

FINANCE

# Finding finance

Small-, medium- and micro-enterprises (SMMEs) are important vehicles to address the challenges of job creation, economic growth and equity in South Africa. Around the world, they play a critical role by absorbing labour, penetrating new markets and expanding economies in creative and innovative ways. The availability of finance is crucial for SMME development, but tight credit conditions have made access to finance all the more difficult and the banks in particular are moving to limit their exposure when it comes to start-ups and SMMEs.



Bank financing does have its uses – it is ideal for large, risk-aware deals, where the bank comes on board as a partner. Banks are ideal for people who can afford to take risks; can you afford to? The banks look for certainties when they evaluate business ideas, not viability. They will look at whether or not your personal net worth will cover their loan so that in the event of a recession, crime, malpractice etc., they can get their money back from you.

In researching this article, it was very difficult to find out what percentage of the banks' loan books are extended to SMMEs. Now that I have your attention, here are some alternative sources of funding that you may want to try out first, before handing over your life to a major bank. The organisations listed below in my view are among the best alternative funding options:

#### Business Partners

Business Partners aims to provide a full service offering to entrepreneurs, including tailored investment solutions, property brokering, property management, mentorship, consulting and ongoing business support through industry specific units. It does not finance entrepreneurs who have high-risk proposals that could possibly have very high returns.  
[www.businesspartners.co.za](http://www.businesspartners.co.za)  
0861 763 346

#### Industrial Development Corporation

The IDC requires entrepreneurs to assume a significant portion of the risk by providing a portion of the funding requirements. Although the emphasis is primarily on development, the financing of buy-ins, buy-outs or takeovers is also considered. Preference is given to the financing of fixed assets, greenfield projects, expansions, rehabilitations and projects that will encourage job creation, exports, empowerment and downstream operations.

[www.idc.org.za](http://www.idc.org.za)  
011 269 3000

#### Khula Enterprise Finance

Khula is a wholesale finance institution which operates through a network of channels, including the commercial banks, Business Partners and other joint ventures. Khula has a number of different indirect funds, each of which are specific to a particular sector of the market. Its Equity Fund, for instance, invests in companies that offer the opportunity of high returns.

[www.khula.org.za](http://www.khula.org.za)  
08600 54852

#### National Empowerment Fund

NEF has a number of funding structures to assist different sectors of the BEE market. Among these is the NEF Entrepreneurial Support Programme, created to encourage a

culture of entrepreneurship amongst black-owned businesses and to encourage the growth of these businesses. The funds may support enterprises that are not currently black-owned or managed, provided there is a detailed plan to ensure meaningful owner/management participation within a reasonable period of time.

[www.nefcorp.co.za](http://www.nefcorp.co.za)  
011 305 8000

#### National Youth Fund

This fund is aimed at young people and offers access to finance (at various scales), as well as business consulting skills, education programmes and much more. Funds include the Franchise Fund, a public-private partnership offering loans from R150 000 to R3-million for all types of franchises for youth entrepreneurs.

[www.nyf.org.za](http://www.nyf.org.za)  
011 651 7000

#### SA Micro-Finance Apex Fund

Samaf is a micro credit outlet and is tasked with facilitating the provision of affordable access to finance to micro, small and survivalist business for the purpose of growing their own income and asset base. Further to this, Samaf wants to build a network of self-sufficient and sustainable micro-finance institutions.

[www.samaf.org.za](http://www.samaf.org.za)  
012 394 1796

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### WHY SMMEs DON'T LOOK FOR ALTERNATIVES

The more common reasons SMMEs don't approach alternative funding partners are:

- They don't know what's out there in the way of alternative funding.
- They don't know how to access and interact with these funds. This has more to do with the maturity of the individual applicant and less to do with agency procedures, albeit that they are often cumbersome. But did you think borrowing money was going to be easy?
- The banks are better at marketing their services and their processes are easier to follow. In effect many business owners will take the riskier option of a commercial bank loan, simply because the banks process faster by demanding higher risk burdens to be borne by the lender.
- They assume that these funds are only for black-owned businesses. Interestingly in the 2008/2009 period, Khula Enterprise Finance allocated 52% of its funding to black-owned businesses; while 48% went to non black-owned business. The alternative institutions don't help their cause by not being clear on this message.
- Alternative funders don't seem to have tailored their products as attractively as the commercial banks have i.e. where commercial banks will have specific products for franchising, financing of private schools etc, the funding limits are below the market value of viable business ventures such as franchises etc.

Why I prefer alternative funders:

1. They are often prepared to take on more risk,
2. They don't tie you as heavily to personal sureties (some in fact don't ask for personal surety at all),
3. They do an actual due diligence on the business you want to acquire, and

4. If you negotiate your contractual terms correctly you can get them on as backup should your deal go sour.

How should you go about engaging with these potential funders? Consider them an essential element of your business network – businesses can't survive in isolation, especially SMME businesses. There is no secret formula for successfully approaching a funder and there are no guarantees that you will get the financing you require. Your best chance of success with a funder is to know your business and your environment very well. If you own a going concern, you must have stable financial results and you should know how your potential funders view your industry.

### ENGAGING WITH FUNDERS

The engagement process should not start with the initial loan application. Instead start by collating all your information. Besides a business plan, financials and application forms, you must provide:

- Company registration documents
- Your place of residence and operation (typically a municipal account)
- Detailed CVs for yourself and partners
- Tax clearance certificates if you are a going concern and registered for tax.

Most funders have their own formats for your business plan, financials and projections, so find this out. They will also expect you to know your industry well, so collect as much information about your industry as you can and detail your position in it – what are the drivers of your industry and where do you fit in?

### PRE-APPLICATION

I would suggest learning as much as you can about the various funders and then selecting who to apply to:

- Ask for complete profiles on their products and services, as well as application packs, and
- Detailed explanations (most don't have these) on the application process, including what happens if you are successful and what prejudice you will face if you are rejected.
- Ask to meet an account manager. You need to build personal relationships with these people. Funders receive thousands of requests a year, it's best to try to differentiate yourself; start with a handshake.
- Ask about whether or not the funder will take ownership in your business and what the pros and cons of this are.

### APPLICATION

My best advice to you is to sit down with the funder (actually schedule time with someone) to walk you through the application process and the development of your business plan. This is one of the big differences between commercial banks and the alternate funding agencies; the agencies will help you develop your business plan.

Securing funding is not impossible; it's just very difficult. Knowledgeable account managers in the lending game will tell you that SMMEs should ideally use their own funds (or those borrowed from friends, family or fools) when starting up. In fact, the search for financing can kill a good business idea. You must know exactly what you need the money for – every cent – and must stay focused throughout each phase of the application process. If you are lucky enough to secure funding, be disciplined when spending it to ensure that you can repay your funder. VB

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