Accessing finance for small businesses and LED projects

Gijima KwaZulu-Natal Local Economic Development Support Programme
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For further information on the Department of Economic Development (KwaZulu-Natal Province) visit: www.kznded.gov.z
The information in this brochure is partially drawn from a study undertaken by the KwaZulu-Natal (KZN) Local Economic Development (LED) Support Programme, which is managed by the Provincial Department of Economic Development and funded by the European Union. The overall aim of this Programme is to improve the quality of life of communities through promoting and supporting LED in KZN. One component of the Support Programme was to commission research into finance options for SMME’s. A full copy of the report is available on: [www.gijimakzn.org.za](http://www.gijimakzn.org.za).

The remainder of the information has been drawn from the members of the Funding Forum – a forum established by the Department of Economic Development with assistance from the EU to co-ordinate development funding efforts of various financial institutions within KwaZulu-Natal.
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INTRODUCTION

Small, Medium-Sized and Micro Enterprises (SMMEs) play an important role in contributing to processes of local economic development of KwaZulu-Natal.

Well-targeted investment into the SMME sector can assist in the overall improvement of the economic activity of the province and localities. However access to formal financial support for enterprises is not easy. This is because finance institutions set strict criteria for funding. Funding applications may fail because projects are regarded as high risk or because their proposals are not packaged to meet the requirements of finance institutions. This problem is aggravated by the lack of readily available information about financial options for this sector.

This booklet aims to highlight some of the challenges affecting SMMEs and to provide information about the various programmes and products offered by financial institutions. The information contained in this brochure outlines the criteria, application process that needs to be followed, and the contact details of each financial institution.

We hope that this will provide people with access to information which will assist them to secure finance.

KEY CHALLENGES

Generating capital in sufficient quantities and in the right form is crucial to the success of an entrepreneurial venture. Entrepreneurs need to understand the various sources of capital and requirements for accessing this capital.

There are two main sources of capital for new ventures. The first being entrepreneurs’ own funds, and the second being the entrepreneurs use of other people’s money.

The reality, however, is that high levels of poverty effectively bar many individuals from self-funding a start-up and they are forced to look for alternative sources of finance to fund their venture.

The category of other people’s money can be broken down into:

- grant finance
- equity/investment financing, and
- debt/loan finance.

GRANT FINANCE

There is only limited grant finance available to support SMMEs or local economic development in general. Most grant finance available is targeted at assisting SMMEs with training, mentoring and marketing support. There are few programmes aimed at assisting SMMEs with finance for equipment, assets or infrastructure and these are targeted at existing companies that require expansion. Other challenges include:
Information about the various programmes offered are not readily available or accessible.

There is often a lack of capacity within grant finance institutions to effectively disburse and manage funds allocated to SMMEs or local economic development.

Funds available are directed mainly to communal ownership entities such as cooperatives, Trusts or Section 21 Companies. Individual entities such as closed corporations or Pty Ltd companies do not qualify.

The criteria and application process to access these funds often involve time-consuming and complex procedures that are not user-friendly to SMMEs and less well resourced stakeholders.

The timeframes to award successful applicants are often too lengthy.

The complex procurement procedures that need to be followed are often against business principles.

To assist entrepreneurs, the Department of Economic Development developed an electronic funding directory of all donor funding which can be accessed from [www.kznded.gov.za](http://www.kznded.gov.za).

**EQUITY/INVESTMENT FINANCE**

The difference between loan (or debt) and equity capital is that loan finance is repaid with interest, whereas an equity investment is made in exchange for a share in the ownership of the venture.

While equity financing is an option, many entrepreneurs lack the technical know-how and proficiency to attract and retain potential investors.

Equity investors are usually more risk tolerant than debt investors. They commit their capital for an uncertain term and can claim their earnings only after all debt obligations have been satisfied. Equity investments are more suited for early stage companies that will have unpredictable cash flows and, accordingly, are not suitable for debt investments.

Unlike lenders, who maintain an arm’s length relationship with their borrowers, private equity investors can mitigate some of the risks by exercising a large measure of influence or control over the investments. This can help build better, more efficient business processes, improve corporate governance whilst also forging stable business partnerships.

For further information please visit the South African Venture Capital and Private Equity Association (SAVCA) at [www.savca.co.za](http://www.savca.co.za).
**LOAN/DEBT FINANCE**

Loan finance, which is repayable with interest, is available from development and commercial banks. The major challenge faced by SMMEs and poorer local communities to access loan finance is the need for sufficient collateral or security by these institutions.

Whilst development finance institutions are more flexible, commercial banks are generally more rigid.

Most financial institutions would apply Credit Risk Criteria when assessing an application. Such criteria would include:

- Net worth of the business and amount of capital provided by the applicant
- Capacity and competencies of the management team to execute the venture and exercise prudent financial management
- Collateral available (should their be insufficient net worth) to secure the loan
- Economic conditions that have a bearing on the business
- Financial risk mitigation strategies that are included in the business plan (planning instruments such as accounting systems, management accounts, pro-forma balance sheets and projected cash flow statements)
- Assessment of the financial performance indicators reflected in the budgetary and financial planning instruments.

Other possible requirements, which may hinder poorer applicants’ ability to access finance, include:

- The need to provide viable business plans which can be expensive to produce. Most SMMEs and poorer communities do not have the resources to finance business plans before accessing loan finance.
- SMMEs are expected to invest a certain amount towards the securing the loan.
- Information on the various products offered by financial institutions is often not easily accessible.
- The credit history of applicants are scrutinised to determine whether the loan should be granted.
- High interest rates and finance charges often make it difficult for applicants to service the loan.
- The conditions upon which the loan is granted often make it difficult for poorer applicants or SMMEs to sustain their operations financially.
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**General documentation required by financial institutions before processing a loan application.**

- Business plan
- Family tree of group
- Organogram of management and staff
- Latest financial statements or, in the case of a sole proprietor, a written confirmation of earnings from an accountant
- Management accounts (required upfront should financial statements be older than 6 months)
- Projected balance sheets and income statements
- Cash flow projections with assumptions
- CC/Company/Trust agreement details (including Founding Statement, Memorandum and Articles of Association, Certificate of Incorporation, Certificate to Commence Business and Trust Deed (whichever applies)
- Personal bank statements (last 3 or 6 months depending on financier)
- Business bank statements (last 3 or 6 months depending on financier)
- Personal financial statements for members/directors/trustees
- Lease agreement if applicable
- Copies of contracts secured, if any
- Confirmation from the auditors with regard to the shareholders of the company as well as percent shareholding
- Debtors and creditors age analysis
- CV of business principals
- Copies of ID document and marriage certificates
- Proof of physical address
- Full property description of fixed property together with a 6 month bond statement
- Disclosure of any claims, attachments, etc by other financial institutions.

Whilst there are challenges associated with accessing finance, there are numerous schemes available at a national and provincial level to assist SMMEs and other enterprises in accessing finance.

The remainder of this booklet provides information on some of the assistance that is available from the institutions participating in the Funding Forum established under the Gijima KZN LED Support Programme. It also provides important information on the criteria used to assess applications for funding, the application process and the details of key contacts within these institutions.
ABSA BANK

Finance products

Absa provides specialised solutions to business bank customers for the financing of business assets and working capital requirements based on their unique situation and requirements. Asset finance products and services are offered across the Absa strategic business units such as:

Small Business

- Small business asset finance is the financing of assets for small businesses with an annual turnover less than R5 million.
- Within the Small Business division, funding instruments classified as developmental credit are also utilised, such as:
  - Khula Credit Guarantee Scheme
  - Absa Small Business Funding
  - Absa KZN Joint Fund Agreement.

Medium and large business

- Medium business asset finance is the financing of assets for businesses with an annual turnover greater than R5 million, but less than R50 million.
- Large business asset finance is the financing of assets for businesses with an annual turnover greater than R50 million.

Term Loans were designed to finance assets of a medium to long-term nature, particularly where the purchasing of a business is concerned. Term Loans are also used to restructure hardcore debt in a customer’s overdraft facility, particularly where this debt is a result of the purchase of medium to long-term assets.

- The loans can be structured according to the needs of the business.
- Advance payments over and above regular instalments can help to reduce the capital portion of the loan, thus reducing the overall interest on the loan.
- Finance is generally provided throughout the term of the loan, as long as terms and conditions of the loan are adhered to.
- The interest rate is linked to prime.
- Repayment is between 2 and 7 years.
- Interest is charged on the daily outstanding balance.
- Loan instalments can be repaid monthly, bi-monthly, quarterly or annually.
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ABSA has specialized in-house skills and expertise in the following sectors that will assist consumers:

- Agri-business
- Production Processing, Preserving and Manufacturing of Food Products, Beverages and Automotive Components
- Wholesale and Retail of Food Products, Automotive Parts, Restaurants and Fuel
- Absa vehicle finance
- Franchising
- Commercial Property Finance
- Textiles
- Tourism

Application process

To obtain assistance from ABSA, clients will need to speak to a business consultant who will assist in the process of accessing funds.

Contact details

1. Portia Mncwabe
   Tel: 031 366 9180
   Cell: 082 774 0284
   Email: portiamn@absa.co.za

2. Gilly Dlamini
   Tel: 031-580 8000
   Fax: 031-566 6605
   Email: gillyd@absa.co.za

3. Israel Majola
   Tel: 031 309 5330
   Cell: 082 334 7782
   Email: isrealm@absa.co.za
   Web: www.absa.co.za
BUSINESS PARTNERS

Finance products

The Franchise Fund has been constituted to facilitate access to all the opportunities and benefits of the franchising industry for the country’s new generation of entrepreneurs. Aimed at youth with some knowledge of and experience in business, its objective is to provide investment financing for viable youth-owned franchises across all sectors.

Criteria

◆ The Fund will consider investment applications from young entrepreneurs seeking to buy or expand a franchise or multiple franchises, requiring between R150 000 and R3 million. Each application will be assessed on its own merits.

◆ The fund is aimed at young black people between the ages of 18 and 35 who have an equity holding of at least 30%.

◆ Individual applications will be assessed on the viability of a sound business plan and on the drive, vision and competency of the individual entrepreneur or entrepreneurs.

◆ As far as repayments are concerned, Business Partners establishes a suitable repayment period in consultation with the entrepreneur during the initial investment negotiations. On average, the repayment period is five years and is never longer than ten years.

◆ Interest charged on investment amounts is linked to the prime lending rate. Clients with lower risk profiles will, however, be offered interest rates closer to the prime lending rate than those clients with a high risk profile.

◆ The Fund will ensure that beneficiary enterprises, which have been identified as requiring such intervention, will have access to the Business Partners Development Services (BDS). To compliment the existing Business Partners mentorship, Umsobomvu Youth Fund (UYF) will earmark and set aside an allocation of its Business Development Services Voucher Programme (BDSVP) for exclusive use by beneficiary entrepreneurs of the Fund.

The Business Partners Khula Start-Up Fund is aimed at new entrepreneurs and new enterprises.

Criteria

◆ The Fund exclusively targets black owned (minimum black shareholding 51%) as well as black managed and black empowered (minimum 26% black shareholding) SMEs.

◆ Special focus is given to female entrepreneurs and the minimum target for the Fund is to achieve a portfolio mix in which at least 33% of the SMEs funded are women owned.

◆ The fund does not set its own contribution as a prerequisite for funding. The primary focus and determining factors are viability and sustainability.
The **Business Partners Tourism Fund** is a R200 million specialist investment fund that has been created to enable and empower entrepreneurs in the travel and tourism industry.

**Criteria**

- Investment finance is available to qualifying entrepreneurs requiring funding for, but not limited to, the establishment or buying of hotels, guesthouses, game lodges, starting or expanding a travel agency, tour operating business, tourist information centre or curio shop, and other entertainment facilities for tourists.
- Applications are assessed primarily on business viability, as well as on the vision, integrity, drive and experience of the entrepreneur.
- Applications are considered from entrepreneurs who have capital or security to contribute to the venture, as well as from those who do not, and individual deals are structured accordingly.
- In consultation with the entrepreneur, an appropriate repayment period is established during the initial investment negotiations. This is usually five years and is never longer than ten years.
- In some cases, the fund takes a minority shareholding in the business for the duration of the repayment period, after which Business Partners may wish to sell its shares in the business at market value. The entrepreneur is always offered the right of first refusal on these shares.

The **Business Partners Empowerment Fund** facilitates the participation of black entrepreneurs (African, Indian and Coloured individuals) into the mainstream economy through equity participation in well established and successful white owned businesses that are in need of empowerment for future growth.

**Criteria**

- The fund requires the full time involvement of black entrepreneurs in the business.
- The Empowerment Fund is dedicated to cater specifically for the SME market and the transactions are structured so that all parties benefit from the initial investment stage, whilst also ensuring that the new-found relationship remains sustainable over the long term.
- The fund will consider investments from R1 million up to R4 million but, where warranted, transactions in excess of R4 million will also be considered.
- It will consider a well-established white owned business with a track record of at least three to five years with good growth potential in a post investment stage.
- A white entrepreneur who is committed to the success of the business and sees the economic merit of empowering it will be considered.
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◆ It will consider supporting a black entrepreneur who is willing and able to add value to the business by becoming operationally involved in the business on a full-time basis, whilst earning a market-related salary.

◆ It will require an action plan to facilitate the transfer of skills pertaining to the day-to-day running of the business.

◆ It will require a funding structure that is easily understood by all interested parties.

The structure of a typical transaction to be considered by the Business Partners Empowerment Fund can be summarised as follows:

**Step 1:**
A fair market value of the company must be agreed upon by all interested parties by employing fair and market related valuation principles.

**Step 2:**
To facilitate the transaction, a new company will be formed. The existing company will sell its assets and liabilities at the agreed market value of the business to the new company to be formed.

**Step 3:**
The new company is set up with a flexible shareholding structure that includes the empowerment partner, the white business owner and Business Partners. The typical investment instruments used will be variable rate shareholders’ loans, which will be in the nature of equity.

**Step 4:**
The relationship between the shareholders is regulated by a mutually agreed upon shareholders’ agreement.

**Step 5:**
The empowerment partner becomes a full time employee, shareholder and director of the new company, with an action plan to transfer skills to him or her over a pre-determined period.

The normal due diligence process would be followed by Business Partners before an investment decision is made. Consideration would be given to specific aspects, such as the quality of the entrepreneurs and management, the company value and the viability of the business.

**Services offered**

◆ A free business planning model, which is accessible on the Business Partners website at www.businesspartners.co.za.

◆ Easy access through a nationwide network of offices.

◆ A range of information leaflets, available free at all Business Partners offices.

◆ A free initial consultation for entrepreneurs with a viable business plan at any Business Partners office.
The best expertise and experience in the small and medium enterprise sector that the country has to offer.

Personal service from a team of dedicated portfolio managers.

A database of over 400 business consultants, mentors and sector specialists who are available to entrepreneurs.

A property broking service to assist entrepreneurs in finding rental premises or suitable properties to purchase for their businesses.

A property management service either for entrepreneurs with their own large premises to manage, or with investment premises that require intensive management.

Contact details

Tel: 031-240-7700
Fax: 031-266-7286
Web: www.businesspartners.co.za

DEVELOPMENT BANK OF SOUTHERN AFRICA

The Development Bank of Southern Africa’s financing role entails the provision of a range of financial products to private and public sector organisations. Where the DBSA’s financial products are not necessary to finance the project efficiently, the bank will not consider a financing role. The bank’s financing role is determined primarily by the need to play a catalytic role in leveraging private sector investment for infrastructure.

Finance products and criteria

Grants

The DBSA Development Fund provides grant funding and co-funding for project-level capacity building projects in South Africa. Capacity building projects enhance the institutional capability of the DBSA’s clients to identify, define and solve challenges that prevent them from managing functions, performing tasks and rendering services effectively, as well as those that develop their local economy. Grants are also approved for feasibility studies and BEE initiatives.

Lending

Lending products include a range of financial instruments and other lending related services that are available to the Bank’s public and private clients. The Bank offers numerous
combinations of financial instruments structured to fit the needs of the client, and lending focused on infrastructure and commercially viable projects. The Bank also provides credit lines to other development finance institutions and uses the following currencies: Dollar, Euro and Rand. Long-term lending is generally for more than five years.

Investing

The Bank’s financing role entails the provision of a range of financial products to private and public sector organizations. The Bank’s financing role will be determined primarily by the need to play a catalytic role in leveraging private sector investment for infrastructure. Investing products include Equity Funds, BEE financing of equities, and private funding.

Underwriting guarantees

As a development orientated financial institution, the Bank is committed to assume risk for development and improve the borrowing capacity of its clients in South Africa and in the SADC region. The Bank underwrites guarantees and its credit enhances projects and or clients to attract better financing terms and conditions. Underwriting guarantees is central to capital markets' development strategies.

Application process

To access assistance from DBSA you would have to contact the organization to arrange a representative to assess your needs.

Contact details

Tel: 011-313 3911
Fax: 011-313 3086
Web: [www.dbsa.org](http://www.dbsa.org)

DEPARTMENT OF TRADE & INDUSTRY

The Cooperative Incentive Scheme (CIS) is one of the government support measures towards realising the 2004 – 2014 objectives:

- Promoting the development of economically sustainable cooperatives that will significantly contribute to the country’s economic growth.
- Increasing the competitiveness of the cooperative sector so that it is better able to take advantage of opportunities emerging in national, African and international markets.
Promoting greater participation by black persons, especially those in rural areas, women, persons with disability and youth in the formation of and management of cooperatives.

Criteria

The scheme is a direct cash grant, offered on a matching-grant basis to qualifying entities. To be eligible for a CIS grant, a cooperative enterprise must satisfy all the mandatory requirements as set out below:

- Be incorporated and registered in South Africa in terms of the Cooperatives Act of 19913.
- Be operating or will operate in the emerging sector. These are majority black owned cooperatives, very poor and under-developed that exist in various sectors, e.g. agriculture and manufacturing.
- Have projects in manufacturing, retail, service and agricultural sectors.
- Adhere to cooperative principles. It must have members, be able to produce proof that it holds regular members’ meetings or be ready to hold one in the near future.
- Be rural and semi-urban biased.
- Be biased towards women, youth and people with disabilities.

The intended project or activities must aim to enhance the viability of a cooperative through capacity building and competitiveness improvement. The project or activities must be classifiable under the following categories:

- Business development services
- Feasibility studies/market research
- Production efficiency
- Technological improvement projects
- Plant and machinery
- Start-up requirements in the discretion of the adjudication committee
- Working capital requirements up to a maximum of 60 days (for the purposes of the scheme, working capital in this context is defined as trading stock/raw material). This is limited to the initial trading stock requirements of start-ups.
- CIS is offered as a 90:10 matching grant, wherein the dti contributes 90% of the approved costs of project activities and the cooperative enterprise contributes 10% (or the remainder of the costs through existing assets, cash on hand or skills for the success of the project).
- The maximum grant that can be offered to one cooperative entity under the CIS is R300 000 (three hundred thousand rand). A cooperative enterprise can apply for multiple projects provided that the cumulative grant awarded to the enterprise does not exceed R300 000.
- The minimum amount that a co-operative can apply for is R10 000. This amount will be reviewed 12 months after the inception of CIS.
Application process

The following documentation is required when applying to the CIS for a grant:

Application form

This will be a duly signed (signed by authorised person(s) as per the constitution of the co-operative), formal submission by the applying co-operative to indicate the intention to participate in the CIS. The form is available from the website.

Proof of registration

Applicants must provide proof of registration in the form of a certificate of registration indicating the name of the cooperative, its registration number, information about the registered office and the names of directors.

Proof of decision to apply for funding

The applying cooperative must be able to provide a resolution for it to apply for the CIS. This could be by way of attaching the minutes of the Cooperative Board’s session taking the decision to apply for the grant.

Enterprise development plan/ pre-diagnostic report

This is a report to assess the enterprise development needs of the cooperative. It may be compiled with the assistance of the field official (approved by the dti).

Cooperative business plan

Applicants must attach a business plan. A template is included in the application forms.

Quotation

Should an application include purchase of goods, please include three quotations.

Contact details

Nomvula Masango-Makgotlo
Director: Co-operatives Incentives CEDU
Tel: 012-394 1254
Email: nomvula@thedti.gov.za
Web: www.thedti.gov.za
The Industrial Development Corporation of South Africa Ltd (IDC) is a self-financing, national Development Finance Institution (DFI). It was established in 1940 to promote economic growth and industrial development in South Africa. The IDC operates in a broad spectrum of industries and with specialized knowledge and experience, is able to offer valid and appropriate financial assistance to a wide variety of individuals and companies. The IDC is committed to maintaining financial independence and applies sound business principles to all projects funded.

Priority sectors

Food, Beverage and Agro Industries

Financing of primary agriculture aimed at tailor-made funding of:

◆ The establishment of high value permanent crops, e.g. deciduous fruit, vineyards, tree nuts, proteas
◆ Intensive agricultural or aqua-cultural production e.g. cut flowers or vegetables in controlled environment, abalone production in raceways
◆ Financing of processing or manufacturing of agricultural products
◆ The expansion or establishment of enterprises involved in the manufacturing or processing of agricultural related products, beverages, etc.

Chemicals, Textiles and Allied Industries

Focus areas are:

◆ Ceramics, concrete and stone products
◆ Glass products
◆ Leather and footwear
◆ The conversion of natural fibres into fabrics
◆ The conversion of fabrics into clothing
◆ Primary and secondary chemical manufacturing
◆ Plastic and rubber conversion
◆ Waste purification
◆ Water recycling
◆ Metals, transport and machinery.
Focus areas are:
◆ Ceramics, concrete and stone products
◆ Basic iron, steel and non-ferrous fabricated metal products
◆ Plant, machinery and equipment
◆ Motor vehicles, components and accessories
◆ Diverse transport products such as boats, planes and trains.

**Wood, Paper and Other Industries**

Focus areas are:
◆ Projects in the forestry, pulp, paper, furniture, wood-related and renewable energy industries
◆ Consolidating the Pro Forestry Schemes through participation in various high-impact projects
◆ Continuing to fund, develop and support emerging forestry contractors
◆ Providing strategic development support to Hans Merensky (IDC shareholding of 42.6%) in order to support the company’s growth
◆ Contributing to the growth and development of its strategic investment in Global Forest Products
◆ Pursuing investment and development opportunities in Africa, focusing on access to raw materials and development of downstream opportunities locally.

**Healthcare and Education**

Within the healthcare sector, focus areas are:
◆ Manufacturing of medical equipment
◆ Medical schemes’ administration and medical schemes’ management
◆ Medical and dental practice activities
◆ Clinics and related services
◆ Hospital services
◆ Human health services
◆ Management services of the above businesses
◆ Buy-ins or take-overs by BEE partners of the above existing businesses.

Within the Education sector, focus areas are:
◆ Private pre-primary education, after-care centres, primary and secondary education
◆ Technical colleges, technical institutions, technikons and universities
Teachers’ training colleges and colleges of education for further training
Correspondence and private vocational colleges
Special education and training of the mentally handicapped
Other educational services, such as own tutoring, motor vehicle driving schools, dancing, music and sports schools, life skills, etc.
Management services of the above businesses
Buy-ins or take-overs of the above existing businesses.

Techno Industries

Focus is on high development impact areas, including the provision of services related to infrastructural roll-outs, particularly in the rural areas and townships. Focus areas are:
Information technology
Telecommunications
Electronics
Electrical
The project must show acceptable profitability
The management team should consist of people with key competencies (financial, technical and sales)
The project must be able to maintain sustainable technological competitive advantage
The product must have been commercialised and accepted by the market (post-revenue earning)
There must be in-house capacity and knowledge to take the product to the market or a strategic partnership must be in place to perform this critical function
There must be a meaningful financial contribution from the owners
Good growth prospects must exist for the company and for the industry within which it operates
The venture should have a strong position in a niche market or there should be potential to secure adequate market share in a well-defined market segment
Prospects of good exit possibilities should exist within 3-5 years.

Tourism

Focus is on asset-based finance with the bulk of the portfolio invested in the accommodation sector.
As the economic viability of the project is the most important consideration, the profitability and sustainability of a project will be assessed by the IDC.
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- Financing of fixed assets and capital expenditure is another focus area.
- It should be a product or facility for which there is an identifiable demand from a quantifiable market.
- Projects should have a significant developmental impact, i.e. job creation, empowerment and rural development.

**Criteria**

While each business proposal is considered on its own merit, particular preference is given to:

- Greenfield projects, expansions and rehabilitations
- Projects with significant developmental impact, i.e. job creation, empowerment, value addition, rural development and export generation
- A project of sizeable value
- Financing fixed assets and the fixed portion of growth in working capital requirements
- Buy-ins and take-overs by historically disadvantaged persons (HDPs)
- Businesses led by competent management team members.

Loan amounts are:

- Minimum loan amount is R1 million at a prime linked interest rate
- Minimum equity amount is R5 million at a minimum of 8% real after tax IRR and 30% of upside portion
- For textiles, leather and footwear, a minimum loan size of R500 000 at a prime linked interest rate
- For chemicals and allied industries a minimum loan size of R1 million at a prime linked interest rate
- Security in the form of and nature of which will relate to your specific circumstances
- Compliance with international environmental standards
- Shareholders/owners are expected to make a significant financial contribution, as follows:
  - 35% of total assets for going concerns
  - 45-50% for start-ups depending on industry norms and risk profile
  - It is preferred that our exposure does not exceed that of the owners of the business
  - Contribution of HDPSs under special circumstances may be lowered, in which case the IDC will be prepared to extend finance in excess of the owner’s contribution
- The project/business to exhibit economic merit in terms of profitability and sustainability
- The IDC does not re-finance fixed assets since our aim is to expand the industrial base.
Application process

In the case of **expansions** by existing businesses:

- Latest audited and actual financials (signed by the Finance Director, MD or CEO)
- Updated business plan focusing on the proposed project/expansion
- A detailed description of the nature of expansion, its related costs and revenues.

In the case of **small, medium and start-up businesses**, a comprehensive business plan is required.

Other finance products

**Franchising**

Focus areas are:

- Fast food outlets
- Bakeries
- Cellular technology
- Sit-down restaurants
- Real estate
- Speciality stores
- Travel
- Retail
- Petroleum
- Waste management depots
- Manufacturing concerns
- Corporate distribution centres.

The following financial options are offered:

- Wholesale finance to franchisors and intermediaries who can administer the process of on-lending to individual franchises
- Directly to franchises that require funding of at least R1 million
- Funding for established franchise systems that want to expand into SADC and the rest of the African continent
- Finance is made available for the establishment of new outlets, refurbishment of existing outlets and buy-ins by BEE groups
The finance is for a maximum of six years, with repayments tailored to suit the borrower’s cash flow by taking into account the business start up period.

Applicants for the Wholesale Finance Scheme can apply for a minimum total wholesale loan requirement of R1 million for on-lending or administering of loan to at least five franchised projects.

Criteria

Applicants seeking finance under this scheme must have the following characteristics:

- A good record of business development
- An established franchised network
- A proven franchised concept
- A strong financial position
- Develop/acquire a mentorship programme to assist emerging entrepreneurs to attain the knowledge and skills required to become competent business people
- Sufficient skills and resources to implement its mentorship programme
- Sufficient management information systems
- A minimum of at least ten franchised projects to promote.

Application process

Applications for either wholesale finance, funding to franchises directly, or for expansions into SADC or the rest of Africa should include the following information:

- Profile, description and competitive advantage of the franchised business
- Details of the training and mentorship programme provided by the franchisor that caters for the needs of the emerging entrepreneurs
- Details of the franchisor’s after-care programme such as monthly monitoring of operator’s accounts
- Audited financial statements of the franchisor for the past two years, as well as latest management accounts not older than two months
- Franchisors who want to make use of the wholesale facility should give a description of the individual operations to be financed, including jobs to be created, equipment requirements, possible locations, set-up and other costs, as well as the number operations that the IDC is required to finance
- For individual existing franchisees where funding is required for expansion, refurbishment or buy-in by a BEE group, detailed historical financial statements for at least two years, as well as latest management accounts (not older than two months)
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- Financial forecasts, which include the balance sheet, income statement and cash flow statement of a typical operation of the franchise or that of a new franchisee store
- A copy of the disclosure document and franchise agreement of the franchisor, and in the case of a franchisee application, the franchise agreement should be a signed copy
- The name of the entity that will be borrowing the finance
- Certified copies of the statutory documents of the borrowing entity, if known
- The shareholders of the borrowing entity together with the shareholding structure
- Certified copies of the IDs of the individual shareholders of the borrowing entity together with a consent to perform credit checks
- For buy-in or takeover of an existing franchise business by a BEE group, the results of due diligence motivating the purchase price proposed for the business must be provided
- The IDC will require that the shareholders of the franchised business to be financed invest an amount that is at least acceptable to both the franchisor and IDC as unencumbered cash of the total investment required.

Contact details

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FIRST NATIONAL BANK

Solutions for new business

FNB offers a unique range of convenient solutions designed to help entrepreneurs start and grow their business at every stage of the start up cycle.

Whether started from scratch or bought, a new business needs more than just vision or money. It needs energy, dedication and the right kind of financial support and advice to make it work. This is why FNB has the perfect range of convenient solutions designed to give a business the right start. FNB offers new businesses mentors to help them realise their potential, improve their networking and expertise, convenient banking accounts, financing and online resources.

Financing your business

FNB offers a broad range of flexible financial solutions to help businesses grow and meet day-to-day financing needs.
Customised financing packages:

- term loans for expansion and medium term assets
- asset based finance through Wesbank for vehicles, machinery and equipment
- overdrafts facilities for day-to-day working capital needs and operating expenses

Start-ups and expansion funding:

- Funding from R50,000 to R20m

Acquisitions / MBOs and MBIs

- Funding from R1m to R20m

Progress fund

- Funding for 18 – 35 year old previously disadvantaged individuals who require finance to start/expand/buy an existing business. It also provides access to subsidised mentorship through the Umsobomvu-First Rand Foundation Technical Assistance Fund.

Khula guaranteed loans

- Credit guarantee scheme for small and medium businesses that do not have assets to put up as collateral for a bank loan.

Enablis Khula Loan Fund:

- An innovative fund in partnership with Khula Enterprise Finance and the Canadian based Enablis Entrepreneurial Network to promote South Africa’s Information and Communication Technology sector

Application process

Applicants can speak to an FNB Relationship manager, who will guide them through the process of applying for finance.

Although the documents required for specific financing solutions may vary, most applications will require the following information:

- A valid RSA identify book
- Proof of residential address,
- Income tax reference number, (if applicable)
- Passport (If you are not a South African resident or citizen)
For certain solutions, the following are also required (we recommend that you have them ready when applying):

◆ Personal bank statements for the past 6 months
◆ Statement of assets and liabilities
◆ Latest available financial projections and Business Plan
◆ Documents of incorporation (if applicable).

Other support solutions offered:

◆ 20% discount on Shelf company Warehouse fees Plus an automatic FNB Reserved Business Account
◆ Support services through a web based resource centre (www.fnb.co.za); business tips, templates, tool kits and business plan creators and cash flow projection tools
◆ Mentorship and Networking through Biznetwork (www.biznetwork.co.za)
◆ Rewards through eBucks for Business by using selected business products (www.ebucks.co.za).

Contact details

FNB Business on Call: 0860 362 000
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FNB Commercial,
Solutions for New Business,
P.O. Box 7791, Johannesburg, 2000

ITHALA DEVELOPMENT BANK

Criteria

ITHALA strives to finance projects and businesses that are profitable and sustainable over the long run. ITHALA finances projects that will have a positive development impact in the form of:

◆ Job creation
◆ Levels of wealth creation
◆ Black empowerment
◆ Provision of rental space to medium sized businesses
◆ New technologies and skills introduction
◆ Beneficiation of South Africa’s raw materials, export and/or import replacement, the multiplier effect of the project, and level of foreign investment to be generated.
ITHALA also believes that the entrepreneur should be committed to his or her business to ensure its success. Clients are encouraged to contribute something in the form of cash or assets to the business. However, ITHALA does provide 100% finance at its discretion for certain projects or businesses.

All products are priced competitively and interest is linked to prime lending rate. Administration or investigation fees are also competitive in relation to the market.

**Finance products**

**Building Finance**
- New or existing buildings
- Maximum term of 20 years (normally 10-15 years).

**Equipment Finance**
- New or selected second-hand equipment
- Term depends on equipment financed

**Working Capital Finance**
- Short or medium term
- Security in the form of cessions or bonds.

**Application process**

To access funds from ITHALA an application form available from its website must be filled in and should be accompanied by the following documents:
- Business plan or profile
- Certified copies of IDs of owners, members and directors
- Certified copies of marriage certificate for married members
- Founding statement of the business
- Latest tax or vat return
- Proof of physical address
- Proof of telephone number
- Proof of cell phone number
- Details of assets and liabilities
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- Curriculum vitae of members
- Last 2 years of financial statements and latest management accounts for existing businesses
- Copy of lease or franchise agreement where applicable
- Copy of contract or contract award letters where applicable.

Contact details

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KHULA ENTERPRISE FINANCE LIMITED

Khula Enterprise Finance Limited was established in 1996 to focus on the promotion and development of small and medium enterprises (SMEs). Its role is to maximise access to finance for SMEs in a way that leads to the development of sustainable small and medium businesses, job creation, economic growth and equity.

Finance products

Khula Credit Indemnity Scheme

The purpose of the Indemnity Scheme is to share the financing risk with banks, thus enabling SMEs to access funding from a participating bank or other financial institution.

The scheme enables entrepreneurs to access funding for purposes of establishing, expanding or buying out an existing business, business assets and working capital.

Finance has to be approved by the financial institution and the latter will only apply to Khula for a guarantee where there is inadequate collateral.

Khula Land Reform Empowerment Facility

The Land Reform Empowerment Facility is funded by the Department of Land Affairs (DLA) and the European Union (EU). The aim is to facilitate land transfer and economic participation by black people in economically viable land based agricultural enterprises (both primary and secondary) and eco-tourism sectors.
Khula Mentorship Programme

The primary aim of the Mentorship Programme is to act as a risk mitigator and facilitator of access to finance for SMEs. It offers two services, namely; pre-loan and post-loan mentorship services. During the pre-loan stage entrepreneurs are assisted by experienced mentors with advice, counselling and the development of viable business plans in order to access funding. In the post-loan stage clients are assisted with various aspects of managing a successful business as identified by the client, mentor, bank and Khula.

Non-bank Retail Financial Intermediaries

Retail Financial Intermediaries, commonly referred to as RFIs, are independent organisations or companies accredited by Khula to lend money directly to SMEs. Once accredited, RFIs receive loan funds from Khula to disburse to small and medium enterprises according to their own lending policies. RFIs have to ensure that loans disbursed are paid back by the SMEs in order to pay back the loan originally received from Khula.

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NATIONAL DEVELOPMENT AGENCY

Priority is given to supporting Community Based Organisations and NGOs in their efforts to create a sustainable food supply and income opportunities for poor households in disadvantaged communities.

Criteria

- The applicant must be a non-profit-making non-governmental organisation (NGO) or Community Based Organisation (CBOs), registered as a sector 21 Company or a Not for Profit Trust in the South African Company Register or inscribed as a Community Based Organisation in The Ministry of Social Development.
- The applicant must have his or her headquarters in South Africa and be directly responsible for the preparation and management of the project, not acting as an intermediary.
- The applicant must have stable and sufficient sources of finance to ensure the continuity of the organisation throughout the project and, if necessary, to play a part in financing it.
The applicant must be experienced and able to demonstrate his or her capacity to manage the scale of activity corresponding to the size of the project for which a grant is requested.

Applicants may act individually or in consortium with partner organisations.

The activities must enhance the livelihood security and self-reliance of disadvantaged households through the creation of economic development opportunities, and create a sustainable food supply for the household.

Special attention will be given to projects that improve the socio-economic opportunities for women, youth, children and households with people living with disabilities or HIV/AIDS.

Proposals should include capacity building activities and transfer of skills to empower the disadvantaged communities.

Minimum amount per project = R450 000 and the maximum amount = R800 000

A grant may not exceed 90% of the total eligible project costs. The balance must be financed from the applicant’s or partners’ own resources, or from sources other than the National Development Agency budget.

Information required

The following information is required together with the application form:

- Statutes and/or Articles of Association of the applicant organisation and those of each of the partners (where applicable)
- Most recent annual report and/or accounts of the applicant
- Copy of Sector 21 Registration and/or CSO Registration from the Department of Social Development.

Application process

- Calls for proposals are usually advertised in the media with deadlines for submissions of application forms.
- Application forms can be obtained either from the NDA or their website

Contact details

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The NEF, as an agency of the Department of Trade and Industry (DTI), was established by the National Empowerment Fund Act No 105 of 1998 to promote and facilitate black economic equality and transformation. Its mandate and mission is to be the catalyst of Broad-Based Black Economic Empowerment (BB-BEE).

It has various funds available for SMMEs.

The Imbewu Fund

This fund is designed to promote the creation of new businesses and the provision of expansion capital to early stage businesses. It aims to cultivate a culture of entrepreneurship by offering debt, quasi-equity and equity finance of up to R20 million comprising:

- Start-up finance for new businesses
- Expansion capital for existing small businesses
- Financing of preferential procurement contracts
- Financing of rural and community development projects with social upliftment benefits, for which community groups, including cooperatives, may apply
- Financing of franchise operations.

Imbewu Entrepreneurship Finance (Risk Capital)

- BEE applicant should be actively involved in the business
- Minimum black ownership of 50.1%
- Industry experience in consortium
- NEF mentorship programme, participation obligatory
- Capital structure should be sustainable, with NEF to provide shortfall quasi-equity capital
- Business with clear value add-sustainable business model
- Business should employ a minimum of 5 people
- Maximum NEF funding of R5 million
- The NEF investment horizon is 5 to 7 years
- NEF will target a nominal pre-tax IRR of between 12% to 18%.
Imbewu Procurement Finance (Loan)

- Primarily short to medium term debt requirement
- Repayment terms matched to contract terms
- Funding Limited to R10 million
- Active BEE management participation
- Minimum black ownership of 50.1%
- Industry knowledge within the Borrower’s Management’s structure
- NEF will seek to co-finance with commercial banks to mitigate risks
- NEF reserves the right to oblige applicant to participate in the mentorship programme.

Imbewu Franchise Finance

- NEF has a preference to fund top 40 rated franchises
- Active participation by BEE parties
- Minimum BEE shareholding of 50.1%
- Transactions will be structured with sustainable capital structure, NEF to bridge shortfall in equity
- BEE party to be pre-qualified with franchisor
- NEF funding generally limited to R5 million
- NEF will target a nominal pre-tax IRR of between 12% to 15%
- The NEF investment horizon is 5 to 7 years.

Rural and community development projects

- Involvement of black managers at a senior operational level
- Active presence of black investors at board level, including women
- Substantial ownership by black employees
- Joint ventures between black and non-black partners
- Minimum BEE shareholding of 50.1%
- NEF will invest using debt, equity & quasi-equity instruments
- NEF will target a nominal pre-tax IRR of 10% to 12%
- NEF funding generally limited to R20 million
- The NEF investment horizon is 7 to 10 years.
The Corporate Fund

This fund is designed to improve access to BEE capital and has three products: Acquisition Finance, Project Finance and Expansion Finance.

**Acquisition Finance**

This product is for BEE applicants seeking to buy equity in existing businesses and provides funding from R5 million to R100 million.

The key features are:
- Medium to large companies
- Partnerships with existing management teams and other equity investors
- Minimum BEE ownership of 25.1% post NEF investment and active BEE management participation
- Active BEE involvement in investee companies
- BEE financial contribution determined on case by case basis
- Investment instruments to include debt, equity and mezzanine finance to support BEE. The NEF reserves the right to oblige the applicant to participate in the NEF mentorship programme.
- Typical investment horizon of 4 to 7 years
- Security to include personal suretyship.

**Project Finance**

This product provides capital of R5 million to R25 million per project for BEE seeking medium sized greenfield projects with total funding requests of between R10 million and R20 million.

Key features are
- Minimum 25.1% BEE shareholding
- Investment instruments to include debt, equity and mezzanine finance in support of BEE
- BEE specific financial contribution assessed on a case by case basis
- NEF exposure to the project not to exceed 50% of total project costs
- Proven management experience within the consortium
- Active BEE involvement in investee companies
- Debt funding raised from the market to match equity funding provided by NEF and other project sponsors
- NEF funding limited to R25 million
- NEF investment horizon is 5 to 10 years
- Security to include personal suretyships.
Accessing finance for small business and LED projects

Expansion capital

NEF will provide funding of R5 million to R100 million to entities that are already black empowered that requires expansion capital to grow the business.

Key features are:
◆ Investment instruments to include debt, equity and mezzanine finance in support of BEE
◆ BEE shareholding should be minimum of 25.1%
◆ Pricing based on instrument, risk matrix, security package, etc.
◆ Typical investment horizon of 4 to 7 years
◆ Active BEE involvement in investee companies
◆ Security to include personal suretyship.

Funding criteria

The merits of the application for funding will be qualified in terms of:
◆ Commercial viability of the project
◆ Compliance with all relevant laws and regulations
◆ Black managerial and operational involvement
◆ Percentage of black ownership or interest
◆ Return on investment
◆ Job creation
◆ Geographic location of business (rural/urban/disadvantaged)
◆ Black women empowerment
◆ Community involvement
◆ Possibility of co-funding (private or public sector).

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**STANDARD BANK**

**SMME fund criteria**

- Applicant must be BEE SMME
- Main business operations must be registered in the province
- Effective strategic and management control must be exercised by a sole proprietor, partner, member or shareholder who has a controlling interest
- Business must operate along profit motive lines and be economically viable
- Applicant must be South African and maintain controlling interest
- Minimum own contribution – 2.5% (R 2500 per R 100 000)
- Contribution component to be assessed on merit per application and can be waived
- Minimum loan amount – R 100 000
- Maximum loan amount – R 3 million.

**Existing SMME**

- Proven viability through audited financial statements or management statements
- Business plan.

**Start-Up**

- Demonstrate potential viability through detailed business plan, 12 months’ cash flow projections with assumptions.

**Security Required**

- KZN Government Guarantee Bond
- Cession of contract monies
- Lien over moveable productive assets financed (GNB)
- Suretyship by key stakeholders
- Optional: life cover.

**Application process**

Applicants requiring access to finance will need to visit their nearest branch and speak to a business consultant. The following information is required:
Business plan

◆ Details such as the nature of the business, product on offer, market environment and management skills.

Financial information

◆ Personal statement of assets and liabilities for all partners, members and directors
◆ Cash flow forecast
◆ Projected income and expenditure
◆ Amount and source of the business owner’s contribution or stake in the business
◆ How will the business use the finance? For example, as capital expenditure or working capital
◆ Sales and purchases budgets.

Documents required if buying an existing business

◆ Copy of deed of sale or draft deed
◆ Draft or signed lease agreement for premises.

Collateral information

◆ Details of proposed or offered collateral.

Additional requirements if you have an existing business that has been banking at another institution

◆ Financial statements of the business
◆ Three months’ bank statements
◆ Facilities letter from existing bank
◆ Details of collateral held by existing bankers.

Contact details

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