

## SA's SMEs hamstrung by poor access to finance



Author:

***SMEs are the key to unlocking South Africa's economic potential, yet many smaller businesses struggle to make their mark in an economy where it is difficult for them to access the funds they need to grow their businesses.***

That's the word from Ayisi Makatiani, CEO of AMSCO (The African Management Services Company). He says that estimates from the Department of Trade & Industry suggest that 80% of new job opportunities created in South Africa are in the SME sector, underlining the importance of smaller companies to the country's future prosperity. Yet up to 35% of these jobs are lost again within two years.

Says Makatiani: "SMEs in South Africa have a notoriously low survival rate. Even those that survive often end up hanging onto the lowest rung of the cash-based economy rather than developing into businesses that can compete successfully in a globalised economy."

SMEs in South Africa face a number of challenges including growing competition from global companies and a shortage of technical skills and management capacity. They are forced to compete on the basis of low cost rather than on quality and efficiency because they don't have the management or technical skills they need to crossover into higher-end markets.

Since SMEs can't access the money and skills they need for growth, few of them expand into the export market, which in turn causes the saturation of the local market with cheap, low-quality goods and services from micro-businesses. Such businesses are often poorly positioned to compete with international competitors who can often offer affordable products of better quality, notes Makatiani.

"Running a small business and transforming it into a sustainable and globally competitive company is a complex undertaking in this environment. South African entrepreneurs need to address the challenges of corporate governance; putting in place financial systems and processes; ISO certification; accessing new manufacturing systems, technologies and processes; quality assurance; business strategy; marketing; international trade and more if they are to thrive," he adds.

"Of course, accessing the expertise necessary to address those challenges costs money that smaller businesses usually don't have. Those SMEs that have good credit histories and collateral can tap into bank credit. But there's a whole tier of businesses under those SMEs who struggle to access bank funding for a multitude of reasons."

Many SMEs in South Africa struggle to access funding since they often lack collateral and credit records, says Makatiani. SMEs that are unable to attract bank credit also struggle to find equity investors. Since these businesses are small in scale, equity investors see little upside to investments in SMEs. Most financial institutions don't focus on SMEs as clients or investments because the costs of identifying and processing them are high compared to the value of the investment.

AMSCO administers a fund called The Stichting with the goal of helping SMEs to build sustainable and competitive businesses. Using grant subsidies provided by donors, AMSCO subsidises a percentage of the cost of its training and management programmes for businesses who cannot afford the full cost.

AMSCO's training programmes entail exposure to a comprehensive package of functional and general management development activities - all of which contribute to making an organisation globally competitive and sustainable. AMSCO also seconded experienced industry experts from its database or recruits suitable manager to guide SMEs in the development of management, improve operational and financial performance and develop local managers to succeed AMSCO personnel.

Concludes Makatiani: "Whereas large businesses in South Africa tend to be capital intensive, small

businesses are labour-intensive and hence help to grow jobs. As such, we regard building skills among small companies that are locally owned and show strong growth potential as key to South Africa's future. The money that The Stichting invests into skills development is an investment in the country's future.”  
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