

Given Mpho Phaladi is the founder of REGIVE Holdings, a Pan-African multimanager with a primary focus in alternative investments.

Khwebo asked him about why he thinks SME struggle to attract funding and what could be done to correct this.

Q: What is your comment to the view that bad financial management rather than indifference is the reason for lack of SME funding?

A: Lack of finance management is a result of lack of discipline. It is crucial for any business to keep record of their financial affairs and take a dipstick analysis of their finance monthly and/or quarterly in order to address any financial leakages or put a concerted effort to drive the revenue up. It is a lesson one had to learn very quick, because the consequences of not managing your finances may be dire.

The way you manage your R1 000 worth of a business is the way you will manage R100 million worth of a business. "If you're faithful with little things, you will be faithful with large ones..."

Q: Former Nafcoc president Lawrence Mavundla once remarked that SA spends more money on social grants than it does on funding SMEs. Do you have a view on this scenario?

A: Government is such a huge "social enterprise". There is a social investment that brings social cohesion, however with no tangible profit and this is what spending money on social grants is all about. But government is also an enterprise because it needs to create an environment for SMEs to thrive that in

turn create jobs for the masses and also contribute to the fiscus through tax payments.

Q: What are the creative ways of attracting finance for SMEs in South Africa?

A: It is human nature not to wholeheartedly support the business that may be your biggest competitor in future. Big firms are quick to buy SMEs they have been supporting just before they blossom to stifle competition.

In order to avoid this it is for big firms to support companies that are not in their sector and pave the way for them to succeed through financial support, sharing of contacts, pro-bono services and/or any other means required to make the business a success. Entrepreneurs should start looking for enterprise development assistance from industries they are not directly participating in.

"Build your business as an asset through funding"

Contrary to service companies, SMEs that are producing tangible products should quickly strengthen their balance sheet by acquiring assets with the money they receive from the funders. This is more like collateralizing the capital (mainly loan) you received to de-risk the funding. For an example of SMEs in a farming industry, prioritising a capital

received to buying the land and movable assets than continuing to rent is more appealing to investors.

"Have honest conversation with your funders"

One of the biggest burdens every entrepreneur or SME has had to carry is the bad credit record, particularly at the beginning. It is important to disclose such information and put it into context to potential investors. Be clear on what exactly will the funding be used for and with proper timelines. Have honest conversation with the funders and also heed to their counsel. This will increase anyone's chance to attract capital.

Q: Who can SA learn from?

A: Our problems are unique because of the apartheid legacy. We have to unlearn lots of things on how to relate to money, and learn new things regarding business. The biggest mistake was to retain the financing model that was setup with exclusion and segregation in mind and bring it to this new democratic dispensation.

SMEs financing strongly depend on debt instruments, banks have onerous demands that cannot be met by many SMEs. The best way is to move away from the bank-centered financial system and provide alternative avenues with a



patient capital. This will break monopoly in the economy and result in an inclusive and competitive economy.

Q: Why haven't South African policymakers not adopted models that work elsewhere?

A: We are stuck between a developed and a developing economies. We may have been very fortunate to build and maintain the infrastructure we have to date, which is not the case to many countries particularly in Africa and in countries that received independence way before us. However, people on the ground are facing the challenges similar to other frontier markets. The concept building a middle class is a flawed and a façade to give people a false hope.

Q: What, if anything, is unique about the SA SME sector?

A: We have many Vuyos (big dreamers) that at times do not want to put an effort to build solid enterprises. Patience must be preached that it takes time to build a solid business.

There are just too many service companies and less of industrialists, this can be attributed to the tender systems that has been favourable to such services. We have build SMEs with tenders in mind, which can be catastrophic over time. We have to think beyond the tender-preneur.

Q: What and who do you think should be leading the thinking around new and creative ways of helping SME access funding?

A: Board of trustees, asset consultants and asset managers should be part of this conversation in creating SME funding model that is parallel to the current bank-centralised model.

Q: How would you rate the work of state development finance institutions in helping SME access finance?

A: I think these state development finance institutions have done fairly well under current circumstances. However they are not talking to each other and their objectives are overlapping and at times not clearly defined.

Scale is everything when coming to finance, it is clear that these institutions should come under one umbrella supporting businesses at various stages of the SMEs. There must be a fair balance between equity funding and debt funding. There must also be a distinction between funding for starter-ups and SMEs looking for growth funding.

Q: What should be done to fix what is wrong?

A: Politicians should not be allowed to be in business while still at the office.

More section 12J investments (a type of venture capital investment) should be encouraged. section 12J investments should not just be about people and companies seeking tax relief, but more about creating a pool of capital to invest in SMEs.

Bad credit record of directors and SMEs should not have a material impact in accessing the capital as long as the funders are empowered to have powers in how the capital is being used going forward, including access to bank transactions. Creating special economic zones should be encouraged for SMEs through tax incentive and government infrastructure support.



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