

Access to credit still easy in South Africa - World Bank report

According to the World Bank's 2013 Doing Business Report, South Africa has been joint-ranked, along with Malaysia and the United Kingdom, as the easiest country in the world for small and medium-sized enterprises (SMEs) to access credit.

Gerrie van Biljon, executive director of Business Partners Limited, says that this will be the third year in a row that South Africa has achieved the ranking and that that it is a very encouraging sign for small business owners locally.

He says that there is however evidence that a lack of SME financing still exists, despite the reported easy credit access. "Access to finance remains the number one hindrance for SMEs, regardless of this high rating. This is most likely due to the fact that SMEs are unsure of how to apply for finance, or that they do not qualify for the type of financing that is available. It is therefore of utmost importance that SMEs understand the stringent credit conditions that need to be fulfilled to obtain financing."

Knocking on the right door

He explains that financiers have their own focus areas, exclusions and financing criteria and that entrepreneurs often get frustrated when their application is rejected. "When this occurs, entrepreneurs need to question whether they are knocking on the right door."

Van Biljon says that the expectations of those seeking finance and those offering finance are often miles apart. "Entrepreneurs are by nature optimists and pitfalls and risk factors are therefore disregarded or ignored. They also often believe that money is the magic wand to success, although it is a means to what may lead to business success. However, it is the entrepreneur that is key to business success and many inexperienced entrepreneurs will therefore fail, despite the sound business concept in front of them."

Access to financing can potentially be a critical tool in determining the success of an entrepreneur. "Financing is often the necessary catalyst that enables SMEs to reach their full economic potential." However, entrepreneurs should proceed with caution when evaluating their financing needs. "Financing can potentially damage a business as much it can provide boost. It is essential that SME owners fully analyse their financing needs and establish whether the expected benefits exceed the cost of securing financing. It is also critical that SMEs ensure their businesses don't become over-leveraged, which could hamper business results."

Uncertainty in the market

Van Biljon says that entrepreneurs are currently hesitant to commit themselves to a financial arrangement. "With the uncertainty in the market, poor trading conditions and the global economic crisis, taking up further debt could be risky. "Entrepreneurs are very confident about their own trading environment and feel that have some control over their destiny, but are less confident when it comes to the macro environment, over which they have no control."

Should an entrepreneur consider finance, planning and preparation is vital. "The challenge is to convince those with the funding available to part with it and trust it in the hands of the entrepreneur. The financier also wants comfort that the money will flow back and not be lost in the process. Because South Africa is one of the easiest countries in the world for SMEs to access credit, business owners need to ensure that they are taking the correct steps when applying for credit," concludes Van Biljon.

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