

How South African SMEs Can Become Better Candidates for Export Finance

Marianne Matthee
André Heymans

SMEs are considered to be important drivers of economic growth and development throughout the world but to deliver true economic benefits, they need to grow into sustainable, profitable businesses. Expanding into foreign markets provides an excellent vehicle for growth but many hurdles stand in the way of SMEs making the transition from local to international. The difficulty associated with obtaining finance for export market development is a key stumbling block. Financial institutions regard SMEs as high risk because they have limited resources and capacity, and are more likely to default than larger concerns. This paper examines the various risks that financial institutions in South Africa assess when they receive applications for export finance from SMEs. What makes this study different is that it offers perspectives on export risks from the *lender's* point of view – a hitherto neglected area of research. The findings are packaged as a set of guidelines on how SMEs can mitigate these risks and improve their chances of securing the financial assistance that has often eluded them in the past.

Key Words: SME (small and medium enterprise); internationalisation; export finance; risk mitigation

JEL Classification: F10, F30

Introduction

There is a general consensus in the literature that entrepreneurship is a driver of economic development and that SMEs (small and medium enterprises) are the natural spawning ground for entrepreneurial ventures. This is because most SMEs are privately owned and are therefore used to arriving at innovative solutions to the problem of competition (see <http://www.unece.org>). Furthermore, their size enables SMEs to react quickly to changing market conditions, thus improving their chances of survival (UN/ECE Secretariat 1997). The survival of SMEs is in fact essential for economic wellbeing throughout the world as they generate

Dr Marianne Matthee is an Associate Professor at the School of Economics, North-West University, South Africa

Dr André Heymans is a Senior Lecturer at the School of Economics, North-West University, South Africa

more than 60% of employment opportunities in developed countries, and more than 50% of such opportunities in middle and low income countries (International Trade Centre 2009). Moreover, these entities are regarded as offering the means through which poverty can be eradicated in the developing world. SMES also contribute to the diversification of economic activities in a country, thereby encouraging broad-based economic growth (see <http://www.unece.org>). However, in order for SMES to deliver jobs and other economic benefits, it is vitally important that they grow into sustainable, successful businesses (International Trade Centre 2009).

Venturing into international markets is one of the most important ways in which SMES can grow (Lu and Beamish 2001) as it affords them the opportunity of expanding their business operations, realising greater economies of scale, and generating higher profits at the end of the day. SMES would do well to focus initially on exporting when contemplating various internationalisation options (Lu and Beamish 2001). Interestingly, SMES in the OECD countries produce around 26% of the OECD countries' exports (UN/ECE Secretariat 1997; OECD 2002). Yet despite the obvious allure of foreign markets, the majority of SMES are unable to make the transition from local to international because of a myriad of barriers that stand in their way – from a lack of market information and the pervasive influence of buy-local campaigners to, critically, a lack of finance (Mtigwe 2005, 367).

The International Trade Centre (2009) singles out finance (or the lack of it) as the biggest constraint to SME growth. It is a well-known fact that many financial institutions are not keen to lend to SMES, preferring to deal with larger firms (Rhee 1989). Providing export finance to SMES is regarded as a particularly high risk (Zavotta 2008). Reasons given for banks' timidity in this regard include: the high transaction costs associated with SME deals; imperfect information on SMES' finances; SMES' limited collateral, and the high risk of default (International Trade Centre 2009). Admittedly, financial institutions have risk management policies and practices in place to minimise the risk of their borrowers defaulting. Yet many SMES do not exactly go out of their way to address the concerns of, or endear themselves to, lenders. As a result, lenders' scepticism is reinforced, which further restricts SMES' access to finance (International Trade Centre 2009).

The purpose of this exploratory paper is to identify the various risks that financial institutions in South Africa consider when they receive ap-

plications from SMEs for export finance. Flowing from this will be a set of guidelines, aimed at SMEs, for mitigating the identified risks and improving the likelihood of their securing financial assistance.

Barriers to Export

Many authors have grappled with the problem of firms struggling to access and develop export markets in the face of persistent and formidable barriers (Leonidou 2004). Barriers to export can be defined as 'all those factors – external or internal – that serve to dissuade a firm from exporting or that hinder its actual export activity' (Suárez-Ortega 2003, 403).

Internal barriers to export relate to the firm's capabilities, resources and capacity to operate internationally, while external barriers are those factors over which the firm has no control and are a product of the environment in which businesses operate (Fillis 2000; Leonidou 2004). Ramaswami and Yang (1990) break export barriers down into four categories – knowledge, procedural, resource, and exogenous barriers. Knowledge barriers broadly relate to a lack of information on what is involved in exporting. Procedural barriers relate to those elements that complicate and/or slow down the export process. Resource barriers are concerned with a lack of financial wherewithal and productive capacity. Finally, exogenous barriers include any obstacles arising due to uncertainty in the international market place or the actions of governments and competitors (Suárez-Ortega 2003; Arteaga-Ortiz and Fernández-Ortiz 2010). This paper focuses on resource barriers and, more specifically, the difficulties experienced by SMEs in obtaining finance for export purposes (Suárez-Ortega 2003).

Many empirical studies conducted over the years point to finance being a stumbling block in small and medium size firms' internationalisation efforts. Bell (1997), for example, found that most of the barriers faced by small computer software exporters in Finland, Norway and Ireland, were financial in nature. Not only did these SMEs experience problems in obtaining export finance but they also had to contend with delayed payments and currency fluctuations, and had difficulty setting their prices at competitive levels. The biggest obstacle to these firms acquiring export finance was banks' unwillingness to lend to them because of their high risk profile (due to SMEs' modest size, small asset base, and generally high mortality rate). Bell (1997) further found that export barriers intensified as SME exporters became more active internationally. Frequent exporters, for example, found that delays in payment and difficulty in

obtaining export finance were the two most significant threats to their exporting activities, while aggressive exporters cited delays in payment and currency fluctuations as the greatest stumbling blocks to export success. In another study, Suárez-Ortega (2003) found that the SME wine exporters in Spain were hampered by insufficient funds for market research, and an inability to finance export sales due to banks' unwillingness to provide the necessary credit facilities.

The same types of export barriers have emerged in studies conducted in developing countries. In their analysis of the SME manufacturing sector in Nigeria, Okpara and Koumbiadis (2010) found the lack of export finance to be the second biggest barrier to foreign market expansion, after insufficient market knowledge. Somewhat surprisingly, poor infrastructure and corruption were not seen to be significant impediments to export success.

The above body of research only considered resource barriers from firms' perspective and did not take cognisance of lenders' views on the matter. To this end Griffith (2010) examined financial resource barriers from the standpoint of the lending community – evidently the first researcher to consider the subject from this angle. Griffith (2010) asserted that lenders of finance, in seeking to minimise their risks and maximise their returns, look for certain characteristics in their export clients. Those who fit the 'profile' are more likely to obtain finance than those who do not. For example, lenders prefer exporters that market a limited range of goods or services because a concentrated effort, in their view, improves the chances of strong sales performance and lowers the risk of non-payment. Lenders also look at exporters' past financial performance as this will offer strong clues about their ability to repay a loan or service their credit facility.

The various risks that lenders consider when approached for export finance are unpacked later in this paper. However, it is useful at this point to give a brief overview of export finance.

Export Finance in a Nutshell

Export finance can be defined as 'the provision of credit and any form of financial assistance to meet the needs of an exporter in carrying out an export order' (Buatsi 2002, 503). There are four general payment methods used in international trade transactions: cash in advance, letter of credit (L/C), documentary collections and open account (Buatsi 2002). Cash in advance and open account are classified as direct payment methods

because they require internal funds to finance the transaction (Herger 2009). Letters of credit and documentary collections are known as indirect payment methods, since trade credit is provided by financial institutions. In other words, these institutions provide finance as a bridge between the time goods are produced and payment is received (Buatsi 2002). L/Cs and documentary collections are the most commonly used in international trade as few exporters and importers have enough liquidity to use direct methods of payment (Herger 2009).

To ensure that borrowers are able to meet their credit and loan obligations, financial institutions require borrowers to put up sufficient collateral. However, this requirement constitutes the biggest obstacle to SMEs accessing finance (Buatsi 2002, Zavotta 2008). A possible solution to the problem is for an export loan or credit facility to be structured in such a way that it is self-liquidating (Rhee 1989). Structured trade and commodity finance is a type of finance solution effectively tailored by a financial institution to meet the specific transactional requirements of the SME (Matthee and Finaughty 2010). As such, every transaction is judged according to its particular circumstances, and finance is structured in a manner that mitigates actual or perceived risks (UNESCAP 2005). The underlying product or stock traded becomes the security (or collateral) in this case (Gaffney 2009; Matthee and Finaughty 2010), and each advance is repaid from the proceeds arising from sales (Matthee and Finaughty 2010).

When considering an application for general export finance, a financial institution would consider the firm's balance sheet and creditworthiness. If the financial statements and historical performance of the firm are seen to be healthy (and they have collateral), a general banking facility of between 10% and 20% of the firm's equity may be granted. With structured trade finance, because emphasis is placed on the deal and the firm's experience and standing, a facility equating to five to seven times the value of the firm's equity may be extended (provided all the regular security and compliance requirements have been met) (Matthee and Finaughty 2010).

An example will highlight how this type of financing works. An SME has obtained a contract to sell iron ore (which they procured, for example, from a source in Africa) to a Chinese buyer. In order to complete the transaction, the SME requires trade finance. In a structured trade and commodity finance transaction, the financial institution provides the funds needed to complete the transaction. This is based on the amount it will sell for minus a percentage for the risks involved. A key feature is

that the iron ore becomes the collateral for the loan (and thus not the balance sheet of the SME). So, if the transaction fails, the financial institution takes possession of the iron ore and sells it to redeem the trade finance provided (arrangements for this is made in the structure of the deal). In this way each deal is structured according to the particular transaction whereby the performance of the deal (i. e. a successful conclusion of the transaction) is essential.

During the global financial crisis, the availability of export finance was severely curtailed – particularly in countries dependent on commodity exports. SMEs in those countries were very hard hit as their export operations were heavily financed by external lenders. Clearly, there is a strong argument for SMEs to be treated differently when it comes to export finance, i. e. with a stronger emphasis on deal-based structures in line with varying trade flows (Prusky and Klein 2010).

How Financial Institutions View Export Risks

‘All forms of business contain elements of risk, but when it comes to international trade the risk profile enters a new dimension’ (Grath 2008, 9). Financial institutions that are in the business of providing export finance need to thoroughly assess the actual and potential risks associated with an applicant’s international transaction(s). As SMEs are perceived to pose a greater risk of default than larger firms, they are subjected to greater scrutiny by lenders. Even with structured trade and commodity financing, an SME’s eligibility for finance is determined according to the likelihood of it being able to conclude an international transaction successfully (Klaassens 2005). There is a common misperception among businesses that structured trade and commodity finance is ‘risk free.’ However, there is no financing facility that is risk free, and financial institutions operating in a specialist area are even more acutely aware of the risks (Matthee and Finaughty 2010, 15).

The most prominent risks taken into account by financial institutions when developing structured trade and commodity finance packages fall into three broad categories: market risks, performance risks, and SME-specific risk. These risks and risk mitigation techniques discussed in this paper were provided by three financial institutions, two of which specialise in structured trade and commodity finance.

All three financial institutions made use of a checklist to assess whether a particular SME should be financed or not. These checklists cover all of the risks as portrayed in table 1. Should the SME in question adhere to

all the requirements in terms of mitigating the various risks, the financial institution would start with the loan application process. Should the SME however fail to provide evidence that these risks are mitigated sufficiently, the financial institution will likely reject the loan application and inform the SME what they should do to apply successfully.

Methodology

Three diverse financial institutions were approached during 2010. The first institution is a trade finance specialist firm that works with a foreign bank in South Africa, the second provides financing to SMEs and the third is one of the largest commercial banks in South Africa. They were each given a brief that asked them to provide key aspects that they take into account when they consider whether or not to proceed with a trade finance application of an SME. Thereafter, correspondence took place via email and two in-depth interviews were held with the specialists in structured trade and commodity finance. Documentation pertaining to the application process was also obtained during this process. These provided a more detailed description of the export finance risks considered by financial institutions.

Risk Categories

MARKET RISKS

Market risk comprises the sub-elements of commodity price risk, exchange rate risk and sovereign risk. Commodity price risk refers to the possibility that the price of a commodity will move in a direction that negatively affects an SME. Even where an SME has no direct exposure to commodities, the prices of commodities such as oil, metals and/or other minerals will invariably affect an SME's operation.

Similarly, all SMEs have direct or indirect experience of exchange rate risk. Exporting firms, for example, run the risk of their domestic currency appreciating between the time the contract comes into force and the final payment falls due. In the South African context this is a very credible risk because of its pronounced volatility (Kulikova and Taylor 2013). The volatility in the South African rand increased over the 2008 financial crisis and remained volatile ever since (see <http://www.resbank.co.za>).

Sovereign risk is linked to the political stability (essentially referring to the quality of government) and economic stability of the importer's country (Grath 2008). For example, political upheavals may make it difficult for a contract to be fulfilled, while economic conditions in a coun-

try could prompt the government to impose foreign exchange controls, tamper with the convertibility of the domestic currency, and/or freeze funds transfers (Bilson, Brailsford, and Hooper 2002). As with foreign exchange risk, political stability and labour unrest is a considerable problem in the South African context. This was again confirmed by the tragedy of Marikana at Lonmin's mine in Rustenburg (Magaziner and Jacobs 2013).

PERFORMANCE RISKS

Unlike market risk, which is attributable to autonomous, external events, performance risk arises from performance-related shortcomings of one or more parties to the transaction. The following sub-components of performance risk are covered in this paper: operational risk, production and off-take risk, supplier risk, buyer risk, settlement risk, environmental risk, and quality risk. Operational risk is linked to an exporter's and importer's ability to successfully carry out their duties under the contract. In addition to gauging a firm's operational efficiency, a financial institution will be interested in the quality of the management, and whether the proprietor and management team (or key personnel) are sufficiently knowledgeable about the industry in which they are operating (Matthee and Finaughty 2010).

Broadly, production and off-take risk refers to the adequacy and maintenance of processing plants, the skills level and commitment of the labour force, and the continuity of supply of electricity and water. Environmental risk, in turn, and potential quality problems are usually associated with sub-optimal production. If a firm's quality control arrangements are deficient, an importer might reject a consignment (see <http://www.exporthelp.co.za/index.html>), thus eroding the value of the collateral supporting the deal.

Supplier risk refers to the possibility that suppliers do not manufacture or procure the goods or commodities that form part of an exporter's end product. Buyer risk (also known as commercial risk) refers to the importer's potential unwillingness or inability to pay. While willingness to pay is a reflection of business ethics, ability to pay is linked to the availability of funds (Grath 2008). Even when an importer is willing and able to pay, there is still a measure of settlement risk. This relates to the possibility that a bank pays over the funds due in settlement of a transaction but does not receive the funds it is owed from its counterparty.

Although these risks are also present in the South African context, they are not more pronounced. South African SMEs face the same issues as

SMEs in other countries. South African SMEs do however face additional challenges on the political and macroeconomic fronts, with a volatile currency, labour unrest and political instability.

SME-SPECIFIC RISKS

There are a number of other risks that although not unique to SMEs, are felt particularly acutely by these firms because of their limited resources and capacity. For example, the more competition an SME faces, the more difficult it becomes for the business to generate sales and honour its financial obligations. Similarly, the level of demand for an SME's product offerings has a direct impact on the business's cash flow and overall performance.

The industry in which an SME operates can be a source of risk as well. For example, whereas commodity producers are vulnerable to erratic global pricing trends, manufacturers are subject to varying technical specifications and standards in different export markets, sometimes making efficiency through standardisation an elusive goal. Whether an SME is a niche or more general player in the market also impacts on a lender's risk assessment. Adopting a niche approach may be sensible for a small business that might otherwise buckle under the weight of the competition in the more general goods market, yet it could call for aggressive marketing to generate viable returns. Market concentration is another factor that a lender would pay close attention to, particularly as SMEs more often than not trade in only one type of product. If a large order is cancelled, it could have a devastating effect on the business.

Another risk that is amplified for SMEs is inventory risk, which could manifest as cancellations of orders; delayed shipments and the need to offer discounts to mollify customers; and damage to or loss of consignments en route to their destinations, leading to protracted insurance claims or, worse, irrecoverable stock loss. Transit risk is an ever-present worry for exporters of tangible goods, but SMEs are invariably less well equipped than larger firms to deal with problems in the delivery chain.

How Easy Is It for SMEs to Obtain Export Finance in South Africa?

No studies have been conducted into firm-level trade (export) finance in South Africa, although a national study was conducted not so long ago on the impact of trade finance on South Africa's export flows (Kohler and Saville 2011). Data on trade finance for South Africa's SME community

has only become available through the 2010 World Bank Financial Crisis Survey on South Africa (see www.enterprisesurveys.org). The survey was rather limited in scope but it did yield valuable insights into the experiences of SME exporters when seeking external financial assistance. Of the firms surveyed, 194 were SMEs. Of these, 42 were exporters and 152 non-exporters. Of the 42 active exporters, 8 (19%) had obtained an L/C since 2006, while 34 (81%) had not.

The survey set out to measure whether access to finance (including the availability and cost thereof, interest rates and fees, and collateral arrangements) was perceived to be a constraint to the firm's operation. Among the findings was that only 16% of those SME exporters that have obtained an L/C since 2006 perceive access to finance as being an obstacle to their operations. This suggests that firms that are 'export finance ready' are more attractive prospects to lenders. Another key finding was that the value of sales generated by those SMEs that have made use of an L/C has been 20% to 30% higher than that generated by those SMEs that have not had access to such finance. The former group also has more exporting experience than the latter group (an average of 20 years versus 12 years) and employs more full-time staff. SME exporters that have not had the benefit of finance facilities have generated 25% more in national sales than SMEs with finance facilities, and have a greater proportion of production staff. However, the former group also has fewer non-production employees (such as managers and administrators). It is this category of staff (because of their familiarity with administrative processes) that plays a key role in helping a firm to become 'export finance ready.' When it comes to sources of finance, SME exporters that have obtained an L/C rely more on banks, while those that have not, rely on retained earnings and credit from suppliers.

What also emerged from the survey was that more SMEs in commodity-type industries use export finance than those in the manufacturing sector. This points to the importance of SMEs operating in the commodity sector, in particular, to take steps to become 'export finance ready.' How this is done will be explored in the next section.

How South African SMEs Can Mitigate Export Finance Risks

Financial institutions conduct thorough investigations into the risk profile of potential candidates for structured trade and commodity finance. The various risks are conveniently summarised in table 1.

What follows are some general guidelines that SMEs can follow to mit-

TABLE 1 Risks assessed by financial institutions when considering export finance applications

Market risks	Performance risks	SME-specific risks
Commodity price risk	Operational risk	Competition risk
Exchange rate risk	Production and off-take risk	Demand risk
Sovereign risk	Supplier risk	Industry risk
	Buyer risk	Concentration risk
	Settlement risk	Inventory risk
	Environmental risk	Transit risk
	Quality risk	

igate the above risks and improve their chances of securing structured finance facilities.

MITIGATING MARKET RISKS

There are various ways in which SMEs with direct exposure to commodity price risk can hedge against adverse price movements. For example, the exporter of a commodity could short-sell futures contracts of that commodity, or buy put options on commodity futures contracts.

Exchange rate risk can be mitigated by taking out forward cover or entering into a currency futures position. With forward cover, the exchange rate is fixed when the cover is purchased, thus ensuring that the exporter is protected against adverse exchange rate movements that could erode the profitability of a transaction.

Taking out export credit insurance is a useful way to hedge against sovereign risk which could manifest as, inter alia: trading licences being revoked; the subject matter of the sale being confiscated or expropriated; wars, acts of terrorism or strikes making it impossible to deliver or pay for a consignment; and currency inconvertibility (Grath 2008). An alternative to taking out export credit insurance would be for the SME to make use of a confirmed L/C where the SME's bank underwrites the credit risk of the foreign bank that issued the L/C (Matthee and Finaughty 2010).

MITIGATING PERFORMANCE RISKS

To mitigate operational risk, an SME first needs to be solvent. If the SME has a negative cash flow, it should emphasise to the lender that this is attributable to a volatile trade cycle and not to a weakness for elaborate office furnishings or inflated expense accounts! Financial ratios and the quality of working capital (inventory and debtors) will also be the subject of scrutiny. If an SME is able to keep assets current, has debtors that pay

timeously, and maintains appropriately low levels of inventory, it is more likely to be able to borrow considerably more than the value of its capital base. Secondly, an SME should not be a start-up or new business. It needs to have a sound reputation and track record in its particular industry, and be able to demonstrate its competence in doing business at an international level. Thirdly, an SME needs to have a detailed business plan that reflects its commitment to strong corporate governance and incorporates a realistic strategy for growing the business (International Trade Centre 2009).

Some financial institutions, for example, might not be prepared to offer a structured finance facility to a close corporation but would to a proprietary limited company (Pty Ltd) or formal partnership. (The close corporation structure is, however, being phased out in line with new legislation affecting business incorporation in South Africa.) A lender might also specify that an SME client is audited every year and keeps three or more years' worth of audited financial statements, which can be evaluated from time to time.

An integral part of export financing is the provision of security by the applicant. Three types of security can be provided. The first type involves the pledging of stocks and the provision of notarial bonds. With the former, the financial institution is always in possession of the underlying goods, which serve as the primary security. For example, a consignment of goods could be held and only released for loading on board a vessel when the financial institution gives its authorisation for this to happen (Matthee and Finaughty 2010). Another option is for the financial institution to take out a notarial bond over a consignment. Thus, if the financial institution is not paid, it has the right to sell the subject matter of the sale in order to recoup its losses (Faber and Schuijling 2010). The second type of security is provided through the cession of debts and invoices to the financial institution, enabling the latter to take over from the SME should problems arise, and complete the deal (Matthee and Finaughty 2010). The third type of security involves the SME owner (or shareholders) providing personal sureties and inter-company guarantees. If the SME's owner and/or shareholders are not prepared to support the financial risk that they are expecting the bank to assume, it would signal their lack of faith in the strength and sustainability of the business operation. Consequently, the chances of finance being forthcoming would be extremely small (Matthee and Finaughty 2010).

To mitigate supplier risk, an SME should establish solid and enduring

relationships with its suppliers so that erratic deliveries and delays are kept to a minimum. An SME should describe its relationship with its suppliers in its application for export finance, covering aspects such as the history of the working relationship, the interpersonal style that characterises their dealings with one another, and so on.

Mitigating buyer risk starts by establishing whether or not the importer is willing and able to pay. Business associates and other suppliers are often good sources of information in this regard (ITRISA 2012). Formal credit checks can reveal if the importer has a clear or blemished payment record (see <http://www.exporthelp.co.za/index.html>). However, to tackle buyer risk head on, it is advisable for the exporter to take out export credit insurance or negotiate a payment method (such as a confirmed L/C) that guarantees payment. As certain events or risks are excluded from cover under an export credit insurance policy, an SME should have back-up strategies in place, e.g. refrain from doing business with companies that have recently been established and lack trade references, are operating at a loss, have radically downsized their business operation, or have been liquidated in the past (Grath 2008).

Settlement risk can be addressed by negotiating a tenor (credit period) that is suited to the product in question. For example, agricultural products, such as grains and oil seed, typically call for 360 day facilities, whereas vegetable oil lends itself to 60 day facilities (Matthee and Finaghty 2010).

Drawing up and sticking to a maintenance schedule for all plant machinery and equipment will go a long way towards reducing production risk, as evidenced in technical breakdowns and a loss in productivity. Quality lapses can be curtailed if SMEs have their goods or commodities inspected by an independent and reputable quality assessor (see <http://www.exporthelp.co.za/index.html>).

Finally, SMEs need to ensure that their management team and key personnel have sufficient industry-related experience, and are au fait with the many dimensions of international trade and, importantly, export finance.

MITIGATING SME-SPECIFIC RISKS

Several of the risks that are a particular burden for SMEs cannot easily be side-stepped, e.g. competitive threats and fluctuating demand – both of which interfere with a firm's earning potential. These risks are best tackled by engaging in regular business planning sessions to show lenders that the risks are being taken seriously, and that the SME's management

team is prepared to take corrective action if their business is under threat.

The risks associated with heavy market concentration can be reduced if an SME diversifies its product base or at least introduces some differentiating features into its product range. Inventory risk, in turn, can be addressed by taking out insurance against the possibility of cargo-related loss or damage, and stock loss.

Transit risk can be controlled to some extent – even if an SME has a modest business operation. Practical steps that a firm could take are: choosing the mode(s) of transport very carefully; forging strong relationships with actual carriers and contractual carriers (i. e. forwarding agents); and ensuring that each transaction is covered by cargo insurance.

This section set out to highlight the risks that financial institutions assess when they receive application(s) for export finance, with SMEs being the subject of particularly diligent scrutiny. Yet the process of risk assessment remains subjective, with each case being judged on its particular merits. It can happen that all the boxes are ticked but an application is still rejected. This illustrates that risk assessors are, after all, human. And herein lies an opportunity – for SMEs to appeal to financial institutions' highly discretionary nature with a winning business plan, a clear grasp of the ups and downs of being an international player, and an expressed commitment to keep a rigorous risk mitigation strategy in place in order to safeguard the lender's investment (International Trade Centre 2009; Matthee and Finaughty 2010).

Concluding Remarks

The international trading arena provides innumerable opportunities to SMEs to grow their businesses and deliver value to shareholders and customers. But the road to international success inevitably consumes large chunks of cash and time, and requires a steely resolve to negotiate the many twists, turns and blind alleys along the way. As the subject of export financing for SMEs and what motivates or constrains financial institutions in their decision-making, is relatively uncharted territory in South Africa, it holds rich potential for more in-depth research.

This exploratory paper examined export finance as an important link in the market development chain as well as the difficulties that South African SMEs, in particular, face in securing such finance from banks and other financial institutions. In a departure from the norm, the authors elicited the views of selected financial institutions on export financing for SMEs, and identified the key risks that are typically assessed – from the

lender's perspective. The result is a valuable set of guidelines, arranged into different categories, that SMEs can follow when preparing their case for financial assistance. This largely boils down to mitigating the risks that would otherwise disqualify an applicant from funding – from taking out forward cover as a shield against unwelcome exchange rate movements, to running a tight ship and presenting pleasing trading results, while being ever alert to changes in market sentiment that might call for a fresh take on production and sales strategies. Herein may be policy recommendations for export promotion agencies to help SMEs overcome the limitations on their know-how of these processes.

SMEs will always be viewed with more circumspection by financial institutions than larger entities – it goes with the territory. But engaging in solid risk mitigation strategies and opting for the structured trade and commodity finance approach can go a long way towards giving SMEs a leg up in their quest to become serious international players.

References

- Arteaga-Ortiz, J., and R. Fernández-Ortiz. 2010. 'Why Don't We Use the Same Export Barrier Measurement Scale? An Empirical Analysis in Small and Medium-Sized Enterprises.' *Journal of Small Business Management* 48 (3): 395–420.
- Bell, J. 1997. 'A Comparative Study of the Export Problems of Small Computer Software Exporters in Finland, Ireland and Norway.' *International Business Review* 6 (6): 585–604.
- Bilson, C. J., T. J. Brailsford, and V. C. Hooper. 2002. 'The Explanatory Power of Political Risk in Emerging Markets.' *International Review of Financial Analysis* 11 (1): 1–27.
- Buatsi, S. N. 2002. 'Financing Non-Traditional Exports in Ghana.' *Journal of Business and Industrial Marketing* 17 (6): 501–22.
- Faber, D., and B. Schuijling. 2010. 'Financial Leasing and Its Unification by Unidroit.' *Electronic Journal of Comparative Law* 14 (3): 1–19.
- Fillis, I. 2000. 'Barriers to Internationalisation: An Investigation of the Small Craft Microenterprise.' *European Journal of Marketing* 36 (7/8): 912–27.
- Gaffney, M. 2009. 'Money, Credit and Crisis.' *American Journal of Economics and Sociology* 68 (4): 983–1038.
- Grath, A. 2008. *The Handbook of International Trade and Finance: The Complete Guide to Risk Management, International Payments and Currency Management, Bonds and Guarantees, Credit Insurance and Trade Finance*. London: Kogan Page Limited.

- Griffith, D. A. 2010. 'Insights into Gaining Access to Export Financing: Understanding Export Lenders' Ideal Exporter Profile.' *Journal of World Business* 46 (1): 84–92.
- Herger, N. 2009. 'Trade Finance and Financial Crisis.' NCCR Working Paper 2009/35, Swiss National Centre of Competence in Research, Bern.
- International Trade Centre. 2009. *How to Access Trade Finance: A Guide for Exporting SMEs*. Geneva: International Trade Centre.
- ITRISA. 2012. 'Study Material for the Certificate in International Trade.' International Trade Institute of South Africa, Johannesburg.
- Klaassens, W. 2005. 'Structured Commodity Finance: A Proven Tool with a Pragmatic Take on Risk.' *Asian Trade Finance Yearbook 2005*, April. http://www.citigroup.com/transactionsservices/home/about_us/articles/archive/2005/docs/tr_0405.pdf
- Kohler, M., and A. Saville. 2011. 'Measuring the Impact of Trade Finance on South African Export Flows.' *SAJEMS* 14 (4): 466–78.
- Kulikova, M. V., and D. R. Taylor. 2013. 'Stochastic Volatility Models for Exchange Rates and Their Estimation Using Quasi-Maximum-Likelihood Methods: An Application to the South African Rand.' *Journal of Applied Statistics* 40 (3): 495–507.
- Leonidou, L. C. 2004. 'An Analysis of the Barriers Hindering Small Business Export Development.' *Journal of Small Business Management* 42 (3): 279–302.
- Lu, J. W., and P. W. Beamish. 2001. 'The Internationalisation and Performance of SMEs.' *Strategic Management Journal* 22 (6–7): 565–86.
- Magaziner, D., and S. Jacobs. 2013. 'Notes from Marikana, South Africa: The Platinum Miners' Strike, the Massacre, and the Struggle for Equivalence.' *International Labor and Working-Class History* 83:137–42.
- Matthee, M., and E. Finaughty. 2010. 'Trade with China: How to Support African SMEs.' Paper presented at the 7th African Finance Journal Conference, Spier Wine Estate, Stellenbosch, March 18–19.
- Mtigwe, B. 2005. 'The Entrepreneurial Firm Internationalisation Process in the South African Context.' *International Journal of Entrepreneurial Behaviour and Research* 11 (5): 358–77.
- OECD. 2002. *Small and Medium Enterprise Outlook*. Paris: OECD.
- Okpara, J. O., and N. J. Koumbiadis. 2011. 'Strategic Export-Oriented and Internationalisation Barriers: Evidence from SMEs in a Developing Country.' *Journal of International Business and Cultural Studies* 4:1–10.
- Prusky, J., and R. Klein. 2010. 'Unlocking SME Growth.' *Trade Finance* 13 (1): 59.
- Ramaswami, S. N., and Y. Yang. 1990. 'Perceived Barriers to Exporting and Export Assistance Requirements.' In *International Perspectives on*

- Trade Promotion and Assistance*, edited by S. T. Cavusgil and M. R. Czinkota, 187–206. Westport, CT: Quorum.
- Rhee, Y. W. 1989. 'Trade Finance in Developing Countries.' Policy Planning and Research Paper 9303, World Bank, Washington, DC.
- Suárez-Ortega, S. 2003. 'Export Barriers: Insights from Small and Medium-Sized Firms.' *International Small Business Journal* 21 (4): 403–19.
- UN/ECE Secretariat. 1997. 'SMEs – Their Role in Foreign Trade, UN-ECE Operational Activities.' Background Paper prepared by the UN/ECE Secretariat for the BSEC Workshop, Kiev, Ukraine.
- UNESCAP. 2005. *Trade Finance Infrastructure Handbook for Economies in Transition*. New York: Economic and Social Commission for Asia and the Pacific.
- Zavotta, R. 2008. 'Financing Technology Entrepreneurs and SMEs in Developing Countries: Challenges and Opportunities.' http://www.infodev.org/infodev-files/resource/InfodevDocuments_611.pdf