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Finance trends impacting SMEs

By Darlene Menzies

11 Jan 2017

In South Africa, more than 80% of start-ups fail in their first year and of those who survive only half are still in business by year three. For a country that is relying on the small business sector to grow the economy, this high failure rate is concerning and the key causes need to be urgently addressed. The lack of access to finance is one of the primary causes of small business failure.

Source: Women in Tech ZA

Research shows that 67% of start-ups rely on family and friends for funding, even though there are funds available to assist start-ups. Sadly, most start-ups are unaware of who these lenders are or how to access them; the same is true for the owners of more established and growing businesses.

In total there are over 350 funds that exist specifically to provide funds to SMEs, yet many small business owners are struggling to raise the capital they need to help bridge their cash flow needs, to expand their business or to purchase property for example.

Accessing lenders

The reality is that there is more than enough money to lend to SMEs in South Africa from an array of lenders that include niche financiers, invoice discounters, contract financiers, angels and venture capitalists, import and export financiers, development finance institutions, corporate enterprise development funds, government grants and other financial institutions - including banks.

Financial readiness

When it comes to the lenders, most of them have the same challenge in common when it comes to their struggle to grant loans to SMEs – the lack of finance readiness. They waste hundreds of hours processing loan applications that cannot be granted as the entrepreneurs have not provided the necessary documentation and compliance that is required to do so.

Some of these include signed financial statements, up-to-date management accounts, business owner's statement of personal assets and liabilities, budgets, financial projections, business plans and others.

Another challenge is that entrepreneurs tend to ignore the state of their personal finances. Most lenders take personal credit records into account when it comes to small business finance, alongside the vetting the business's financial history, its viability and its ability to repay the loan. The lack of collateral can also be a constraint to accessing finance, it is a mandatory requirement for some lenders.

ABOUT THE AUTHOR

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