

Enhancement of business
environment & competitiveness of
the private sector of **Montenegro**



Introduction to « SMALL BUSINESS FINANCING GUIDE »

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AGENDA

- 01 Purpose and Objectives of the guide
- 02 Determine your financial needs
- 03 Debt Financing
- 04 Applying for a loan: documents to prepare
- 05 Equity Financing
- 06 Business grants
- 07 Tips on how to make your business more fundable

01. Purpose & Objectives



*The guide provides a roadmap for entrepreneurs
on how to approach the financing decision.*

1) HOW TO DETERMINE YOUR FINANCIAL NEEDS.

We'll look at how important cash flow and coverage is for your business.

2) REASONS WHY YOU MAY NEED OR SHOULD BE SEEKING FUNDING.

Understanding the nature of your need and how urgent you need funding can be determining factors in getting your financing application approved.

3) TYPES OF FUNDING AVAILABLE.

We will have a deep look into three forms of financing: debt, equity and grants.

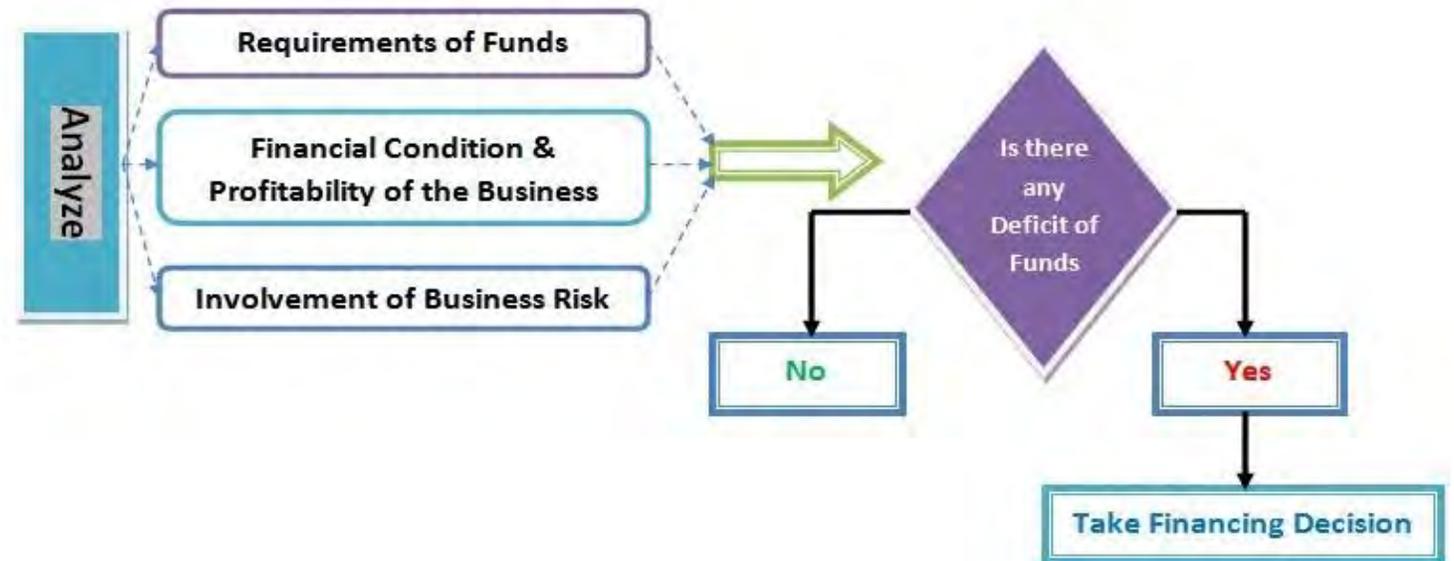
4) WHAT DOCUMENTS TO PREPARE.

Every lender asks for different items. You will find a list at the bottom of the guide.



02. Determine your financial needs

Having a strong understanding of the economics of your business is very important when thinking about financing.



FACTORS TO BE CONSIDERED WHEN FACING A FINANCING DECISION:

1. What's the nature of your need?

- Are you using it to start a business?
- Are you planning on growing your business with the funding you receive?
- Are you needing financing because of an emergency?

2. How urgent is your need?

Sometimes the urgency of your funding needs can dictate what type of lender to work with.

3. Is your business seasonal or cyclical?

Businesses that are seasonal or cyclical often require more working capital to stay afloat during the slow period. Understanding when cash is entering and exiting your business bank account lets lenders know that you are more likely to pay back your small business loan.



03. Debt Financing

Debt financing involves the borrowing of money and paying it back with interest. The most common form of debt financing is a loan.

 <p>PROs of Debt Funding</p>	 <p>CONs of Debt Funding</p>
 <p>Since the interest rate on loans is almost always lower than the return on equity investments, debt funding is much cheaper than selling equity.</p>	 <p>Loan payments may deplete your business' cash flow.</p>
 <p>Debt funding allows you to raise money without selling shares of ownership, so you continue to own 100% of your business.</p>	 <p>Without collateral, qualifying for a loan is extremely tough. Companies without valuable physical and/or intellectual properties may struggle to land funding.</p>
 <p>With some caveats, interest on business loans is tax-deductible.</p>	 <p>Defaulting on a loan can lead to lower credit scores, increased interest rates, seizure of property and bankruptcy.</p>
 <p>Loan payments typically follow a predictable schedule, which allows you to easily account for them in your budget.</p>	 <p>Because they get paid regardless of your business' outcome, lenders have no stake in your company's success.</p>



Reasons to take a business loan:

- ❖ Increase working capital
- ❖ Purchase inventory
- ❖ Purchase Equipment
- ❖ Hire new employees
- ❖ Expand Products or services
- ❖ Open a new location
- ❖ Create a safety net
- ❖ Buy a business
- ❖ Cover unpaid invoices
- ❖ Advertise your business
- ❖ Build a credit
- ❖ Cover construction costs



Types of loans for small business:



Type of Loan	Recommended Use	Examples
Term Loan	Large lump sums of cash that are best for large purchases where it'd be advantageous to spread the large payment over a period of time	- Big Machinery - Real Estate - Working Capital
Business Line of Credit	Large revolving lines of credit that are ideal for cyclical cash flow problems	-Payroll expenses -Financing ongoing projects or operations
Commercial Real Estate Loan	Ideal for real estate specific expenses	-Purchasing or buying real estate
Equipment Financing	Best for purchasing large machinery or vehicles	-Factory equipment -Office vehicles
Invoice Factoring	For businesses that can't qualify for competitive term loans and have invoices that aren't being paid on time	-Help alleviate issues that stem from long sales cycles

04. Applying for a loan: documents to prepare



- ✓ Background information
- ✓ Have a proper business plan
- ✓ Business Legal Documents
- ✓ Tax Returns
- ✓ Financial Statements
- ✓ Personal Credit Reports
- ✓ Business Credit Reports
- ✓ Personal Income and Collateral



05. Equity Financing

❖ Pre-Seed Funding

Pre-seed funding refers to the initial capital a company brings in that comes from friends, family members, credit cards-whatever you can get. This could be as small as €5,000 and as high as €100,000.

❖ Seed Funding

Seed funding (also called seed capital) typically ranges from €100,000 to €500,000 and is often provided by angel investors and is usually structured as convertible notes or common stock.

❖ Early Stage Investment (Series A & B)

The average Series A round is between €2 million and €5 million, with the expressed goals of funding early stage business operations.

Series B you can generally raise €5 million to €10 million but can sometimes you can raise up to €20 million in capital or more.

❖ Later Stage Investment (Series C, D, and so on)

Each round may raise between €5 million and €20 million or more. Series C, D, etc. rounds are also typically obtained from venture capital firms and/or strategic/corporate investors.

❖ Mezzanine Financing

Mezzanine capital, often provided by private equity firms, is capital provided either as equity, debt, or a convertible note that is provided to a company just prior to its Initial Public Offering.



06. Business grants

Are small amounts of seed money that further the goals governments, or non-profit organizations, given for a specific project or purpose that a business doesn't need to pay back (unless it breaks the conditions of receiving it).

The main organisations offering grants are the European Union (mainly through the European Commission) and the Ministry of Economy (MEK).

The grant schemes are available for various areas: industrial modernization, direct investment, monitoring services, cluster, entrepreneurship, innovation, regularization of international standards, etc.



07. Tips on how to make your business more fundable

➤ **Monitor your Cash Flow. REGULARLY!**

A business' cash management is extremely important to ensure that the business has the liquidity to adequately support day-to-day operations. Strong cash flow management can mean the difference between being in and out of business.

➤ **Be aware of how you run your business**

A small business' demonstrated ability to manage its day-to-day affairs is a prime consideration when making a loan decision

➤ **Know your collateral options**

- Is collateral needed for all the small business loans?
- Why Would You Want to Secure a Small Business Loan Using Collateral?
- What Kind of Small Business Loans Need Collateral?

THANK YOU

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