Borrowing from Financial Institutions: You shouls know that...

- You must have a well developed , detailed business plan.
- You will need to have collateral.
- You should have equity pf about 20%-25% of the amount you want to borrow.
- You will have to pay interest.
- Long-term credit at reasonable rates of interest may not be available.
- The institutions want you to know that you

  - are in the habit of saving on a reg ular basis.

  - have a sound credit history.
- Application procedures may be cumber-some and present difficulties for someone with limited literacy skills.

Financing Do's and Don'ts

- Don't borrow more than you NEED.
- Don't overestimate your borrowing poten-tial.
- Don't overlook available financing.
- Don't underestimate the financial the financial risks associated with your busi-ness.
- Don't neglect to manage the relationship with your lenders.
- Do forecast the cash needs of your business and yourself.
- Do know the reputation of investors before you accept their money.
- Do your loan application when you have time.
- Do learn how to manage the finances of your business.
- Do pay back money that you borrow from friends, relatives and financial institutions.

Centre for Enterprise Development Inc.
Moussa Building
Grenville Street, Kingstown
P.O. Box 2342
St. Vincent & the Grenadines

Phone: 784-451-2235
784-451-2236
Fax: 784-451-2237
E-mail: cedsvg@gmail.com
Website: www.cedsvg.com

Centre for Enterprise Development Inc.

BUSINESS GUIDE NO. 6

Financing Your Business

"Developing the local economy, one business at a time"

The need for finance

Businesses need money for one or more of the following reasons:-

- To put the basic infrastructure in place.
- To get the trading activities of the business moving.
- Acquiring capital equipment.
- Purchasing inputs.
- Carrying out marketing activities.
- Paying staff.

Sources of Finance

There are several sources of financing that arfe available to entrepreneurs. These include:

i. Personal Savings: Assets which can be used as leverage in securing other funds.

ii. Friends and relatives: This is often called 'ove money'.

iii. Banks: Commercial and Development\

iv. Credit Unions

v. Partners

Silent Partners: Own a percentage of the business but does not play an active role in the day-to-day operations. You are able to maintain control over your business.

Active Partners: Play a role in the business.

vi. Investors

vii. Suppliers

viii. Potential Customers

ix. Government Special Programmes

Some things to note when deciding on a source of Finance

- Loans from banks and credit unions must be paid back with interest over a predetermined timed. You must not only have collateral but you must be able to repay the loan as well.
- Having a partner

  - Adds needed resources and skills to your business.

  - Gives you someone with whom you share failures and successes.

  - Prevents you from having full control of your business.
- *Term Loans:* taken for a specified period of time.
- *Trade Credit:* a supplier sells you products on credit.
- *Line of Credit:* operates similarly to a credit card but has a lower rate of interest.

Lending Criteria— The Four C's

i. Character: The financial institution assesses you and the business' past financial history and history and credit rating.

ii. Capacity: The lending agency determines if the business is capable of making projected profits and marketing its products,, has a healthy cash flow and realistic projections.

iii. Conditions: General economic conditions.

iv. Collateral: Security against the amount of money that is borrowed. It can take the form of the business' or owner's assets.

When borrowing from firneds and relatives: Some basic guidelines

- Identify the right person to borrow from.
- Avoid taking money from persons with ulterior motives.
- Put the agreement in writing.
- Treat all friends and family members as business associates.
- If necessary, choose a legal structure that would prevent them interfering in the day-to-day operations of the business.
- State

  - how much money you need to borrow;

  - what you will be using the money for;

  - how and when you will repay the loan.
- Show how much you anticipate the loan will make and what they can expect to receive once the business gets going.
- Do not accept more than a reasonable percentage (about 1%) of your friend's or relative's savings.