

BANKING BARRIERS TO ECONOMIC REDRESS: A CASE STUDY OF A SMALL BUSINESS

Deon Snyman & Mike Winfield
Restitution Foundation

ABSTRACT

In his 2011 State of the Nation address South African President Zuma recognized the importance of the small business sector in South African employment creation. Local banking institutions endorsed the President's statement and re-committed themselves to support small businesses.

In response the Restitution Foundation partnered with a successful rural business to apply for a bank loan to strengthen business capacity. It was anticipated that this investment in capital would increase profits and thereby enable hiring the employment of additional staff.

The Restitution Foundation agreed to pay the interest of the loan and the business was responsible for the monthly repayment of the capital. This arrangement was in the interest of the small business that had insufficient collateral to qualify for a banking loan and the banking institution that requires surety to cover the loan.

This case study of the Beirowplas Recycling business in Worcester demonstrates that a twelve month combined effort to adhere to all the requirements set by the banking institution bureaucratic administrative procedures led to the business abandoning the loan application and consequently postponing the hiring of new staff members indefinitely. A small business with the potential of creating new job opportunities was stifled in reaching this objective by an unsympathetic banking institution.

Apartheid was not only a political system of racial division and oppression but , fundamentally a system of economic exploitation and financial exclusion. Both institutional and individual beneficiaries of apartheid have consequently accrued cumulative economic advantage and benefit – often at the cost of the previously disadvantaged of South Africa. Business South Africa (including the banking sector) is among those who benefitted from

apartheid. Now twenty years into democracy, those people who were previously disadvantaged by apartheid continue to be economically burdened by our past – not only have they accrued over generation's economic disadvantage but they are also consequently not able to access banking services because they do not have equity. It is the ethical responsibility of previously advantaged South Africans including financial institutions to facilitate access to the economy to those who were previously denied this opportunity.

Taking this responsibility seriously the Restitution Foundation (a Cape Town based NGO) designed a restitution financing model for enterprise development. This model involves establishing partnerships with successful small business enterprises from previously disadvantaged backgrounds that are seeking credit from financial institutions to expand their business capacity and create additional job opportunities. Such a business would often not be able to qualify for a banking loan as it would not be able to provide the necessary collateral. With Restitution Financing, the interest of the loan is guaranteed by an external party as an act of restitution, thereby supporting the small business's access to equity and their repayment of the capital of the loan to the lending institution. With the interest to the loan guaranteed and the risk therefore reduced, the financial institution is supported to grant the loan. Recognising that the small business is unable to provide sufficient collateral, but that an external organisation has confidence to provide support and mentorship thereby reducing the risk, granting the loan is a form of restitution on behalf of the bank.

After negotiating this model with a major South African financial institution the Restitution Foundation decided to pilot its restitution financing project in the town of Worcester. The Restitution Foundation advertised for applications for the initiative in the local newspapers and appointed a selection committee representative of all sectors within the town to select the beneficiary. The selection committee interviewed the shortlisted candidates and agreed on Beirowplas recycling as the first recipient of the restitution financing programme.

VIDEO!!!!!!

<http://www.youtube.com/watch?v=mmdaxLt4ZsM>

As part of buying Beirowplas Recycling, Petro acquired 3 vehicles with only one in working order. The business spent R10 000 a month in the financing of the 3 vehicles and a further R6000 in renting additional vehicles to collect and transport products to markets in Cape Town. Beirowplas was in need of a loan of R120 000 that would allow for the payment of the

outstanding balance of the 3 vehicles and the repair of the two broken vehicles. This would then enable the business a monthly saving of R16000 on the vehicle financing and renting of vehicles. From this saving the monthly instalment of the capital of the loan would be afforded and additional staff members to the business could be employed. The Restitution Foundation undertook responsibility for the payment of the more or less R25 000 interest to the loan.

Despite the initial agreement with the banking institution to take up its restitution responsibility, and the Restitution Foundation guaranteeing the payment of the interest to the loan to reduce risk, the banking institution still insisted on the necessary surety for the granting of the loan. The bank advised Beirrowplas to apply from a third party who acted in partnership with the bank the provision of surety for the loan. The identified third party had a strict set of requirements that Beirrowplas had to adhere to before surety would be provided. These requirements include:

1. A signed and dated Business Plan which had to be detailed and well researched with respect to the product, market, distribution, demand, financial feasibility, legal requirements, compliance, etc. The plan had to be site and owner specific.
2. Detailed, signed Cash Flow projection for the business (for a 3 year period) – all assumptions on which figures are based must be discussed in the business plan.
3. Signed CV's for all key personnel that detail each person's involvement in the business as well as relevant historical information such as previous employer, position, roles & responsibilities, time frames, references. Also to include documentary evidence of qualifications/certification (where applicable). If the applicant has owned businesses previously, they must provide a detailed discussion around the type of business, whether it was successful – if not, why not, etc.
4. Confirmation of the entity in which the business is/will be trading (CIPRO printout and CK or Co. docs).
5. A detailed, signed, dated breakdown of the exact set-up / expansion / purchase costs – this breakdown must include costs already incurred and costs which will be / has been funded from own means. It is imperative that the bank does a detailed needs analysis to ensure the client does not experience c/flow problems at a later stage.
6. Signed and dated Personal Statement of Assets and Liabilities – for each member/director/surety
7. Signed and dated Personal Statement of Income and Expenditure - for each member/directors/surety

8. Bank statements for the previous SIX months on any cheque, savings, loan or bond accounts held at other financial institutions – This is relevant for the business entity as well as for all members/directors/sureties.

The specific standards of the requirements set by the third party and lack of responsible support from the banking institution prolonged the application process for more than a year. Endless correspondence, telephonic conversations and face to face meetings were not providing the necessary results. Despite numerous efforts to provide the required business plan and financial statements the set requirements were not met. During the process the tax clearance certificate expired and a new certificate had to be presented and the prepared financial statements became outdated and new statements had to be prepared.

The bureaucracy of the application process proved to be just too much for Beirrowplas recycling. After more than a year lapsed since the initial loan application process started the business decided not to proceed with the application. Beirrowplas instead used own resources to repair the vehicles and pay the outstanding moneys owed on the vehicles. Soon after the repair and payment of the vehicles Beirrowplas was able to employ five additional staff members.

Beirrowplas recycling succeeded in extending its business capacity despite any assistance from the banking institution. Though the business might have been able to increase its employment component sooner with the necessary support from the banking institution the eventual route chosen was in the best long term interest of the business. Against the background of this case study of Beirrowplas recycling the question remains if the banking sector in South Africa is willing to take full moral responsibility for its role in unjust benefit from racial exploitation. If the experience of Beirrowplas Recycling is anything to go by it seems that similar small businesses with the capacity to create more job opportunities should not expect much support from the banking sector in order to do so.