Wholesale&Retail LEADERSHIP CHAIR

Cape Peninsula University of Technology

W&RSETA WHOLESALE AND RETAIL SETA
Skills Development for Economic Growth

"Collaboration opens the window to a world of opportunities."

Project 2015/14:

Financing for SMME start-ups, and expansion for established SMMEs, in the retail sector

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Project 2015/14:

Financing for SMME start-ups, and expansion for established SMMEs, in the retail sector

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Abstract:

Many of Small, Medium and Micro Enterprise (SMME) related research studies show that access to finance is a major factor which limits the overall growth of these business entities. Notwithstanding the aforesaid, it is not clear if this is due to *inter alia*, the limited availability of financing opportunities, SMMEs' ability to access financing opportunities, SMME management's limited knowledge about available financing opportunities, or SMME management's limited general knowledge to obtain and/or abilities to secure financing opportunities. Taking into account that SMMEs represent approximately 90% of all existing business entities in South Africa, it is essential that these business entities need to become sustainable to positively stimulate the national economy. For this research study the barrier of "*limited access to financing opportunities*" was explored. In order to identify how to overcome this barrier, qualitative research was conducted whereby data were collected from management of financial institutions and independent experts, as well as from small retail business owners and their management. The findings provide insight that, though ample funding opportunities may be available to these business entities, access to finance may not be the only growth obstacle for small retailers in South Africa, but is a serious concern as access to available financing opportunities for South African small retailers is still limited. Some of the major reasons for this were identified as bank regulations, retailers' general financial knowledge and retailers' attitude towards growth. These reasons, among others, are discussed in more depth in this report.

Keywords: Small Medium and Micro Enterprises (SMMEs), South Africa, small retail SMMEs, retail, financing, finance providers, finance seekers.

CHAPTER 1. INTRODUCTION

In South Africa (SA), Small, Medium and Micro Enterprises (SMME) are defined by the National Small Business Act No. 102 of 1996 as follows:

> *"A separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the national economy" (South Africa, 1996).*

Based on this same Act, these business entities are responsible for adding socio-economic value to the SA economy by: 1) reducing unemployment through the creation of employment opportunities, and 2) alleviating poverty through both the generation and dissemination of wealth (Masutha and Rogerson, 2014; Koens and Thomas, 2015). To emphasise the importance of retail SMMEs, in particular, their legal classification based on the number of full-time employee's employed, as per the National Small Business Act No. 102 of 1996, are shown in Table 1.

Table 1: Classification of Retail SMMEs

Description	Full-time employees
Micro	0- 5
Very small	6 – 20
Small	21 – 50
Medium	51 – 200

(Source: South Africa, 1996)

Taking into account that SMMEs make up approximately 90% of all business entities that are operating in SA (Mouloungui, 2012), it is not surprising that previous research studies (Naidoo and Urban, 2010; Fatoki and Odeyemi, 2010; Thabethe, 2013; Ngary *et al.*, 2014; Swart, 2011) show that these business entities contribute between 30% and 57% to the national Gross Domestic Product (GDP), while also providing employment opportunities to between 61% and 80% of the national workforce. Despite the above, SA SMMEs are believed to have one of the worst sustainability rates in the world (Fatoki, 2014):

- Since the early 2000s between 70% and 80% of all SA SMMEs were found to close their doors after being in operation for only three years (Cant and Ligthelm, 2002; van Eeden *et al.*, 2003).
- By the late 2000s an estimated 75% of these business entities were reported to have closed their doors after being in existence for only 42 months (Fatoki

and Odeyemi, 2010; Mutezo, 2013); amounting to ±10 000 South African SMMEs failing on a monthly basis (Biyase, 2009).

- During the early 2010s approximately 63% of SA SMMEs had to close their doors after being in operation for only two years (Cant and Wiid, 2013); 75% had to close their doors after existing for only three years (Moloi, 2013).

Over the years, the weak sustainability of SA SMMEs has been blamed on many factors, particularly economic factors. These factors include macro-economic factors (e.g. economic uncertainty, extensive red tape, high costs of credit, high interest rates, high inflation rates, rapid changes in governmental legislation, volatile exchange rates, etc.) and micro-economic factors (e.g. bad pricing strategies, high overhead costs, incompetent human resources, lack of infrastructure, poor cash flow management, etc.) (Kunene, 2008; Swart, 2011, Statistics South Africa, 2014a, 2014b; Trading Economics, 2014; SAICA, 2015).

Two economic factors which regularly make their appearance as probable reasons to justify the weak sustainability of SA SMMEs are: 1) limited funds, and 2) limited access to financing opportunities (Iwu *et al.*, 2015). This view is particularly supported by theories such as the *finance gap theory*, where it is believed that SMME management lack the knowledge to identify available sources of external funding and/or SMMEs have trouble satisfying loan requirements in order to secure external funding (Chimucheka and Mandipaka, 2015). There is also plenty of evidence from practice that supports this idea: According to a recent survey among 1 423 entrepreneurs, 85% of them were self-funded, while only 2% funded their businesses with the use of bank loans, the remaining 2 % with the help of Development Finance Institutions (Seed Academy, 2016).

Stemming from the above the inference can be made that SA SMMEs' sustainability may be adversely influenced by limited funds which, in turn, is spurred on by a limited access to financing opportunities. Despite the aforementioned, it is not clear as to what constitutes the barrier "*limited access to financing opportunities*"; whether it is based on real phenomena or merely on the result of personal perceptions. Furthermore, too little is known about the potentially differing perceptions of finance providers and finance seekers on finance accessibility. So far, the different perspectives, as far as our knowledge goes, have never been discussed in one single study. Therefore, within the ambit of this research study, the following research question was investigated:

"What does the barrier "limited access to financing opportunities" entail from the perspectives of finance providers and finance seekers in the context of SA small retailers?"

For the remainder of this report, discussion takes place under the following headings: 1) literature review, 2) research design, methodology and methods, 3) findings, and 4) limitations of the study and recommendations for further research.

CHAPTER 2. LITERATURE REVIEW

For this literature review, relevant discussion takes place under the following sub-headings: 1) the economic environment of SA, 2) the SA retail industry, and 3) limited access to financing opportunities for SMMEs in the South African retail industry.

2.1 The economic environment of South Africa

In order to place the barrier of "limited access to financing opportunities" in perspective, SA's economic environment is discussed below. The economic environment of a country refers to the overall form/state of such a country's economy (Guilhoto *et al.*, 2002). According to previous research studies (van der Ree *et al.*, 2015; Bruwer and Coetzee, 2016), the SA economic environment can be described as "harsh" since:

- More than 60% of South Africans live in poverty, i.e. live below US $450.00 per annum.
- The cost of living in SA is expensive with annual inflation at 6.16%.
- The number of unemployed South Africans was estimated at 13.77 million in 2014.
- The crime statistics in SA are regarded as among the worst in the world.

Notwithstanding the above, it should be noted that the SA economic environment is directly influenced by an array of economic factors (Mohr and Fourie, 2004; Radas and Božić, 2009; SAICA, 2015); macro-economic factors (those factors which significantly influence the economic environment of a country which cannot be managed/controlled to a large extent) and micro-economic factors (those factors which also influence the economic environment of a country, to a lesser extent, which can be managed/controlled to a large extent). A non-exhaustive list of economic factors which influence the SA economic environment is shown in Table 2:

Table 2: Economic factors which influence the SA economy

Macro-economic factors	**Micro-economic factors**
Economic uncertainty	Bad business infrastructure
Extensive red tape	Bad pricing strategies
Frequent electricity outages	High levels of internal/external competition
High costs of credit	High overhead costs
High disruption in public transportation	Inability to deal with red tape
High electricity costs	Incompetent human resources
High inflation rates	Lack of business infrastructure
High interest rates	Lack of business knowledge
High levels of crime	Lack of business planning
High levels of external competition	Lack of business skills
High taxation rates	Lack of customer relations
High water costs	Lack of external funding
Rapid changes to government legislation	Lack of financial knowledge
Rapid technological advancements	Lack of internal financial resources
Strict government legislation	Lack of mentoring
Volatile demands for products/services	Lack of proper marketing strategies
Volatile exchange rates	Limited knowledge of markets
Volatile market conditions	Non-payment of debtors/customers
Volatile supplies of products/services	Poor cash flow management
Weak service delivery by government	Substitute products/services
	Weak business location(s)

(Bruwer and Coetzee, 2016; Kunene, 2008; Swart, 2011; Lekhanya and Mason, 2013, Statistics South Africa, 2014a, 2014b; Trading Economics, 2014)

Taking into account the economic factors in Table 2 above, it can clearly be understood why the SA economic environment is described as "harsh" – these economic factors are responsible for limited economic growth (Kumo *et al.*, 2015). Hence, it is no surprise that the "harsh" SA economic environment is described as a breeding ground for an array of risks to realize (Bruwer *et al.*, 2013).

In order for any business to manage economic factors and mitigate risks, relevant infrastructure (e.g. internal control systems, risk management initiatives, etc.) should be implemented. However, such infrastructure generally requires substantial financial resources (Rogerson, 2008; Smit and Watkins, 2012).

2.2 A brief overview of the SA wholesale and retail sector

The Wholesale and Retail (W&R) sector is a significant component of the SA economy and a major employer, contributing about a third to the national GDP (Sibindi and Aren, 2015; Dennis and Piatti, 2015) when broadly defined, and contributing 12.5% to GDP growth (W&RSETA, 2014).

About 75 000 retail companies are registered with the Wholesale & Retail Sector Training Authority (W&RSETA, n.d.), but only about 33 000 are registered with SA Revenue Services and thus contributing to the fiscus (Steyn, 2013). Since only about 66% of retailers are formally registered with the W&RSETA, this implies a total number of about 114 000 retailers. However, the W&RSETA (2013, p. 24) has suggested that there are over 100 000 informal (unregistered) retailers accounting for 10% of retail turnover, which indicates the unreliability of published statistics. Nevertheless, there is agreement that the sector employs an estimated 20% (3.1 million) of the SA workforce (Ndungu and Theron, 2008; Steyn, 2013; W&RSETA, 2014; Statistics South Africa, 2015), with only about 67% being in formal employ.

About 96% of W&RSETA registered retail firms are classified as small and micro enterprises, 3% as medium sized, and 1% as large companies which are mostly part of very large national chains (W&RSETA, 2014). In addition to the aforementioned, the SA retail sector is spread over urban, semi-urban and rural areas; comprising of both large and small stores (Terblanché *et al.*, 2013). The highest densities of retail businesses are in urban areas, which are home to about 76% of the retail workforce. Like many developing economies, SA is moving increasingly towards mall-based retailing, a trend which is reducing the commercial equality and sustainability of informal, small and micro-retailers (Sewell *et al.*, 2014). The sector is characterised by intense competition for market share (Qwabe, 2014) and cyclical volatility of retail sector sales (Statistics South Africa, 2014c), but retail sales are expected to expand slowly but steadily, driven mainly by the continued emergence of a black middle-class (PriceWaterhouseCoopers, 2012).

2.3 Limited access to financing opportunities for SA SMME retailers

Though it seems that the general availability of finance (e.g. governmental funds) is not a problem for SA SMME retailers, access to finance is considered to be a challenge for start-ups (Seed Academy, 2016) as well as for more established SMMEs (Lekhanya and Mason, 2014; Jere *et al.*, 2015). This is worrying because, as previously mentioned, the barrier of "*limited access to financing opportunities*" is believed to have a direct influence on the sustainability of SA SMMEs. It is interesting to note that this barrier was identified in the early 1990s for the first time (Weijland, 1992; Hailey, 1992) as an impeding factor on SMME sustainability. Since then, over the years, this barrier has been highlighted in many research studies (see Table 3).

Table 3: A non-exhaustive list of publications where "limited access to financing opportunities" was identified as a barrier to SA SMMEs

Source	**Extract**
Kauffmann, 2005	Access to financing opportunities is poor for SA SMMEs because of the high risk of default among them. This results in the limited expansion of these business entities.
Grimm and Richter, 2006	Although there is an abundance of financing opportunities for SA SMMEs, wide interest rate spreads and high costs of credit disqualify many of these business entities from obtaining external funding.
Beck *et al.*, 2009	SA SMMEs have limited access to financing opportunities as most of Africa's financial systems are characterised by their shallowness, high costs, and high interest rates.
Chibanda *et al.*, 2009	There exist low levels of equity and debt capital, and the reliance on government funding is deemed as problematic.
Orobia *et al.*, 2013	Taking into account that SA SMMEs' daily volume of transactions varies, their net income (in most cases) cannot be guaranteed to repay debt (external financing).
Lekhanya and Mason, 2014	There are many financing opportunities available to SA SMMEs however these entities do not "cash in" on these opportunities due to extensive red tape.
Nkonki-Mandleni and Anim, 2014	The biggest support which cooperatives and/or small businesses require in all nine provinces of SA is that of financing.
Department of Trade and Industry, 2015	The lack of finance is one of government's greatest challenges for co-operatives and/or small businesses.
Jere *et al.*, 2015	Financing opportunities are available to SA SMMEs however, access is generally granted to those business entities that can guarantee returns on investments.
Kanyane and Ilorah, 2015	The lack of financial support is a limiting factor which adversely impacts on the sustainability of cooperatives and/or small businesses.

Although many studies have reported the "*limited access to financing opportunities*" as a major barrier to SA SMMEs, it is interesting to note that these publications are not clear as to what this barrier actually entails. In layperson's terms, the barrier "*limited access to financing opportunities*" can be widely interpreted. To place this in perspective, two theories are briefly discussed:

- **Finance gap theory**: It is highly probable that there is "*limited access to financing opportunities*" as SMMEs often find external funding opportunities more costly and less available and/or accessible (Vos and Forlong, 1996), especially due to red tape (Timm, 2011).[1] This can be as a result of, inter alia, expensive finance costs, agency costs, and complex red-tape (Scherr *et al.*, 1993).
- **Resource dependence theory**: It is highly probable that there is "*limited access to financing opportunities*" as SMMEs have limited relationships with external parties in order to secure financing opportunities (Connelly *et al.*, 2011). As a result, they are predominantly dependent on internal stakeholders to provide monetary resources in order to remain in operation (Davis and Cobb, 2010).

Though there might be other, more internal, reasons why retailers have limited access to available finance, like their own financial abilities or their personal attitudes, from a SA SMME perspective, both theories above are quite feasible. This is supported by previous research studies (Timm, 2011; Raap and Mason, 2014; Department of Trade and Industry, 2015; Meyer, 2015) that show that there are ample financing opportunities available for SA SMMEs, from the SA government namely: 1) the Small Enterprise Development Agency (aiding SMMEs with financing opportunities, training opportunities, marketing opportunities and franchising opportunities), 2) the National Empowerment Fund (assisting black-owned SMMEs with funding), 3) Khula Finance Limited (providing funding to SMMEs), 4) the Industrial Development Corporation (providing funding to SMMEs), and 5) the SA Micro Finance Apex Fund (providing funding to SMMEs)[2]. In addition to the above,

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1 *In SA, all financial service providers need to comply with the Policy Board for Financial Services and Regulation by Act of Parliament in 1994, as established by the Financial Services Board; created by the SA Reserve Bank Falkena et al. (2001). In addition, all registered financial services providers should also adhere to applicable legislation (e.g. the National Credit Act No. 34 of 2005) which enforces strict lending criteria.*

2 *Please note that, on 1st April 2012, as a result of a merger of South African Micro Apex Fund, Khula Enterprise Finance Ltd and IDCs small business activities, the Small Enterprise Finance Agency (SOC) Ltd commonly known as sefa was established (see http://www.sefa.org.za/Home.aspx).*

there are also financing opportunities available to SMMEs from SA commercial banks (PMG, 2012) which mostly take on the form of personal loans or business loans. Despite the availability of these funding opportunities, they are subject to complex red-tape which needs to be adhered to before they can be granted to SMMEs (Cassidy, 2016; Timm, 2016).

Despite the aforementioned common understanding that, for whatever reason, there is limited access to financing opportunities for SA SMME retailers, it might also be interesting to consider that not all studies support this result. For example, in a previous research study conducted to ascertain poor people's perceptions of government support for entrepreneurship and small business promotion, Meyer (2015, p. 11) draws the surprising conclusion "*that respondents from all of the areas reported a very low need for finance. A possible explanation for this could be that respondents feel that they first need to acquire skills so that using money provided for starting a business would be wisely spent.*"

CHAPTER 3. RESEARCH METHODS

In this section, relevant discussion takes place under the following sub-headings: 1) research design, 2) data collection and sampling, 3) data analysis, and 4) trustworthiness.

3.1 Research design

Since the objective of this research study was to gain insights into the identified research problem and to discover basic social processes in the collected data, it was exploratory in nature. A qualitative approach was followed which entailed the acquisition of detailed and rich data (Kauppinen-Räisänen and Grönroos, 2015) through the use of personal interviews. This method is deemed as appropriate for exploring phenomena in depth and obtaining frank insights (Rowley, 2012). The corresponding interview guidelines are displayed in Appendix A to Appendix D.

The research methodology was influenced by grounded theory (Glaser and Strauss, 1967) in terms of a simultaneous collection and analysis of (qualitative) data and a creation of analytic codes and categories, inspired by pre-existing conceptualisations but, finally, developed from the data (Charmaz, 2006). A multi-perspective approach to assess the accessibility of finance for small retailers was adopted by interviewing managers from banks and other financial institutions, independent financial advisors and industry representatives (in the following also referred to as finance providers) as well as small business owners and their management (in the following also referred to as finance seekers). This ensured a broad view in relation to the research topic at hand.

3.2 Data Collection and Sampling

A mixture of non-probability sampling techniques was used in order to obtain data. In core, convenience (readily accessible persons) and snowball (people recommended by previous interviewees) sampling was used, though an element of a judgement approach was incorporated, since efforts were made to ensure that participants came from a range of different companies, with different positions and different personal backgrounds, and could serve as key informants (Marshall, 1996).

From the side of the **finance providers**, a total of 16 people were interviewed for this research study. The sample included seven bank managers from five different banks, three financial managers from two different financial institutions, two managers based in a governmental agency, two independent financial advisors and two retailing experts. Most interviewees were identified via the internet and approached via email, with a letter of recommendation (see Appendix E) and a short description of the project objectives (see Appendix F) attached. Moreover, some of the respondents were invited to take part in this study via recommendations of a prior interview partner. All interviewees had several years of experience in banking and/or in retailing and claimed to have a good understanding of the situation of small retailers in relation to the accessing of finance. Two of the interview partners were interviewed in one common session, all others were interviewed individually, either personally, via telephone or via Skype. All interviewees were offered a copy of the research report after completion, which all of them accepted.

For the potential **finance seekers**, a total of 20 people were interviewed. The sample included by the majority the owners of small retail businesses. In some cases, representatives of the upper management were interviewed. The retail businesses came from a broad range of retail segments (e.g., fashion, ceramics, interior design, furniture, lights, spices, liquor, groceries, and fuel), only one was a pure wholesaler without any business to private end consumers. The majority of businesses were small retailers that employed between five and 50 full time employees. Only few had less than five employees. As in the case of the finance providers, some interviewees but not the majority of them were identified via the internet and approached via email. Most of the participating retailers were identified by “walk-ins”. Some of the interviewees were also personally known by the interviewer. To less than five retailers, an incentive of a 300 rand gift voucher was offered in return for their willingness to participate. All participants received a copy of the aforementioned letter of recommendation and project specification (see Appendix E and Appendix F), and they were assured that they could have a copy of the research report after completion, which most of them accepted. All interview partners were interviewed personally, 13 by one researcher, seven by two researchers. Overall, three interviewers were involved in the data collection.

During the interviews, a semi-structured interview guideline with open-ended questions was used (see Appendix A to Appendix D). The interview guidelines were further developed and adjusted as more insights evolved during the data collection phase. All data were collected and later analysed by one researcher. The interviewees on the side of the finance providers were asked to answer all questions with reference to a typical very small to small retailer (see Table 1) with between 5 and 50 employees.

The interviewees in the side of the potential finance seekers were asked to describe their own experiences and opinions. All interviews were recorded and transcribed.

All interviews took place between May 2016 and June 2016. The average interview lasted approximately 30 minutes for the finance providers, with a spread between 20 and 49 minutes. For the potential finance seekers, they lasted about 18 minutes, with only three below 10 minutes and the longest lasting around 31 minutes.

3.3 Data Analysis

The transcriptions of interviews were uploaded to a PC and analysed by using the software atlas.ti (version 7.5.11). The data analyses then encompassed various phases (Kauppinen-Räisänen and Grönroos, 2015): First, about a quarter of the interviews were analysed individually and coded according to a pre-developed coding scheme which was continuously adapted and improved as more interviews were analysed (see Appendix G for the final coding scheme). Second, findings relative to the themes across the already analysed interviews were compared. This helped to achieve a better understanding of the different perspectives. Third, the remaining interviews were analysed, continuously improving the codings and, finally, the analysis was all brought together to a conclusive summary in the fourth and last step.

3.4 Trustworthiness

The method selected is felt to be acceptably trustworthy and the results believable because the method was firstly checked and approved by a team of experienced researchers. Second the method made use of different source, including bankers, other financiers, industry experts and retailers. Thirdly, the findings were peer reviewed and critiqued by a focus group made up of researchers, some of the original interviewees and other retail experts to further explore the results. The views of the focus group members helped to improve the interpretation of the results and to draw advanced conclusion and were incorporated in this report.

CHAPTER 4. FINDINGS

In this section, the results of the study described in section 3 are presented and discussed. The section starts (1) with an overview of general hurdles to growth that small retailers face, continues (2) with some views on the general availability of finance for small retailers, investigates (3) small retailers' financial knowledge and their ability to access available finance, gives (4) insights into the interviewees' views on governmental support agencies, analyses (5) small retailers' relationships with banks and other finance firms, offers (6) proposals of how it could be made easier for small retailers to access available finance and, in a last section, gives (7) a short overview of the results discussed.

Whenever we state a direct quote from one of the interviews was stated, they were indented and displayed in italic fond. To be able to differentiate the words of the finance providers and experts from those of the retailers, we marked the former one with an "F" and the latter one with an "R".

4.1 Barriers to Growth

Obviously, a retailer should know the basics of how to manage his business if the respective business is to grow. These basics include inter alia financial knowledge, competences in marketing and brand building, the ability to build up a positive relationship with suppliers and the compliance with legal requirements. The interviewees identified several of these basics as **general hurdles to growth** and thereby didn't show too much confidence in small retailers' individual competences and abilities.

> *"I think one of the biggest obstacles is definitely that they have no clue about their numbers." (F)*

> *"My opinion is that the finance administration and marketing would be the biggest hurdles that a SME or a small business or a retailer would have to overcome." (F)*

> *"The first one is their branding, okay. You know putting up a small store with your name on it, it doesn't really attract customers. Customers are looking for something different especially with the smaller stores." (F)*

> *"Yes, how to business, how to do business. What do you need to operate in business? What are the legalities behind that? What, how should you trade? Those things are very important and there is a lack of that." (F)*

But according to the interviewees, next to the aforementioned general barriers to growth, there are different more specific obstacles that hinder small retailers in SA to grow. Not surprisingly, one of them is the **current economic situation** which can be characterised by high interest rates, a weak rand and consumers that are reluctant to buy. In a highly competitive environment with large investments in inventory, traditionally small retail margins but high rents and high demand for attractive retail outlets, it gets harder and harder for small retailers to survive. The unstable political situation in 2015 and 2016 did not help to build (business) confidence in future improvements. Therefore, growing is a major challenge as the following quotes tell:

> *"Retail by nature means selling to the end user, (…) and the end user is the individual who is hit hardest if there's a change and in the economy. So your free cash flow dries up from an end user's perspective and the retailers feel the brunt as well. So we've had our fingers burnt as well because of changes in the economy." (F)*

> *"Firstly, everything in a business like ours is based on Forex. So leather, the cost of leather is set in a US Dollar price. So if the rand devalues, the price of leather increases." (R)*

Some of the interviewed finance providers also saw **theft, fraud and general ethics** as relevant factors that hinder SA retailers' growth:

> *"In my own store I can see what my four employees are doing. Now I open another store you know and I open myself up to shrinkage, to shrinkage, to fraud, to abuse, unless I can truly trust the people in those environments." (F)*

> *"Ethics unfortunately, is not as strong as European companies or maybe American companies." (F)*

Deficiencies in **infrastructure** and **public transportation** as well as the lack of reliable and fast access to **mobile communications** and to the **World Wide Web** were also among the factors considered to be preventing small retailers from growth:

> *"And to keep in mind, then there is the second challenge, rural areas; no access to internet. Sometimes, not even access to – cell phone is not working everywhere. They need to travel and pay taxis to go to the bigger cities or villages." (F)*

Connected to the disappointing growth rates of small retailers could also be the **attitude** of some of the business owners that some interviewees described as stated in the following:

> *"Okay, my business can become big. No, no, no, let's just keep it small. It's too stressful." (F)*

> *"He's happy with his two or three or four labourers or ten labourers whatever the case may be. He doesn't want to exceed that. He's content. There's a couple of, 10% of those guys who said, "but I want to move into the corporate space" - is a different situation." (F)*

More closely related to the actual topic of this report is the interviewees' opinion that the **access to finance** can also be a major growth obstacle for small retailers.

"I think the biggest challenge that a business has is, which is specifically related to your topic of concern is the finance for SMEs, you know." (F)

"I think with, in the last couple of years specifically, it's been very difficult to get finance for small businesses in South Africa." (R)

"Listen, external finance, it's a massive problem I would say because the interest rates that the banks charge is astronomical." (R)

4.2 General Availability of Financing Opportunities

The interviewees see a big range of financial instruments that a small retailer theoretically could choose from. Those instruments include **banking products** like the basic transactional account with an overdraft possibility, term loans, secured or unsecured, for a business or private person, surety bonds which often are registered over a person's immovable property, and other insurance, saving and investment products. These instruments could be used to finance trading (buying goods), vehicles and assets, and to provide working capital. For retailers that are trading internationally, banks also provide letters of credit or forward exchange covers. Other finance instruments which are usually not provided by banks but by **other financial institutions** include factoring and invoice discounting and loans that are not interest bearing but based on turnover or on a base that the entrepreneur controls better.

"We can provide an interest bearing loan or we can provide some sort of royalty fee, which is either based on turnover or based on a base that the entrepreneur controls better. In a filling station the example would be the margin of the dealer and then we could also take a shareholding in the business or in the property to provide a return." (F)

An additional, for small retailers, very important source of finance seems to be the **supplier**. Therefore, according to the view of some experts, for small retailers it is crucial to build up good relationships with suppliers:

"So in other words, if a retailer wants to grow, if an entrepreneur wanted to open up a retail store, let's just talk about a t-shirt shop, as an example. No capital is required for stock if his supplier is willing to give him terms. (…) So if the supplier gives him terms of 30, 60 or 90 days, he will receive the merchandise and he'll have enough time to pass it on the consumer before he's got to pay for the goods." (F)

"Because, you know, as I mentioned, it's not essential to have all the money the day you start the business, if your supplier is willing to play the game and believes in you." (F)

In addition, a small retailer could have access to venture capital provided by **corporate shareholders or private business angel investors**, to **governmental funding** or to sources of **informal lending**.

"I have never explored it but I get emails on a daily basis offering me money." (R)

Of course, also **friends & family** could be a source of finance, especially when the needed amount is not too big, as the following retailer stated:

> *"I would rather ask somebody I knew and then set an interest of repayment and pay them back. (…) Well, listen I certainly don't think you can do it on big amounts because you can't stretch anybody's friendship or family relations on big amounts. But on small amounts, I would feel that that would be the more appropriate way to go. On a big amount you can't expect anybody to do that for you." (R)*

The broad spectrum of financial instruments wouldn't help a small retailer if, from a general viewpoint, there wasn't enough finance available for them. Interestingly, from the perspective of the interviewed finance experts, there doesn't seem to be a shortage on the side of finance offers: there appears to be **plenty of finance opportunities available** for small retailers, especially if they have been in business for some time and were able to establish an operational track record.

> *"We've got a good relationship fortunately, with the bank in terms of getting finance. But also, having said that, if you're in the market for over 20 years and you've got a stable record then the banks will easily accommodate you." (R)*

Some of the interviewees from the side of the finance providers point out that not a shortage of money seems to be the problem but the small retailer's ability to access the available finance at reasonable costs, especially when a small retailer is new in the business:

> *"I do believe there's a lot of money made available by the financial institutions but like I said, it's purely the access and the requirements that the retailer has to meet in order to obtain that finance." (F)*

> *"There's plenty of money. There's plenty of funding available but how do you get it there?" (F)*

> *"Ja, I mean, look, for established retailers they do have access to finance but finance is not cheap." (F)*

This also implies that there is a **shortage of available finance at reasonable costs** if you cannot meet the criteria the financial institutions would look at (also see section 4.4):

> *"I think there are a number of players but the bigger commercial banks and institutions quite often need collateral and then in that, the smaller end of the market, you don't have the kind of collateral. So the shortage is on the lenders that are willing to look at smaller loans at affordable rates but without the major issues of collateral and the like." (F)*

> *"Can't think of their names but on a daily basis, I'm being offered loans probably at a 25% repayment." (R)*

4.3 Small Retailer's Financial Knowledge

It is obvious that **small business owners are not fully aware of all financial instruments** that might be available to them. The interviewed finance managers think that banks are still seen to be the most powerful providers of finance; alternative funding opportunities through private companies outside the banking sectors and through governmental support agencies are less known to small retailers.

> *"No, it's the financial instruments that are available that a lot of small businesses don't understand and don't know how to actually utilise and that's where we go to the market and we educate them to a large extent." (F)*

> *"For me, the knowledge of what's available (is a big problem). Like I said, I don't actually know what else is available. My dad likes (name of a bank), so you go to (name of this bank)." (R)*

> *"Yes, yes, there are definitely government agencies that do facilitate financial options for their retailers. However, it's very seldom (…) that the retailers are aware of the finance available (…)." (F)*

The retailers tend to agree on the fact that their **degree of information** is insufficient:

> *"Ja, information is very paramount because we always think these things are for big people. They are not for small business and the other thing is we also undermine ourselves. Ah, we are too small, we are too small. Nobody will ever hear or listen to us. So sometimes inferiority complex also plays a very hard role." (R)*

The incomplete knowledge of available finance is one thing and maybe can be considered as something of lesser importance, since transparency can never be 100%. More worrying is that the interviewed banking people, retail experts and financial advisors point out the poor **financial knowledge** of many business owners in the retail industry. One of the major deficiencies might be the widely accepted perception that a business owner should not show his correct earnings in his financial statements.

> *"(…) every SME guy heard somewhere, somebody told him, or his friend around the braai that the best thing to do is you do not [unclear], you should not make money. Your financials must always be in the negative. There must be losses. This is very wrong because from the funder's side, how do you fund a business that's making losses?" (F)*

> *"(…) the problem is that a lot of people that run small businesses run with the mind-set that they need to maximize their return and not necessarily show it on the books. If they do cash sales, I don't think it's properly reflected and so, as a bank, when you get financials of a business and you know, it's not a proper reflection of what's happening in the business, it becomes hard for you to lend to that business." (F)*

One of the retailers implicitly commented on that as well, though it remains unclear if **incorrect financial statements** are a result of a lack of knowledge or may also have strategic reasons:

> *"We're not recording everything the way we're supposed to record it. We are not doing the right transactions where they're supposed to be. So it's such things that make us look like we don't really qualify for funding." (R)*

Another issue is the poor **financial education** of some business owners and entrepreneurs that started their retail business from scratch.

> *"I normally say that the entrepreneurs they've got a good idea, it's the financial skills that's lacking from most of the times if you look at the entrepreneur side that the financial skills is sometimes not really there to do the real planning and also, when to expand, how to expand, not too quick, not too slow." (F)*

> *"I think one of the biggest obstacles is definitely that they have no clue about their numbers." (F)*

> *"But you know, I was just telling myself, I really would love to go to like to a place (…) where it can help me with my, how to handle my business and my financial and all that. I'm really looking forward for that because okay, I know that I am not well educated. I know I stopped my studies at Grade, Standard 8, it was, it's Grade 10." (R)*

Of course, it is understandable that a small business owner is passionate about his business and therefore, often **focusses** on his markets and clients, products, people and processes but not on his financials. The problem is that a bank can't see his passion on an Excel Spreadsheet. Without the appropriate financial knowledge, his ability to access finance (see section 4.4) may be limited even in times when he barely needs it (e.g., to fund growth initiatives).

> *"But I think with entrepreneurs, many times they're so focussed on this plan of theirs, the business that they want to run that they forget to come back to the heartbeat and the financials." (F)*

> *"We don't know how deep the risk is or how far the rabbit hole goes. So an entrepreneur needs to know that a financier would require a few things. So cash management is very important. Reporting financials are very important and then if we need to finance at risk, we would." (F)*

Of course, the financial education of small retailers depends heavily on their former background, and therefore, it is **difficult to generalize** the findings in this respect. But it seems to be true that, the bigger the retailer business is in terms of employees, the more financially educated is its owner.

> *"I knew that when I started, from corporate that the financial side is something that I needed to ensure that I'm legal that I abide by the law and I have quite a lot of experience working with the financial side anyway." (R)*

4.4 Small Retailer's Ability to Access Finance

Overall, as already indicated in section 4.2, access to available finance generally seems to be **a real big problem** for small retailers.

> *"I think with, in the last couple of years specifically, it's been very difficult to get finance for small businesses in South Africa." (R)*

> *"They (the banks) make it very difficult for you. (…) Banks don't want to borrow money to people." (R)*

> *"(Access to finance) is a huge obstacle. Nobody wants to give me finance. When you try to find finance, if you don't have a friend that has money you're not going to get finance from the banks, that's for sure." (R)*

> *"Firstly, I think that the banks would advertise (…) that they are there as a partner for you. When it comes down to it, they are hugely risk adverse." (R)*

Especially **new businesses** that do not have a track record seem to struggle to access finance and funding. The financial experts in our study quite frankly stated the following, and the retailers agreed to this view:

> *"Okay, access to funds, it is a problem. I'm not going to lie about that, for the first year." (F)*

> *"Okay, the challenge with the small retailers (…) is that most funding institutions don't want to touch them. They are high risk and I think something you also know, eight out of ten start-ups are failing and I think with retailers, it's more ten out ten." (F)*

> *"I think if it was very easy (to get capital or to access finance), you'd see a lot more growth in small business." (F)*

> *"Unless you (as a new business) can put surety down, you're not going to get money, no chance." (R)*

The **legal requirements** do not seem to be at the heart of the problem. Of course, banks and other financial institutions are regulated by the *National Credit Act* (NCA) and other legislation such as the *Financial Advisory and Intermediary Services Act*, the *Financial Intelligence Centre Act* or *Basel*. Basically, those rules aim at making the banking sector more transparent and demand from the corresponding institutions to act as responsible lenders. This implies that banks cannot provide credit to businesses that cannot afford to pay it back. They need to do some kind of *due diligence* before they approve credit applications. This also means that it is easier for businesses with a track record to access finance.

> *"It's more, normally the NCA, you know the National Credit Act. You know you need to prove affordability before you can, you need to be a responsible lender." (F)*

> *"Ja, in terms of the NCA as well, you know you need to prove affordability and you can only prove affordability if you've got a good track record." (F)*

"If they've lent you the money and something happens, they're the ones that will have to go and say, "okay, now we accept whatever you offer us to pay" because that's what the Credit Act in essence is saying, is that they've over extended you." (R)

The reason for retailers' difficulties to access financial instruments like loans can partly be seen in the **requirements and standards that are set by banks and other financial institutions**. There seems to be the opinion out there that only the retailers that, because of their healthy business, do not need the banks to finance their growth activities would get access to loans:

"Somebody who's got a very healthy business, who's making good operating profit and has sufficient cash flow, will not be approaching the bank. But those are the requirements that they would have." (R)

"What they do is if you have money they give you money. If you don't have money they give you nothing." (R)

Obviously, as a basic requirement, a business needs to be registered and have a bank account to access finance. But then, next to the usual business documents which include financial statements, overviews of management accounts, tax clearance certificates, as well as CVs of the owners, their personal credit records and a synopsis of the business, providers of finance will ask for the expertise of the owner, a positive track record, a convincing business plan with a projection of cash flow and **underpinning securities**. Specially the latter one makes it difficult for small businesses to get access to finance and to grow, as the following statements suggest:

"They wanted sureties and they wanted someone else to sign surety, which I would have to ask my father or something but he wouldn't do it. It's too much of a risk. So it's difficult. It's not easy to get money from the bank." (R)

"But with me because I had to use this house, I mean if I didn't have the house as the collateral then I wouldn't have got anything, you see. Because I mean when you go to the bank you ask for a loan or something. They will ask for a collateral." (R)

From the viewpoint of small retailers, there is also a more informal hurdle to get access to available finance: A white retailer would need a convincing **Black Economic Empowerment** (BEE) plan in order to increase his chances of a successful application for finance at banks and financial institutions (compare section 4.5). Interestingly enough, this has not been mentioned by a single interview partner from a finance background:

"If you're a white South African without BEE Plan, they don't even look at the business plan. (…) So I was quite surprised and horrified to hear that no matter how good the business plan is, they look at the BEE section and if there is nothing, they move on." (R)

It is obvious that it needs a lot of time to prepare all documents needed to apply for finance, and without the help of external advisors and accountants the owner of a small retail shop will hardly be able to comply with the requirements. This also means that **in order to access finance, small retailers need finance** to be able to pay their advisors. Bank managers and retailers themselves seem to agree on this point, as the following quotes, the first from a finance provider, the second from a small retailer, demonstrate:

> *"The requirements that are needed are way too complicated for a small retailer to attend to themselves and therefore require the input or the assistance by an expert, such as an accountant or a company that is specialising in drafting of business plans. (…) And that is costly itself. It's quite costly. It could end up between 10 000 or even up to 20 000 Rand of costs for the retailer before they even obtain the finance." (F)*

> *"So that's where now you need a professional to do that recording for you, which you don't have that money to pay that professional to do it." (R)*

Another problem seems to be that the requirements to get access to a loan are too **standardised** – everybody is treated the same no matter what his personal background may be. That makes it very hard if not impossible for certain people to get credit via a formal institution, as the following statements, the first from a bank's perspective, the second from a retailer's, prove:

> *"Well, most of our institutions, like banking for example, they treat all customers as if, you know, they come from a developed world. For example, the information that we need for us to process your application, will be the same information say in a first world country, that's the information they would require, which a person from the township would not be able to provide. (…) I'll be the first one to say, look, banks are not doing enough to help especially entrepreneurs from the townships." (F)*

> *"If they could at least have a certain criteria for us, for smaller outlets because they use, I think they use a certain standard requirements for each and every individual, whether you are a big or small business." (R)*

In the opinion of the retailers, banks and other financial institutions might have their preferred industries to do business with. Market segments that are not as popular as others might face especially big hurdles to access finance:

> *"The young people can't afford (to open a business), the bank won't give them money or whatever. Especially in the design industry or an artist. The bank, they don't see it as a financial gain and they're like, 'oh no, artists, oh my God.' " (R)*

Nevertheless, the finance experts identified two reasons inherent to the typical owner of a small retail business that hinder them from meeting the aforementioned requirements: Many of them seem to be **reluctant to take risks**, so they are not willing to provide securities even if they could. And many business owners **do not**

appear to be on top of their financials which makes them dependent on expensive external help in applying for finance:

> *"A lot of them don't have that (financials and the management accounts). A lot of them trade for about three, four years, you know and you ask it from them, they will take another half a year or maybe even more to get it (…)." (F)*
>
> *"So you say, "Okay, well your turnover is 20m and you employ ten people already. You should be able to produce some financials." And they would say, "Yes, phone my accountant." And the accountant will give you a set of financials, which makes no sense because the owner hasn't checked it." (F)*
>
> *"So yes, sometimes the access to funding is difficult and yes, sometimes there is access to funding but the businesses themselves decided not to take that opportunity up, due to not wanting to sign personal surety. (…) A lot of the guys will say, "I don't want to. I don't want to sign personal surety" and then we can't give them the funding." (F)*

Considering the small retailer's perspective, what the banks consider being reluctant to risk, may be needed to be interpreted differently. To some degree, it seems to be the **small business owners' personality, his entrepreneurial spirit** and his strong wish to be independent, going along with an uneasiness to accept paperwork and administrative tasks. Two of the small business owners, when asked why they weren't applying for finance, stated the following:

> *"Because I'm very independent and I don't want the ties. I don't want the attachments. (…) and you probably have to put forward a business plan and a lot of paper work. No, because the less of that in my life the better; it's already too much." (R)*
>
> *"I just hate owing money." (R)*

Another one made clear that, though having a good relationship with his bank, he **doesn't want to be dependent** from them and therefore, doesn't ask for loans but finances his business activities through the cash flow and his own personal capacities.

> *"I'd rather get into my own boat and row my own boat. You've only got one person to blame then." (R)*

There is the common understanding among the interviewees that retailers that just enter a market or that haven't been in business for a longer period of time, i.e. **retailers that fail to provide a proven track record, face the biggest hurdles** to access available finance. The business should be established at least more than one year, some institutions and banks even ask for two years. It is important to note that this is not a requirement that has been imposed by the NCA – it is the bank's own interpretation of the need to provide a proof of affordability.

"So if you're a complete new start up, you're going to find it incredibly difficult. But if you've been able to struggle through and have the persistence and the courage to be successful for two years, you're probably good enough to be successful for the next two years." (F)

"Generally, they'd focus on established retailers. Generally, they focus on clients with a good track record. Generally, they look at people – the owner's behind the business and their track record and their… you know what assets do they have to give the bank some comfort." (F)

Though from the small retailer's perspective, the requirements for finance may not be easily met, the **application process itself**, according to the opinion of some interviewees from the banking sector, is lean and results can be provided in a short period of time – at least when banks and private institutions are involved.

"I think it is an opinion out there that it takes too long. But you will see that specifically for a retail transactional banking (…), where you can do online applications. You get an answer in five days." (F)

Naturally, retailers see this aspect slightly different, often criticising the **time** the banks need to give a final decision on the credit applications:

"If I tell you, it took me 12 months, 12 months to finally get them to agree to loaning me an amount of money that is laughable." (R)

Of course a possible problem during the handling of a credit application could be that the **communication** between the relationship manager of the bank who actually talks to the retail client and the credit manager who finally decides about a possible loan is imperfect or that the relationship manager himself is not knowledgeable about the details of the retail business.

"In some cases the Relationship Managers or the Business Managers are not experienced. So you come to them with a very good proposal for a business but it depends on their understanding of what you're saying because they have to sell that idea to someone else and in most cases, they're not able to do that. Then as a result, the loan is not approved, it was declined based on the motivation written by the Relationship Manager." (F)

Governmental agencies do not seem to react as quickly, and delays in the approval or disapproval of a loan can have far-reaching consequences. Additionally, for the small retailer, it is also not too easy to get access to different grants or loans that have been established to help SMMEs in SA to grow, and it is not always transparent who can apply and what is needed:

"Well, ever since I've come back there's been lip service in terms of helping the SMME and the SME Market. There have been several different grants or loan – the MIP, the PIP, the MPEC, the National Empowerment Fund, NEF, blah, blah, blah. The actual application process to get everything up and running can be incredibly tedious." (F)

"The mind-set of an entrepreneur is seeing an opportunity, taking the risks and going with it. But it's normally time sensitive; be it weeks or be it a month or two. So if an application process takes six months to fulfil, often the opportunity has dissipated." (F)

"So keep in mind South Africa has over 70 different programmes available and I'm sure you've seen that each programme has 20 pages of rules and regulations. To make a little bit more fun, one page of exemptions. So you go through it, you say, 'it fits' and then you say, 'no, I don't fit.'" (F)

The interviewees identified some **other reasons why small retailers would not even apply for finance**. Some of them – more likely those with a more informal background – might generally feel uncomfortable to approach banks, others might be expecting not to get what they are asking for and therefore, do not want to invest time in something that, in their eyes, won't lead to anything.

"The biggest obstacle is maybe still that if I start a small, small business, I'm scared to go to the bank." (F)

"Banks are terrible places, we all know that, don't we? Isn't that the truth?" (R)

"I would say for the past ten years, banks of course, not the most wanted or the most friendliest people that you can come across." (R)

"Everybody is saying you can't get a loan to start a business." (R)

"You know sometimes when you know that you are not in a good, in good books, you also don't bother. Anyway I know that I'm not going to get it anyway, you see." (R)

Last but not least, the **awareness of alternative funding** options is still quite low, as the following statements of a finance manager shows:

"So historically speaking, the banks advertised on TV very heavily. So even, even me, we are conditioned to think that my first point of contact and my only point of contact is me going to the bank and asking for finance. (…) And if Mr Big Bank says no that's it. There is no option B." (F)

4.5 The role and performance of governmental support agencies

Overall, the role of **governmental support agencies** like SEFA (Small Enterprise Financing Agency), SEDA (Small Enterprise Development Agency) or Industrial Development Corporation (IDC) in developing and promoting small businesses is seen to be crucial:

"But they definitely do have a big role to play and the nice thing about it is, they have agencies that provide funding but they also have agencies that provide business development." (F)

But although the experts told us about the general importance of those support agencies and admitted that there have been many improvements made regarding the internal organization of those entities, they also did not spare them from **criticism regarding their efficiency and effectiveness**:

> *"So I think that's more of an internal problem. I don't know, I cannot speculate what it is. Perhaps, it's infrastructure, systems or staff training. It could also be marketing but regardless, I think they have a huge, important role to play and they do have the means to do it and I think there have been improvements." (F)*

> *"You're faced with government organizations that have been born out of the actions of whatever our past history has been and people that may not be competent enough to push the applications through at the speed that it needs to go through. We've had a lot of discussions with people within the Cape Region as far as the government is concerned and there is an initiative to speed up that process." (F)*

> *"I think the issue is if you do an application, I mean entrepreneurs will tell you it takes forever. It takes six months you know. If we get an application in, entrepreneur wants his money yesterday and that's for us, for bank, for anybody. So taking six months or longer to get funding is not going to cut it you know." (F)*

> *"(…) it's the people that are actually processing the applications that are paper pushers. This is our experience. They are paper pushers, they are just ticking a bunch of boxes." (F)*

Also the small retailers did not spare with **critics of governmental agencies**:

> *"I've tried to get funding from the DTI but it's quite a process and there isn't really money there. It's like they list all the things that are there but then it's not really there. And they haven't allocated it yet and then it could take a few years and then it's too long." (R)*

> *"What we did once, was we wanted to do a trade show through the DTI but it was like a manuscript this thick that you had to read and I was just like, didn't have the patience." (R)*

Among white retail business owners, there is also the view that applying for finance at governmental support agencies is **useless if you are not part of a certain race**. Asked for the reasons why they wouldn't apply for financial support at the SEFA or at other governmental support agencies, two small retail business owners stated the following:

> *"I don't think you can. It is a whole process and I also think that there's quite a racial issue. (…) The money is allocated to certain races." (R)*

> *"So there's always the catch no matter how good it sounds. (…) So ja, there's always, everything is a catch and the only thing that I can say from the heart, it's either you're too white or you're too black or you're too coloured and that's unfortunately, that plays the role in where you get in this government.*

It is though interesting that this perception is **not always based on own experiences but on expectations** on what a possible result of any applications for funding at governmental institutions would be:

“ (…) they basically said that I’m the wrong colour, I’m the wrong age and I’m the wrong sex. (…) – You never tried? – No. (…) I looked at it and made my own decision that the chances of us getting anything from them would be very, very slim (…).” (R)

4.6 Small Retailer’s Relationship with banks and others

From the experts’ perspective, it seems to be quite important to build up a **relationship** with small retail business owners. Some of them see the retail segment strategically as their target market that provides an opportunity for future growth, especially when the advisors succeed not only to provide loans to those retail clients, but to move over all the commercial business as well. So they will even invest in training and mentorship of their clients from the retail business. Some see it more practically: by having a good relationship with clients, the bank or financial institute will be alert earlier if there might be problems around the corner.

“Look, small businesses generally as a segment is crucial for us. (…) if we do not become more famous for development of small business and entrepreneurs then our future – that’s where the jobs are created.” (F)

“We believe that a small business is the growth engine for South Africa, it creates employment. (…) I think key for us is to partner with small businesses (…).” (F)

“We, equally, give a lot of non-financial assistance in terms of training and tools in terms of helping them in our enterprise development hubs and centres.” (F)

“And a lot of the time we do, we sit down with the business owner and you can look a man or woman in the eye and you can know if things go pear-shape is he going to move heaven and earth to pay back his creditors or is he going to say, ’the law allows me to liquidate my company and therefore I will.’” (F)

“We want to see what the person behind the company looks like. This tells you a lot about the business and about the guy that’s driving the business.” (F)

However, the large number of applications for finance and the strong rise of, and new opportunities provided by, electronic data processing within the past years may have led to many decisions not needing a **human interaction** anymore, which maybe leads to a more objective, yet less personal, relationship between banks and financial institutions on the one side and their retail clients on the other side. The “gut feeling” appears to play a smaller role in now-a-days than before.

“You know when you give someone like that 300 000 and, what happens? When you give three million of those, 300 000 Rand what happens? You’ve suddenly got a monster you’ve got to manage but you’ve got to do it systemically. You can’t do it if you’re trying to provide a face to face relationship with every small retailer.” (F)

“And their business model is now one which is quite automated and gone are the days where you have a personal bank manager.” (F)

Of course, the increasing automation of the application process does not inly have advantages, like an almost immediate reply to an application, but also **negative**

consequences, as the following quote of one of the interviewed retailers brings to light:

> *"I think meeting personally with a representative, setting up an appointment with somebody rather than doing things on email. For me, it would work better. (...) But the thought of having to go through that whole process and submit all your confidential information over the internet, I would rather do it in a meeting face to face with a person, a human being." (R)*

Overall, from the perspective of most retailers, a **good relationship** with banks is essential:

> *"The nice thing about the bank (is), they will always say if you get a good relationship with a person, they'll say, "okay, listen if you can do this and this. If you can get a letter from this company and that company, then we can see what we can do." (R)*

But some of the small retailers think that the banks should be **more pro-active**:

> *"So over the past three years we've approached the bank on opportunities for funding and apart from taking a very long time to get back to you and not necessarily being very proactive, if the business does not follow up. If we are not desperate or keen you don't hear from them." (R)*

Generally, by looking at the limited sample of this study, one could get the impression that the relationship between retailers and **other financial institutions** are more intense than those between retailers and banks.

> *"So we know our clients' birthdays. We know their business. We're there. The clients have us on speed dial." (F)*

4.7 Proposals for improved access to finance

The interviewed finance providers and finance seekers provided plenty of ideas of how access to finance could be made easier for small retailers. A first group of recommendations concerns the **application process** and the **methods that are used by banks to prequalify the retail business**. There is the view that this must be done more holistically, maybe supported more strongly by innovative information systems, and should contain a strong view of the business owner's personality and capabilities.

> *"So you know, how do we confirm your status in your community, are you trusted? Are you not trusted? Would that give us a better reading on your repay ability or propensity to repay it? How do you create partnerships versus pure funding models?" (F)*

> *"I do think we need to create more of a digital environment because the costs of face to face business is too high. (…) I think we need to create a far different digital solution for small entities to access a trusted environment by revealing more of themselves." (F)*

"Or maybe try something whereby they could do a project where they could be physically involved in a business before they make a decision. At least to have an understanding of how the business operates instead of judging from the paper work." (R)

Other recommendations on what banks could do concerned the sharing of risks in **commonly managed funds**, being more flexible on the **conditions of loans**, finding ways to better **understand clients' needs** and **accompanying and mentoring small retailers more intensely** during the period that is needed to pay back loans.

"That's where I think more and more of this is going, that we can create a pool of funds or a fund of funds, where you share the risk; no single party has to take the full risk. We may take the primary loss on the loan but we could sell it down." (F)

"Pay us 5% of your receipts until your loan is repaid, is a better answer for a small retailer than pay us R5000 a month until your loan's repaid." (F)

"I mean every bank will say, 'Our door is open.' (…) What does that mean? Have you looked at yourself from that community? They just see this big bank and they see people who don't understand their needs." (F)

"So we will take him by the hand and lead him through the process for the full five years." (F)

The above mentioned commonly managed funds could, according to a view of one of the interviewed experts, be supported by **government**:

"Maybe there should be a specific fund by government you know, where maybe there's tax benefits to companies to put specific funds aside to develop young entrepreneurs." (F)

But of course, the experts are quite clear that there is a **thin line** between making funds more accessible and being irresponsible with the lending:

"And I think with the other thing that we must look at is how do we get the state institutions, not to loosen their procedures, but to make it more accessible." (F)

Government should also look for **new ways to support** small retail businesses. The following quotes give examples of what the state could do, other than providing funds:

"I think the state needs to play a bigger role. The Turkish Delegation that was here for small businesses, according to them, they take 4000 small businesses or potential businesses into a development programme and about 400 of them will actually get into the programme. But the moment (they are selected), they're guaranteed certain things by the state." (F)

"I would say if government can provide a very simple set of rules with a simple guarantee to say, if you lend to a client, to a retailer, up to say R100 000 and you can show that you've done a proper assessment and he has at least employed say five people, for job creation because that's what we're trying to do, and you haven't charged them too much interest and you've done everything you can to recover the money, then we will take a last loss as government. So you can make it the last loss guarantee." (F)

"So things must be more transparent and the government needs to give a support system, where you can actually go, where you can find out, where you can enquire, where you can be helped." (R)

There was also the view that small retail businesses should change their **business strategies** in order to make it easier for banks and other financial institutions to give them access to finance. One recommendation was to establish stronger bonds between retailers themselves, in the form of **partnerships or industry cooperatives**.

"I think having some other, making sure that they have a buying power, put them together in groups that they buy together, would increase their margin and gives them easier possibility to grow." (F)

Along with the proposed need to build up more durable bonds with their peers goes the request that retailers should focus more strongly on their individual **relationship with their suppliers**. Maybe not all retail businesses have understood that their suppliers do not only play a major role in terms of supplying them with the right product at the right time, but also in financing their business activities:

"But in my humble opinion I think that the first place to look would be to start having a better relationship with whoever is supplying you the tools." (F)

A last area of improvement concerns the **marketing** of available funding:

"I think more transparency from the banks or from the financial institutions like Khula Enterprise Funding and the IDC, of how to access capital, what do they look for. Maybe put together some examples of successful applications for funding." (F)

"From my view, I think as financial institutions, we need to inform more. We need to advertise more about what is available. Let's eliminate the level of discomfort." (F)

"I think with the proper marketing (access to available funds could be improved) whereby we get informed more about it because when you're informed you can make an informed decision and people don't know that these facilities are accessible. But it's because we haven't been properly informed about it." (R)

Some of the interviewees see the small retailer's general financial knowledge and ability as one of the most decisive hurdles to growth (see section 4.1). In line with that, the finance and retail experts also see the need to **train and educate** the small business owners not only in financial matters, but also in general business knowledge. Retailers tend to agree with that: Some of the interviewed retail business owners also to detect room for improvement in the area of their own financial education.

"Well, the retailer has got to be educated as to what their options are. I mean that's the first thing. So getting a good advisor in that regard or a mentor in that regard would be the first thing." (F)

"I think number one is definitely trained people; offer them some sort of mentorship, especially so that they learn how to have their numbers in control. (But) I'm still worried about giving these small retailers really a loan because I think with this ridiculous high interest rate, the chances you are killing them, are bigger than with assisting them. I think showing them how they can grow their income organically is maybe definitely the easier way." (F)

"But my knowledge to accessing finance is a problem. I don't come from a financial background." (R)

Quite a few of the interviewed experts stressed the importance of establishing a **business angel network** in SA. This seems to be of high importance, especially when considering that new retail businesses, compared to established players, have limited opportunities to access finance because of their missing track record:

"So for new businesses it becomes very difficult. That's why that Angel, you know Angel Investments are so important." (F)

"And so if you have a good Angel Investor Network there's people that are willing to risk their capital and they may get a higher return but they may not get the capital back and in South Africa you don't really have that Angel Network." (F)

"I mean, I think an Angel Network, you know, Angel Network, if you can utilize technology so Cloud Funding has become quite a big thing overseas [unclear]. I don't think Cloud Funding has taken off in South Africa yet." (F)

Finally, there was also the view that successful SA business leaders should be more strongly engaged in **mentoring programs** and governmental efforts to help small retailers:

"So my position on this would really be is to say that if big business and big business leaders would mentor the smaller guy as a social responsibility or has a pay back to having, they've achieved whatever they've achieved, they could get into the government organizations and sort of speed up those processes and give them good advice." (F)

4.8 Summary

The results discussed in the previous sub-sectors indicate that the views of finance providers including experts and potential finance seekers with a retail background on the accessibility of finance for small retailers are similar in some points and different in others. Table 4, in an attempt to boil down the opinions of the interviewees to the major arguments and assigning them to the two perspectives, provides in a nutshell an overview of the insights of this study. Only the suggestions on what should be done to improve the accessibility of finance for SA small retailers have been merged to a common statement in the table. The latter is assigned to the three major stakeholders that are relevant in this matter, that are banks and financial institutions, SA SMMEs and government.

Table 4: An Overview of similar and different views of finance providers and seekers

Question	**Finance Providers**	**Finance Seekers**
Is finance a major growth obstacle?	Access to finance is a problem for start-ups. For established businesses, access to finance is not a major growth obstacle.	Access to finance is one of the most important barriers to future growth.
Are there enough finance opportunities available?	There is plenty of finance from various sources available.	Knowledge about available finance is too limited to have an overview of available finance opportunities.
Are there limitations within the education of small retailers that hinder them to access finance opportunities?	The financial knowledge of small retail business owners is generally very limited, which often leads to wrong decisions about how to run the business.	The smaller the business is, the more limited is the financial knowledge of the owner. Financial knowledge would be something "nice to have", but entrepreneurs can't be finance experts.
Are the standards set by finance providers to access finance too high for finance seekers?	It is true that many standards have to be met, but this is because banks have to be responsible lenders.	Too many requirements limit the access to finance, especially for start-ups. Specifically the bank's need for collateral limits the access to finance.
Are there limitations within the application process that hinder finance seekers to access available finance opportunities?	The application process for bank loans is lean, and results can be provided quickly.	It is lengthy, admin intense and complicated.
What role do governmental agencies play in financing growth of small retailers?	They definitely play an important role.	If managed properly, they could play an important role.
How do governmental agencies perform?	Many things have been done, but there is still room for improvement.	They act bureaucratic. Access to public funding depends too often on one's colour, gender and age.
How can the relationship between finance providers and seekers be described?	Small retailers are growth engines and therefore an important market. Financial institutions see themselves as partners of the retailers.	A good relationship with finance providers is essential, but it all depends of the bank's local relationship manager. Often, banks are not trusted.
What can the different stakeholders do to improve the accessibility of finance?	<u>Banks and financial institutions:</u> • Develop new approaches to pre-qualify retailers during the application process • More strongly adapt to the needs of small retailers, e.g. by developing tailored, innovative products <u>SA SMMEs</u> • Improve education and financial knowledge • Improve relations with suppliers • Build up industry partnerships <u>Government</u> • Improve marketing of institutions and of available funds • Find ways to support training and education of small retailers • Support the establishment of mentoring programs and of a strong business angel network in SA • Provide guarantees to finance providers that lend to small retailers	

CHAPTER 5. CONCLUSION

Although access to finance may not be the only growth obstacle for retailers in SA, according to the results presented in this report, it is surely a serious one. In fundamental nature, access to financing opportunities for SA SMME retailers is still limited - even from the perspective of interviewed bank and finance managers. Some of the major reasons for this can be attributed to the following factors:

- Numerous aspects inherent to small retailers can be mentioned that limit their ability to access available finance. One of them is that small retailers often lack the financial knowledge that would make it easier for them to access available finance. This concerns the general financial abilities of small retailers as well as their knowledge about available finance.
- Banks need to be responsible lenders and therefore, when it comes to granting credit, they impose many requirements. Especially new retail businesses that do not have a track record of at least 12 months, if not 18 months, of trading face problems to meet bank standards. It is almost impossible to get finance from the banks if the business is a start-up and the entities' owners cannot offer personal securities.
- The chances for successful credit application depends heavily on available information about prior business success (e.g. financial statements, track record of the owner). The future perspectives of the business and the personal capabilities of the business owner are still less relevant for a successful processing.
- Alternative financial institutions and governmental support agencies play an important role in financing small retailers. The processes of the latter organizations still leave room for improvement.
- Small retailers heavily depend on the goodwill of their suppliers to grant them attractive terms for payment.

Overall, the findings shed some interesting light on the barrier of “access to finance”. In core, there are small signals that, if financial institutions and governmental agencies just make money easier available for SA SMEE retailers, it may not result in further growth of the national economy of South Africa but in economic chaos. In the same vein, SMMEs' management often lack the financial knowledge to make the right business decisions. Hence it may definitely be the case that since these business entities (in general) do not have proper paper trails, they are regarded as risky to many financial institutions.

CHAPTER 6. LIMITATIONS OF STUDY AND RECOMMENDATIONS FOR FURTHER RESEARCH

Though the study presented in this report was able to meet most of the research objectives (see Appendix D)[3], it contains, due to the restriction of the available budget, some limitations that need to be considered. In addition to the problems experienced by most qualitative research, like the lack of representivity or biased interpretation of the researcher (Snape and Spencer, 2013, p. 4 f.), there are at least four further shortcomings that are specific to this research design. First of all, the majority of the interview partners, both on the side of finance providers as on that of finance seekers, were based in the Western Cape. Therefore, the study cannot claim to include relevant views from a holistic SA perspective. Second, retailing is a very broad field that needs to be divided into numerous subcategories (Zentes *et al.*, 2012, p. 3), each of which follow different strategies and have very different customs, rules and regulations. A study that is as broad as the one represented here can never claim to explain "the retail industry" as such. Especially when regarding the access to finance, one can assume that, for example, a liquor retailer in the townships faces completely different problems than those experienced by an electronic retailer in the heart of the city (e.g., Berger and Udell, 2004, p. 2). Third, most of the managers interviewed and representing the perspectives of finance providers possessed high level positions within their organizations. Since it can be expected that credit applications from small retailers are most likely evaluated at a lower hierarchical level, an additional source of information has been neglected: branch managers or even administrators of financial institutions. Last but not least, not all retailers interviewed were actually in need of finance. Since it can be argued that small businesses in need of finance have different characteristics and views on the accessibility of finance than firms that don't need finance (Cole and Sokolyk, 2016), future studies should pay more attention towards the selection of their sample.

With the above as foundation, a major task is identified for future studies: With the insights into the different perspectives of finance providers and finance seekers gained by this study, there should be enough information to be able to develop a

3 Out of the six research objectives named in Appendix D, in the opinion of the authors, only the first one ("to identify the availability of finance for SMMEs in the retail sector") was not fully met. It was a conscious decision not to spend more time on the identification of financing sources because this kind of information can easily be found at internet sources like "finfind" (https://www.finfindeasy.co.za).

suitable questionnaire that could be used in a quantitative study, representative of a specific retail segment within SA. This questionnaire could then be used in different segments to compare the individual needs within the industry. Considering a quantitative analysis, based on the results of the study presented in this report, we offer the following empirical propositions to be analysed:

- Small retailers' ability to access available finance depends on his knowledge about available finance and his general financial abilities.
- Small retailers' ability to access available finance depends on his abilities to build up and maintain relationships with the financial community and with suppliers.
- Small retailers' ability to access available finance depends on his attitude towards growth.
- The effectiveness and efficiency of programs initiated by governmental agencies influence small retailer's ability to access available finance.

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APPENDICES

Appendix A: Interview Guideline for "Finance Experts"

Questionnaire „Finance Experts"

Name:

Organization:

Date:

Time (start):

Time (end):

➔ Introduction of the interviewer and of the research project

1. Could you please describe the company/institution that you work for?

2. To what degree does your company/institution deal with small retailers?

3. In your opinion, what are the major obstacles that hinder small retailers in South Africa to grow? (If "finance" is mentioned, go to 5. If not, continue.)

4. To what degree is, in your opinion, the access to external finance a growth obstacle for SA small retailers?

5. From your standpoint, is there plenty of finance available for small retailers, i.e. lots of sources and plenty of money?

6. What finance instruments are financial providers offering to small retailers in SA? What additional sources of finance exist for small SA retailers?

7. What are the specific requirements set by finance companies for each of the instruments/sources you mentioned in question 6?

8. To what degree are those financial instruments and sources targeted to the needs of SA small retailers (or are the same instruments offered to everybody)?

9. Are there any limitations or standards set by your institution or by other finance providers that make it difficult to apply for finance by SA small retailers?

Appendix A: Interview Guideline for "Finance Experts" (continued)

10. Do you know of any governmental or legal issues that limit application for finance by SA small retailers or make it difficult for them?

11. From your experience, what factors inherent to small retailers in SA limit them from accessing available finance?

12. In your eyes, how could it be made easier for SA small retailers to get access to finance?

13. In your opinion, which is the biggest problem for small retailers –
    - availability of finance
    - small retailers' ability to access finance
    - their knowledge about available finance
    - their general financial knowledge and ability

Appendix B: Interview Guideline for Retailers

Questionnaire „Retailers"

Name:

Organization:

Date:

Time (start):

Time (end):

→ Introduction of the interviewer and of the research project

1. Could you please describe the business that you are in and the company that you work for/that you manage?

2. Could you describe your responsibilities in this company? What do you personally have to take care of?

3. In your opinion, are there any major obstacles that hinder your business to grow? (If "finance" is mentioned, go to 5. If not, continue.)

4. To what degree is, in your opinion, the access to external finance a growth obstacle for your business?

5. From your standpoint, is there plenty of finance available for you as a small retailer, i.e. lots of sources and plenty of money?

6. How do you finance your business activities, e.g. buying goods, paying employees, investing in new resources or financing growth initiatives? What finance instruments do you use in your business?

7. Did you ever apply for any kind of financial support at banks, other financial institutions or governmental agencies? If yes, what have been your experiences? If no, why haven't you?

8. Are there any limitations or standards set by banks, governmental agencies or other finance providers that make it difficult or impossible for you to apply for financial support?

9. Do you know of any governmental or legal issues that limit your ability to apply for financial support?

Appendix B: Interview Guideline for Retailers (continued)

10. In your eyes, how could it be made easier for businesses like yours to get access to the various sources of finance?

11. In your opinion, which is the biggest problem you experience in financing your business? –
    - availability of finance
    - small retailers' ability to access finance
    - their knowledge about available finance
    - their general financial knowledge and ability

Appendix C: Letter of Recommendation

Wholesale&Retail
LEADERSHIP CHAIR

1 March 2016

To whom it may concern

Please be advised that Professor Holger Schmidt has been contracted by the Wholesale & Retail Leadership Chair (WRLC) of Cape Peninsula University of Technology (CPUT) to do a research project entitled "Financing for SMME start-ups, and expansion for established SMMEs, in the retail sector".

The aim of the study is to investigate in detail the nature of the financial problems that limit SMME start-ups and growth in the retail sector, including access to finance, availability of finance, financial ability and skills, SMME perceptions of these and what can be done to minimise 'finance' as a limitation for SMME retailers..

We would appreciate your giving your full support and co-operation to Professor Schmidt and participating fully in this study by agreeing to participate in any relevant interviews or surveys and providing as much of the needed information as you can.

Should you need any further information or confirmation, please visit our website at www.wrlc.org.za, or alternatively contact myself (masonr@cput.ac.za) or Ms Samantha van der Merwe (vandermerwesa@cput.ac.za), or by telephone at 021 460 3973.

Yours faithfully

Professor Roger Mason
Wholesale & Retail Leadership Chair

Cape Peninsula University of Technology

RETAIL BUSINESS MANAGEMENT DEPARTMENT Business Faculty

Postal address PO Box 652 Cape Town 8000 South Africa
Physical address Room 2.2, Commerce Building, c/o Keizersgracht & Tennant Street, Zonnebloem
Tel 021 464 7260 Fax 086 680 9632 Email info@wrlc.org.za www.wrlc.org.za

Appendix D: Project Specifications

Wholesale & Retail Leadership Chair

"Collaboration opens the window to a world of opportunities"

Project Research Specification

Project Number: 2015/14

Research Title:

Financing for SMME start-ups, and expansion for established SMMEs, in the retail sector

Research Objectives:

Almost all SMME research shows access to finance as the main factor limiting SMME start-ups and growth of SMMEs. However, this problem is not examined in any detail, and therefore this study will aim to:

- Identify the availability of finance for SMMEs in the retail sector (Identify financing sources and their requirements for SMME retail businesses).
- Identify both real and perceived factors limiting retail SMMEs from accessing available finance.
- Identify limitations or standards set by finance companies that make it difficult or impossible to apply for finance by retail SMMEs.
- Identify factors inherent to retail SMMEs that limit their access to finance, e.g. knowledge of available finance, ability to develop business plans, ability to complete applications, etc.
- Identify any governmental or legal issues that limit application for finance by retail SMMEs
- Develop recommendations as to how retail SMMEs could get access to finance.

Research Outcomes:

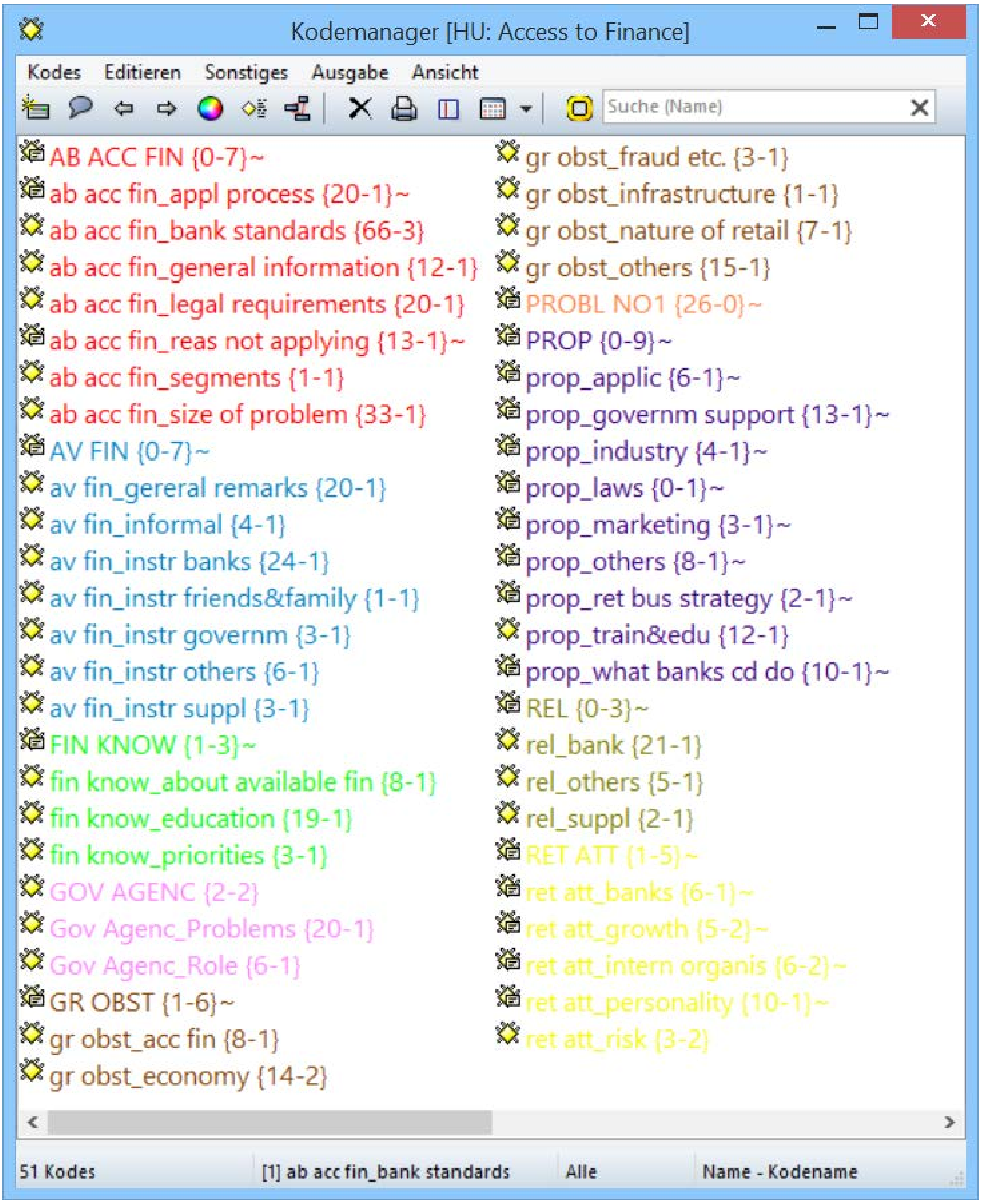
1. **The research report will:**
   - Spell out the answers to the above objectives
   - Identify actions by all relevant role-players necessary to improve access to finance by retail SMMEs
   - Identify possible W&RSETA interventions for support of retail SMMEs in their finance applications.
   - Take the form of a journal article of +- 7-8000 words, plus a summary of about 4 pages highlighting the main and most important aspects of the report

2. **The research methodology will include:**
   - An extensive literature survey covering relevant literature, including international and local literature on access to finance by SMMEs.
   - Secondary research of available sources of finance for SMMEs and policies and procedures and legal issues relating to access to finance
   - A sample, representative of the SA retail SMME sector, to identify attitudes towards, and knowledge about, finance access.
   - Interviews with relevant officials from relevant financing bodies, including governmental bodies and banks, and any other knowledgeable experts
   - A workshop/focus group to review and critique the research, prior to approval of the final draft. A copy of the amended draft should be sent to focus group members to obtain their agreement to the changes made as a result of the focus group's suggestions.

3. **The researcher will:**
   - Understand that the proposal will have to be approved by the CPUT Ethics committee and that all research must be conducted according to the CPUT Ethics policy.
   - Provide evidence of the final report/paper having been professionally edited
   - If applicable, provide evidence from a statistician that the statistical methods have been checked
   - Submit the report for assessment by Turnitin, or understand that it will be assessed by Turnitin.
   - Submit reports in electronic format plus a hard copies for evaluation by WRLC before publication.

Retail Business Management Department – Business Faculty – Commerce Building - Cape Town Campus
Room 2.2 – Tel: 021-464 7620 – Fax: 086 680 9632 - www.wrlc.org.za - vandermerwesa@cput.ac.za

Appendix E: The Coding Scheme



Appendix F: Ethical Clearance

Cape Peninsula
University of Technology

P.O. Box 1906 • Bellville 7535 South Africa •Tel: +27 21 6801680 • Email: saliefa@cput.ac.za
Symphony Road Bellville 7535

Office of the Chairperson Research Ethics Committee	Faculty: **BUSINESS**

At a meeting of the Research Ethics Committee on 18 May 2016, Ethics Approval was granted to Dr Holger Schmidt for research activities Related to the: WRLC (Wholesale & Retail Leadership Chair) within the RETAIL BUSINESS MANAGEMENT DEPARTMENT, Business Faculty at the Cape Peninsula University of Technology

Title of Project:	Financing for SMME start-ups, and expansion for established SMMEs, in the retail sector Supervisor: Prof R Mason

Comments:

Decision: APPROVED

Signed: Chairperson: Research Ethics Committee	18 May 2016 Date

Clearance Certificate No | 2015FBREC361