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Block 2 - Module 2

Sources of obtaining and
financing investments
in rural areas

Elaborated by VuS

LECTURE 1: FINANCIAL SOURCES OF FUNDING FOR SME



LEARNING OUTCOMES

The participants will be able to explain the difference between certain financial sources.

LEARNING ACTIVITY CONTENT

Financial sources of funding for SMEs:

- problems of availability of sources of financing,
- differentiation of sources of financing,
- selection of optimal sources of financing.



INTRODUCTION

Access
to
finance



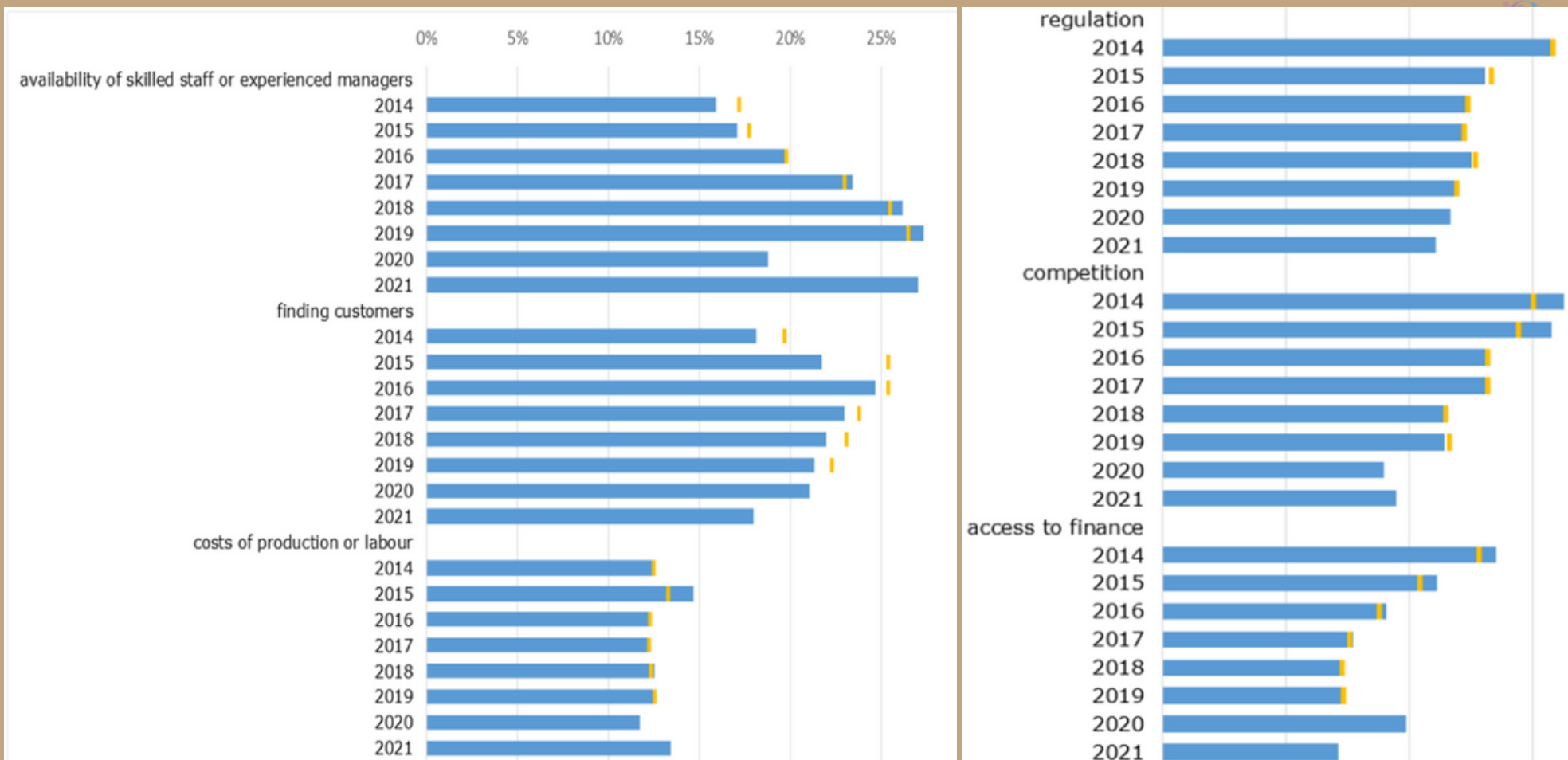
Survival
and
growth of
the SME
sector

How to
bridge
the gaps
in
financing



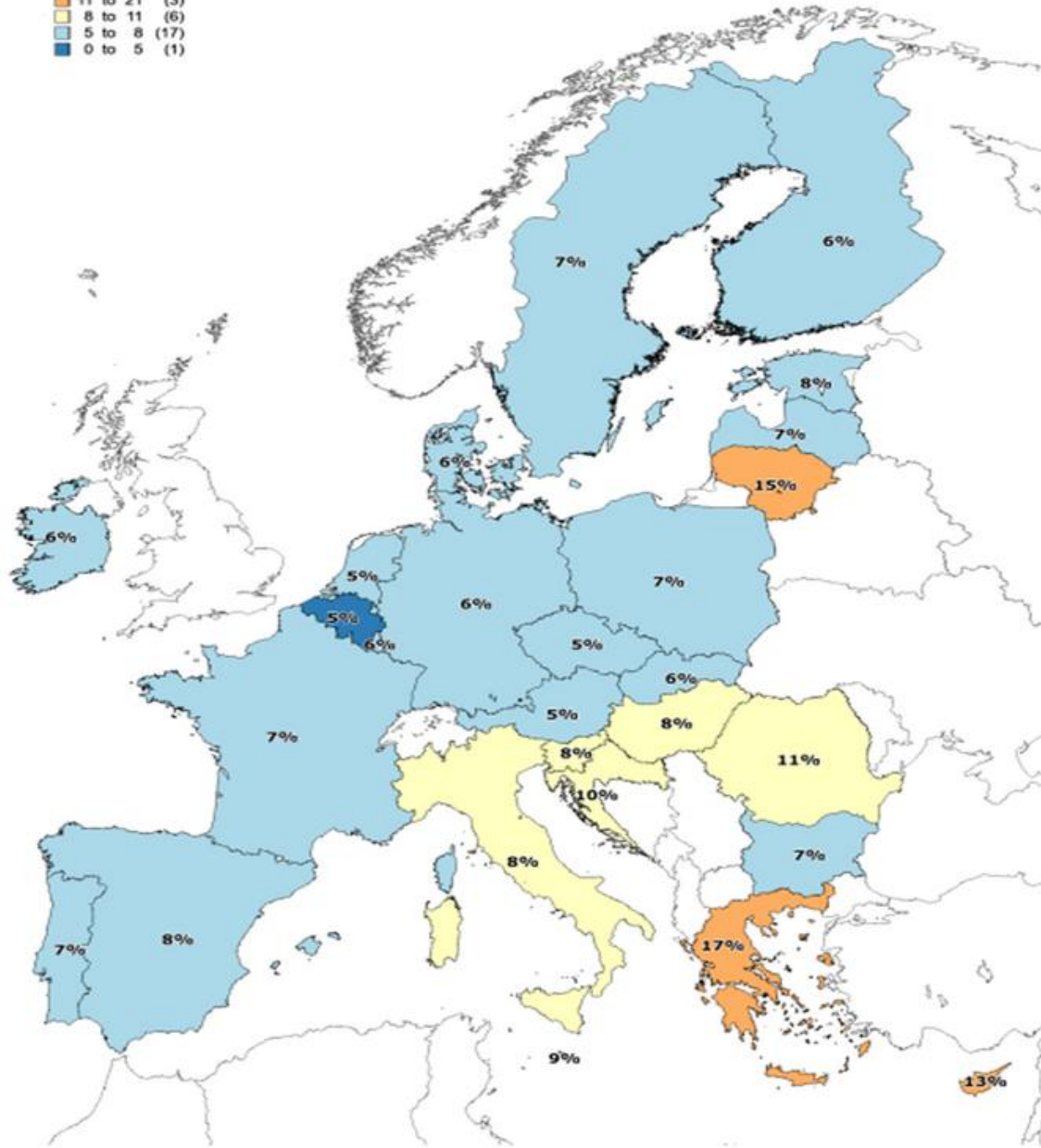
**FINAN
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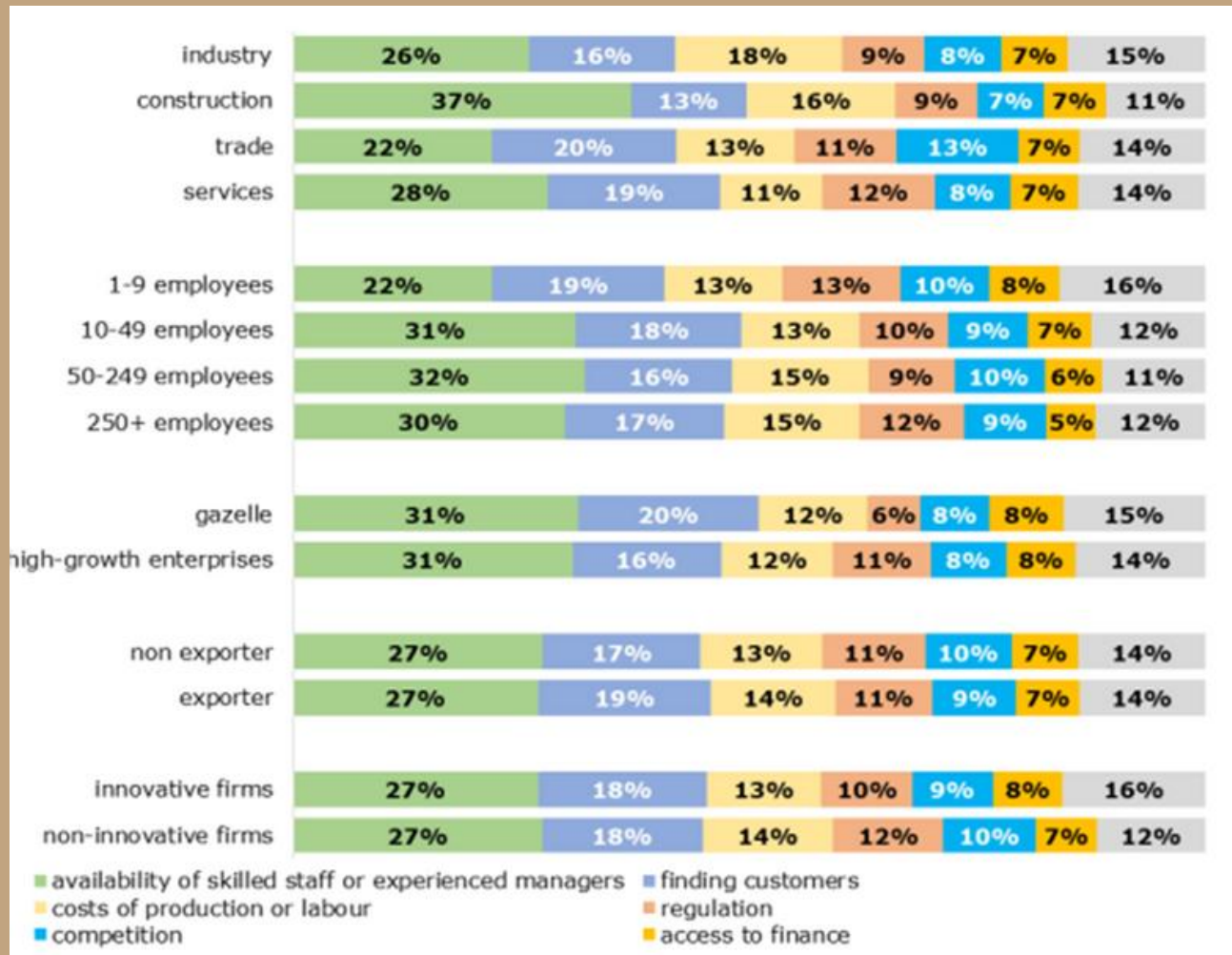
The most important problems for entrepreneurs

Most pressing problems in the past six months (April to September) for SMEs in the EU27. Percentages in the figure indicate the percentage of SMEs that consider a specific problem to be the most urgent problem

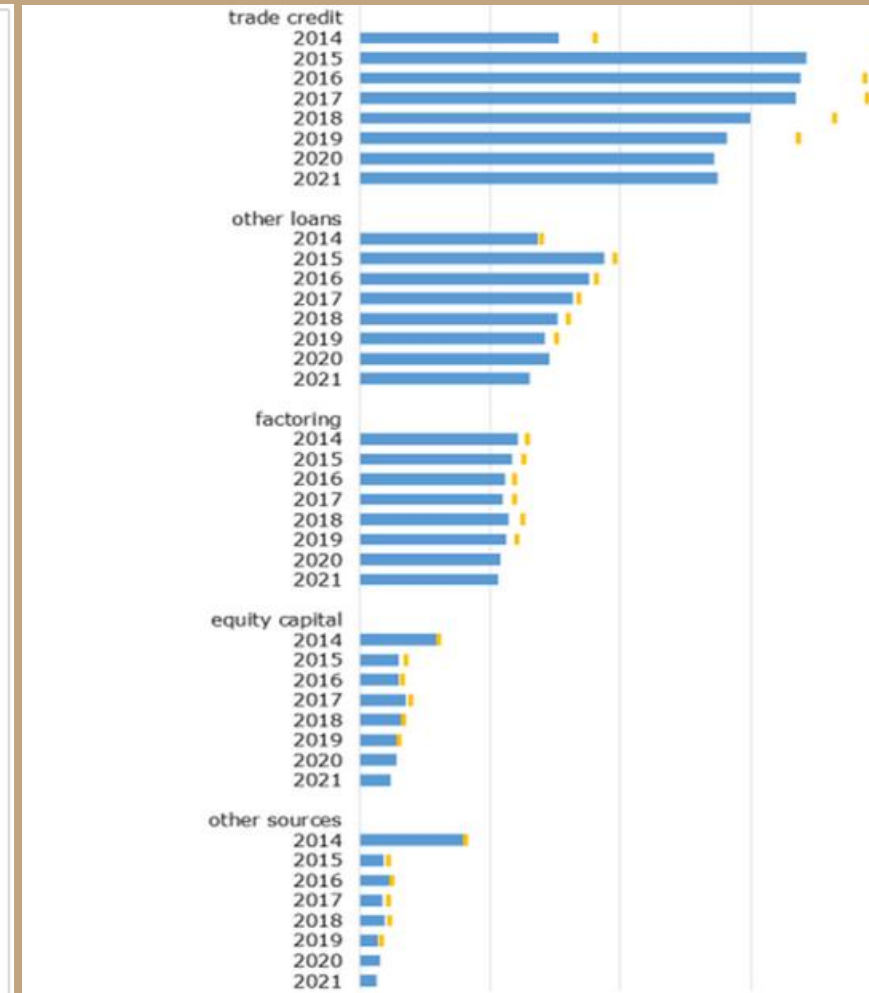
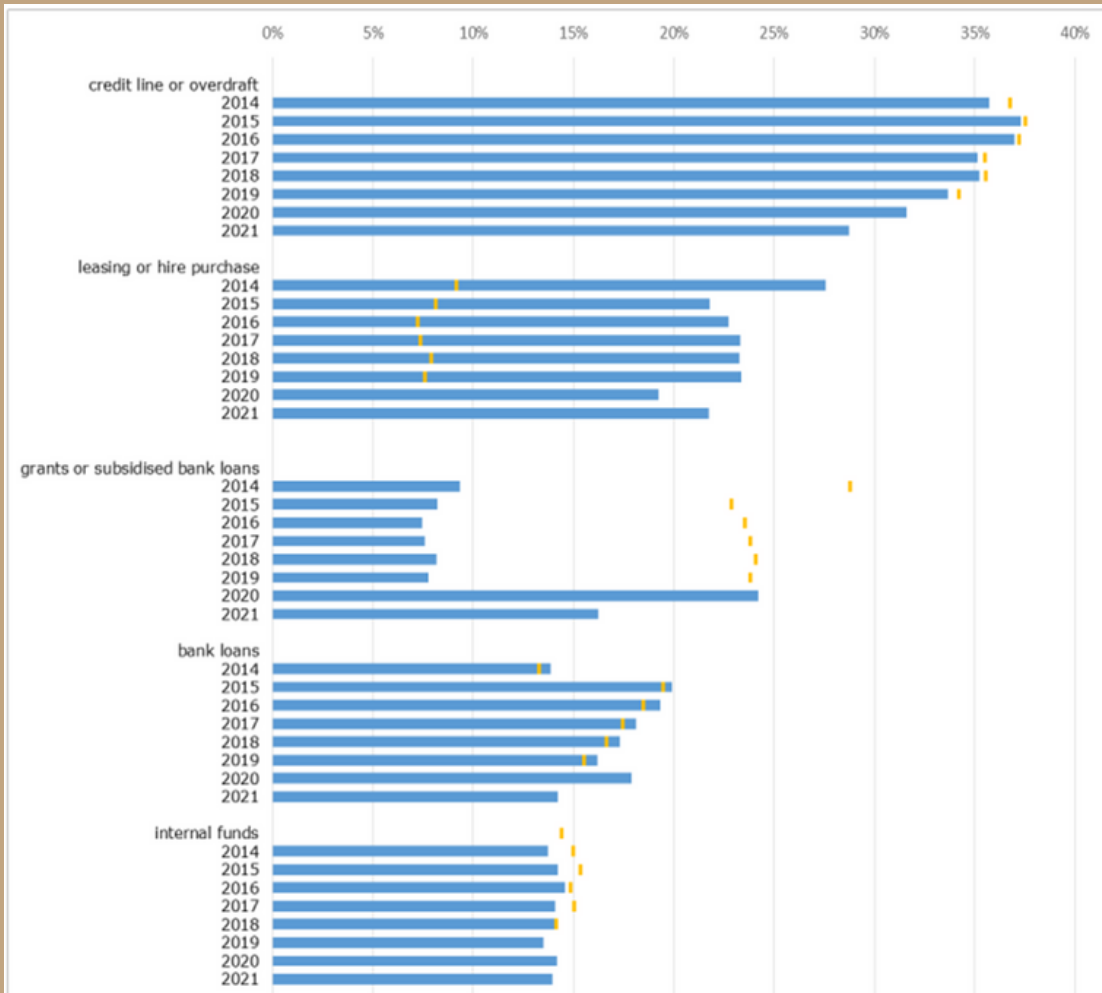


Proportion of SMEs that indicated access to finance as the most important problems during April to September 2021, EU27 by country.





Most pressing problems during April to September 2021 for SMEs in the EU27, by enterprise characteristic. Percentages in the figure indicate the percentage of SMEs that consider a specific problem to be the most urgent problem.



Use of different types of financing in the past six months for SMEs in the EU27 during 2014- 2021.

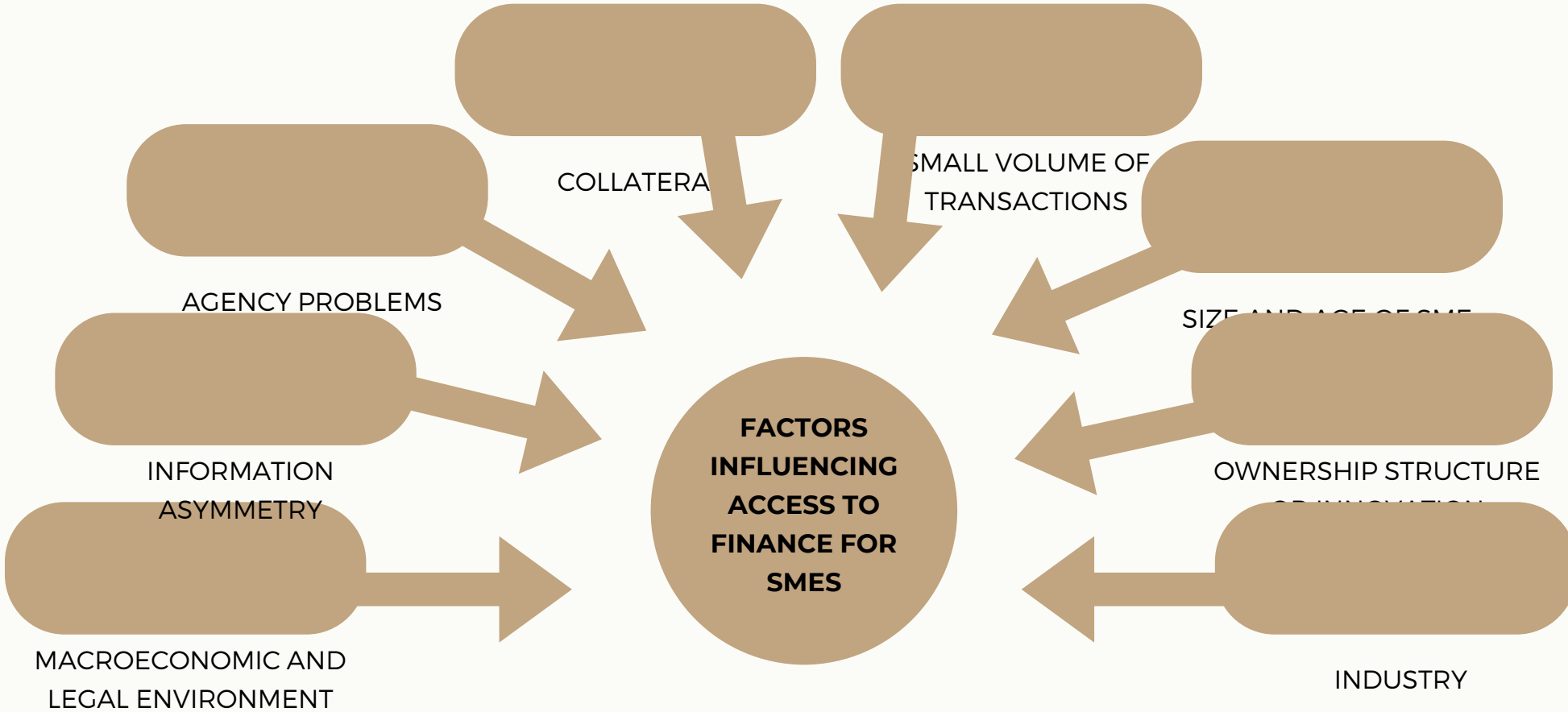




WHY LEARN ABOUT SOURCES OF FINANCING

- growth and survival of SMEs;
- investments made by SMEs contribute to the development of the national economy and alleviation of poverty;
- competitiveness of SME.

FACTORS INFLUENCING ACCESS TO FINANCE FOR SMES



FIRM CONTINUUM AND SOURCES OF FINANCE

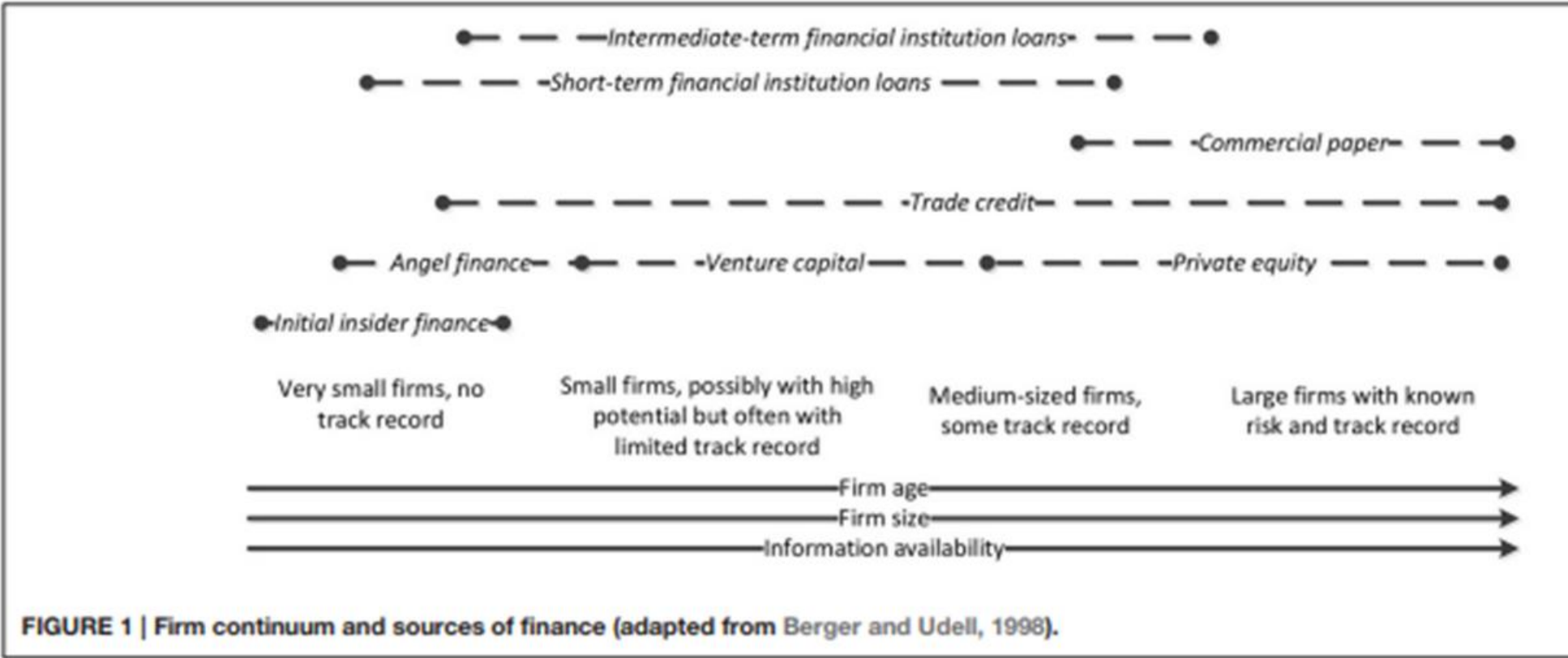
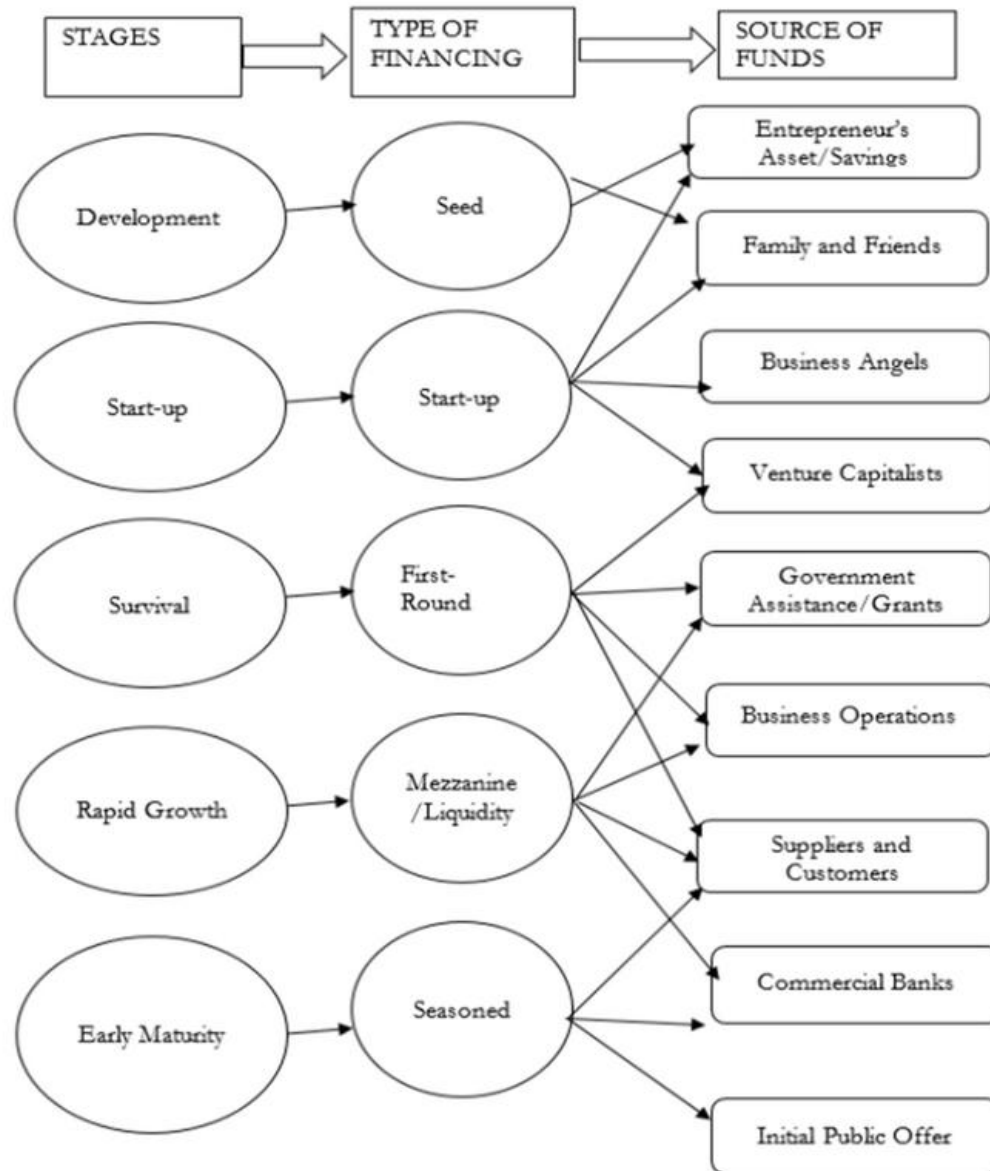


FIGURE 1 | Firm continuum and sources of finance (adapted from Berger and Udell, 1998).

Figure 1: Conceptual framework of types and sources of financing by life cycle stages



Source: Adapted from Leach and Melicher (2011)

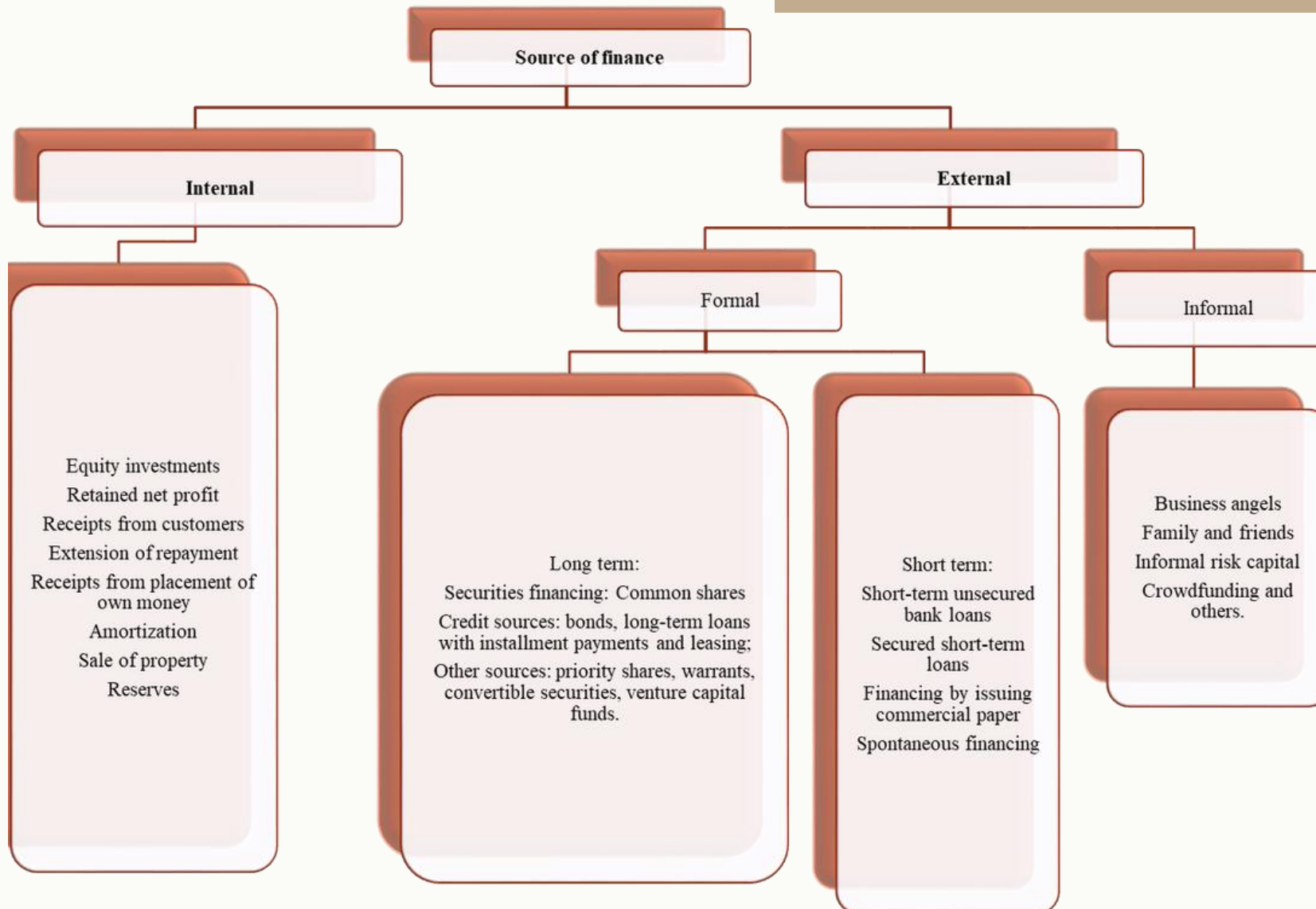
https://www.researchgate.net/publication/354254925_Source_Of_Lifecycle_Funding_And_Entrepreneurial_Firm's_Size_As_Measured_By_The_Number_Of_Employees

FINANCIAL SOURCES OF FUNDING...

In general, financing can be divided according to:

- ***type of financing***: debt or equity *
- ***source of financing by origin***: internal and external sources of financing**

SOURCES OF FINANCING



- **Equity investments (equity capital)**
- **Retained net profit (accumulated profit)**
- **Receipts from customers and slowing down of payments**
- **Receipts from the placement of one's own money**
- **Sale of assets**
- **Reserves**
- **Depreciation**

FINANCING FROM INTERNAL SOURCES

FINANCING FROM SHORT TERM FORMAL EXTERNAL SOURCES

The forms of formal external short-term sources of financing available to companies are:

- a) **Short-term unsecured bank loans**
- b) **Secured short-term loans from financial institutions**
- c) **Financing through the issue of commercial notes**
- d) **Spontaneous financing** - includes tax and salary deferrals, and trade loans.

FINANCING FROM LONG TERM FORMAL EXTERNAL SOURCES (FES)

Internal financing from external sources can be provided from:

- **public sources (public issue of shares) or from**
- **private sources (acquiring capital from private sources).**



LONG-TERM CREDIT SOURCES

Long-term credit sources are:

- A **bond** is a fixed-income instrument that represents a loan made by an investor to a borrower (typically corporate or governmental).*
- An "**installment loan**,"
- **Leasing**

- An ***"installment loan"*** is a broad, general term that refers to the overwhelming majority of both personal and commercial loans extended to borrowers.
- Installment loans include any loan that is repaid with regularly scheduled payments or installments.*
- ***Whether an installment loan is the best funding product for your business depends on why you need the cash.***
- *"You don't want to take a debt obligation for too long to provide a solution for a cash need that may be short," said Josh Jones, chief revenue officer at Kapitus. "Knowing your needs is super important."*

- A small business installment loan isn't as easy to get*
- “If you have assets, equipment, real estate, or accounts receivable you can use as collateral, an installment loan is for you,” Meuse said. *“There’s more documentation required these days, sometimes a little bit higher credit score, and sometimes loans-to-value [ratios] are less, but lenders have a good appetite.”*
- Here’s what applying for an installment loan entails:**
 - Credit score*
 - Collateral*
 - Personal guarantee*
 - Business plan*
 - Business and personal documentation*

LEASING

When an asset is acquired with financing provided by a lessor, the transaction is called leasing.

When the lessee enters into a leasing arrangement, it pays a fixed periodic fee to the lessor. This fee is essentially comprised of the return of capital to the lessor, plus an interest component. The lessor may also charge the lessee for other fees incurred to acquire and hold the underlying asset, such as personal property taxes.*

- Leasing have advantages but also have disadvantages...

TYPES OF LEASING

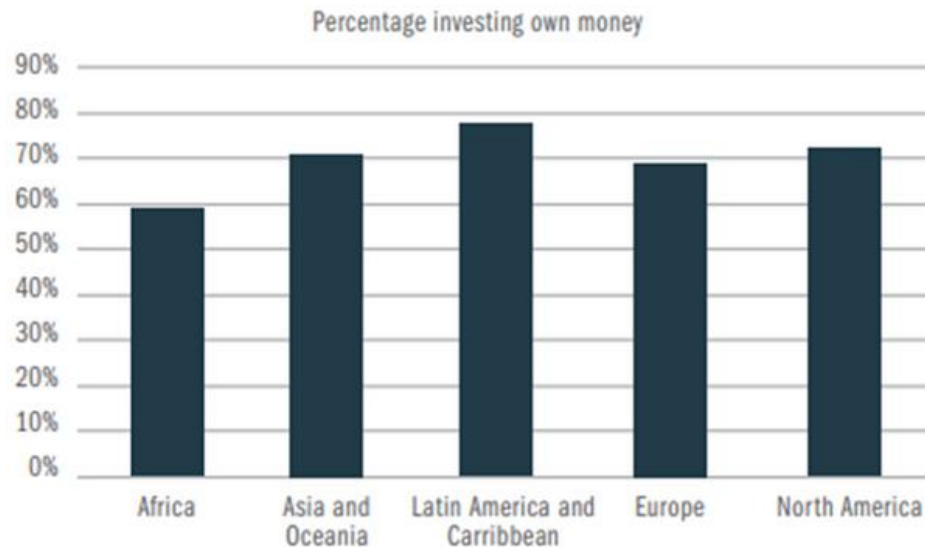


*The three main types of leasing are:

1. Finance leasing
2. Operating leasing
3. Contract hire

FINANCING FROM INFORMAL EXTERNAL SOURCES

Figure 5: Average percentage of entrepreneurs using own money to fund their ventures, by region, GEM 2015



Entrepreneurs rely to a great extent on their personal savings to fund their entrepreneurial ventures in all areas of the globe. From a global perspective, 95% of entrepreneurs use personal funds when starting a business.*

INFORMAL EXTERNAL SOURCES OF FINANCE



Non-Institutional financing:

- Bootstrapping
- Friends, family and colleagues

Institutionally -support financing:

- Public funding
- Accelerators
- Venture capital
- Angel investors
- Microfinance
- Peer-to-peer lending
- Crowdfunding



AN OVERVIEW OF RESEARCH FINDINGS ON CURRENT MODELS OF FINANCING ENTREPRENEURSHIP

Bootstrapping

The term 'bootstrapping' is a relatively recent way of describing the oldest model of entrepreneurial finance: selffunding.

This means dipping into entrepreneurs' personal finances and other resources to fund their new business.*



FRIENDS AND FAMILY

Entrepreneurs often use informal funding from friends, family members and colleagues, because they cannot secure formal investment through VC or other outside funding. *

INSTITUTIONALLY- SUPPORT FINANCING:

Accelerators - The accelerator model of entrepreneurial finance has become very popular in the United States and is beginning to spread to the rest of the world. Though it is a relatively recent phenomenon, the model borrows from the more established 'incubator' model, where an organisation (private or public) typically provides entrepreneurs with funding, business mentorship and office space for a duration of one to five years.

Public funding -

Entrepreneurs may occasionally receive "seed" capital through a grant or loan from a government or nonprofit organisation such as a university or NGOs. The institution providing the grant or loan may want to spur entrepreneurship generally, or have an interest in promoting a promising new sector. *

**

Venture capital (VC) is the term most often associated with financing risky entrepreneurial ventures with potentially high returns. This is in large part due to the attention garnered when entrepreneurs secure sizeable VC investment – especially when that investment pays off. *

Angel investors - are high net worth individuals who identify and invest in high quality entrepreneurs in exchange for equity. Angel investors are individuals who may act individually or in groups. **

Microfinance - as a model for entrepreneurial finance is a few decades old. Initially, this model involved non-profit and government entities offering uncollateralised loans to impoverished people who would otherwise have no access to finance.

Peer-to-peer (P2P) - lending is a recent financing model akin to microfinance. The model offers individuals with limited access to traditional finance the opportunity to get uncollateralised loans directly from their peers. *

Crowdfunding - is the newest viable model for entrepreneurial financing. It is broadly similar to microfinance or P2P lending in the use of peer financing; however, it is almost entirely focused on entrepreneurial projects, while offering alternative repayment and equity arrangements.**



VIDIECKY PARLAMENT
NA SLOVENSKU



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Figure 6: Sources of finance for early-stage entrepreneurs, by region, GEM 2015

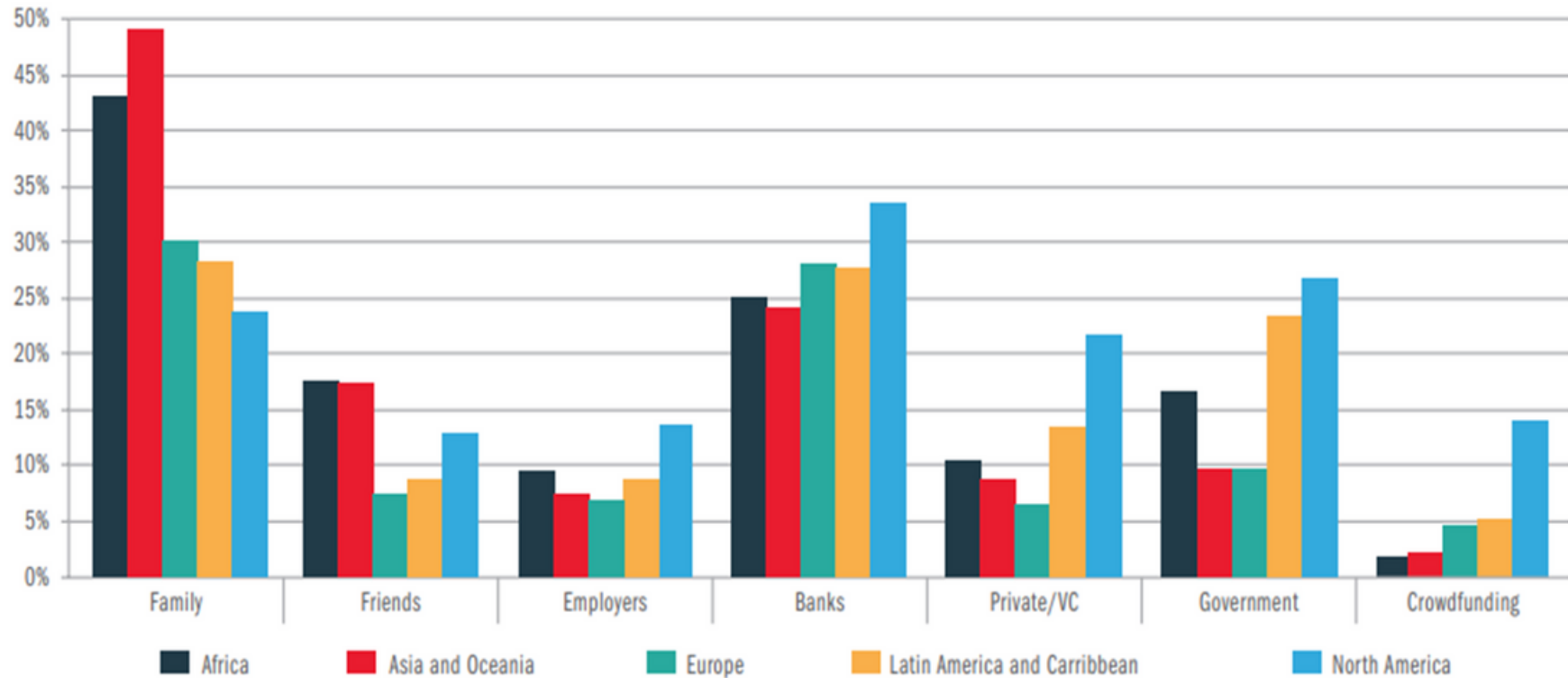
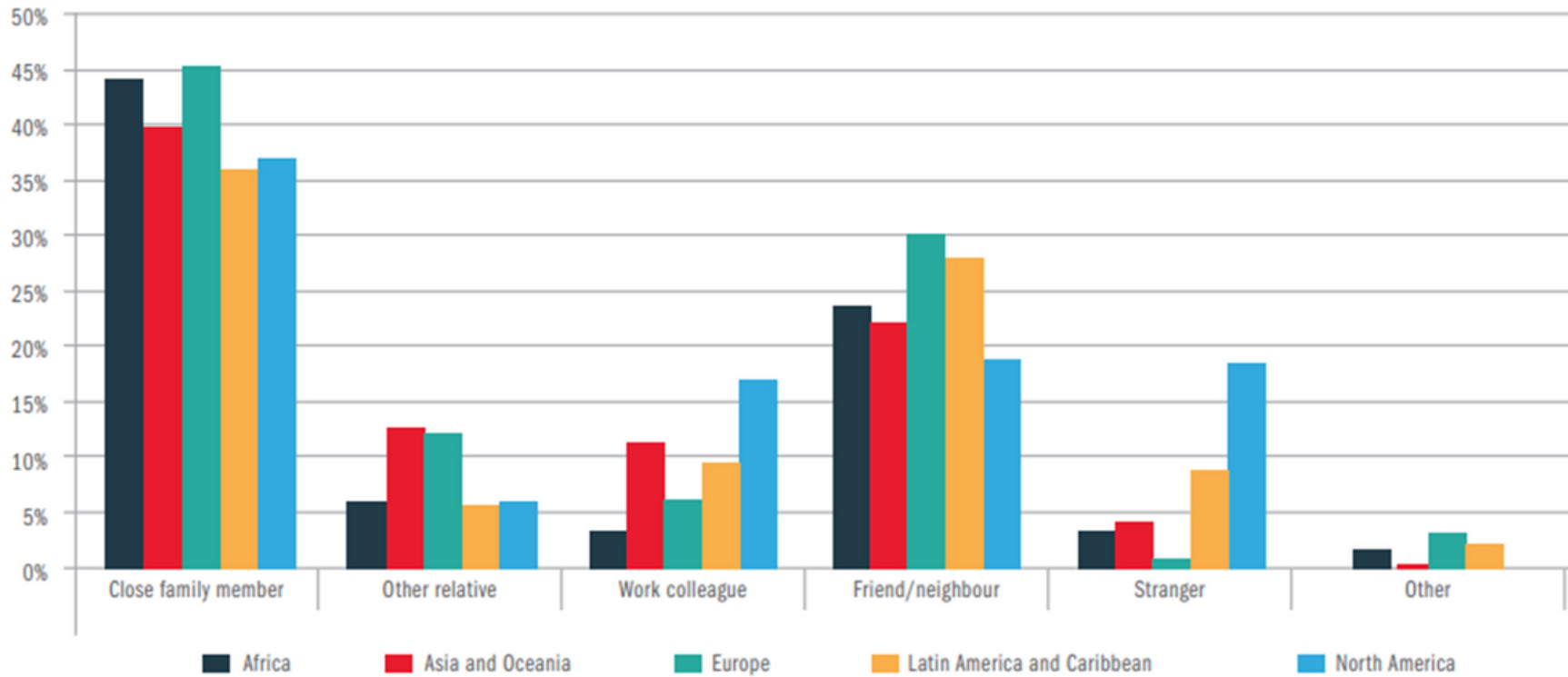
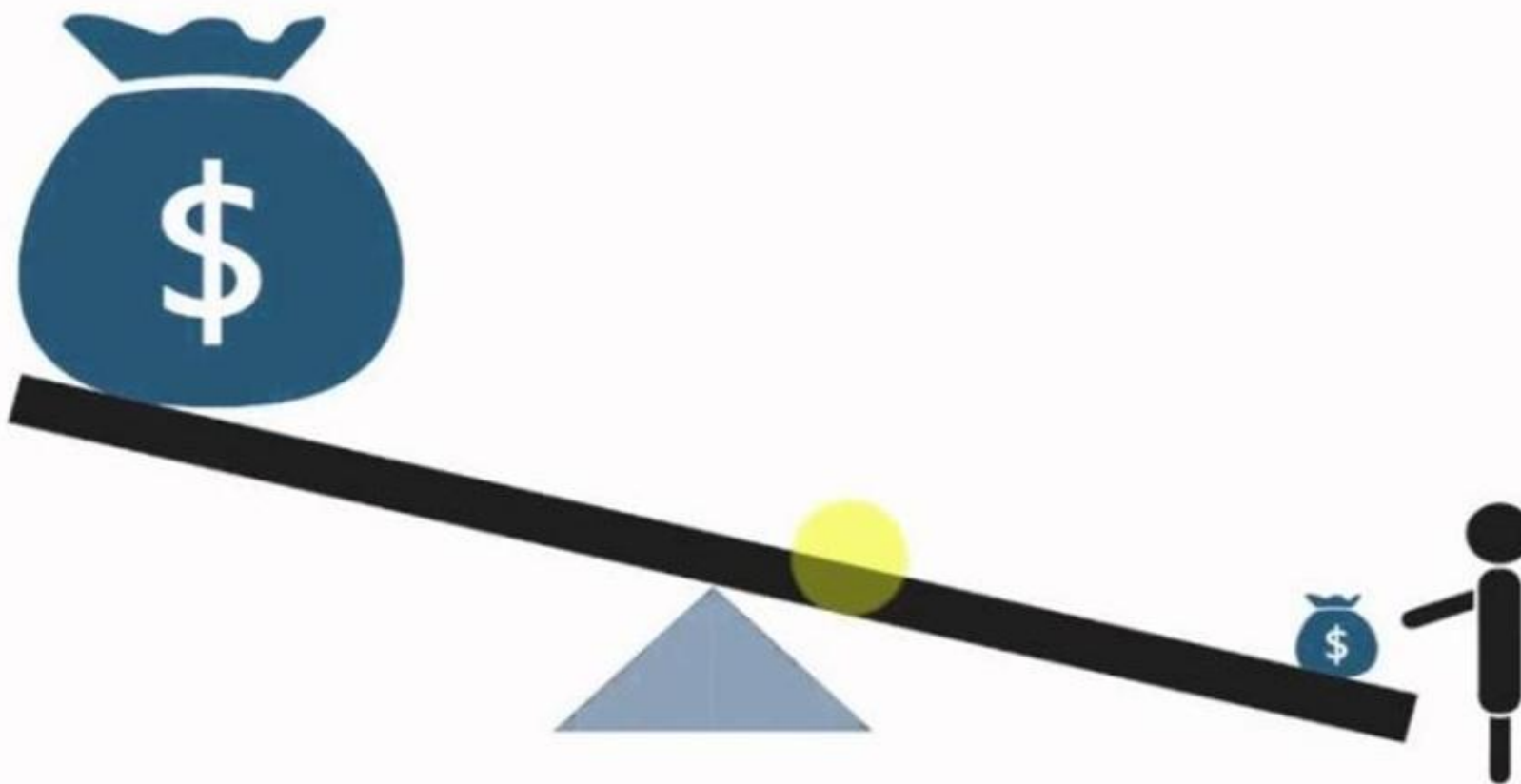


Figure 10: Recipients of informal investor funding, by region, GEM 2105



SELECTION OF OPTIMAL SOURCES OF FINANCING



- In this lecture you have become familiar with the issue of company financing, various sources of financing and their basic characteristics.
- The selection of a specific source of financing should be based on adequate financial planning so that the company can progress and grow. Therefore, knowledge of financial products and services, financial reports, and financial indicators is necessary for the company to achieve its goals.



CONSLUSION

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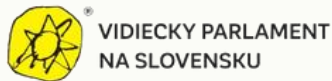
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