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Analysis of Determinants of Revolving Credit for Small and Medium Construction Enterprises: A Case of Gauteng Province.

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Abstract

Small and medium construction enterprises (SMEs) are an important vehicle to drive the economic growth globally. However, this enterprise sector has been constrained by different factors that stifle their full participation in the main stream economy specially credit accessibility. There is paucity of research to verify the determinants that predict revolving credit accessibility from financial institutions in South Africa. The data was obtained using questionnaire survey. 179 small and medium contractors responded from conveniently sampled respondents in Gauteng province in South Africa. The data was analysed using Statistical Package for the Social Sciences (SPSS) version 22. The study found that the dependant variable i.e. revolving credit was not predicted by the independent variables suggested i.e. gender, age group, current position, organization ownership, tax number, location and collateral. The finding informs bank managers they should not force clients to submit collateral before awarding credit to the SMEs. The suggested model that was tested attained the Hosmer and Lemeshow Test goodness of fit hence the results were credible. However, a further study is proposed for the entire country as the researchers acknowledge limitation on the chosen location of study.

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Keywords:Determinants credit revolving, construction enterprises small and medium, South Africa.

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1. Introduction

The loan recovery rate among small businesses reveal a worrying trend as observed by the South African Trade and Industry minister Rob Davies in a May 2010 Parliamentary Question and Answer session. Studies by the South African Micro-Finance Apex Fund (SAMAF) and the National Empowerment Fund (NEF) attest to a similar trend where default rates of as high as 35% have been recorded [42].

Nomenclature

A	radius of
B	position of
C	further nomenclature continues down the page inside the text box

The management of revolving credit in SMEs is a primary concern for the policy makers, development finance institutions, banks, non-bank credit providers, managers and owners of those SMEs because it has a direct impact on the success, creditworthiness and growth of entrepreneurial ventures. Efficient debt management determines the cash flow and the success of the day-to-day operations of the business. Poor credit management leads to late payment to creditors and other stakeholders in the supply chain. Thus credit management needs to ensure ample monitoring of cash flow as well as collection strategies from debtors. Crucial to this practice are measures to assess with due caution the customer's ability to meet the business's credit payment terms. Consequently, a study that examines both measures of credit management and the determination of key factors that trigger these measures establishes the fundamentals for this research. This presentation is devoted to revolving credit management of small businesses. Prior to the 1950s, small businesses were known as small-scale industries and in the 1980s they were termed small and medium enterprises (SMEs), while currently they are referred to as small, micro and medium enterprises (SMMEs)[1]. In this study the terms "small business", "SME" and "SMME" are used interchangeably. In South Africa, the post-apartheid government is faced with a litany of social problems, primarily unemployment and abject poverty. The government of South Africa has tried several ways to address these problems but a lot more still needs to be done. The Reconstruction and Development Programme (RDP) initiated in 1994, the Growth, Employment and Redistribution (GEAR) strategy of 1996, the Small Business Development policy of 1996, the Financial Services Charter (FSC) of 2007 and the Accelerated and Shared Growth Initiative for South Africa (AsgiSA) of 2007 are some of the strategies designed and implemented by the post-apartheid government. Despite all these attempts, the unemployment rate of approximately 25 per cent[41] is still unacceptably high, resulting in the proportion of people living below the poverty datum line being about 50 per cent (MDG, 2010).

Research and statistics have shown that the failure rate of small businesses in South Africa is very high. According to the Global Entrepreneurship Monitor (GEM)[16], South Africa's established business rate, meaning those that have survived for at least three-and-a-half years, stands at a low 2.1 per cent compared to countries such as Angola at 8.6 per cent, Zambia 9.6 per cent, China 13.6 per cent, Brazil 15.3 per cent, Uganda 27.7 per cent and Ghana 35.5 per cent. South Africa's low survival percentage is an indication of the high failure rate among start-up businesses. According to[30]and[30], it has been observed that despite all the initiatives implemented, both by the government and the private sector, small businesses continue to fail. The vast majority of SMMEs fail during their first two years of take-off as a result of insufficient working capital, owners' lack of financial and operation management capabilities, and mother factors (ibid). This observation is also noted by [22] and [22], [30] and [30],[30]and[24]. This study was therefore motivated by the high default rates among small businesses in general. Many studies single out lack of access to finance, mostly from banks, as the biggest contributing factor to the high failure rate of small businesses worldwide[31]&[31]; [31]; and[30]&[31].

1.1 Problem Statement

From as early as the 1960s, there have been a large number of studies aimed at assessing the application of revolving credit models to corporation data with a view to predicting business failure and credit default [2]. This issue has become increasingly important in recent years, in the mist of the current economic crisis popularly referred to as the credit crunch. Continuous default by borrowers affects the economic growth of the country and is therefore a major concern for the government and the financial institutions. As a result, these ―revolving credit are depleting in nominal as well as real terms, even without counting the substantial costs to the Government of operating them, with a negligible outreach. Another study by[5] Stated that lack of credit is the most critical reason for the lack of growth affecting construction SMEs in their operation. This study analysed revolving credit advancements to construction SMEs by a (South African bank)