ESD HANDBOOK
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ANGLO AMERICAN ZIMELE PIONEERS OF CORPORATE ENTERPRISE DEVELOPMENT

100 YEARS OF ANGLO AMERICAN

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edge GROWTH

Nadia and Zahra Rawjee

From startup to success

Nadia and Zahra Rawjee of Uzenzele elaborate on the importance of a strategic view in supporting SMEs access finance; preparing the right information, policy factors to consider that unlock finance for entrepreneurs, and how to use business planning to identify, assess and capitalise on new opportunities.

The year 2013 brought in the new wave of the Broad-Based Black Economic Empowerment Codes (BEE Codes) with an enhanced focus on empowering and developing suppliers within value chains, thereby driving more meaningful transformation in our economy.

This strongly aligns to the National Development Plan (NDP) and, in our belief, serves a more sustainable and true transformative function. Uzenzele facilitates access to a range of non-traditional, developmental, grant and loan funding, thereby assisting established businesses looking to expedite their growth trajectory and, ultimately, our economy.

Uzenzele addresses the reality that 93% of South African business owners are uncertain of how and where to access finance, lack the knowledge needed to access finance, and require financial education.

We have found that the existing landscape of SMEs in South Africa lacks not only the collateral or surety to raise funding, but also (and arguably more importantly) the understanding of what makes for a bankable business case.

With an emphasis on supplier

development in the new BEE Codes, there is an opportunity to amend the SME ecosystem in providing SMEs with not only the security afforded by off-take agreements and contracts for their goods or services, but also the fuel to ignite their path to success by availing finance, which this opportunity brings.

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In unpacking these levers for change, we must be clear on four critical elements:

1. A bankable letter of intent from a measured entity to procure or a solid supply contract is vital.

2. Collaboration between the procurement and finance departments is paramount in facilitating cessions of debt to unlock sources of finance.

3. The leveraging of supplier and enterprise development funds to do the following:
   a. Educate SMEs on their options regarding raising capital, and the requirements that they should work towards in order to be funding ready.
   b. Subsidise the development of bankable business plans.
   c. Provide surety and/or guarantees for the raising of growth finance.
   d. Provide grants or equity funding to support the "unencumbered own contribution" portion that is required by funding institutions for the raising of capital by SMEs.
   e. Establish a larger fund through the likes of the SmallEnterprise Finance Agency Wholesale Fund (further details below).
4. The identification and selection of strategic (prospective) suppliers to the measured entity that fit within the NDP's priority sectors and the Developmental Financial Institutions' (DFIs) mandates, which improve those SMEs' ability to raise debt and grant funding for their future growth and contribution to the measured entity's strategic growth plans.

DFIs VS COMMERCIAL BANKS

While DFIs require that a business seeking funding has a strong business case and model, they are more amenable to payment moratoriums, which may mean an SME has a period of up to between six and 12 months during which they would not pay interest or capital, or both. This "payment holiday" allows the SME to scale up its business in order to meet the requirements of the supply contract and improve sustainability of the business as a whole. However, it is always vital to keep in mind that there are often compliance and governance delays in accessing DFI funds, so the business should – as far as possible – be able to sustain itself should it have to wait for funding to be allocated.

Commercial banks are often much faster in providing these funds, but would require security over and above the contract from a measured entity and payment moratoriums are rarely considered.

Examples

FORWARD INTEGRATION

While the below examples are not forward integration funds per se, they create a means by which forward integration can be achieved.

Franchising, agency and distributor models allow measured entities to enhance their access to markets and improve customer service through the funding available from DFIs for such activities.

The Small Enterprise Finance Agency (SEFA) wholesale loan facility is an example of this type of funding, which can be ring-fenced for the development of such SMEs through joint ventures.

Such joint ventures include: the Anglo Khula Mining Fund, the Godisa Supplier Development Fund and the SEFA Awethu Youth Fund.

BACKWARD INTEGRATION

The Black Industrialist Scheme focuses on the creation of majority black-owned and managed industrialists within the economy and offers these industrialists up to R50 million in grant funding, on a matching concept of between 30% and 50%, for project sizes of at least R30 million. This means that an SME could attract a subsidy (grant) of between R9 million and R50 million, then add to that a specific loan for industrialists from the Industrial Development Bank at 4% flat, and the business' effective cost of capital is 2%.

Another example of backward integration is in owner-driver schemes where funding for delivery vehicles, tools, equipment and working capital can be packaged to provide a comprehensive solution to SMEs in a value chain.

"…measured entities address the risk of procuring from SMEs by developing them into financially stable, scalable and reliable suppliers and ultimately build confidence in them as suppliers."

These strategies allow measured entities to leverage their enterprise and supplier development budgets to increase their base of suppliers (who they support directly or indirectly). In so doing, measured entities address the risk of procuring from SMEs by developing them into financially stable, scalable and reliable suppliers and ultimately build confidence in them as suppliers.

Uzenzele believes in developing business owners through knowledge sharing, and we know that our progress is in line with the growth of the companies we represent in order for them to achieve growth and sustainability, thereby facilitating economic inclusion across the country. ■