SME Financing 101: Knowing your options is key

Small and medium enterprises (SME) owners across the country gave a unified sigh of relief, as certain lockdown restrictions were eased. Yet despite this easing of restrictions, SMEs have been under pressure for some time thanks to a sluggish economy, which the pandemic only served to compound.

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This is according to Jeremy Lang, regional general manager at Business Partners Limited, who urges business owners to be realistic about their expectations and plans for the year ahead, but not to give up hope; “While we still have a long road to recovery, the extended curfew and the lift on the ban on alcohol sales is a positive step, especially for the hospitality sector. We implore SMEs who might be tempted to throw in the towel to reconsider their financing options.”

New institutions and types of financing are introduced each year, and there is a whole host of financing products available from the private and public sector. This financing mainly consists of grants, risk-free and risk-based finance where either grants, debt or equity investments are made available.

Financiers include commercial institutions such as banks and SME focused financing institutions, development finance institutions, angel investors, crowd funding, enterprise development funding and private equity firms, amongst others. At present there are also relief programmes specifically designed to help SMEs weather the Covid-19 storm.

Unfortunately, a lack of awareness around available financing as well as a lack of business compliance and knowledge are proving to be a major barrier to SMEs accessing the support they need. “Thus, accessible financing is key to the survival of SMEs – which will, in turn, only assist the country’s economic recovery,” says Lang.

Before applying for financing, he advises a few factors that SMEs should consider:

Get your ducks in a row

Most financiers require 12-24 month projections and need to get a clear understanding of how further expenditure will produce a better income for the business, which is why it is vital to detail how the business loan will be spent and how this will influence the projections. “Strict criteria for most finance applications require statutory compliance and financial statements to be completely up to date, so make sure that the administrative function of the business is well managed,” says Lang.

Determine the life stage your business is in

Lang explains that each financing option has different features that could be beneficial for businesses at various stages in their lifespans. “During the early stage of any business, it is most difficult to source financing due to the higher risk involved for the financier – which is why the majority of entrepreneurs rely on financiers like family or friends to provide the necessary funding to open or expand a business.”

As the business grows and matures, more capital may be required to maintain business operations during tough times, but a lower risk profile also means more financing options become available.

Customise every application

According to Lang, the local financing landscape can be tricky to navigate because different financiers have different mandates and objectives in terms of social impact, employment or commercial returns. “Generic applications may result in a higher failure rate, so it pays to do your research on all potential financiers in order to determine not only whether the business matches the specific criteria of the investor and speaks to their investment preferences, but also that the proposed financing agreement ensures a fair deal for both the entrepreneur and investor,” he advises.

Seek additional specialist input

Financiers have become strong advocates of SMEs, especially over this tough period. According to Lang, there is a strong correlation between a business’ success when it receives financing along with technical assistance and mentorship. “Experts in their field can help SMEs to avoid costly mistakes and improve processes within the business.”

In conclusion, Lang adds, “The good news is that, while financiers’ and banks’ lending criteria have become increasingly stringent over the years, interest rates are currently low in South Africa, and as a result, monthly instalments have decreased, increasing affordability by SMEs. While it might seem like you are out of options, there is financing still available for SMEs - sometimes it’s just a matter of finding the right financing fit and knowing how best to approach it to increase your chances.”