

Chapter 8

Understanding and Adoption of E–Finance in Small and Medium Enterprises (SMEs) in Developing Countries: A Study of Bangladesh and South Africa

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ABSTRACT

The lack of access to finance is hindering growth and development to small and medium enterprises (SMEs), particularly in developing countries. Access to finance can be facilitated by ICT and e-finance, which can reduce the cost of financial services and increase access to international markets. However, in spite of the potential benefits of e-finance, developing countries have been reported to be lagging behind in terms of e-finance adoption as compared with developed nations. The reason for non-adoption could be due to barriers such as lack of ICT infrastructure, data privacy and security concerns. The purpose of this chapter is to investigate the extent of understanding and adoption of e-finance by SMEs. A survey of SMEs in two developing countries, South Africa and Bangladesh, was conducted. The results of the survey revealed that access to financial products and services was the highest rated benefit of e-finance to respondent SMEs, whereas regulatory environment and policy was the highest rated barrier.

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INTRODUCTION

Small and medium enterprises (SMEs) play a vital role in the development of developing countries by raising employment and rational allocation of scarce resources (Srivastava, 2014). However, the growth of these SMEs in developing countries such as Bangladesh are constrained by a lack of capital (Khan, 2014; Su & Yuan, 2013). Access to finance has also been reported as a vital factor for SME sector development in Bangladesh (Bangladesh Bank, 2016; Hoque, Saif, AlBar & Bao, 2015). Access to finance can be facilitated by Information and Communication Technologies (ICTs), which can improve the probability of an organization's success (Bughin & Manyika, 2016) and in particular SMEs (Hoque *et al.*, 2015; Modimogale & Kroeze, 2009). ICT can enhance services and expand services beyond geographic boundaries (Gumbi & Mnkandla, 2015; Srivastava, 2014). The emergence of internet-based technologies such as social networks, cloud computing and mobile payments have resulted in a gradual shift in the paradigm of the financial sector (Agwu & Murray, 2014; Ping & Chuanwei, 2013). It is predicted that this paradigm shift will lead to a narrowing of the digital divide as basic financial services to a greater number of people will be provided as opposed to only a small group of elite wealthy individuals. However, in a study of SMEs in Bangladesh, it was revealed that ICT adoption has been lower than expected (Hoque *et al.*, 2015). One of the factors hindering this adoption was a lack of awareness of the benefits of ICT. According to Agwu and Murray (2014) the majority of SMEs in developing countries are lagging behind in the use of ICTs and the internet, especially for making transactions. One reason for this lag is perceived security issues by customers (Dewan & Nazmin, 2008).

The widely accepted definition of e-finance according to Allen, McAndrews and Strahan (2002:7) is: *The provision of financial services and markets using electronic communication and computation.* E-finance includes all financial products and services which are available to the consumers and businesses over the internet and includes online brokerage, banking, insurance, and other financial services. According to Agwu and Murray (2014), e-finance enables businesses and ordinary citizens to conduct various financial transactions on the internet, meaning greater availability of financial services. E-finance is classified as one type of e-service. Sorooshian, Onn and Yeen (2013) assert that services such as communication, financial, cultural and recreational that can be delivered with the aid of the internet and computerized systems, such as the web, information kiosks and mobile devices can be regarded as e-services. Whilst internet banking or online banking is one type of e-finance, it has also been classified as a category of e-commerce (Mohiuddin, 2014).

The adoption and use of e-finance can lead to a multitude of potential benefits for SMEs, such as reduced cost of services and transactions (Riyadh, Bunker & Rabhi, 2010; Srivastava, 2014), as well as increased access to products and services in international markets through PCs and mobile devices (Riyadh *et al.*, 2010; Srivastava, 2014; Su & Yuan, 2013). Another benefit of e-finance is improved access to financial information (Mubaraka, Momanyi & Jibia, 2013; Riyadh *et al.*, 2010; Shahrokhi, 2008; Srivastava, 2014).

In spite of the potential benefits of e-finance, the adoption of e-finance by SMEs in developing countries has been slow when compared with larger businesses or SMEs in developed countries (Riyadh *et al.*, 2010; Su & Yuan, 2013). Internet usage naturally impacts e-finance adoption and therefore it can be deduced that ICT and internet issues related to data privacy, security and safety are also barriers to e-finance adoption (Dewan & Nazmin, 2008; Koskosas, 2011; Nasri, 2011; Raza & Hanif, 2013; Sus-

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