

# Funding gap threatens 40% of South Africa's GDP

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South Africa's small and medium-sized enterprises (SMMEs) form the cornerstone of the economy, accounting for around 40% of the nation's gross domestic product (GDP) and employing about half of the workforce. Despite their crucial role in SA's economy, these businesses are currently facing a growing 'funding gap'.



This term 'funding gap' refers to SMMEs not getting the financing they need to grow or just sustain their businesses, leading to the failure of many businesses and an increase in unemployment.

In this article we'll explore:

- The size of the funding gap in SA.
- Funding Red Tape.
- Where to start when applying for finance for my business?

## The size of the funding gap in SA

It's no surprise to learn that 35% of all loans made to SMMEs are in the form of personal loans, as these entrepreneurs find it too difficult to access funding as a business. Even more shocking is that, according to research, between 20 and 23% of SMMEs are not even registered with SARS. The more you delve into the statistics and research, the reasons as to why SMME struggle to gain access to funding becomes clear.

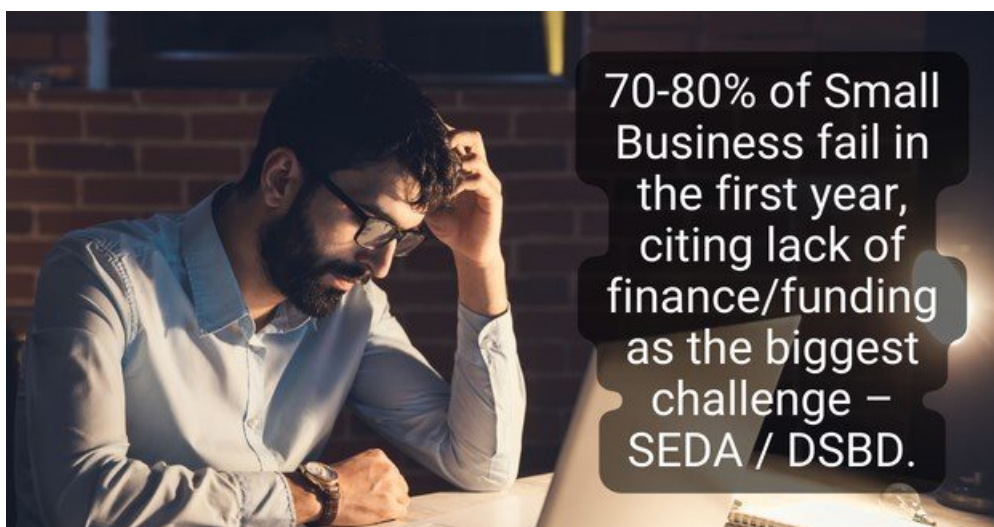
- The SMME is in an early stage of starting up
- The SMME does not have a strong enough business model
- The SMME does not have strong enough cash flow
- Lenders want too high interest rates
- Lenders want too much collateral
- Poor credit record
- Lack of experience to obtain contracts
- Red tape

Contributing an estimated R3,1tn in 2020 to SA's turnover, SMMEs are not incentivised to acquire funding. The ease of

doing business or 'red tape' (as we will discuss later) still creates significant barriers to funding. The lack of financial accounts locked out nearly 730,000 businesses from formal funding opportunities in 2020, hindering their growth potential.

Research further shows that only 6% of new SMMEs make use of business loans to start up, compared to 44% being funded out of savings. Thus, if you can't manage to accumulate sufficient savings, your chances are slim to start a business in South Africa.

It is in everyone's best interest to move these obstacles out of SMMEs way. It creates more job opportunities (we have the highest unemployment in the world), resulting in more money being spent in the economy which should generate more employment. It is in the power of SMMEs to get each one of these obstacles out of the way and thereby increasing their chances to get finance.



There are solutions to simplify the 'red tape', allowing businesses to focus on what is important – their business! Let's explore below.

### **Funding red tape**

Many SMME have a solid business and they can get financing, but don't know who the best lender is for what they need. In other cases, the lender wants a massive amount of compliance and financial documents which is not up to date. These reasons are enough to make many entrepreneurs crazy – and just leave the financing process as a whole. Let's look at each of these lesser-known funding obstacles:

#### **1. Finding the right lender:**

There are hundreds of different lenders, with different payment structures, requirements and fine print. As an SMME, time is a scarce resource, thus a lender which can offer a straightforward process (which is not Greek) while increasing your chances of funding, is the way to go. You want to eliminate as much paperwork as possible, while avoiding jumping between different platforms to apply for small business funding. You want a lender which supports you through the entire process, from submitting your application, to offering professional advice on increasing the chances of acquiring funding.

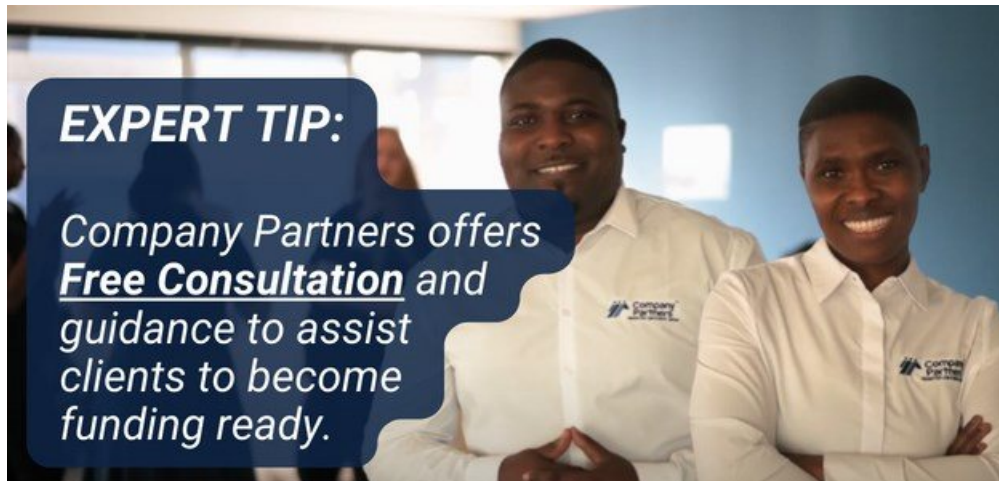
#### **2. Compliance documents:**

As an SMME in South Africa, you are no stranger to the mountain of 'compliance red tape' required from your business. Applying for business loans is no different. Lenders require various forms of compliance to be legally allowed to offer you funding and to reduce the risk of their investment (i.e. business not paying back the money). Compliance ranges from having a legally registered business with the CIPC, having your business registered with the Workman's Compensation Fund (COIDA), to having a [Tax Clearance Certificate](#) (Tax Compliance Status) which showcases your compliance with SARS, and even a formal business plan.

### 3. Financial documents:

Your financials need to be transparent and follow the various accounting standards. It is best to leave the preparation of financial statements (and the accounting in general) to a professional accountant. Unless accounting is part of your skillset, it is advisable to outsource this function. It is simply not worth it to create the accounting records yourself (spending countless hours) and then find out it was done incorrectly or that you could have avoided a hefty tax bill through [professional tax returns](#) at SARS.

Each of these obstacles can be overcome by the entrepreneur taking the time themselves; or finding a partner to help them.



### Where to apply for finance for my business?

There are hundreds of lenders in South Africa, ranging from the big banks, private firms to government departments. Contrary to popular belief, 'one size' does not fit all when it comes to funding.

Firstly, all the options not only make it difficult to choose a lender that suits your business funding needs, but also result in hours upon hours wasted on finding the right lender and submitting your applications over and over. You would agree that your time is more valuable than submitting paperwork over and over on various platforms.

[Company Partners](#) have been in the same boat, and the options are overwhelming. Fortunately, we were able to collaborate with a seasoned business funding matching platform. Over 300 of South Africa's top lenders are part of their network!

Gaining access to this platform is straightforward, and saves you countless hours:

You'll start using the funding search tool giving you access to over several hundred funders on one central platform, with transparent requirements. Meaning no need to platform hop, no need to wonder what the requirements are and, being matched automatically based on your needs. After registering and submitting your documentation. Company Partners will guide you to become funding ready, through compliance and accounting requirements to improve your funding chances.

### Step #1: Choose your lender

Follow the below steps to register a Free account for your business (or yourself) to find your lender:

1. Visit <https://companypartners.finfind.co.za/Account/Login> to access the free funding search tool;
2. Follow the prompts to register on the Funder Search Platform;
3. Create an account by registering on the platform;
4. Complete your profile by providing information about yourself and your company (ensure this is as accurate as possible);
5. Tell the platform more about your funding needs and business details. It is very important that you submit as much information regarding your business details such as your turnover, your compliance information and tax status (refer to Step 2 for more information);

6. This helps match you with suitable funders who might be interested in supporting you;
7. Once you have submitted your application you will receive a list of potential lenders;
8. Explore their profiles and choose the ones that seem like a good match;
9. Submit your application directly through the platform to the selected funders.

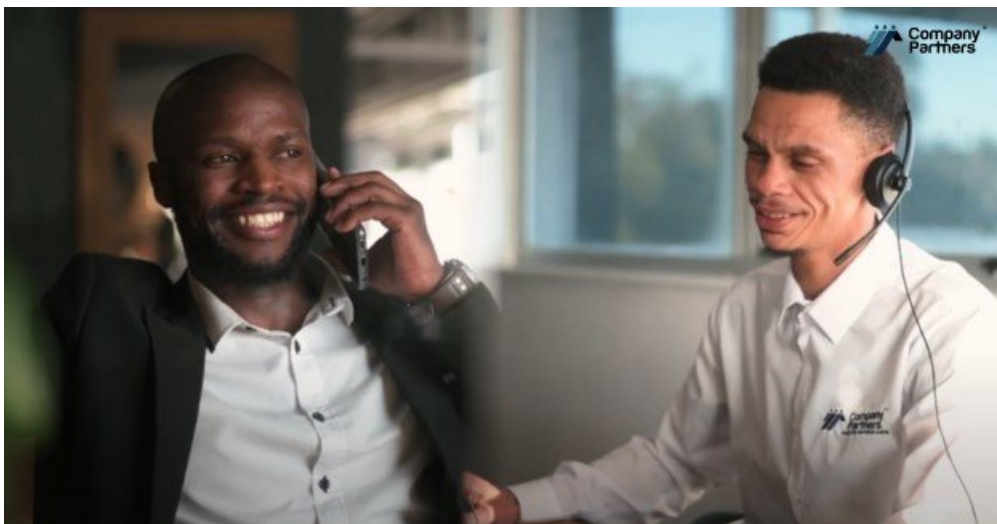
## **Step #2: Get your compliance documents in order**

As a business owner, getting your compliance documentation in place leaves you with two options. You can choose to obtain compliance documents directly from government departments such as SARS, CIPC, and the Department of Labour. This route involves:

1. Direct engagement with various government entities and their processes/systems.
2. Time-consuming processes.
3. Keeping track of your paperwork across the various government systems
4. Necessity to understand specific legal requirements, and lack of support.

Alternatively, using the services of compliance experts, like [Company Partners](#) gives customers the benefits of:

1. Handle tedious government interactions on your behalf.
2. Save hours of precious time, which can instead be channelled into your business.
3. Access to free consultation on the business compliance required for funding, such as:  
[Company registration](#)  
[Tax clearance](#)  
[Business plans](#)  
[Accounting](#)
4. Access to [over 120 compliance services](#) in one central place with transparent pricing.
5. Track your services on our online system, which includes free storage of your compliance documentation.



## **Step #3: Get your financial documents in order**

As stated above, you have two options of getting your required documentation in place. However, when it comes to financial documentation such as balance sheets, annual financial statements, and management accounts. You want to make sure it meets the regulatory requirements and are a true reflection of your business financial position.

Creating your own financial documentation which adheres to the above is not impossible, granted you have a firm understanding of accounting and tax. Failing which you could end up with a hefty tax bill for your efforts.

Having walked in your shoe's countless times, Company Partners established the [Accounting Division](#) to serve SMMEs, offering similar benefits mentioned above such as free consultation. Investing in proper accounting can save you money in



the long run and improve your financial health.

Company Partners, with its depth of experience in compliance services, and seasoned partners in funding matching, is uniquely positioned to address these challenges. By providing tailored guidance and support, we aim to significantly improve the 'funding-readiness' of South African SMMEs, thereby increasing their chances of securing the much-needed financial backing for growth and sustainability.

**[Visit Company Partners website today for a free consultation with one of our business experts.](#)**



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