

# Alternatives to bank loans for financing small enterprises

By [Steven Cohen](#)

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If you're a South African entrepreneur or small business owner looking for financing to start or expand a business, you have probably become accustomed to banks and venture capital firms slamming the door in your face.



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You are far from alone - lack of financing is a perennial challenge for small and medium enterprises (SMEs) in South Africa as well as smaller businesses in many other parts of the world.

The Sage Business Index for 2013 found that 63% of South African businesses agree that banks aren't doing enough to make funding available to small businesses. Just over half (53%) of South African businesses say they need to look at alternative funding sources. The good news is that there are a number of alternatives to bank loans for financing to grow your business. Bootstrapping, government grants and funding, and crowd funding could all play in filling the gap left by the banks. Let's look at a few of your options.

Financing for start-up businesses is hard to come by in South Africa - there aren't many venture capital firms, banks are very careful about whom they lend money to, and the process of applying for a loan from a state-entity like the IDC can be baffling and time-consuming. Why not try to fund the business from cash flow and from your own pocket as far as possible?

## Budget carefully

You'll need to budget carefully, manage cash flow aggressively and possibly save up some capital for your business before you quit your day job, but it may well both possible and desirable to do so, especially if your business isn't especially capital-intensive. The benefit is that you won't need to dilute your ownership and control of your business by taking on a shareholder, and you won't need to repay loans with heavy interest. Another benefit is that you will build a lean business right from the start, because you'll learn how to make do with minimal resources.

Crowd-funding is starting to become popular worldwide as a funding mechanism, but it is not yet common or well understood in South Africa. It is essentially about raising small amounts of money from a large number of people, often via the web. For example, the Kickstarter website enables businesspeople, games developers, inventors and film makers, among others, to pitch their ideas to the public in an effort to raise cash for their projects and products. This concept is far from mainstream, but it's worth keeping an eye on.

A more conventional approach - but one that may work if you have the patience for the red tape - is to seek government grants and funding. The South African Department of Trade and Industry (DTI) has a range of incentives, loans and funding schemes for emerging businesses - Entrepreneur magazine has a good overview.

## **BEE scorecards**

If your business is majority black-owned, the enterprise development components of broad-based black economic empowerment (BBBEE) may work in your favour. Larger companies can score big points on their BEE scorecards by procuring goods and services from black-owned enterprises as well as supporting such companies with funding, mentoring and other help. It could be helpful to explore such opportunities with your major customers.

In many ways, a lack of financing is one of the parameters within which small businesses in South Africa must operate. That's not always necessarily a bad thing because it helps to keep you grounded and disciplined, qualities that will help you to build a sustainable business for the long term. And once you've got your first customers and a track record of financial stability, funding will suddenly become easier to come by.

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