

For SA's SMEs to thrive, government's 'own-goal' mentality must go

By [Gary Palmer](#)

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Banks and other lenders would like to fund SMEs and have the capital to do so. Still, there is hesitancy and reluctance to provide funding, mainly if an SME is relying on government institutions to make payments.



Gary Palmer, CEO at Paragon Lending Solutions | image supplied

For many SMEs', particularly black-owned SMEs, government contracts have been their lifeblood. But because government either can't pay its bills or is too disorganised to get admin done, SMEs cannot secure funding using purchase orders as security. If SMEs are to succeed and get the funding they need, government and municipalities need to stop scoring 'own goals' as their own shortfalls are having unintended consequences on local business.

Banks and other lenders, property investors, developers and SMEs alike are losing out because of government's failings. On the commercial property side, payment and deal delays have seen the unheard-of decision by one of the big banks to cease all commercial property funding to one of the provinces as it has become next to impossible to get final decisions from government.

Poor service delivery goes beyond the frustrations we all feel from Eskom. On a national scale, failing infrastructure, broken facilities, delayed payments and discrepancies in property rates, municipal bills, and taxes are just some of the current concerns. It is becoming increasingly difficult to get anything done, such as value a property, which is an essential component of many funding deals.

Against this backdrop, government and municipality risk represent significant barriers to doing business. Despite government's commitment to boost SMEs, who account for an estimated 98% of South African businesses, progress is caught in a bottleneck and business is often at a standstill.

In provinces like the Northern Cape, which is rich in renewable energy potential, there is insufficient power to physically install an energy grid upgrade. Great ideas go wasted because government can't come to the party. This is worse for SMEs who have built their businesses on supplying government on the back of its Preferential Procurement Policy Framework Act. But even with the regulatory incentive to improve businesses, government isn't honouring its deliverables.

Where lenders in the purchase order funding space may have previously advanced funds against purchase orders from government as a staple of their lending, they can't take on the same risk anymore. Another unheard-of reality is a business not being able to get government-backed purchase order funding because government is likely to pay late.



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Another example of dysfunction is the lengthy process for registering a property bond at the Deeds Office when everything runs smoothly. But then you have a municipality not paying its electricity bill because there are no funds, as previously seen at the Pretoria Deeds Office. These unnecessary roadblocks are avoidable. SMEs need systems that work and proper support to rise to their potential to change South Africa's high unemployment rate.

Treasury admits that some municipalities are failing. At last count there were at least 43 municipalities that met the criteria to be placed under mandatory intervention. The latest audit of municipalities saw just 16% receive clean audits, while 38% had unqualified audit reports. This means there are fewer municipalities who can be trusted to deliver on their mandates or to pay SMEs for any goods or services they provide. And some are difficult to deal with.

Curro is the latest to take the City of Joburg to court for billing issues. This is a classic example of the factors private sector faces that make business growth unsustainable – from delays on finalising simple matters to the added costs and implications that come with a legal battle.



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There is a lot of lip service about SMEs being a priority for government, but limited or slow action is speaking louder than words. It remains to be seen what other government SME interventions, such as its bounce back loan scheme, will deliver but the day-to-day mentality around how to keep business going isn't working – and is often preventing business from moving very fast at all.

It's so unfortunate that the risk of a failing government and municipalities coincides with an unprecedented surplus of funding opportunities, particularly for SMEs. Missing out limits potential growth and does nothing to buffer SMEs against

rising interest rates or fluctuating operational and living costs.

Government should stop putting a spoke in the wheel with its poor performance. Bad service delivery is unacceptable as is getting in the way of the SMEs who can bring about significant benefit to the economy. According to a recent study by McKinsey and Company, 39% of SA's GDP comes from SMEs, so if they are not given the chance to thrive because of government, that is a problem we cannot afford to ignore and one that cannot persist.

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