

1. Introduction

The growth and development of the small, medium and micro-enterprise (SMME) sector is acknowledged by most interest groups and policy makers as being of critical importance to South Africa's ability to address the serious problems of unemployment. However research that has been conducted recently shows that the major factor that impedes the establishment and success of businesses is the lack of capital, which is ascribed to lack of own funds and a lack of assets, especially fixed assets, which could serve as security to obtain loans and bank overdrafts. Further, current levels of investments in SMME's are inadequate for achieving the growth levels anticipated in GEAR. This problem is even more prevalent mainly in the areas of the previously disadvantaged.

2. The purpose of study and method of investigation

The purpose of this paper is to identify the role of commercial banks in financing SMME's in the Greater Soweto. This purpose stems from the fact that SMME's have a major role to play in the South African economy in terms of employment creation, income generation and output growth. SMME's are also often a vehicle through which the lowest-income people in our society gain access to economic opportunities at a time that distribution of income and wealth in South Africa is amongst the most unequal in the world.

Information for this study has been obtained through both primary and secondary research. To obtain information and data for this study, it was necessary to gather information from small

businesses in the formal and the informal sector of the Greater Soweto. The collection of information and data has been obtained from both the businesses themselves and from the existing published material. Random control checks have been carried out to verify information obtained by means of questionnaires.

A literature study has also been done to explain the role of SMMEs in the South African economy, to analyse the lack of finance to SMMEs in the Greater Soweto, and to identify the extent of the role that commercial banks play in sustaining the financial viability of SMMEs in this region. For the purpose of this paper, the Greater Soweto comprises all the townships that are located in the South Western area of Johannesburg.

For theoretical basis of the study, an extensive number of literature references has been consulted. These include textbooks, dissertations, theses, research reports, journals and other financial publications on the subject of small businesses.

3. Empirical results

Commercial banks are profit-seeking and risk-averse institutions. They need to satisfy themselves in respect of the financial stability of the SMMEs that seek funds from them. To this effect, management procedures of the SMMEs that seek funds have to be acceptable and recognised by the commercial banks from which funds are sought. In light of this, practices of planning, organising, directing and controlling of the SMMEs' are some of the key features over which SMMEs have control, that indicate their risk profiles to the commercial banks.

Over and above the management procedures, SMME's have to keep proper financial statements that clearly reveal the SMMEs' financial position, financial performances, growth plans and resources required to achieve those plans. This information is also important not only to commercial banks but also to other non-banking institutions that help SMMEs financially for evaluating their risk profiles. These other non-banking institutions could be less concerned about the risk profiles of the SMME's but the development thereof.

The official definition of a small business according to the National Small Business Act, Act No. 106 of 1996 was used as a benchmark in determining the criteria that SMME's had to satisfy to be included in the sample. This criteria and the outcomes thereof, is set out in table 1 below.

As indicated in Table 1, the maximum number of employees employed by the respondents is 44, while the minimum number of employees is one. Statistical analysis of the number of employees shows that the mean number of employees is 7.1. This means that a sample of the population does satisfy the requirements of the Small Business Act in terms of the number of employees that an SMME must employ. It is however important to note that the highest number of employees is 44, which is only 22 % of the maximum prescribed by the Act. This indicates the job creating capacity of SMMEs in the Soweto area.

Table 1 Classification of businesses according to the criteria for a business to be regarded as an SMME

ITEM	CRITERIA	OBSERVATION	SMME yes / no
Privately Owned	Must be	100 % respondents	yes
Managed by owners	Must be	100 % respondents	yes
Some capital supplied by owners	Must be	100 % respondents	yes
Percentage of capital supplied by owners	>50 %	100 % respondents	yes
No. of employees	< 200	Average 7.1 Lowest 1 Highest 44	yes
Amount of assets	<R 18 million	Average R321 310 Lowest R0-R100 000 Highest > R1,5 m	yes
Amount of turnover	< R40 million	Average R258 300 Lowest R0-R100 000 Highest >R 1,5m	Yes

For the purpose of analysing the size of the businesses in respect of the assets employed by the businesses, the scores were converted to midpoints of the size categories so that the resultant figures have a monetary meaning. Table 1 shows that the mean assets are R321 310 with the

lowest of between R0 and R100 000 worth of assets and the highest of above R1, 5 million still within the maximum limit.

Table 1 also shows that the mean turnover is R258 300 with the lowest between R0-R100 000 and the highest over R 1,5 million. The average turnover to assets ratio is 0,8, which is rather high. This ratio gives a rough indication of the efficient use the SMMEs invested capital. In other words capital productivity is rather high. This is even true in the case of service industries where most of the capital is fixed. For any other industries, it implies a good cash flow management by the business (Scarborough, 1998:99).

Table 2 details the results on how often SMMEs calculate their total capital requirements.

Most SMMEs (46%) calculate their capital requirements only once a year, while 16 per cent calculate their total capital requirements twice a year and 6 per cent never do so at all. Twenty-four per cent of the SMMEs do so quarterly. Only a small percentage (8%) calculate capital requirements sometimes.

The responses indicate that the majority or 86% of SMMEs calculate their capital requirements once yearly or more frequently. The above does not indicate division between permanent capital requirements (which includes all fixed assets and the minimum working capital for the desired level of activity) and varying capital (which is the additional working capital required when the activity or level of production of the permanent capital requirement is exceeded).

Table 2 The frequency of the calculation of capital requirements

	Quarterly	Half-yearly	Yearly	Never	Sometimes	Total
Number	24	16	46	6	8	100
Percentage	24%	16%	46%	6%	8%	100%

According to Steinhoff & Burgess (1996:188), financing a small business is a critical element of its success, since many potentially successful firms have failed because of undercapitalisation or a lack of sufficient funds to pay for needed assets or operating expenses. It is discouraging to accept the liquidation of a business due to insufficient capital. It follows then that every business should be planned with a clear and positive understanding of how much funds will be needed to begin the operation, what additional funds will keep it going once it is operating and just where the money can be found.

Schal & Haley (1994:194) suggest that planning capital requirements should be done as often as possible to accommodate changes and adjustments of the capital needs and capital structure of a business that occur as the business grows or the demand patterns facing the business change. All too often, entrepreneurs have trouble acquiring needed money because they are poor managers and are not prepared for the questions they will be asked by the officers of financial institutions or by investors (Steinhoff & Burgess, 1996:189). They often do not take the time to forecast their capital and operating cash needs. As a result they lack an understanding of the use of the funds requested, payback arrangements and future plans for the business. Funds can be obtained

from several sources, but few institutions or individuals are interested in investing in or loaning money to poor entrepreneurs who cannot demonstrate an adequate plan for the use of funds.

No firm should try to operate without adequate cash on hand for emergencies, adequate inventory or products to sell, or adequate operating equipments. Firms that start life in a state of inadequacy will surely have difficulty acquiring tremendous funds (if needed) in the future. Table 3 details the responses with regard to the factors considered by SMMEs in calculating the level of total capital investment. Most respondents (66%) indicate that they sometimes or always take the maximisation of returns on investments into account when calculating their capital requirements. Siropolis (1997:385) argues that the best yardstick for estimating the return is called return on investment and is computed by dividing net profit by investment. The return on investments tells an entrepreneur how many cents he earns in a year for every rand of investment, in the same way that an interest rate tells savers how much they earn for each rand of savings at the bank.

Table 3 Criteria used to decide on the total capital investments

	Max Returns		Liquidity		Solvency		Other	
	No.	%	No.	%	No.	%	No.	%
Never	14	14	18	18	22	22	0	0
Sometimes	20	20	38	38	42	42	0	0
Always	46	46	44	44	36	36	0	0
Total	100	100	100	100	100	100	0	0

Of the 100 respondents, 82% sometimes and always use liquidity and 78% use solvency when calculating their capital requirements. In order for a business to achieve a positive financial leverage, liquidity and solvency must be considered. No respondents indicated that his/her business use any other criteria for this purpose.

The liquidity of a business is measured by its ability to satisfy its short-term obligations as they come due. This implies that a liquid firm is one that is able to raise cash when it is needed. Money market securities are an excellent source of asset liquidity. Potential liabilities (e.g, unused available credit as in bank overdraft or revolving credit) also provide liquidity. For example, if a firm has a revolving credit of R200 000 and is currently borrowing only R50 000, it has R150 000 of liquidity from this borrowing source. It follows that a firm with a credit of R200 000 that is borrowing R50 000 has more liquidity than a firm with the same amount of credit but borrowing the full R200 000. To the extent that a firm has large investments in assets that are readily convertible into cash and has a large potential for borrowing, it is liquid.

Steinhoff & Burgess (1996:256) argue that there are two aspects of liquidity - planned liquidity and protective liquidity. Planned liquidity involves planning. An entrepreneur has to forecast cash needs and plan how those needs are to be met - through reductions in assets or the issuance of stock (as in venture capital). Protective liquidity is the ability to meet unexpected cash demands. Unexpected cash demands are net cash outflows greater than those forecast. Unexpected cash demands can arise for many reasons. In some cases cash can be needed to undertake unexpected investment opportunities. The inability to raise sufficient cash to undertake these investments results in the forgone profits.

In other cases cash may be needed because of unexpected outflows - for example a sudden increase in the price of factor inputs such as production material (Steinhoff & Burgess, 1996:257). Cash may be needed because cash inflows are less than anticipated - for example, a strike that stops production, a slowdown in collections due to a recession in the economy, a breakdown in a critical manufacturing step that cannot be fixed quickly or a technological breakdown that causes prices to drop dramatically. Given the general uncertainty regarding cash flows entrepreneurs should maintain conceivable amount of liquidity. Entrepreneurs should commit credit well above the amount they expect to be needed.

Solvency refers to liquidity in the long-term, that is, a firm's ability to pay its long-term debt. The more solvent a firm, the better protected its owner is from losing his investments. To measure this protection, entrepreneurs should use as a yardstick the debt ratio, debt equity ratio and times interest earned ratio's as discussed in chapter 2 above. These ratio's are as follows:

$$\text{Debt ratio}^1 = \frac{\text{Total liabilities}}{\text{Total assets}}$$
$$\text{Debt equity ratio}^2 = \frac{\text{Long-term liabilities}}{\text{Owner's equity} + \text{long-term liabilities}}$$

¹The debt ratio measures the degree to which a firm's assets are financed by creditors. Generally a debt ratio of less than 50 percent is considered favourable by bankers.

²The debt equity ratio measures the degree to which a firm's equity and long-term debts are financed by long-term liabilities.

$$\text{Times interest earned}^3 = \frac{\text{Operating profit before interest}}{\text{Interest expense}}$$

Table 4 details the responses with regard to plans and statements prepared by SMMEs to determine total capital requirements. The table below shows that budgets are the most prepared statements by the respondents in that 84% prepare budgets falling either in the *sometimes* (40%) or the *always* (44%) category. Sixteen percent (16%) of the respondents do not prepare budgets at all.

Dlamini (1994:62) found that in 1994, 75.6 per cent of black SMMEs made use of budgets, whilst Holmes and Nicholls (1998:63) in their study of 938 Australian SMMEs found that 48 per cent of the respondents never made use of written budgets in planning capital requirements. The figure of 84 per cent of SMMEs that make use of budgets, as indicated by the findings of this research, would therefore appear to be high.

The next frequently used financial statement is the business plans and the projected balance sheet (78 % and 74% respectively). Holmes and Nicholls (1998:63) have found that in Australia only 14.5 per cent of the respondents prepare balance sheets and income statements internally, but that 69.3 % seek outside help from accountants from the preparation of these statements.

³The times interest earned ratio measures how low profits can drop without straining the firm's ability to pay interest when due.

Table 4 Plans and statements prepared to determine total capital requirements

	Business Plans		Budgets		Projected Income Statements		Projected Balance Sheets		Projected Capital Req.	
	No.	%	No	%	No.	%	No.	%	No.	%
Never	22	22	16	16	30	30	26	26	28	28
Sometimes	40	40	40	40	34	34	38	38	32	32
Always	38	38	44	44	36	36	36	36	30	30
Total	100	100	100	100	100	100	100	100	100	100

This result in Soweto is in strong contrast to the findings of Business Partners (1999:24) that only 20 per cent of SMMEs give attention to the business plan. It can therefore be concluded that from the information above most SMMEs in the Soweto area draft budgets and business plans to determine their capital requirements and other statements to summarise all other sorts of requirements.

Reekie *et al*, (1996:256) assert that entrepreneurs should have a plan of action to guide them as they chart the direction of the company and strive to make the best possible decisions to increase the likelihood of success for the proposed new business venture or the contribution and growth of the ongoing firm. This plan of action is called the business plan, a comprehensive, well thought out, written document that establishes the necessary guidelines for entrepreneurs. In the

course of soliciting information from the respondents, the most verbally cited complaint by the entrepreneurs is that they do not have time to sit down and write out a business plan or a budget. However, despite this complaint, the results prove that the respondents do appreciate the importance of planning and budgeting and therefore make the means of finding time for this purpose.

The importance of the pro forma financial statements lies in enabling the management of a business to forecast the future financial position of a business and therefore help adjust operations to influence the position that the management seeks for its business. Management can consider a change in their operating policy, such as changing the price of its products, developing additional markets or selling some of its plant or assets and buying the items produced by them from subcontractors. The development of operating forecasts and pro forma financial statements that indicate the expected effects of such changes may provide valuable insights.

Table 5 indicates the types of short-term finance used by SMMEs in the Greater Soweto area. SMMEs in Soweto make use of short-term finance as follows: Trade credit - 74 per cent (*sometimes* 32% and *always* 42%); Bank overdraft - 44 per cent (*sometimes* 28% and *always* 16%); Revolving credit - 44 per cent (*sometimes* 28% and *always* 16%); Factoring - 18 per cent (*sometimes* 14% and *always* 4%).

Trade credit is a form of finance that arises when a firm obtains goods and services in exchange for its promise of future payment. This implies that a trade credit for a firm is like a charge account for a consumer.

Table 5 Type of short-term finance used

	Trade Credit		Bank Overdraft		Revolving credit		Factoring	
	No.	%	No.	%	No.	%	No.	%
Never	26	26	56	56	56	56	82	82
Sometimes	32	32	28	28	28	28	14	14
Always	42	42	16	16	16	16	4	4
Total	100	100	100	100	100	100	100	100

An attractive feature of a trade credit as a financing source is that it responds readily to an increase in the firm's purchases such as might occur during a seasonal build up of inventory. This might also explain the popularity of trade credit (74 %) as a short-term financing source for SMMEs in Soweto. It can therefore be concluded that trade credit is the most frequently used source of short-term finance in Greater Soweto area. This is followed by bank overdraft and revolving credit both at 44 per cent and factoring at 18 per cent. Both the bank overdraft and the revolving credit are the only short-term finance sources offered by the commercial banks in the Soweto region. Results show that less than half (44 %) of the respondents use commercial banks for their short-term finance sources. This may suggest that most SMMEs do not know about revolving credit and factoring. When they are better informed this may become better-used forms of financing.

This situation of using only some forms of finances sources could bear three implications. Firstly, it could prove that trade credit is more efficient as a short-term financial source for SMMEs in the Soweto region than the rest of the other short-term finance sources. Secondly, it could also imply the lack of interest of the commercial banks to finance short-term needs of SMMEs in consideration of the risk factor. Firms with short-term financial needs often suffer from liquidity and cash flow problems. A risk-averse commercial bank would naturally avoid risking its money on such kind of firms.

Thirdly, it could imply that SMMEs in the greater Soweto have a good cash flow and liquidity profile. This is more likely a reason for SMMEs in the Soweto region since results show that the most considered element of planning capital requirements (82 %) for SMMEs in this region is liquidity hence there is no need to use bank overdrafts and revolving credit offered by commercial banks. It may also indicate that many are ignorant of some forms of finance.

However, the use of revolving credit and bank overdrafts at 44 percent indicate that SMMEs in the Greater Soweto make use of services provided by commercial banks. Factoring cannot be regarded as a source of finance in this area because of the small percentage of businesses using it.

Table 6 lists the types of medium-term finance used by SMMEs in the Greater Soweto. Medium-term loans are used by 54 per cent of the SMMEs (*sometimes* 38 % and *always* 16%); leasing by 35 per cent (*sometimes* 13% and *always* 22%); and the most frequently used source of medium-term finance used is instalment sales with 80 per cent use (*sometimes* 30% and *always* 50%).

Table 6 Types of medium-term finance used

	Medium-term loans		Leasing		Instalment sales	
	No.	%	No.	%	No.	%
Never	46	46	65	65	20	20
Sometimes	38	38	13	13	30	30
Always	16	16	22	22	50	50
Total	100	100	100	100	100	100

Table 6 shows that most SMMEs (80%) finance their medium-term requirements by means of instalment sales. This result concurs with Kolb & De Mongs's (1998:485) finding that during the past two decades leasing and instalment sales have become much more prevalent especially with SMMEs and their use has broadened to include almost any type of capital equipment as well as real estate. Today a firm can lease almost anything from light machinery to supertankers, from industrial plants to potted plants. The results show that leasing is considered a practical and useful alternative to buying and financing assets in the Greater Soweto region. Results also show that a considerable number (54%) of SMMEs also finance their medium-term requirements by means of medium-term loans. This situation of commercial banks financing medium-term loans is a growing trend worldwide. This is confirmed by Siropolis (1997:189) arguing that medium-term loans are an important and rapidly growing area of commercial banks' services internationally. He mentions that these loans are used by firms to finance machinery or equipment purchases where the commercial banks hold the title until the loan is paid off.

Table 7 tabulates the types of long-term finance used by SMMEs in Greater Soweto (Schwenke, 1998:3). Venture capital is also included in the long-term loans because, according to, venture capital is a long-term investment that often requires a period of five to ten years before any significant returns are realised.

Own capital is utilised by 92 per cent of the SMMEs (*sometimes* 30% and *always* 62%) followed by long-term loans at 48 per cent (*sometimes* 26% and *always* 22%). This followed by sale-and-lease back at 26 per cent (*sometimes* 20% and *always* 6%) and finally venture capital at 20 per cent (*sometimes* 16% and *always* 4%). This may again indicate that many SMMEs are ignorant of some forms of finance.

Table 7 also indicates that although SMMEs rely on their own capital to finance their long-term requirements, they also use long-term loans as sources of finance. However, less than half (46%) of the respondents use long-term loans offered by commercial banks. This could be the result of stringent security demands by the commercial banks on SMMEs before a loan can be granted.

Table 7 **Types of long-term finance used**

	Own capital		Long-term loans		Sale and leaseback		Venture capital	
	No.	%	No.	%	No.	%	No.	%
Never	8	8	52	56	74	74	80	80
Sometimes	30	30	26	26	20	20	16	16
Always	62	62	22	22	6	6	4	4
Total	100	100	100	100	100	100	100	100

The sale-and-leaseback and venture capital are seldom made use of by the SMMEs in the Soweto region. This indicates a lack of interest and/or knowledge of the two sources of finance. During the interviewing most of the respondents asked that sale-and-leaseback and venture capital be explained. The impression that is created is therefore that the lack of use of these financing sources could be due to the lack of knowledge thereof by the SMMEs in the Soweto Region.

It was mentioned in the introduction of this paper that the major factor influencing the establishment and sustenance of SMMEs in the Greater Soweto is the difficulty of obtaining finance.

Table 8 indicates the number of SMMEs that have difficulty in obtaining finance. The responses above show that 90 per cent (*sometimes* 38% and *always* 42%) of SMMEs in this region have problems obtaining finance from the commercial banks.

Table 8 **SMMEs that have difficulty obtaining finance**

	NEVER	SOMETIMES	ALWAYS	TOTAL
No.	20	38	42	100
%	20	38	42	100

The results support Holmes & Nicholls' (1998:6) investigation of external or environmental factors that influence SMMEs in the Greater Soweto and confirm problems identified by Dhlamini (1994:67). The reasons behind their difficulties obtaining finance are listed below.

Table 9 reflects some reasons why finance is difficult to obtain from commercial banks. These are from the perspective of the respondents and not that of the commercial banks. Different reasons could be have been obtained had the answers been from the perspective of the commercial banks.

Discrimination by banks (82%) is regarded as the main reason why finance is not obtained from commercial banks. This is followed by the lack of understanding by banks (80%) and the fact that businesses could be regarded as too risky (74%). This is clearly in contrast to the findings that 54 per cent of the SMMEs use medium-term loans and that 44 per cent use bank overdrafts.

The reason of too low owner's capital contribution (since 70% of the respondents have low capital contribution) can also be regarded as an impediment for SMMEs in obtaining funds, although it was shown that 100 per cent of the respondents use their own capital.

Table 9 Reasons why finance is difficult to obtain from commercial banks

Reasons	Yes	No	Total
Discrimination by banks	82	18	100
Lack of understanding by banks	80	20	100
Business regarded as too risky	74	26	100
Sources of finance not available	70	30	100
Owner's capital contribution low	70	30	100
Past net profits too low	70	30	100
Difficulty in supplying information	68	32	100
Not aware of existing sources of finance	66	34	100
Other borrowed capital too high	56	44	100
Lack of managerial skills	52	48	100

The fact that most SMMEs have had too low past net profits (70%) is also a reason why it had been difficult to obtain finance. Seventy percent of the respondents indicated that financing sources were not available, while 66% indicated that they were not aware of existing sources of finance.

Difficulty in supplying information by SMMEs (68%) is another reasons for not obtaining finance from commercial banks. This implies that SMMEs have no problem in identifying existing sources of finance. Of the 100 respondents, 56 per cent presume that their other

borrowed capital may be too high, while 52 per cent reckon that a lack of managerial skills is the reason for not obtaining finance.

4. Recommendations

It is recommended that the managements of SMMEs should do a feasibility study before a business venture is started. They should also prepare a business plan on a continuous basis and ensure that a well-structured and appropriate accounting system is instituted in their businesses. This will provide them with up to date information for decision-making. It is also important that these managements prepare a presentable presentation before rushing into an application for financial assistance and seek the help of a qualified accountant or professional to assist them in preparing an application for financial assistance.

Managements of SMMEs have to pay special attention to asset management in order to achieve an acceptable turnover to assets ratio. It is often the case that better asset management set free some of the funds tied up in a business for creating greater turnover, better discounts or expansion. It is also imperative that these managements improve their managerial skills on aspects of financing, financial information preparation, calculation of capital requirements and related matters.

Commercial banks should study the reasons offered by the respondents as to why they perceive it to be difficult for their businesses to obtain funds. Commercial institutions should plan a strategy for assisting SMMEs in overcoming the reasons as listed in Table 9. The vast majority of respondents felt that the commercial banks discriminate against their businesses. Whether the

discrimination is on the basis of their race or the size of their businesses is not determined, but this does not negate the perception that commercial banks adopt discriminatory practices in their criteria for approving finance.

It is therefore recommended that commercial banks seek to eliminate this perception by means of a substantial public relations campaign. This will help to eliminate the perception and to increase awareness on the criteria that the commercial banks sets for the financing of private enterprises and SMMEs.

Respondents also felt that there is a lack of understanding by commercial banks of the circumstances of SMMEs and their problems regarding the acquisition of loans. The recommendation in this regard is that the commercial banks undertake a rigorous research on the circumstances befalling SMMEs and aim to adjust their criteria to accommodate the SMMEs

The majority of respondents felt that they have difficulty in supplying information to commercial banks. Commercial banks can make a substantial contribution in the training of the management of SMMEs. The recommendation here is that commercial banks set up clear, simple and accurate training programmes to assist aspiring and established SMMEs in preparing sound financial statements.

5. CONCLUSIONS

The aim of this study was to identify the role of commercial banks in financing SMMEs in the Greater Soweto area. The purpose for the study emanates from the importance of SMMEs in

both the formal and informal sectors in creating employment, especially in areas of dense population concentration like the Greater Soweto. The interest in SMME research can be attributed to the fact that SMMEs serve as an economic underpinning and as an important source of employment.

For this purpose data for the empirical research was collected by means of a survey of a randomly selected sample of SMMEs in the Greater Soweto area in order to achieve the objectives of this study. The empirical research was conducted with an understanding that it is a survey of a fact-finding process according to which data is collected in a planned manner in order to discover the distribution of, and interrelationships between certain variables, in this case commercial banks and the capital financing of SMMEs.

To implement the survey research, the technique used for collecting data was by means of personal interviews using a questionnaire. The discussion and evaluation of the findings resulting from the survey was done in the following sequence: Firstly, an analyses of the data was made to prove that all businesses of the respondents are SMMEs; secondly, an analyses of the data in descriptive form was presented to give an overall picture of the results; and thirdly, a conclusion on the overall results were provided.

The findings of the empirical research confirm the theoretical hypothesis about the need for the financing of SMMEs in Soweto. The research points that all respondents satisfy the criteria set by the government for the requirements of a small business. The findings also reveal that while most SMMEs use the services of the commercial banks in one or other respect, they still have difficulty obtaining finance. The main reason for the lack of finance is considered to be

discrimination on the part of the commercial banks. However, other factors contribute to the difficulty to obtain finance. These are a lack of understanding by banks and the fact that other than banks, there are not many other alternative sources of finance available to SMMEs in Soweto. The fact that most SMMEs have had low past net profits and low owner's contributions also make matters worse.

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