Success criteria for development funding applications for SMEs in South Africa

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ABSTRACT

The National Empowerment Fund has been used as a case site as it is a development funding institution of the Department of Trade and Industry. The purpose of the research was to identify and evaluate the attributes of successful versus unsuccessful funding applications for Small and Medium Businesses. The method of data collection used in the research was through content analysis of archival documents.

The key findings were as follows:

- Poorly structured and incomplete business plans, poorly structured and unsubstantiated financial information, as well as the high risk profile of the SME, do lead to unsuccessful funding applications.

- Entrepreneurial ability or orientation, the technologies used to fund SMEs, highlighting the impact that SMEs have on economic growth and development, as well as the completeness of the funding submission, have increased the likelihood of successful funding applications.

SMEs have a vital role to play in economic growth and development and since access to funding is an obstacle that they face, more effort and attention needs to be given by all funders to ensure that SMEs are promoted through being able to access the required funding by meeting the stipulated criteria and informational requirements.

DECLARATION

I, Sarvasan Reddy, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

(Sarvasan Reddy)

Signed at …………………………………………………

On the …………………………….. day of ………………………… 2009

DEDICATION

I dedicate this research to my darling wife Vaneshree who through her unwavering commitment to my success and unconditional love and attention has assisted me in completing my research.

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CHAPTER 1: INTRODUCTION

1.1 Purpose of the study

The purpose of this research was to identify the attributes of successful versus unsuccessful funding applications for Small and Medium Businesses (Berger and Udell 2006).

1.2 Context of the study

Small and medium business has been identified as a key driver in the reduction of unemployment in South Africa; however, in order to make a sustainable impact these businesses have to be successful (Falkena et al. 2002). There are many challenges that plague small and medium business, with lack of access to funding being highlighted as a key challenge (Klapper 2006). The researcher has therefore aimed at gaining a clearer understanding of challenges that small and medium businesses face in the context of applying for funding. There are several new funders that have been introduced into the market to cater for the needs of small and medium business funding, with focussed initiatives that are tailored to the requirements of the various industry sectors (Jeppesen 2005). Despite these interventions, access to funding is a major challenge for small and medium business (Blanchflower et al. 2001). It is this that makes it debatable as to whether the actual problem is not one of lack of access to funding, but rather one of lack of entrepreneurial skill (Blanchflower and Oswald 1998).

Key to the application process of securing funding is the submission of a good business plan (MacMillan and Narasimha 1987). Despite most funders providing prospective applicants with templates of business plans there stills seems to be something lacking. It is therefore important to clearly understand what the key aspects to a good business plan are (MacMillan and Narasimha 1987). A further component of the application for funding is the financial projections for the business (MacMillan and Narasimha 1987). Ideally funders are looking for financial projections that indicate financial feasibility of the business post funding being received. That information has to be easily justifiable, that is figures need to be substantiated with a detailed market assessment or contracts or off-take agreements. Unsubstantiated figures would generally result in the application being unsuccessful (MacMillan and Narasimha 1987).

The entrepreneur is key to the success of the business (Beugelsdijk and Noorderhaven 2005). Understanding what the traits of a good entrepreneur are is an important part of the puzzle. Unpacking what actually makes successful entrepreneurs would be helpful in understanding the ingredients for success or failure of small and medium business (Audretsch 2003).

The National Empowerment Fund (NEF) has been used as the case site. It is a development funding institution of the Department of Trade and Industry and has a fund called Imbewu, which is dedicated to the financing of SMEs. Being a development funding institution should theoretically make it an easy point for sourcing funds for the SME.

1.3 Problem statement

1.3.1 *Main problem*

The purpose of the research was to identify and evaluate the attributes of successful vs unsuccessful funding applications for Small and Medium Businesses.

1.3.2 *Sub-problems*

The first sub-problem was to identify and evaluate the attributes of unsuccessful development funding applications for Small and Medium Business.

The second sub-problem was to identify and evaluate the attributes of successful development funding applications for Small and Medium Business.

1.4 Significance of the study

The study fills a gap in that it gives both entrepreneurs and funders a clearer indication of what the real reasons are for successful vs unsuccessful funding applications. SMEs and entrepreneurs will find the study useful in terms of knowing what their shortcomings in making applications for funding are. Funders will be able to get a clearer understanding of how they can assist entrepreneurs to ensure that the success rate of funding applications is increased significantly.

1.5 Delimitations and limitations

1.5.1 *Delimitations*

- The study has focussed on small and medium businesses only.
- The applications assessed were Gauteng-based applications only.
- The applications that form the data of the study were from the National Empowerment Fund's Imbewu Fund only.
- The applications reviewed were for the period July 2007 to January 2008.
- The applications reviewed were development funding applications only.

1.6 Definition of terms

SMEs = Small and Medium Enterprises

For purposes of this research the definition of small and medium business is the definition as provided in the National Small Business Act of 1996 (Refer to

Appendix C for the relevant extracts of the Act) (NSBA) (RSA 1996).

1.7 Assumptions

All applications reviewed have been consistently assessed in terms of their success or failure. The research outcome is not highly sensitive to this assumption.

CHAPTER 2: LITERATURE REVIEW

1.8 Introduction

The literature review will undertake to provide a broad perspective on what the possible contributors towards small and medium business being successful or unsuccessful are, in terms of their application for funding.

1.9 Attributes of unsuccessful funding applications in small and medium business

1.9.1 *Poorly structured and incomplete business plans*

When considering why applications for funding in small and medium business is unsuccessful, the literature suggests that the characteristics of the business plan structure and the financial projections impact on the view taken by the funder (MacMillan and Narasimha 1987). A business plan serves many purposes (Thompson 2003). It acts as a tool to define the purpose of your business and to organise your thoughts around your business (Hormozi et al. 2002). It serves the purpose of highlighting the growth patterns of the business as well as possible problems that the business could face. By documenting the thought processes involved in the business, one is better able to deal with prospective problems well before they become a reality (Thompson 2003). The business plan is also a requirement of the many funders or investors and therefore is a tool used in accessing funding (Hormozi et al. 2002). It is partly for this reason that the business plan needs to clearly and firmly communicate the core concept of the business, the viability thereof, the proposed business model to be used, as well as the management structure or entrepreneurial team that is requisite to achieving the business objectives (Thompson 2003). Therefore a business plan that does not adequately communicate the core business concept and the stages of its implementation will result in the business not being clearly understood, which could impact negatively on the success of any funding application.

A key concept highlighted in the literature is the structure of the business plan. The structure relates directly to the focus and attention being placed on the key areas that should be contained in a business plan. These areas include the marketing, financial, production and managements aspects of the business (MacMillan and Narasimha 1987). A major flaw in many business plans is that too much emphasis is placed on the financial aspects of the business with not enough emphasis being placed on the market (MacMillan and Narasimha 1987). Is the market sustainable enough to achieve the financial projection or not? A fundamental criticism of the literature on the proposed content and structure of a business plan is that the literature often adopts a 'one size fits all' stance to writing a business plan (Mason and Stark 2004). Therefore there is often no acknowledgement in the literature of the various types of funders and the fact that their needs in terms of content could be materially different from one another. The lending decision of a banker differs materially from that of a venture capital fund manager, which may differ materially from a business Angel's investment decision (Mason and Stark 2004). Therefore in addressing the shortcomings of poorly structured and incomplete business plans one has to remain aware of the intended investment decision maker.

The literature indicates that the writing of a business plan or whether to write or not to write a business plan as part of the pre-start up phase of starting a business differs for entrepreneurs with limited and high ambitions (van Gelderen et al. 2006). What this means is that for those entrepreneurs that start small and medium businesses, writing and having a plan of the business will help them to structure and focus the activities of their business. This implies that the business plan is a document that articulates the entrepreneur's plan of the business from the start to the actual operation. A business plan is very useful in terms of obtaining legitimacy for a business that is at the beginning of the start-up phase (Delmar and Shane 2004). The business plan will indicate to the financier that the entrepreneur has gone through various thought processes in arriving at the plan and would provide them with a little more comfort that the business plan is a culmination of a well thought through business idea. Therefore lack of attention to detail within a business plan can be a major contributor to an unsuccessful application for funding.

1.9.2 *Poorly structured and unsubstantiated financial projections and financial statements*

The other key element that impacts on the view of the funder is the financial projections (MacMillan and Narasimha 1987). The projections of the business need to be realistic, as highly optimistic forecasts can result in the credibility of the information being questioned. Possible reasons for these optimistic forecasts could be that the entrepreneur has not given thought to the aspect of competition and the impact that such competition can have on a business being able to achieve the projected forecasts. This could also be an indication of the lack of foresight on the part of the entrepreneur, which questions his ability to assess the market and industry that he will be operating in.

It is critical that the financial projection does include the following: the key assumptions used in arriving at the projected figures; the logic used in making the assumptions; both the revenue and the expenses expected to be incurred by the business; when in the cycle of the business the business is likely to exceed its breakeven mark and become profitable; and, very importantly, the projections should highlight the funding needs of the business as well as the timing of those needs (Thompson 2003). Not including these elements in the financial projections and not clearly justifying the need for funding will highlight to the funder that no thought had been given to the requirement for funding, the quantum thereof as well as the general ability of the business to be able to repay the debt (Honjo 2000).

For an existing business it is critical that the business has existing financial statements that must be presented in terms of an application for funding (Thompson 2003). The existing financials, besides highlighting the proven track record of the business, also serve the purpose of forming the basis for the projections going forward. Future projections must be informed by the past trading (Thompson 2003). Not presenting the existing financial statements can communicate to the funder that the applicant has something to hide which creates doubt in terms of the application for funding (Hormozi et al. 2002).

1.9.3 *Historical and current challenges faced by SMEs in accessing finance*

Besides the challenges that SMEs face with regard to poorly structured business plans and financial projections, the historical and current challenges faced by SMEs in accessing funding have alluded to the high risk profile of these SMEs. The literature on the developing economies of the North Atlantic Core indicate that financing of small and medium business was supplied by financial intermediaries that were able to tap into the local information networks, and so extend financing to enterprises that lacked credit history to secure funds from the larger regional and national institutions (Cull et al. 2006). These intermediaries were unfortunately vulnerable to economic shocks and were largely inhibited by the regulatory environment created by the governments of these economies. The scarcity and vulnerability of these financial intermediaries escalated the plight of these SMEs in accessing finance.

Interventions that addressed both the lack of information on these SMEs as well as inadequate monitoring mechanisms were identified as possible solutions to providing finance to SMEs (Cull et al. 2006). Other challenges faced were the barriers such as obstacles with regard to registration of these businesses as well as the high cost of complying with regulations associated with these businesses, which prevented these businesses from being formal entities and as such acquire the required funding that they sought (Cull et al. 2006). The analysis of the textile industry in Mexico indicated that firms that were disadvantaged to access credit grew more slowly than those with direct access to the finance provided by the banks (Cull et al. 2006). This provides evidence that the growth of small and medium businesses is inhibited by the lack of access to funding.

Small and medium business face major hurdles in accessing funding for viable projects as a result of the lack of trustworthy information about them that is available to the finance providers (Berger and Frame 2007). This is due to these businesses not having certified audited financial statements which would enable them to generate the credible financial information that financiers would be looking for.

A possible cause of the finance gap of SMEs is the informational irregularities that exist (Berger and Udell 1998). It is presumed that the growth of SMEs is anticipated and this informs the financial analysis and projections for these businesses (Gregory et al. 2005). SMEs that are growth-focused tend to use external sources of funding more in terms of funding this growth (Berger and Udell 1998). The literature indicates that entrepreneurs acquire technical skills and practical experiences as a means to mitigate risk. SMEs by their very nature lack the ability to be totally transparent, which adds to informational irregularities that they face and this impedes their access to external funds. This has a ripple effect of restricting their ability to accumulate revenue generating assets and hence their overall growth (Vos et al. 2007). A study of both US and UK SMEs indicate that social networks of the entrepreneurs play an important role in the ability of these SMEs in accessing loan opportunities and that many SMEs are not directly focused on growth but see access to working capital as a major issue (Vos et al. 2007).

1.9.4 *The high risk profile of the SME*

The historical and current challenges faced by SMEs have contributed to the negative perceptions of small and medium business in terms of their being high risk undertakings with high failure rates. There is a view that policies should be designed to be pro small and medium business which should change the risk profile of SMEs positively, thereby increasing their access to funding. There are however contrasting views on the impact that small and medium business has on economic growth (Carree and Thurik 2003). Some literature indicates that small and medium business is not key to economic growth whereas other studies indicate that small and medium business fosters entrepreneurial activity and innovation which then in turn drives economic growth (King and Levine 1993). The literature further indicates that the lack of access to finance can negatively impact the growth of small and medium business (Beck and Demirguc-Kunt 2006).

There are three major risk factors that small and medium businesses face in terms of determining their success or failure (Everett and Watson 1998). These risks consist of the economy-based risk, industry-based risk and firm-based risk. Economy risk refers to the risk associated with the macro and micro economy that the business operates within. Upturns and downturns within the economy impact directly on the sustainability of these small and medium businesses. The industry risk refers to the risk associated with the industry in which the business operates. Economic changes impact different industries differently and where an industry is seriously impacted by a negative change within that industry, this is likely to have an even greater impact on the small and medium business which is more susceptible to industry changes than large business. The third risk which is firm-based risk refers to the risk that is unique to the small or medium business itself (Everett and Watson 1998).

As indicated by Everett and Watson (1998), the two primary causes of small business failure are poor management skills and the inadequate capital at both the start up and operational phases of these businesses. These relate directly to the firm-based risk and are internal failures of these businesses. The literature further indicates that although these two reasons for failure are often identified as the root cause of the failures of small and medium business, these failures are exacerbated by the exogenous or external factors such as the economy and the industry in which they operate (Honjo 2000).

Small and Medium businesses are exposed to a range of risks throughout their operating cycles (Ejembi and Ogiji 2007). The risks that SMEs are exposed to have further increased as a result of diversification of their operations into the competitive local as well as global markets. The high rate of business failure has been traced back to several factors which include: funding or the lack thereof, poor management ability, infrastructure constraints, poor record keeping which translates to poor available financial information, the lack of skilled personnel, as well as ineffective risk management (Ejembi and Ogiji 2007). Further risks that SMEs are exposed to include credit risk which is the risk of not being able to meet their financial obligations in terms of their credit; interest rate risk which relates to the fluctuations of the interest rate and the impact thereof; market risk which relates to adverse market conditions; political risk which results from political changes within the country of operation or internationally; purchasing power risk which is linked to inflation fluctuations; profit risk which is the risk that the SME does not generate sufficient profits to become sustainable; and reputation risk which relates to problems within the SME that could result in investors or funders losing confidence in the business (Ejembi and Ogiji 2007).

The literature further indicates that often the reason that people go into small and medium business is a contributing factor as to why they fail. This is particularly relevant in the case of women entrepreneurs who go into business as a result of being discriminated in the workplace (Rosti and Chelli 2005). Rosti and Chelli (2005) indicate that men go into business to continue an activity that is more profitable than it was while they were salaried employees, while women go into business to move out of their current situation. The study further indicates that they fail to remain in the business and exit from business at the same rate that they enter. This high exit rate from businesses is another contributing factor to the negative perception associated with small and medium business (Rosti and Chelli 2005). Negative perception is a major contributor to the high risk profile of the SME. In addition the literature indicates that the failure rates of small and medium business is high and it is this perception that decreases their likelihood of being able to successfully secure the funding that they require. One of the main reasons why SMEs find it extremely difficult to attract finance is their inability to provide adequate certainty that the money will be repaid (Barre 2005). This has resulted in SME lending being seen as a high risk activity.

In summary, the literature suggests that:

Proposition 1: Attributes leading to unsuccessful funding applications include:

a) poorly structured and incomplete business plans;

b) poorly structured and unsubstantiated financial projections and financial statements; and

c) the high risk profile of the SME.

1.10 Attributes of successful funding applications in small and medium businesses

1.10.1 *Entrepreneurial orientation and entrepreneurial ability*

The literature indicates that having a strong entrepreneurial orientation has a strong impact on small and medium business performance because this highly entrepreneurial orientation can unleash the ability to uncover and create new opportunities that can be their key differentiator between themselves and their competitors (Wiklund and Shepherd 2005). Having a key differentiator will increase the likelihood of being successful in accessing finance because part of being sustainable entails a strong competitive strategy.

Clarity on what drives entrepreneurs to succeed in their enterprises can help indicate why some entrepreneurs may be more successful than the rest of the population in obtaining access to funding. The literature indicates that there is existing evidence that potential entrepreneurs are restricted by lack of access to capital and this is further exacerbated by market imperfections that deter entrepreneurs in industrialized countries (Blanchflower et al. 2001). Further the literature indicates that the innovation required for the creation of new business depends on the presence of individuals that possess the specific personality traits that are required to be entrepreneurs (Mueller and Thomas

2001). Some of these personality traits consist of age, educational profile, professional background and reasons for becoming self-employed (Beugelsdijk and Noorderhaven 2005).

McCelland (1961) as cited in Beugelsdijk and Noorderhaven (2005), indicates that entrepreneurial behaviour is linked to personality characteristics such as the need to achieve, a propensity to take risks, preferring to engage in energetic as well as novel activities and the inclination to perceive success or failure as a result of personal responsibility. Entrepreneurs can be characterised by their own reward structure which is based on their individual effort, conscientiousness and a strong work ethic (Beugelsdijk and Noorderhaven 2005).

According to Schumpeter, the entrepreneur is seen as a leader who will not be constrained by ordinary obstacles. They are driven by their desire to achieve for themselves. They are characterised by the strong will to fight for the survival of their enterprises and to succeed (Schumpeter 1934 as cited in (Beugelsdijk and Noorderhaven 2005)). Based on the above it becomes clearly evident that entrepreneurs strive to succeed no matter what the odds and are prepared to personally take full responsibility for the achievement of success or failure by committing their energy wholeheartedly. Unlike managers, entrepreneurs want to be uninhibited to achieve and reach their potential (Beugelsdijk and Noorderhaven 2005).

There is strong evidence to indicate that entrepreneurs tend to be more innovative than non-entrepreneurs (Mueller and Thomas 2001). It is this strong drive to succeed that will help convince financiers of the commitment of these entrepreneurs to the overall success of the ventures for which they require funding . The analysis indicates that entrepreneurs are more individually oriented than the population at large and that individual responsibility and effort are definitely distinguishing characteristics.

A study on “How does an entrepreneur’s ability influence the propensity to exploit novel opportunities?” indicates that the ability to think critically as well as entrepreneurial personality were useful in distinguishing entrepreneurs that started new businesses from novel ideas, from those that were started from non-novel opportunities (Lee and Wong 2006). It further indicated that critical thinking and personality were key determining factors for entrepreneurs exploiting novel opportunities but also indicated that exploitation of these novel ideas was closely linked to environmental factors that are key to the emergence of these opportunities. The demand for entrepreneurship is driven by the opportunities to be involved in entrepreneurial activities (Audretsch 2003).

Other literature on entrepreneurial talent indicates that entrepreneurial talent may be an innate ability or natural talent in certain people to start up entrepreneurial activities without having any prior training or learning (Lucas Jr 1978). This gives them a comparative advantage (Rosti and Chelli 2005).

Having entrepreneurial talent is great but there has to be a link between that entrepreneurial talent and the performance of the business. Audretsch (2003), attempts to get clarity on the link between entrepreneurship and economic performance. He highlights that in order to establish the effectiveness of entrepreneurship, a basis to measure performance has to be determined. The measures of performance that have been most prevalent consist of growth, income, wages, survival, innovation, productivity, profitability and satisfaction. Growth has mainly been measured in terms of employment growth. Income and wages relate to the income of the individual or entrepreneur and his staff. Survival has been identified as key to performance as it relates directly to the SMEs ability to survive. Audretsch (2003) further indicates that there are several studies that focus on innovative activity as a performance criterion. The premise is that innovation drives competitive advantage, which drives performance and the ultimate survival of the SME and therefore is a key performance measure of success or failure. Profitability relates directly to how profitable the SME is and this in turn drives satisfaction from the perpective of the owner and employees. He further indicates that financiers also use similar measures of performance in determining the level of funding that they are prepared to provide to these SMEs. Therefore SMEs achieving some or all of these performance measures could gauge their success in accessing funding.

Entrepreneurial personality, achieving performance measures and the ability to exploit novel ideas are the cornerstones for successful enterprises with distinct competitive advantages, which is key for successful funding applications (Audretsch 2003).

1.10.2 *Funding product ranges or technologies*

Having the right entrepreneurial traits and ability is a major contributor to being successful in accessing finance but the entrepreneur is still reliant on the products or technologies that are available to meet the financing needs of his business. The literature indicates that access to funding can be hampered by the available technologies or mechanisms of funding being inadequate due to infrastructure inadequacies within the lending arena (Berger and Udell 2006). This implies that success of the funding application is not only reliant on the application itself but rather on the product ranges or technologies being used to fund the requirements of small and medium businesses. This implies that if the products are tailored to be more suited to small and medium business, the application for funding success rate would be higher (Berger and Udell 2006).

Critical to a discussion on funding product ranges is the form of the funding to be used to fund SMEs. There are two main categories of external financing that are available, namely debt financing and equity financing (Hormozi et al. 2002). Debt financing can simply be described as money borrowed that has to repaid over a period of time with interest being charged for this benefit, and equity is described as capital that is permanently invested in the business with the investor sharing both ownership and risk in the business (Hormozi et al. 2002). One of the challenges that SMEs face is the ability to convince the lenders of their ability to repay the debt with relative certainty. Therefore given the fact that SMEs are less able to do this, equity would seem the more plausible means to fund SMEs (Hormozi et al. 2002).

The literature highlights lending technologies that would address the opacity problem that is faced by SMEs (Berger and Udell 2006). The literature further indicates possible funding technologies that if used, could increase the likelihood of the success of providing funding to small and medium business. Financial statement lending is one of those technologies (Berger and Udell 2006). This is a lending technology that intimates funding being provided to the small and medium business purely on the strength of their financial statements. In order to be successful there are two key requirements that need to be complied with. The first is that requiring the borrower to have a credible set of financial statements that has been prepared in accordance with the requirements of accepted accounting standards. The second requirement is that the financial statements must indicate a strong financial condition.

Small business credit scoring is another relevant technology (Berger and Udell 2006). These small and medium businesses do not have publicly traded debt or equity and therefore yield no public ratings that may confirm their quality (Berger and Frame 2007). In small business credit scoring the owner's personal consumer data is combined with any available data on the SME to provide a basis on which the request for financing is assessed. A possible solution for the problem of lack of credit information is a lending technology being used in the USA called Small Business Credit Scoring (SBCS). "SBCS involves analyzing consumer data about the owner of the firm and combining it with relatively limited data about the firm itself using statistical methods to predict future credit performance. Credit scoring is a statistical approach to predicting the probability that a credit applicant will default or become delinquent" (Berger and Frame 2007: 7). Research has shown that SBCS has increased the availability of credit to small and medium business by increasing the quantum of credit extended, by increasing lending to borrowers with limited credit history; by increasing the quantum of lending to low income areas; by providing lending over larger geographical distances; and by increasing the number of loans that reach maturity in terms of repayment (Berger and Frame 2007).

The literature indicates other technologies or product offerings that can be used to fund small and medium businesses with no real credit history, to include asset based lending, factoring, fixed asset lending and leasing (Berger and Udell 2006).

Asset based lending and fixed asset lending are technologies that are focussed on the provision of funding based purely on the businesses' assets. The amount of finance provided is linked directly to a formula of determining the forced sale or liquidation value of assets used as collateral. The lending decision is based purely on the determined value of the assets and not on the creditworthiness of the SME involved.

Factoring, on the other hand, differs materially from asset based lending and fixed asset lending. "Factoring is a type of supplier financing in which firms sell their creditworthy accounts receivables at a discount and receive immediate cash" (Klapper 2006: 3111) Factoring is a means to providing working capital finance without being an additional liability on a business's balance sheet (Klapper 2006). Factoring has benefits in emerging markets where the availability of securing financing with the use of the businesses' accounts receivables is not available. A further advantage of factoring is that it is based on a set formula and therefore approved and disbursed quickly. Electronic factoring programs remain dependent on both the legal and technological environments of the countries in which they are used. The literature indicates further that although factoring is an easier means of providing access to finance, the concept of reverse factoring is more successful in providing access to working capital finance for small and medium businesses that do not have the credit history and track record to secure financing (Klapper 2006). The advantages of reverse factoring for parties concerned are as follows: the factor has lower risk in terms of the lending; the seller or SME has quick access to short- term working capital finance; and the buyer benefits from the ability to negotiate better terms with its suppliers (Klapper 2006). Reverse factoring transfers the credit risk of the SME to its more established and creditworthy supplier of work and this enables them to improve their balance sheets. Audretsch (2003) alludes to the need for liquidity or working capital finance amongst SMEs and the general inability to secure this type of funding.

Whilst factoring is relevant when securing working capital finance, leasing is a definite alternative when acquiring assets for the business. Leasing is a form of financing that is provided on the basis that the lender purchases the assets required by the business and then subsequently rents them out to the borrower or SME on terms of repayment as contained in a lease contract (Beck and Demirguc-Kunt 2006). This presupposes that the assets belong to the lender and are only loaned to the business. These contracts sometimes do provide for the borrower to have the right to purchase the asset, at a predetermined price, at the end of the contract period. Here too the funding decision is made on the value of the asset and not on the creditworthiness of the borrower, making it perfectly suited to funding the opaque SME.

Other possible product offerings include the concept of relationship lending of Berger and Udell (2006) which is primarily based on the premise of lending on the basis of qualitative information gathered over time on the owner and the business. This information is generally gathered through contact with the SME, the owner, the community in which the SME operates, the SME's suppliers, customers and neighbouring businesses. The lending decision is based on soft information which is more qualitative than quantitative.

1.10.3 *The impact of SMEs on economic growth and development*

Having detailed the technologies and products that are used more effectively to fund SMEs, the individual contribution made by an SME in terms of positively impacting their share to economic growth and development is a further argument used to motivate the benefit of funding these SMEs. SMEs have been classified by research to be major providers of jobs and are positive contributors to economic growth (DTI 2005). SMEs play an important role in terms of both competitiveness and productivity within the industries in which they operate (Samitas and Kenourgios 2005). The banks generally require a positive track record as well as some level of collateral which most new SMEs do not have. This makes it extremely difficult to access finance to support their new entrepreneurial activities and plans.

The view of entrepreneurs indicates that access to finance is the most important challenge they face in the light of embarking on new entrepreneurial activity (Samitas and Kenourgios 2005).

“Many governments and aid agencies believe that small businesses can contribute to promoting more equitable development, as well as enhancing the competitiveness of local industries within a global economy” (Jeppesen 2005: 463). It is clear that SMEs have a key role to play in terms of job creation, wealth generation as well as wealth redistribution, but they unfortunately have to face many hurdles to achieving these goals. SMES are seen to be a way to attaining a thriving public sector through enhancing competitiveness and by increasing exports. In addition they are seen as the answer to the equitable development and distribution of assets through job creation and income generation for poor and marginalized groups (Jeppesen 2005).

Based on a series of studies undertaken by the World Bank on African countries and the impact that SMEs have on economic development (Parker et al 1995); (Biggs et al.1995) as cited in (Jeppesen 2005), it has become evident that SMEs play a vital role in terms of development of these countries, as they account for the largest segment of businesses in the private sector (Jeppesen 2005). The literature indicates that SMEs can be key role players in terms of stimulating the economy through employment provision, can be responsible for producing a substantial share of the total industrial output and can act as stimuli for innovation, which impacts directly on the growth and development of these countries. There is unfortunately no empirical evidence to suggest that this is always the case. The governments of Third world countries now share the view that the private sector is a key economic driver and therefore have increased their emphasis on SMEs as they constitute a large share of the private sector (Jeppesen 2005). Since development and poverty alleviation are also major political issues, the intentions of these governments in terms of wanting to promote the development of SMEs through their focus on the private sector remains questionable. With so much reliance being placed on SMEs to provide the solutions to these political issues, it is pertinent to question their ability to achieve this mammoth task.

1.10.4 *The promotion of SMEs through public policy*

Given that SMEs have their role to play in terms of economic growth and development it is imperative that they are promoted through public policy. In terms of South Africa, the government has proactively been focused on promoting SMEs through the implementation of broad-based black economic empowerment (Visagie 1997); through increasing the access to services; by fostering opportunities for these SMEs through new marketing channels; by the inclusion of SMEs in governments industrial policies; by changing or minimizing the regulatory framework in which SMEs operate; and by changing both procurement and tendering processes to benefit SMEs. They have also pressurized private corporations to source their suppliers and distributors from the SME pool (Jeppesen 2005) and (DTI 1995). The impact of these interventions has resulted in growth of the number of SMEs as well as a consistent increase in the emergence of new SMEs. As per DTI 1995 the South African Government had committed their efforts to ensuring that available funds are channelled to small and medium business through the following interventions (DTI 1995):

- urging commercial banks to pay more attention to the financing needs of SMEs and encouraging commercial banks to be more innovative in their approach;

- promoting the formation of SME focused financing institutions;

- encouraging the provision of venture funding by the creation of equity funds;

- developing and implementing a credit guarantee system;
- giving attention to the recognition of other types of securities and collateral; and
- increasing information on access to finance through the proposed network of service centres.

Although the efforts of government in South Africa have been very positive in terms of promoting SMEs there are shortcomings which need to be highlighted to give a balanced view of the situation at large. These shortcomings include the reliance on private and donor funds to promote these SMEs, channelling their funds through other institutions that have not been particularly efficient in making these funds available to SMEs, as well as in terms of the way they operate, pursuing an overly hardnosed, cautious approach and the implementation of policies that have worked against the informal SME sector (DTI 1995).

Public policy that promotes entrepreneurship and SME development can be a key driver to economic growth and development within a country (Audretsch 2003). This has been a general finding from studies conducted in the US and UK markets. Policy driven by the Governments of countries is more likely to gain momentum merely because of the power of these Governments. As Audretsch (2003) indicates, these policies need to be entrepreneurship enabling policies which address the challenges that SMEs and entrepreneurs face in taking up entrepreneurial opportunities. A key challenge identified here again is that of access to financing and therefore public policy needs to strive to change this challenge into an opportunity.

1.10.5 *The completeness of the submission*

Changing public policies to those that are pro SMEs is critical but in order for the applications for funding to have a greater chance of success they need to meet the informational needs of the lenders. Many of the funding houses or financing institutions are very prescriptive about the detail that is required in terms of the submission for the application for finance (Cattani and Mills 1998). They generally provide a checklist of documents that need to accompany the application for funding (Refer Appendix A). It is therefore imperative that all documentation that is requested is submitted and preferably in the prescribed format. The request for particular documents serves a specific purpose from the lender's perspective (Fertuck 1982). Ensuring that all the documents are submitted the first time round also impacts on the turnaround times in terms of the application (Blumberg and Letterie 2008). The literature further highlights that one of the key elements of the submission is the business plan (Reid 2009). The importance of the business plan has been detailed earlier, however from an application completeness perspective it is important that the applicant is familiar with the facts and figures as contained in the business plan (Reid 2009). Having a business plan is very good but not having an intimate knowledge of the contents thereof is a critical flaw. The applicant has to be in a position to answer any questions related to the information submitted.

Further, understanding the lending criteria, as well the decision-making processes of the lender, is critical to understanding the need for specific information (Cattani and Mills 1998). (Cattani and Mills 1998) provide a detailed list of lending criteria which will inform the detail that needs to accompany the funding submission. The list is as follows:

- Evidence of good cash flow: For this purpose the financial projections are needed. Lenders are looking to see that the business will be able to repay the debt and that the working capital requirement is correct (Obston 1992).

- Contribution of the shareholder's own funds: this talks to the commitment of the entrepreneur to the success of the venture as he is prepared to share in the risk (Reid 2009).

- Adequate security: here again the provision of available security is important to highlight shared risk as it reduces the overall risk of the lender.

- Experience in trading: existing financials serve testament to the fact that the business has been trading. It also refers directly to the applicants entrepreneurial experience as well as relevant industry experience (Blumberg and Letterie 2008).

- Good reputation and standing: this can be assessed from the detailed resume submitted that should contain industry and entrepreneurial experience as well as both personal and trade references. Further good management of personal finances also indicates the ability to manage finances (Reid 2009). Proof of a clear credit history should therefore accompany the application for funding.

- Being open and transparent: it important to submit all relevant information, good or bad. The applicant does not want to be seen to be withholding information (Blumberg and Letterie 2008).

- Letters of reference or introduction: these can be very useful in confirming good standing in the community or business environment.

- Proof of company ownership and registration: this indicates that you own the company that you intend to borrow money for. Furthermore it confirms the number of members and shareholders in the business which relates to the level of expected drawings.

- Statement of personal assets and liabilities: this indicates the security available and also puts into perspective the entrepreneur's own contribution as compared to his net asset value.

- Commercial information: an order book of confirmed orders will justify the projected revenues as well as add value to any discussions around the sustainability of the venture (Fertuck 1982).

- Up to date financial information: this should include the Income Statement, Balance Sheet and Cash flow statement. These should be audited or prepared by a reliable independent source to add credibility to the information.

From the above it is abundantly clear that there is a need for a complete submission in terms of the funding. The lender is looking to understand whether the funding makes sense and is justified (Obston 1992).

In summary, the literature suggests that:

Proposition 2: Attributes that increase the likelihood of successful funding applications include:

a) entrepreneurship, strong entrepreneurial orientation and entrepreneurial ability;

b) funding product ranges or technologies that are focussed on small and medium business;

c) the proposed impact of the SMEs on economic growth and development; and

d) the completeness of the submission for funding.

1.11 Conclusion of Literature Review

The literature review has highlighted distinct traits of both successful and unsuccessful funding applications. This necessitated the further investigation of the detail of these identified traits.

1.11.1 *Proposition 1: Attributes leading to unsuccessful funding applications include:*

a) poorly structured and incomplete Business Plans;

b) poorly structured and unsubstantiated financial projections and financial statements; and

c) the high risk profile of the SME.

1.11.2 *Proposition 2: Attributes that increase the likelihood of successful funding applications include:*

a) entrepreneurship, strong entrepreneurial orientation and entrepreneurial ability;

b) funding product ranges or technologies that are focussed on small and medium business;

c) the proposed impact of the SMEs on economic growth and development; and

d) the completeness of the submission for funding.

CHAPTER 3: RESEARCH METHODOLOGY

The research methodology has taken a two-phased approach. The research consists predominantly of qualitative research however there are quantitative elements that have been used in terms of the data analysis and interpretation sections of the research process. The research was conducted with the use of archival documents and therefore did not require questionnaires to be completed. Based on the aforementioned a mixed method research approach was adopted (Creswell 2003).

1.12 Research methodology/paradigm

The research was conducted using the mixed method research approach. Mixed method research is formally defined as “The class of research where the researcher mixes or combines quantitative and qualitative research techniques, methods, approaches, concepts or language into a single study” (Johnson and Onwuegbuzie 2004: 16). It is viewed as an extensive and creative form of research which is all-encompassing and pluralistic. There are four decisions that needs to be considered when selecting a mixed method strategy (Creswell 2003). These include:

- Implementation sequence, which refers to the sequence in which either the qualitative or quantitative data will be collected. Is this sequentially or concurrently?

- Priority, which indicates what weighting will be given to the qualitative or quantitative data collection and analysis. Will qualitative research be dominant or will they be given equal weighting?

- Integration, which indicates when the data may be mixed. Does this happen at data collection or at analysis and interpretation stage of the research?

- Theoretical perspective, which indicates whether the research will be guided by a theoretical lens or framework.

The mixed method approach has been used to conduct the research as it was the intention to use qualitative as well as quantitative data in addressing the research problem. Both the qualitative and quantitative data were collected concurrently. Priority was given to the qualitative data collection and therefore it has a higher weighting. The integration of the data only took place during the analysis stage of the research. There was no theoretical lens or framework that guided this research. In light of the aforementioned it was clear that the four decisions that needed to be considered in selecting a mixed method strategy of inquiry had been considered and three of the four decisions were relevant to this study, thereby confirming that the decision to use mixed method research in addressing the research problem was justified.

Further, the mixed method approach to research is one that bases knowledge claims on pragmatic thinking which focuses on consequences of actions and is more problem-centred, pluralistic and real-world practice orientated (Creswell 2003). The research problem was one that was real-world oriented and pluralistic and therefore the mixed method approach to research was adopted.

The strengths of using mixed method research include the following (Johnson and Onwuegbuzie 2004):

- Numbers can be used to add precision to words.
- It can provide the strengths of both qualitative and quantitative methods.
- It can take a broader perspective in answering a research problem.
- It can provide stronger evidence for a conclusion due to corroboration of findings.
- It can add greater insight than if a single method was used.

- More complete knowledge is gained through the use of both qualitative and quantitative research.

The above strengths were further contributing factors to the selection of the mixed method approach to the research being adopted in this study.

1.13 Research Design

The methodological approach adopted involved the use of archival documents. The documents consisted of the archived documents of the National Empowerment Fund's (NEF) Imbewu Unit which is the SME unit of this development finance institution. The documents were archived in files for each applicant. The files generally contain the following documentation:

- NEF's Application form
- A comprehensive business plan as per template
- Financial Projections for at least five (5) years including Income Statement, Balance Sheet and Monthly Cash flow projections (with the first year prepared on a monthly basis)
- For an existing private company, 3-year audited financials (Income Statement, Balance Sheet, Cash Flow Statement)
- For a close corporation, 3-year historical financials (Income Statement, Balance Sheet, Cash Flow Statement)
- For all existing business, recent management accounts (Income Statement and Balance Sheet)
- For existing businesses, business bank statements for the past twelve (12) months
- Registration Documents and all the relevant legal documents relevant to

the entity

- For Close corporations – the founding statement or amended founding statement.
- For companies – the certificate of incorporation and the certificate to commence business)

  - Memorandum and articles of association

- For cooperatives, all the relevant founding documents.
- Personal Statements of Assets and Liabilities of all the members or directors of the company including those of spouses if the person is married in Community of Property
- Certified identity copies of all the members or the directors of the company
- Financial Intelligence Centre Act compliance - Proof of residence
- Affidavit from members or directors that they are aware of the contents of the application

The above listed documents were subsequently analysed by a Pre-investment analyst or an Investment Associate who is then responsible for preparing the Pre –Screening report (Refer Appendix B) or the Early Review Report respectively (Refer Appendix C).

Using the archival documents of the NEF was appropriate to this study for the following reasons:

- The Imbewu unit of the National Empowerment Fund is a unit that has a core focus of funding small and medium businesses.
- The NEF is a development finance institution of the Department of Trade

and Industry of South Africa and as such is expected to make funding available at the least onerous terms to both new and existing small and medium businesses.

The advantages of using archival documents as pertaining to this research, were as follows (Corti 2007):

- The data is rich in information and a unique source of research material.
- The documents capture real-life small and medium businesses.
- They offer information that can be analysed, reworked and compared with contemporary data.
- It was an opportunity to study the raw materials used in assessing funding applications.
- Using existing sources of archival documents saves costs as the documents are not being paid for.
- Documents within the data set can easily be compared.
- Consistency was maintained if it was necessary to refer back to a document.
- The research can be easily verified as there is documentary proof.
- Shortcomings in the documentation can easily be identified.
- Archived documents can be scrutinized to support or challenge a set of findings or to appraise the method of analysis used.
- The use of real-life archived documents adds relevance and context to the study.

"The analysis of documentary evidence checklist" (Bell 2005:133) was used to gain insight prior to selecting the documentation to be used in the research.

1.14 Population and sample

1.14.1 *Population*

The population includes all financing applications received by the NEF's Imbewu Fund over an 8 month period from July 2007 to January 2008. The NEF received 654 applications for this period and therefore the population is 654 applications.

1.14.2 *Sample and sampling method*

The proposed sample for the research comprised 25 approved applications and 25 declined applications, making up a total of 50 applications being analysed. The total population of applications were sorted into approved and declined applications. This resulted in there only being 30 approved applications for the period under review. When trying to source the archival documents it was subsequently found that only 23 approved applications could be found and the other 7 were either declined applications that had been captured incorrectly, or the applications had been replaced or were missing. This resulted in only 23 approved applications being analysed in terms of the sample. The sampling method used in terms of the declined applications is that of random selection or sampling. Each application was assigned a random number and with the use of random number generating software a sample of 25 applications was randomly selected from the population of 624. The use of this sampling method is appropriate as it increases the external validity of the results. It ensures that each application has an equal probability of being selected and the sample can be generalized to a larger population (Creswell 2003). On collection of the data it was found that 3 of these applications were for the Corporate Fund which should not be part of this population. These were removed, resulting in 22 declined applications being analysed in terms of the research.

1.15 Procedure for data collection

The data collection procedure used meant that once the approved applications were identified, the files were requested from the Metrofile storage area. Metrofile is a bulk filing area which contains all files of the NEF for a specific period. It was then found that of the 30 approved applications identified, only 23 of the archival documents could be located. Some of the files were missing, some had been replaced and some had been incorrectly captured. Copies of the 23 Early Review Reports were made and filed. Once the 25 declined applications had been selected by random sampling, the files were requested to extract the relevant archival documents. It was then found that 3 of the files were corporate fund applications and had to be excluded. Copies of the 22 Pre-Screening reports for the declined applications were made and filed. The files for each application as well as the two files containing the copies of the Pre-Screening Reports and the Early Review reports were locked in a secure locker, preventing them from being tampered with. The data was collected by going through each of the Pre-Screening Reports and the Early Review Reports and recording the relevant data on excel spreadsheets for approved and declined applications respectively.

1.16 Data analysis and interpretation

Since the mixed method research design had been chosen, the analysis of the data occurred within the descriptive analysis as well as within the description and thematic text analysis. The approach of data transformation (Creswell 2003) was used in the data analysis. This involves identifying themes qualitatively and then tallying the number of appearances. This process of quantifying qualitative data assisted in comparing quantitative results with qualitative data.

Descriptive statistics have been used as this involves simply describing what was going on in the data (Trochim 2006). Descriptive statistics are used as a means of presenting quantitative descriptions in a more manageable form by enabling the data to be simplified. The possible disadvantage of simplifying the data by describing a large set of observations with a single indicator is that you risk distorting the original data or excluding important detail.

Content analysis has been used in terms of analysing the data. Content analysis is a tool used in research that determines the presence of certain words or concepts within texts or sets of texts (Busch et al. 2005). There are two general categories of content analysis which are conceptual analysis and relational analysis. Conceptual analysis is the process of choosing a concept for examination and the analysis involves quantifying and counting its presence (Busch et al. 2005). Conceptual analysis is also known as thematic analysis which can be defined as establishing the presence and frequency of concepts within the research data. The coding of only explicit terms has been done in order to reduce the subjectivity and limit problems of both reliability and validity.

As indicated by (Busch et al. 2005), the following steps were followed in conducting the conceptual analysis:

- Decide on the level of analysis required.
- Decide on the number of concepts to code.
- Decide on whether coding will be done for existence or frequency of concepts.
- Identify the distinguishing elements between concepts.
- Determine coding rules to be used.
- Make a decision on the treatment of irrelevant information.
- Code the text or texts.
- Analyse the results.

The content analysis was used in terms of analysing reasons for unsuccessful funding applications. There are three possible outcomes that indicate that an application for finance has been unsuccessful. These are noted by a decline, a request for more information or a withdrawal. Other themes were identified in the declined applications. For the purposes of analysing the declined applications and collecting the data, the Pre-Screening Reports for these applications were analysed.

The content analysis method has been used in terms of analysing successful funding applications. There is only one outcome that indicates that an application for finance has been successful. This is noted by accepted. Other themes were identified in the analysis of the approved applications. For the purposes of analysing the approved applications and collecting the data, the Early Review Reports were analysed.

1.17 Validity and reliability

Data should always be examined critically to determine to what extent it can be considered to be reliable and valid. "Reliability is the extent to which a test or procedure produces similar results under constant conditions on all occasions" (Bell 2005: 117). Validity means "the design of research to provide credible conclusions; whether the evidence which the research offers can bear the weight of the interpretation that is put on it" (Sapsford and Jupp 1996 as cited in (Bell 2005: 117). The other validation criterion that was used is called confirmability which is a validation criterion used to judge quantitative research. "Confirmability refers to the degree to which the results could be confirmed or corroborated by other information" (Trochim 2006:2). This was achieved in this research by conducting a research audit of the data collection and analysis procedures used, and assessing the potential for bias or distortion. Neither of the procedures provided any room for bias or distortion.

1.17.1 *External validity*

"External validity is the degree to which the conclusions in your study would hold for other persons, in other places at other times" (Trochim 2006:1). It refers to the extent to which the conclusions of your research can be generalized back to your population. The external validity of the research has been maximised by using a random sampling method for drawing a sample from the population. This has made it useful for applicants seeking funding in similar contexts.

1.17.2 *Internal validity*

"Internal validity is the approximate truth about inferences regarding cause-effect or causal relationships" (Trochim 2006:1). The research has been conducted with rigour and careful consideration was given to what was measured or not measured from the documents being assessed.

1.17.3 *Reliability*

As indicated earlier, reliability is the extent to which a measure or procedure yields the same result on repeated trials (Busch et al. 2005). Since the data was extracted by the researcher from the archival documents, the measures or procedures are more likely to yield the same result on repeated trials.

3.7 Limitations

The sample being used for the research will be limited to applications for funding made to the National Empowerment Fund which is a development finance institution of the Department of Trade and Industry.

CHAPTER 4: PRESENTATION OF RESULTS

4.1 Introduction

The results have been presented using bar graphs as well as diagrams. The results from both the Approved and Declined applications are contained in the respective graphs that relate to a specific aspect or the overriding theme of the data. The data have been summarised and grouped into different themes. Each graph contains a brief description of its contents. Different colours have been used to differentiate the data being presented in different themes. The results for both propositions have been presented simultaneously for the purposes of easy comparison, but they have been discussed separately in Chapter 5.

4.2 Demographic profile of respondents

It was anticipated that the sample would consist of 50 applications in total, with 25 being approved applications and 25 being declined applications. On collection of the data it was found that some of the applications were incorrectly classified and some files could not be found. The applications that were incorrectly classified were actually Corporate Fund applications; this fund is not an SME focussed fund of the NEF. These applications were accordingly removed from the sample. This resulted in the sample being reduced to 45 applications in total with 23 approved applications and 22 declined applications. The 45 applications that formed the sample were all SME applications which was always the intended focus of this research.

4.3 Results pertaining to Proposition 1 and 2

Summary of the organizational profile

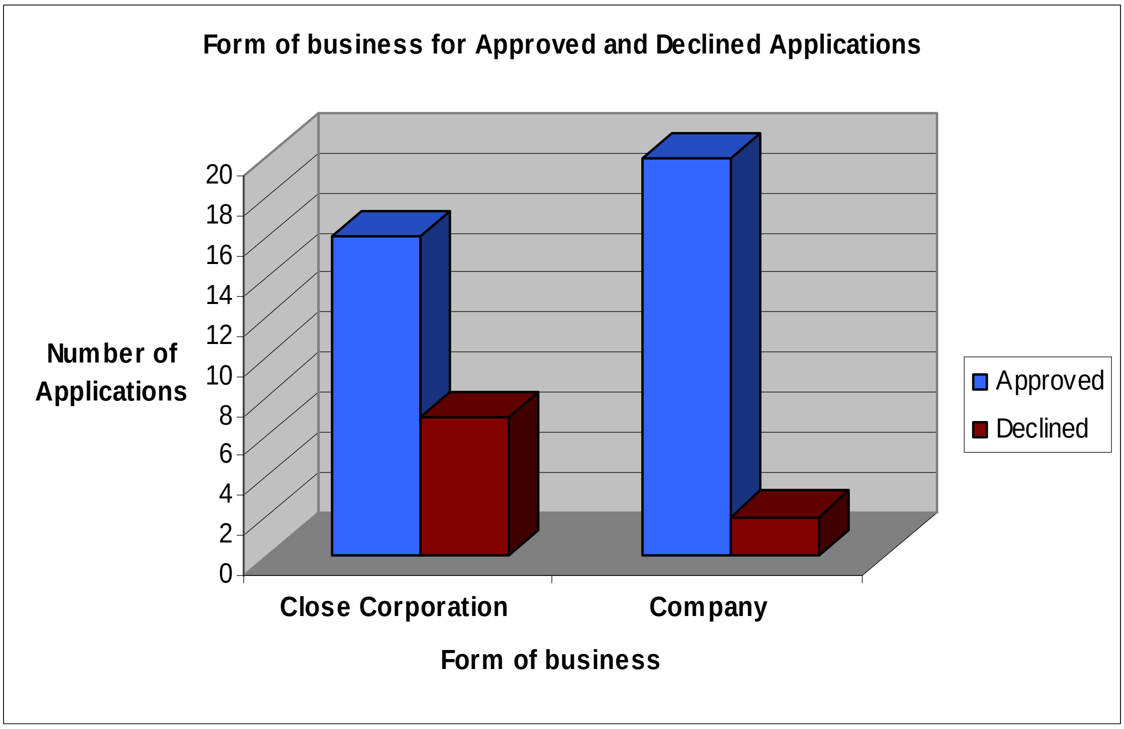

Figure 1: Form of business for Approved and Declined Applications

Of the 23 approved applications 16 were close corporations while 7 were limited companies. Of the 22 declined applications 20 were close corporations while 2 were limited companies.

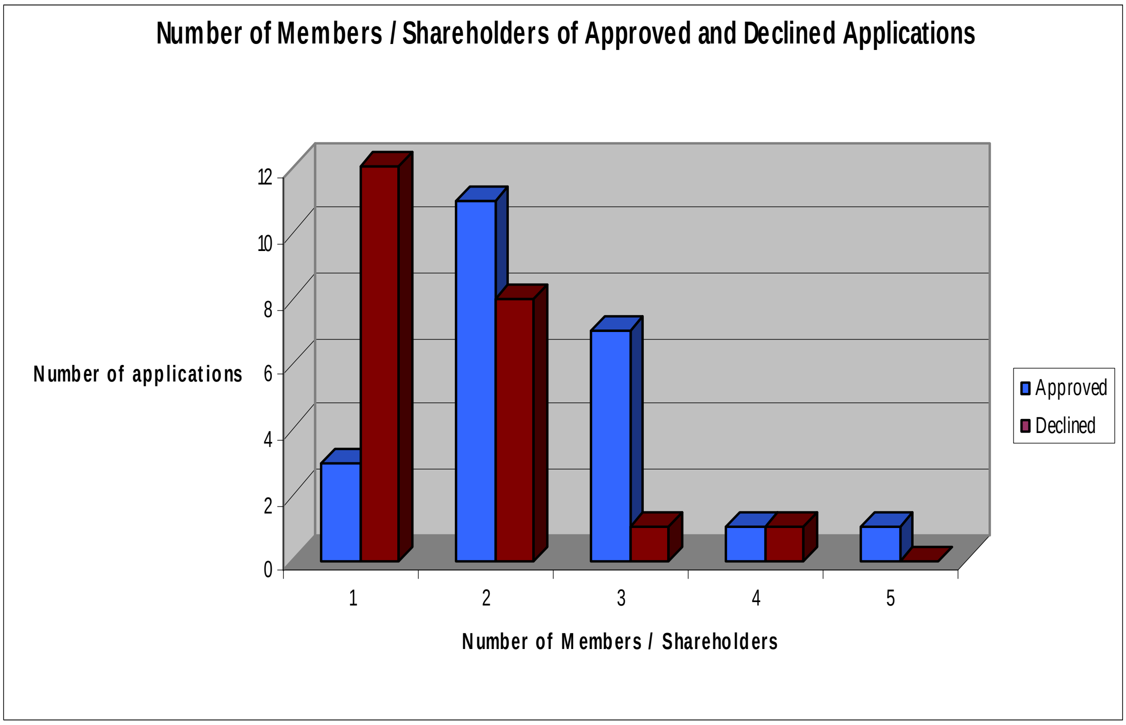

Figure 2: Number of Members / Shareholders of Approved and Declined Applications

The data indicates that of the companies and close corporations that were approved applications, 3 had 1 member/shareholder, 11 had 2 members/shareholders, 7 had 3 members or shareholders, 1 had 4 members or shareholders and 1 had 5 members or shareholders. In terms of the declined applications there were 12 applications with 1 member or shareholder, 8 applications with 2 members or shareholders, 1 application with 3 members or shareholders and 1 application with 4 members and shareholders.

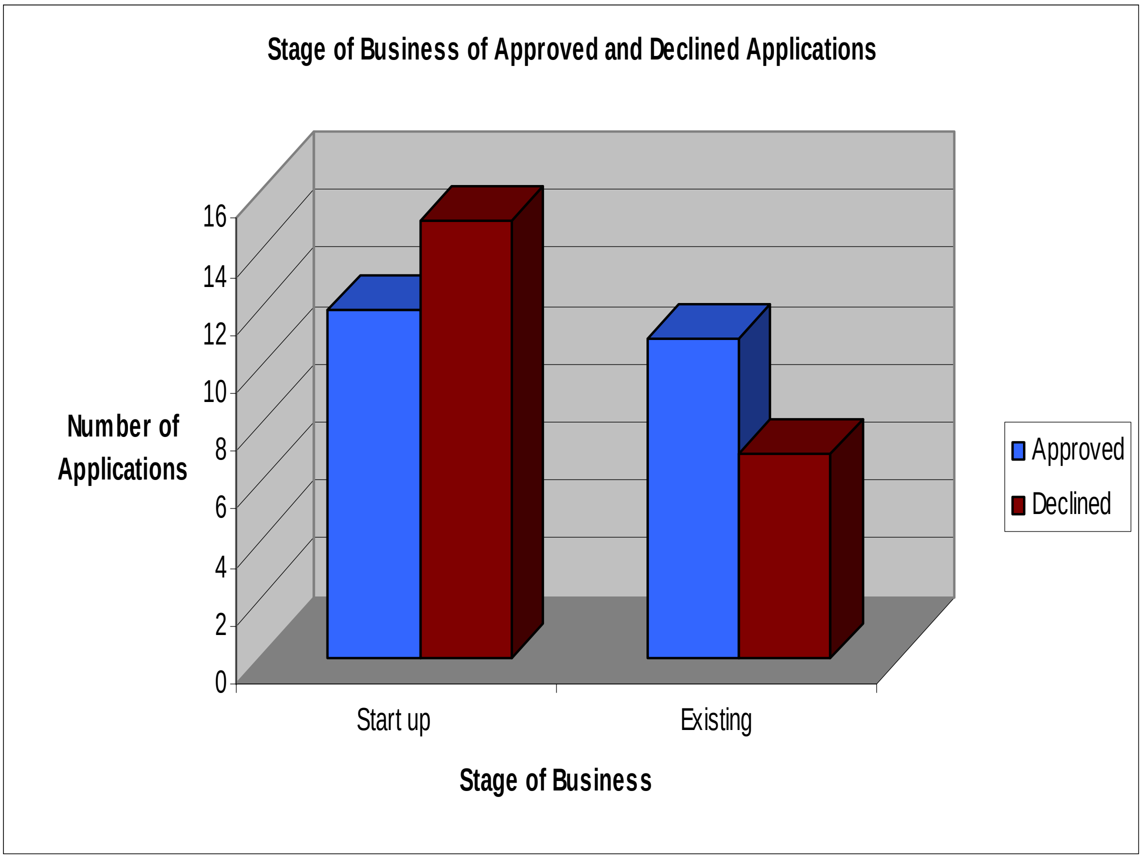

Figure 3: Stage of Business of Approved and Declined Applications

12 of the approved applications were from start up businesses whereas 11 were from existing businesses. 15 of the declined applications were start up businesses and 7 were existing businesses.

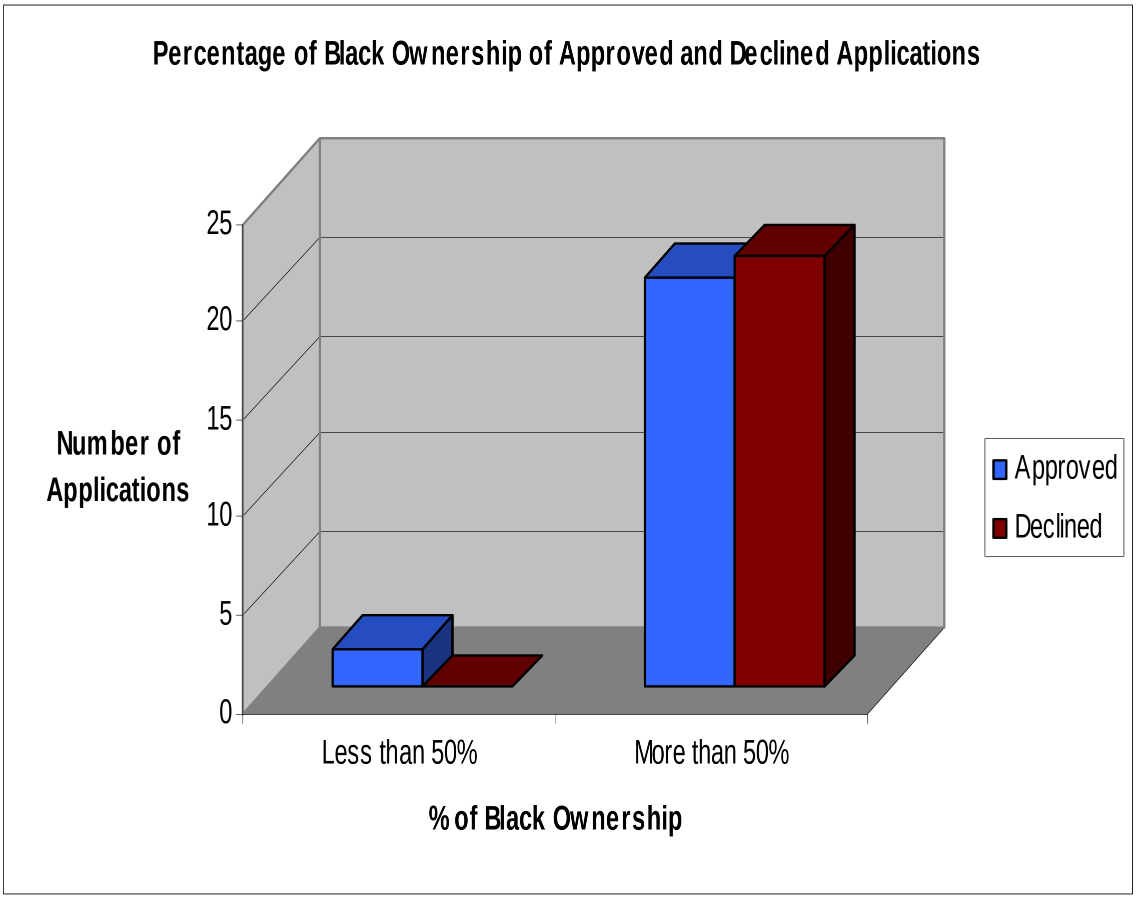

Figure 4: Percentage of Black Ownership of Approved and Declined Applications

Of the 23 approved applications 21 reflected a black ownership percentage of 50% and more whereas only 2 were below 50%. Of the 22 declined applications all 22 reflected a black ownership percentage of more than 50%.

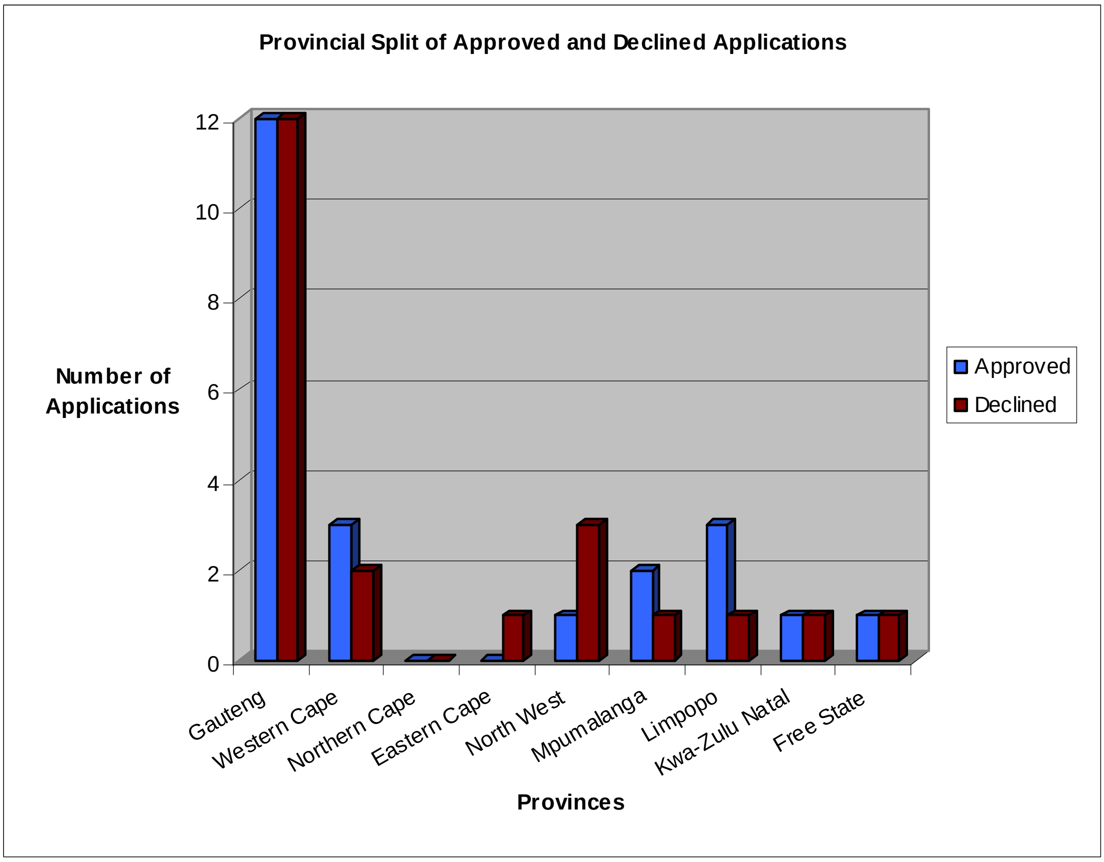

Figure 5: Provincial Split of Approved and Declined Applications

The provincial split of the approved applications was as follows: Gauteng 12, Western Cape 3, North West 1, Mpumalanga 2, Limpopo 3, Kwa-Zulu Natal 1 and the Free State 1. None of the approved applications were from Northern Cape and Eastern Cape. The provincial split of the declined applications was as follows: Gauteng 12, Western Cape 2, Eastern Cape 1, North West 3, Mpumalanga 1, Limpopo 1, Kwa-Zulu Natal 1 and the Free State 1.

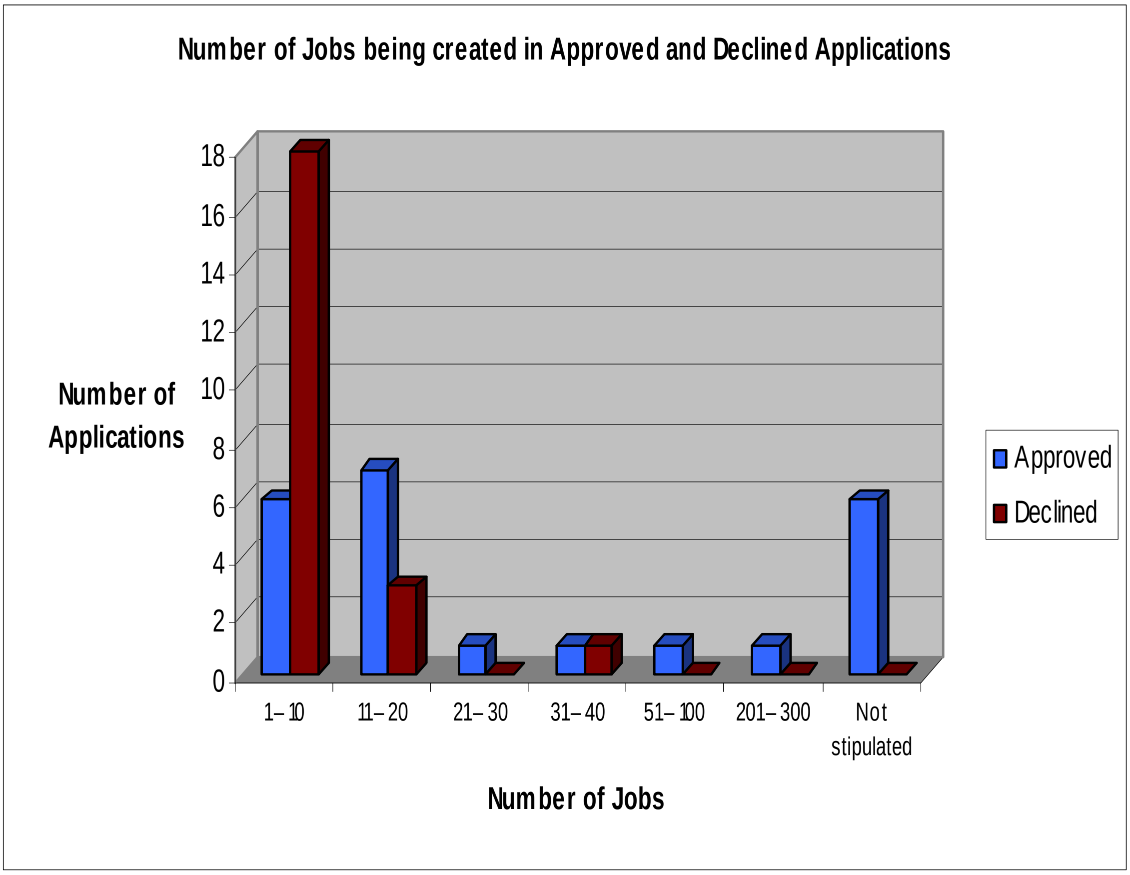

Figure 6: Number of jobs being created in Approved and Declined Applications

The number of jobs being created by the approved applications comprised 6 between 1 and 10, 7 between 11 and 20, 1 between 21 and 30, 1 between 51 and 100, 1 between 201 and 300. Six of the applications did not stipulate the number of jobs being created.

Summary of profile of applicant

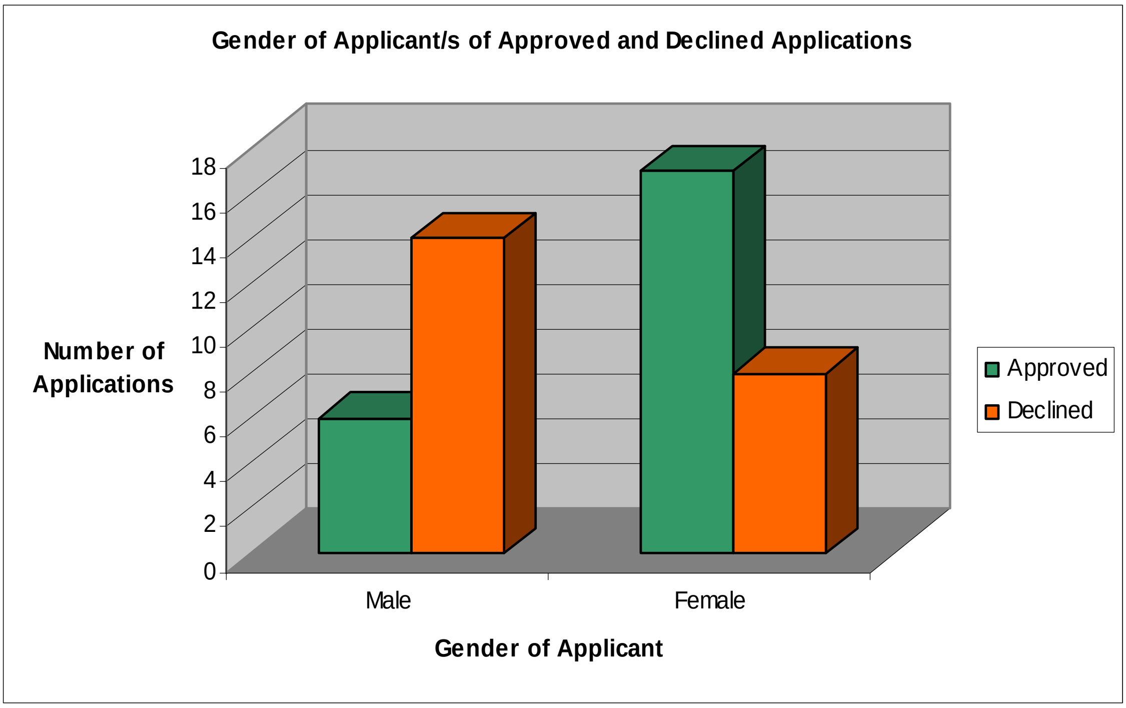

Figure 7: Gender of Applicant/s of Approved and Declined Applications

The gender of the applicant/s in terms of the approved applications reflected 17 female and 6 male. The gender of the applicant/s in terms of the declined applications reflected 8 female and 14 male.

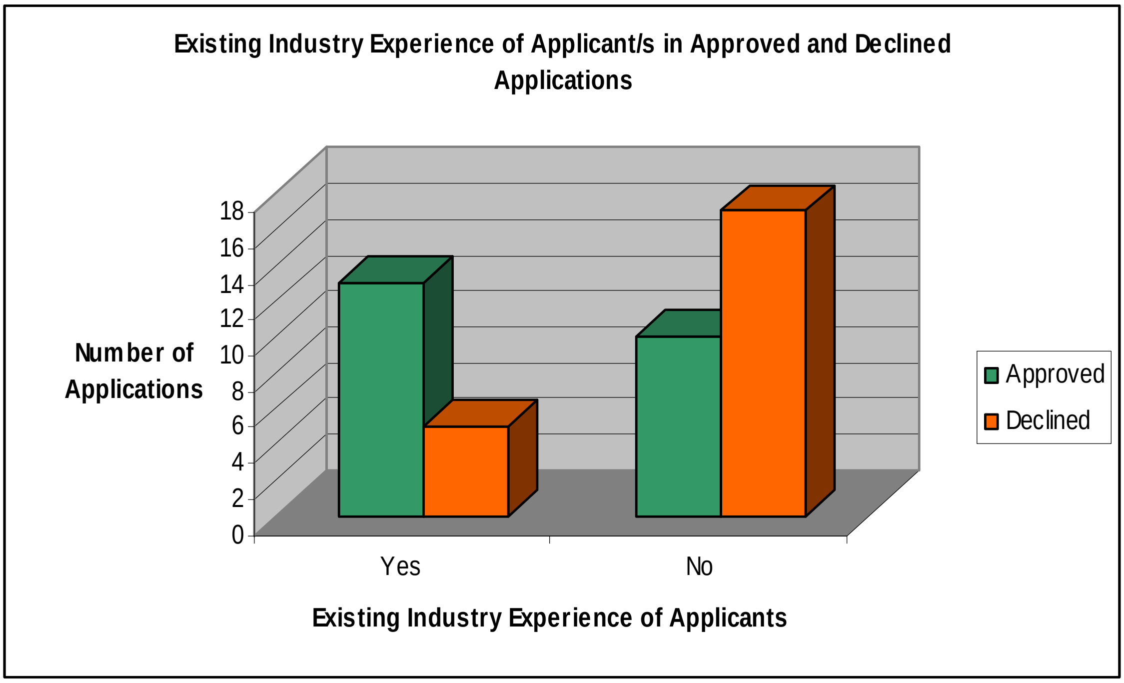

Figure 8: Existing Industry Experience of Applicant/s in Approved and Declined Applications

Of the approved applications 13 had existing industry experience and 10 did not. Of the declined applications 5 had existing industry experience and 17 did not.

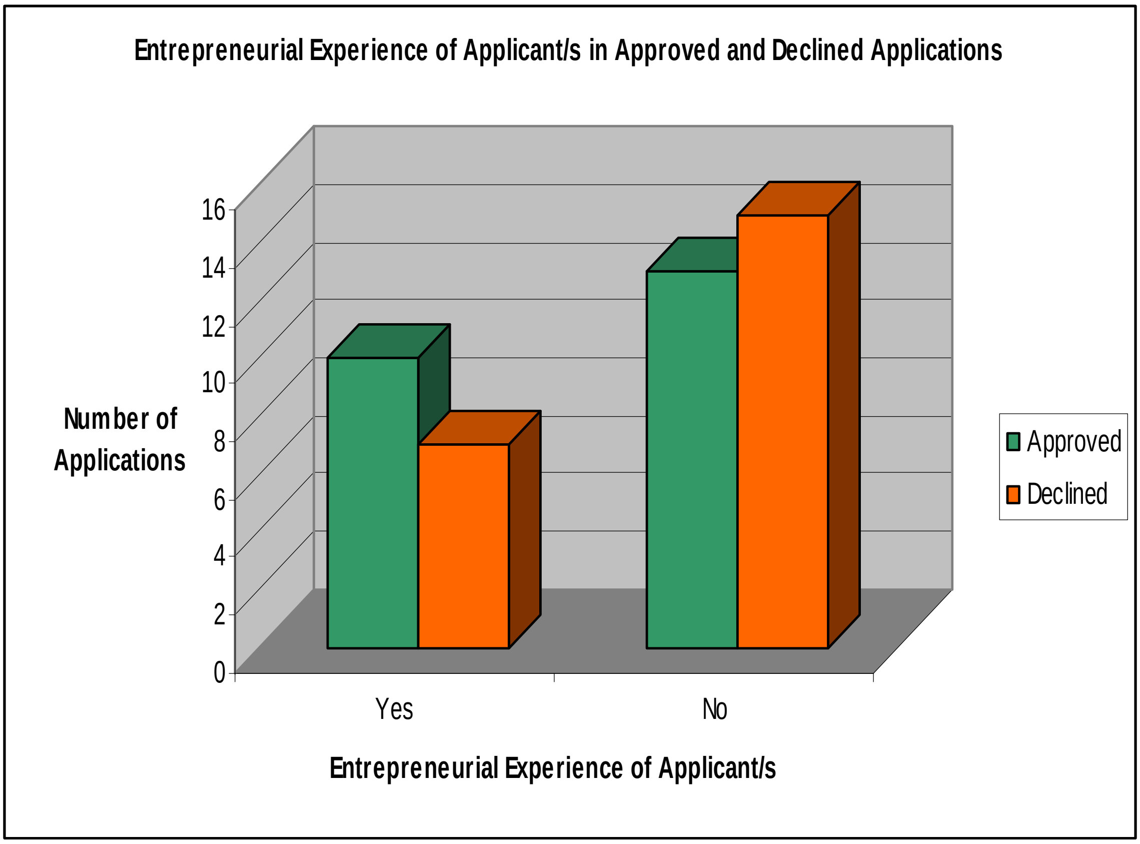

Figure 9: Entrepreneurial Experience of Applicant/s in Approved and Declined Applications

Of the approved applications 10 had entrepreneurial experience while 13 did not. Of the declined applications 7 had entrepreneurial experience while 15 did not.

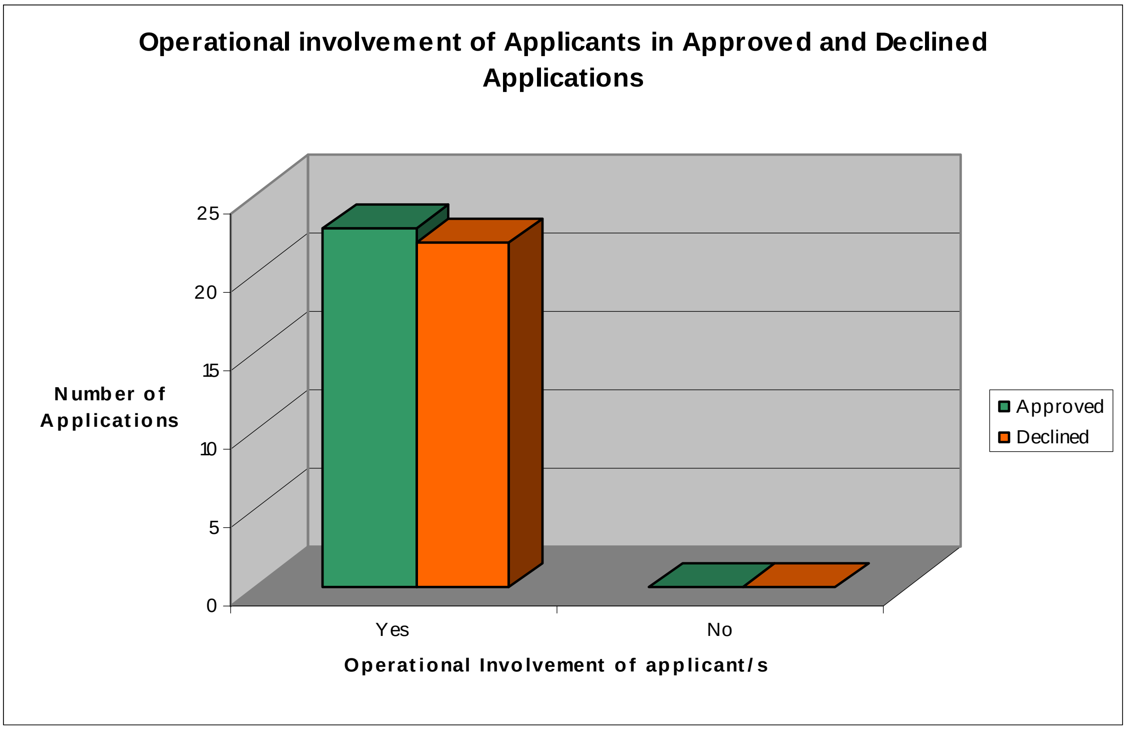

Figure 10: Operational Involvement of the Applicant/s in Approved and Declined Applications

All 23 of the approved applications indicated that the applicant/s would be operationally involved. All 22 of the declined applications indicated that the applicant/s would be operationally involved.

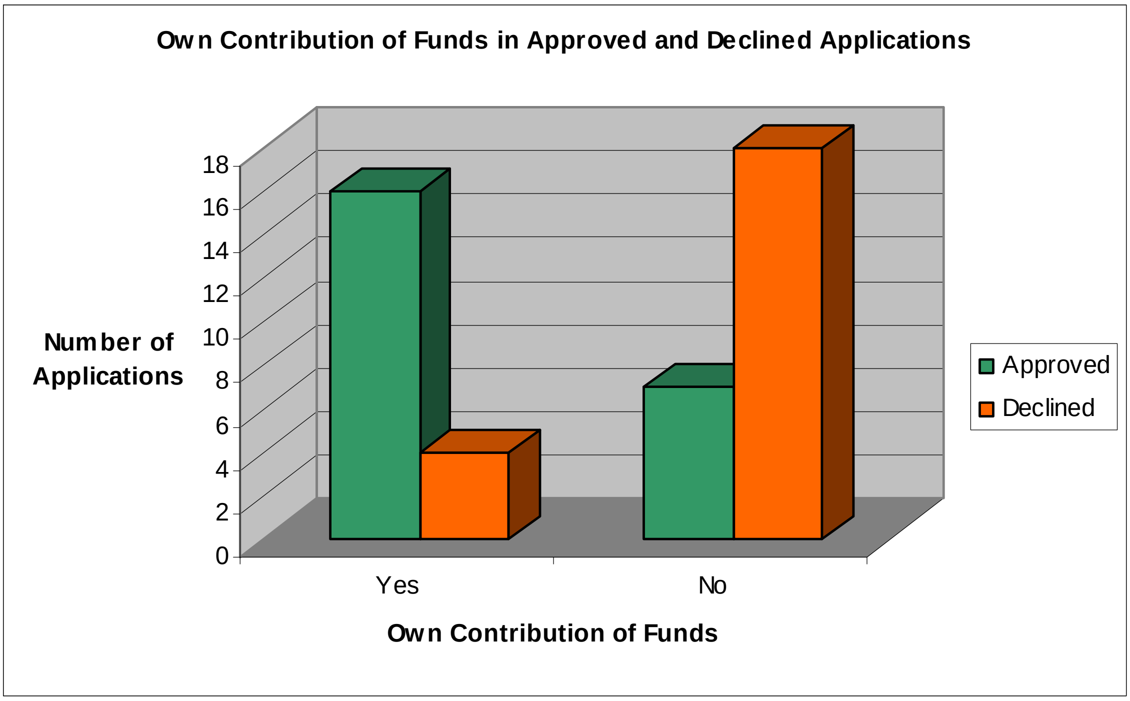

Figure 11: Own contribution of Funds in Approved and Declined Applications

Sixteen of the approved applications indicated that there would be contribution of own funds and 7 indicated that there would be no contribution of own funds. Four of the declined applications indicated that there would be contribution of own funds and 18 indicated that there would be no contribution of own funds.

Summary of product, amount and purpose of funds

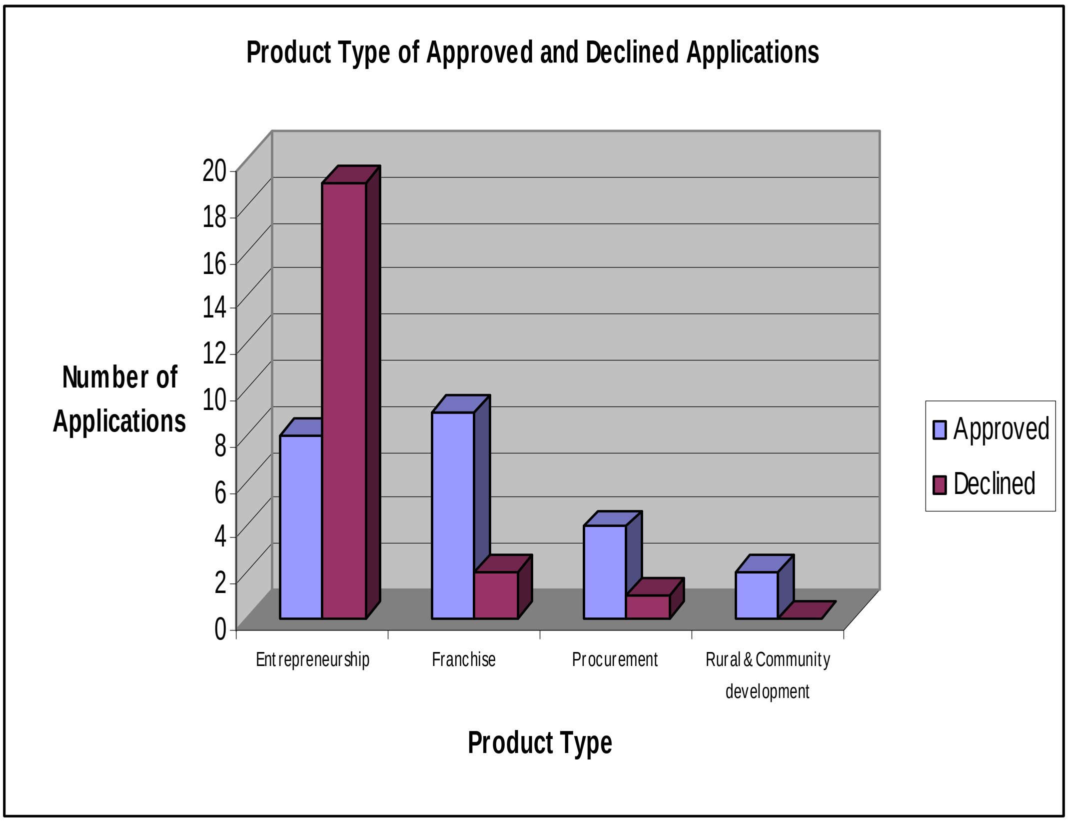

Figure 12: Product Type of Approved and Declined Applications

Of the approved applications 8 were for the Entrepreneurship Product, 9 were for the Franchise Product, 4 were for the Procurement Product and 2 were for the Rural and Community Development Product. Of the declined applications 19 were for the Entrepreneurship Product, 2 were for the Franchise Product, 1 was for the Procurement Product and none were for the Rural and Community Development Product.

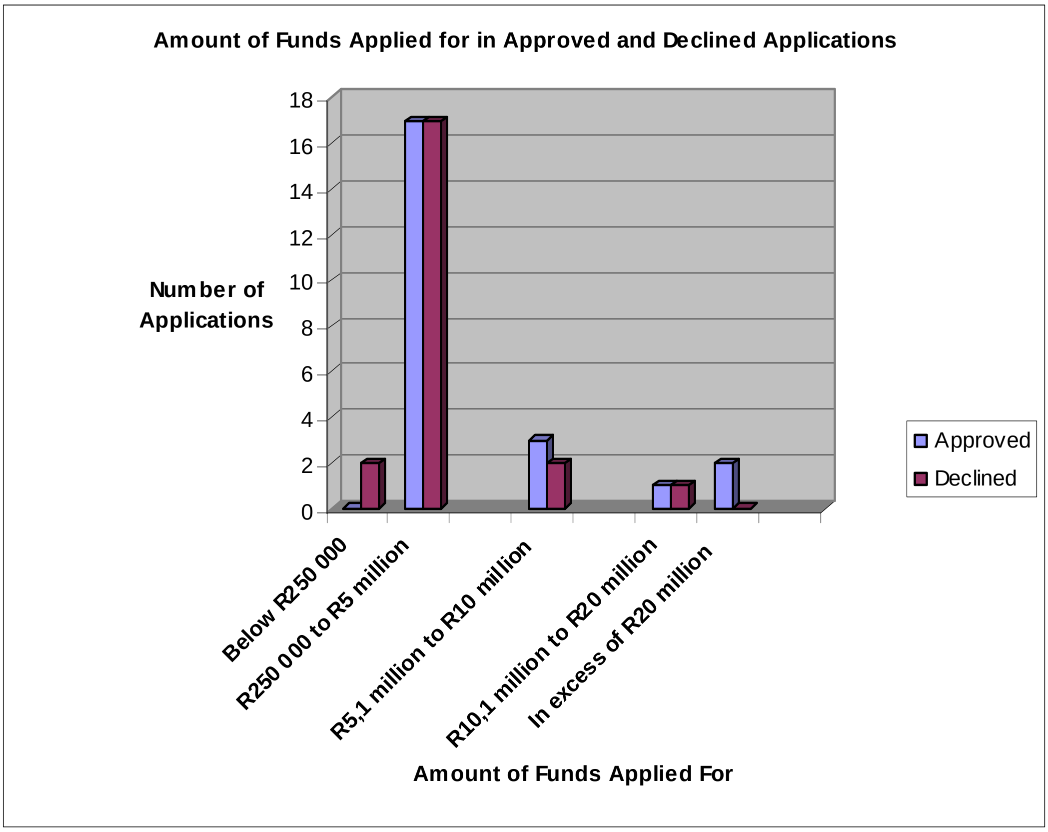

Figure 13: Amount of Funds Applied for in Approved and Declined Applications

In terms of the amounts of funds applied for, the approved applications reflected 17 between R250 000 and R5 million, 3 between R5.1 million and R10 million, 1 between R10.1 million and R20 million and 2 in excess of R20 million. The declined applications reflected 2 below R250 000, 17 between R250 000 and R5 million, 2 between R5.1 million and R10 million, 1 between R10.1 million and R20 million and none in excess of R20 million.

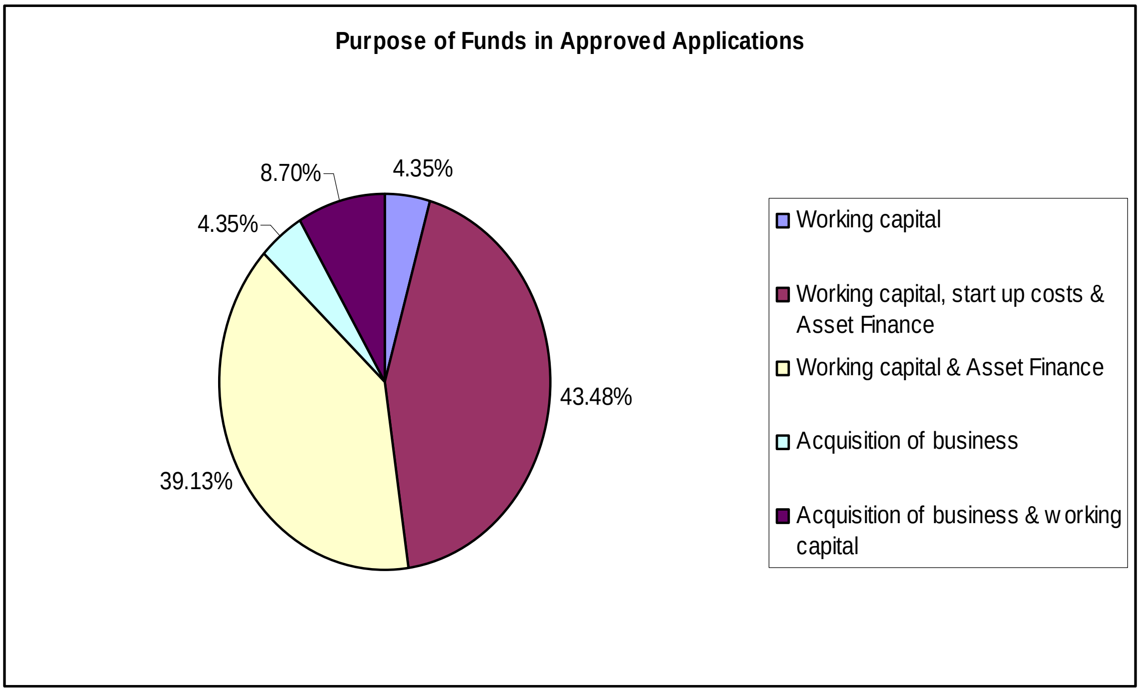

Figure 14: Purpose of Funds in Approved Applications

In terms of the purpose of funds, the approved applications showed that 4.35% were for working capital, 43.48% were for working capital, start up costs and asset finance, 39.13% were for working capital and asset finance, 4.35% were for acquisition of business and 8.70% were for acquisition of business and working capital.

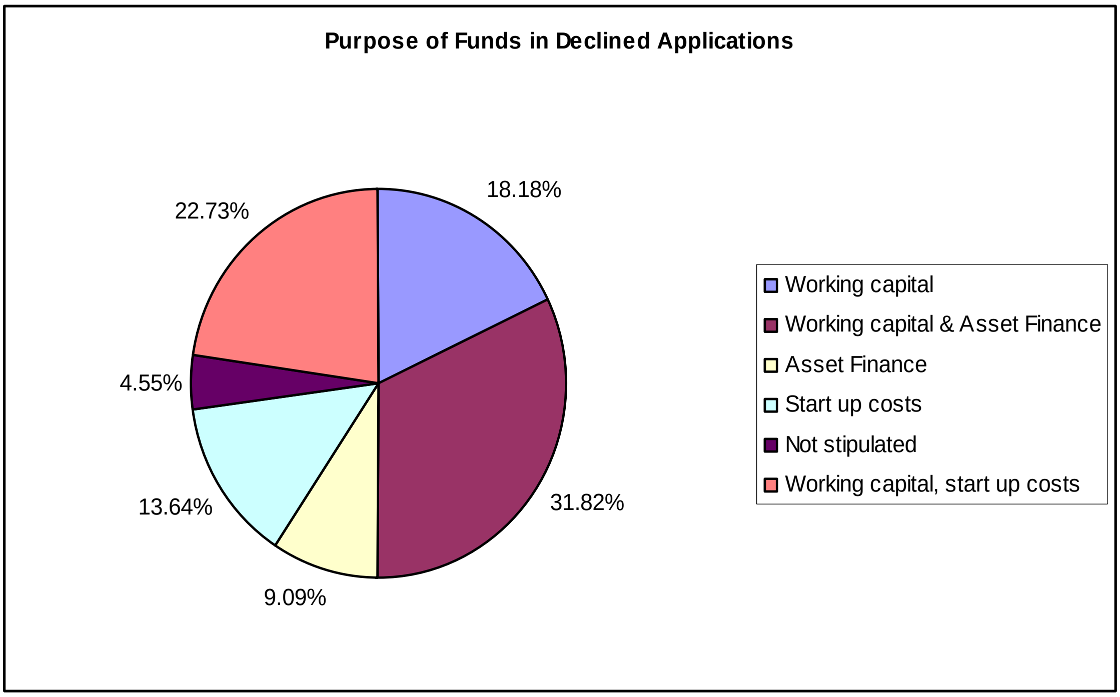

Figure 15: Purpose of Funds in Declined Applications

The declined applications showed that 18.18% were for working capital, 31.82% were for working capital and asset finance, 9.09% were for asset finance, 13.64% were for start up costs, 4.55% did not stipulate the purpose of the funds in the application and 22.73% were for working capital and start up costs.

Summary of reasons for approval

There were various reasons for individual approvals, but these reasons can be summarized into three broad categories as reflected in the diagram:

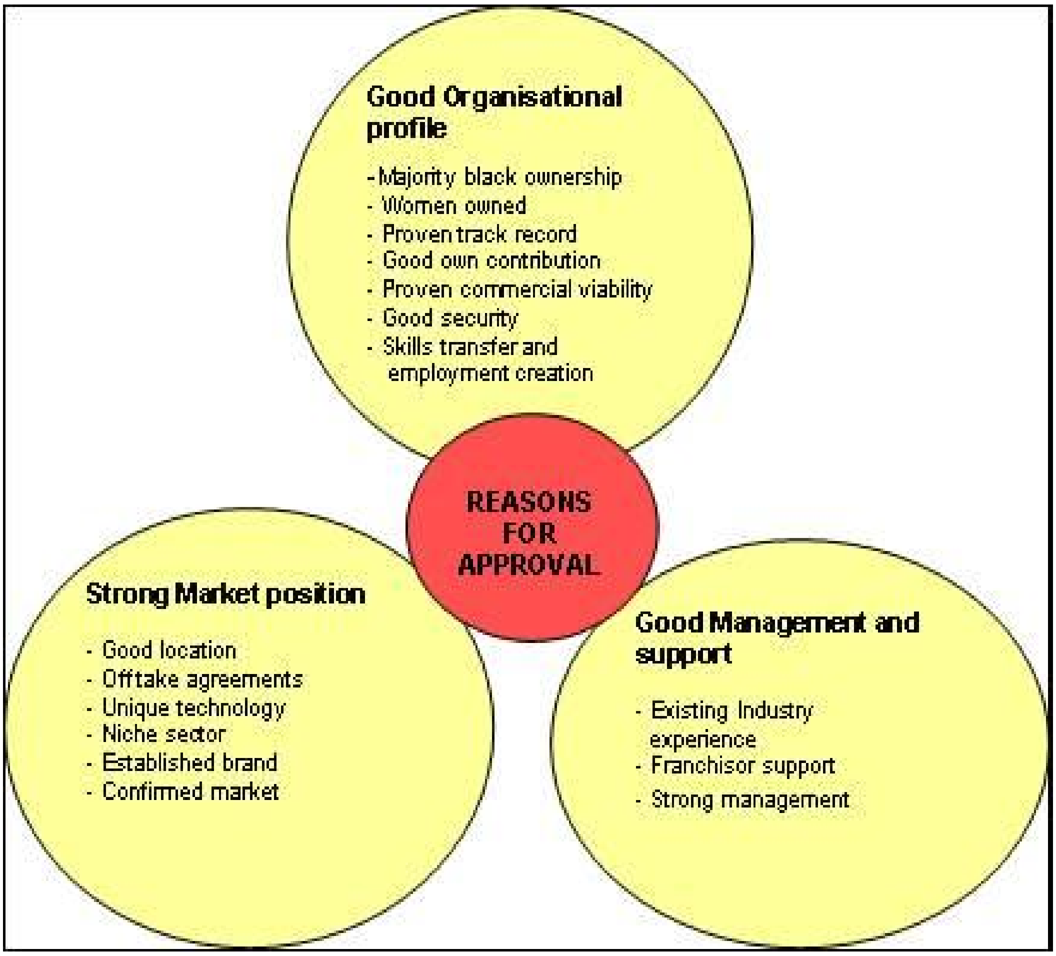

Figure 16: Summary of Reasons for Approval

Summary of key risks identified

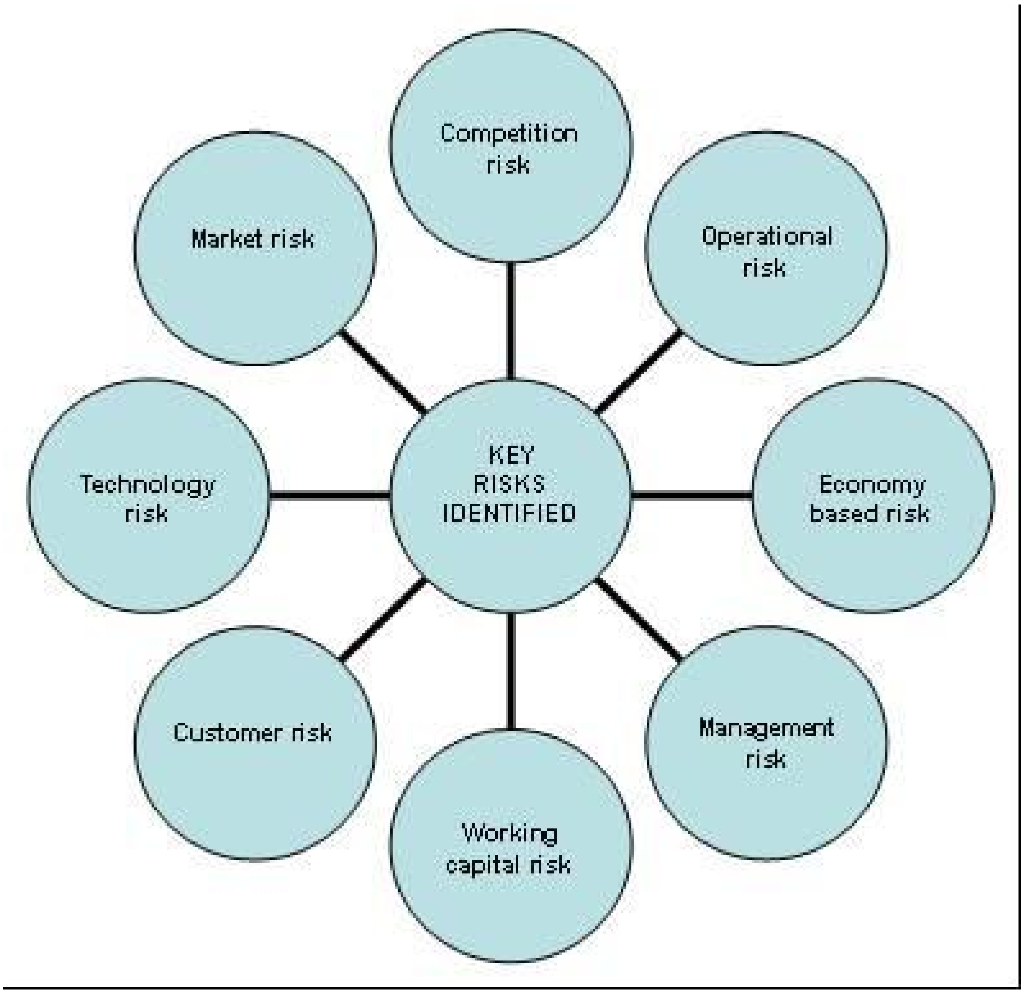

Figure 17: Summary of Key Risks Identified

Summary of reasons for Decline

There were various reasons for declined applications, but these reasons can be summarized into three broad categories as reflected in the diagram:

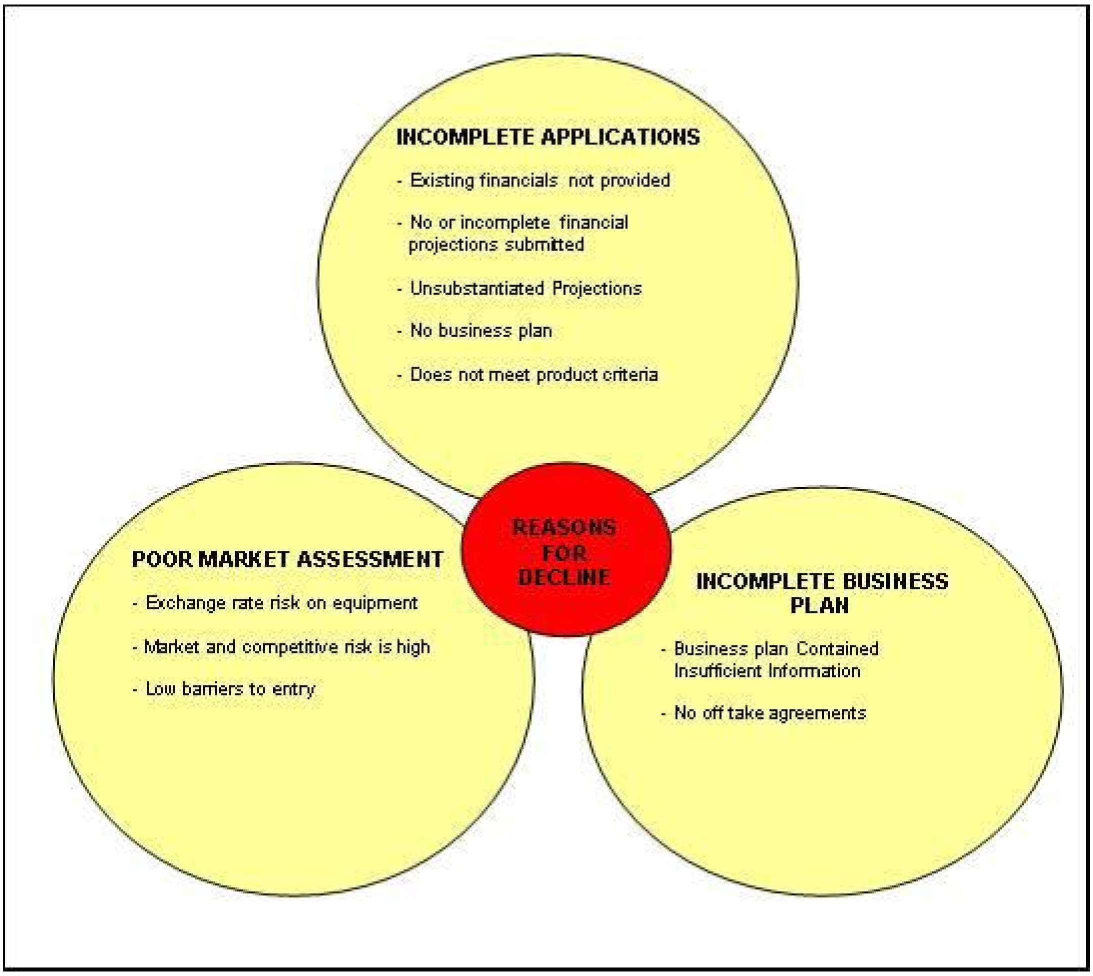

Figure 18: Summary of Reasons for Decline

4.4 Summary of the results

The results do indicate that both Propositions 1 and 2 are accepted.

CHAPTER 5: DISCUSSION OF THE RESULTS

5.1 Introduction

The chapter has been structured with the discussion and explanation of the results as they relate to the respective propositions. The attributes pertaining to each proposition have been used as sub-headings in terms of discussing the results. Each attribute discussed has been related back to the literature and further explanations have been included where deemed necessary.

5.2 Demographic profile of respondents

The findings relating to the demographics of the sample were exactly what had been planned. All the applications that formed the final sample were SMEs which comprised the key focus of this study.

5.3 Discussion pertaining to Proposition 1

This proposition relates to attributes that lead to unsuccessful applications. The findings of the research have been discussed with focus being made on each attribute highlighted as follows:

5.3.1 Poorly structured and Incomplete Business Plans

Analysis of the results as contained in Figure 17 clearly indicates that one of the reasons for some applications being declined was specifically incomplete business plans. The results indicate that some of the business plans of the declined applications did not contain sufficient information. This indicates that key information that relates to making an investment decision was omitted from the business plans submitted. In the article “Overview of a business plan” (Thompson 2003) it was highlighted that the business plan is a documentation of the business concept from start to finish. Therefore an incomplete business plan is indicative of the fact that the applicants have not detailed the business concept from start to finish. This further indicates that the applicant has not gone through all the thought processes required to fully conceptualise this business and will therefore not be in a position to deal with problems of the business prior to their becoming evident, as well as being able to convince the lender that the business plan is a culmination of a well thought through business idea (Thompson 2003). The data further indicate “no off take agreements” being secured as another reason for declined applications. This again relates to the incomplete business plan because by not identifying off take agreements, the applicant is not able to reasonably confirm the sustainability of the revenues of the business and in turn the overall sustainability of the business.

Both the literature and the results do confirm consistent thinking around poorly structured and incomplete business plans being an attribute of unsuccessful funding applications.

5.3.2 Poorly structured and unsubstantiated financial projections and financial statements

Figure 17 indicates that some of the declined applications were declined on the basis that no existing financials were provided. It was found (Thompson 2003) that existing financials are meant to form the basis of financial projections as they indicate track record of the business. Further, Hormozi et al. (2002) indicated in the article that the non-submission of existing financials can be perceived as though the applicant is holding back information and can therefore form the basis of mistrust on the part of the lender (Blumberg and Letterie 2008). The literature and the results of the research are consistent in terms of their emphasis on the importance of the submission of existing financial statements.

The data, as contained in Figure 17, further indicate that in some of the declined applications, no financial projections were supplied or if supplied they were incomplete or unsubstantiated. It was reported (Thompson 2003) that the purpose of the financial projections, besides confirming the key assumption used to derive both revenue and expenses, should be to indicate or inform the requirement for funding, the ability of the business to repay the funding, as well as the timing of the funding. Knowing how much of funding is required as well as the timing thereof is vitally important; the funder is going to want to see some justification for the loan and some indication of when the money will be required, so that they can assess whether they can meet the timing needs, given their processes to be followed in terms of the investment decision-making and funds disbursement processes. It has been shown (Honjo 2000) that one of the concerns of funders is to know when their funds will be repaid. Not including this in the submission is a clear indication that the applicant has not given thought to the repayment of the funds, which will surely adversely affect the funders' decision to provide it. In terms of poorly structured and incomplete financial projections, both the results of the research and the literature do concur that complete and substantiated projections are very important from the funder's perspective on whether to grant funding or not.

5.3.3 *The high risk profile of the SME*

Figure 17 further indicates that some applications have been declined on the basis that a poor market assessment has been done. The concept of a poor market assessment has been further expanded to indicate that some of the risks overlooked in the sample of declined applications include exchange rate risk, market risk and competition risk. In addition Figure 16 clearly summarises the various types of risks that have been identified in both approved and declined applications. It is clearly evident from the data that SMEs do face a fair number of risks that they need to overcome if they are to be successful as well as sustainable. The findings, as detailed by (Everett and Watson 1998) and (Ejembi and Ogiji 2007), confirmed similar risks that SMEs have to overcome in order to be successful or sustainable. The data as well as the literature are similar in terms of the risks attached to SMEs, indicating that having to overcome a wide array of risks would definitely contribute to the SME having a high risk profile.

Figure 7 indicates that of the 23 approved applications 17 of the applicants were women. This indicates that more women were successfully funded than men. Further the data on declined applications as contain in Figure 7 indicates that of the 22 applications that were declined 14 were men, indicating that more men were unsuccessful in obtaining funding. It was reported (Rosti and Chelli 2005) that women entrepreneurs have contributed to the negative perception of SMEs through their high exit rates from business. What this implies is that SMEs owned and managed by women would be perceived as higher risk. This is materially different from the analysis of the data, as women in the sample have been more successful in sourcing funding, which means that they could not have been perceived as a higher risk by the NEF. Further, in the results one of the reasons for approval is that some of the businesses were women-owned. Being women-owned contributed positively to the good organisational profile of the approved SME. The results and the literature reflect inconsistent findings with regard to whether women entrepreneurs add to the high risk profile of SMEs or not.

Figure 3 indicates that in terms of the results, 52% of the approved applications were start up businesses while 68% of declined applications were start up businesses. The literature (Cull et al. 2006) indicates that start up businesses are considered to be higher risk as they do not have proven track records and it is not easy to confirm their sustainability. This holds true in terms of the results as they indicate that more start up businesses as opposed to existing businesses were declined funding. In terms of the approved applications only one more start up business received funding than the existing businesses. The difference is marginal and inferences cannot be drawn from that. The results and the literature do agree in terms of start up businesses adding to the high risk profile of the SME.

The conclusions that can be derived with regard to Proposition 1 after review of the literature and the results of the research are as follows:

- Poorly structured and incomplete business plans do contribute to unsuccessful funding applications.

- Poorly structured and unsubstantiated financial projections as well as not submitting existing financial statements do contribute to unsuccessful funding applications.

- The risks faced by SMEs as well as the stage of business in terms of start up SMEs do contribute to the high risk profile of SMEs. The impact of women entrepreneurs on the risk profile of SMEs was not conclusive. It is evident that the high risk profile of SMEs, do contribute to their being unsuccessful in procuring funding.

5.4 Discussion pertaining to Proposition 2

This proposition relates to attributes that lead to successful applications. The findings of the research have been discussed with focus being made on each attribute highlighted as follows:

5.4.1 *Entrepreneurial orientation and entrepreneurial ability*

Figure 8 indicates that of the 23 approved applications 57% of the applicants had existing experience in the industry in which they were operating or going to operate a business in. Of the declined applications 77% did not have existing industry experience. Relevant industry experience implies that the applicant has knowledge about the industry and that by establishing or operating a business in this industry he will be exploiting or expanding on an opportunity (Lee and Wong 2006). It further indicates that the applicant would be aware of the risks associated in that industry and would be able to better position his business to overcome or avoid some of these risks. This relates directly to the literature (Beugelsdijk and Noorderhaven 2005) which indicates that entrepreneurs are focussed on survival, they are able to identify novel ideas and opportunities and they are hard working and focussed on their entrepreneurial activity. The results and the literature do reflect similar thinking around how existing industry experience can impact positively on the overall entrepreneurial ability of the entrepreneur. It was further evidently clear (Blumberg and Letterie 2008) that having existing industry experience definitely contributed to the applicant being successful in accessing funding, as good management and support were stated reasons for approval.

Figure 9 indicates those applicants that have had previous entrepreneurial experience, meaning that they have operated their own businesses before. A somewhat surprising finding in the results was that in terms of both approved and declined applications analysed, more applicants did not have entrepreneurial experience than those that did. This can however be explained by the fact that 27 of the 45 applications were in the start up category which represents new business. This meant that in the sample there were fewer existing businesses than new businesses which could reasonably account for the lack of entrepreneurial experience.

It was shown in the literature (Mueller and Thomas 2001), (Beugelsdijk and Noorderhaven 2005) and (Lucas Jr 1978) that specific aspects of entrepreneurial orientation and ability include the drive to survive, natural or innate talent, specific personality traits, personal accountability for their success and an orientation or leaning towards being entrepreneurs. Figure 10 of the results indicate the operational involvement of the applicants. One hundred percent of both approved and declined applicants did indicate that they would be operationally involved. This ties into what was detailed in the literature as entrepreneurs by their very nature would be operationally involved in their business. It is however important to highlight that being operationally involved is a requirement of the NEF funding and therefore the commitment of the applicants to be operationally involved could merely be an attempt to comply with the funding criteria.

Figure 11 highlights those applications in which the applicant will be contributing own funds towards the venture. The contribution of own funds from a funder's perspective is an important indicator of the commitment of the applicant to take his share of the risk (Reid 2009). This would definitely be viewed positively by the funder because besides being a sign of commitment it also reduces the risk of the funder by simply reducing the quantum of funding required. It was reported in Beugelsdijk and Noorderhaven (2005) and Reid (2009) that one of the personality characteristics of an entrepreneur is his propensity to take risks as well as the inclination to make success or failure a result of personal responsibility. The results and literature are consistent in this thinking.

5.4.2 *Funding product ranges or technologies that are focussed on small and medium business*

The NEF Imbewu fund has four core products. These are the Entrepreneurship product, the Franchise product, the Procurement product and the Rural & Community development product. Figure 12 indicates the split of the approved and declined applications in terms of the four products. Of the 45 applications 60% were for the entrepreneurship product, with 24% for the Franchise product, 11% for the procurement product and 5% for the rural and community development product. This is clearly indicative that NEF as a funder has to offer a range of products or technologies to meet the needs of SMEs.

Each product that they offer has a specific focus and in so doing is meant to cater for that segment of the SME market. The entrepreneurship product focuses on the start up business as well expansion for existing businesses, hence the high number of applications in terms of the sample. The franchise product focuses on franchised businesses only. The procurement product focuses on any business that has secured a contract for its products or services. The rural and community product focuses o funding businesses that have strong community involvement. The products have been structured taking into account the needs of the SMEs that they target.

Details of the funding mechanisms used could not be gauged from the research. There is no evidence to confirm that the NEF uses a wide array for funding technologies when structuring funding under their products. It was highlighted by Berger and Udell (2006) and Hormozi et al. (2002) that there should be different products or technologies used to fund the requirements of SMEs. The results of the research could also not be used to deal with the opacity problem (Berger and Udell 2006) that SMEs face and there is little evidence that this has been taken into account when developing the products of the NEF. The NEF offers a range of products to suit SME needs but the question is whether the SMEs are able to successfully meet the given requirements of funders in terms of credit history and credit worthiness.

Figures 13, 14 & 15 deal with the quantum of funding applied for, as well as the intended purpose of the funding for approved and declined deals. Each product offered by the NEF has a range of funding offered as well as a stipulation on the purpose for which the funds may be used. This literature is not prescriptive around the quantum of funding or the purpose thereof as this is generally based on the prerogative of the individual funder. It is however interesting to note that some applications have been declined as they do not comply with the funding criteria of the specific product. To apply for funding that does not meet the funding criteria of the specific product can be viewed as a definite recipe for failure (Cattani and Mills 1998).

5.4.3 *The proposed impact of the SMEs on economic growth and development*

Figure 4 indicates that 96% from a sample of 45 applications have a black ownership percentage of more than 50%. The NEF is a development finance institution of the Department of Trade and Industry and such has a core mandate in terms of the promotion of broad based black economic empowerment. This clearly indicates that through the approval of the 23 applications the NEF is promoting the expansion of the private sector. Additionally the fact that 23 businesses have either started or expanded is indicative of economic growth and development. It was found (Jeppesen 2005) that in third world countries, the private sector is a key economic driver and therefore any effort to promote SMEs is seen as a step towards promoting economic growth and development.

Figure 5 provides the provincial split of both the approved and declined applications. This is relevant as it enables one to assess the impact of these applications as they affect the less economically viable provinces. From the results is it clearly evident that in terms of both approved and declined applications, the three most economically active provinces, being Gauteng, Western Cape and Kwa -Zulu Natal, collectively represent 70% of the approved applications and 68% of the declined applications. This indicates that fewer applications are being received from the less economically viable provinces. This implies that the process of funding SMEs through the NEF is having less of an impact on economic growth and development in these provinces which require it more. Therefore to successfully promote economic growth and development the NEF should focus their attention on growing the number of applications being received from the less economically viable provinces.

Figure 6 provides an indication of the number of jobs created or being created through the funding of these applications. It indicates that through declining the 22 applications the potential of creating a maximum of 240 jobs through these businesses has not materialised. Seventeen of the approved applications that did stipulate the number of jobs being created, reflects the potential to create a maximum of 670 jobs. The creation of jobs is definitely seen as a contribution to economic growth and development. It was highlighted (Jeppesen 2005) that SMEs are seen as key role players in terms of stimulating the economy through employment provision. The results and the literature are consistent in the view that SMEs do promote job creation. In a country like South Africa which has a high unemployment rate, it makes sense for government to promote SMEs through public policy in an attempt to curb the high unemployment (Visagie 1997) and (Audretsch 2003). This is consistent with the literature on this subject.

5.4.4 *The completeness of the submission for funding*

One of the elements as contained in Figure 16 is that of incomplete applications. Some clarifications as to why applications are considered to be incomplete, which have not been discussed earlier, include the fact that no business plan is provided and the application does meet the product criteria. As indicated earlier the business plan is a critical document that the funder requires to get a complete understanding of the business, its funding requirement as well as the application at hand. Not submitting a business plan can only be viewed as irresponsible and totally unprofessional. Further perusal of some of the declined applications indicate that the funds applied for are either below the minimum funding threshold as stipulated in the NEF products or exceed the maximum threshold, which in either case renders them invalid for consideration. Applications are also made for acquisition finance for non-franchised business despite this clearly falling outside the NEF product criteria. In many cases it is simply a lack of attention to detail with business plans and financial projections being copied from other businesses in order to meet the information requirements in terms of completing the submission for funding.

There is clarity (Cattani and Mills 1998) on the informational requirements of funding applications. Further, the importance of the various documents requested by funders was clearly highlighted (Cattani and Mills 1998 and Fertuck 1982). Each document serves a very specific purpose and therefore not submitting the prescribed documentation would deter the funder from gauging the complete funding requirements. The literature is very clear in this regard and is consistent with the results. Without all the prescribed documents the funder is not in a position to make a complete and fully informed decision on whether to grant funding and whether the funding requested makes sense (Obston 1992).

Figure 16 provides a summary of the reasons for approval. The reasons have been separated into three broad categories as follows: Good organisational profile which deals with elements such as good security, skills transfer, employment creation, proven track record, women and black ownership, own contribution and proven commercial viability; Strong market position which can be further clarified as good location, off take agreements, unique technology, established brand, confirmed market, niche sector; and Good management support which includes franchisor support, strong management as well as existing industry experience. As confirmed throughout the literature review each of these elements have surfaced as definite contributors to the success of any SME in procuring funding.

The conclusions that can be derived with regards to Proposition 2 after review of the literature and the results of the research are as follows:

- Entrepreneurial orientation and entrepreneurial ability do contribute to successful funding applications.
- The funding products and technologies used to fund SME do contribute to successful funding applications.
- The proposed impact of SMEs on economic growth and development does contribute to successful funding applications.
- The completeness of the submission for funding does contribute to successful funding applications.

5.5 Conclusion

It is clear from the discussion that there are many similarities between the literature and the results of the research. What this indicates is that the findings of the past are still consistent with the findings of the present.

The results and the literature are consistent in suggesting that poorly structured business plans, unsubstantiated projection, non-submission of existing financials as well as the high risk profile of the SME, with the exception of the impact of women, are definite attributes that lead to unsuccessful funding applications.

The results and the literature are very consistent on the view that strong entrepreneurial orientation or ability, the role that SMEs play in terms of economic growth and development and the importance of attention to detail when completing the submission for funding are definite attributes that would increase the likelihood of successfully procuring the required funding.

Therefore Propositions 1 and 2 are accepted.

CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

The structure of the chapter will consist of the conclusions of the study, recommendations to the identified stakeholders as well as suggestions for future research and the basis thereof. The conclusions of the study will be detailed in relation to the two propositions.

6.2 Conclusions

The conclusions derived from the research that relate to the attributes leading to unsuccessful funding applications are as follows:

a) Poorly structured and incomplete business plans do not give the funder the required information to make an investment decision and highlight the fact that the business has not been fully conceptualised.

b) Poorly structured and unsubstantiated financial projections indicate to the funder that little thought has been given to the assumptions underlying the projections and that the applicant has not applied his mind to the quantum of funding being requested, the timing of that funding, and the overall ability of the business to repay the funding.

c) The array of risks being faced by SMEs as well as the additional risk of being a start up business with no track record has contributed to the high risk profile associated with SMEs.

It can therefore be concluded that any one or a combination of the above conclusions will result in the SME being unable to procure the required funding.

The conclusions derived from the research that relate to the attributes that increase the likelihood of successful funding applications are as follows:

a) Having existing industry experience, as well as having existing entrepreneurial experience coupled with the entrepreneurial orientation or the innate propensity to take risks, and being personally responsible for the success of the venture are advantageous.

b) The role of the SME as promoters of the expansion of the private sector as well as stimulators of employment provision highlights the role they play in economic growth and development; this warrants their being promoted through public policy and being afforded the funding that they require.

c) Ensuring that the informational requirements of the submission for funding is complete, is critical as each item has a specific role to play in terms of the funder making an informed investment decision.

It can therefore be concluded that meeting the above requirements will increase the likelihood of an SME procuring funding.

With reference to the context of the study it can reasonably be concluded that the study has highlighted the success criteria for development funding applications for SMEs in South Africa.

6.3 Recommendations

Recommendations to SMEs and entrepreneurs are as follows:

- Ensure that the business plan contains all the information as is required to aptly convey details of the business from the concept stage right through to the implementation thereof.

- Take guidance from the funders on what they would like to see in the business plan that is presented for funding. Do not adopt a one size fits all approach.

- Ensure that the submission for funding includes a comprehensive set of projections with underlying assumptions and actual existing financial statements, with the emphasis being placed on the quantum of funding required, when is it required and how will it be repaid.

- Identify the key risks being faced by your business and try to detail how you intend to mitigate these risks in an attempt to lower the risk profile of your business.

- Try to mitigate the risk associated with a start up business by proving sustainability through securing contracts or off take agreements for your products or services.

- Assess up front whether you have both the entrepreneurial orientation and the entrepreneurial ability to embark on the proposed venture.

- Assess whether you have experience in the industry you wish to operate your business in as this will inform your assessment of the risks and opportunities as they relate to that specific industry.

- Ensure that you provide the funder with all the information as requested in terms of completing the submission for funding. Clarify those items that may not be clear to you as opposed to providing the wrong information.

Recommendations to the funders are as follows:

- Be specific as to what you require in the business plan and financial projections as these documents can take many different forms. Ensure that your requirements are clear and are not open to interpretation.

- Be more innovative in terms of the products and technologies being used to fund SMEs.

- Fund by using technologies that circumvent the opacity problem that SMEs face in terms of credit history.
- Assess how realistic it is for SMEs to meet the requirements being made by you the funder. Eliminate the requirements that are impossible to meet as you are setting the SME up for failure by insisting on requirements that you know cannot be met.
- Incorporate a greater weighting to the impact that SMEs have on economic growth and development, when considering funding them.
- Offer SMEs the opportunity to, with relative ease, obtain further clarity on your requirements for funding.
- Educate SMEs through training or consultation on the purpose that the requested information serves in your making an investment decision. Knowing why you need the information will help inform the content thereof.

6.4 Suggestions for further research

Suggestions for further research include:

- An assessment of the impact that women entrepreneurs have on the risk profile of SMEs. Is it a positive or negative impact? Further research is required as this study could not conclusively assess the impact.
- A comparative study of funding technologies being used by SME funders and a comparison of these with the technologies that the literature indicates should be used to fund SMEs. Further research is required as the study did not contain the required data to make this comparison.

- Can the risk profile of SMEs be altered through adopting a systematic approach to mitigating the risks that they face? The high risk profile has been identified as a deterrent to their accessing funding therefore by changing their risk profile this should increase their propensity to procure funding.

- Identify if there are any countries in the world that have established a credit bureau for SMEs and use this as a case study to assess if it has eliminated the opacity problem in terms of credit history that most SMEs face. The opacity problem of the SME has been identified in literature as a key problem that SMEs face, therefore by making this study one could look at the likelihood of replicating this in South Africa for the benefit of our SMEs.

- Given the role that SMEs play in contributing to economic growth and development, especially in third world countries, are governments doing enough through public policy and providing direct funding for the promotion of these SMEs? This is especially important in South Africa if SMEs, through their propensity to provide employment, are seen as a means to reducing the high unemployment rate.

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APPENDIX A

NEF document checklist

NEF IMBEWU CHECKLIST

Document checklist (R250k - R5m; Procurement; Franchises; R&CD; Co-ops)

	Please tick Yes (√) or No (χ)	**YES**	**NO**
1	NEF Application form		
2	Comprehensive business plan as per template		
3	Financial Projections for at least five (5) years including Income Statement, Balance Sheet and Monthly Cash flow projections (with first year prepared on a monthly basis)		
4	For existing private company, 3-year **audited financials** (Income Statement, Balance Sheet, Cash Flow Statement)		
5	For a close corporation, 3-year historical financials (Income Statement, Balance Sheet, Cash Flow Statement)		
6	For all existing business, ,recent management accounts (Income Statement and Balance Sheet)		
7	For existing businesses, business bank statements for the past twelve (12) months		
8	Registration Documents and all the relevant legal documents relevant to the entity		
a)	For Close corporations - CK1 and/or CK2		
b)	For companies - CM1 (certificate of incorporation and the certificate to commence business)		
	- memorandum and articles of association		
c)	For cooperatives, all the relevant founding documents.		
9	Personal Statements of Assets and Liabilities of all the members or directors of the company including those of spouses if person is married in Community of Property		
10	Certified ID copies of all the members or the directors of the company		
11	Fica compliance - Proof of residence		
12	Affidavit from members or directors that they are aware of the contents of the application		

APPENDIX B

NEF Pre-screening report

NATIONAL EMPOWERMENT FUND

PRE-SCREENING REPORT

Name of Analyst:	
Date:	**BP Number: 1234**
Name of Business:	
Name of Applicant:	
Fund:	**Amount:**
Product Type:	**Province:**

Business Background:

Name of shareholder	%age Shareholding	Gender	BEE/HDP Status

Include the following information:

- Who owns the company (what is the percentage held by BEE)?
- How old is the company ?
- What does the company do, or what are they intending to do ?
- Which sector are they operating in ?
- Who are the strategic partners ?
- Comment on profitability of the business (i.e. high level on turnover & profits achieved)

Mandate of the NEF

Does the business qualify in terms of the NEF's product and funding criteria

Funding Requirements:

Source of Fund	Amount	Application of Fund

Commercial Viability

Empowerment Dividend

Management Experience

Name	Responsibility/Position	Qualifications	Experience

Recommendation

APPENDIX C

NEF Early Review Report

NATIONAL EMPOWERMENT FUND

EARLY REVIEW REPORT

SECTION A: GENERAL INFORMATION	
Business Unit:	
Instrument:	**Province:**
Estimated value of transaction:	**Client:**
Product	Franchise

SECTION B: OPERATION DESCRIPTION
Description of the client needs

Client background:
Management **FINANCIALS** **Projected Financials** **Assumptions**:

<u>Beneficial shareholding:</u> **<u>% shareholding</u>**

Description of products

The funding structure will be as follows:

Description	**Amount**	**Rates (Prime)**

SECTION C: STRATEGIC CONSIDERATION

- **Mandate:**

Major Risks

SECTION D: CLIENT/PROJECT ISSUES

Client/Credit risk issues

SECTION E: DELIVERY PLA

Proposed Team	**Budget**		**Target Dates**	

SECTION F: INVESTMENT ASSOCIATE		
Recommendation	**Signature**	**Date**
It is proposed that the NEF approves the application and for the Investment Associate to commence with the due diligence process.		

APPENDIX D

Extracts of the National Small Business Act of 1996

PRESIDENT'S OFFICE

No. 1901. 27 November 1996

NO. 102 OF 1996: NATIONAL SMALL BUSINESS ACT, 1996.

It is hereby notified that the President has assented to the following Act which is hereby published for general information:-

ACT

To provide for the establishment of the National Small Business Council and the Ntsika Enterprise Promotion Agency; and to provide guidelines for organs of state in order to promote small business in the Republic; and to provide for matters incidental thereto.

(Afrikaans text signed by the President.)

(Assented to 12 November 1996.)

BE IT ENACTED by the Parliament of the Republic of South Africa, as follows:- **CHAPTER I**

Definitions

1. In this Act, unless the context otherwise indicates-

(i) "Agency" means the Ntsika Enterprise Promotion Agency established by section 9; (i) (ii) "Board" means the Board of Directors of the Agency contemplated in section 11; (iii)

(iii) "Chief Executive Officer" means the Chief Executive Officer of the Agency appointed as contemplated in section II (1)(b); (vi)

(iv) "constitution of the Agency" means the constitution of the Agency contemplated in section 13 and adopted in terms of section 16(1); (ix)

(v) "constitution of the Council" means the constitution of the Council contemplated in section 4 and adopted as contemplated in section 8(3); (x)

(vi) "Council" means the National Small Business Council established by section 2; (xv)

(vii) "Director-General" means the Director-General of the Department of Trade and Industry, or an officer of that Department designated by that Director-General; (iv)

(viii) "Minister" means the Minister of Trade and Industry; (xi)

(ix) "National Coordinator" means the National Coordinator of the Council appointed as contemplated in section 6(1); (xiii)

(x) "National Small Business Support Strategy" means the national policy in respect of small business support as published by the Minister in the Gazette, and includes the policy as stated in the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (Notice No. 213 of 1995, published in Gazette No. 16317 of 28 March 1995); (xii)

(xi) "prescribed" means prescribed by regulation; (xvii)

(xii) "provincial council" means a provincial small business council for small business established under the constitution of the Council; (xiv)

(xiii) "regulation" means any regulation made under this Act; (xvi)

(xiv) "service provider" means any public or private entity providing support services to small business; (ii)

(xv) "small business" means 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 I of the Schedule and which can be classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in columns 3, 4 and 5 of the Schedule opposite the smallest relevant size or class as mentioned in column 2 of the Schedule; (vii)

(xvi) "small business organisation" means any entity, whether or not incorporated or registered under any law, which consists mainly of persons carrying on small business concerns in any economic sector, or which has been established for the purpose of promoting the interests of or representing small business concerns, and includes any federation consisting wholly or partly of such association, and also any branch of such organisation; (viii)

(xvii) "this Act" includes the regulations. (v)

Short title and commencement

22. This Act is called the *National Small Business Act*, *1996*, and comes into operation on a date fixed by the President by proclamation in the Gazette.

SCHEDULE (See definition of "small business" in section 1)

Sector or sub-sectors in	**Size or**	**Total full-time**	**Total**	**Total gross**
accordance with the	**class**	**equivalent of**	**annual**	**asset value**
Standard Industrial		**paid**	**turnover**	**(fixed**
Classification		**employees**		**property**
				excluded)
		Less than:	*Less than:*	
				Less than:
Agriculture	Medium	100	R 4.00 m	R 4.00 m
	Small	50	R 2.00 m	R 2.00 m
	Very small	10	R 0.40 m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m

Sector or sub-sectors in	Size or	Total full-time	Total	Total gross
accordance with the	class	equivalent of	annual	asset value
Standard Industrial		paid	turnover	(fixed
Classification		employees		property
				excluded)
		Less than:	*Less than:*	
				Less than:
Mining and Quarrying	Medium	200	R30.00 m	R18.00 m
	Small	50	R 7.50 m	R 4.50 m
	Very small	20	R 3.00 m	R 1.80 m
	Micro	5	R 0.15 m	R 0.10 m
Manufacturing	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m

Sector or sub-sectors in accordance with the Standard Industrial Classification	Size or class	Total full-time equivalent of paid employees	Total annual turnover	Total gross asset value (fixed property excluded)
		Less than:	*Less than:*	
				Less than:
Electricity, Gas and Water	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R 3.75 m
	Very small	20	R 4.00 m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
Construction	Medium	200	R20.00 m	R 4.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very small	20	R 2.00 m	R 0.40 m

Sector or sub-sectors in accordance with the Standard Industrial Classification	Size or class	Total full-time equivalent of paid employees	Total annual turnover	Total gross asset value (fixed property excluded)
		Less than:	*Less than:*	*Less than:*
Retail and Motor Trade	Medium	100	R30.00 m	R 5.00 m
and Repair Services	Small	50	R15.00 m	R 2.50 m
	Very small	10	R 3.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Wholesale Trade,	Medium	100	R50.00 m	R 8.00 m

Sector or sub-sectors in	**Size or**	**Total full-time**	**Total**	**Total gross**
accordance with the	**class**	**equivalent of**	**annual**	**asset value**
Standard Industrial		**paid**	**turnover**	**(fixed**
Classification		**employees**		**property**
				excluded)
		Less than:	*Less than:*	
				Less than:
Commercial Agents and	Small	50	R25.00 m	R 4.00 m
Allied Services	Very small	10	R 5.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
Catering,	Medium	100	R10.00 m	R 2.00 m
Accommodation and	Small	50	R 5.00 m	R 1.00 m
other Trade	Very small	10	R 1.00 m	R 0.20 m
	Micro	5	R 0.15 m	R 0.10 m

Sector or sub-sectors in	**Size or**	**Total full-time**	**Total**	**Total gross**
accordance with the	**class**	**equivalent of**	**annual**	**asset value**
Standard Industrial		**paid**	**turnover**	**(fixed**
Classification		**employees**		**property**
				excluded)
		Less than:	Less than:	
				Less than:
Transport, Storage and	Medium	100	R20.00 m	R 5.00 m
Communications	Small	50	R10.00 m	R 2.50 m
	Very small	10	R 2.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
				Less than:
Community, Social and	Medium	100	R10.00 m	R 5.00 m
Personal Services	Small	50	R 5.00 m	R 2.50 m

Sector or sub-sectors in	**Size or**	**Total full-time**	**Total**	**Total gross**
accordance with the	**class**	**equivalent of**	**annual**	**asset value**
Standard Industrial		**paid**	**turnover**	**(fixed**
Classification		**employees**		**property**
				excluded)
		Less than:	Less than:	
				Less than:
	Micro	5	R 0.15 m	R 0.10 m

APPENDIX E

Consistency Matrix

The purpose of the research is to identify the attributes of successful vs unsuccessful funding applications in Small and Medium Businesses					
Sub-problem	**Literature Review**	**Hypotheses or Propositions or Research questions**	**Source of data**	**Type of data**	**Analysis**
Attributes of unsuccessful funding applications in small and medium business	• (MacMillan and Narasimha 1987) • (van Gelderen et al. 2006) • (Delmar and Shane 2004) • (Cull et al. 2006) • (Berger and Frame 2007) • (Berger and Udell 1998) • (Gregory et al. 2005) • (Vos et al. 2007) • (Carree and Thurik 2003)	*Proposition 1: Attributes leading to unsuccessful funding applications include :* *a) Poorly structured and incomplete business plans.* *b) Poorly structured and unsubstantiated financial projections and financial statements.* *c) The high risk profile of the SME.*	Archival documents consisting of actual funding application documents of the National Empowerment Funds' Imbewu Fund	Nominal data	Descriptive Statistics Content Analysis through the use of thematic analysis

The purpose of the research is to identify the attributes of successful vs unsuccessful funding applications in Small and Medium Businesses					
Sub-problem	**Literature Review**	**Hypotheses or Propositions or Research questions**	**Source of data**	**Type of data**	**Analysis**
Same as above	• (King and Levine 1993) • (Beck and Demirguc-Kunt 2006) • (Everett and Watson 1998) • (Honjo 2000) • (Rosti and Chelli 2005) • (Hormozi et al. 2002) • (Thompson 2003) • (Mason and Stark 2004) • (Ejembi and Ogiji 2007) • (Barre 2005)	*Proposition 1: Attributes leading to unsuccessful funding applications include :* *a) Poorly structured and incomplete business plans.* *b) Poorly structured and unsubstantiated financial projections and financial statements.* *c) The high risk profile of the SME*	Archival documents consisting of actual funding application documents of the National Empowerment Funds' Imbewu Fund	Nominal data	Descriptive Statistics Content Analysis through the use of thematic analysis

<table>
<tr><th colspan="6">The purpose of the research is to identify the attributes of successful vs unsuccessful funding applications in Small and Medium Businesses</th></tr>
<tr><th>Sub-problem</th><th>Literature Review</th><th>Hypotheses or Propositions or Research questions</th><th>Source of data</th><th>Type of data</th><th>Analysis</th></tr>
<tr><td>Attributes of successful funding applications in small and medium businesses</td><td>• (Wiklund and Shepherd 2005)
• (Blanchflower et al. 2001)
• (Mueller and Thomas 2001)
• (Beugelsdijk and Noorderhaven 2005)
• (Lee and Wong 2006)
• (Audretsch 2003)
• (Rosti and Chelli 2005)
• (Berger and Udell 2006)
• (Berger and Frame 2007)
• (Klapper 2006)
• (Beck and Demirguc-Kunt 2006)
• (DTI 2005)</td><td>Proposition 2: Attributes that increase the likelihood of successful funding applications include:

a) Entrepreneurship, strong entrepreneurial orientation and entrepreneurial ability.

b) Funding product ranges or technologies that are focussed on small and medium business.

c) The proposed impact of the SMEs on economic growth and development.</td><td>Archival documents consisting of actual funding application documents of the National Empowerment Funds' Imbewu Fund</td><td>Nominal data</td><td>Descriptive Statistics

Content Analysis through the use of thematic analysis</td></tr>
</table>

The purpose of the research is to identify the attributes of successful vs unsuccessful funding applications in Small and Medium Businesses					
Sub-problem	**Literature Review**	**Hypotheses or Propositions or Research questions**	**Source of data**	**Type of data**	**Analysis**
Same as above	• (Samitas and Kenourgios 2005) • (Jeppesen 2005) • (Cattani and Mills 1998) • (Fertuck 1982) • (Blumberg and Letterie 2008) • (Reid 2009) • (Obston 1992)	*d) The completeness of the submission for funding.*	Archival documents consisting of actual funding application documents of the National Empowerment Funds' Imbewu Fund	Nominal data	Descriptive Statistics Content Analysis through the use of thematic analysis