Financing of Small and Medium Enterprises

"**ICON WOM-EN**" - Integrating Innovation and Promoting Cluster Organization in WOMen Enterprises

Action 4.2 Educational Platform - Action 4.3. Educational Material
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1. - EQUITY

Finding

- Every Business needs liquidity especially at the beginning of its operation and until it reaches a level of sustainability that will allow them to be self-sustaining. However, there may be a need for financing at a later stage in order to make a business leap to overcome the competition.
- Where can the required resources be found for the above cases?
- In order to avoid the application of the "model" FFF (Friends, Family, Fools), let's look at more practical solutions.

Equity

- The Equity of the company is what supports its establishment and gives it the opportunity to start its activity, while it is also the guarantee of the survival of the company, in case of losses due to various factors.
- The healthiest way to finance a business is the so-called internal financing, ie the allocation by the entrepreneur or partners or shareholders (shareholders, etc.) of all or a large part of the necessary capital to finance the new activities of a company

1. - EQUITY

Basic Terms

- The capital of the company is, in the broad sense of the term, the accumulated amount of money of any kind which is available for the activities of the company either as cash or as an asset (buildings, cars, machinery, goods, etc.).
- Equity of a sole proprietorship is the capital contributed by the entrepreneur, while equity in the case of a company is the total capital offered by all the partners. These funds are called the Initial Capital of the company at its incorporation and their amount is defined in the Company's Articles of Association.
- From the income of the company emerges the Working or Operating Capital that covers the operating expenses, while in many cases the creation of an Emergency Capital for the management of difficult financial statements is also foreseen. Any remaining income creates a Reserve.

1. - EQUITY

Business Expansion

- In case the company wants to expand, it will have to use the Reserve Capital. If these resources are not enough, if the owners agree, a percentage of the Company may be granted to external Investors, ie it may sell part of its total Shares.
- The company with this additional capital can complete its expansion, while on the other hand the new Shareholder (Investor) expects profits from the development of the Company.

ADVANTAGES

- No profits are paid to the new investor.
- There are no fixed installments to be paid as it is a partial redemption and not a loan.
- Investors can not cause the business to go bankrupt.
- Investors can also contribute by providing guidance and contacts.

DISADVANTAGES

- There is a risk of losing control of the business if the Investor buys other dividends.
- Investors may interfere in the management of the business.
- Investors want to get higher returns.
- The businessman shares his profits with investors.

2. - LOAN FINANCING

Banks

- Banks are the traditional source of funding for existing businesses.
- When banks lend to new businesses, borrowers are required to provide substantial guarantees.
- Banks may also limit the level of funding within certain limits, depending on how they evaluate the Company's business plan.
- As an application for bank financing will be studied by several scales, each of which will examine different issues, it is very important that the Business Plan is as complete as possible, in order to avoid any delays.
- Also, banks today are in a very difficult situation, as they already have many loans that are not repaid, this makes them very careful to give a loan. From now on, banks will focus more and more on the quality of their portfolio, with their main concern being the repayment of the loan.
- In general, Bank Lending is like a new partner. You need to make them believe in you and your product. You have to inspire them. Inform them about the developments and decisions of the Company, and warn them in time when support is needed

2. - LOAN FINANCING

Banks - Short Term Lending

- Recycled funding. They are a form of working capital financing through:
  - Open Accounts e.g. for faster payment of suppliers
  - Against requirements e.g. check exchange with cash
  - Ease of Overdraft
- Closed-term loans in euros:
  - Duration from a few weeks to 12 months
  - Full loan repayment is required
  - Renewal is possible
- Foreign currency loans:
  - For trading in other currencies

2. - LOAN FINANCING

Banks - Long Term Lending

- Bond loans
  - They are an alternative source of financing for businesses compared to direct bank lending and share capital increases.
  - Repayment: in installments with or without a grace period or repayment of the principal at the maturity of the loan.
  - Duration: from 3 to 5 years.
  - The interest rate can be fixed or floating and is agreed after consultation of the company with the Bank
- Syndicated loans
  - Financing of a business by two or more credit institutions, which undertake a certain percentage of the financing, usually to cover investments and needs in working capital of a more permanent nature.
  - Repayment: in installments, with or without a grace period, or repayment of the principal at the maturity of the loan.
  - Duration: from 3 to 5 years.
  - The interest rate can be fixed or floating and is agreed upon consultation of the company with the Banks.
- Loans for Building Facilities & Equipment
  - Appropriate tools can be designed in consultation with the banking institution.

2. - LOAN FINANCING

Leasing (1)

Leasing is a form of financing, alternative and complementary to traditional lending. It combines the characteristics of bank lending and the leasing of capital goods.

Leasing is the renting of production equipment and / or facilities to the interested companies that do not have the financial means to make a regular purchase, or simply do not benefit financially from their purchase and thus, lease them, simply by paying the appropriate rent.

A lease agreement is characterised by the fact that for the entrepreneur (tenant) the ownership of the object is not as important as its usability, while the leasing company (lessor), although it owns the object, is not interested in its properties and the productive or other possibilities it provides but only for the preservation of its commercial value, since the object is a means of securing its claims against the lessee.

2. - LOAN FINANCING

Leasing (2)

In other words, new or used equipment is financed from the country or abroad, such as:

- Mechanical / Electrical equipment
- Electronic equipment
- Scientific / medical / dental equipment
- Industrial equipment
- Professional shop equipment
- Private cars
- Commercial vehicles
- Buses
- Office equipment
- Commercial real estate (offices, shops, industrial and craft buildings, warehouses, shopping malls, hotels, doctor's offices and any other commercial property).

2. - LOAN FINANCING

Leasing (3)

With Leasing, the entrepreneur leases, for a specific period of time, from a leasing company, a movable fixed asset (machine, car, computer, etc.) or a property (warehouse, shop, plot, etc.) and at the end of this period he can, with a unilateral declaration, to buy it at a pre-agreed price (option).

The lease is properly calculated, so that during the lease period the purchase cost of the fixed asset is covered and there is a reasonable profit for the leasing company. Note here that the tenant has to pay all the rents, otherwise he risks being declared bankrupt.

Essentially, the leasing company (lessor) buys the specific fixed asset according to the lessee's wish and then rents it.

The advantage for the Entrepreneur is that he does not need to buy fixed assets and thus dramatically reduce the financial liquidity of the Company, and in addition increases the costs by paying the rent which implies a reduced tax each year.

2. - LOAN FINANCING

Factoring (1)

Factoring is an alternative form of financing that complements traditional lending, while also offering additional financial services and products. It is addressed to all companies that sell goods and offer services, with short-term credit to customers.

Through Factoring a company assigns the responsibility of collection of receivables to Factor, which undertakes the management, accounting monitoring, collection of business receivables, the provision of advances (financing) on their value, as well as the coverage of credit risk.

This is the conclusion of a contract between the agent and the supplier, under which the supplier (assignor) assigns to the agent his claims against his customers (debtors).

Practically, when the customer buys products or services with a Credit Card, the Company with Factoring service immediately collects the entire sale amount, while the Customer pays the predetermined installments.

2. - LOAN FINANCING

Factoring (2)

Without Factoring the Company would receive the sale amount in installments, after each payment of the Customer. This practice solves important problems of small and medium enterprises, such as:

- lack of liquidity,
- the high cost of managing / collecting receivables and,
- the growing risk of bad debts.

The activity of the business receivables agency may vary from country to country but is usually exercised by:

- Banks that have been established and operate legally in the country and
- Societes Anonymes with the sole purpose of carrying out this activity

3. - PROVISION OF OWNERSHIP FOR FINANCING

Venture Capitals (1)

- As mentioned in the 1st Lesson of the Module "Financing of Small and Medium Enterprises", many times the reserve of the Company is not enough for a bigger step of growth and therefore some kind of Financial Lending from a Financial Institution or some Professional Cooperation is required in order to find the necessary financial resources.
- In addition to potential new Shareholders who will contribute to the Capital of the Company, there is another category of Investors:

Venture Capital (VC) Investors

- VCs are only interested in business ideas with great growth prospects and with an experienced and ambitious team, able to turn its business proposal into a profitable company in a short time.
- The object of VCs is mainly the Start Ups.

3. - PROVISION OF OWNERSHIP FOR FINANCING

Venture Capitals (2)

- VCs provide medium to long-term financing at a rate of equity participation.
- The size of the participation is related to the expected risk and profits of the business.
- The cooperation of Venture Capital companies is not limited to the provision of funds but also provides assistance in terms of management, marketing, staffing and strategic planning of the company.
- The Networking that the VC can offer with other companies in the market also plays an important role, resulting in the conclusion of collaborations.
- The great advantage of financing through Venture Capital is that the company is not obliged to provide guarantees for the capital provided to it. Thus, even in case of business failure, Venture Capital does not claim a refund of the money invested in the company, provided of course that the terms of the agreement between the two parties were met.

3. - PROVISION OF OWNERSHIP FOR FINANCING

Angel Investors

- Many start-ups use personal funds to prove to potential investors that they can get their first customers.
- Following this path makes it easier to reach out to angel investors who will finance your business.
- In essence, Business Angels are individual investors, providing funds to start or support a business, usually in exchange for a portion of the start-up equity.
- At European level there is the European Business Angels Network (EBAN).

3. - PROVISION OF OWNERSHIP FOR FINANCING

Business Incubators (1)

- These companies provide to start-ups with the prospect of rapid growth, support & possible small financing, premises and equipment (building facilities, furniture, computers, etc.), secretarial services, consulting services, network of contacts with customers and suppliers, etc. .λπ.
- More specifically, the support offered by “Business Incubators" consists of the following:

(a) granting scholarships lasting a few months, so that young people who wish to "venture" can focus on their business plans.

(b) enabling them to work in specialized Cooperation Spaces (according to the model of internationally called co-working spaces) according to the most modern international standards. The main purpose is for the Cooperation Spaces to function as incubators for the young potential entrepreneurs as in these spaces favorable conditions are created for the development of collaborations and the elaboration of ideas and plans.

3. - PROVISION OF OWNERSHIP FOR FINANCING

Business Incubators (2)

(c) providing guidance by mentors and organizing informational seminars and workshops, with the assistance of a network of counselors, who will support the program by providing counseling services, guiding and educating young people and possibly supporting their potential investor contacts.

In return, the Incubators receive a percentage of the share capital or payments from the start-up or a mixed settlement is made.

- The main role of Incubator companies is to contribute to the establishment and the first development of a new company so that it can then claim, with proper infrastructure and professional preparation, larger funds (through bank lending or Venture Capital companies) for its first large investment. which will allow it to grow further and impose itself on the market.
- The duration of the Incubator investment is usually between 6 and 18 months.

3. - PROVISION OF OWNERSHIP FOR FINANCING

Technology Parks

They are a coexistence in the same space, of companies that are active in specific branches and corresponding Academic departments of these branches.

In essence, these are:

an area where companies with intense research and development activities are concentrated in the new sectors of the economy based on knowledge (information technology - telematics - biotechnology - renewable energy sources, etc.), along with universities, research or technology centers.

In this way, infrastructures are created for attracting and establishing businesses in an attractive technological environment, while at the same time technology transfer and business support services are offered.

3. - PROVISION OF OWNERSHIP FOR FINANCING

Stock Markets (NEXA)

The stock market is an alternative source from which companies can raise capital.

The New Stock Market (NEXA) was created for Small and Medium Enterprises years ago. This market was not significantly supported, with the result that it was almost abolished and did not fulfill its purpose, ie to support new emerging companies through dynamic investments.

The new NE.X.A. is aimed at small but dynamic and innovative companies. The characteristic "dynamics" is related to the yesterday, today and tomorrow of a company, while the "innovative" is related to the pioneering product, its production process, etc.

But there is also the opposite, the preparation for the introduction of a business in NE.X.A. is time consuming (it can take 5-6 months), as the business plan must be formulated, the contractor and the special negotiator must be found and other procedures must be followed, which are not foreseen for the entry in the Main and the Parallel Market. When all this is ready, then the envelope enters the queue and waits

4.- EUROPEAN SUPPORT PROGRAMMES

Financial Tools

The new financial tools that small and medium enterprises can use through the Banks are mainly:

- NATIONAL STRATEGIC REFERENCE FRAMEWORK 2021-2027 with the largest amount of funds, provides grants and loans on favorable terms throughout almost the entire spectrum of the economy (agri-food, processing, tourism, energy, etc.)
- Individual programs such as COSME, EASI.
- Utilization of returned GEREMIE resources.

4.- EUROPEAN SUPPORT PROGRAMMES

NATIONAL OPERATIONAL PROGRAMMES FOR ENTREPRENEURSHIP AND COMPETITIVEMENT

- During the Programming period 2021-2027, national operational programmes for entrepreneurship, competitiveness and SME initiatives will operate, on the same concept framework they were completed in the previous period (2014-2020).
- Both the National Ministries of Economic Growth and the Regions manage and allocate ERDF funds to support SMEs
- The main areas for investment under these Programmes usually include: *promoting business investment in research and innovation, promoting entrepreneurship, developing and implementing of new business models and supporting SME growth through increased capacity to develop new products and services, internationalisation and penetration of new markets and promoting use of renewable energy in enterprises and implementation of smart distribution systems, to maximise available production potential of renewable energies*

4.- EUROPEAN SUPPORT PROGRAMMES

COSME (1/2)

- The COSME program aims to enhance the competitiveness and viability of European Union enterprises and to promote the creation and development of small and medium-sized enterprises.
- It is addressed to entrepreneurs who are interested in financing their company, to citizens who are interested in starting or developing a business.
- The product is provided by all systemic banks in the country. It concerns business loans with preferential terms and reduced collateral.
- Specifically, the Fund is guaranteed for 50% of the loan and collateral that does not exceed 30% of the loan amount. These are the main benefits of the product.
- This enhances a company's ability to obtain financing at a time when banks have reduced their liquidity in the market.

4.- EUROPEAN SUPPORT PROGRAMMES

COSME (2/2)

- Beneficiaries of COSME? It is addressed to Small and Medium Enterprises of all economic sectors and all legal forms, which meet the following conditions (except for exceptions):
  - They are based and operate in the country or in EU member states and in COSME partner countries.
  - They do not belong to any of the ineligible areas of activity.
- Purpose and types of funding:
  - Long-term financing of investment projects to cover acquisition costs and / or creation of fixed assets.
  - Medium-term working capital financing for the development and expansion of business activity.
  - Short-term financing to cover needs, which are related to the business / transaction circuit of the company.
- Funding Amount: Usually up to € 150,000 €

4.- EUROPEAN SUPPORT PROGRAMMES

EASI

- Guarantee Program under the European Union Employment and Social Innovation (EaSI Guarantee Facility) program and the European Strategic Investment Fund ("EFSI").
- In particular, through the EaSI program, the aim is to provide financial support for the access of beneficiaries to microcredit up to € 25,000 with the guarantee of the EIB (European Investment Bank), to cover the needs of both working capital through a recycling limit and / or lump sum financing and financing elements.
- At the same time, the program includes the provision of focused programs of education, training, counseling and guidance (Mentoring services) to the beneficiaries who will join the program.
- Funding Amount: Usually up to € 25,000

JEREMIE

- The respective National Ministries in charge of Development, Investment or Economic Growth, and the European Investment Fund (EIF) maintain a Financing Agreement of the JEREMIE Portfolio Fund, which may provide, among others, the utilization of funds returned from this program.
- JEREMIE repayments consist of financing repaid to the Fund either through the repayment of loans or through the successful divestment of companies supported by it.
- http://www.eif.europa.eu/what_we_do/resources/jeremie/index.htm

The End

Did you find it interesting?

Do the quiz that follows to assess yourself!