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By Amanda Visser

# SME funding remains elusive

For a number of reasons, small- and medium-sized enterprises struggle to obtain financing through traditional channels. Recently there has been a rise in alternative funders who are giving entrepreneurs a way of starting up.

There are roughly 2.5m small- and medium-sized enterprises (SMEs) in South Africa, according to the latest Finfind study on SME funders and finance seekers.

And although the country does not have a shortage of funding channels available, research shows that many small businesses who are eligible for funding are still unable to secure the finance they need.

According to the study, sponsored by the SA SME fund, the credit gap for SMEs in SA is between R86bn and R346bn. The credit gap in sub-Saharan Africa is estimated at between $80bn to $100bn.

The sector provides a "compelling, largely untapped market opportunity" for innovative funders who are able to develop new lending models and risk assessment tools tailored to address the challenges of this complex and burgeoning market.

According to Finfind data, start-up capital, buying equipment, expanding businesses and working capital are the largest funding requests in the country – making up 62.4% of all funding requests.

## Increase in alternative funders

Over the past few years there has been an increase in alternative funders in emerging markets like SA, but also in more developed markets like the US, UK and Europe.

In SA there are 148 funders who provide 328 different finance products. The biggest differentiator appears to be the split between government and private sector funders whose business models and strategic intents differ, according to the Finfind report.

Co-founders of Fundrr, Idan Jaan and Jarred Noche, have first-hand experience of the frustration small businesses have when approaching traditional funding channels such as banks.

Jaan has worked in a group which had 80 SMEs in their portfolio, and hardly any of them were able to access bank funding. "Those that applied for funding would wait 12 weeks for a decision, and they had mountains of bureaucracy to get through," he says.

Noche says banks use traditional sources of information that aren't focused on small businesses. Often, they still require audited financial statements which is quite expensive and very few small businesses have a need for audited statements.

The problem of accessing financing also extends to agriculture. At a recent workshop in Johannesburg, FNB highlighted the plight of small farmers seeking financial assistance. Dawie Maree, head of agriculture information and marketing at FNB South Africa, said offering loans to farmers who do not hold title deeds remains a major risk.

**Dov Girnun**
CEO of Merchant Capital and chair of the South African SME Finance Association

**Idan Jaan**
Co-founder of Fundrr

**Jarred Noche**
Co-founder of Fundrr

"As the financial sector we need to ensure that everybody gets financing at a reasonable rate that allows them to be profitable. We need to refigure our financial models," he said.

This includes developing more complex credit structures to have blended finance that helps with access to markets, skills and funding.

## Alternative credit models

Fundrr has developed an automated credit model that analyses close to 100 data points to get a holistic picture of a small business. This includes information about its social media presence, public reviews of the company, response time to clients and how they interact with clients.

They offer unsecured lending and, because of their credit model, the time to complete an application and to upload the required documents generally takes around eight minutes. A decision is made within 24 hours.

They require six months' bank statements, a lease agreement, trade references and social media handles. They encourage business owners to repay their debt as quickly as they can and do not charge interest for the full term when they do.

They have rejected a fair amount of applications in the 12 months since starting up, mainly because applicants' cash flow was inadequate, they did not have a strong credit case, and several had existing loans with other funders.

"A lot of our decisions come down to affordability. We want to ensure that the business can afford the repayment and have free cash flow after the repayment to carry on with operations," says Jaan.

## Who is to blame?

Kumaran Padayachee, CEO of the independent SME financier Spartan, says business owners should also accept some of the blame for being rejected for financing.

In many instances they don't do proper research. They don't understand or know the requirements of alternative lenders, or they do not understand the mandate of the different development finance institutions such as the Small and Enterprise Finance Agency or the IDC.

"They have to be ever-ready because as their business grows, they will require funding during those different stages." He says they should become like a "frequent flyer". The frequent flyer is less anxious, has a checklist, a regular routine and is like a well-oiled machine when flying.

"SMEs are more like a casual flyer; when they need funding, they are seldom ready. That is a silly self-inflicted wound to suffer from."

They should prepare financial accounts timeously every month and should improve their financial knowledge and understand the alternative funding models.