3. BUSINESS IMPLICATIONS OF DIFFERENT FORMS OF FINANCING

There are many types of financing and investment providers and financing instruments. Each one has different characteristics and costs, quoted as: fees, charges, interest rates or returns. Each type has implications for the future of your business.

For example: You may see interest rates quoted per month, per quarter, per year, daily or in some other multiple. To compare the costs of financing extrapolate partial rates to an *Annual Equivalent Rate* using the example and formula below:

An attractive short-term rate may not be so acceptable when converted to its Annual Equivalent Rate. A rate of 2% per month may sound inexpensive but equates to 21% per annum (12 months APR), without adding any charges or fees. Monthly rates quoted can be compared to annual rate quotations using the formula below. R = the period/monthly rate expressed as a decimal, t = number of periods/months in a year:

$1-((1/1+r)^{t})$ x % so the example above becomes: $1-((1/1+0.02)^{12})$ or $1-(0.98039)^{12} = 21\%$

3.1 Community financing providers of low value financing

Micro-financing options for producers, sub-contractors, and farmers

Microfinance is defined as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance, and money transfer to assist single entrepreneurs, community enterprises, trades association members with relatively low value loans to establish or improve a business.

Micro-financing institutions (MFIs) may offer short-term unsecured loans in situations when other lenders would not. These loans tend to come at a high cost though. Some MFIs offer complementary financial literacy, basic enterprise development or money management training and guidance.

Credit-unions, savings, and loan schemes

A *savings and credit cooperative* is a financial organization owned and operated by and for its members, according to democratic principles, for the purpose of encouraging savings, using pooled funds to extend loans to members at reasonable rates of interest and providing retailed financial services. Savings and Credit Cooperatives *(SACCOs)* are a significant financing provider for people who have low incomes, micro-businesses and early-stage start-ups.

Lending groups and credit cooperatives have the potential to provide affordable credit to small scale businesses such as SMEs. This is because they have low transaction costs, often mutualise (share) the risks of defaults across all deposit interest pay-outs, do not take profits out of the schemes and may have preferential tax rates.

Credit unions generally provide more customer services than banks do, though smaller banks are similar. Credit unions tend to offer higher interest rates on deposits and lower rates on loans. Some provide fee-free checking accounts and savings accounts, too, without requiring a substantial minimum balance

Micro or mini loans (usually up to US$ 25k equivalent)

Licensed institutions, NGO's, cooperatives, credit unions, as well as large, organized associations and clubs. They offer short term Loans which are suitable for business needs that require relatively less capital.

Mini grants (usually up to US$ 10k equivalent)

Many NGOs, philanthropic foundations, some government and UN agencies make available from time-to-time small grants to support specific types of entrepreneurs and businesses under specific criteria. This should be your first line of financing if your business is eligible. Typically, the maximum amounts provided are up to US$5,000 equivalent.

However, before divulging any business or personal information verify that the offer is legitimate and authentic and does not have any hidden costs or liabilities that you cannot respond to.

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	Access to financiers Sources of grants available Guarantee funds available
Tanzania	Access to group loans Financial inclusion and access to financiers SME Impact Fund (SIF) SME finance
Uganda	Access to funds for SMEs Access to microfinancing
Kenya	Agriculture value chain financing Access to microfinance for smallholder farmers Voice of SACCOs

3.2 Short-term equipment, pre-shipment, sales order or working capital financing

Short term financing is usually required to finance a temporary business need and needs to be repaid within one year, although a one-year arrangement may be "rolled over". Working capital finance is designed to liberate cash for use in business operations such as buying more raw materials to satisfy a bigger order, re-hiring the work force, buying new packaging designs, or getting certification for a new market or product. Some financing providers offer inventory financing, which means they buy your inventory and then you buy it back from them when you make a sale and need to deliver. A percentage is charged along with an "on-boarding" or "set-up" fee.

This type of financing is good for MSMEs that are looking to fund small quick upgrading projects or immediate business needs. For coffee, cocoa, spices, tea and horticulture businesses, this type of financing is obtainable from banks, microfinance institutions and other financing providers like buyers and intermediaries as short-term unsecured loans and credit advances. Invoice financing, including factoring, is often put in this category.

Enterprise perspective

An enterprise can be pre-qualified by their bank or other financing provider for an on-boarding or set-up fee. When advances are required, the transaction can be arranged, up to a pre-set limit, usually in less than 3 days, and often in minutes based on information and documents provided and the nature of the transaction.

One disadvantage is the high interest rate usually charged and form of covenants or business restrictions demanded to protect the lender in African countries.

If the lender is underpinned by a senior-level first loss guarantee for more than 70% of the loan value, then interest rates can become affordable, collateral and covenant requirements may be simplified or eradicated.

Lender's perspective

For enterprises with consistent banking relations for more than 3 years or those that provide complete and accurate on-boarding information and records with references, the lender's risks are relatively few. If advances are provided in local currency, then the country's own credit ranking is less relevant and so transactions can be approved quickly. Long-term macro-economic and trade uncertainties are not relevant.

Bank lenders are bound by their reporting and capital adequacy requirements, a form of financing that counts as the highest risk level for reporting. To comply with the rules and retain their banking license, banks are forced to demand at least 125% of the net value of a loan as collateral and apply a rate premium. Some form of underpinning guarantees for the bank are the solution to make these forms of financing viable for MSMEs.

A lenders own cost of money is an important factor in determining the lowest cost of interest they can charge for a loan. A lender in East Africa may need to pay 5% to 8% to get funds from a central bank or investors. They will add their own risk and administrative cost premium that will usually be between 3% to 7%. Larger banks and non-bank financing providers who may be better digitally integrated can usually offer more competitive rates.

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	Invoice discounting in Rwanda Collateral lending in Rwanda Short-term financing in Rwanda
Tanzania	Invoice discounting in Tanzania Collateral lending in Tanzania Short-term financing in Tanzania
Uganda	Invoice discounting in Uganda Collateral lending in Uganda Short-term financing in Uganda
Kenya	Invoice discounting in Kenya Collateral lending in Kenya Short-term financing in Kenya

3.3 Term loans through banks and non-bank financing providers

Any loan with a duration of one year or more is generally referred to as a "Term loan". There are many types, but one key characteristic is the *tougher due-diligence assessments* on SME clients that must be undertaken by bank lenders for each loan, even for established clients.

Due Diligence warrants advance planning of an application to ensure that you have the required documentation several months before you are going to need the money. Unless the class of loan benefits from an underpinning guarantee from a Development finance institution (DFI) or the Government, you will almost certainly be asked to propose some form of collateral or security for such a loan. If you are buying equipment from a reputable supplier with a long track record and credit-rated bank of its own your bank may limit its collateral requirement to taking a "Security" over the equipment itself.

Your bank may also propose some form of insurance to cover potential default losses and risks to them of losing any underlying collateral taken – like products secured against a loan and being transported across a border. When you buy equipment from abroad the supplier may be able to obtain export credit insurance themselves to provide cover against transportation risks, non-delivery and non-payment by you, the buyer and importer. Inform your financing provider of this and get the supplier to send their certificate of insurance.

Figure 3: Due Diligence process

Source: Corporate Finance Institute

Enterprise perspective

Any form of loan over more than one year demands consideration by the enterprise of how the world and your business will look over the period of the loan. If regular monthly payments are required, then you need to be sure about your income streams, or personal financial "cushion" you may have built up to avoid default if there is some form of crisis.

Taking out one large loan, may lower administrative overhead and seem attractive from a cash flow perspective but it may prevent you from securing other smaller working capital loans for different order-fulfilment purposes during the duration of the long-term loan. In the industry, this is known as using up your credit. Strategically, you need to know if your business is stable enough to be comfortable with a long-term loan rather than a series of short-term loans, each well executed.

You may also want to investigate alternative personal life insurance and business insurance options available to cover unforeseen risks that could interrupt a loan's repayment schedule.

Covenants associated with longer-term loans tend to be more restrictive on what you can or cannot do with business assets than those of short-term financing. Likewise collateral taken over your inventory may mean that you need to get the banks permission to sell it off if you decide to pivot to new markets or products for which your current inventory is not usable.

Lender's perspective

Stricter Due diligence requirements are placed on bank lending of > 1-year duration and this is reflected in the length of time the banks require to assess your application and the status or riskiness of your business. An application review may take months for financing a project to install a solar power unit for coffee dryers and buy new washing / de-husking machines from abroad.

When a loan is taken out to pay for a project or equipment delivery and installation over a period of time by a foreign supplier or contractor, both your bank and the supplier's bank need to sign-off on the underlying transaction and the financing of it.

Macro-economic risks need to be considered along with political stability, the country's own currency exchange volatility and balance of payments. The management of a bank will have a position on these risks that is updated each business day. These reviews slow down the financing application process. It also increases enormously the documentary requirements for the buying enterprise and supplier.

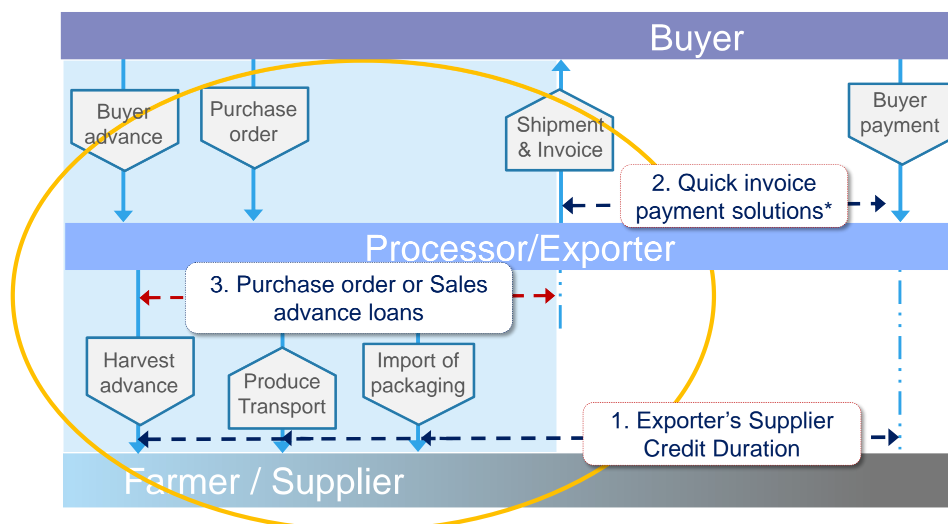
Term loan screening checks and due diligence: Procedures and requirements

Due diligence is an in-depth appraisal of a business position in order to ascertain the true situation of a business, its owners and future prospects related to the term and scale of the financing. Financiers conduct due diligence because it affords them an opportunity to know and understand the borrower and their business beyond the trading names. The chart below illustrates the process.

3.4. Bank and non-bank short-term supply chain financing options

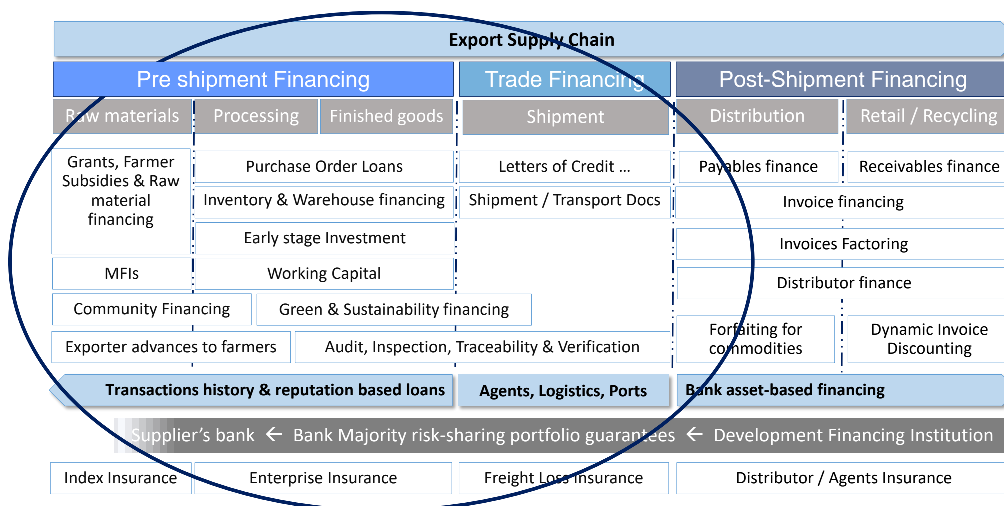
Ranging from simple overdraft facilities and loans for working capital bridging to more sophisticated risk mitigation, these instruments enhance cash flow in the period between receipt of an order and receipt of payment against an invoice. The period of cash flow that this type of financing is designed to cover is the time from when an exporter has to contract to pay suppliers or hire personnel until the time the exporter gets paid by a buyer. This is illustrated below in Figure 4.

Figure 4: The purpose of trade-related supply chain financing



- **Asset-backed finance** including leasing: This involves the borrowing of funds against the value and assignment of assets such as machinery, vehicles and equipment. Several financial mechanisms allow SMEs to use the full value of assets in their business whilst repaying the cost in periodic small contractual and tax-deductible amounts. Other forms of asset financing include, what is known as hire purchase and operating leases.
- **Receivables financing:** As soon as they are received, invoices or receivables, post-dated cheques or bills of exchange for future settlement can be sold on the market for less than their face value for immediate cash. There is a set-up fee, and the discounting house will charge a discount rate, which keeps a portion of the face value, to protect its risk and profit margin. This is called the "Discount rate". Discount rates usually approximate to unsecured credit interest rates.
- **Factoring:** Very similar to discounting. It is when a company buys a debt or invoice from another company. The factor is required to pay additional fees, typically a small percentage, once the debt has been settled. Factors Chain International, is the global body representative of factors. It sets general international operating standards for factors to abide by.: https://fci.nl/en .
- **Letters of** credit (LC): A payment settlement mechanism that passes through the buyer's bank and supplier's bank. For imported goods Letters of credit (LCs) are financial, legally binding instruments, issued by banks or specialist trade finance institutions. An LC guarantees that the seller will be paid on behalf of the buyer, if the terms specified in the LC are fulfilled. An LC requires an importer and an exporter, with an issuing bank and potentially a confirming (or advising) bank respectively. The financiers and their creditworthiness are crucial for this type of trade finance. The issuing and confirming bank effectively replace the guarantee of payment from the buyer, reducing the risk to the supplier. This is called credit enhancement. Letters of credit, which are secured through the international banking system networks may also be sold to third parties (endorsed), discounted and securitised.
- **Other types of supply chain financing**: Figure 5 below, illustrates other short-term trade-related financing instruments in common use.

Figure 5: Examples of short-term trade-related financing instruments



Country and sector Insights, links and references

More information and enterprise insights on trade-related financing can be found at::

Country	Hyperlink or reference
Kenya, Uganda, Rwanda, Tanzania	More information on short-term trade related financing
Rwanda	Letter of credit/ factoring
Kenya	Top 8 export trade finance instruments in Kenya

3.5 Key enterprise loan regulatory considerations for banks

Financing providers and especially banks need to ensure that they comply with international financial regulations in three key areas before doing any business with you:

a) **Know your customer (KYC):** includes verifying the identity of beneficial owners and directors of a business, as well as information about buyers and suppliers.
b) **Anti-money laundering (AML)**: traceability of funds, including how they were generated and how they will be used and the financing chain behind a transaction, which may cross many borders.
c) **Combatting the financing of terrorism (CFT):** combines the foundations of KYC and AML with additional measures including checks on beneficial owners, buyers and suppliers' companies and individuals against sanction and watch lists. There are now more than 300,000 names on these lists across several jurisdictions where enterprises may do business or channel its financing through. Financing providers especially have a responsibility to keep up to date through the Financial Action Task Force Regulatory systems.

Business owners and their buying and selling activities will be screened for the above three points. For businesses above the scale of sole operators, banks need to review responses to a checklist of more than 100 questions. The procedure should be repeated every year, or when there is a significant change in business structure, ownership, or activities.

Implications of on-boarding checks for your enterprise

First, you will be required to provide detailed personal and business information to a bank when you open an account and then update the information with your bank manager every year.

Your enterprise has a legal obligation (in East African countries at least) to obtain information on, and check the credentials of, new buyers, suppliers, and financing providers. This may be done through some of the links below or through your financing provider, legal representative trade association or trade and investment promotion organisation before entering a contract with people who you do not know.

There are now several global suppliers of look-up tables for checking whether someone or a business appears under sanctions or a watch list, as shown in the examples below:

- Sanctions list screening and monitoring
- US Office of Foreign Assets Control sanctions list search
- NameScan international sanctions list
- Lexis Nexis sanction screening
- United Nations Security Council consolidated list

Fines for contravention are high and your business may be closed.

Documents required for a bank to on-board you as a client and to respond to Know-your-Customer (KYC) regulations:

- Confirmation of identity of business owner(s) and director(s)
- Business registration
- Address verification
- Telephone confirmation
- National Revenue Authority tax registration
- Main Suppliers and Buyers outside of the country of registration

Business analyses performed by banks

Most lenders will insist on understanding the business model of clients, so it is essential that you produce a business plan showing several key elements of how your business plans to survive and grow. The most important thing here is provide a clear rationale for business direction and needs. A two-page outline is needed to highlight what the company is and why it will be successful. A lender will analyse the following items:

- Target market that your business caters to
- Value created for target market
- Products or services your business offers
- Which channels does the business employ to deliver products or services to clients?
- How the business generate revenue from its products or services E.g., leasing, hiring, etc.
- The main expenses of the business
- How are the operations of the business organized to deliver value?
- Track record and experience of the business in the market
- Experience and track of key staff including the owners
- Financial history and track record
- Competition (both direct and indirect)
- Evidence of compliance with national regulations
- Environment Management Authorities
- Do you have any pending issues with your country's Revenue Authorities?
- How much and who do you owe money to?
- How much and who owes you money?
- What are your trading terms?
- What are your businesses strengths and weaknesses?
- What is the state of the markets you sell your products into? Is it a growing market?

Financial analyses performed by a bank

Financial analysis is the process of evaluating financial documents to understand a business' current financial performance and gauge its future performance. This process involves horizontal and trend analyses, which are key in making comparisons on a line-by-line basis and establishing trends over time.

Financial analysis frequently involves the evaluation of key accounting ratios based on figures in audited financial reports. These ratios are categorised in five broad groups:

a) **Profitability ratio**: indicates how profitable a business is by comparing its sales revenues with its main expenses
b) **Liquidity ratio**: indicates how susceptible a company is to the challenges of meeting its short-term obligations
c) **Efficiency ratio**: enables a business to understand how well it is using available resources to generate revenue
d) **Solvency ratio**: measures the ability of a firm to honour debt obligations
e) **Investors' returns ratio:** compares profits against investments that the owners of the business have made to determine whether their investments are worthwhile

Collateral analysis performed by a bank

Lenders seek to secure the funds advanced to clients by examining a range of factors – including credit history, type of risk underwritten, interest rates, and the borrower's professional experience – before requesting for collateral. The LTV (loan to value) is the amount advanced and is lower in relation to the value of the collateral provided. Please note that fixed assets like land and buildings have a stable value over time when compared with movable assets like vehicles and more volatile assets such as stocks and shares. Lenders evaluate the following factors regarding any collateral offered:

- Location of the property whether urban or rural
- The bank's valuation of a property or asset (*see sub-section 3.6*) under forced sale
- If there are any existing charges or encumbrances on the property
- Time to vacate people renting and to take possession
- The duration of unexpired lease for a leasehold property
- Whether the asset is general or specialised equipment (has lower demand)
- The expected lifespan of any machinery or depreciation rate of inventories
- Reputation and bank references of buyers/customers for factoring, discounting bills or invoice financing, and time to expected payment date in days
- Average market value of stocks or shares listed in the stock exchange
- Third party credit rating for and guarantor

Country and sector Insights, links, and references

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

Country	Hyperlink or reference
Rwanda	Anti-Money Laundering and Counter Financing of Terrorism and Proliferation Law
Tanzania	Anti-money laundering legislation
Uganda	Anti-money laundering act, 2013
Kenya	Anti-money laundering act, 2009 The Kenya Data Protection Act, 2019 Guidance on conducting money laundering/ financial risk assessment Overcoming the Know Your Customer hurdle: Innovative solutions for the mobile money sector

3.6 What is "Collateral" and what are its implications on your business

Collateral is an asset or a property that the lender uses as security for monies advanced or obligations undertaken on behalf of a third-party borrower. The collateral acts a commitment and stake by the entrepreneur and a safety net for the lender if the business is unable to generate sufficient cash to finance its daily operations, and therefore meet its obligations.

Collateral consists of assets such as:

- Real Estate, including land and buildings
- Cash, invoices, and Inventory – if avalized (transferred legally) to the lender
- Production equipment (movable and fixed)
- Vehicles, boats, aircraft

- Intellectual property (patents), brands and trademarks (if registered)
- Stocks and shares if available to buy and sell on an open public exchange
- The value of a borrower contribution towards the cost of an asset in lease financing, e.g.: for new vehicles because of their rapid depreciation.

Lenders want a business they support to continue but as a last resort, if repayment cannot be re-scheduled and looks to be impossible, then a lender may sell a secured asset, or even sell or close an entire business to recover their losses. However, this is a costly procedure and often only a small portion of a debt is repaid.

The legal and operational environment pertaining to collateral consists of three components. These are the:

- **Creation** of security interests through a contract, such as a loan agreement signed both by a lender and borrower
- **Perfection** of security interests includes registering public knowledge of the existence of a "charge" on an asset at national secured assets or credit registries (such as the lands registries)
- **Enforcement** of security interests, which normally involves taking possession of, and selling, an asset

Whenever a borrower provides specific assets to secure funding, a legal process is followed to ensure that the interest of the lender is registered in its favour for the amounts advanced.

Business stocks, debts and inventories are registered under fixed and floating "debentures". A floating debenture or charge, for example over inventories, enables the business to continue to use and replace inventory so long as a minimum value of inventory is maintained at the end of each month or quarter.

A default can occur inadvertently if sales increase dramatically, drawing down inventory before more inputs are supplied. In the event of default on a large loan a lender may appoint a receiver manager to run the business in a way that optimises repayment of the secured debt.

Listed stocks and shares are often taken as security if they are traded on a stock exchange because it is easier to determine their value and to liquidate them in the event of default.

There is a distinct legal process to establish and confirm default and obtain authority to dispose of assets held as collateral. In any case the legal and auction costs arising in relation to asset disposal are borne by the borrower. If a business is wound up, national laws normally demand that taxes, duties and secured creditors and paid in full first. Next in line are preferential creditors, like employees pay, then floating charge holders, and if there is any value left, preferential and ordinary shareholders. The costs of defaulting can be very high.

Navigating collateral challenges

This section will provide you with the insight to prepare your financing application from the perspective of the bank Credit Risk Officer, who will review your request against the bank's criteria. Bank criteria are a mix of international regulatory and legal requirements and the individual bank policies and risk appetite. It is, therefore, important to ensure this information is right and you will have a seamless assessment process.

Unless lenders have expressly indicated that a facility is unsecured, they will obtain "comfort" by applying the following checks when advancing funds to a business:

- Account is held in borrowers' name and has legal powers to borrow
- The collateral is registered in the borrower's name
- Current valuation of the collateral will be obtained
- A legal charge will be registered in favour of the lender with the borrower's consent
- The land rent and rates should be up to date unless it is a freehold property

- There are no known encumbrances at the time of taking a legal charge on the asset
- Leasehold properties should have at least 25 years to expiry with arrangements to extend the lease

The collateral taken for borrowing will normally be discounted to accommodate asset deterioration. This means that the bank assumes it could not sell the collateralised asset for its new price, or even its market value, if it had to sell it quickly and in its current state or location. In the event the lender relies on rental properties they will usually discount and base the value of the asset on its vacant possession.

Some projects will require a certification from the National Environment Management Authority (NEMA), to ensure they are in alignment with environmental regulations. Lenders may also request that some assets such as vehicles be installed with tracking devices. It is also important that a financial institution is not permitted to provide advances against the security of its own shares.

In addition to above checks, the lender will apply the following checks for joint accounts, partnerships, or Limited company:

- Other partners or account signatories will be expected to execute secured or unsecured guarantees to cover the business borrowings
- Memorandum and Articles of Association will indicate a business' ability to borrow and meet its obligations
- In case a guarantee is issued by a related company, then commercial justification must be demonstrated

If lending against invoices and bills they will be valid only if they are in the business name and the drawers are of good reputation.

Country and sector Insights, links, and references

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

Country	Hyperlink or reference
Burundi	Collateral regulations, Burundi
Rwanda	Collateral regulations, Rwanda
Tanzania	Collateral regulations, Tanzania
Uganda	Collateral regulations, Uganda
Kenya	Collateral regulations, Kenya Collateral Lending: are there alternatives for the Kenyan banking industry?

3.7 Asset valuation: enterprise and lender perspective

An asset or property being offered to a lender by a borrower as security is collateral. For banks to accept a borrower's loan proposal, collateral value must be equal to or greater than 100% of the loan or credit extension amount.

The value or quality of assets is a crucial indicator of potential credit risk a lender will bear by offering a loan. Therefore, banks are keen on ensuring the accurate value estimation of an asset, so an entrepreneur should understand the view of the lender against his or hers.

Enterprise perspective

For the entrepreneur, the asset is valued based on:

- Usefulness for the current and future non-financial needs
- Importance such as heritage, reputation, and status
- Usefulness as collateral before different financing providers

Lender perspective

Lenders are concerned about how assets will shield them against the risk of defaulting. Their review will focus on the following:

- Useful life of the collateral: this should exceed, or at least meet, the term of the loan. Otherwise, the lender's secured interest would be jeopardized. Short-term assets such as receivables and inventory will not be acceptable as security for a long-term loan, but are appropriate for short-term financing
- Claim to the collateral: lenders appreciate having a first secured interest; no prior or superior liens should exist, or be subsequently created, against the collateral
- Discounted value of the collateral to about 80% of the collateral's average market value: this relationship between the amounts of money the bank lends to the value of the collateral is called the loan-to-value ratio. The type of collateral used to secure the loan affects the bank's own credibility rating. It is reported to the Central Banks as the loan-to-value ratio.

Enterprises should keep and regularly update a register of collateralized/secured assets and those available to be collateralized.

3.8 What are “Covenants” and how do they affect your business?

Implications of financial and no-financial covenants

Covenants are legal obligations that affect what you can do with your business, its assets, chattels, distribution of profits, use of cash, sale of products, minimum liquidity levels, and who you can contract with. Contravening a covenant may lead to a fine, foreclosure of a loan or business closure. A covenant is issued to ensure your business remains able to repay a debt, so that “collateral” does not have to be seized and sold.

Financial performance and position

Lenders monitor the performance of borrowing clients through various means. Apart from regular site visits and review of account performance, some conditions are expressly captured in the loan agreement to ensure that the borrower maintains those conditions during the life of the loan.

These conditions are known as covenants which can be classified as financial or non-financial. Lenders monitor covenants through review of monthly or quarterly management accounts. These are not restrictive reviews, but they ensure the financial health of the business, its ability to meet its obligations to the lender as and when they fall due and preserve the value of any assets purchased with financing.

Covenant breaches are viewed as acts of default that may prompt a lender to recall the entire debt. On the other hand, once the business is deemed to be stable and sustainable, some of the covenants may be waived, which is confirmed in writing or excluded during the annual review of financial requirements.

Some examples of financial covenants are included in the following section. Note that covenants vary based on the agreements reach upon, so the list in *Section 3.9*. For example, if the lender evaluates that there is cash strain on the business either due to diversion of funds or over-expansion, they will institute a liquidity ratio threshold to ensure that the business continues to be able to finance its operations.

On the other hand, the lender may require non-financial covenants. These are restrictive or negative pledges that limit the borrower's ability to dispose of assets or create other charges that rank at par with the lenders'.

3.9 Business legal obligations for a successful loan application

Lenders or investors have expectations regarding the funds advanced and collateral issued to secure borrowing. An advance is given on expectation that the business will continue to operate in the foreseeable future. Therefore, the lender expects the borrower to warrant and ensure that:

- All statutory requirements, such as filing of annual tax returns, are fulfilled
- The business will maintain necessary licences for operations to continue
- Owners will comply with covenants and abide by warranties
- Any collateral will be kept in good order during the life of the advance
- Legal charges on collateral should also not be created without the authority of the lender
- All business assets and collateral must be fully insured to their current market value
- Inventories, debtors, and assets collateralised or covenanted should be maintained at the minimum of agreed levels
- The business should not dispose of assets without the knowledge of the lender, except in the ordinary course of business within stated limits
- Land rent and rates should be paid up to date
- Change in business ownership or operations must involve the lender's consent
- Any significant change to, or closure of the business, should be communicated to the lender as soon as it is foreseen
- Key persons should be insured or have contracts restricting them leaving their employment to work for close competitors (for specialised businesses such as professional services firms or originators of key intellectual property)

Management accounts should be provided on a monthly or quarterly basis with commentary on the business's current performance and outlook.

Country and sector Insights, links, and references

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

Country	Hyperlink or reference
Burundi	Business registration and filing tax returns Registration for tax identification number (TIN)
Rwanda	Business registration and filing tax returns Registration for tax identification number (TIN)
Tanzania	Business registration and filing tax returns Registration for tax identification number (TIN)
Uganda	Business registration and filing tax returns Registration for tax identification number (TIN)
Kenya	Business registration and filing tax returns Registration for personal identification number (PIN)