Wholesale&Retail
LEADERSHIP CHAIR

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LIMITED ACCESS TO FINANCE CONTRIBUTES TO FAILURE OF SMALL RETAILERS

Small, Medium and Micro Enterprises (SMMEs) contribute significantly to South Africa's GDP (estimated between 30% and 57%), and provide employment to between 61% and 80% of the country's workforce, thereby reducing unemployment and alleviating poverty. Despite this economic contribution, South African SMMEs have one of the worst sustainability rates in the world, with about 70% to 80% failing within 3 to 4 years of start-up. Their weak sustainability and lack of growth can be blamed on many macro- and micro-economic factors, but research studies since the early 1990s have shown that limited access to financing opportunities is one of the biggest hurdles.

In a study conducted by the Wholesale & Retail Leadership Chair, representatives from the financing sector and the small retail business sector were interviewed to obtain more detailed knowledge on the realities of access to financing and to provide suggestions for overcoming this obstacle.

Interviewees included managers from banks, financial institutions and government finance agencies, independent financial advisors, retailing experts, and small retail business owners and managers.

Finance providers identified the economic situation (high interest rates, a weak rand and political volatility) as an obstacle hindering small retailers. However, they also highlighted lack of financial knowledge among small retail owners and managers as a specific barrier. The research showed that small retail owners were unfamiliar with the many financial resources available, including opportunities outside the banking sector, from government support agencies and private companies.

Also, because of their poor financial knowledge, many small retail owners struggled to comply with the requirements that banks demand in order to qualify for loans, such as financial statements, tax clearance certificates, positive track records, business plans and cash-flow projections. Employing financial advisors or accountants to assist necessitates additional funds– a vicious cycle.

Finance providers stressed the importance of good relationships with small retailers, because they saw them as a target market for their own growth. They agreed this was an incentive to invest in training and mentoring of small retailers, and suggested that banks must be more proactive in this regard. Furthermore, small retail owners agreed that they needed to improve their own financial education.

The study concluded that, in order to overcome the challenges that small retailers face when trying to access finance, new approaches were needed, including improved financial education for owners and managers, and mentoring programmes and strong business angel networks.

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