

Creating Opportunities for SMME Growth through Innovative Financing

By Andrew Maren: CEO and founder of ProfitShare Partners

Emerging economies like ours rely heavily on the success of Small, Medium and Micro-Enterprise (SMME) Businesses for growth and job creation. However, the SMME sector faces a host of challenges, and access to finance is one of the greatest stumbling blocks in the way of achieving business sustainability. In an ever-changing economic and global landscape, innovative financing solutions present opportunities for financial inclusion for SMMEs to become active contributors to the economy.

Innovative Financing

The concept of innovative finance was first introduced at a United Nations International Conference on Financing for Development in 2002 with the goal of exploring new sources of funding that would not unduly burden developing economies. Today, with the evolution of technology, financial technology (FinTech) is driving innovative finance to meet the progressive needs of the markets through smart, cost-effective solutions that responds to consumer needs. This disruption has unlocked the market and revealed a host of opportunities for small and big businesses alike.

With the increased interest in FinTech over the past decade, a wide range of innovative financing solutions entered the market with particular interest in servicing small and medium businesses. Although these funding options have presented a variety of alternative financing solutions for small businesses that are less traditional than banks, many of these institutions are still duty-bound to comply with the laws and regulations that govern the financial services sector, which still limits access for a large portion of the SMME market.



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In an independent report that recently presented statistics on access to finance for SMMEs, the results showed that only 3% of the SMME market were eligible for funding. These businesses are considered the 'value segment' and typically have a turnover of R10 million or more. For SMMEs in the 'volume segment', where businesses have not yet reached the R5 million per annum turnover or the 3-year business milestone, there is a greater need for innovative finance solutions in this sector.

Unfortunately in the South African context, most banks, traditional funders and even Enterprise and Supplier Development Funds focus on this 3% of the market.

Some of the reasons SMMEs in the volume segment do not qualify for funding:

- Insufficient credit history or track record to fulfil lending criteria from traditional financial institutions, such as the banking sector
- The extensive documentation required to submit for funding and loan applications, which in many instances may not be essential to the SMME's funding request.
- Access to market for SMMEs is prohibitive, often impacting business sustainability due to the red tape in supply chains, vetting procedures and access to information to make properly informed business decisions
- Slow payment terms negatively impact SMME cash flow and has long-term effects on their ability to effectively access new business and even deliver on existing contracts.

In order for innovative finance to be truly effective for the SMME market, greater efforts need to be placed on finding solutions that will enable small businesses to overcome the financial hurdles and cash flow challenges that they face at rather critical intervals of their business journey.

In the corporate world, it has always been considered good financial practice to 'stretch' your creditors and make them effectively finance your working capital by extending payment terms from 7 days to 30, 60 or even 90 days. This may work for larger mature companies but the practice cripples SMMEs.

One of the easiest innovations, or really a change of mindset, is to ensure that corporates with access to capital lines do not place their financial burdens on SMMEs.

The question is, how else can innovative finance enable young survivalist SMMEs into sustainable, medium businesses that are more attractive to the financial sector?

The most obvious solution is using FinTech, which has already revolutionised the way the SMME market sees, approaches and accesses funding. FinTech has made it simpler for SMMEs to access information and transact almost immediately. In South Africa alone, there are numerous enablers that have already spotted the gap and are responding to the key issues that SMMEs are facing.

Customising financial solutions and business models that will allow SMMEs to partner with large corporates or government entities, while benefitting and gaining the necessary experience is certainly the sweet spot for this massive market.

Innovative finance creates a more inclusive economy. With solid commitment from both the public and private sectors, there is great potential for a more promising future – where SMMEs can truly thrive and become active contributors to the economy.

Most importantly, innovative financing means a re-think of current practices and mindsets. Innovative financing players are already hard at work and the ones that will be successful in dominating this new type of funding are effectively throwing out the credit rule book and creating new ways to manage financial risk.