

# Lack of SME finance keeps entrepreneurs at bay

Are there enough sources of finance to stimulate entrepreneurship?



Gerrie van Biljon

Owners of small and medium enterprises (SMEs) regard access to finance as a major hindrance in either starting a business or expanding an existing business. Not only is this experienced by local businesses, but also by entrepreneurs situated all over the world, with research indicating that access to finance is the main hindrance globally. The question begs why?

The limited finance available for SMEs is as a result of financiers regarding these businesses as high risk, says Gerrie van Biljon, Executive Director at Business Partners Limited (BUSINESS/PARTNERS), a risk finance company which finances and invests in SMEs.

"SMEs are often perceived to not have the correct financial systems and controls in place, and have out-dated or questionable financial statements. In many cases the financial leverage is also not at acceptable levels, with the collateral offered either insufficient or the nature thereof unacceptable."

Van Biljon explains that although these statements may be very general and not applicable to all SMEs, they are true in enough cases for financiers to exercise care when financing SMEs in general.

In times when entrepreneurship is regarded as the key to alleviating poverty and unemployment, as well as the contributing to the redistribution of wealth, not having access to finance does not help the cause. "Government and role players in South Africa are punting SMEs as the lifeline to economic growth and reducing unemployment. The question remains: Are there enough sources of finance to stimulate entrepreneurship and is enough being done to stimulate entrepreneurship?"

The financing world has evolved since the credit crunch of 2008, and this has impacted both individuals as well as businesses, says van Biljon. "Policies have changed and the approach towards credit is now vastly different due to the introduction of Basel and the lessons learnt in the process. Stricter requirements and policies have since been introduced that make it even more difficult to access finance. This has had a negative effect on small business owners, who need to prove the serviceability of the proposed debt, amongst other requirements."

He says that SME financing is not for the faint hearted as it is a specialised field and requires experience. "Since 1981, we have approved more than R15.6 billion finance to SMEs in more than 70 300 transactions, yet we are still learning. Viability based financing means that the financier spends hours trying to understand the business and the entrepreneur(s) running it. If we believe in the viability, a deal is possible."

While it is difficult enough to raise finance for an existing business, challenges are more pronounced for a start-up. Van Biljon says that it is difficult to prove affordability on a start-up when there is no track record. "In practice, around 65% of start-ups are financed via personal sources, such as savings, retirement funds, selling of an asset, bonding an asset or borrowings from family or friends. Angel investors are also popular sources of start-up funding."

Without finance a business cannot be established and it can only grow organically, which usually takes longer. In many

cases, finance means speeding up the process of growth, says van Biljon. "Additional machines or more stock could mean higher output and a difference between a business on the growth path and a business at risk of closure."

He adds that where there is a need for finance, but access is not possible, entrepreneurs often revert to other, more desperate measures, which may have devastating consequences. "The intentions when making this type of decision may be good, but it could have devastating consequences. For example, business owners may choose to make use of short term loans to invest in long term assets, which may put additional pressure on the cash flow of the business."

There is however some light at the end of the tunnel for business owners experiencing difficulties of this nature. "The government run Small Enterprise Finance Agency (SEFA) which offers finance to SMEs including start-ups. There are also other institutions, such as BUSINESS/PARTNERS, that base their decision on different sets of criteria, and more notably, viability.

He adds that there is also a need for SMME finance for smaller transactions for micro businesses. "These transactions are ultra-high risk and as a result very few financiers are prepared to risk their capital on this type of businesses. There should be sources available to them, and this is where Government should play a greater role.

"Each SMME plays an important and particular role in the economy, and collectively the industry offers thousands job opportunities. The country cannot afford to lose any these very necessary role players, and therefore needs to make finance more accessible and less of a challenge," concludes van Biljon.

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