It's time to disrupt the funding landscape in SA

According to Louw Barnardt, co-founder and MD of funding-finder Outsourced CFO, the South African funding landscape faces a series of challenges and is ripe for disruption.

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Massive outflows of foreign capital from our borders, slow economic growth and tough global trading conditions, difficult regulations and red tape…

Upscaling private companies in South Africa is a massive task. But if we're serious about growing our base of job-creating private companies, something needs to be done. As a nation desperate for job creation, we need to delve deep in order to understand the critical constraints needed to unlock this kind of growth.

The current funding landscape

The SAICA SME report states that "according to SMEs, the main reasons for business failure are overwhelmingly cash flow related". A business of any size and in any industry needs financial stability to operate sustainably. Aiming to expand is an even more complex objective that requires SMEs to raise growth finance.

Taking this into consideration, how can SMEs be expected to operate sustainably as well as grow, if accessing finance proves to be one of their greatest obstacles? The SAICA SME report concluded that SMEs "start with too little capital, they collect debtors late, are subject to bad debts and that overheads are too high".

Government expects that 90 per cent of new jobs will come from SMEs. Therefore large businesses and the public sector need to realise that SMEs will be crucial for growth of the fiscus as well as the private sector's turnover. This then concludes that SME growth is not only for the benefit of the SME, but in the best interest of large corporations and the public sector.

The tough criteria, vast amounts of paperwork, high interest rates and general unwillingness to lend out money have given traditional funding institutions a bad name among entrepreneurs. The floor is open for new and innovative ways to solve this funding issue.

Peer-to-peer lending

One of the key developments in this area has been the rise of peer-to-peer lending. To quote Wikipedia, "peer-to-peer lending (P2P lending) is the practice of lending money to unrelated individuals (or companies), called 'peers', without going through a traditional financial intermediary such as bank or other financial institution."

Peer-to-peer lending platforms could be the answer to providing affordable funding to SMEs. In quoting interest rates to borrowers, the answer lies in the margin. Peer-to-peer lending, being online-based, eliminates many of the high overhead drivers of traditional funding institutions, like large physical offices and massive payroll costs. This enables these platforms to offer lenders higher yields on their savings, and to offer borrowers lower rates on their loans, all because they require a much smaller margin to cover their costs. Magic!

Score cards that are designed to determine each borrower's creditworthiness by looking at its financial health and expected future cash flows assist peer-to-peer funding platforms in allocating capital. Borrowers then receive money from multiple verified lenders at competitive interest rates and low fees. Drawing from the platform's credit rating expertise, lenders also benefit from its services in what appears to be a win-win solution.

Section 12J and venture capital

This and other exciting new ways of getting funded are working their way into the market to offer innovative solutions to the company that's ready for growth. With Section 12J also slowly moving more into the spotlight, new life is being breathed into the venture capital space.

Section 12J allows investors in a SARS registered Venture Capital Company a 100 per cent tax deduction for their investment. On a 41 per cent tax bracket, this means that an investor only has a 59 per cent exposure on his money, but with 100 per cent of the upside. This serves as government's mechanism to channel high net worth individuals' investment portfolio's into young companies.

The launch of Grovest VCC's latest fund called GroTech, aimed at disruptive technology companies, as well as other new funds raising capital, sees more players coming into the venture capital space, with more investors waking up to the opportunities of this asset class.

Getting ready for funding

Money is available. It is up to founders to make sure that they are ready for funding. Companies need to look long and hard at their ability to clear a due diligence and also to offer a unique offering that makes business sense to a funder. Businesses that have their house in order, can prove sustainability and growth as well as a unique value proposition just need to keep knocking.

As a country, we have so much riding on the success of SMEs. Starting new businesses and upscaling existing ones stand alone among the seemingly decreasing pillars of hope for our economy. Seeing more and more disruption in the funding landscape fuels our opportunity to create a sustainable SA with inclusive growth and enough jobs for the hands of our people.

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