



OSIBA HOLDINGS CC
Registration No. 2009/100041/23
Director: S Bukula

Ground Floor, Block F
The Palms Office Park
391 Main Avenue, Ferndale
Randburg, 2194
South Africa

T: +27 11 326 4082
F: +27 86 510 5716
E: info@osiba.co.za

The Committee Secretaries

Standing Committee on Finance (SCOF)

Parliament of the Republic of South Africa

Attention: Ms Teboho Sepanya (tsepanya@parliament.gov.za)
Mr Allen Wicomb (awicomb@parliament.gov.za)

SUBMISSION ON PUBLIC HEARINGS ON FINANCIAL SECTOR TRANSFORMATION – FOCUS ON SMMEs

Dear Secretaries

This submission is being made in response to the call for submissions on the above subject advertised in City Press on 26 February 2017. By way of background on myself, I have been involved as an independent specialist in entrepreneurship and small business promotion policy since 1993. Since then, I have worked extensively with governments in South Africa, Kenya, Lesotho and Rwanda, and a wide range of private sector and international development organisations on policy and programmes on entrepreneurship and small business promotion. In relation to the financial sector, specifically, I have been involved as follows:

- 2015:** Undertook a study for the Banking Association of South Africa (BASA) and compiled a report titled: *Study on Financing of SMEs in South Africa – Mapping the Ecosystem and Assessing the Gaps*.
- 2009-2010:** Part of a team that undertook the research, design and preparation of a Business Plan for then Khula Enterprise Finance Ltd's proposed R2,7 billion SMME retail lending operation – Khula Direct. Organised and participated in a study visit with Khula Board members and Senior Executives to Taiwan and Malaysia to study SMME financing focusing on, among others, credit guarantee schemes and SME Credit Bureaus.
- 2005-2007:** Commissioned by the Department of Trade & Industry to facilitate a motor industry consultative process to address the problem of diminishing opportunities for black-owned motor body repair and towing SMMEs to do insurance-related work. The number of participants in the consultative process grew to include short term insurers, insurance brokers, motor manufacturers, motor body repairer associations, towing associations, state-owned enterprises, an auto glass fitment centre association and other organised motor industry bodies (e.g. Retail Motor Industry organisation).

2004-2006: Served on the SMME Committee of the Financial Sector Charter Council, appointed by the Association of Black Securities & Investment Professionals, and ending up as Chairman of the Committee for one year. During this time, I commissioned and managed a study titled *Risk Mitigation & Risk Sharing in SMME Lending – Best Practices*, which analysed credit guarantee schemes in several countries. I also organised and led a study visit involving a delegation from commercial banks, then Khula Enterprise Finance Limited (now Sefa) and SASBO to study credit guarantee schemes for SMMEs in Egypt and France in May 2005.

With this background, and my extensive experience in various aspects of entrepreneurship and small business policy and programmes in general, I wish to make the following submission to the Committee.

Commercial Banks

It is generally recognised in small business development circles internationally that business advising plays a crucial role in enabling small businesses to survive their early years and grow, as the quotes below clearly indicate.

- “Many entrepreneurs are good at going it alone, but the growth and development of small and medium-sized enterprises often rely on the guidance and support of external practitioners or advisers with specific expertise, knowledge, and skills that entrepreneurs may not have. These people make a difference, and research has shown they improve the longer-term viability of new ventures, helping them get past those critical first five years” - *Keystones in Entrepreneurship Knowledge*, 2005.
- “The use of external advice has been strongly linked to successful business growth...” - *Keystones in Entrepreneurship Knowledge*, 2005.
- “Business advice consistently produces better outcomes on productivity and output...” - *A New Design: Making Local Support Work for Business*, 2015.

In the 1990s, South Africa’s major commercial banks collaborated to establish and operate a nationwide small business advisory service called **Sizanani**, which operated successfully for several years but was later discontinued. This left a crucial gap in business advising in the country, leaving SMMEs without an important support service. Since then, commercial banks have focused on their own internal operations, meaning that SMMEs that are not bank clients have limited or no access to business advisory services. It is our submission that commercial banks should be required to establish and fund a universal business advisory service open to all small businesses, regardless of whether or not they are bank clients. A good example to learn from is the Small Business Advice Centre (SBAC) in Taiwan, which was established by public and private banks to provide advice to SMMEs. When SMMEs approach banks for lending and their applications are turned down, they are automatically referred by the bank to the SBAC, which is staffed with highly-skilled professionals, for assistance to improve their applications.



The centre assists some of the applicants to realise that they actually do not need finance and supports them to improve their businesses in other ways. Those that do require finance are assisted to improve their loan application and resubmit to the banks. SBAC reports that at least 40% of those who resubmit their applications after receiving its support are successful in obtaining finance. This is a much higher success rate compared to the normative 10%-20% success rate. For this reason, we believe South African banks should be encouraged to extend their role in supporting SMMEs by establishing a collaborative, universally-accessible business advisory service.

Secondly, credit guarantee schemes play an important role in mitigating the risk of lending to SMMEs and thereby increasing access to finance by SMMEs. When the Khula Credit Guarantee Scheme was first introduced, there was a high level of uptake by local commercial banks. However, over the years, uptake has fallen dramatically. There are several reasons for this, some attributable to the scheme itself and others attributable to the banks. It is our submission that banks should be required to constructively reengage with the Khula Credit Guarantee Scheme so that the quantum of lending to SMMEs can be significantly improved. Where there are problems with the scheme – either in terms of design or execution – these should be resolved collaboratively and constructively instead of simply dumping the scheme altogether. Should banks not be willing to collaborate with the scheme, they should then be required to introduce other innovative instruments to enable increased lending to SMMEs.

Short-term Insurance Industry

The work we did with the motor body repair industry showed clearly that one of the biggest challenges faced by small, mainly black-owned motor body repairers, is lack of access to insurance work. Short-term insurers play an important role in channelling body repair work and they use a panel system that excludes the majority of black-owned panelbeating shops and favours established, mainly white-owned, repairers. Even where the owner of the vehicle that needs body repair takes it to a body repair shop owned by someone the vehicle owner knows and trusts, the insurer will in the majority of cases remove the car from the repairer if that repairer is not on its panel of preferred or approved repairers. This significantly disadvantages small black-owned repairers. During the 2005-2007 DTI-sanctioned process, a special dispensation was agreed with short term insurers that they would not remove vehicles that are out of manufacturer warranty from repairers that are not on insurer panels. This dispensation held for a while, helping to improve access to jobs for small panelbeaters, but was later abandoned.

It is therefore our submission that short term insurers, who control billions of rand worth of body repair work annually, should be required to put in place a mechanism to significantly increase the quantum of repair work available to small, mainly black-owned body repairers nationally, and should be closely monitored and required to report regularly on this.



Submitted by: Septi M. Bukula
Director: Osiba Holdings
391 Main Avenue, Ferndale, Randburg
Tel: 011 026 3803
Email: septi@osiba.co.za
Website: www.osiba.co.za