

How to access finance for small and medium enterprises



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HOW CAN you best position yourself to secure bank funding? What is the best way to ensure your application to secure the resources you need is taken seriously by your bank manager? If you're running into a wall, where else is finance available to small and medium enterprises (SMEs)?

In the current economic climate, it is no surprise that many tourism businesses have been operating in 'survival mode' and have rightly focused on cost control and improving efficiency in order to deliver better value.

As market conditions improve, however, opportunities will arise for well-placed businesses and entrepreneurs. However, they will need funds and resources and the right approach is key to access these.

This approach starts with having a plan and a good business plan is vital to any application for funds. Why? Well, crucially, it allows the bank to gain an understanding of you as a business owner, the market, the product/service and the assumptions underpinning your projections.

WHAT DOES AN EFFECTIVE PLAN LOOK LIKE?

Typically a business plan will address the following:

• TRACK RECORD

Your experience, skills and business track record. This does not necessarily have to be in the area in which you are looking to grow. The main point is that you must demonstrate the necessary skills - your ability to deal with business issues and plan for the future.

• MARKET RESEARCH

In addition to showing your experience, the plan must also establish that you understand the market and have focused on the best prospects.

• PURPOSE

How you intend to use the funds sought must be clearly outlined. The likelihood of a loan application's success is always increased when there is a clear alignment between the purpose of the credit sought and the business's strategic objectives.

• REPAYMENT CAPACITY

Any funder (bank or otherwise) must be able to see that your business will be able to pay the investment. A bank will also look at any other pre-existing financial commitments.

• AMOUNT

The funding 'ask' should be clearly stated along with the most appropriate type of credit facility. This is crucial and it is worth noting that otherwise good loan applications are sometimes rejected because the applicant asked for the wrong type of credit!

• A FINANCIAL PLAN

The overall plan should be backed up with a robust financial plan that includes:

- 1 Auditor's statements for the previous three years or equivalent annual financial statements;
- 2 Up-to-date management accounts and cash flow statements;
- 3 Up-to-date aged list of creditors and debtors, particularly when working capital is being sought;
- 4 Financial and cash flow projections and underlying assumptions (ideally for the period for which funding is sought);
- 5 Details of all sources of funding as banks often want to see what proportion of funding will be provided by the borrower.

USEFUL TEMPLATES

For some, all of the above may seem daunting but the good news is that there are a few very useful templates available out there which provide a good way to demonstrate your 'financial literacy' to lenders.

For example, two very practical documents are available to download from www.small-businessfinance.ie:

- One is a MS Word based business planning template which neatly lays out the plan's contents.
- This is accompanied by a MS Excel integrated financial model. Not only does this document look very professional but also the fact that the spread-sheets are integrated means that data entered in one part of the financial plans can be used to generate data elsewhere. This significantly reduces the likelihood of data entry errors.

If you are downloading these documents, make sure to save them on your own system.

In addition, the various accountancy bodies and the Irish Bankers Federation have developed a common approach to business plans preparation and getting bank finance.

This means that there is a common, standard credit application form for all of the main banks. More details can be found from a general internet search under 'IBF business guides'.

REFUSED CREDIT?

Well, even in this case, there are a number of options worth considering. These include:

• CREDIT REVIEW OFFICE:

It offers a review process for SMEs and sole traders refused credit from banks participating in NAMA. It accepts applications from those who have had their application for credit refused or reduced or have had credit facilities withdrawn, and feel that the bank's decision is unjustified.

The following eligibility criteria apply:

- 1 The business is an SME or sole trader.
- 2 It has applied for credit facilities from €1,000 up to €500,000.
- 3 The credit facility was refused and the business has exhausted the banks' internal appeals process

• MICROFINANCE IRELAND:

Its objective is to provide additional lending to start-ups and newly established or growing

micro-enterprises, i.e. businesses with turnover less than €2m and less than 10 staff. In the first instance you should approach your bank for credit; if declined, then you are eligible to apply. It has a loan limit of €25,000 and more information is available from www.microfinanceireland.ie.

• LOAN GUARANTEE SCHEME:

The purpose of this scheme is to get credit to SMEs who currently struggle to secure bank finance by giving a partial guarantee to banks against losses on qualifying loans to firms with growth and job creation potential. The scheme applies (a) where viable businesses have insufficient collateral and (b) where businesses operate in sectors unfamiliar to banks. As the purpose of the scheme is to encourage additional lending to SMEs, it only kicks in when a loan is refused by a bank based on the situations outlined above.

Finally, our own Fáilte Ireland corporate website (www.failteireland.ie) also has a lot of useful information and planning templates. Be sure to check out our Business Plan Guidance in the 'Develop your business' section on the site as well as the other business tools.



Pictured at a recent series of Finance for SME's workshops which were held in conjunction with the IBF were Tim Fenn, Chief Executive, IBF (left), Tony Lenehan, Head of Industry Services, Fáilte Ireland (right)