

## Buying or Selling A Business?



### RAISING CAPITAL IN SOUTH AFRICA

For most entrepreneurs, there is a need to raise capital. Provided such financing can be repaid, (and you can be sure that the financial services markets or venture capital markets will take lengthy and diligent steps to ensure that you have the ability to repay your installments regularly), you can access funds from different sources subject to different conditions

It is good that such institutions have strict requirements because it protects both you, as the borrower, and the institution, as the lender. Furthermore, their experience in granting finance means that they will advise you, based on your needs and your financial situation at the time, whether you should apply for long-term or short-term financing and what kind. In other words, the type of finance offered would best match your needs. Remember, that the risk the financial institution takes means that the institution is just as concerned about making the right decision and seeing you get on your feet as you are.

There are a number of institutions that you can access for assistance, some more applicable to certain industries than others:

#### **Banks**

The most obvious place to start with are the banks, simply because we are familiar with who they are and how they operate. It does not necessarily mean that this is the first place to start. However, banks will want to look quite deeply into your business plan, your projected cash flows, the nature of your business and the specific reason why you want the loan. A bank will want you to justify why you think this loan will enhance the business.

For the bank, it is naturally a risk and they would want to ensure first of all that you have sufficient tangible working capital or income to repay the loan according to their terms, and they usually want collateral — some form of insurance that, should you default on payment, the bank will be able to retrieve its money. A good example of collateral is the signing of the title of your home over to the bank in case of default in payment which then allows the bank to sell the house and take so much of the proceeds that is owned to them (with interest, of course). However, you should always be aware that the bank always loses out one way or another when you do not repay as arranged and the bank will do everything in its power to renegotiate the terms and conditions to accommodate you before they take a drastic step. It is always in your interests to speak to your banking consultant when you anticipate hard times in terms of meeting those repayments.

#### **Development Bank of Southern Africa ([www.dbsa.org](http://www.dbsa.org))**

This bank provides finance and expertise or improves the quality of life of the southern African people, mainly through the provision of infrastructure as its name implies. Terms and conditions are according to specific projects but they also focus on the infrastructure of the country in terms of facilities, attractions, transportation, telecommunication and education and training.

#### **The Department of Trade and Industry ([www.dti.gov.za](http://www.dti.gov.za))**

The Small Medium Enterprise Development Programme is a cash grant incentive scheme which offers assistance to either new or expansion projects. They exist particularly to help create wealth and generate employment through developing entrepreneurship and empowerment. They are particularly keen to promote foreign investment so they focus on enterprises located in South Africa that are classified as providers of short term accommodation, tour operators for tourists and business that have a funicular or private railways, aerial cableways, water transportation vehicles, dams and lakes — in short, most things that attract money into this country e.g. Tourism.

#### **The Industrial Development Corporation ([www.idc.co.za](http://www.idc.co.za))**

They finance capital expenditure primarily in previously disadvantaged individuals' businesses. Obviously they look for the

projects to be viable, larger than R1m and the owner's contribution of at least 40% of the total project value needed (in some cases they will reduce this to 20% for empowerment projects).

**The National Empowerment Fund ([www.nefcorP.co.za](http://www.nefcorP.co.za))**

This was set up in 1998 to empower historically disadvantaged persons through financing and investment activities and will provide equity and quasi equity finance for empowerment transactions and the people involved therein. So it will therefore favour investments involving black women at senior operational levels and board levels, broader empowerment participation such as Equity Share ownership and joint ventures with historical disadvantaged persons. They will only invest in unlisted companies for amounts between R3m and R10m. and will seek minority stakes in the business (up to 49%). Your company will have to prove that you are making a significant investment yourself into the business and they will favour progressive policies with regard to recruitment, training and the health and safety of staff, as some examples.

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