

ABSTRACT

Title : The role of commercial banks in financing small, medium and microenterprises in the Greater Soweto.

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The growth and development of the small, medium and micro-enterprise (SMME) sector is acknowledged by most interest groups and policy makers as being of critical importance to South Africa's ability to address the serious problems of unemployment. However research that has been conducted recently shows that the major factor that impedes the establishment and success of businesses is the lack of capital, which is ascribed to lack of own funds and a lack of assets, especially fixed assets, which could serve as security to obtain loans and bank overdrafts. Further, current levels of investments in SMME's are inadequate for achieving the growth levels anticipated in GEAR. This problem is even more prevalent mainly in the areas of the previously disadvantaged.

The purpose of this dissertation is therefore to identify the role of commercial banks in financing SMME's in the Greater Soweto. This purpose stems from the fact that SMME's have a major role

to play in the South African economy in terms of employment creation, income generation and output growth. SMME's are also often a vehicle through which the lowest-income people in our society gain access to economic opportunities at a time that distribution of income and wealth in South Africa is amongst the most unequal in the world.

Commercial banks are profit-seeking and risk-averse institutions. They need to satisfy themselves in respect of the financial stability of the SMMEs that seek funds from them. To this effect, management procedures of the SMMEs that seek funds have to be acceptable and recognised by the commercial banks from which funds are sought. In light of this, practices of planning, organising, directing and controlling of the SMMEs' are some of the key features over which SMMEs have control, that indicate their risk profiles to the commercial banks.

Over and above the management procedures, SMME's have to keep proper financial statements that clearly reveal the SMMEs' financial position, financial performances, growth plans and resources required to achieve those plans. This information is also important not only to commercial banks but also to other non-banking institutions that help SMMEs financially for evaluating their risk profiles. These other non-banking institutions could be less concerned about the risk profiles of the SMME's but the development thereof.

The findings of this study reveal that while most SMME's use the services of the commercial banks in one or other respect, they still have difficulty obtaining finance. The main reason for the lack of finance is considered to be discrimination on the part of the commercial banks. However, other factors do contribute to the difficulty in obtaining finance. These are a lack of understanding by banks and the fact that other than banks, there aren't many other alternative sources of finance available to SMME's in Soweto. The fact that most SMME's have had low past net profits and low owner's contribution is another reason.

It is recommended that managements of the SMME's improve their managerial skills on aspects of financing, financial information preparation, calculation of capital requirements and related matters. It is also recommended that commercial banks study the reasons offered by the respondents as to

why they perceive them to be discriminatory in allocating funds to the previously disadvantaged SMMEs. It is therefore recommended that commercial banks seek to eliminate this perception by means of a substantial public relations campaign that will bring together the commercial banks and the SMMEs concerned to discuss possible solutions to the problems at hand.