5. DRAFTING AN APPLICATION FOR FINANCING

This section provides tips on the parts of your business to optimise before compiling an application for financing or investment and then steps you through how to build a successful financing application or investment prospectus. It also lists some common errors to be avoided, that often lead to rejection.

A financing application consists of five steps:

1. *Review your business operations and optimise your cash flow* – you may not then need financing
2. *Assess* your upstream, supply-side, and downstream, distribution and customer risks
3. Develop *Resilience and Business Continuity plans*, and implement them
4. Prepare carefully all the required documentation, and if necessary, a *business plan*
5. Review all elements of the "*Pack*" carefully to check for discrepancies and that figures and descriptions transposed from one document to another match throughout.

Assuming you have carefully selected potential financing providers or investors that both meet your needs and propose criteria/conditions that you can meet, the next step is to verify their requirements for explanations, information, and records

5.1 What to optimise before drafting your business plan

Cash management: what to check and change

Cash management is a process of collecting payments and managing outflows. Cash is the lifeblood that supports the day-to-day operations of a business. How this is managed will be a point of attention for prospective financiers. Below is a highlight of what enterprises need to check and improve.

- **The cash management capabilities of the business**: business owners and managers need to have a qualified team to manage cash and foreign currency operations. Chief finance Officers, Treasurers and Business Managers are usually the individuals responsible for this business area. In a smaller business, the owner is usually responsible. If the owner is not qualified or does not have sufficient resources to employ permanent staff, s/he should consider outsourcing. Lenders will not provide financing if the individuals responsible for managing cash lack the minimum required qualifications or track record.

- **Proper cash management**: cash management issues need to be brought to the attention of the business owner(s) or Directors as quickly as possible so that remedial action can be taken at the earliest opportunity. The company's governance structure should clearly show a direct line of authority from the person responsible for cash and financial management to the Managing director or owner.

Table 6 below, summarises problem areas a business owner needs to check and change.

Table 6: Typical Cash Management Problem Areas

Problem Area	What to do or change
Unusually long cash flow cycle	• Ensure turnaround of inflows and outflows is as quick as possible (when to pay debts, when to purchase inventory, or give discounts for quick payment, etc.) • Do not run out of money to pay key suppliers, taxes, or utilities
Profit versus cash	• Check that revenue being generated is receiving positive cash flow on it
Capital investments not generating cash	• Ensure that capital is being allocated to projects that generate sufficient return on investment or sufficient cash flows to justify the investment. Lenders need to see evidence of the correct "cash attitude"
Cash management skills	• Ensure that necessary skills exist to optimise and manage working capital • Show internal reporting discipline and proper frameworks to manage receivables and payables

5.2 Risk assessments: supply chain vulnerabilities, sustainability & mitigating measures

All societies face increasingly more volatile weather patterns, permanent changes in local climates, and resulting dangers that can disrupt businesses, their supply and distribution chains. Most recent examples include the COVID pandemic, wildfires, tropical storms, earthquakes, desertification, water scarcity, pollution, and financial crises.

Do your own risk assessment of your business and its supply and distribution chains based on potential scenarios for the future or engage a specialist to do one. Document the findings and ensure that you re-visit the assessment at least every 6 months as threats, scenarios, and your supply chains evolve.

Key questions to consider include:

- What points of your supply chain are most vulnerable?
- What could your business change to reduce or mitigate the impact of a disaster?
- How could you adapt your business operations to reduce your dependence on specific suppliers or utilities, reduce your contribution to global warming, pollution, or waste?

A basic outline of a risk management table is shown below in Table 7. This type of information should be captured and reviewed for each of your supply chains, main sales products, and markets.

Table 7: Supply Chain Risk Assessment Outline

Risk management for xxx [Product supply chain]

Date of review: Reviewer:

Supply chain stage	Scenario: threats & risks	Likelihood within 6 months	Business impact if it occurs	Mitigating measures

This is more than an intellectual exercise. Financing providers and investors will not finance an enterprise without a risk management plan and may limit their support to enterprises that do not comply with international Environmental, Social and Governance (ESG) standards or some form of sustainability standards. Enterprises that can demonstrate actions to reduce their supply chain vulnerability points and climate impact and improve their sustainability can access lower cost financing and are more attractive for investors.

Financing providers in higher income countries consider charging a premium for enterprises that cannot demonstrate social inclusion or sustainability credentials. In 2021, several countries will introduce mandatory tariffs and duties on polluting imports, and financing of polluting or climate warming industries that are not taking steps to mitigate their impact.

Country and sector Insights, links, and references

The hyperlinks and references below show where you can find more information, enterprise insights and assistance:

Country	Link or reference
Rwanda	Environmental Impact Assessment for businesses Insurance options for SMEs
Tanzania	Environmental Impact Assessment for businesses Insurance options for SMEs
Uganda	Environmental Impact Assessment for businesses Insurance options for SMEs
Kenya	Environmental Impact Assessment for businesses Insurance options for SMEs

5.3 Resilience and business continuity plans and measures

Resilience relates to the ability of your business to survive business disruptions, a financial crisis, climate events, pandemics, and economic shocks, and to recover and continue regular business operations. Business owners are responsible for reducing risks, eradicating points of weakness or potential failure.

Improving resilience and continuity means:

- Running scenarios of potentially disruptive events to see the impact on your supplies, distribution, sales, and business operations
- Changing how you do business or deriving plans for each business unit to reduce the disruption and losses if crises occur
- Testing resilience and continuity plans thoroughly and regularly with realistic role plays

Why should SME entrepreneurs care about business resilience planning?

If an unforeseen event happens, the disruption to your business will be much worse if its management and workforce are not prepared. A simple analogy is that if you enter a closed room with sharp objects lying around without a torch in your pocket and there is a power cut, you are likely to hurt yourself.

Business resilience ensures:

- Smoother recovery and less costly impact from any disruption, reducing the financial impact
- Customers can rely on the business' service

- Confidence from your workforce regarding their current and future roles in the business
- Financing providers and investors recognise the quality of your business management by extending financing

Resilience planning should cover all aspects of potential disruption to a business. This also means considering digital attacks on business information and data repositories, which can lead to theft of intellectual property, loss of personal data, or theft of individual bank accounts and possessions. Business owners are legally responsible to make provisions to secure personal data and prevent its unlawful disclosure to third parties. Directors can be fined, and their personal possessions may be at risk.

Business continuity planning

An effective business continuity plan is the cornerstone of effective strategic planning. It shows how a business takes precautions to continue in operation during a disruption and can recover quickly afterwards. An SME business owner should do:

- Business Impact Analysis (BIA)
- Define and prioritized essential functions of the business
- Vital records/resources backed-up with usage recovery plans known by key people
- Risk assessments and risk management plan completed
- Identify key personnel and alternates – even if in competitor enterprises
- Readiness handbook provided for key personnel
- Alternative working site procedures – such as working from home with connectivity
- Emergency response plan
- Communications plan
- Delegation of authority
- Incident command structure
- Succession and return to normal operations plan

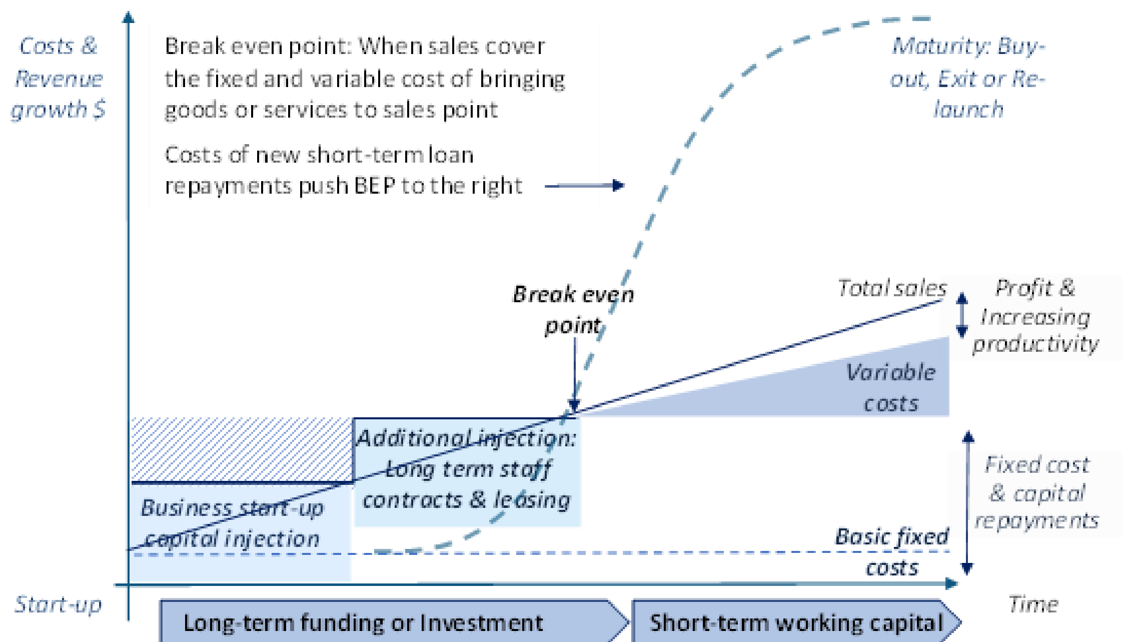
Key elements of business resilience and continuity planning

The key to resilience is in determining which parts of the company are more flexible than others and where are key “choke points” in production processes that rely on “just in time” inputs. For example, sometimes critical parts can be individually extremely low value, but bring production to a complete stop if they are not delivered on time. Review each business function and prioritise what is critical to be performed in times of distress. Have a good understanding of what the key vulnerabilities are so that you can keep your business going.

Make resilience planning a central role of the Finance Manager and CEO. Resilience and continuity should be led from the top of the organisation. The owner and finance manager play important roles in creating and maintaining operational plans, budgets, and training, and understands the businesses break-even point and cash flow cushion, or number of days survival before bankruptcy. Roll-play your scenarios to fully engage your staff so that they each know what to do in the event of a disruption, without having to wait for instructions from Managers or Directors.

The person responsible for financial management in your business should also be able to present a *Breakeven point* analysis, like that in Figure 6 below, at any time so that you can see how close your business is to running out of cash either by growing too quickly or from sudden increases in costs.

Figure 6: break-even threshold



External shocks and natural disasters are not the only cause of business disruptions. Avoid overlooking other events that disrupt everyday business operations. For example, an interrupted or refused delivery will cut your revenue and leave you with returns costs. Learn to understand risks and how to mitigate them. Check the impact on your business cash flow and Break-even point. An emergency response plan is not enough. Business continuity plans will save your business, attract financing providers and customers to rely on you – they show the way forward out of an emergency and reduce chaos.

Country and sector Insights, links, and references

The hyperlinks and references below show where you can find more information, enterprise insights and assistance:

Country	Link or reference
Burundi	Business recovery and resilience in the wake of Covid 19, Burundi
Rwanda	Business recovery and resilience in the wake of Covid 19, Rwanda
Tanzania	Business recovery and resilience in the wake of Covid 19, Tanzania
Uganda	Business recovery and resilience in the wake of Covid 19, Uganda
Kenya	Business recovery and resilience in the wake of Covid 19, Kenya

5.4 Product and service authenticity, traceability, quality & labelling compliance

Quality, traceability, and labelling compliance are important. You could ensure that these qualities are components of your business through:

- **Availing direct e-payments:** digital certification, traceability and bar code labels increase the confidence of customers to use e-commerce services and make e-payments in advance of delivery, improving your business cash flow
- **Including digital certification and mobile telephone-readable packet labels,** which show proof of ownership and product location. This is especially important for the shipment of medicines and other health or surgical products, food safety, sensitive components, and toxic materials. Freight and product shipments protected by traceability systems and quality conformity labels may be used as "moveable collateral" for loans, i.e., trade financing of short-term working capital advances against export purchase orders.
- **Adhering to suppliers' codes of conduct** and using internationally compliant traceability and authenticity verification systems. Traceability labels will be in most cases part of contractual requirements outlined in the or regulatory requirements outlined in food safety laws (In this case, coffee and cocoa case are food). Failure to adhere to these requirements can adversely affect the financial and reputational standing of SMEs, especially when supply chain financing is under consideration.
- **Availing supply chain risk mitigation** to your business team to ensure they know how to handle any incidents that may happen – e.g., toxic spills – and guarantee payment because the goods will still be intact.
- **Ensuring that the right product is delivered, and the right person gets paid**, which indicates that **you** have traceability equipment that specifies the location of delivery and identifies the right supplier.

Country and sector Insights, links, and references

The hyperlinks and references below show where you can find more information, enterprise insights and assistance:

Country	Link or reference
Burundi	Barcode services Tracing/ tracking services
Rwanda	Barcode services Tracing/ tracking services
Tanzania	Barcode services Tracing/ tracking services
Uganda	Barcode services Tracing/ tracking services
Kenya	Barcode services Tracing/ tracking services

5.5 Drafting a realistic business plan

A business plan is a document that details the goals of the business and how an entrepreneur will achieve them. It builds confidence in the parties involved as stakeholders in the business's growth, removes uncertainties, and provides a road map for the entrepreneur to follow in pursuit of business success.

A typical business plan will have an executive summary which explains in a nutshell what direction the business is taking, the inputs required, and the rationale as to why it makes good decision to invest in the business. A good business plan must explain to a reader:

- **How much you need** as a loan or investment and in what currency
- **Why you need the money** and what it will be used for
- **When and how you will repay** the financing or reward the investor
- **What assumptions** you made in presenting the financial projections
- **What you can offer as "security"** in exchange for receiving money, so that in the event of a loss, lenders or investors are somehow compensated

In addition, a business plan includes:

- Updated audited or correctly prepared **financing accounts** with notes
- **Market analysis and projection** including a marketing plan, sales strategy, sourcing plan and expenditures analysis
- **Financial projection,** including cash-flow projections, based on the market, sales, and expenditures projections – at least for the period of repaying the financing or investment
- **Risk analysis** covering supply and distribution chains and a business continuity plan to show business resilience to perceived threats, including cyber threats and natural disasters
- **References** from persons known to the lender or investor
- **Past business performance**
- **Factors that differentiate your business** from others offering similar products and services
- **Supplier and supply verification** procedure

Country and sector Insights, links, and references

The hyperlinks and references below show where you can find more information, enterprise insights and assistance:

Country	Link or reference
All (Burundi, Rwanda, Tanzania, Uganda, Kenya)	Sample business plan template

5.6 Market, business growth and revenue projections with references

A borrower needs to demonstrate that they know their business and understand their market, potential for growth, competition and the products and services they provide and mitigating factors for change in the market environment.

Projection is a forecast of the future business growth based on certain assumptions:

- Economic and industry conditions
- Management strategy and reactions
- Income from sales and expenses
- Projected assets and liability if the forecasted conditions took place.

Borrowers should have a range of scenarios when making projections about business growth:

- **Best case scenario** assumes everything works out as planned
- **Most likely scenario** assumes that everything stays the same
- **Downside or worst-case scenario** assumes that some key things, or events go wrong

To develop plausible future scenarios, borrowers should:

- Understand the industry and characteristics that have the most influence on performance
- Have clarity on the business strategy to fully take advantage of industry characteristics
- Comprehend the business' historical performance
- Consider how the future compares to the past

When making projections, the assumptions should cover all financial drivers including sales, margins, turnovers, and investment in fixed assets. Other variables that affect financial performance and cash flow which include dividends, interest expenses, and income taxes should also not be overlooked.

5.7 Typical errors and practices that result in application rejections

There are several common errors that cause lenders to decline more than 60% of the applications for financing or investment received across the world. When you think your business plan is complete, find someone you trust, who will make a thorough review of your application or prospectus for accuracy, continuity, completeness, and realism. The errors that usually occur are:

- Incomplete or contradictory information on the application form
- Non-bankable business plan – business has no unique competitive features
- Unrealistic projections without credible sources and projected growth exceeding cash flows
- Inconsistencies between cash flow statements, business plans and market projections
- Incomplete records for the existing business
- Credit history not matching the baseline criteria (usually 3 years)
- Collateral that someone else has title to
- Ownership and governance unclear or too complicated
- Non-compliance with statutory requirements
- Lack of security over assets, business intellectual property, and records
- Poorly explained governance structure or decision-making hierarchy
- Failure to bank business proceeds, which leads to a lack of independent verification of the business revenues, expenditures, or transactions
- Cash diversion by using business proceeds for personal projects and assets
- Having a potential borrower negatively listed in Credit Reference Bureaus
- Not carefully reading the purpose and requirements of the financing proposed – leading to a mismatch

5.8 Digitisation, and the implications for financing options

New technologies have made applications for managing a small business, undertaking basic transactions, marketing, and payments widely available and at low cost. These applications work on smart mobile devices as well as PCs. Together with Cloud storage solutions, where your data and records are stored securely on Internet space, managing a business on the move has never been easier.

Banks and other larger financing providers have also adopted digital services for MSME customers. For example, through mobile and internet banking and mobile money disbursements. These applications and their associated financing instruments are described below.

Mobile Money

Mobile payments or "mobile money" relates to payment services operated under financial regulation and performed through a mobile device. The main providers are mobile telecoms such as MTN, Vodafone and Airtel.

SMEs can use mobile financial services to receive payments from their customers, make payments to their suppliers, make government payments, receive government subsidies, and access low value credit.

Mobile money can help SMEs be more productive and efficient, and subsequently increase their revenues by increasing transaction speed and reducing outstanding credit times. Mobile money helps SMEs to get the best out of their working capital by turning it over as often as possible, increasing the speed of the cycle from cash to inventory to receivables and back to cash.

Mobile money also increases SMEs access to finance by offering transactions history and a more convenient option for transferring money between the financing institutions and the business during disbursements and repayments.

Mobile Banking

Mobile banking is a service provided by a bank or other financial institution that allows its customers to view their accounts and conduct financial transactions remotely using a mobile device such as a smartphone. Mobile banking makes financial services more accessible and convenient. Many entrepreneurs that have formerly been unbanked can now conduct and operate bank accounts, which in return increases their chances of accessing financing from banks and other financing providers. These services can be accessed anywhere and at any time through mobile devices by dialling a unique code (SSD code) or through the bank's mobile app.

Swipe2Pay

Swipe2pay is a web and mobile payments solution that helps SMEs accept mobile money and debit card payments. It has integrated its platform with the mobile money services of MTN, Airtel and M-Pesa to process payments. Swipe2Pay targets the grey market as it is a mobile point of sale that helps SMEs to sell via cashless means. It also helps them get a better understanding of their businesses with a smart dashboard showing real-time data on business performance.

The Swipe2pay platform allows small business owners to keep track of their cash flow and manage stock and inventory. It also generates comprehensive business performance data that is used to determine business creditworthiness, building alternative credit scoring models to ease access to financing for small businesses.

Internet Banking

Internet banking is a system that enables customers to conduct financial and non-financial transactions from their net banking account via the Internet anywhere in the world. With internet banking, companies can process employee salaries, manage bulk payments & transfer funds within the bank or to other banks while monitoring cash/cheque deposits & cash/cheque withdrawal transactions from their account.

This helps SMEs save time and focus on other business activities. The main requirement for Internet banking service is internet connectivity. Based on digital payments and online technology, digital banking offers a host of benefits to small businesses, such as secure, rapid, and cost-effective fund transfers, and the ability to manage finances via a computer or mobile device – supporting a cashless approach to business and making the management of the business more convenient.

Fintech-based Financial Service Providers

Financial Technology (FinTech) is the combination of technology and innovative business models in financial services. The number of applications is growing rapidly because of the massive cost savings for a financing providers' administration of accounts and because of the ease for customers of doing business.

Why SMEs are encouraged to find out about financial technology solutions:

- **Lending via fintech platforms tends to be unsecured**, which benefits smaller enterprises that struggle to access collateral-based finance
- **Higher risk appetite** among fintech-based investors than traditional financial intermediaries
- **Use of innovative credit scoring models** such as psychometric testing benefits SMEs and start-ups with limited verifiable information
- **Speed** (transactions approved quickly) and convenience (no need to visit branches) catalyses flows of capital within and between communities, irrespective of distance
- **Low-cost base** (no branches and less personnel) results in competitive rates and can give providers a buffer against the higher risk loans that they underwrite
- **Innovation in payment systems**, especially the use of mobile phones, has transformed the money transfer and mobile payments sector allowing companies to make transactions through their phones or tablets reaching many more diverse customers

What to prepare to participate in digital solutions

To get the benefits of participating in any digital transaction of financing solutions you need a minimum level of digitisation of your business transactions, operations management, and record-keeping. The "*Application interfaces*" of financing providers mostly allow you to complete financing applications on-line including uploading of business information and the required documentation.

During the COVID pandemic, there has been a rapid adaptation of digital ways of working among financiers. This has seen increased use of cloud-based computing and virtual calls/check-ins, which has allowed seamless communication without need for travelling for face-to-face meetings. In turn, this enables financing providers to assess many more applications in a working day.

Digitisation has yielded large cost savings for banks and non-bank financing providers to the extent that businesses without a robust and secure digital backbone will find it increasingly difficult to get financing or conduct international business.