The Essential Guide to Funding in SA: Giving your Ideas what they need to become Businesses
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Why do so many startups in South Africa fail? There are a variety of reasons that this happens, from a lack of industry knowledge to the absence of a mentor in the life of the entrepreneur. But in the ecosystem of starting a business the most significant indicator of success of a startup is the presence of funding. This is indicated by the fact that according to the Seed Academy Startup Survey, 83% of entrepreneurs that participated in the survey (almost 1000) are self-funded. This may be due to a lack of access, a lack of knowledge or a small base of actual funders, however the relationship between entrepreneurs is a mutually beneficial one that not only increases the personal wealth of the individuals involved but gives the economy the necessary momentum it so desperately needs. In this guide, Seed Academy outlines the essential resources needed to fulfill this critical point in the lifecycle of new business ventures.

For more information and statistics on Startups in SA read:
No entrepreneur has any hope of getting his or her business off the ground without financial support. While an option may be to self-fund (bootstrap), many entrepreneurs are not financially able to do so. The task of getting funding seems daunting for anyone. In today’s economic climate, individuals and companies are especially reluctant to part with any money unless they are truly convinced of a substantial return. Miles Khubheka, the founder of Vuyo’s, uses an analogy of a broken down car, to explain this, “When your car breaks down and you are stuck on the side of the road, if you sit in your car waiting for help to arrive, it may not. However, someone is more likely to lend assistance if you get out and start pushing yourself.”

There are many potential routes to pursue funding. Below are various options that entrepreneurs can investigate depending on their unique start-up or expansion requirement as well as what the entrepreneur has managed to achieve thus far.

Most entrepreneurs start with approaching the ‘3 F’s of Financing’: friends, family and fools. If this strategy is not feasible, an entrepreneur will have to look at more formal avenues for finance, such as these considered below:

1. **“Angel Funders” and “Seed Investors”**

“Angel Funders” and “Seed Investors” can be approached to collect capital whereby more than one person invests the necessary funds to start the business and to sustain it for a certain period. This method of funding can be useful for startup companies that are promising, but fail to attain the necessary capital in other traditional ways. In return for funding, the entrepreneur may have to give up partial control or equity of the business and provide a return to funders on their investments. This type of funding is usually suited to companies in the first two years of opening their doors.
Crowdfunding involves:
• the entrepreneur that proposes the ideas and/or projects to be funded;
• the crowd of people who support the proposals (the funders); and
• the organization/website (the “platform”), which brings together the entrepreneurs and the funders.

To start the process, the entrepreneur seeking the funds will set up a profile of their project on a crowdfunding website and can then use social media to pitch their business in order to raise money.

There are three different types of crowdfunding: donation, debt and equity:

**Donation/Reward Crowdfunding:**
People invest simply because they believe in the cause. Funders have a social or personal motivation for putting their money in and expect nothing back, except perhaps to feel good about helping the project. Non-monetary rewards can be offered to the funder as a token gesture.

**Debt Crowdfunding:**
Funders receive their money back with interest. Also called peer-to-peer lending, it allows for the lending of money while bypassing traditional banks. Returns are financial, but investors also have the benefit of having contributed to the success of an idea they believe in.

**Equity Crowdfunding:**
Funders invest in an opportunity in exchange for equity. Money is exchanged for shares, or a small stake in the business, project or venture. As with other types of shares, if it is successful the value goes up. If not, the value goes down and their equity is lost.

Crowdfunding sites in South Africa:
• IndieGoGo.com: For musicians and film-makers
• Thundafund.com: South Africans looking to fund their projects can start here.
• Crowdinvest.co.za: An accredited South African funding platform trying to bring established investors together to fund local projects.
• FundFind.co.za: Local platform claiming to give “average South Africans a reason to dream again.”
• Startme.co.za: Taking local projects in categories like agriculture, creative and entrepreneurial amongst others.
The crowd funding process

1. Pitch
2. Screening
3. Pitch goes live
   - Project idea
   - Funding goal
   - Funding deadline
   - Return and rewards
4. Public pledge money
   - Funding goal
5. Project development

*There are two main models. With 'all or nothing' the project only gets the money pledged if they reach their target on time. The 'keep it all' model lets the project keep any money pledged by the deadline, even if the target is not reached.

*Source: www.whitefusemedia.com
3. Development Funding Institutions

1. Department of Trade and Industry (DTI)

The DTI is the division of government that is tasked with supporting and promoting business activity as well as promoting trade with other countries. It seeks to broaden participation in entrepreneurial activity to all, with emphasis on youth development, women and B-BBEE.

In order to create economic growth in South Africa, the DTI has recognized the importance of providing financial as well as non-financial support to entrepreneurial ventures. By collaborating with other government departments, the DTI aims to promote enterprise empowerment, growth and equity.

Applying for a government loan or grant is very administratively intensive in terms of selection and qualifying criteria as well as required documentation and paperwork.

![PLANTING THE SEED]

The difference between a loan and a grant is that while a loan has to be repaid generally with interest, a grant does not.

a. Grants

Each grant will have specific qualifying criteria, which must be adhered to in order to apply. Research into the required criteria must be investigated.

**Generally, the following will be considered:**
- the business needs to be majority black-owned;
- the business needs to have a significant representation of black managers (if applicable);
- the minimum and maximum turnovers vary from grant to grant;
- the business must have a minimum of one year in trading;
- the business must be a registered entity with a tax clearance certificate, VAT number, etc.;
- the business must comply with all regulations such as CIPRO, SARS etc.
- all owners and major shareholders need a clear credit history.

**The following checklist will assist an entrepreneur in making sure they have done the necessary preparation to apply for a grant:**
- a completed and signed application form;
- a SARS Tax Clearance Certificate – original and valid;
- a detailed business plan;
- a co-operative resolution (if applicable);
- a list of directors, shareholders etc. complete with certified copies of IDs and CVs;
- a copy of the business registration certificate;
- a motivational letter;
- bank statements; and
- projected financial statements for start-up and/or expansion.

An example of a grant application form: [http://www.dti.gov.za/financial_assistance/docs/EIP_ApplicationForm.pdf](http://www.dti.gov.za/financial_assistance/docs/EIP_ApplicationForm.pdf)

### Grants offered by the DTI:

**Aqua-culture Development and Enhancement Programme (ADEP)** – is available to registered entities involved in primary, secondary and ancillary aquaculture projects for both marine and fresh water. It is approved for new, existing and upgrading entities.

**Automotive Investment Scheme (AIS)** – is designed to grow and develop the automotive industry through investment in new and replacement models and components that will increase production volumes, sustain and increase employment and strengthen the automotive value chain.

**Black Business Supplier Development Programme (BBSDP)** – is a cost-sharing grant offered to black-owned businesses to improve their competitiveness and sustainability. It aims to fast-track small and micro-enterprises, foster links between black-owned businesses, corporates and public sector and to complement affirmative procurement and outsourcing. It provides grants to a maximum of R1 million.

**Business Process Services (BPS)** – This scheme aims to attract investment and create employment in South Africa through off-shoring activities. It involves a three-year tax-exempt grant for qualifying businesses.

**Capital Projects Feasibility Programme (CPFP)** – is a cost-sharing grant contributing to the cost of feasibility studies for projects that will lead to increased local exports and stimulate the local manufacturing sector.

**Critical Infrastructure Programme (CIP)** – is aimed at improving the infrastructure of South Africa. The grant covers a minimum of 10% to a maximum of 30% of total development costs of qualifying infrastructure.

**The Co-operative Incentive Scheme (CIS)** – is a 90:10 cost-sharing grant for registered primary cop-operatives of five or more members to improve their viability and competitiveness.
Loans

The DTI and other associated organisations offer business loans at a lower rate than financial institutions and have the added benefit of flexible repayment terms.

The following questions will assist an entrepreneur in making sure they have assessed the necessary considerations when applying for a loan:

- Why is funding required?
- Does the business have adequate staff and infrastructure to support further growth?
- Is it the right time to borrow in terms of industry and interest rate considerations?
- How much money does the business need as reflected in its business plan?
- Can the business wait for finance as applying for funding is often a slow process?
- Is the entrepreneur’s credit record clear?
- Is the business registered and all regulations complied with in terms of Tax and VAT?
- On what terms can repayments be made?

Loans offered by the DTI:

- **Isivande Women’s Fund** - is an exclusive women’s fund established by the DTI to accelerate women’s economic empowerment through affordable, usable and responsible finance.

- **Khula** - is the government’s agency for small business finance. It operates across both public and private sectors and is dedicated to providing much-needed funding to businesses. It serves as indemnity to financial institutes providing loans to businesses without assets to put up as collateral.
2. **National Empowerment Fund (NEF)**

The NEF was created and designed to support Broad-based Black Economic Empowerment within sectors identified by the RSA government as key drivers to the economic growth of South Africa.

The NEF provides financial and non-financial support to black owned and black empowered businesses that are at a start up phase or already existing. The fund provides venture capital, project finance and private equity in these projects once they are regarded as bankable and require a set business plan format to be followed.

### The NEF has 4 channels of funding

- **iMbewu Fund** with subdivisions of entrepreneurship finance, procurement finance and franchise finance. This particular fund is aimed at supporting black entrepreneurs who want to start a new business or expand an existing one. It takes the form of offering debt, quasi-equity and equity finance products ranging from R250 000 to a maximum R10 million.

- **uMnotho Fund** with subdivisions of acquisition finance, new venture finance, expansion capital, capital markets and liquidity and warehousing. These products are available to black-owned and managed businesses, new ventures, expanding existing businesses and to black entrepreneurs wanting to buy equity shares in established black and white owned businesses. Funding ranges from R2 million to R75 million.

- **Rural and Community Development Fund** with subdivisions in acquisition, new venture capital, expansion capital and start-up/green fields. This fund promotes sustainable change in social and economic relations, as well as supporting and developing the rural economy through financing sustainable enterprises and co-operatives. Through the four products funding ranges from R1 million to R50 million.

- **Strategic Projects Fund** with a subdivision of empowerment objectives is aimed at increasing black participation in early-stage projects. Projects are evaluated on economic merit and ability to deliver on the government’s development mandate.

Contact information: [http://www.nefcorp.co.za/](http://www.nefcorp.co.za/)
3. Development Bank of South Africa (DBSA)

The DBSA is a state owned entity with the purpose of accelerating sustainable socio-economic development and improve the quality of life of the people of the Southern African Development Community (SADC) by driving financial and non-financial investments in the social and economic infrastructure sectors.

Programmes offered by the DBSA

**Project Preparation and Development Facility (PPDF)** - is to assist SADC in promoting and contributing to enhancing regional economic integration in the SADC Region. The purpose of PPDF funding is to enhance sustainable economic growth and the delivery of key services affecting development in in the SADC Region. PPDF is expected, together with other partners in the region, to address the constraints of infrastructure development in the SADC Region. All SADC Member States are eligible to apply for PPDF financing. The funds are only eligible to activities intended to support regional infrastructure development in the energy, transport, water resources and ICT sectors.

**Infrastructure Investment Programme for South Africa (IIPSA)** - is to assist the South African Government to improve the conditions of life of South Africans by addressing poverty and unemployment, as well as contributing to enhancing regional economic integration in SADC Region. The main purpose of IIPSA funding is to enhance sustainable economic growth and the delivery of key services affecting development in South Africa and in the SADC Region. Financial leverage is a key principle of IIPSA. The programme will provide innovative financing involving the co-funding of EU grants together with loans from participating Development Finance Institutions. IIPSA will support the development of both national and regional infrastructure projects.

**Green Fund** - is a unique, newly established national fund that seeks to support green initiatives to assist South Africa’s transition to a low carbon, resource efficient and climate resilient development path delivering high impact economic, environmental and social benefits.

**The Pan African Capacity Building Programme (PACBP)** - is a partnership with the Agence Francaise de Développement (AFD), a French development finance institution. The main objective of the PACBP is to build African capacity for infrastructure development. The programme focuses in the critical infrastructure development areas of water and sanitation, energy, roads and transportation.

Contact information:  
http://www.dbsa.org/EN/Pages/default.aspx
Small Enterprise Finance Agency (SEFA)

SEFA was created to advance and stimulate micro, small, medium and co-operative enterprises.

SEFA provides direct funding to businesses in the form of loans between R50 and R3 million in three main ways: Directly (through bridging loans, term loans and structured finance), via retail finance intermediaries and through banks using credit guarantee schemes.

In order to apply for SEFA funding a business must do the following:
• submit a completed application form;
• complete a comprehensive proposal and/or business plan that meet SEFA’s application criteria, including initial and supporting documentation;
• demonstrate ability to repay the loan;
• provide personal and credit references;
• ensure that the applicant is an owner/manager;
• ensure that the applicant is a South African citizen with ID documents, valid permanent residence (if applicable), or the business must be controlled by a South African citizen;
• ensure that the business is legally constituted;
• ensure that the business has contractual capacity;
• ensure that the operations including projects, programmes activities etc. are within South Africa;
• ensure that the enterprise is compliant with accepted corporate governance practices; and
• ensure that a trust has, within the trust deed, the power to borrow money and pledge assets as security and to give surety for borrowing (if applicable).

Some SEFA funds include

Identity Development Fund (IDF)
This non sector – specific fund is a partnership with Khula Enterprise Limited.

Its objectives are to:
• create long-term growth from profitable portfolio investments in SMMEs;
• promote BEE (black women and youth); and
• provide both debt and or equity funding (50%/50%) (repayment periods range between 3-5 years for start-up/early stage companies of R250 000 to R3million, emerging /MBO and expansion of R3million to R7.5million and R7.5million to R30million for community projects).
Khula-Akwandze Fund
The Khula-Akwandze Fund (KAF) is a joint venture between Khula Enterprise Finance and Akwandze Agricultural Finance (Pty) Ltd (Akwandze). Its purpose is to provide agricultural development loans to small and medium scale sugarcane growers and contractors within the sugarcane production value chain in the Nkomazi region of the Mpumalanga Province. The fund is managed by Akwandze.

Anglo-Khula Mining Fund
Anglo-Khula Mining Fund is a joint venture between Anglo American plc. and Khula Enterprise Finance to provide financial assistance to junior mining projects.

Product offerings include equity and or debt instrument with individual investments between R1m and R20m per project; an equity stake will not exceed 49% of the issued share capital of the investee company.

Qualification Criteria:
• the owners of the investee company must be involved on a permanent basis, in the day-to-day management and operations of the investee company;
• the owners of the investee company must contribute to the investee company from their own resources to ensure commitment and risk sharing;
• the investee company must comply with all necessary legal requirements as well as Anglo American’s standards and procedures regarding environmental and safety policies; and
• the deal flow of the investee company should emanate primarily from contracts between the investee company and Anglo and its subsidiaries.

Enablis Acceleration Fund
The Enablis Acceleration Fund is a partnership with Khula Enterprise Finance Limited. It is currently capitalised at R50m. It offers equity and or debt instruments over loan periods that do not exceed 60 months.

Its purpose is to:
• improve access to early-stage funding to SMEs;
• reach out to SMEs in remote/rural provinces; and
• create new sustainable jobs.

Requirements for eligibility:
• South African SMEs that are accredited by the Enablis Entrepreneurial Network;
• black owned and women entrepreneurs for start-ups and/or expansion of the business; and
• SMEs involved in all sectors – ICT, transport, tourism, agriculture and services industry.
**Khula Credit Indemnity Scheme**

The scheme provides access to finance to people who wish to start or expand small to medium sized businesses but do not have sufficient collateral/security to support facilities provided by participating banks. The scheme covers facilities from R10 000 to R3 million.

**Qualification Criteria:**
- the owner should be involved in the day-to-day running of the business on a full-time basis;
- business activity must be situated in the Republic of South Africa;
- business must be conducted with a profit motive and be economically viable;
- the borrower must be able to repay the bank facility;
- the individual or person holding a controlling interest must be a citizen of the Republic of South Africa;
- the borrower must have knowledge, skills and experience directly related to the nature of the business/industry experience; and
- the entrepreneur must provide his or her own financial contribution towards a start-up or expansion of the business.

Contact information: http://www.sefa.org.za/
5. Industrial Development Corporation (IDC)

The IDC was designed to promote economic and industrial development. The IDC provides finance for industrial projects and promotes partnerships across industries within South Africa as well as across its borders. The IDC funds projects that target previously disadvantaged groups, women, people with disabilities, low income working groups and marginalised communities as well as those that boost and promote black-owned and managed business and those with employment equity.

They offer funding, investment and support in the following sectors:
- Agro-Processing and Agriculture
- Automotive and Transport Equipment
- Basic and Speciality Chemicals
- Clothing and Textiles
- Heavy Manufacturing
- Industrial Infrastructure
- Light Manufacturing and Tourism
- Machinery and Equipment
- Media and Motion Pictures
- Metals and Mining
- New Industries

Types of IDC funding available:

**Development Funds**
These funds are aimed at supporting projects that will have high long-term impact on the economy through growth and job creation. Such funds are aimed at bringing projects out of the informal sector and into the economic mainstream.

**Agro-Processing Competitiveness Fund**
This fund provides support and facilitates increased competitiveness, business growth, job creation and development in the agro-processing and beverages industries.

**Gro-E Scheme**
Through this scheme, over the next five years the IDC is investing R10 billion that will offer financial support to start-up businesses that includes funding for buildings, equipment and working capital. At the heart of this scheme is job creation through business in the following industries: green industries, agricultural value chain, manufacturing, clothing and textiles, footwear and leather, forestry, paper, pulp, furniture, chemical, pharmaceutical, plastics, mining value chain, tourism and services, media and entertainment and knowledge economy.

The Gro-E Scheme is aimed at start-up businesses and works by funding businesses with a minimum of R1 million to a maximum of R1 billion per project with interest of prime less 3% for loans and the Real After Tax Internal Rate of Return (RATIRR) of 5% for equity financing. Funding is available over five years or until the scheme is exhausted.
**Product Process Development Scheme (PPD)**
This scheme is aimed at providing financial assistance to micro and small enterprises where total assets are below R5 million, annual turnover is less than R13 million and the entity employs less than 50 people. The fund is intended to promote innovation and technology development through financial assistance enabling the development of new products and/or processes.

**Risk Capital Facility Programme**
This fund provides risk finance to companies owned by previously disadvantaged individuals that show substantial job creation potential. Funding can be provided through three channels: a direct channel, operating alongside IDC’s mainstream business, through a niche fund channel and third party channel.

**Transformation and Entrepreneurship Scheme**
This scheme has been set up by the IDC to finance marginalised groups of South Africans such as women and the disabled. This fund helps individuals gain access to finance that will develop and grow their businesses either as a start-up or through expansion and/or acquisition. This fund also provides mentorship and non-financial support such as business planning, training and mentorship.

**Green Energy Efficiency Fund**
This fund is aimed at improving energy efficiency and helping South Africa transition to a low-carbon economy. It is intended to drive down energy related costs, improve production capacity, operational effectiveness and competitiveness – thus aiding in job creation.

**Women Entrepreneurial Fund**
This fund is aimed at improving entrepreneurial participation by women. Funds will only be given to businesses with a minimum 50% shareholding by women or where women are involved in operations and management and where funds are needed for start-up or expansion. Funds are provided for businesses with a total asset base of less than R80 million and a maximum provision of finance is R30 million per transaction.

**Distressed Fund**
This fund is designed to assist small and medium businesses negatively affected by the global recession. The main objective of this fund is to keep businesses open, stem job losses and maintain a productive economy. The fund helps by building capacity in existing business - thereby creating jobs - as well as providing for working capital, operational and capital expenses and assisting in competitiveness.

**The Manufacturing Competitiveness Enhancement Programme (MCEP)**
The programme is a new suite of incentives aimed at existing manufacturers that is designed to promote competitiveness in the industry as well as ensure job retention. It consists of industrial financing loan facilities and production incentive grants.

Contact information:
6. **Small Enterprise Development Agency (SEDA)**

SEDA is an agency of the Department of Small Business Development and is mandated to implement government’s small business strategy, design and implement a standard and common national delivery network for small enterprise development and integrate government-funded small enterprise support agencies across all tiers of government.

SEDA’s mission is to develop, support and promote small enterprises throughout the country.

Contact information: [http://www.seda.org.za/Pages/Home.aspx](http://www.seda.org.za/Pages/Home.aspx)

7. **The Technology Innovation Agency (TIA or the Agency)**

The TIA was established with the objective of stimulating and intensifying technological innovation in order to improve economic growth and the quality of life of all South Africans by developing and exploiting technological innovations.

TIA’s core business objective is to support the development and commercialisation of competitive technology-based services and products. The agency primarily uses South Africa’s science and technology base to develop new industries, create sustainable jobs and help diversify the economy. It invests in the following technology sectors: Advanced Manufacturing, Agriculture, Industrial Biotechnology, Health, Mining, Energy and ICT.

**Funding criteria considerations:**

- the current stage in the innovation chain and the planned path for innovation must be evident;
- the sustainable competitiveness of the product or service in the industry for targeted markets must be evident;
- there must be alignment with TIA focus sectors, national policy objectives and national transformation objectives including geographical presence;
- the potential intensity of social and economic impact including GDP growth and increased taxation, revenue, meaningful job creation, increased and value added exports, increased competitiveness of industrial sectors, increase in highly skilled capacity and knowledge base, lowered net intellectual property cost, increased capabilities for technology innovation, solutions to national needs and improvement in quality of life and responsiveness to social and developmental needs including poverty alleviation.
- the technical and commercial viability of the plan;
- the ability of the team to implement the plan, including the commercial strength of management and the existence of sound management systems;
- the extent of partnership providing funding and other resources;
- the potential for BBBEE;
- the investment risk and expected outcomes relative to the TIA portfolio; and
- the potential financial return.

The Jobs Fund

The objective of the Jobs Fund is to co-finance projects by public, private and non-governmental organisations that will significantly contribute to job creation. This involves the use of public money to catalyse innovation and investment on behalf of a range of economic stakeholders in activities that contribute directly to enhanced employment creation in South Africa.

The Jobs Fund operates on challenge fund principles. A key element of a challenge fund is that project selection and funding allocations are based on an open, competitive process, in relation to pre-defined eligibility and impact criteria. These criteria are designed to maximise innovation, impact and sustainability. By selecting projects through a competitive process, public funding is channeled directly to the initiatives most likely to have impact.

The ultimate development goal of a challenge fund is to, through a finite intervention, stimulate long-term change in the way that local supply chains and market systems work so as to overcome barriers such as cost, technology and infrastructure.

Contact Information: http://www.jobsfund.org.za/

Public and Private Equity Funding

Whilst entrepreneurs are often lured by the appeal of selling stock on the open market (AltX or JSE): instant cash realisation with no debt to repay, most are not in a position to go public. There are many complexities of a public offering-especially in an uncertain market and a successful initial public offering is far from guaranteed.

A more practical option is selling private equity stock to a few people who have confidence in the offering. There are no investment bankers or financial consultants to worry about and the entrepreneur can maintain the control associated with a privately held company, all while reaping the advantages of instant cash and no debt. An added bonus is the potential to bring others’ expertise to the venture.

In addition to raising expansion capital, selling stock to private individuals can allow business owners to tie the investors tightly to the company and benefit from their advice and counsel on growing the business. On the other hand, direct access to the company puts the investor in a much better position to effectively evaluate the risks and rewards of their investment.

In determining whether to sell equity the following must be considered:
- Is the company at a level where the investor will have confidence in the potential rewards from the investment?
- Is the entrepreneur willing to give up a little control in exchange for equity?
- Is the entrepreneur willing to invest time in building a relationship with the investor if the entrepreneur wants the investor to be an asset for the company.
The venture capital model works on investment opportunity and size. A venture capital investment fund manages money from investors seeking private equity stakes in startup and small- and medium-size enterprises with strong growth potential. These investments are generally characterized as high-risk/high-return opportunities. Venture capitalists are investors looking to build their portfolio with a number of businesses, not support just one business's growth. The entrepreneur must accordingly consider whether the business is high-impact and well structured, or whether additional support is needed.

**Stages of a business that Venture Capitalist invest in:**
- Idea generation – low level financing to help prove a new idea
- Start-up – early stage businesses that need funding to help with marketing and product development
- Growth
- Exit – to finance the ‘going public’ process.

**There are several types of venture capital firms in South Africa that can be approached for funding:**

- Private venture capital partnerships are perhaps the largest source of risk capital. They generally look for businesses that have the capability to generate a 30% return on investment each year. They like to actively participate in the planning and management of the businesses they finance and have very large capital bases – millions of rands worth – to invest at all stages. They often offer support in all aspects of business management to ensure the security of their investment.

- Industrial venture capital pools usually focus on funding firms that have a high likelihood of success, such as high-tech firms or companies using state-of-the-art technology in a unique manner and are disruptive in nature.

- Investment banking firms traditionally provide expansion capital by selling a company’s stock to public and private equity investors. Some have also formed their own venture capital divisions to provide risk capital for expansion and early-stage financing.

- Individual private investors (also known as angels or high-wealth individuals) can be friends and family who have only a few thousand rands to invest, established people who have built successful businesses in a similar industry and want to invest their money as well as their experience in a business.
Banking institutions get involved with enterprises that adopt a tried and tested approach to doing business, such as a franchise. Banks may however be willing to fund certain assets for a start-up business, such as plant and machinery and they will also be willing to provide capital to a small business that wants to grow and who have a proof of concept. Banks are traditionally risk-averse.

**Bank Loans**

When approaching a bank for a loan the most important things to focus on are:

- **Risk mitigation**
  Bankers granting a loan to any organisation want to know that they are minimising their risk. They are looking for assurance that the loan they grant will be paid back with the requisite interest. They also seek to make loans where they will have an opportunity to recover the value of the loan with the sale of assets or surety if the company does fail. Therefore a business plan should focus first and foremost on risk mitigation and have risk mitigation strategies highlighted.

- **Cash flow**
  For a loan to be repaid, a business needs to generate cash flow. Bankers will therefore pay a great deal of attention to the cash flow forecasts of a business. They will ask themselves these questions:
  - Are the assumptions underlying this forecast reasonable?
  - What is the probability of this forecast coming true?
  - What is the worst-case scenario?

- **Familiarity, understandability and verifiability**
  To feel comfortable providing a loan to a new business, a banker has to recognise and understand the proposed operation of the new business. The more radical or disruptive the business idea, the less likely they are to look favourably on the venture. In a business plan for loan funding it is advisable to use recognisable examples and familiar language to explain the business.

  Bankers also like what can be verified, such as reference to a commitment for a long-term customer contract – if they can see a signed copy of the contract and corroborate it with the customer, all the better for the entrepreneur seeking the capital.
From the above, it is clear that MANY opportunities exist for the South African entrepreneur to secure funding for their business. Based on industry type, stage of growth and contribution to certain socio-economic factors various institutions and individuals can be approached.

**Some tips for entrepreneurs pitching for funding to any institution or individual:**

- be extremely conservative in the financial projections presented and be prepared to explain where the figures are derived from;
- show an in-depth understanding of the competitive environment;
- be crystal clear on what makes the business unique;
- be just as clear on the expected return on the investment for the prospective funder as well as the expected repayment period; and
- on a purely practical level, never exceed 15 slides in the pitch presentation.
- have a proof of concept or most viable product and an existing customer base where possible.

The guidelines allow investors to see that the business idea has been thought through, that the business environment has been considered and that the entrepreneur is willing to sacrifice to make the idea work. This will serve to allay some of the fears of investors, remove some of their frustrations and enable the entrepreneur to create a strong first impression that could open the doors for meaningful funding discussions.

Whether or not an entrepreneur is successful in getting the funding they set out for – an important lesson is that “some will, some won’t, who cares, whose next…” - meaning that there will always be opportunities to pitch for funding via different avenues in the future – be resilient, be persistent, be an entrepreneur! Michael Jordaan, Former CEO of FNB and now venture capitalist shares the lessons he has learnt being involved in funding:

“In nearly every startup business we had to wait for some form of government approval ranging from VAT Registration (most common), Credit Provider status for student loans, Financial Services Board, SARB Exchange Control for IP transfer. I underestimated the time we had to wait and how this negatively impacts cash flow. The entrepreneur applying for funding should anticipate this and have as much of the red tape covered before enquiring about funding.”
Here’s how to find us

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