twenty four per cent of the respondents have between 10 and 20 employees, classifying them as Very small. The remaining 12 per cent have between 20 and 50 employees, classifying them into small. The classification of SME'S is outlined in schedule 2.1 in chapter 2.

5.7.5 Geographical location of business

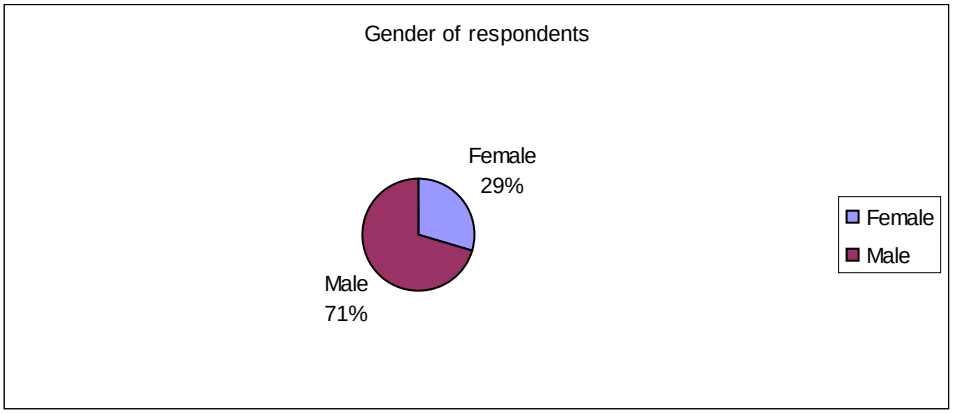
As the study was limited to George and Mossel Bay area, the respondents were represented as shown in graph 5.25. Eighty two per cent of the respondents main business operations are situated in George while 18 per cent are from the Mossel Bay are. Although the distribution seems to be uneven most of the business operates across each area.

Graph 5.25: Business location



5.7.6 Gender of respondents

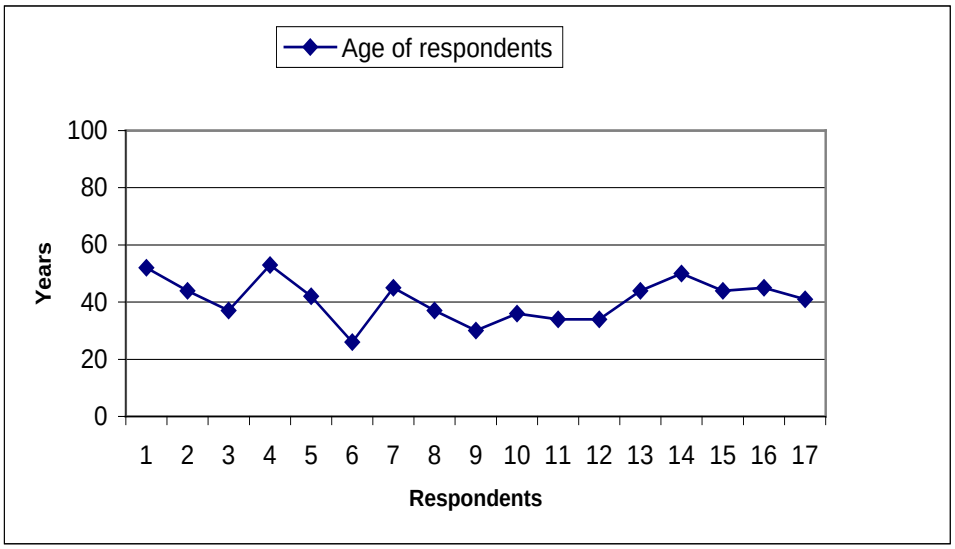
Graph 5.26: Gender percentage



The study reveals that 71 per cent of the respondents are males and the remaining 29 per cent are female as shown in graph 5.26. The BBBEE SME'S are still male dominant but increasing females are becoming entrepreneurs.

5.7.7 Age of the respondents

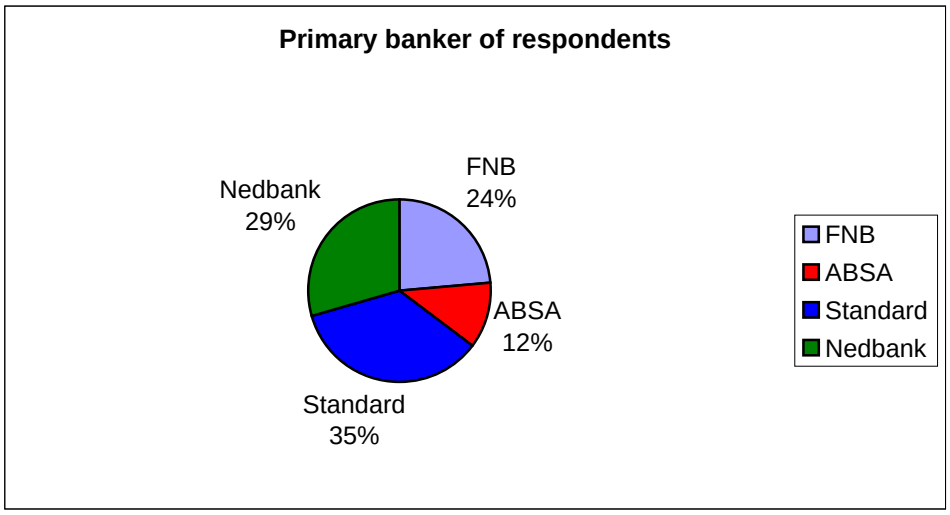
Graph 5.27: Respondents age



The respondents age range from 28 years to 55 years. The average age of the respondents is 40 years, which shows that they are mostly middle-aged people. The respondents collectively have 96 years business experience, which is important to respond to clients need.

5.7.8 The respondents' primary banker

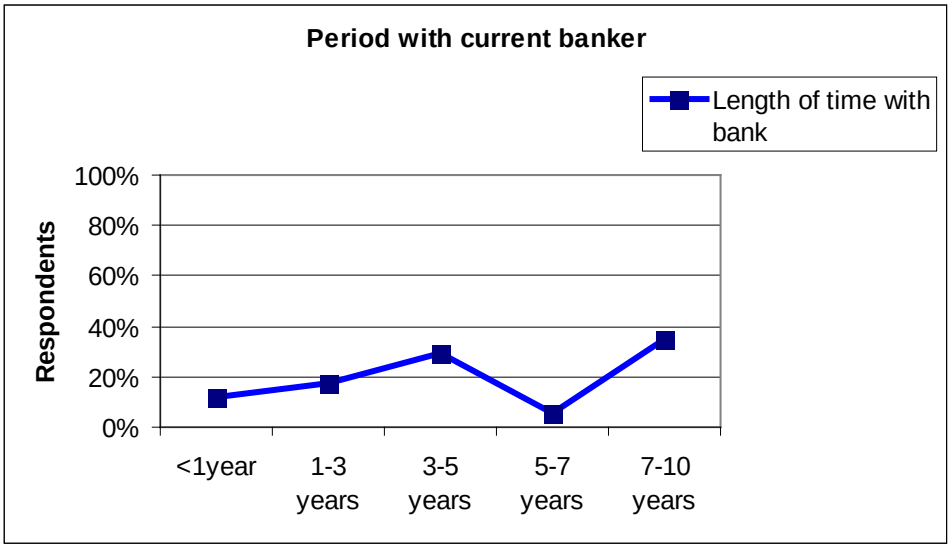
Graph 5.28: Respondents primary bank



The respondents identified their primary banker as shown in graph 5.28. Thirty five per cent of respondents bank at Standard Bank while 29 per cent bank at Nedbank. Twenty four per cent of the respondents bank at First National Bank and the remaining 12 per cent banks at ABSA. The respondents thus represent the 4 major banks of South Africa.

5.7.9 Years at current bank

Graph 5.29: Period with current bank

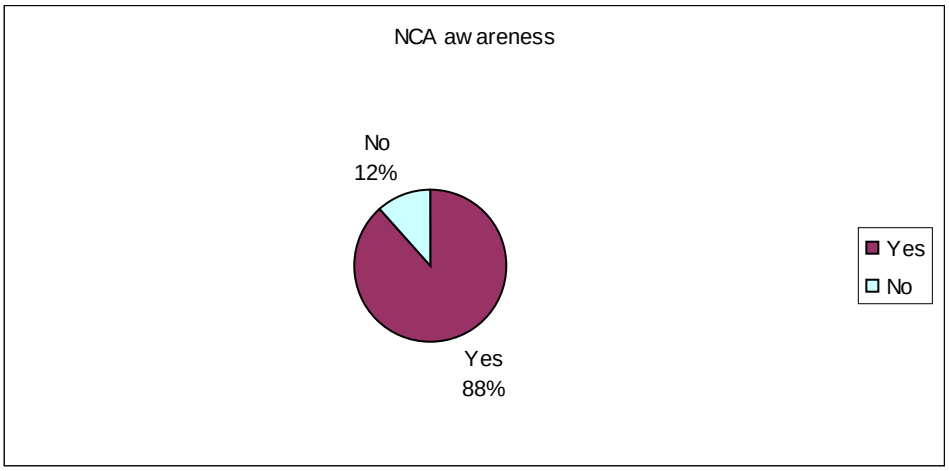


The respondents indicated the number of years they have been banking at primary bank. Twelve per cent of the respondents have been with their current bank for less than one year. Eighteen per cent have been with their bank for period more than one year but less that three. Respondents, who have been with their banks for more than three but less than five years, represent 29 per cent of the sample. Six per cent of the respondents have been with their bank for period more that five but less than seven years. Thirty five per cent of the respondents have been with their bank for more than seven but less than 10 year. This proves that clients build relationships with their banks over a period of time as explained in chapter three.

5.8 REQUIREMENTS TO ASSESS CREDIT APPLICATIONS

5.8.1 Respondent's awareness of NCA

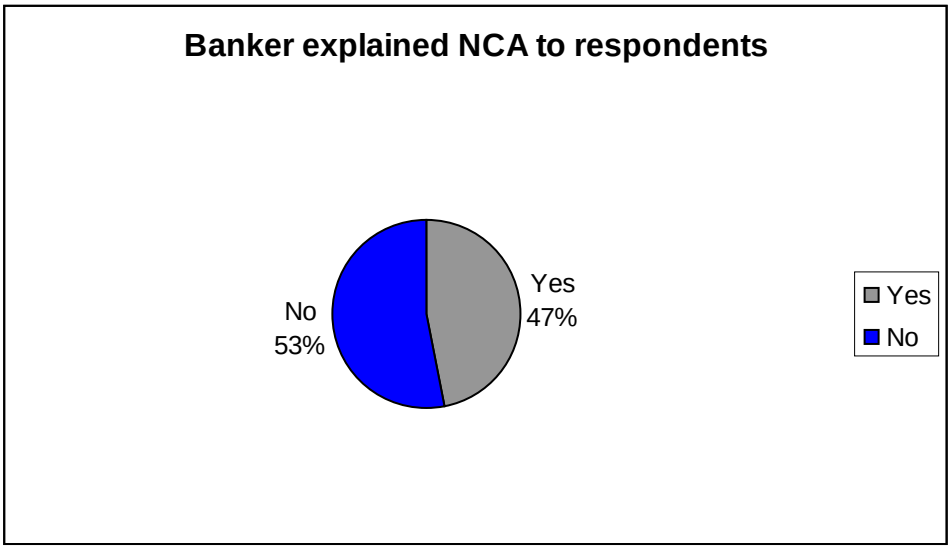
Graph 5.30: Awareness of NCA applicability



Graph 5.30 shows that 88 per cent of the respondents are aware of the implication of the NCA on credit application. Twelve per cent of the respondents are not aware of the implication of the NCA on credit assessment. This gives a clear indication that that the respondents should know what is expected when assessing credit applications.

5.8.2 Banker involvement in explaining NCA

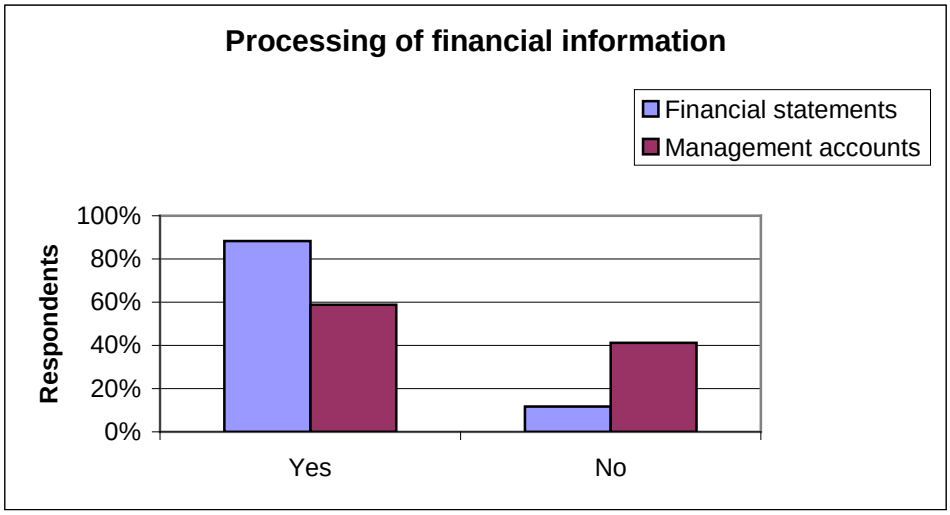
Graph 5.31: Banker explaining NCA



To establish the extent of the relationship between the respondent and their banks, respondents where asked to indicate whether their banks explained to them the impact of NCA in the granting of finance. Less than half of the respondents as shown in graph 5.31 which consist of 47 per cent of the respondents confirmed that their banker explained the implication of NCA on their credit application. The remaining 53 per cent confirmed that their banker has not explained the implication of the NCA on credit assessment. This proves that not all bankers have a close relationship with their clients.

5.8.3 Processing of financial information

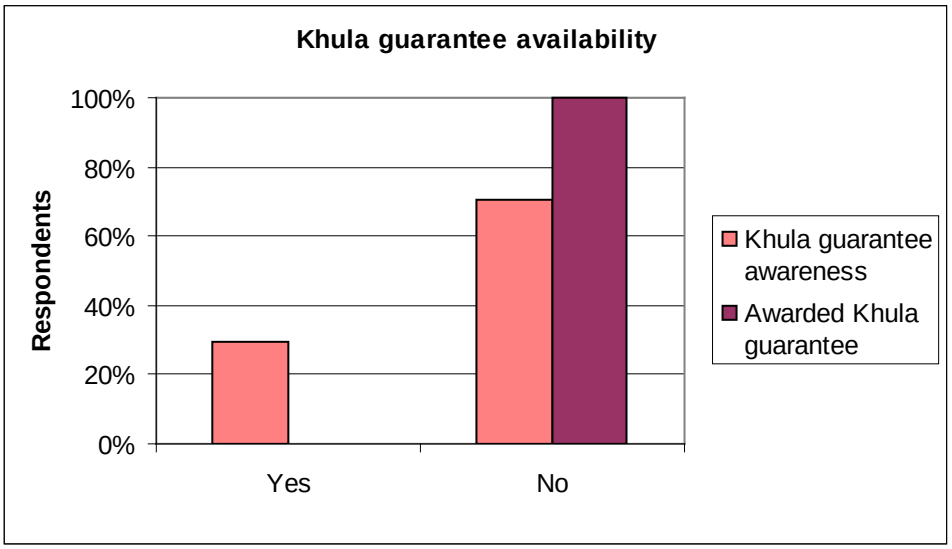
Graph 5.32: Processing of financial information



In order to assess a credit application as explained in chapter three, submission of financial statements and management accounts is a requirement of the banks. Not all BBBEE clients produce financial information. Graph 5.32 shows that 88 per cent of the respondents produce financial statements while 12 per cent do not produce financial statements. The respondents have indicated that 59 per cent produce management accounts while 41 per cent do not produce management account. It is likely that the respondents that do not produce financial statements would not be able to obtain finances, as the NCA requires thorough financial assessment of application to verify repaymentability of loans.

5.8.4 Khula guarantee Scheme for BBBEE

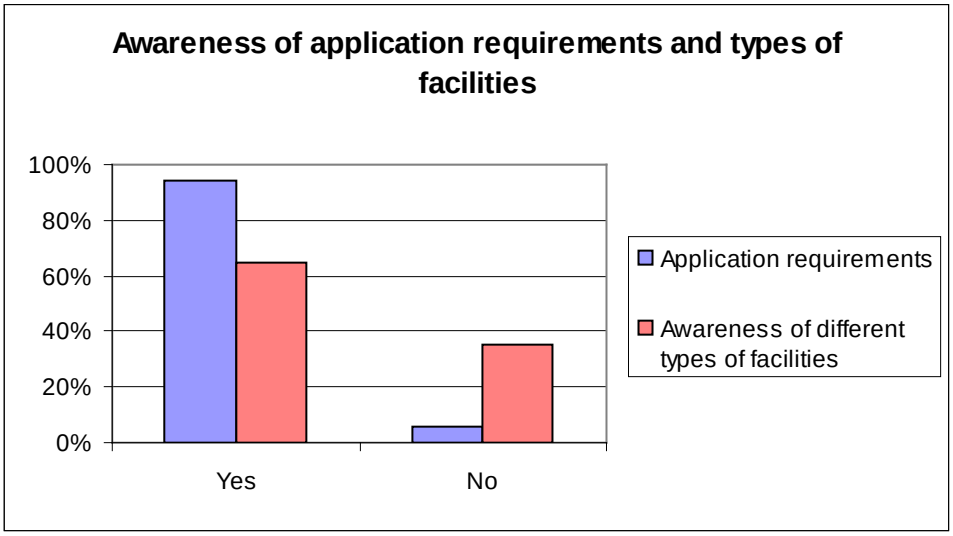
Graph 5.33: Khula guarantee availability



The Khula guarantee assists where clients do not have sufficient collateral to secure debt. Graph 5.33 shows that only 29 per cent of the respondents are aware of the Khula guarantee scheme while 71 per cent are not aware of the Khula guarantee scheme. 100 Per cent of the respondents have been not been awarded Khula guarantee. This corresponds with the high number of respondents not being aware of the Khula guarantee scheme.

5.8.5 Application requirement for different types of facilities

Graph 5.34: Application requirement and types of facilities



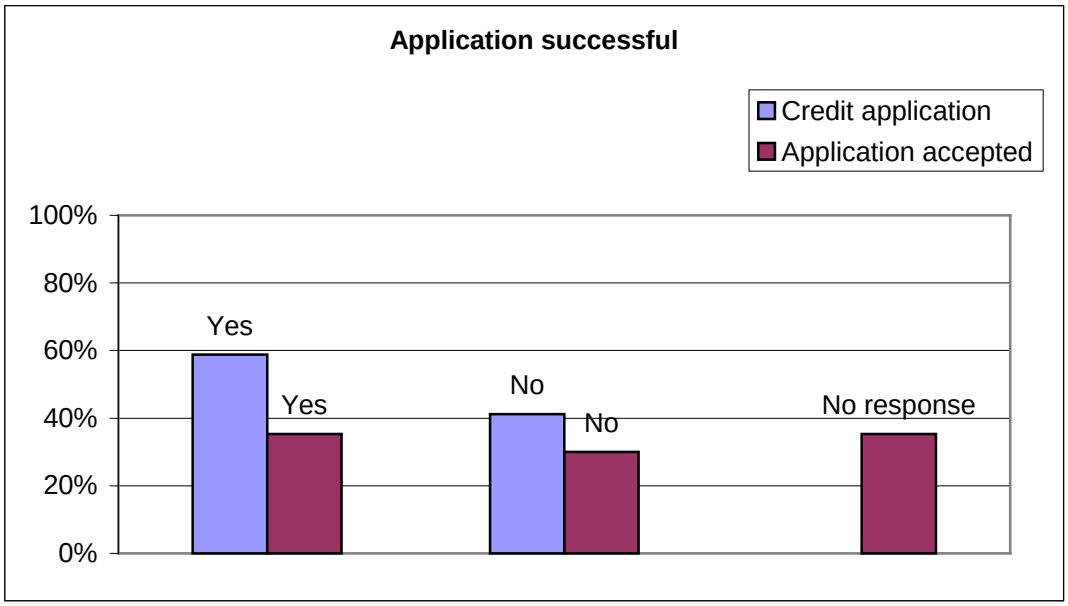
The respondents were asked to reveal whether they are aware of the different types of banking facilities available to them as well the requirements of successful applications. Graph 5.34 shows the response as follows:

- 94 per cent of the respondents are familiar with the requirements for successful application;
- six per cent are not aware of the requirements;
- 65 per cent of the respondents are aware of the different types of banking facilities available to them;
- 35 per cent are not aware of the various facilities available.

It is evident that the majority of the respondents are familiar with the loan application requirements. A large number of respondents are also knowledgeable on the different banking products.

5.8.6 Application and acceptance

Graph 5.35: Loan application and acceptance

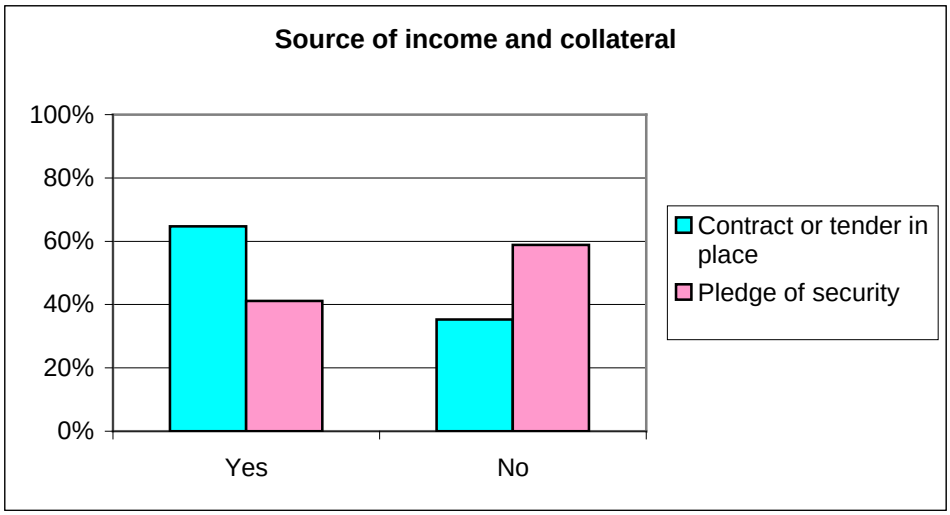


To establish the success rate of accessing finance the respondents revealed that 59 per cent applied for banking facilities while 42 per cent have been using funding from family members. Thirty five per cent of the respondents indicated that their application where successful while 30 per cent indicated that they were unsuccessful. The information is contradicting; if 59 per cent applied for finances and 34 per cent were successful then the rejection rate should be 14 per cent. Thirty five

per cent chose not to reveal this information. The above information shows however that the application rate is higher that acceptance rate.

5.8.7 Affordability and collateral

Graph 5.36: Source of income and collateral



The banking officials have indicated that clients with government contracts of tenders are more likely to be successful in accessing finance than those without. Graph 5.36 reveals that 65 per cent of the respondents were awarded government contracts or tenders, while 35 per cent do not have contracts or tenders. Forty one per cent have indicated that they provided collateral for loan agreements while 59 per cent were not in a position to provide collateral.

Reasons for rejection of application

Table 5.2 shows the three main reasons for decline by 18 per cent of the respondents

- Lack of financial information;
- Lack of collateral;
- Other reason, which includes credit judgements, lack of good credit record and respondents withdrawing from the process.

Table 5.2: Respondents' reasons for declined applications

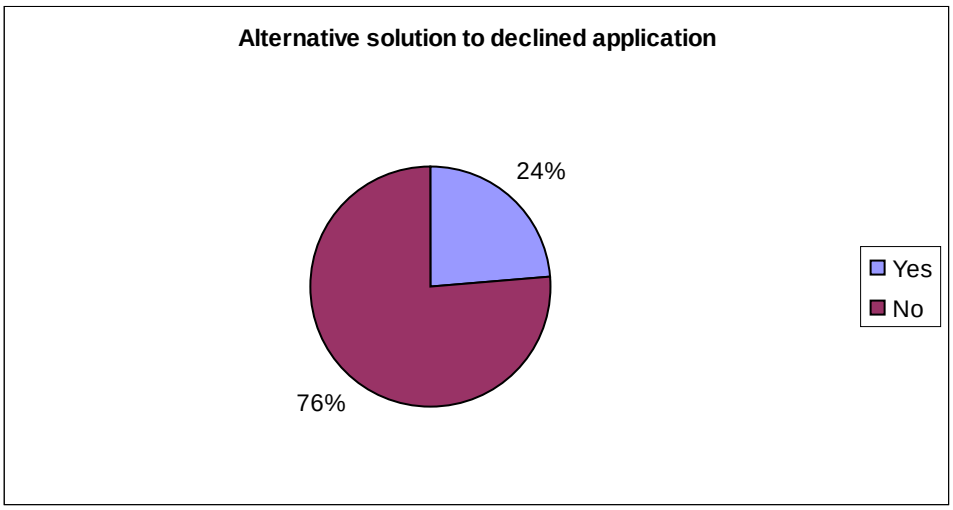
	Respondents identified reasons for decline	Respondents did not identify any reasons for decline	Total responses	% Response to reasons for decline
Management accounts	1	16	17	6%
Financial statements	3	14	17	18%
Collateral	3	14	14	18%
Affordability	2	15	14	12%
Other	3	14	14	18%

Twelve per cent of the respondents indicated affordability as a reason for decline and six per cent indicated lack of producing management accounts.

The respondents who did not provide reasons for decline did not feel comfortable to provide information. It is difficult to make an assumption based on such a small response rate.

5.8.9 Offering of alternative solutions

Graph 5.37: Alternative solution to declined application



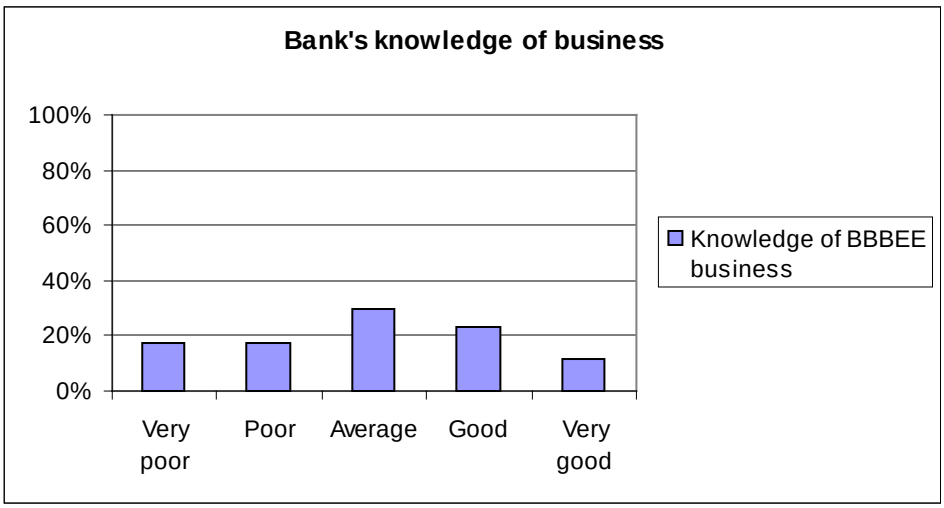
A respondent whose loan application was declined indicated whether their personal banker offered an alternative solution to their financial needs. Seventy six per cent have indicated that they were not offered alternative solutions while 24 per cent have received alternative solutions. This is contradicting to findings under banking officials. There seems to be a general problem in providing alternative solutions in assisting clients.

5.9 RELATIONSHIP WITH BANKER

In order to establish the extent of relationships between respondents and banker this section describes the respondents' perception of their banks. Six per cent of the respondents have indicated that they do not have a personal banker while 94 per cent have been allocated a personal banker.

5.9.1 Banks knowledge of business operations

Graph 5.38: Bank's knowledge of BBBEE business

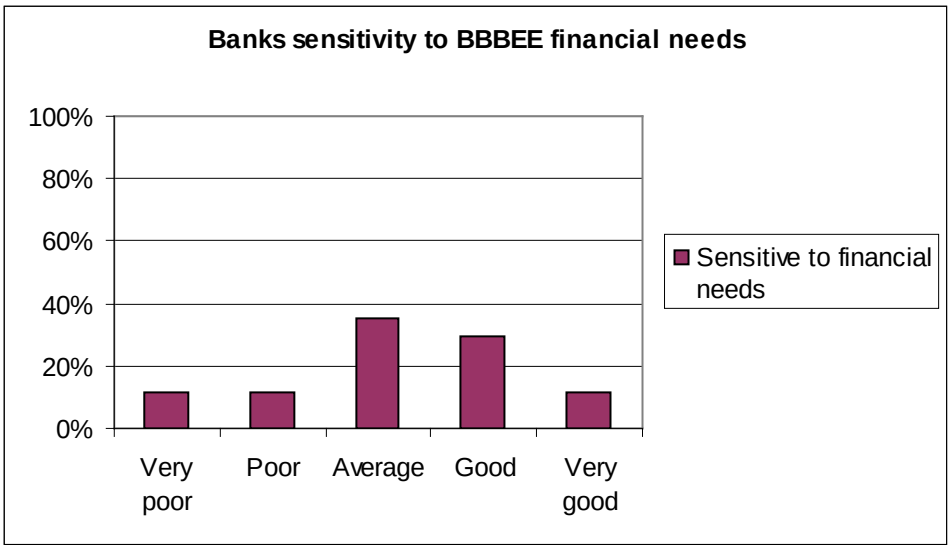


Graph 5.38 shows the respondents perception of their bank's knowledge of their business processes. Eighteen per cent have indicated that their banks knowledge on their business is very poor while another 18 per cent have indicated their bank knowledge of their process is poor. The banks that have average knowledge of business represents 29 per cent of the respondents while 24 per cent of the respondent's banks have a good knowledge of their operations. Eleven per cent of

the respondents have indicated that their bank has a very good knowledge of what is happening in their business.

5.9.2 Banks ability to cater for financial needs

Graph 5.39: Banks sensitivity to financial needs

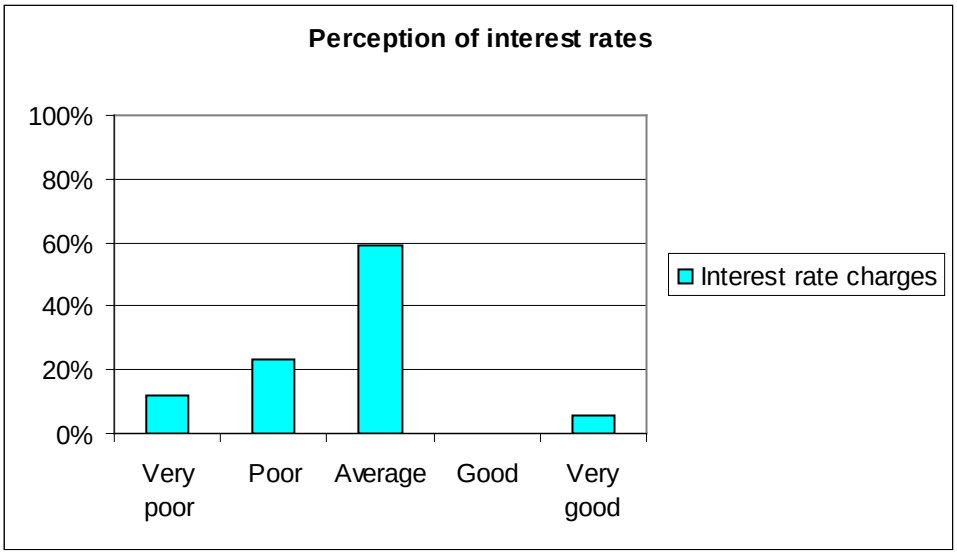


Graph 5.39 shows the respondents rating in terms of the banks sensitivity to their financial needs. Twelve per cent pointed out that their banks level of sensitivity to their financial needs is very poor while another 12 per cent have indicated that their banks level of sympathy to financial needs is poor. Banks level of sensitivity to financial needs were rated average by 35 per cent of the respondents. Twenty nine per cent rated their banks as good while 12 per cent rated their bank's level of sympathy to financial needs as very good.

5.9.3 The cost of interest rate charges

Chapter two explained that the higher the risk of lending for banks the higher the interest rate to cover the cost of lending. Graph 5.40 represent the respondents rating of the interest rate being charged to them.

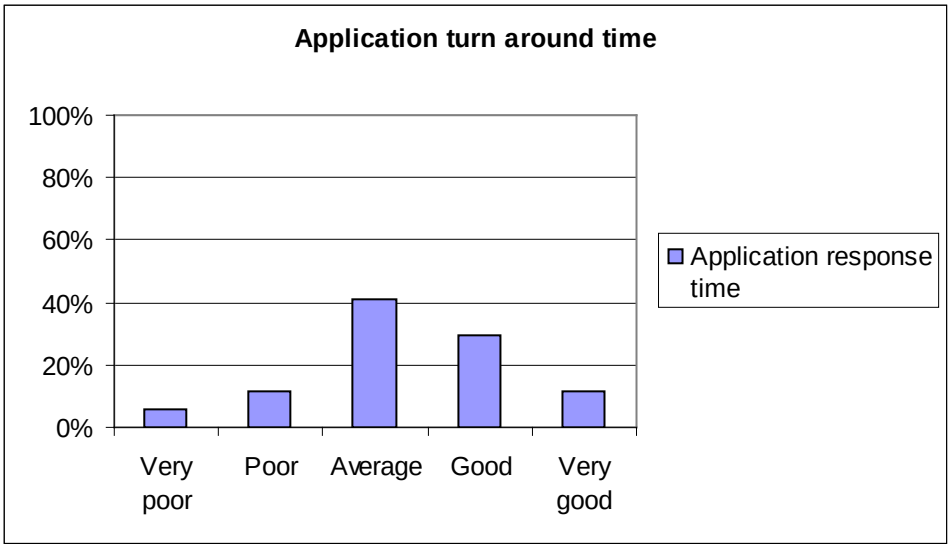
Graph 5.40: Respondents perception of interest rate charges



Interest rate charged was rated very poor by 12 per cent of the respondents. Twenty four per cent rated interest rate charges as poor while 59 per cent rated it as average. Six per cent rated interest charges as very good. The information shows that the respondents are not entirely satisfied with the interest rate being charged.

5.9.4 Response time of application

Graph 5.41: Application turn around time

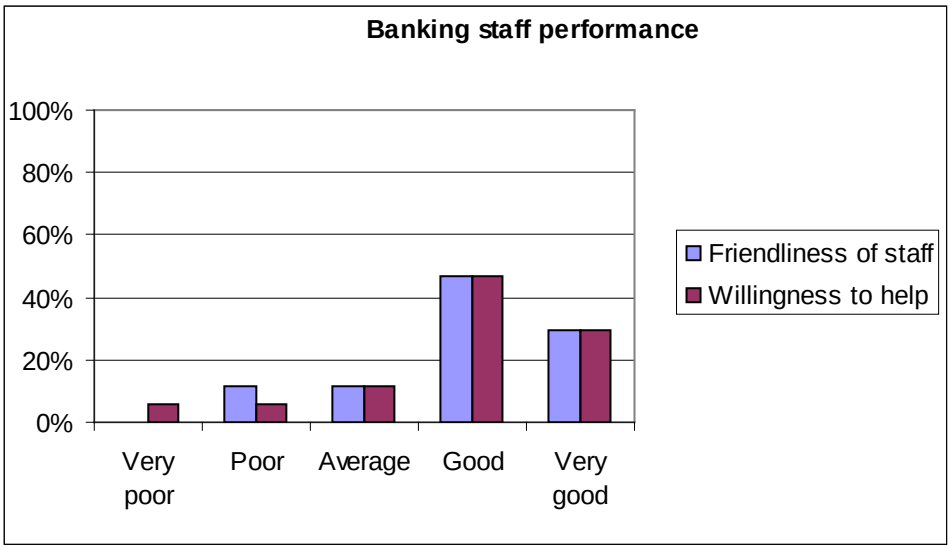


Turn around time of application is very important in service delivery. The respondents have indicated their satisfaction with the time is takes to get an answer with regards to their credit applications. As can be seen from graph 5.41, six per cent

of the respondents rated the turn around time as very slow. Twelve per cent have indicated response time as poor. Forty one per cent of the respondents rated the turn around time as average while 29 per cent has indicated turn around time as good. The remaining 12 per cent rated their bank's turn around time as very good. The overall perception is that most of the respondents are satisfied with the turn around time of applications.

5.9.5 Attitude of banking staff

Graph 5.42: Banking staff performance



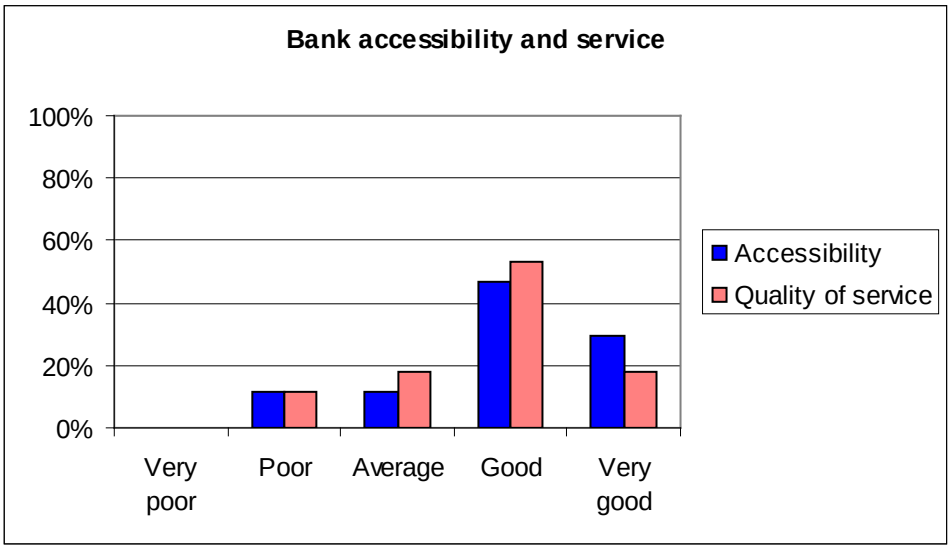
Chapter three outlined the importance of staff approach in assisting clients to retain customer relationships. The respondents as presented in graph 5.42, rated their banks' staff as follows:

- six per cent said staff willingness to assists is poor;
- 12 per cent and six per cent respectively rated friendliness and willingness to help as poor;
- 12 per cent rated both friendliness and willingness to help as average:
- 47 per cent rated both friendliness and willingness to help as good and
- 29 per cent rated the staff as very good.

The overall perception is that the staff is approachable and eager to assist respondents.

5.9.6 Access to banking and quality of service

Graph 5.43: Accessibility and quality of service



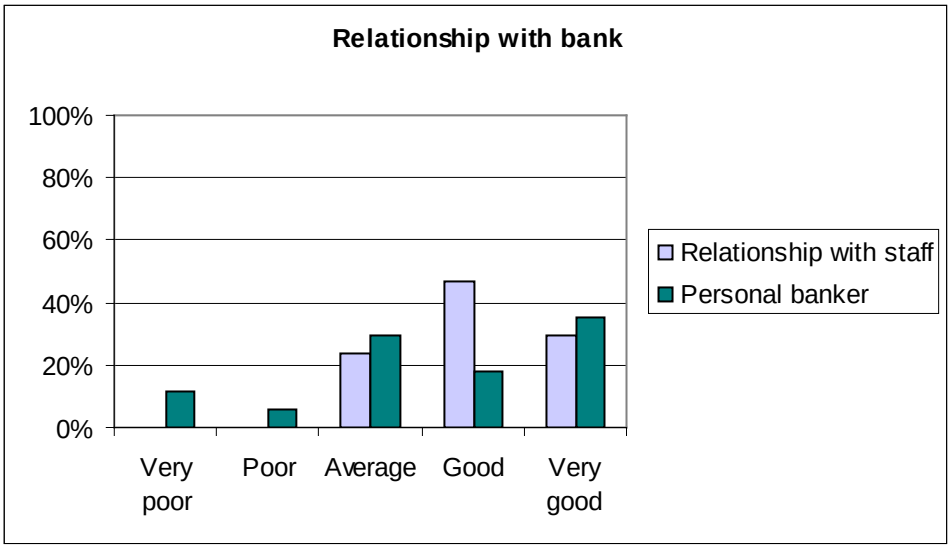
Accessibility of banks is important for personal interaction with personal banker and quality of service delivery. Graph 5.43, illustrates the respondents level of satisfaction with regards to accessibility of bank and quality of service.

- 12 per cent rated both accessibility of bank and quality of service as poor;
- Banks were rated average by 12 per cent for accessibility of bank and by 18 per cent of the respondents of quality of service;
- 47 per cent rated the accessibility as good while quality of services was also rated as good by 63 per cent of the respondents;
- Banks were rated as very good for accessibility and quality of service respectively by 29 per cent and 18 per cent of the respondents. The findings show that most of the respondents are satisfied with the accessibility of banks and quality of service.

5.9.7 Relationship with personal banker and staff

Customer relationship as outlined in chapter three is important for maintaining customers and to build customer loyalty.

Graph 5.44: Relationship with staff and personal banker



Graph 5.44 represents the relationship between respondents, banking staff and personal banker.

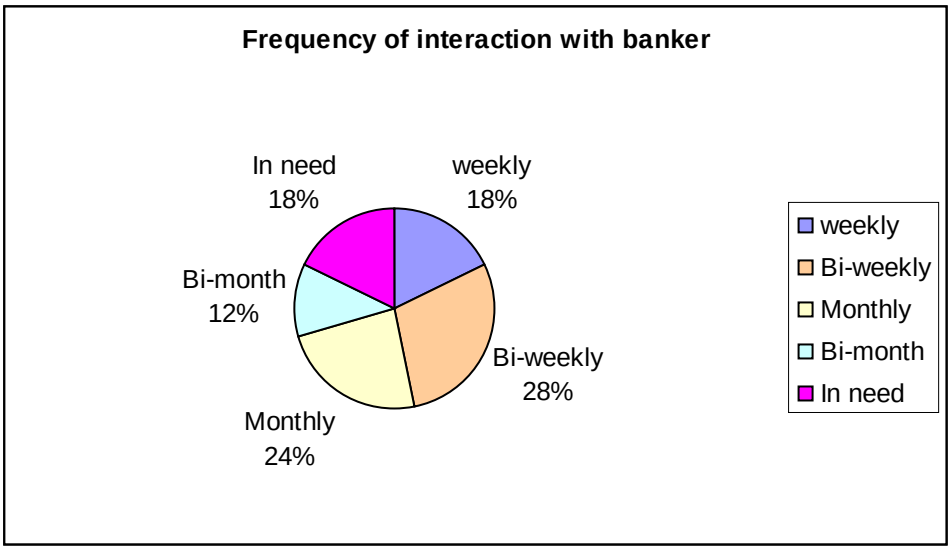
- 12 per cent rated their relationship with personal banker as very poor;
- six per cent rated relationship with personal banker as poor;
- Relationship with staff and personal banker was rated average by 24 per cent and 29 per cent of the respondents respectively;
- 47 per cent and 18 per cent of the respondents respectively rated their relationship with staff and personal banker as good;
- Personal relationship was rated very good by 29 per cent of the respondents and 35 per cent rated relationship with personal banker as very good.

It can be seen from information that the respondent's relationship with staff is better than that of with the personal banker**.**

5.9.8 Frequency of interaction with banker

Personal encounters with customers will foster trust and commitment as outlined in chapter three. Graph 5.45 indicates the frequency of interaction between respondents and their banker.

Graph 5.45: Frequency of interaction with banker



Eighteen per cent interact with their banker on a weekly basis, while another 18 per cent only interact with their banker when needing financial assistance. Twenty eight per cent of the respondent personally interacts with their banker on a bi-weekly basis while 24 per cent converse with their banker monthly The remaining 12 per cent of the respondents interact with their banker bi-monthly. The finding shows that a certain degree of personal interaction does take place between clients and personal banker**.**

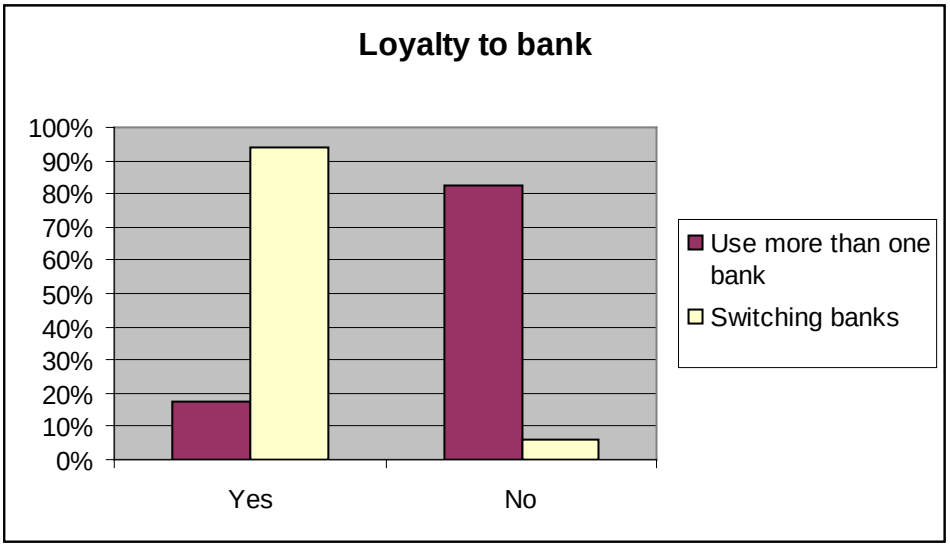
5.9.9 Competence of personal banker

In order to be able to perform tasks efficiently, and understand client's needs, the banker needs to be competent in order to service the needs of clients. Graph 5.46 shows the banker's competence was rated very poor by 12 per cent of the respondent while six per cent rated banker's competence as poor. Twenty four per cent of the respondents rated their banker's competence as average. Thirty five per cent of the respondents rated their banker's competence as good while 24 per cent rated their banker's competence as very good. It seems that most of the respondents identified their personal banker as competent.

Graph 5.46 Competence of personal banker

5.9.10 Loyalty to primary bank

Graph 5.47: Loyalty to primary bank



Satisfied clients are likely to refer others to their banks and reluctant to switch banks. The respondents as shown in graph 5.46 that 18 per cent of the respondents bank at more than bank while 82 per cent of the respondents only bank at one institution. The graph also shows that 94 per cent of the respondents will switch banks if they are not satisfied with primary banker. Six per cent was not interested in switching to another bank. The information proves that customer satisfaction is key in retaining clients.

5.10 CONCLUSION

It is interesting to see the perception the two sample groups used in this study have of each other. The majority of the banking officials confirmed that BBBEE applications have been declined in the passed mainly due to lack of business and affordability with lack of collateral, financial information and credit judgement also contributing to declined of applications. The study shows that clients with government contracts and tenders are more successful to gain access to banking finance. Fifty per cent of the banking officials explained the implication of NCA and majority have informed clients of the different types of facilities available. The banking officials have an overall good perception of BBBEE clients and indicated that establishing relationship with this segment of the market would improve service delivery.

Seventy one per cent of the BBBEE respondents are not aware of NCA implication on credit application. Twenty nine per cent were aware of Khula guarantee scheme and none of the respondents had a Khula guarantee. Sixty five per cent of the respondents had government contracts while others had applications declined due to lack of financial information and collateral. The BBBEE respondents had mixed perception of their bank. Twenty nine per cent of the BBBEE respondents felt that their banks had an average knowledge of their business and that interest rate charges are average. Forty seven per cent of the BBBEE respondents have indicated that their relationship with banking staff was better than with personal banker.

This chapter dealt with the perceptions and relationships between banking officials and their clients. The subsequent chapter summarises and concludes this study.

CHAPTER SIX

6. SUMMARY, RECOMMENDATIONS AND CONCLUSION

6.1 INTRODUCTION

This chapter summarises the literature study that was conducted and analysis of the survey through the questionnaire sent to the banking officials and the BBBEE respondents.

6.2 RESEARCH SUMMARY

The main objective of the study was to facilitate access to banking finance for SME'S, specifically BBBEE companies in the Southern Cape area. A literature study was conducted to address the sub-problems, the reason for unsuccessful credit application, the affect of credit scoring, NCA and Basel on credit application and what can be done to facilitate access to banking finance**.** The literature study was twofold, firstly to understand the role of BBBEE and the impact of SME'S on the economy. The definition of SME differs across sectors and is characterised by number of employees, annual turnover and gross asset value (Migiro & Wallis 2006). The study reveals that SME'S enhance the quality of human resources, foster innovation, penetrate new business opportunities and provide job opportunities (Integrated Strategy Online, 2005). The object of the BBBEE codes was also studied to establish the measure of BBBEE status (DTI 2007).

The second literature study was conducted on the role of financial institutions. Various banking products are available as well as the Khula guarantee scheme to assist clients who do not have adequate collateral to secure debt. The different security offered as collateral has different security values and the applicant for~~of~~ credit often has to find alternative collateral to cover risk of the loan (Nedbank Online, 2008). The different credit scoring systems helps a lender to distinguish between applicants that will meet repayment obligations and those who have greater

probability of default. Adverse credit scoring impacts the accessibility to financial markets (Crook et al, 2007).

A framework for relationship building between banks and SME'S reveals that if clients are not happy with the service they receive from their banks there are likely to switch banks. The relationship between the different role-players is vital to maintain and retain clients (Madill et al, 2002).

A survey to establish the relationship between two sample groups namely banking officials and BBBEE respondents reveals the following:
General comments from banking officials on what should be done to improve service delivery to BBBEE clients:

- Each region should have it's own BBBEE representative to build stronger relationships to enable the bank to enhance the full potential of this business;
- More pro-active focus on this market segment and more local marketing initiatives to specifically promote service to this segment;
- Getting to know BBBEE client and to understand their business**;**
- Make sure that you know the client and understand his business to add value to the business and operations. Client must be part of a managers visitation cycle;
- Potential BBBEE clients don't always have the knowledge of what the banks need for finance and they get the impression that the bank is difficult by asking for relevant information to assess an application;
- Bank should re-look at lending criteria to accommodate BBBEE clients
- Bank should employ staff specifically to service these type of clients;
- BBBEE clients mean risk to the bank and highest collateral is requested and the assumption is that these type of clients is not trustworthy;
- In order to gain market share in this segment, the bank needs to put the necessary measures in place in dealing with these clients;
- BBBEE clients should be serviced in a language they clearly understand and a bank representative should service in their language and be knowledgeable about their type of business.

General comments from BBBEE respondents in enhancing relationship with banker:

- The personal banker is always too busy to meet with him and gives the impression that respondent is a nuisance;
- The personal banker is never available and requests are directed to a call centre where one holds for a long period of time;
- Banks are reluctant to provide loans without collateral, which the respondents do not have;
- Banks should be more accessible to small businesses with regards to working capital and should foster relationships;
- Banks should look at alternative solutions to small business that cannot afford to have signed financial statements;
- Banks are prepared to allow respondent to invest his money but are not prepared to take a risk and support me without requesting collateral;
- Business should be judge on performance and premises should be visited by banker and inform clients of new products;
- Credit application should be decentralised and bankers should stop forcing to sell products that are expensive and not a benefit to clients.

6.3 PROBLEMS ENCOUNTERED

No information about the total of BBBEE enterprises within the Southern Cape Area could be accessed. The banking officials were very willing to participate but were contradicting in answering certain questions. Where some have indicated that no applications were declined the same respondents gave reasons for declining applications. The comments of the BBBEE respondent's shows that they are not satisfied with their relationship with their banker. The information from the questionnaires however reflects a different story.

6.4 RECOMMENDATIONS

The comments from the two sample groups imply that there is a lack of commitment with regards to relationships. Each group has given their comments to foster the

relationship between the two. Regular interaction will allow for the exchange of information, which will benefit both parties. The BBBEE is a segment that most banks would like to enter. Standard Bank has created a business-mentoring programme to assist BBBEEE clients. This however is not enough to facilitate access~~ing~~ to finance, as the BBBEE segment is still misunderstood. Establishing relationships through information sessions and inviting BBBEE to apply for banking facilities by promoting the Khula guarantee scheme will facilitate access to banking facilities.

6.5 CONCLUSIONS

In order to achieve the main objective of facilitating access to banking facilities the sub-problems had to be answered.

The first sub problem, the reasons for unsuccessful credit application was discussed in Chapter two under challenges facing BBBEE enterprises. The reasons were (Standard Bank Online, 2008):

- lack of equity funding to acquire share;
- lack of collateral to secure conventional bank finance;
- lack of skills in business or financial management;
- high preparation cost of tender proposals for smaller business and
- inability to meet performance targets due to limited resources.

The second sub problem, how current credit scoring affect the success of granting finance was discussed in chapter three under credit scoring models. According to Crook et al (2007), credit scoring involves the pre-screening of a potential applicant by using risk assessment tools to assess risk associate with lending to an organisation of individual. Credit scoring is a computerised system that generates a rating based on variables such as income, age of business or individual and period at address. These ratings will determine the acceptance of rejection of an application. Credit judgement or poor credit history will adversely affect a credit rating, resulting in an unsuccessful application (Deakins & Freel, 2003).

The third sub problem, the affect of NCA on granting of credit was answered in chapter two. The purpose of the Act (2005) is to promote a fair, transparent, sustainable and accessible credit market and to advance the social and economic welfare of South Africans (NCA, 2005). The Act enforces the rights of consumers not to be unfairly discriminated against by credit provider (ABSA, 2007). The national credit regulator is responsible for the development of accessibility of the credit market by serving the needs of historically disadvantage, low income and remote, isolated persons or communities. (NCA, 2005). The NCA protects consumers by compelling credit providers to inform consumers about their rights and of relevant information contained in a loan agreement. Credit providers are to conduct detailed affordability assessments to avoid over-indebtedness by consumers and maximum interest rates to be charged to consumers are prescribed by the Act Small businesses, 2007).

The fourth sub problem, the effect the Basel risk rating have on SME'S was discussed in chapter three under purpose of Basel. Basel is a capital measurement framework, which requires banks to hold a percentage of their risk-weighted assets as capital (Carey & Flynn, 2005). Banks often use internal risk rating system to grade borrowers into different categories of credit riskiness. The grading is useful in the calculation of capital requirements as set out in the Basel framework (Foglia et al 2001). The internal rating is design to accurately assess the true risk of loan application. The lack of reliable information will result in allocating a poor credit risk rating of grading score to SME'S who depends heavily on banks in the start-up stage of their existence and tend to have a low capital base. Poor grading score is more likely to result in a decline in borrowers loan application (Norton, 2003).

The fifth sub problem, what can be done to facilitate access to credit facilities was discussed in chapter three under preliminary framework for relationship building Madill et al (2002):

- The role of the account manager is to provide premiums service to customers through personal interaction and mutual understanding of customer needs (Bove & Johnson, 2002);

- The role of the branch staff is to be polite in daily transactions with SME and be well informed, considerate, approachable and approving of SME business (Madill et al, 2002);
- Corporate policies should stipulate the role requirements of employees responsible for managing customer relationship and should include communication strategies, process alignment, employee motivation and evaluation procedure for relationship management (Parvatiyar & Sheth, 2001)

An analysis from the data obtained from the questionnaire confirmed that sub-problems affect the outcome of credit applications. The two sample groups who have also identified the need for relationship building confirmed this.

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ANNEXURES

QUESTIONNAIRE LETTER

Facilitating accessing of banking finance to BBBEE SME'S with in the Southern Cape area.

Dear Sir/Madam

Completion of questionnaire

I am presently conducting research into facilitating access to banking finance to BBBEE SME particularly in the George and Mossel Bay area. The research is in partial completion of a MBA degree at the Nelson Mandela Metropolitan University. The objective of the questionnaire is to establish the current barriers to accessing of finance and to establish a relationship to overcome these barriers.

Your participation in the completion of the attached questionnaire will be highly appreciated as only a small number of candidates were selected to participate. Your response is thus crucial to determine the success of the survey. Names of respondents (information is optional) will not be revealed and all information will be treated with confidence.

Thank you for your assistance

Thelma Kroukamp
Tel: 021 807 2612
Cell: 082 578 1001
Fax: 021 807 2607
Email: thelmakr@nedbank.co.za

QUESTIONNAIRE TO NEDBANK OFFICIALS

Relationship with BBBEE clients

1. Please complete appropriate block

Name	
Location	
Education	
Age	
Gender	
Race	

2. What is your position at the bank?

Service Manager	Credit Manager	Relationship Manager	Credit Analyst	Other (Specify)

3. How long have you been employed at the bank?

<3 years	3-5 years	5- 7 years	> 7 years

4. Do you know the criteria to be BBBEE compliant?

Yes	No

5. Do you understand the general needs of your BBBEE clients?

Yes	No

6. In your opinion do you think that banks are reluctant to grant finances to BBBEE clients?

Yes	No

7. Reasons for reluctance to do business

Lack of business skills	
Lack of financial information	
Lack of collateral	
Lack of affordability	
Credit judgements	
Other (specify)	

If answered other please specify

……

……

8. Have you explained the implication of the NCA to BBBEE clients?

Yes	No

9. Have you explained the different kind of facilities available to BBEE clients?

Yes	No

10. Are clients with government contract or tenders more successful in accessing funds than those without?

Yes	No

11. Have any of your BBBEE client's applications been declined?

Yes	No

12. Did the bank try to offer an alternative to accommodate those clients?	Yes	No

Please rate your relationship with BBBEE clients with regards to the following

	1. Very Poor	2. Poor	3. Average	4. Good	5. Very good
13. Knowledge of their operations					
14. Personal contact with owners					
15. Their willingness to provide financial information					
16. Owners competence to sustain business					
17. Clients conduct with regards to honouring loan obligations					
18. Client's personal interaction with bank					
19. Accessibility of client					

20. How would the establishment of relationships with BBBEE clients affect service delivery?

1. Very Poor	2. Poor	3. Average	4. Good	5. Very good

General comments on what should be done to improve service delivery to BBBEE clients

……
……
……
……

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QUESTIONNARE TO BBBEE PARTICIPANTS

Section 1 – Company background

1. Please complete appropriate block

Company name	
Industry/Sector	
Location	
Education	
Age	
Gender	
Position in company	

2. How long has your company been in business?

<3 years	3-5 years	5- 7 years	> 7 years

3. Number of employees

<5	5-10	10-20	20-50	50-100	>100

4. Who is your primary banker?

FNB	ABSA	STANDARD	NEDBANK	INVESTEC	OTHER

5. How long have you been with current banker?

<1 year	1-3 years	3-5 years	5-7 years	7-10 years

6. Is your company a BBBEE compliant?

Yes	No

Section 2 – Access to finance

7. Are you aware of the National Credit Act (NCA)?

Yes	No

8. Has your banker explained the~~o~~ im~~-~~pact of ~~you're the implication of~~ NCA?

Yes	No

9. Have you applied for any banking facilities in the past year?

Yes	No

10. If yes for which facility did you apply?

……

……

11. Was your application successful?

Yes	No

12. If no, what was the reason for the decline

Lack of collateral	
Lack of Financial statements	
Lack of Management accounts	
Lack of affordability to service loan	
Other (specify)	

If answered other please specify

……

……..

13. Does your company produce Financial statements?

Yes	No

14. Does your company produce Management accounts?

Yes	No

15. Have you been awarded any government contracts/tenders?

Yes	No

16. Are you aware of the different types of banking products available to you?

Yes	No

17. Are you aware of the Khula Guarantee?

Yes	No

18. Has your company been awarded a Khula guarantee?

Yes	No

19. Did you pledge any securities for any loans that were approved?

Yes	No

20. Did your bank try to offer an alternative to your needs?

Yes	No

Section3 –Relationship with banker

21. Do you have an allocated banker?

Yes	No

22. How often do you interact with your banker?

Weekly	Bi-weekly	Monthly	Bi-monthly	Other

23. Do you know what is required when applying for banking facilities?

Yes	No

24. Do you bank with more than one bank?

Yes	No

Please rate your banker according to the following

	1.Very Poor	2. Poor	3. Average	4. Good	5.Very good
25. Knowledge of your business					
26. Sensitive to your business needs					
27. Interest rate being charged					
28. Application response time					
29.Friendliness of staff					
30. Staff willingness to help					
31. Accessibility of bank					
32. Quality of service					
33. Relationship with staff					
34. Relationship with personal banker					
35. The competence of your banker					

36. Would you switch banks if you were not satisfied with service?

Yes	No

General comments on what should be done to improve accessibility to banking finance.

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