

The different types of funding available for small businesses

SMEs are known to be less likely to obtain bank loans than large firms in the business world, which makes most entrepreneurs rely on their personal savings from investments, friends and families, credit cards, or business partners and government grants to launch and initially run their enterprises. There are other sources of funding that small business owners can consider when in need of financial assistance to help their businesses expand.



Source: [Pexels](#)

Many aspiring entrepreneurs have limited knowledge about business funding, co-founder and director of Edge Growth Jason Goldberg explains more about the different sources of funding that are available for small businesses.

"Funding for small businesses is more accessible than many entrepreneurs may think. It can be from borrowing money from financial institutions, getting grants, or taking advantage of business lines of credit, there's a variety of financing options for new and existing businesses to get the cash necessary to launch, operate, and grow", says Goldberg.

There are funding opportunities that broaden the applicant pool and give an entrepreneur a better chance of getting free cash, but they are pros and cons to being eligible for that opportunity, your business needs to be scalable, it has to be investable, and you need to have the ability to manage complexity and stay focused to grow your business.

Different types of funding for SMEs

Microfinancing

A method that is specifically targeted at entrepreneurs who have no access to traditional loans such as bank loans. What is required to qualify for microfinancing is a business plan, adequate credit, and a personal guarantee or collateral.

Microfinances are a smaller version of a conventional loan from a bank, designed to assist aspiring small business owners to generate income, build assets, manage risks, and meet their needs. Additionally, they have no location restrictions and can be availed of from any part of the world.

Crowdfunding

Crowdfunding involves entrepreneurs collecting small amounts of funds contributed by a large number of individuals to finance a new business venture. Most often It is utilised by companies or growing businesses as a way of accessing alternative funds. Crowdfunding also incorporates selling a small stake to raise money for your business.



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The inherent marketing advantages associated with the online process of soliciting investors and the affordability makes crowdfunding a very good option for your business venture.

Equity funding

Equity funding investors are invested in the business doing well because that's how they make their money. Those investors make money by earning dividends when the business makes money, on the sale of their shares. By equity funding, we mean that instead of monthly repayments with interest, the investor takes an ownership percentage of the business and they will also be board members and be part of key decision-making in a business.

Venture capital funding

A venture capitalist is a private investor that provides funding for businesses with projected high growth potential that small businesses should consider when looking for funding. A venture capitalist mainly puts their capital in a business that has a detailed growth plan, and a team that is able to accelerate growth in a business.

Venture capitalists invest capital in exchange for equity, typically a minority stake, in a company that looks poised for significant growth, and later looks to sell its shares in five to seven years.

"Many venture capital proves to be very useful through opening doors and arranging key meetings, because of their networks and reputation," says Goldberg.