ALTERNATIVE FUNDING FOR SMALL BUSINESSES

Entrepreneurship has been increasingly encouraged by government in the past few years, as the barrier for entry is continuously being lowered to stimulate participation in business. Funding has however proved to be a high hurdle for entrepreneurs.

With South Africa's unemployment rate now the highest in the world at 44.4 percent in the second quarter, the general concept of entrepreneurship and small business funding needs more attention than usual. The thought is that small-scale entrepreneurs are underfunded due to the large demand for capital and that new entrepreneurs need to demonstrate their likely ability to stay afloat before any cash injections are directed their way. These two considerations are critical in a country where 70 – 80 percent of small businesses fail within 5 years.

Tania van Zyl, Head of Department – Monthly Compliance of Private Client Financial says that there are alternative funding options available to small businesses, other than the conventional method of going to the bank.

"The current state of the economy can make seeking and obtaining loans seem like a nightmare. If you're struggling to get a bank loan, or you don't like your current options, there are alternatives to traditional loans that are likely available to you."

1. Agency funding options

These are available to small businesses with the objective of meeting certain quotas, including gender, race, regional and industrial transformation.

Examples of agency funding programmes include:

- National Empowerment Fund (NEF) services business loans from R250 000 to R75 million across a variety of industry sectors.

- Small Enterprise Finance Agency (SEFA) has a programme called the Township and Rural *Entrepreneurship* Programme (*TREP*), among others, where it finances SMMEs in townships, rural areas and farms with R350 000. R300 000 is for equipment and R50 000 working capital in a form of a grant.

- Department of Trade and Industry's (DTI) mandate is economic enlargement and Black Economic Empowerment.

- Isivande Women's Fund is a BEE and gender equality programme that provides funding from R30 000 to R2 million.

- The Small Enterprise Development Agency (SEDA)

2. Bootstrapping finance

Bootstrapping, also known as financial bootstrapping, describes a position in which an entrepreneur starts a company with little capital, relying on own funds rather than outside investments to build the business. Bootstrap financing techniques are often favoured by smaller businesses.

3. Crowd funding

Various crowd funding platforms are available online in South Africa, with the general touch points being a funding goal project description, audio visual presentation, rewards structures for backers, "jump starters" profiles and project deadlines.

The size of the crowdfunding market in South Africa is yet to be determined, even though regulators are said to still be trying to get a full understanding of the increasingly popular trend.

Although crowd funding is not specifically regulated in South Africa, certain activities may fall under various financial services regulatory provisions and legislation.

Crowd funding is also popular with crypto-assets managers, deriving from their common nature of surviving in a digital habitat.

Crowd funding classes are:

- **Debt-based crowd funding, which is** basically a loan where the investors provide funding to the recipient, which is then repaid over time with interest.

- **Equity-based crowd funding,** whereby the investors provide funding to a start-up company by subscribing for shares and these funders sign-up to only to receive dividends when the project becomes profitable.

- **Rewards-based crowd funding** has characteristics of bartering as **investors** generally make an "investment" into a business with an undertaking that allows for them to receive goods or services in return for the funding once the business has been launched successfully.

4. Make space for a partner

Getting a business partner comes with both advantages and disadvantages and should not be embarked on without professional advice.

5. Venture Capital and Angel Investment

Venture capital or angel investments are individuals or firms that are willing to pump funds into startups. They are typically looking for a return (you would need an exit plan or growth plan) or a share of your business.

This kind of funding is very applicable for specific industries (ie. tech, medical, online) and usually require your business to be somewhat disruptive and primed for growth. If this route seems like a good option for you, then a solid business plan and pitch deck are vital here.

No matter the funding be prepared with your business plan

"Seeking funding for your business in the more traditional style of bank loans can be challenging, and these alternative funding options can help you save time and rejection along the way. No matter the funding options you choose, it's important to have a solid business plan to back up your business and better your chances of acquiring funds," concludes Van Zyl.

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