HOW TO SECURE FUNDING FOR YOUR BUSINESS

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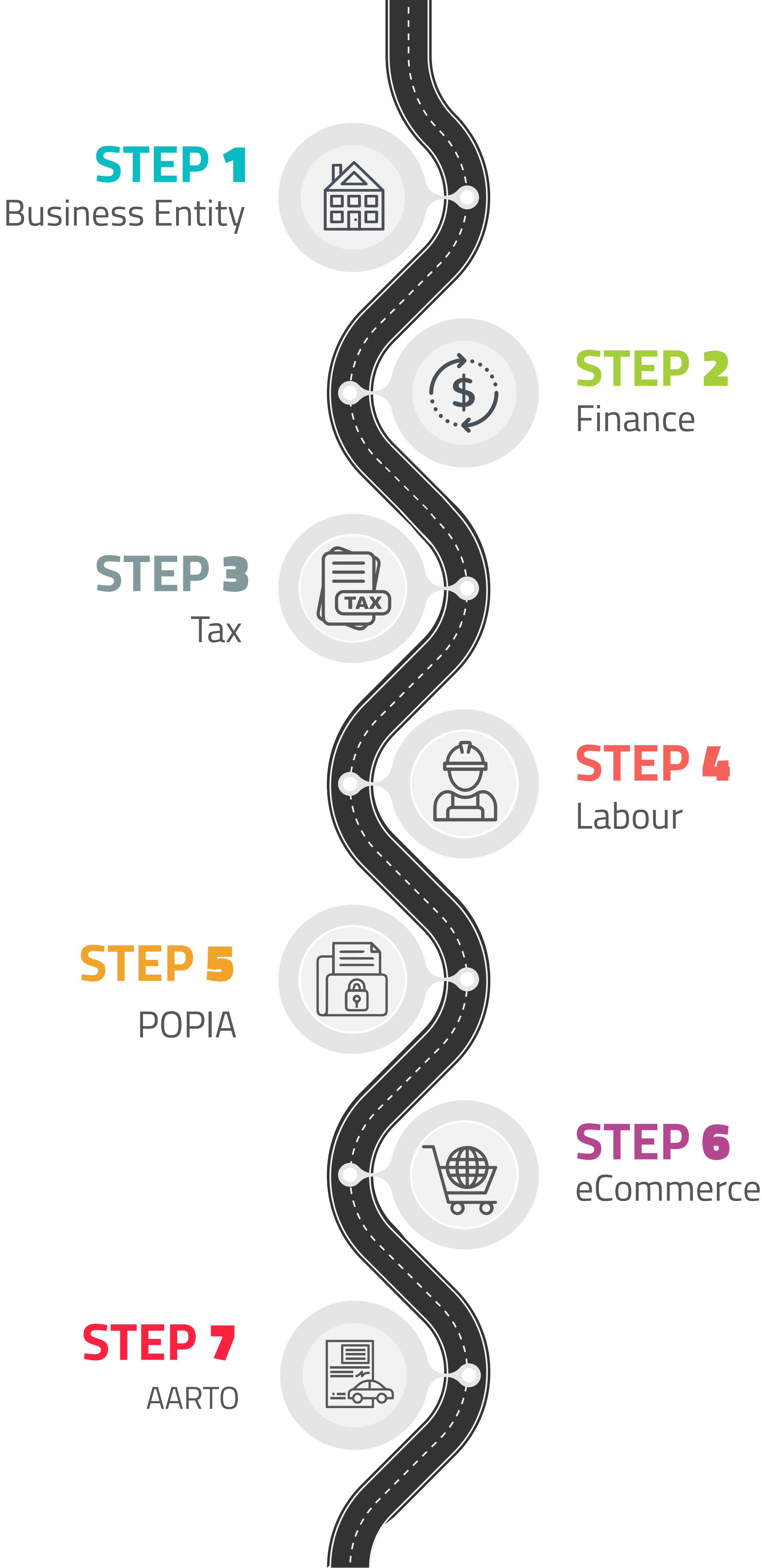
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BUSINESS ENTITY

The focus here is on **STEP 2** of your roadmap:
How to secure funding for your business

On completion of this step, you will have:

☑ figured out how to secure funding for your business

WHERE AM I?

BUSINESS PLAN

HOW MUCH FUNDING DO I NEED?

WHAT DO I NEED IT FOR?

DO I HAVE THE FUNDS?

NO

I NEED TO BORROW

WHAT IS THE BEST **TYPE** OF FUND?

APPLY CRITERIA IN DECIDING ON TYPE AND SOURCE OF FUNDS BEST FOR MY BUSINESS:

- What do I want to spend the money on?
- What are the interest rates?
- What are the administration cost?
- What are the repayment terms?
- What is the duration I need for the loan?
- What is the minimum and maximum loan needed?
- What is the monthly repayments and total cost?
- What is the approval criteria?
- What is the flexibility?

WHAT IS THE BEST **SOURCE** OF FUNDS?

IDENTIFY BEST TYPE AND SOURCE OF FUNDS

APPLY FOR FUNDING

EVALUATE AGREEMENT

SIGN AGREEMENT

YES

IS USING MY FUNDS THE MOST EFFICIENT US OF THEM?

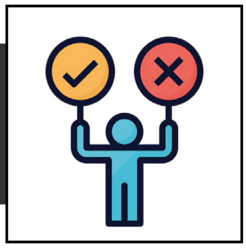
YES

ACCESS TO FUNDS FOR BUSINESS

How to secure funding

- As part of your thinking and planning you have paid careful attention to finances and drawn up a business plan. Now it is the time to secure the funding that you will need to put your business plan into action.
- Review your business plan carefully to determine the amount of money you will need to start your business eg securing building premises, purchasing furniture and equipment, purchasing vehicles, purchasing stock and paying wages etc.

You now have some **key decisions** to make:



The decision-making process requires that you do research so that you have the knowledge to make informed decisions in the best interests of your business. You may face several problems which you will need to address.

As part of your research, you will access and consult professionals and other resources but you must always evaluate the information or advice in light of your business plan to best inform your decisions. At all times make these decisions based on your specific and actual situation. The more informed you are the better your decisions – do your homework! The homework/ research you need to do will become clear from the processes set out below.

When you know the amount of funding you require and what you need it for, you can begin the process of deciding how best to secure the funding.

1. USING PERSONAL FUNDS

If your answer is 'No', you will need to borrow the funds. You may have some funds and need to borrow the rest. If you have to borrow see 2. Borrowing money below.
If your answer is 'Yes', you should ask yourself whether using all or part of your personal funds for your business is the most efficient use of your funds.

To answer this, you would want to consider:

- **The interest** earned on your personal funds compared to the charges and interest you have to pay when borrowing the funds. To compare, you will need to go through the process outlined in item **2. Borrowing money** below to determine the cost of borrowing.

- **Where the available funds currently are** (for example: savings account; fixed deposit, investment or surplus on bond account), to determine the access you have to your funds. You will want to know:
  - when you can access your funds;
  - the amount you can access;
  - if early access is possible;
  - as well as the cost of access. (Penalties/charges are payable on early redemption of fixed deposits and investments.)

Advantages of using your own funds include saving on costs of borrowing money and can also be seen as a positive indication of your confidence in your business by lenders/investors.

Disadvantages are the potential risk of losing your personal funds. Having used your own funds for the business you will not be able to use them for other purposes.

2. BORROWING MONEY

If you don't have personal funds or have insufficient personal funds you will need to borrow the money.

There are practical and legal aspects to consider when borrowing money. The legal aspects include whether or not your business' loan application will fall under the National Credit Act (NCA) and what your rights and duties are in terms of the loan agreement. **This is extremely important.**

The practical aspects to consider will affect or decide the legal aspects: If you plan on buying a business which is owned by a company, you could buy the shareholding in the company or you could buy the business as a going concern (ie 'lock, stock and barrel'). The legal processes, contracts and the consequences are different in each case.

Learn more

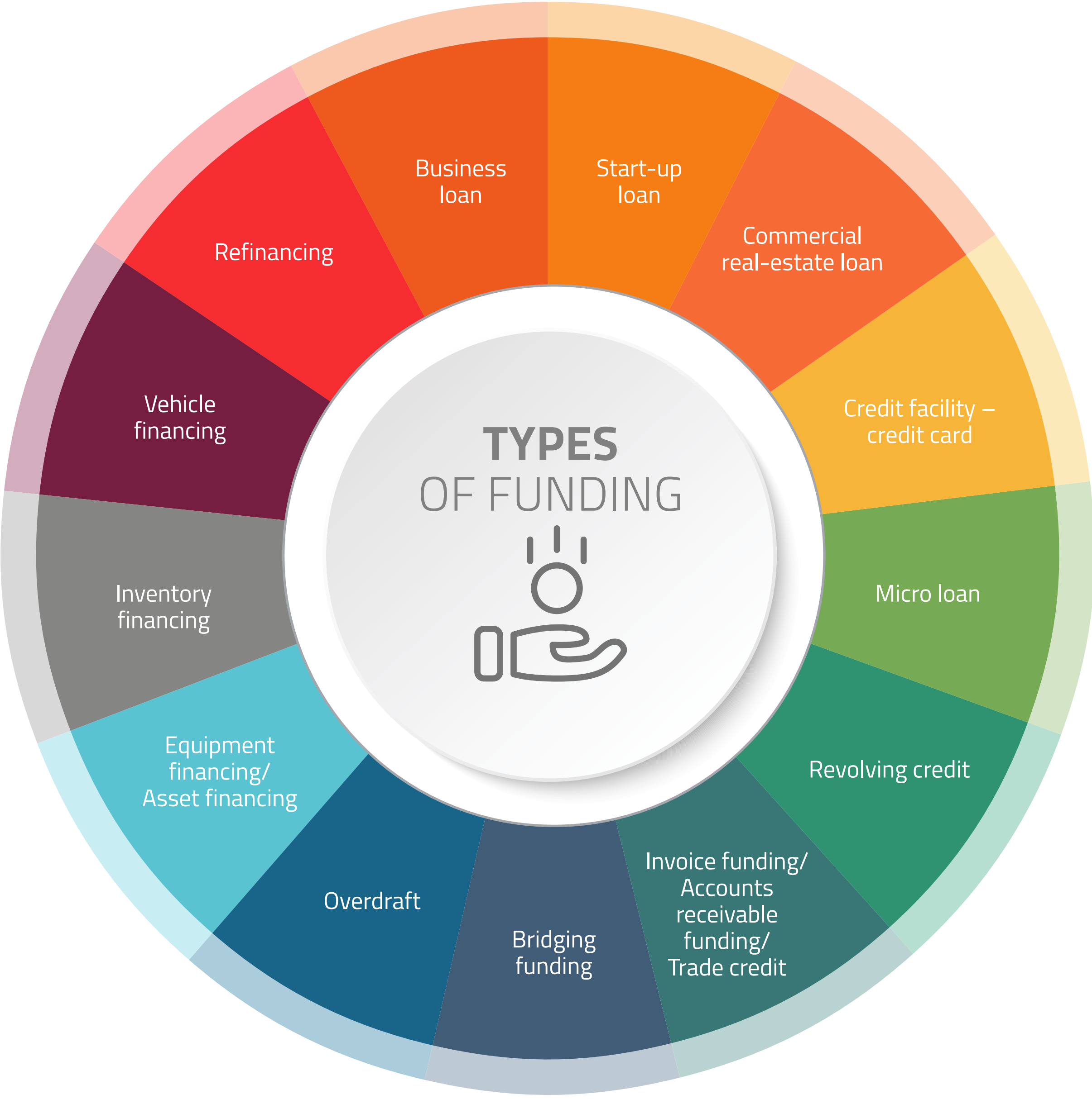
Scan the QR code to learn more if the National Credit Act (NCA) applies to your loan and what your rights and duties are

Once you know if the NCA applies to your loan, practical considerations include deciding which is the best type of funding (eg term loan, small business loan, business grant, seed funding, start-up funding) and the best source of funding (lenders (eg banks), developmental organisations and/or angel investors).

Once you know the amount of money needed and what it is needed for, you will need to consider: **Types of funding**

TYPES OF FUNDING

Consider the types of loans available in the market and identify which one best suits your type/nature of business.



Types of funding

For example, if your business plan is to farm, this would influence the type of loan you apply for and the type of financial institution you would approach. You would most likely approach the Landbank for one of the following types of loans – farm purchase, capital financing for machinery/equipment (eg tractors), production loans, farm improvements and infrastructure development loan.

In doing this you would need to consider the next point at the same time, namely **sources of funding**, as the type of funding will often determine the source of funding. For example, co-operatives, businesses owned by youth and women would qualify for funding from institutions which will only not lend to sole proprietorships or traders but only to formal companies and other juristic persons and also only for sums more than R250,000 (ie, the credit falling outside the NCA). Different sources provide different types of loans with different terms and conditions. You can decide on the type of funding taking the following into account:

- your business entity/structure
- what you want to spend the money on
- interest rates
- administrative costs associated with the loan (including whether there is an application fee)
- repayment terms
- duration of the loan
- maximum loan amount and minimum amount offered by the loan
- monthly repayments and total cost of the loan at the end of the loan term
- approval criteria and security required (whether secured or unsecured)
- flexibility in terms of access and settlement
- service aligned to your type of business

Given these considerations, decide on the type of loan best for your business and whether you can afford the loan.

Consider what security/collateral, if any, is required to secure the loan. Are you prepared to and can you provide security? If you are married, consider your marriage agreement (in community of property/out of community of property/out of community of property with or without accrual) and the risk your spouse and family could be exposed to. Consider, eg, whether it is wise to offer your home as security. If you default on paying the loan, you risk losing your personal property which could be sold to repay your debt. A life policy may be required as security. **Do you have such a policy or what is the cost of such a policy?**

SOURCES OF FUNDING

Ask yourself where you can source the loan?

Sources of funding

Research and identify the options available. Choose sources which can provide the type of loan that best suits your business' needs as outlined above, considering cost of loan as well as value-add options and flexibility offered by the lender, including understanding the nature of your business and being able to provide expert professional service over time. Seek out lender comparison websites.

APPLY FOR THE LOAN

You will have to complete the application documentation required by the lender. Read the application form and understand it fully before you complete it. Your business plan should outline the following in its financial plan: forecasts and projections; the amount you want to borrow; when you need the funding; your timeframe for repayment and what you plan to spend the funds on.

If you haven't had a financial expert assist you with this financial plan, get advice on it now. Ensure that your business plan is professional – outlining clearly what your business entails, identifying its nature and goals with a clear strategy.
Charts/graphics/visuals help for ease of quick interpretation and understanding.

You may need to rework your business plan to be aligned with the needs of the lender. Also consider proof of residence and your credit score so be aware of your own financial behaviour in terms of managing your accounts to build your credit history.

	Advantages of borrowing funds are that you have the means of purchasing or realising something you can't afford outright or at the time you need to. Loans provide you with financial leverage. They save you time as you can purchase or realise what you need or want sooner. They can allow more efficient use of your personal funds. And they can help you establish a credit history or improve your credit score.
	Disadvantages of borrowing funds are the cost of the loan and the future long-term affordability of the loan both of which depend on the income from your business.

ENTERING INTO A LOAN AGREEMENT/CONTRACT

A loan agreement is typically signed between yourself and the lender, agreeing to terms and conditions. Read and understand the agreement fully, and know what to look out for, particularly with regards to the terms and conditions. Be sure that what the written contract says is what you were led to understand in your verbal and written interactions with the lender. Look out for the:

- Total amount that must be repaid in terms of the agreement
- Interest rate and whether fixed or linked to prime
- Repayment terms (payment on demand by lender; instalment payments; payment at the end of agreed term)
- Default provisions if you cannot pay back on time
- Value-added services and flexibility (repayment holiday; deposit windfalls and withdraw to accommodate fluctuating income flows).

Don’t just sign without reading through, fully understanding and agree to the terms and conditions. Don’t feel pressured to sign. Seek external financial, legal and/or management expert advice if you are in any doubt.

Learn more

Scan the QR code to learn more about what to look out for in a typical loan agreement

ACTION SUMMARY

To secure funding do the following:

1. Have a strong financial plan as part of your business plan. If possible, an accountant or someone with finance expertise should be involved.
2. Identify the amount of funding required.
3. Determine what the funding is needed for. Break down the total amount into what it is intended for.
4. Clarify if you have your own personal funds. If so, confirm the amount available by knowing the type of account/ investment the funds are currently in and the amount you have available to access and when. If the funds are tied up in other investments that are less liquid (eg land; buildings) determine the availability and amount available.
5. Decide whether it is the best use of your funds to spend them on your business idea.
6. Determine the opportunity cost by calculating the return on your current funds versus the cost of borrowing funds. This will require homework/research and input from a financial adviser if necessary. See action 7 below as to what this homework/research will entail. Also consider the leverage which the debt can assist in achieving additional assets. And consider that you could use current assets as security/collateral for loans. Think twice before using your home as security/collateral.
7. Calculate the percentages of personal and borrowed funds needed. If you decide that it is in your best interests to use a portion of, or all of your personal funds, make the necessary arrangements for these funds to be available for your business (eg, give notice of withdrawal, place land/property on the market). Should you need a loan, then continue with the actions below.
8. Knowing the amount, you need and the reason/s for it – do homework/research on the type of loans in the market and who offers the loans. The idea is a loan matched to what you need the loan for. Simultaneously identify who offers the different types of loans, considering:
    a. Interest rates
    b. Period of loan
    c.Total cost of loan
    d.Terms and conditions

e. Security/collateral required, if applicable

f. Quality of service provided

g. Application process and supporting documents required

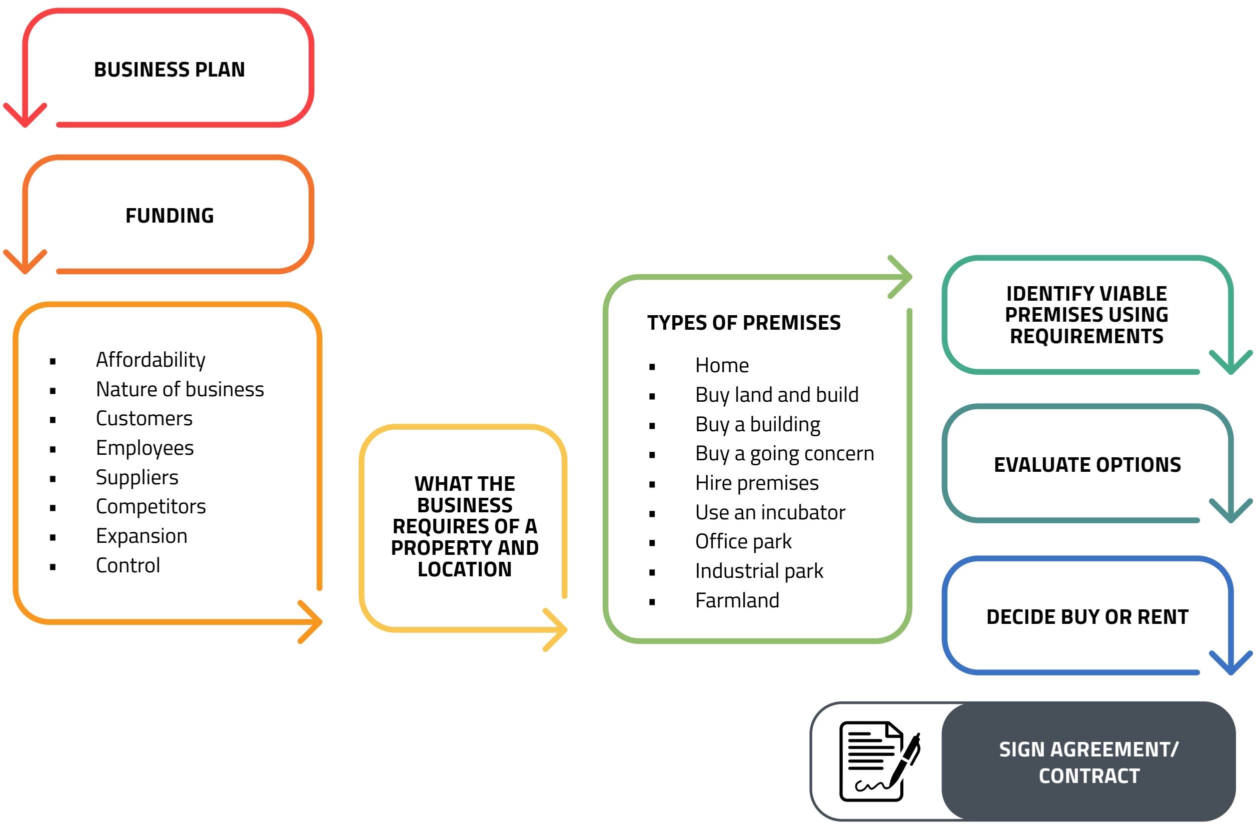
Note that there are websites and providers who will assist in the types of loans available from institutions/funders and with comparisons.

9. Decide on which loan and from which financial institution?

10. Complete the application truthfully and supply all necessary documentation. Remember that it may be that you need to rework your finance plan and business plan to be able to supply all the information required by the lender.

11. Assuming your application is successful, and if the NCA applies, you have 5 business days to consider the quotation before accepting. So, you can ‘shop around’ for the best loan on offer. Read and consider the agreement presented to you carefully before you sign. If necessary, seek legal and/or financial advice from a third party. Once happy, sign the agreement for the funds to be available for your business.

INSTITUTIONS/FUNDERS



Sources of Funding: Government Agencies

- Industrial Development Corporation (IDC)
- Small Enterprise Finance Agency (SEFA)
- National Empowerment Fund (NEF)
- Small Enterprise development agency (SEDA)
- Land Bank

SOURCES OF FUNDING

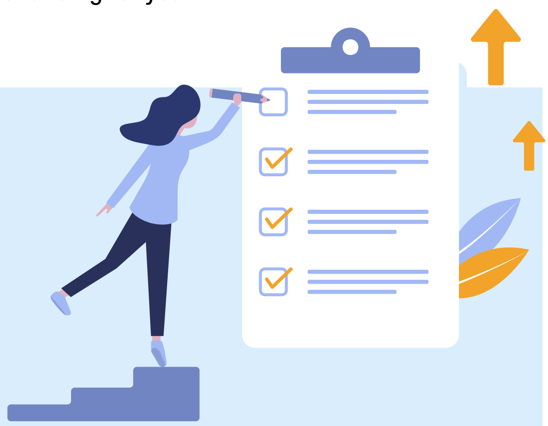
Companies
Do a search for companies that lend money to small businesses in South Africa and discuss with your financial advisor.

Angel investors
Do a search for angel investors that lend money to small businesses in South Africa and discuss with your financial advisor.

How to secure funding for your business Checklist

Consider this checklist before embarking on and during the process.

The objective is that once you have everything in place to successfully secure funding for your business, you will be able to tick the checklist items with confidence.



- [ ] **I know the total amount of money I need for my business**
- [ ] **I have considered the pros and cons of using my own funds**
- [ ] **I have decided on the amount I will self-fund**
- [ ] **I know when I can access my self-funded amount**
- [ ] **I know the costs associated with using my own funding**
- [ ] **I have decided on the amount I will borrow**
- [ ] **I have established what type of loan I need**
- [ ] **I know the reasons why this type of loan is the best for my business**
- [ ] **I am aware of the disadvantages of this type of loan**
- [ ] **I know the service costs and interest rates for this type of loan**
- [ ] **I have considered alternative types of loans**
- [ ] **I am satisfied with the type of loan I have chosen**
- [ ] **I have decided on the source of the loan**
- [ ] **I know the reasons why this source for my loan is the best for my business**
- [ ] **I am aware of the disadvantages of this source**
- [ ] **I have considered alternative sources**
- [ ] **I am satisfied with the source of funding**
- [ ] **I have completed the loan application honestly and truthfully**
- [ ] **I have shopped around for the best loan for my business**
- [ ] **I am satisfied with the terms and conditions of the loan agreement**
- [ ] **I am satisfied with the security/collateral required**
- [ ] **I have my spouse's agreement to sign this loan if necessary**
- [ ] **I have consulted financial/legal experts before signing**
- [ ] **I have a signed loan agreement**

REMEMBER!

When dealing with a company's finances (and more specifically its bank accounts), it is important to remember the principle of separate legal personality. In other words, although you might "own" the company in the sense that you are a shareholder – even the sole shareholder – it does not mean that you own the company's assets.

The company owns its own assets and you own shares in the company. Having a company is a double-edged sword – while it gives you protection by keeping assets separate in the case of a business failing or losing money, you also can't treat your company's bank account like it is your own. Money paid out to shareholders is carefully regulated and can only be paid out if a company is solvent and able to afford the payment.

Your bank will be able to tell you what documents are required to open a bank account in your company's name. It may also require you to sign suretyship for the company's obligations in order to protect the bank's exposure.