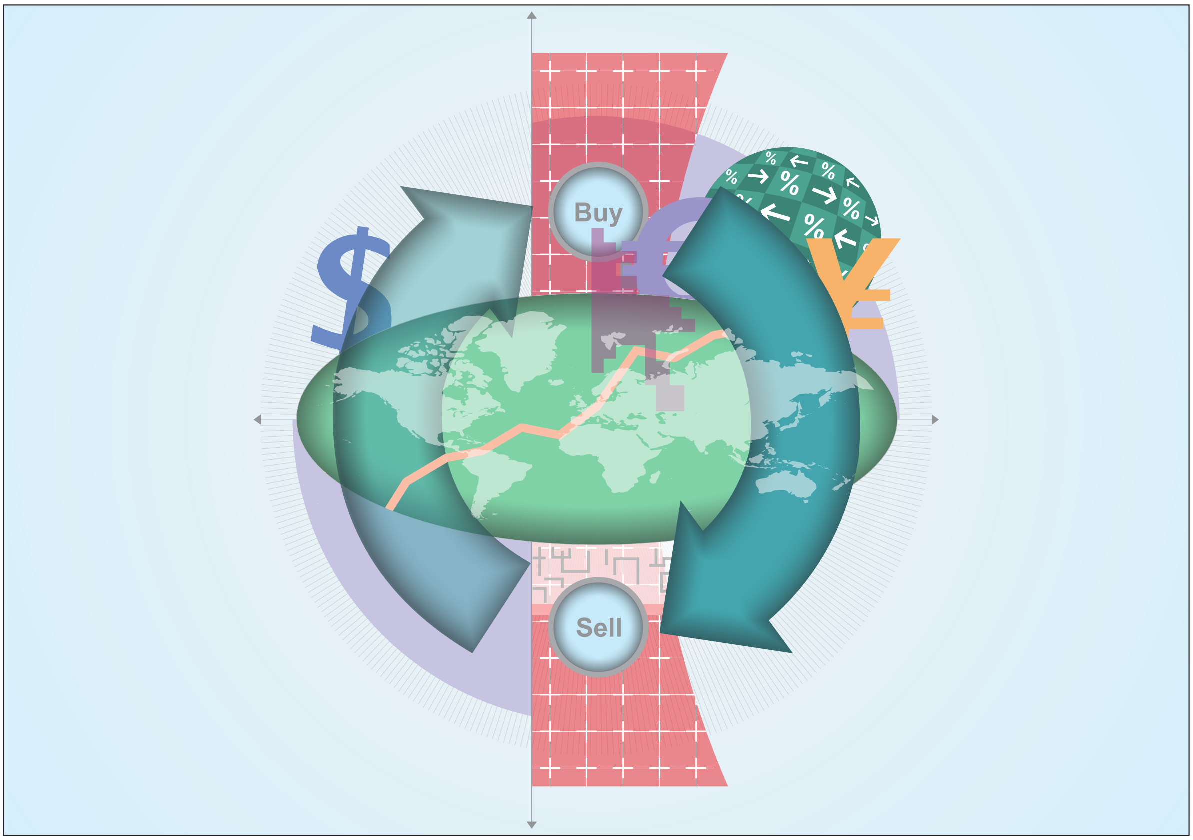

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Lending Decision Making and Financial Information: The Usefulness of Corporate Annual Reports to Lenders in Botswana*

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Abstract: This study sought to determine the usefulness of annual report information to lenders in Botswana with a view to establishing whether users of financial statement information derive any utility from information presented in the Corporate Annual Report (CAR). The findings on the basis of analysis of responses from seven lenders suggest that financial statement information is required by formal lenders in making the lending decision. The most recent Annual Report (AR) appears to be the most favoured. Formal lenders in Botswana make greater use of the income statement than other components of the annual report. Fiually, formal lenders in Botswana regard the audit report as being important to their lending decisions. Notes to the financial statements are not particularly used by these institutions. Also not used is the report from the chairman or directors.

Key words: Audit reports, corporate annual report, financial statements, lenders

INTRODUCTION

Corporate Annual Reports and financial statements, in particular, are expected to be produced by all business entities in regular intervals. The statements are considered an important means not ouly for gauging the performance of the entity but also for understanding how money invested in the entities has been used and enabling those interested in the entities to make pertinent decisions. In practically all conntries production of financial statements is required by law. In Botswana, the Laws of Botswana [Companies Act (Cap. 42:01)] require that with the exception of certain small companies, all other entities established under that Act must produce financial statements on an annual basis. The usefulness of annual reports has been extensively discussed in the past (Vergoossen, 1993; Chang *et al*., 1983). Much earlier studies confirm that financial statements have information content (Brown and Kennelly, 1972) that has value to the users of the statements. This value includes the ability to use financial statements to predict performance of entities (Abdel-Khalik and Espejo, 1978; Coates, 1972; Reilly *et al*., 1972). Information in the Corporate Annual Report (CAR) can be used to influence the shareholders' and other reader's impression of company performance (Beattie and Jones, 2000; Segars and Kohut, 2001).

Users of CAR information include investors, creditors and government. Many believe that this information is produced primarily for the benefit of shareholders. However, CAR information is also used by financial analysts and venture capitalists (Chang *et al*., 1983; Vergoossen, 1993), creditors, banks and other lenders (McCaslin and Stanga, 1986; Danos *et al*., 1989) and investment analysts (Arnold and Moizer, 1984; Day, 1986; Gniewosz, 1990; Vergoossen, 1993). CAR information is also useful in relation to the market valuation of firms (Wolk *et al*., 2003). There are some arguments,

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nevertheless, that CAR and financial statement information may not be as useful as it is being suggested. Magness (2003), for example, questions the usefulness of financial statement information on the basis that corporate financial statements do not include environmental values and in the absence of effective reporting guidelines in that regard these statements do not provide useful information to users outside the entity. Likewise Chen and Hsu (2005) suggest that in Hong Kong, users prefer that CAR information is supplemented by additional, preferably non-financial information as it is inadequate on its own. Despite these dissenting views, CAR information is widely being used.

A consideration of all possible users of CAR information will indicate that they are not a homogeneous group. Although Troberg and Ekholm (1995) argue that the real economic interests among the user groups are not different, it is reasonable to expect that the specific kind of information these users require from financial statements and the CAR as a whole differs. For example, individual investors desire information that enables them to determine the current operating results and future prospects of enterprises (Baker and Haslem, 1973). The income statement was particularly singled out as most important for investment decision making by Anderson (1981), Abdelsalam (1990) and Anderson and Epstein (1995). A broad spectrum of CAR users in Kuwait were found to consider the income statement, the balance sheet and the cash flow statement as the most important and credible parts of the CAR (Naser *et al*., 2003). Similarly, Al-Razeen and Karbhari (2004) found that the balance sheet and the income statement were the most important CAR information to Saudi Arabian users.

Although banks and other lenders have been found to use CAR information, the specific information preferred and demanded has not been clearly determined. Larry (1992) underscored the importance of cash flow information to bankers, suggesting that cash flows and not profits, repay the loan. Hence, according to Larry (1992) operating cash flows is important CAR information for purposes of assessing the borrowers' creditworthiness. Jones *et al*. (1995) surveyed, among others, managers, investors and creditors in Australia to determine which information in the financial statements they considered most useful. The creditors in the study were found to use the cash flow statement substantially more than the others included in the study. Research by Billings and Morton (2002) confirmed the importance of operating cash flows in assessing credit risk. Kwok (2002) also found that cash flow information is the second most used information item by bank loan officers in Hong Kong, after Notes to the Financial Statements. Different results were obtained by Abu-Nassar and Rutherford (1996) who found that Jordanian bank loan officers read the income statement and the balance sheet more than other parts of the CAR. Nevertheless, these studies seem to suggest that the CAR information that will be preferred and demanded by lenders to business entities is information conveyed by the Cash Flow Statement.

It can be presumed that the information lenders require needs to be dependable. CAR information is particularly reliable if it is prepared according to prescribed criteria such as Generally Accepted Accounting Principles (GAAP). However Kent and Munro (1999) suggest that deviation from GAAP does not affect bankers' assessment of a borrower's ability to repay although in those cases where there is deviation from GAAP loan officers tend to request for more information than when GAAP is complied with. Wolk *et al*. (2003) argue that the credibility of financial statement information is enhanced if the statements are audited. An audit of financial statements enables the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. (IFAC, 2006:306). Kinney and Martin (1994) suggest that the independent year-end audit directly reduces bias in an entity's pre-audit net earnings and assets and improves the precision of measurement. This implies that the audit function and the resultant audit report should be useful CAR information to lenders. Research in the USA by Johnson *et al*. (1983) found that the impact of the level of audit attestation on commercial lending decisions was not significant. Lenders did not differentiate between financial statements with no attestation and those where a compilation, a review or an audit was done. However, Bandyopadhyay and Francis (1995) found that in Canada the level of attestation affected both the decision to lend and the interest rate to charge, with higher attestation levels resulting in increased likelihood of loan applications being accepted and at lower interest rates. Similarly, Wright and Davidson (2000) found that auditor attestation had some albeit insignificant effect on loan risk assessment and on the approval of the loan. They did find however, that other factors like tolerance for ambiguity (a nonchalant attitude to whether financial statements were attested or not) influenced the lending decision. But Gomez-Guillamon (2003) suggests that credit institutions consider the auditor opinion as conveying useful information that is important for both investment and lending decision making as well as for deciding the magnitude of the investment or the loan to grant.

In summerized form, the studies above generally suggest firstly, that CAR information is used by a variety of interested parties, including lenders. Secondly, lenders demonstrate a preference to financial statement information, particularly on operating cash flows. Thirdly, audit attestation and therefore the audit report appear to influence lenders when considering applications for loans. Unfortunately all the studies were conducted outside Africa. Research in Africa on accounting information has focused on disclosure practices (Abayo, 1992), the quality of accounting information (Abayo *et al*., 1993) and timeliness of accounting reporting (Kitindi, 1999; Iwisi and Kitindi, 1999; Mutabazi, 1987). Only two studies on the use of the CAR to lenders in Africa have been identified. Kitindi (1997) studied the information needs of lending institutions in Tanzania. However, these were studied in their capacity as investors in the equity of parastatals then prevalent in that country rather than as lenders. These investors suggested that the balance sheet and the statement of source and application of funds, equivalent to the cash flow statement, were the two most important parts of the CAR, consistent to the findings by Baker and Haslem (1973) and to some extent Naser *et al*. (2003), except that income statement information was not as important to Tanzanian investors. According to the Canadian Institute of Chartered Accountants (CICA), lenders do have a stake in enterprises they finance and most of their financial information needs will be similar to those of equity investors (CICA, 1980). Even then, it is not clear whether the findings of that study can be generalised to include typical lenders to established business entities rather than investors in equity. The study by Odhiambo and Simon (1999) established that loan managers in Zimbabwe used financial statements in their lending decisions although this was not the only source of information. The study indicates that loan officers in Zimbabwe read the income statement and the cash flow statement more thoroughly compared to other parts of the CAR. Other than these two studies we have not been able to identify other similar studies in Africa. This is a gap in the literature that needs to be filled. In addition, existing studies mention the income statement, the balance sheet and the cash flow statement as the information used by lenders. There is a need to further attempt to clearly identify the information most preferred.

The objective of this study was thus to identify the information needs of lenders to business entities in Botswana. Specifically, the study wanted to determine the following:

- Whether lenders in Botswana use CAR information when making lending decisions,
- Which CAR information is most important for lending decisions,
- Whether the audit report is useful when making lending decisions and
- What other sources of information other than CAR lenders in Botswana used.

Present research provides insights on which CAR information is most useful to lenders. To our knowledge this study is unique and adds value to the knowledge about credit lending and the usefulness of accounting information in Botswana. Knowledge on usefulness of CAR information, especially if such usefulness is confirmed, will justify the requirement imposed on small and micro enterprises that are required to produce financial statements.

Hypotheses

The study is based on the following hypotheses, as applied to lenders in Botswana:

H_{01} : CAR information is just as useful as any other information in making lending decisions.
H_{02} : All parts in the CAR are equally important for lending decision making.
H_{03} : The importance of the audit report to the lending decision process is the same as the importance of any other part of the annual report.

The first hypothesis emphasises the need to verify whether lenders in Botswana do find CAR information useful and indeed make use of it in their lending decisions. The usefulness of CAR information would be confirmed if more lenders report using CAR information for lending decision making than other information sources. The alternative hypothesis is that lenders in Botswana find CAR information more useful in making lending decisions and most require this information compared to other information. The second hypothesis concerns the importance attached to the components of the annual report. The key CAR components are the Chairman's or Directors' Report, the Auditor's Report, the financial statements and the notes to financial statements. We hypothesize that lenders find the different CAR parts to be equally useful. This will be true if there is no preference suggested in their response to our survey. Otherwise, a preference to some part of the CAR is expected to be suggested. The third hypothesis re-affirms the statement that Auditing lends credibility to financial statements produced by a borrower and that the audit report is useful to lenders in judging the reliability of financial statement information.

MATERIALS AND METHODS

Our sample comprised twenty lenders from Gaborone, the capital city and main commercial centre in Botswana. The sample for the study was drawn from two main sources. One is a list of supervised financial institutions obtained from the Bank of Botswana (the central bank). The list showed the position as at December 2001, the latest available at the time of undertaking the study and included five commercial banks, two investment banks, two statutory banks and one building society. All five commercial banks, the two investment banks and one statutory bank were included in the sample. The building society and one of the statutory banks do not give commercial loans and were therefore excluded.

In Botswana, there is a large population of cash loan companies (small lenders) and micro lending companies that specialise in giving short-term loans to individuals and small businesses. These companies are not supervised by the central bank. The second source for the sample was thus a list of these cash loan companies that was obtained from the Micro-lenders Association of Botswana. The list had sixteen companies on it. Activities of these small lenders are similar in all aspects virtually across the spectrum. We decided on a sample of eight cash loan companies, which were randomly selected from the list and added to the overall sample.

The sample was restricted to lenders within the Gaborone area because the majority of the lenders are based in Gaborone: All the banks are headquartered in Gaborone and the cash loan companies operating outside Gaborone are all branches or extensions of main offices in the city. Four other known lenders that did not appear in either of the lists obtained were added to the sample. One was an investment bank, another a venture capital company and the remaining two were micro lending companies. The overall sample size was therefore twenty.

Primary data was collected by means of a structured questionnaire directed to the principal operators of the companies. All questionnaires were administered in person to minimise non-responses. Sustained follow-up was done to ensure questionnaires were completed and collected. Additional data was collected from documents and other literature available. Data was analysed mostly descriptively due to the small size of the sample. This entailed computation of means and standard deviations. Means were used to rank the variables. Frequencies were computed to rank documents required to support loan applications. An attempt was made to statistically test for significance to confirm observed differences, although the significance of the tests themselves can be questioned due to the sample size.

RESULTS AND DISCUSSION

Respondents' Profile

A total of seventeen questionnaires were collected from the various respondents, giving an overall response rate of 85%. The venture capital company and all cash loan companies and micro lenders responded. Two of the four non-commercial banks and 80% of the commercial banks also responded. The bulk of the responses (47%) were from cash loan companies (Table 1).

To gain insight into the type of loans and customers serviced by the lenders, we asked the respondents to indicate the type of loans granted to their customers. We categorised the lenders into formal and informal lenders in order to have a better understanding of the products offered by the two categories of lenders, with formal lenders being those in the Bank of Botswana list, the investment bank and the venture capital company.

The results suggest that formal lenders have a broad range of loan products, as reflected in Table 2.

Among the formal lenders, commercial banks have the broadest range of products, with an offer of at least thirteen different products. In addition to term loans, other products mentioned include: mortgage loans, lease loans, hire purchase loans, working capital financing, short-term personal loans and overdraft facility. Their clientele include large and small businesses as well as individuals and the loans are of different maturities. In contrast, informal lenders offer ouly one product. Informal lenders specialise in short term, small personal loans that have short maturity periods ranging from one to three months in the case of cash loan companies and between six months and thirty six months for the other micro-lenders.

Documents Required to Support Loan Applications

We asked the respondents to indicate the documents they required to support applications for loans. We expected them to demand bank statements and the aunnal reports, either in full or at least the financial statement component. Respondents were however encouraged to suggest other evidence they would normally require as part of the loan application dossier (Table 3).

The document most demanded is the bank statement. Fifteen respondents (88.2%) require bank statements to form part of the loan application dossier. The next most demanded document is the payslip, demanded by about 53% of the respondents. Audited financial statements are demanded by 41.2% of the respondents (only 7 out of 17 respondents). The least demanded are Management Accounts and the Business Plan, each demanded by one lender only.

These results suggest that the bank statement is a document that must be included in the loan application dossier. In terms of demand, audited financial statements rank fourth. This was not expected. For example, why the "Omang" (a personal identification card) would be in greater demand than financial statements was not clear to us. To investigate further, we analysed responses from formal lenders and informal lenders separately.

Audited financial statements become the documents most demanded by formal lenders. All seven of them require audited financial statements to be submitted as part of the loan application dossier. The entire annual report is demanded by six formal lenders (85.7%). None of the informal lenders finds any

Table 1: Respondents profile

Category	Sampled	Responded	Percent	Category (%)
Commercial banks	5	4	80	23.5
Non commercial banks	4	2	50	11.8
Venture capital	1	1	100	5.9
Cash loan companies	8	8	100	47.0
Other micro-lenders	2	2	100	11.8
Total	20	17	85	100.0

Table 2: Loan Products offered by different Lenders in Botswana

	Formal lenders			Informal lenders	
Type of Loan	Commercial banks	Non-commercial banks	Venture capital company	Cash loan companies	Other micro-lenders
Development finance	X	X			
Construction		X			
Working capital finance	X	X			
Motor vehicle and machinery	X	X			
Term loans	X		X		
Overdrafts	X				
Mortgage	X	X			
Letters of credit	X				
Guarantees	X				
Personal loans - small	X	X		X	X
Buyout	X				
Bonds	X				
Lease loans	X				
5 year hire purchase	X				
Type of customer					
Individuals	3	2	1	7	1
Small businesses	3	2	1	0	0
Larger companies	4	1	0	1	0
	10	5	2	8	1

X in the table implies the product is offered by the respective lender

Table 3: Documents required in support of loan applications

Document	Frequency	Percent
Bank statement	15	88.2
Payslip	9	52.9
Omang	8	47.1
Audited financial statements	7	41.2
Entire annual report	6	35.3
ATM Card	6	35.3
Un-audited statements	4	23.5
Management Accounts	1	5.9
Business Plan	1	5.9

use in the financial statements and the annual report. All ten informal lenders demand bank statements to be provided by applicants for their loans. Bank statements are demanded by 5 of the formal lenders (71%) (Table 4). The high ranking of bank statements reported in Table 3 is therefore influenced by the informal lenders. When informal lenders are excluded bank statements rank third in order of demand by formal lenders.

This difference is explained by the nature of the customer base for the two lender categories. As indicated in Table 2, informal lenders focus exclusively on individuals, who do not produce financial statements or annual reports. Hence they concentrate on evidence relating to the individuals' income and inability to pass loan repayment obligations [6 of the informal lenders, or 60%, require the Automated Teller Machine (ATM) card to be handed over by the borrower]. The bulk of the business for formal lenders comes from non-individual customers who prepare financial statements. To them

Table 4: Documents required by formal and informal lenders

	Formal lenders		Informal lenders	
Document	Frequency	Percent	Frequency	Percent
Bank statement	5	71.4	10	100
Payslip	-	-	9	90
Omang	-	-	8	80
Audited financial statements	7	100.0	-	-
Entire annual report	6	85.7	-	-
ATM Card	-	-	6	60
Un-audited statements	4	57.1	-	-
Management Accounts	1	14.3	-	-
Business Plan	1	14.3	-	-

- in the table implies Not required

these carry more importance than bank statements. Our earlier findings shown in Table 3 above are therefore influenced by the overwhelming weight of respondents in the informal category, which leads to the misleading finding that bank statements are the most demanded documents. Since this study focuses on the use of CAR information and the results show that informal lenders do not use CAR information, informal lenders are excluded from the rest of the discussions.

The findings reported in Table 4 shows that lenders use CAR information in making lending decisions and that the CAR is a required document in support of loan application. All 7 formal lenders indicated that financial statements were among the information they require to enable them to decide whether to lend or not. Out of these, 6 indicated that they required the entire annual report to make lending decisions. This confirms the information content of annual reports. These findings together with those in Table 7, enable us to reject the first hypothesis, which states that lenders in Botswana find CAR information just as useful as any other information. We find that CAR is one of only three sources of information that are considered important by all lenders. The other sources are important to only a few of the lenders. Hence, CAR information has more use to lenders than other information.

Importance of Loan Documents

The respondents were asked to rank seven information items comprising annual report information and bank statements in order of importance to the lending decision process. The document considered most important was assigned the value 1 with the level of importance decreasing as the number increased, leading to the ranking to start with 1 for most important and 7 for least important. The resnltant analysis computed the mean ranking score for each of the seven information items. The item attaining the lowest mean ranking score is considered to be the most important in line with the scores assigned as above. Responses from formal lenders are summarised in Table 5, with the scores ranked in order of importance from the lowest to the highest mean ranking score.

From the table, notes to the financial statements have the lowest mean rank score of 2.71, while the Chairman’s Report has the highest score of 4.00. However, only five of the respondents ranked each of the information items Notes to the Financial Statements, Bank Statement and Chairman’s/Director’s Report. Items that attracted the highest number of responses are Cash Flow Statement, Income Statement, Balance Sheet and Auditor’s Report, each attracting seven responses. Among these, the item Cash Flow Statement has the least mean rank score of 2.86.

We further analysed the level of importance attached to each of the various documents on the basis of responses, using a five-point Likert scale ranging from 1 not important to 5 extremely important. Table 6 presents the findings on formal lenders, with the responses important and extremely important combined to give a single value Important.

The income statement has the highest mean importance score. All formal lenders, seven of them, consider this information item as either important or extremely important (about 86% indicated

Table 5: Importance ranking of documents required to support loan applications

Document	Respondents (No.)	Mean	Std. Dev.
Notes to the financial statements	5	2.71	2.215
Cash flow statement	7	2.86	1.864
Bank statement	5	3.14	2.734
Income statement	7	3.14	1.773
Balance sheet	7	3.14	2.116
Auditor's report	7	3.43	1.813
Chairman's/Director's report	5	4.00	3.000

Table 6: Relative importance of documents required for lending decision-making

Document	Important (%)	Mean Score	Std. Dev.
Income statement	100.0	4.86	0.378
Cash flow statement	85.7	4.57	0.787
Balance sheet	85.7	4.43	0.787
Auditors' report	85.8	4.14	1.069
Notes to financial statements	57.1	3.71	1.890
Bank statement	42.9	3.29	1.704
Chairman/Directors' report	14.3	2.29	1.113

Table 7: Sources of information and their importance to formal lenders

Source	Important (%)	Mean Score	Std. Dev.
Discussions with borrower	100.0	4.71	0.488
The most recent annual report	100.0	4.57	0.535
Industry statistics	100.0	4.29	0.488
Macro-economic indicators	85.7	4.29	0.756
Annual reports from previous years	57.1	3.57	1.397
Newspapers and magazines	57.1	3.57	0.535
Tips and rumours	28.6	3.00	0.816
Intuition	42.9	2.86	1.215
Advisory services and rating agencies	57.1	2.71	2.059
Political considerations	14.3	2.57	1.272

extremely important). The cash flow statement and the balance sheet follow in order of importance, with mean scores of 4.57 and 4.43 respectively. 85.7% indicated these statements are either important or extremely important, with little variation among the responses. Fourth is the audit report, with a mean score of 4.14. Three of the lenders regard this report as important and three regard it as extremely important. The mean scores for the income statement, Cash Flow Statement, balance sheet and audit report were found to be significantly different from the average mean score of 3.5 (moderately important) with $p<0.05$ while those for bank statement, notes to the financial statements and the chairman's report were not. The hypothesis that lenders in Botswana find all CAR parts equally useful is thus rejected and it is concluded that some parts are more useful than others. In the context of the above finding, the third hypothesis - that the importance of the audit report is the same as that of any other part of the CAR-is also rejected. However, the difference between the importance mean score for audit reports and the highest ranked CAR part, the income statement, was not significant with $p<0.005$. The audit report is hence as important for lending decision making as the income statement, cash flow statement and the balance sheet, but is more important than notes to the financial statements and the Chairman's or Directors' Report.

It is evident from the results summarised in Table 6 that lenders place greater importance in the traditional components of the annual report, namely the auditor's report, the income statement, the balance sheet and the cash flow statement. This finding is similar to that by Naser *et al*. (2003) involving users in Kuwait, who considered the traditioual financial statements as the most important and credible part of the CAR. This study suggests that the income statement is the one preferred most.

This is consistent with the finding by Odhiambo and Simon (1999) who found that loan managers in Zimbabwe considered the income statement as the most important section of the financial statements. They are also partly consistent with the findings by Abu-Nassar and Rutherford (1996) who found that bank loan officers in Jordan read the income statement and the balance sheet more than other parts of the CAR. They differ, however, to the findings by Billings and Morton (2002) and Kwok (2002) who showed that lenders preferred different types of CAR information.

One explanation for the lenders' higher importance ranking of the income statement relative to the other components of the annual report could be that lenders in Botswana are more concerned with profitability rather than liquidity and net worth. Income statements provide information on the profitability of the borrower. The lenders could be using profitability as an indicator of the borrower's future prospects and ability to service the loan. It could also imply that lenders understand profits and the implications of recording a profit or loss better than the importance of net worth and liquidity that is depicted by information shown in the balance sheet and the cash flow statement. In addition, the Botswana market is quite small relative to most of the markets in the southern African region as a result of which many of the business entities operating in the market cannot be considered large. Few of these entities can produce balance sheets with an asset profile that is attractive to lenders. Hence the value of the balance sheet for lending purposes is diminished.

Reliance on the audit report is only fourth in line after the cash flow statement and the balance sheet. The audit report, especially when it carries an unqualified opinion, lends credibility to the information in the financial statements. The importance of the audit report may be with regard to its supporting role of the financial statement information. As stated above, a good number of entities in Botswana are small. The Companies Act in Botswana permits certain small companies not to have an audit. Although lenders may still require prospective borrowers to submit audited financial statements, it is possible that their perceptions on the quality of a statutory audit and a non-statutory audit may not be the same. This, however, is a matter that needs to be determined through a separate research. As for the large entities, it is probable that lenders use their knowledge of the entities to make lending decisions, in which case they may only be placing casual reliance on the audit report.

Sources of Information

Responses from formal lenders on ten potential sources of information that could be used in making the lending decision are presented in Table 7. These ten sources were also used in other studies, for example Vergoossen (1993). Lenders were asked to indicate the relevant sources of information for them and the level of importance attached to each source. A five point Likert-scale ranking from Not Important (1) to Extremely Important (5) was used.

Discussions with the borrower, the most recent annual report and industry statistics, in that order, are the most important sources of information to the lending institutions. All (100%) of these lenders indicated that they considered these sources as most important. Macro-economic indicators are also important sources of information although only 86% of the respondents indicated this as such. The relatively high mean scores for these four sources suggest responses of important or extremely important. In the case of discussions with borrowers and the most recent annual report, the responses lean more towards extremely important, with little variation among the respondents. The inclusion of the recent annual report in the sources of information to lenders in Botswana is further evidence that the CAR is used as a basis for making decisions related to lending.

CONCLUSIONS

This study was undertaken to determine the usefulness of CAR information to lenders in Botswana. The study had four specific objectives: To determine whether lenders in Botswana use

CAR information in lending decisions, which CAR information is most important for those decisions to be made, whether the Audit Report was useful for lending decision making and what other information sources beyond CARs were used by lenders in Botswana. The study examined formal lenders i.e., banks and other formal institutions and informal lenders, mainly cash loan companies and other micro lenders. Informal lenders are excluded in the discussions on the usefulness of CAR as it was found they were not using CAR information in their lending decisions. The results show that financial statement information and the audit report are required by formal lenders in Botswana and this is consistent with findings by others elsewhere (McCaslin and Stanga, 1986; Danos *et al*., 1989). The results also suggest that income statement information is the most preferred, consistent with the results by Odhiambo and Simon (1999). Information from the income statement and other information in the CAR, together with information obtained through discussions with prospective borrowers are the main sources of information to lenders. Finally, the results indicate that the audit report is used by all formal lenders.

The finding that formal lenders in Botswana prefer information from the income statement suggests that these lenders are more concerned with profitability than liquidity and net worth and use profitability as an indicator of the borrower's future prospects and ability to service the loan. Alternatively, perhaps lenders understand profits and the implications of recording a profit or loss better than the importance of net worth and liquidity which is the information conveyed in the balance sheet and the cash flow statement. It is clear from the research findings, that lenders in Botswana regard the audit report as important to their lending decisions though not as highly important as the cash flow statement and the balance sheet.

The conclusion made from this study is that lenders in Botswana, specifically the banks and other formal lending institutions prefer, demand and use CAR information, especially the traditional financial statements including the audit report. Apparently notes to the financial statements are not particularly favoured by these institutions. Why this is so is unclear as notes often contain important explanations that enable a better understanding of the information in the financial statements. Also not favoured is the chairman's or directors' report. It seems the qualitative information in the report is less preferred compared to qnantitative information. This is an interesting phenomenon that is worth understanding and that could be the subject of another study, specifically to find out why qualitative information such as the chairman's/directors' report and notes to the financial statements are not attractive to lenders.

A limitation of this study is the small number of the study subjects. At the time it was undertaken there were ouly 5 commercial banks, two investment banks and two statutory banks, giving a total population of 9 formal lending institutions. Due to the small size of the sample the use sophisticated statistical techniques to analyse the findings was limited. The study relied more on qualitative analysis and the use of frequencies and means. Therefore, although there is some consistency in the findings of this research to others elsewhere and whereas it is possible to generalise the findings in the context of Botswana, generalisation outside Botswana should be done with care. It is recommended that additional studies be undertaken elsewhere in Africa to test whether findings in this and the Zimbabwean study (Odhiambo and Simon, 1999) are not reflecting a Southern African syndrome ouly.

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