



Mobilizing Financial and Technical Assistance from Non-Traditional Development Partners

(INCLUDING NON-PROFIT INTERNATIONAL FOUNDATIONS)

A Manual for CARICOM Small and Medium-Sized Enterprises



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A Manual for CARICOM Small and Medium-Sized Enterprises

CARICOM Development Fund (CDF)

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Foreword

The CARICOM Development Fund is pleased to collaborate with the CARICOM Secretariat and the European Development Fund in publishing a series of three manuals to assist small and medium-sized enterprises (SMEs) in the OECS and in CARICOM. These manuals cover the following areas, respectively:

- Mobilizing Financial and Technical Assistance by Small Enterprises from Non-Traditional Development Partners (Including Non-Profit International Foundations);
- Legal and Administrative Requirements in addition to Quality Guidelines for Exporting Agricultural and Food Products to the More Developed Countries In The Caribbean Community (CARICOM); and
- Maintaining Agile Businesses: Identification and Use of Opportunities for Change.

SMEs are a key source of employment for women and young people. They account for some 50 per cent of employment in the Region, and contribute about 40 per cent to the Region's GDP. In agriculture, SMEs account for over 70 per cent of the main export crops and an even higher proportion of domestic food crops. The sector is therefore central to the survival and success of CARICOM.

The project to create these manuals was conceived in 2005 following visits to the LDCs (Less Developed Countries in CARICOM) by The Right Honourable Mr Owen Arthur, the then Prime Minister of Barbados with Lead Responsibility for the CSME at the time, and a high level team of technical experts. The project took shape after routine reviews of complaints and requests for support that the CARICOM Secretariat received from business operators and organizations in the SME sector.

Issues that have to be brought to the attention of the SME sector and addressed with urgency are varied. An immediately noteworthy observation in this regard was that the SME sector did not, in general, have the knowledge or access to key information which could accelerate their development as regional exporters. Another was that SMEs saw specific public sector institutions and the banking and/or informal sectors as the only sources of financing. There was little awareness of the increasing influence of non-profit organizations as sources of grant and development financing. Further, knowledge of non-tariff barriers in intra-regional trade in the SME sector was definitely inadequate.

Another inhibiting factor observed in the SME sector was the relative overuse of the old, passive shopkeeper model where sellers set out their wares and passively await the buyer to approach. This pattern of commerce was evident even in large economic sectors where sales increased only through lowering prices. Bundling complementary activities, for example, or selling services which generate demand for goods (such as telephone services contracts which lock in the purchase of telephone devices) have not been part of the business model of SMEs. These deficits have frustrated new operators seeking to exploit the regional market and perhaps, have also contributed to the persistence of low levels and skewed patterns in intra-regional trade.

These three manuals are therefore intended to address information gaps and deficits that are evident in the SME sector and will be updated regularly to maintain their currency. In addition to updates, it is envisaged that the scope of the content will be broadened as circumstances in the Region demand. This intervention by the CDF is designed to complement other regional programmes by providing information and methods of mobilizing finances from non-traditional sources, support strategic thinking and facilitate higher intra-regional exports.

The CARICOM Development Fund is grateful to all who participated in this project with special thanks to the European Development Fund, the CARICOM Secretariat and UWI Consulting in moving this concept into a reality.

Lorne T. McDonnough, CD
CEO, CARICOM Development Fund

Abbreviations

AEDFI	Association of European Development Finance Institutions
CARICOM	Caribbean Community
CARIFORUM	Caribbean Community plus the Dominican Republic
CBI	Centre for the Promotion of Imports from Developing Countries
CDB	Caribbean Development Bank
CDF	CARICOM Development Fund
CARIBBEAN EXPORT	Caribbean Export Development Agency
CIDA	Canadian International Development Agency
CTCS	Caribbean Technological Consulting Services
DCA	Development Credit Authority
DFID	Department for International Development
ECCB	Eastern Caribbean Central Bank
ECEF	Eastern Caribbean Enterprise Fund
ECCU	Eastern Caribbean Currency Union
EDU	Export Development Unit
EIB	European Investment Bank
FITA	Federation of International Trade Association
HACCP	Hazard Analysis and Critical Control Point

IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for the Settlement of Investment Disputes
ITC	International Trade Centre
IDA	International Development Association
IDB	Inter-American Development Bank
LDCs	Less Developed Countries
MIGA	Multilateral Investment Guarantee Agency
MS	Member States
MSME	Micro, Small and Medium-sized Enterprises
OECS	Organization of Eastern Caribbean States
OFID	OPEC Fund for International Development
OPEC	Organization of Petroleum Exporting Countries
RTP	Revised Treaty of Chaguaramas
SMEDP	Small and Medium-sized Enterprise Development Programme
SMEs	Small and Medium-sized Enterprises
USAID	United States Agency for International Development
UNCTAD	United Nations Conference on Trade and Development
WB	World Bank

1 | About this Manual

1.1 Introduction

This manual on ***Mobilizing Financial and Technical Assistance from Non-Traditional Development Partners (including non-profit international foundations)*** is published by the CARICOM Development Fund (CDF). It is one in a series of three manuals which forms part of the regional strategy to stimulate growth and improve the competitiveness of small and medium-sized enterprises (SMEs) in the CARICOM Less Developed Countries (LDCs) of the Organization of Eastern Caribbean States (OECS), Antigua and Barbuda, Dominica, Grenada, Saint Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines. The other manuals are on ***Maintaining Agile Businesses: Identifying and Using Opportunities for Success*** and ***Legal and Administrative Arrangements & Quality Guidelines for Exporting Agricultural and Food Products to CARICOM More Developed Countries***.

1.2 Scope of the Manual

Guidelines for preparing business plans are offered in this publication because with good plans, owners/operators of SMEs can more effectively pursue funding and technical assistance for their businesses. It is therefore anticipated that the manual will assist key decision makers in these enterprises to identify and overcome challenges in approaching institutions that can provide funding and technical assistance for their businesses and presenting their best business cases.

The manual is organized into seven sections. **Section 1** provides information on the purpose of the manual, how it is organized, and for whom it is intended. In **Section 2** the reasons for publishing a manual to assist small enterprises in accessing funding and technical assistance for their businesses are presented.

Section 3 is about the enterprise, including its management. Generally, SMEs tend to provide insufficient information on themselves. The absence of this information, combined with their usually low levels of assets for collateral, causes traditional financial institutions to be often unwilling to commit funds to these enterprises. With more information and transparency much of the uncertainty that the financing institution may have can be addressed, thus allowing them to make well informed decisions about financing SMEs. This section will therefore lay out the types of information that financial institutions require in order to better assess the viability of the SME.

Section 4 covers what you will need to know about building a strong “Business Case”. It will take you through the various aspects of business enterprise preparation that are to be documented in a formal business plan. Whether one is planning a new “start-up” business enterprise, or planning to expand an existing operation, it is critical to determine whether it is technically and financially viable before committing resources to its operation. This section therefore covers all important aspects of business enterprise preparation.

The focus is on potential sources of funding/ financing and technical assistance in **Section 5**. It addresses the question about which Development Financing Institution (DFI) or other potential funding sources the entrepreneur-to-be, or established SME entrepreneur could approach. The various types of funding and technical assistance sources are discussed and categorized as “traditional” and “non-traditional”. Information is provided on the nature of their funding, types of enterprises with which they will be involved and how to approach them, etc.

Section 6 deals with issues of timing. SMEs will be advised about when in the business enterprise preparation cycle is best to approach funding sources such as a DFI, as a source of traditional funding for loans or grants; and when and how to approach non-traditional funding institutions, among which are some DFIs. The section will detail the form in which approaches should be made to different funding and technical assistance sources. It will also cover the type of information that should be supplied to ensure that funding sources can properly consider a request.

Section 7 highlights some common errors that SMEs make in trying to source funding or technical assistance, and how these should be avoided. **Section 8** closes the manual by presenting some of the main points made in earlier sections about successfully accessing financing and technical assistance.

To complete the manual there is a glossary of key terms used throughout the text and an index. The contents of the manual are compiled from desk research, review of literature on the subject and consultations with various persons in the OECS countries and Barbados. The content should not be taken as a substitute for professional financial advice on specific needs.

1.3 Who should read this Manual

The main target groups for the manual are persons involved in the operations of small and medium-sized enterprises in the OECS countries of Antigua and Barbuda, Dominica, Grenada, Saint Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines. Persons other than those in SMEs in these countries who are involved in mobilizing financing should also find the manual useful in identifying funding sources.

There is much variation in how micro, small and medium-sized enterprises are defined, but for this manual, micro, small and medium-sized enterprises (MSMEs) are defined as follows:

- **Micro Enterprise:** Enterprise owner-managed, with less than five employees and less than US\$25,000 invested in equipment.
- **Small Enterprise:** Enterprise with less than 25 employees, less than US\$50,000 invested in equipment, or less than 371 square meters of manufacturing space, or less than US\$25,000 in annual sales.
- **Medium-sized Enterprise:** Enterprise with 25–50 employees, with US\$50,000–US\$200,000 invested in equipment, or 371–464 square meters of manufacturing space or US\$25,000–US\$250,000 in annual sales.

2 Mobilizing Financing and Technical Assistance for Small and Medium-sized Enterprises

Small and Medium-sized Enterprises (SMEs) are very important to business and economies in the Caribbean Region because they are the key to economic growth and dynamism and they can be more agile and flexible than larger enterprises. This is confirmed in trade and economic data put out by CARICOM on the OECS. However, even though the SMEs account for a large share of private sector businesses, and can provide employment and drive economic growth, they receive a small share of credit. They may also often be denied access to the main sources of financing. This situation means that owners/operators of small and medium-sized enterprises must always give themselves the best chance of success in seeking financing.

Potential donors, investors, financiers and providers of technical, in-kind and human resources may not have the ability to support every business enterprise and the owner/operator of an enterprise may have only one chance to ask for assistance. In order to succeed, therefore, the best possible “resource request”, that is the Proposal or Business Plan, must be made to the sources that will be approached for funding. Across the Caribbean, there are many SMEs engaged in worthwhile business enterprises, and they all can give compelling reasons for receiving assistance. The key to successfully accessing financing is that a request must effectively communicate why a particular financier should support YOUR business enterprise rather than any other.

Funding agencies (in particular those which are considered non-traditional) choose to support the business enterprises that they think meet the requirements

that they set out and are most likely to succeed. They want to see their limited resources have a positive impact with a successful business. The aim of this manual is to help you think through strategies to access, mobilize and secure the financial and technical resources that you need to achieve the goals you have set for your business enterprise, particularly if you will be approaching non-traditional sources.

2.1 General Problems Faced by SMEs in Accessing Funding

Among the challenges and constraints you will face as an SME, financing is the greatest limiting factor. The financial gap is huge and obstacles to accessing finance are often overwhelming and lead to discouragement to start, as well as to maintain or expand enterprises. The characteristics of your business and the lending regulations of traditional credit institutions are the main factors which contribute to how well your small enterprise will do in the current environment for financing.

If your business is a newcomer that offers innovative and non-traditional products to the market (and especially if it has an untried business model), you will find that the business will typically be characterized by the following:

- negative cash flows
- higher risks to banks
- operations that cannot be assessed in the same manner as for traditional businesses or large firms
- lack of basic information
- patterns of growth and earnings that are not always stable
- lower survival rates
- unclear succession management plans
- difficulty in separating the financial situation of the company from that of its owners

The key to successfully accessing financing is that a request must effectively communicate why a particular financier should support **YOUR** business enterprise rather than any other.

There are numerous obstacles to accessing finance. These include:

- an incomplete range of financial products and services at some banks/lending institutions;
- regulatory rigidities (both governmental and institutional);
- gaps in the legal framework that an SME may have for itself as well as in the governmental framework; and
- limited assets that can be used as collateral.

Additionally, in many instances your enterprise will lack technical know-how in various aspects of the business operations (production and management) and experience difficulties in accessing technical assistance at an affordable cost.

Are you Ready to Approach a Resource Partner with your Request?

Before your business enterprise can effectively communicate a request to a Resource Partner, you need to be sure that you have the answers to some key questions as well as the necessary elements in place to meet the criteria set by the funding sources.

- Is your enterprise making the most of its potential?
- Are you monitoring and improving your efficiency? Before reaching out for new resources, your business enterprise should be effectively using its available resources.
- Does your business enterprise know where it is going: in other words, have you developed a business case to convince others to fund your enterprise?
- Does your business enterprise have the capacity to use additional resources effectively?
- What resources do you really need?

When mobilizing resources from non-traditional sources, it is particularly important to remember that as far as the funding source is concerned, “it’s not always just about money”. It is also important that you do not set up yourself or your business enterprise to compromise your vision, mission and/or goals. So here are some other questions that you should ask and answer for yourself.

- What does your business enterprise have to offer in return for the support it may receive?
- Are there opportunities for the resource partner to benefit from its involvement in the activities of your business enterprise?

By answering these and a few other questions you will better understand the operations and needs of your business enterprise and should therefore be able to build the business case that the resource partner will need to justify its support. In addition, answering the questions will assist your business enterprise to meet the criteria set by the resource partner. You will be better prepared to provide the information that is required when you understand your own organization.

2.2 What Resource Requests will Work for your Business?

There are at least five steps that your business enterprise should consider to increase the likelihood of a positive outcome from a resource request. These steps, which represent one approach to mobilizing funding, are shown in the Figure 1.1.

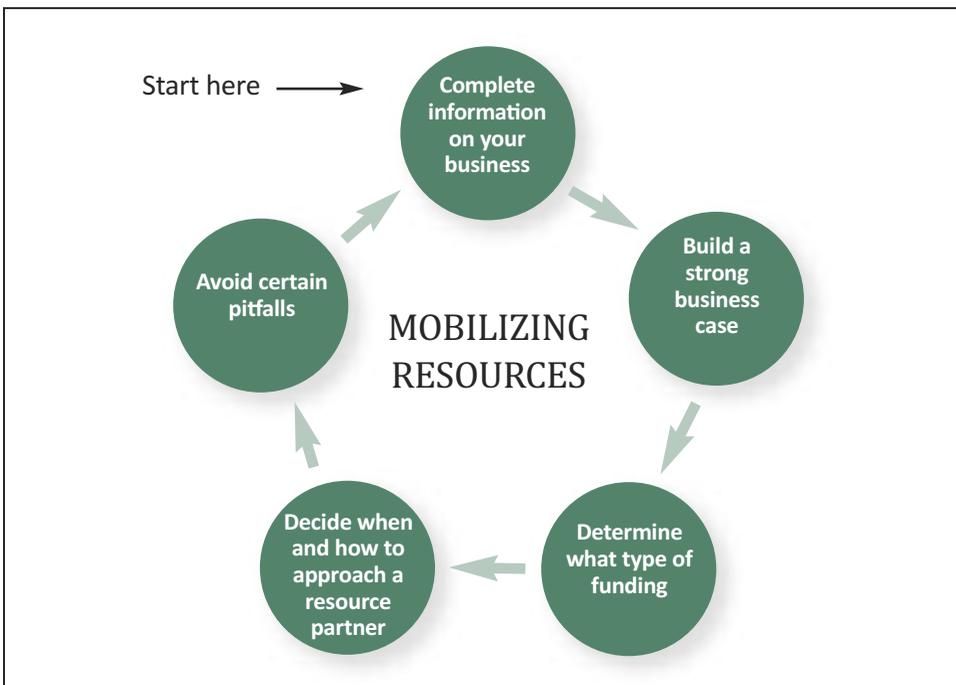


Figure 1.1: Steps in Mobilizing Resources

3

Information on your Business and its Management

By the end of this section, you will know:

- How to write a Mission Statement
- What type of information your resource partner must have
- How to prepare your Statement of Objectives

When you are providing information on your business to either traditional or non-traditional resource partners ensure that it is adequate and effectively communicated.

3.1 The Mission Statement of the Business

The mission statement provides information on the company's fundamental purpose. It answers the question of why the company exists. Ideally, every business should have a mission statement as a way of ensuring that everyone in the organization knows what the company is about, why it exists, and also to serve as a baseline for effective business planning.

How to Write a Mission Statement

There are three easy steps in writing a mission statement.

- (a) Describe what your company does.

Example: My company makes and sells craft.

- (b) Describe how it is done.

This has to be brief and to the point. Do not give a detailed presentation of the actual operations of the business. Instead, provide a brief, general description incorporating one or two of your core values, such as, providing the best customer service, or promoting innovation and creativity. It may be useful to focus on what is the core of your business competitiveness when considering which core value to incorporate in the statement.

- (c) State why your company does what it does.

This will communicate why it was started and the passion behind your business.

Here is the CARICOM mission statement as an example:

“To provide dynamic leadership and service, in partnerships, toward the attainment of a viable, internationally competitive and sustainable Community, with improved quality of life for all.”

3.2 Information on the Objectives of the Business

The objectives of a business embody the purpose for which the business is established. Business objectives are the ends that an organization sets out to achieve. Objectives need to meet a number of criteria if they are to be useful. Ensure that you take the following into consideration:

- Quantify the objectives if this is at all possible. For example, an objective could be to increase market share by 10 per cent.
- The objectives need to be challenging, but they should be attainable.
- They should be understandable and therefore easy to communicate.

An objective could also be considered as an end that can be reasonably achieved within an expected timeframe and with available resources. In general, an objective is broader in scope than a goal, and may consist of several individual goals. Objectives serve as the basis for company policy and create the framework for assessing the performance of the business. Objectives should be focused on

results. They should be specific, time-related, and measurable, and it should be possible to achieve them.

Here is an example of a statement of objective:

The objective of this business is to manufacture and sell 500 pairs of very good quality shoes monthly over the next 24 months.

3.3 The Nature of the Business

If you have an agro-processing business, what type of products is processed? The answer to this question can quickly assist a prospective financier or provider of technical assistance to determine whether it is a sector in which it is interested.

Output of Goods and Services and their Place in the Market

Information should be presented on the goods and services that your business produces. It will be useful to indicate what place these occupy in the overall market for these products. This information will help in assessing whether the products are those of a well established industry, with a developed market, or whether there is a need to build a new market. There may be no need for any advertising, and the product may best be sold at the going prices if the quantities to be produced by the firm are so small, relative to the overall market, that it will not really affect the market. If, however, the firm's product will seriously impact on market share, it may be necessary to advertise in order to be able to sell the increased quantities, and there may be a need to modify prices.

Management and Staff of the Business

It will assist financiers and providers of technical assistance to better assess whether your business will be well managed if they have the best information you can provide about the management and staff.

4

Business Enterprise Preparation

By the end of this section, you will know:

- Why a good Business Case is necessary when seeking funding from non-traditional sources
- What steps to follow in developing your Business Case / Plan
- How to assess the funding needs of your business

4.1 Building a Good Business Case

Investing in a business enterprise is seldom something that can just happen: be it a new undertaking or the expansion of its activities. For the entrepreneur-to-be, just as much as for the established entrepreneur, the main difficulty is often to find the information needed to prepare and carry out a business enterprise, and especially to finance it.

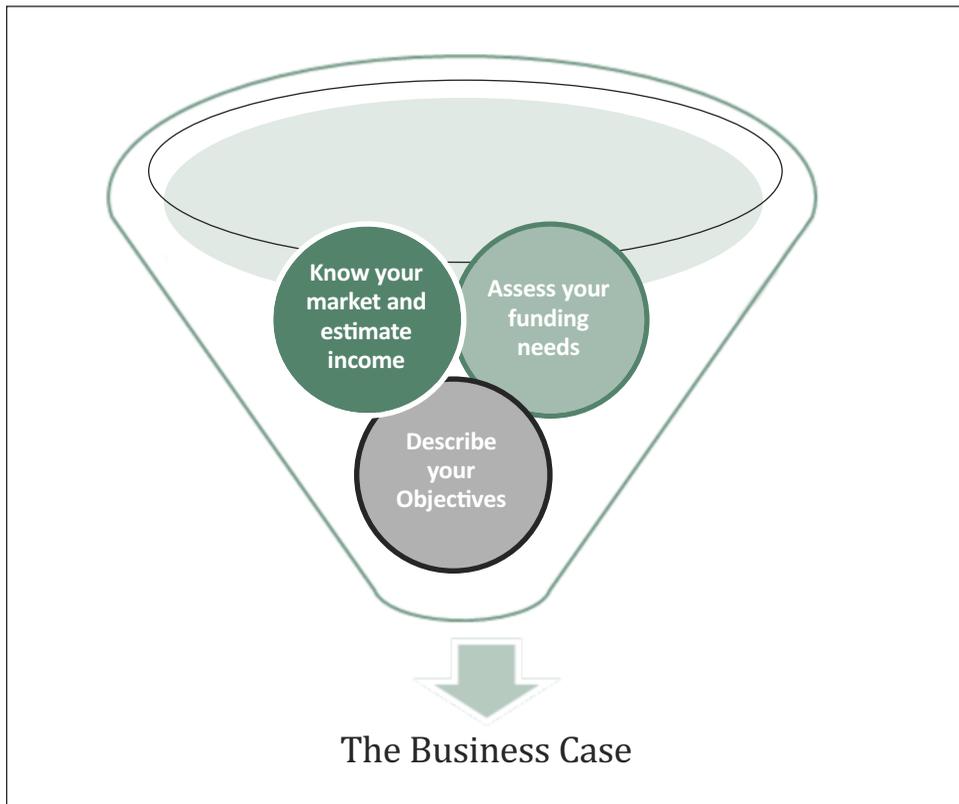
4.2 Steps in Developing Your Business Case

The preparation phase preceding the investment is often crucial for the creation of an enterprise as well as for expanding an existing one.

The preparation phase

- **Step 1:** Defining the business rationale and objective
- **Step 2:** Assessing the necessary funds for a successful result
- **Step 3:** Knowing your market and estimating your income

These steps are shown in the diagram below.



Depending on the nature of the business enterprise and the amount of resources that may be required for its implementation, the preparation and implementation of the business plan can be quite expensive. Fortunately, as shown in Section 4, there are some donors/resource partners that are willing to provide technical assistance as grants or financiers that will provide technical assistance as a part of their overall funding.

Step 1: Business Enterprise Description, Rationale and Objectives

A detailed description of the proposed business enterprise should be prepared to facilitate serious consideration as to whether the business enterprise should be funded. The degree of detail will depend on the data and information that are

available and the degree of analysis required by the resource partner(s). The various components of the business enterprise should be discussed. This will include a description of its organization and management to show how the business enterprise will be operated, and the administrative arrangements to facilitate all aspects of the operations.

The objectives should clearly state what is to be achieved by the business enterprise. In this regard, the following should be done:

- Describe the current situation
- Identify the core problems that the business enterprise will solve
- Identify the specific results that will be achieved

Step 2: Assessing the Funding Needs of Your Business

Assessing funding has two aspects: estimating the amount necessary for starting the business enterprise, that is, the starting or initiating capital; and determining how much of this starting capital the entrepreneurs will have to find from an outside financing source. To this end the entrepreneurs will prepare a detailed Financial Plan.

Key Components of the Financial Plan

- Initial Start-up Costs
- Operating Cash Flow

Most, if not all businesses have initial start-up costs which typically require some injection of cash. This may either be provided from personal savings or from a source of external funding.

Every business needs to make a profit in order to succeed, but businesses will also need to have good cash flow to keep their operations going while they wait to receive payments from clients.

Some of the common expenses that you may face when starting your business are listed below.

Box 4.1: Initial Start-Up Costs

1.	Office Space (Purchased, Rented or Leased)	\$ _____
2.	Repairs, Remodeling Office Space	\$ _____
3.	Office Equipment & Machinery	\$ _____
4.	Office Furniture & Office Supplies	\$ _____
5.	Legal Fees & Accounting Services	\$ _____
6.	Licences and Permits	\$ _____
7.	Marketing Costs & Other Costs and Services	\$ _____
	Total Initial Start-up Costs TOTAL	\$ _____

Every business needs to make a profit in order to succeed, but businesses will also need to have good cash flow to keep their operations going while they wait to receive payments from clients.

There may be periodic gaps in cash flow, especially for expanding businesses, where **operating cash outflows** exceed **cash inflows**. You could make plans for such situations by preparing Cash Flow Projections. This would be an estimate over several months (generally twelve to twenty-four months) of any gains that will be made on investments; the amount of business that is transacted during a given period (turnover of the undertaking), and incurred charges (costs). At a minimum your Cash Flow Projections should include the following:

Box 4.2: Cash Flow Projections

Production and Distribution Cost	= \$ _____
Labour Cost	= \$ _____
Other Operating Costs	= \$ _____
Remuneration of the Owners	= \$ _____
Tax Payments	= \$ _____
Less: Estimate of the Sales the Business	= \$ <
Net Cash Surplus/ Deficit	= \$ _____

As an entrepreneur you must make sure that funding provisions are also made for those periods where cash outflows exceed cash inflows. It is only if your financial plan is complete and sufficiently realistic that you will know whether your business enterprise is viable or not, because this plan will give you the figures. More important is the fact that the financial plan is the basis of the discussions between you (the entrepreneur) and a potential financier or other financial sources.

A more detailed assessment of necessary funds will begin with the business enterprise design and implementation schedule. The business enterprise design sets out the facilities and equipment that are required throughout particular phases of the enterprise. These equipment and facilities need to be defined in sufficient detail so that implementation costs can be estimated with some degree of

As an entrepreneur you must make sure that funding provisions are also made for those periods where cash outflows exceed cash inflows.

certainty. Design of facilities should take into consideration local regulatory standards as well as international norms and standards. It may be necessary also to satisfy the standards of the institution that is committed to funding the business enterprise. In addition, equipment should meet minimum performance standards, maintenance should be available locally, and spare parts should be readily available.

It will be necessary to calculate the overall investment cost of the business enterprise. Costs should be broken down into **capital and recurrent or annual costs**. Accurately estimating investment/capital and operation costs of the business enterprise is crucial for a successful feasibility study, determination of the enterprise's viability, and further financing. If some cost items have a foreign component, these should be broken down into foreign and local costs. It is always useful to include an amount for costs that were not anticipated (contingencies). This could typically be about 20 per cent of the costs before the contingencies. Taxes, customs and other such payments to the Government must also be calculated.

In summary, it is necessary to:

- identify the specific infrastructure for the business enterprise and the activities that it will undertake;
- provide engineering designs (where applicable) for facilities on which to base cost estimates;
- provide equipment lists and costs;
- address the overall operations start-up schedule; and
- assess the risks that may affect the implementation schedule.

Step 3: Knowing your Market and Estimating Income

Market and Price Perspectives

It is important to carry out a comprehensive market analysis for the goods and services to be produced by the business enterprise. If the goods and services are to be marketed both locally and internationally, then the analysis should include both markets. An accurate assessment should be made of prices at which the goods and services that are to be produced can be sold. Overall market demand and the impact that the product may have on the market should be assessed.

Trend analysis of prices of the products and the volume of sales can also be very useful for the overall business plan.

Estimating the Business Enterprise Income

An accurate estimate of the income from business enterprise is a vital aspect of the business plan, since it will have a significant impact on the viability of the enterprise. Basically, the income is determined by multiplying the volume of business projected sales by unit prices. The business projected sales and prices have to be stated for a number of years, to indicate how the enterprise will meet its financial obligations and recover its investment. It may be necessary to project the income stream over periods of five to 10 years, and 10 to 15 years.

Keep in mind also the need that your business enterprise may have for recurrent financing. Within the financial year of the business enterprise, there are likely to be months when the expenditures are much more than the revenues. It may therefore be necessary to break down costs and revenues to a quarterly or monthly basis to determine the recurrent finance needs as warranted by the nature of the business.

The Importance of Preparing a Good Business Plan

This manual has placed considerable emphasis on the preparation of a good business proposal or plan, since a well prepared business plan is vital in order to attract funding. As previously stated, SMEs generally have limited or no collateral to offer potential financiers. As a result, it is of utmost importance that they are able to present well prepared and feasible plans for financing. By so doing, the entrepreneur will make the financier more amenable to financing the plan even though there is not much collateral. This is because of the confidence that a well prepared and feasible plan can generate.

It is important to carry out a comprehensive market analysis for the goods and services to be produced by the business enterprise.

5

Sources of Funding and Technical Assistance and Deciding Which to Use

By the end of this section, you will know:

- What issues to consider in determining the type of funding to use
- When venture capital can be considered as a funding option for your business
- What are the SME development agencies and other lending sources you could possibly approach

It is often advised that if you are a new start-up business, you should start with “Your Own Money”, typically from savings. If you can, you may therefore want to consider saving some money towards the start of your business before you actually start.

Depending on the type of business you have it may also be possible to use the cash flow generated in its earlier stages to grow your business. Alternatively, given the size of your business and the initial funding required to expand or start-up, it may be necessary to seek external funding for some of the start-up costs as discussed in Section 4, *“Building a Strong Business Case”*, where the steps involved in determining how much money you will need were outlined. This external funding could either be from a traditional lending institution such as a commercial bank or from non-traditional sources such as Angel Investors or by getting a grant from a Government or private agency.

5.1 Determining the Type of Funding

Many SMEs fail to access funding and technical assistance not because they do not have properly prepared viable business enterprises, but because they are not aware of many potential sources of funding and technical assistance. In addition, they may not know which of these sources would be most suitable for their business. In determining what type of financing to use for your business, it will be important that you ask yourself the following question:

Is it possible to hand over some of the control of the enterprise in return for financing and technical assistance?

If the answer is **yes**:

- The small business entrepreneur can look for investors in capital (venture capital or quasi-capital).

If the answer is **no**:

- The small business entrepreneur could then turn to long-term borrowing (loan) and/or leasing.

Venture capital is a form of financing by which the lender brings capital in the enterprise alongside its founders. This contribution makes the lender one of the owners of the enterprise who will participate in the decision-making and receive his/her share of the profits.

Venture capital has numerous advantages for the entrepreneur. First of all, the presence of a reputed investor alongside the founders of the enterprise makes it easier to access financial sources. The venture capital will generally bring in only a part of the means necessary for creating the enterprise. The additional amount is brought by a long-term loan, and possibly quasi-capital.

Many SMEs fail to access funding and technical assistance not because they do not have properly prepared viable business enterprises, but because they are not aware of many potential sources of funding and technical assistance.

Angel Investors are somewhat similar to venture capitalists. Angel Investors are usually persons who have been or are entrepreneurs and generally are independently wealthy individuals. Angel capital fills the gap in start-up financing after funds being provided by “friends and family” are in place. These investors will usually give more favourable terms than venture capitalists, and in addition they often provide valuable management advice and important contacts.

Angel Investors have long been a source of finance for companies at the seed and start-up stages. Angels become recognized as a primary source of funding where venture capital funding is less available. Unlike the past when Angels operated individually and behind the scenes, they are now forming groups that enable them to share information about companies worthy of funding as well as pooling their resources.

5.2 SME Development Agencies

Below is a list of financial institutions that you could approach to either assist you in identifying funding sources or directly providing funding for your business. Some of the institutions that are discussed have mandates which may be broader than the development of SMEs.

The information provided on funding and technical assistance agencies will focus on the nature of these organizations; contact addresses including telephone/fax listings, websites and e-mails; types of business enterprise support; and when it is best in the business enterprise cycle to approach the agency for support. It may be worthwhile to note that many of the agencies listed will not provide funding or technical assistance on a “one and one basis”, but will do so through a local intermediary financial institution or NGO. An SME or a cluster of SMEs may at times need to take the initiative and approach intermediaries to source financial and technical assistance from such agencies.

It may be worthwhile to note that many of the agencies listed will not provide funding or technical assistance on a “one and one basis”, but will do so through a local intermediary financial institution or NGO.

Box 5.1: Development and Promotion Agencies

Agency	Mandate
<p>The Export Development Unit of the OECS <i>Contact:</i> OECS-EDU P.O. Box 769, 4th Floor Financial Center, Kennedy Avenue, Roseau Commonwealth of Dominica E-mail: edu@oecs.org Tel: 767-448-2240 Fax: 767-448-5556 Website: http://www.oecs.org/edu</p>	<p>The Export Development Unit (EDU) of the OECS acts as the primary sub-regional institution of the OECS Member States for the development, promotion, and expansion of exports through the mobilization of technical and financial support for the agriculture and manufacturing private sector and the provision of advice and assistance to member governments and the public sector agencies. The Unit offers the following services:</p> <ul style="list-style-type: none"> (a) Strategic planning and resource mobilization (b) Technical advisory services (c) Direct enterprise assistance (d) Market intelligence
<p>Eastern Caribbean Enterprise Fund Ltd. <i>Contact:</i> P.O. Box 89, Bird Rock, Basseterre St. Kitts Tel: 869-665-2537 Fax: 869-465-0322 Website: www.Eccb-centralbank.org</p>	<p>The ECEF is being positioned to be the mechanism for attracting investment capital and channelling those resources to promote the development of private sector enterprises in the region.</p>

5.3 Development Banks

Both regional and national Development Banks have played important roles in supporting SMEs in the sub-region.

Box 5.2: Regional and National Development Banks

Agency	Mandate
<p>The Caribbean Development Bank (CDB) <i>Contact:</i> CDB P.O. Box 408, Wildey, St. Michael Barbados Tel: 246-431-1600 Fax: 246-426-7269 Website: www.caribank.org</p>	<p>The Caribbean Technological Consulting Services (CTCS) / CDB The CTCS offers a wide range of services, including:</p> <ul style="list-style-type: none"> • Practical on-the-spot assistance to operators having problems in production, accounting and overall organization and management • Assistance in business enterprise planning appraisal and implementation • Assistance in selection of machinery and equipment and identification of their suppliers • Assistance in layout and production flow <p>The principal subject areas in which assistance is provided include:</p> <ul style="list-style-type: none"> • Agro-industries and fisheries • Food processing • Wood and metal fabrication • Textiles • Packaging and labelling • Building materials, manufacturing, equipment and machinery • Energy production and conservation • Pottery, ceramics and craft manufacturing

Box 5.2 continues

Box 5.2: Regional and National Development Banks (cont'd)

Agency	Mandate
<p>The Caribbean Development Bank (CDB) <i>Contact:</i> CDB P.O. Box 408, Wilkey, St. Michael Barbados Tel: 246-431-1600 Fax: 246-426-7269 Website: www.caribank.org</p>	<p>Eligibility Residents of the Commonwealth Caribbean</p> <p>Cost of services Requests are normally processed free of charge but a small fee is charged for those requiring extensive research and documentation.</p> <p>Complete Caribbean/ CDB Complete Caribbean is a multi-million dollar grant facility established jointly by the Inter-American Development Bank (IDB), the UK's Department for International Development (DFID), the Canadian Agency for International Development (CIDA) and the CDB, to provide grant funding by the CDB to support production policies, business climate reforms, clustering initiatives and SMEs within a comprehensive private sector development framework in the Caribbean.</p>

5.4 Development Finance Institutions (DFIs)

There is a wide range of Development Finance Institutions (DFIs) that provide financing for SMEs in developing countries. Among these DFIs is the Association of European Development Finance Institutions (AEDFI), which comprises some 15 bilateral financial institutions. These institutions invest directly in companies, and financial institutions, and indirectly through local and regional investment funds.

Box 5.3: Development Finance Institutions (DFIs)

Agency	What it Does
<p>BIO – Belgian Investment Company for Developing Countries</p> <p><i>Contact:</i> Avenue de Tervuren 188A-B4, B-1150 Brussels Belgium Tel: 32(0)2778 99 90 E-mail: emmanuele.liessens@bio-invest.be Website: www.bio-invest-be</p>	<p>The BIO finances new companies or those that wish to expand their activities or strengthen their finance base in the form of equity contribution. It offers a wide range of direct medium and long-term loans at both fixed and variable rates. Terms usually vary between three to a maximum of seven years. Financing can also be done in local currency to reduce exchange risks. BIO also supports technical assistance requests. It has a capital endowment of Euro 485 million.</p>
<p>Norwegian Development Fund for Developing Countries (NORFUND)</p> <p><i>Contact:</i> Stoperigata 2, P.O. Box 1280 Vike, 0111 Oslo Norway Tel: 47 2201 9393 Fax: 47 2201 9494 E-mail: post@norfund.no Website: www.norfund.no</p>	<p>NORFUND offers private equity to businesses that have the potential for high growth rates. It invests capital directly in companies and financial institutions and indirectly through local and regional investment funds. It normally subscribes 10–35 per cent of the business enterprise funding, with the aim of exiting in three to seven years. NORFUND provides private companies and financial institutions in developing countries with a variety of loan instruments. Its lending includes senior loans, syndicated loans, mezzanine finance, and business enterprise finance facilities. The Fund invests in industrial partnerships; financial institutions; small and medium-sized businesses; and renewable energy.</p>

Box 5.3 continues

Box 5.3: Development Finance Institutions (DFIs) (cont'd)

Agency	What it Does
<p>Netherlands Development Finance Company (FMO) <i>Contact:</i> Entrepreneurial Development Bank Anna van Sekseniaan 71. P.O. Box 93060, 2509 AB The Hague The Netherlands Tel: 31(0)70 314 9696 E-mail: info@fmo.nl Website: www.fmo.nl</p>	<p>The FMO is committed to growing a healthy private sector in developing countries. It offers a full range of financial instruments for the benefit of private companies and financial institutions in developing countries. To meet the needs of individual business enterprises, it uses a mix of funding instruments. It provides long-term financing, shares knowledge, and forges enduring partnerships, with the aim of improving management skills and technical knowledge. FMO investment portfolio was €5.3 billion in 2010.</p>
<p>Centre for the Development of Enterprise (CDE) <i>Contact:</i> 52 Avenue Harrmann-Debroux, 1160 Brussels Tel: +32 2 679 18 11 Fax: +32 2 675 2603 Caribbean Regional Office Edificio Centro de Exportacion e Inversion de la Republica, Dominicana (EL-RD) Avenida 27 de Febrero Esq Aenida Luperon/Santo Domingo/Republica Dominicana Tel: 1 809 531 2832 Fax: 1 809 531 2832 E-mail: min@cdei.int Website: www.cde.int/?lang=en</p>	<p>The CDE objectives may be stated as follows:</p> <ul style="list-style-type: none"> • Facilitate ACP-EU business partnerships • Develop enterprise support services in ACP countries (capacity building with private sector organizations and service providers) • Assist investment promotion activities and organizations • Assist technology transfer and management skills. <p>In 2002 the CDE had a budget of €110 million to spread over seven years.</p>

5.5 Venture Capitalists

This manual is unable to vouch for any particular venture capital firm but the following website provides a listing of venture capital firms.

http://en.wikipedia.org/wiki/List_of_venture_capital_firms

5.6 International Non-profit Foundations

A number of international non-profit organizations make considerable contributions to the development and support of SMEs. Among them are:

(a) The Commonwealth Fund for Technical Co-operation (CFTC)

The CFTC, an organ of the Commonwealth Secretariat, is the principal means for providing technical assistance to Commonwealth countries. The Secretariat collaborates with other development partners to ensure a collaborative and targeted approach for optimal development impact. Its assistance is targeted towards helping member countries acquire knowledge and institutional capacity to address their own priorities. The CFTC responds to requests for technical assistance from governments and regional organizations with Commonwealth membership, through the provision of advisory services via in-house and external experts who can transfer the necessary skills and knowledge. The CFTC also provides assistance in product improvement, skills and technology upgrading, and SME development.

Contact:

Commonwealth Secretariat
Marlborough House, Pall Mall,
London SW1YEHX

UK

Tel: 44 (0) 20 7747 6500

Fax: 44 (0) 20 7930 0827

Website: www.thecommonwealth.org/

(b) The Ford Foundation

The Ford Foundation is an independent global non-profit, non-governmental organization, which makes grants and loans that build knowledge and strengthen organizations and networks.

Contact (Headquarters):

Ford Foundation

320 East 43rd Street, New York, NY 10017

USA

Tel: 212-573-5000

Fax: 212-351-3677

E-mail: office-of-communications@fordfoundation.org

Website: www.fordfound.org/

(c) Worldwide Initiative for Grantmaker Support (WINGS)

WINGS is a strong global philanthropic network of more than 140 grant/support membership association. It supports organizations serving grant makers with common goals to:

- Create opportunities to learn from and support one another
- Develop modes of communication and collaboration among associations
- Contribute to the strengthening of philanthropy worldwide

Contact:

Center on Philanthropy and Civil Society

The Graduate Center, The City University of New York

365 Fifth Avenue, Suite 5401

New York, NY 10016-4309

Tel: 212-817- 2010

Fax: 212-817-1572

E-mail: info@philanthropy.org

Website: www.philanthropy.org/

5.7 Export Promotion Agencies

Export promotion agencies can and do play important roles in the development and expansion of SMEs. Inadequate market access is usually one of the important limiting factors in the expansion of SMEs. Any assistance in product improvement and export promotion could significantly impact the expansion and profitability of SMEs. Export promotion agencies that can assist the OECS countries include:

(a) Caribbean Export Development Agency (Caribbean Export)

Caribbean Export is a regional CARIFORUM institution with responsibility for export development and investment promotion, The Agency concentrates on four main areas:

(i) Fostering an enabling environment

It fosters an enabling environment for trade and investment within the CARIFORUM Region through integration, cooperation and advocacy initiatives. These efforts are designed to more effectively position the region in the world economy.

(ii) Enhancing competitiveness

Competitiveness of firms in the CARIFORUM countries is supported in selected sectors through investment; management and product development; market expansion; and export diversification.

(iii) Promoting investment

The Agency promotes the CARIFORUM Region as a prime destination for intra and extra-regional investment.

(iv) Strengthening institutional capacity and networking

Caribbean Export assists in strengthening the capacity of public and private sector business sector support organizations such as sector associations; trade promotion organizations and investment promotion agencies.

Contact:

Caribbean Export Development Agency
Hastings Main Road. Christ Church, BB 15154
Postal Address:
P.O. Box 348, Brittons Hill Post Office,
St. Michael, BB 14000
Barbados
Tel: 246-436-0578
Fax: 246-436-9999
E-mail: info@carib-export.com
Website: www.carib-export.com/

(b) The Centre for the Promotion of Imports from Developing Countries (CBI)

The CBI is an Agency of the Ministry of Foreign Affairs of the Dutch Government. It contributes to strengthening the competitive capacity of SME exporters and producers in developing countries, focusing primarily on European markets. The CBI's core competence is in the areas of advice; counselling and knowledge management.

To attain its mission, the CBI concentrates on:

- Market knowledge – product and product improvement; quality control; export marketing and management.
- Market entry

Contact

CBI

Postal Address:
P.O. Box 30009. 3001 Rotterdam
Netherlands
Visiting Address:
WTC-Beursbuilding, Beursplein 37, 3011 AA Rotterdam
Netherlands
Tel: 31 (0) 10 201 3434
Fax: 31 (0) 10 411 4081
E-mail: cbi@cbi.eu
Website: www.cbi.eu

(c) The Federation of International Trade Association (FITA)

FITA fosters international trade by strengthening the role of local, regional, national and global associations that have an international mission. It provides resources, benefits and services to the international trade community and useful tools to help in doing business globally. The group's trade portal is the source for international import-export trade leads, events, and links to 8,000 international trade (import-export) related websites. FITA has 450 association members and 450,000 linked company members dedicated to the promotion of international trade, import-export international trade logistics management and international finance.

Contact:

FITA Association

Kimberly Park, Reston, VA 20190

USA

Tel: 703-634-3482

E-mail: kim@fita.org

Postal address:

172 Fifth Ave. #118

Brooklyn, NY 11217

USA

5.8 Multilateral Financial Institutions

There are several multilateral financial institutions that provide considerable assistance towards the development and expansion of SMEs. Among them are:

Box 5.4: Multilateral Financial Institutions

<p>The International Finance Corporation (IFC) <i>Contact:</i> Headquarters: 2121 Pennsylvania Ave. NW, Washington DC 20433 USA Switchboard Tel: 202-473-1000 General Inquiries: Corporate Relations Tel: 202-473-3800 Fax: 202-974-4384 Website: www.ifc.org</p>	<p>(a) The IFC The IFC helps SMEs gain greater access to financial services in developing countries by providing funding for equity and loans to financial intermediaries which focus on SME financing. In fiscal year 2009, the IFC committed SME portfolio was US\$6.3 billion. In December 2008, its investee banks had an outstanding SME portfolio of US\$90.6 billion, comprising 1.3 million loans.</p> <p>(b) The Partnership for CARICOM Private Sector Development (PCPSD) This programme is funded by the Canadian Agency for International Development (CIDA) and implemented by the IFC. CIDA is providing a minimum of US\$19,950,000 for the period 2008–2013.</p>
<p>OPEC Fund for International Development (OFID) <i>Contact:</i> Parkring 8, A-1010 Vienna Austria P.O. Box 995, A-1011, Vienna Tel: +43-1-515-64-0 Fax: +43-1-513-92-38 E-mail: info@ofid.org</p>	<p>(c) OPEC Fund for International Development (OFID) OFID’s operations are funded through public sector operations, private sector operations, trade finance facilities, and grant operations. Since its establishment in 1976, OFID has provided US\$13 billion in development assistance to 129 developing countries.</p> <p>Eligibility: All developing countries with the exception of OPEC Member countries can be beneficiaries of OFID.</p>

Box 5.4 continues

Box 5.4: Multilateral Financial Institutions (*cont'd*)

The European Investment Bank (EIB)

Contact:

General Information:

Tel: (+352) 4379 3134

Fax: (+352) 4379 3189

E-mail: info@eib.org

Website: www.eib.org

Headquarters:

100 bd Konrad Adenauer, L-2950

Luxembourg

Tel: (+352) 42 79 1

Fax: (+352) 43 77 04

The aim of the EIB in the ACP regime is to support business enterprises that deliver sustainable economic, social and environmental benefits and have a positive impact on the community and region. The EIB, which was launched as an investment facility in 2003, has since provided €2.2 billion in the form of various risk sharing instruments that support local companies, particularly SMEs. In addition to the funds made available by the facility, an additional commitment of €1.7 billion was provided by the bank for long-term loans.

(d) The Inter-American Development Bank (IDB)

The IDB promotes potential sector-led market-driven sustainable economic growth in the Caribbean.

Through the Inter-American Investment Corporation (IIC) the IDB

- lends to small and medium-sized enterprises
- offers several services designed to help SMEs in Latin America and the Caribbean under its Finpyme Technical Assistance Programme.

The OECS countries currently are unable to directly access the IDB resources but SMEs can get information about private sector funding for investments and other business activities by the IDB in Latin America and the Caribbean from the website <http://www.iadb.org/en/annual-meeting/2011/idb-homepage.2830.html>

Only (b) above is linked to the IFC because the project is executed by the IFC. The other agencies listed are not connected to the IFC.

Box 5.4 continues

Box 5.4: Multilateral Financial Institutions (cont'd)

The World Bank

Contact:

The World Bank
1818 H Street, NW,
Washington DC 20433
USA
Tel: 202-473-1000
Fax: 202-477-6391
Website: www.worldbank.org

The World Bank Group is made up of five institutions: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Financial Centre (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for the Settlement of Investment Disputes (ICSID). Usually, reference to the World Bank, is confined to the IBRD and the IDA. SMEs are not able to approach the WB directly, but they can lobby their governments to access the Bank's resources to assist them. The Bank provides over US\$24 billion annually in loans, grants and technical assistance to countries and the private sector to reduce poverty in developing countries and countries in transition.

5.9 The United Nations Agencies

Many United Nations Agencies support the development of SMEs, particularly in the provision of technical assistance. Among the agencies are:

(a) The International Labour Organization (ILO)

The ILO works with governments, social partners and communities to develop new policy tools to create a favourable legal and regulatory environment, invigorate entrepreneurship and management training, and involve small business in new markets. An important aspect of the work of ILO's Office in the Caribbean, is the provision of technical and advisory services on policies and technical issues related to labour and employment.

Contact:

ILO Office for the Caribbean
6 Stanmore Ave.
P.O. Box 1201, Port of Spain
Trinidad and Tobago
Tel: 868-623-7704
Fax: 868-623-7178
E-mail: ilocarib@ilocarib.org.tt
Website: www.ilocarib.org.tt

(b) The United Nations Industrial Development Organization (UNIDO)

UNIDO responds to developing countries' requests for technical assistance to help their SMEs by organizing and developing clusters, developing networks of SMEs and developing linkages between SMEs and larger enterprises.

Contact:

Chief, LAC Regional Programme
UNIDO, Vienna International Centre
P.O. Box 300 1400 Vienna
Austria
Tel: 43 1 26026 3432
Fax: 43 1 26026 6823
Website: www.unido.org

(c) The United Nations Development Programme (UNDP)

The UNDP aims at developing competitive and viable enterprises by enhancing the operational efficiency and management capacities of SMEs, so that they can contribute to the generation of employment and incomes.

Contact:

UNDP, Barbados and the OECS
United Nations House, Marine Gardens
Hastings, Christ Church
Barbados

Tel: 246-467-6000
Fax: 246-429-2448
E-mail: registry.bb@undp.org
Website: www.undp.org

(d) United Nations Conference on Trade and Development (UNCTAD)

UNCTAD works with the International Trade Centre (ITC) to enhance the use of credit insurance as a tool for export promotion. UNCTAD also provides considerable support in the promotion of national ICT strategies and e-commerce.

Contact:

UNCTAD
Palais des Nations, 8–14 Av. De la Paix.
1211 Geneva 10
Switzerland
Tel: 41 22 917 1234
Fax: 41 22 917 0057
Website: www.unctad.org

(e) The International Trade Centre (ITC)

The ITC is the joint cooperation agency of UNCTAD and the World Trade Organization (WTO) for the business aspects of trade development. It is the focal point of the UN system for technical cooperation with countries in transition and developing countries in trade promotion and export development. The ITC enables small business export success in developing countries by providing, with partners, trade development solutions to the private sector, trade support institutions and policy-makers.

The Centre works in six main areas:

- Product and market development
- Development of trade support services
- Trade information
- Human resource development
- International purchasing and supply management
- Needs assessment, and programme design for trade promotion

Technical assistance from ITC is concentrated in three main areas, namely:

- Helping businesses understand WTO rules
- Strengthening enterprise competitiveness
- Developing new trade promotion strategies

Contact:

ITC

Palais des Nations, 54–55 rue de Montbrillant

1211 Geneva 10

Switzerland

Tel: 41-22 730 01 11

Fax: 41-22 733 44 39

Website: www.intracen.org

5.10 Bi-lateral Aid Agencies

Bi-lateral aid agencies play an important role in supporting SMEs.

(a) United States Agency for International Development (USAID)

The USAID through its Development Credit Authority (DCA) has a significant impact on SME funding. The DCA was created to lend to underserved borrowers. The USAID uses its country Missions to utilize the DCA as a tool to stimulate lending through the use of partial credit guarantees. This guarantee generally covers up to 50 per cent of loss on loans made by the financial institutions and investors. Although an individual SME cannot access the DCA resources by itself, if a country Mission arranges guarantee funding with a local financial institution, then the SME can access the funds.

(b) Canadian International Development Agency

CIDA is Canada's leading development support agency. It has a record of assisting small businesses in developing countries by offering expertise in several core areas for enterprise development.

5.11 Philanthropic Foundations/Non-governmental Organizations (NGOs)

Philanthropic foundations and individuals make considerable grants to SMEs in the developing world. Often these donations are channelled through NGOs, thus the linking of the two in this section. Among the philanthropic groups are:

(a) Bill and Melinda Gates Foundation

This is one of the largest philanthropic organizations. It works around the world to improve the living conditions of the poor by partnering with NGOs, institutions and research centres. Its three main programme areas are global development, global health and the United States programme.

Contact:

Bill and Melinda Gates Foundation

P.O. Box 23359

Seattle, WA98102

USA

Website: <http://www.gatesfoundation.org>

(b) The Inter-American Foundation Grant Programme for Grassroots NGOs in Latin America and the Caribbean

The USA Government's Inter-American Foundation (IAF) is an independent Agency that provides financial support to programmes that further self-help in a sustainable, innovative and participatory manner, and are implemented by NGOs in Latin America and the Caribbean (LAC). It primarily funds partnerships among grassroots and non-profit organizations, businesses and local governments. Grant proposals should be more than US\$25,000 and less than US\$400,000. Requests are accepted throughout the year.

(c) John D. and Catherine T. MacArthur Foundation

This is one of the largest grant making foundations in the USA. It has a worldwide presence, actively supporting NGOs in developing countries in the following programme areas:

- Conservation and sustainable development
- Human rights and international justice
- International peace and security
- Global migration and human mobility
- Population and reproductive health

There are open calls for proposals throughout the year, but it is necessary to go through the grant making guidelines. It is necessary to first submit a letter of inquiry, giving a brief about the organization and the proposed business enterprise.

Contact:

The John D. and Catherine T. MacArthur Foundation
Office of Grants Management
140 S Dearborn Street
Chicago, IL. 60603-5285
USA
E-mail: 4answers@macfound.org
Website: <http://www.macfound.org>

(d) Kellogg Foundation Supporting NGOs

The Kellogg Foundation supports NGOs in Southern Africa and Latin America and the Caribbean LAC with themes mostly around poverty and children. In its LAC priorities under its Secure Families umbrella, it focuses on:

- Self-employment
- Creation and strengthening of micro and small companies
- Creation and strengthening of productive chains
- Access and savings and other financial services
- Risk management

The Foundation may fund up to one-third of the funding required by a business enterprise.

Contact:

W. K. Kellogg Foundation

One Michigan Ave. East

Battle Creek

MI 49017-4012

USA

Tel: 269-968-1611

Fax: 269-968-0413

Website: <http://www.wkkf.org/grants/for-grantseekers.aspx>

5.12 Commercial Banks

Commercial banks are the largest source of credit in the Region, though access to credit, particularly medium to long-term credit, by SMEs from this source tends to be fairly restricted. Many factors contribute to this reluctance of commercial banks to make loans to SMEs, but they are usually concerned with the perception of high risks. Usually, SMEs have very little collateral, limited credit history and high transaction costs, etc. Despite these limitations, it is possible for commercial banks to work more collaboratively with many of the sources of funding discussed in this manual. In so doing they could bring more financial resources to the Region as well as reduce their risk exposure in lending to SMEs.

5.13 Credit Unions

Credit Unions are numerous in the Caribbean and are important in the provision of credit to individuals and small businesses. Their credit is, however, restricted to their members, and membership may be restricted to some common attribute, like place of work, or professional association.

In Summary

The search for potential investors and financial sources is a process that can sometimes turn out to be long and difficult. The entrepreneur should first of all identify the institutions that are amenable to providing financing, and then contact each one in order to present the business enterprise. At this stage a business plan and a sound financial plan are indispensable as these will be the basis of the discussions with the financial sources. Some potential funding sources will help the owners of enterprises that they have agreed to finance to structure their approach professionally.

The entrepreneur should first of all identify the institutions that are amenable to providing financing, and then contact each one in order to present the business enterprise.

6

When and How to Approach Sources of Funding and Technical Assistance

By the end of this section, you will know:

- When to approach sources for funding and technical assistance
- How to approach sources for funding and technical assistance

Timing is everything in considering when to approach non-traditional sources of funding.

6.1 When to Make an Approach for Funding and Technical Assistance

The timing of an inquiry and submission of a proposal seeking funding or technical assistance for a business enterprise can be very important in the determination of whether or not the request is accommodated.

Many foundations have specific periods when they accept requests for funding or technical assistance. Usually, they will announce on their websites the time during which they will accept proposals for funding. Requests for assistance should be made within the time period announced. Some foundations accept requests throughout the year.

Many funding and technical assistance agencies want to be involved from early in the life of a business enterprise, so that they can influence its preparation and appraisal. In this way they can have a high degree of assurance that the business enterprise will meet their criteria for allocating resources.

6.2 How to Make the Approach

Different agencies and foundations have varying priorities, guidelines and requirements for what they will support. Usually, they first require a Letter of Inquiry, which should provide some critical information on your business and the business enterprise for which assistance is being sought. The Letter should be brief and to the point.

The Letter of Inquiry is very important, since this first approach to the funding or technical assistance source will determine whether the organization will express an interest in receiving a proposal for consideration or a lack of interest in providing assistance.

It is therefore necessary for the management of the SME to do some research on the organization from which it is seeking assistance to ensure that the business enterprise for which assistance is being sought is in line with the organization's priorities, etc.

6.3 The Funding/Technical Assistance Proposal

Following the Letter of Inquiry and a response from the funding/technical assistance agency or foundation, a business enterprise proposal has to be submitted. Again, there are differences in the guidelines, requirements and application procedures of the various agencies, as well as in whether they wish to be involved in the startup phase of the business or only to appraise a business that has already been established. The general guidelines in Box 6.1 can be used for preparing a grant proposal, with the clear understanding that a specific proposal should be guided by the requirements of the particular funding/technical assistance agency and the business enterprise itself.

Many funding and technical assistance agencies want to be involved from early in the life of a business enterprise, so that they can influence its preparation and appraisal.

6.4 General Guidelines for a Grant Proposal

Box 6.1: General Guidelines for a Grant Proposal

Component	Details
Contact information	<ul style="list-style-type: none"> Responsible person's name, organization, address, e-mail, telephone
Overview	<ul style="list-style-type: none"> Summary of proposal, including a statement on the purpose of the business enterprise and why funds are being requested
Context	<ul style="list-style-type: none"> Description of critical issues affecting the business and why the business enterprise is necessary A statement indicating the scope of the problem, including statistics <p>Focus this section on what need/demand your intended business enterprise is addressing</p>
Business enterprise description	<ul style="list-style-type: none"> How business enterprise will be implemented, including measurable goals and objectives, activities, anticipated results, timeframe, collaborating organizations or agencies
Monitoring and evaluation	<ul style="list-style-type: none"> How business enterprise will be monitored or evaluated to ensure that it is on track and that the results are being achieved
Budget	<ul style="list-style-type: none"> Costs of business enterprise, amount requested, in-kind contributions, and other sources of funding. State currency and exchange rate on which your budget is based
Organization information	<ul style="list-style-type: none"> Background, governance structure and composition, mission, past accomplishments, staff qualifications, internal controls, legal status

Source: http://siteresources.worldbank.org/INTBELARUS/RESOURCES_Mobilization.pdf. Information in details has been modified in some places by the author.

7 | Pitfalls to Avoid When Seeking Funding and Technical Assistance

Mobilization of funding and technical assistance can be very daunting, and so every effort should be made to avoid common mistakes, some of which are quite simple, but could impact the outcome significantly. Among the pitfalls are:

- **Underestimating the time needed to raise funds:** It can be quite time consuming to raise funds for a business enterprise. The first approach to a donor may be unsuccessful, and even when an investor is interested, its request for additional information as part of due diligence assessment can take time. Several months should therefore be allocated to the raising of funds for the business enterprise.
- **Poorly presented proposal:** An investor or donor will form a very strong impression from the Letter of Inquiry and the proposal. Simple spelling mistakes and poor punctuation and grammar could convey a lack of attention to detail not only in communication, but also in the operation of the business.
- **Non-response to the resource partner for additional information:** Not responding to a request for additional information sends a negative signal to a prospective investor/partner, and could easily kill the prospect for a successful partnership.
- **Provision of too much background and non-essential details:** The person(s) responsible for appraising your proposal may have to review many in a day or a week, and therefore will have very little time to read a great deal of non-essential material. The proposal should therefore be brief and to the point;

- **Not doing homework on the prospective investor/partner:** It is very important to adequately research a prospective investor or partner prior to making an approach for funding or technical assistance. The investor, for example, should have priorities or interests which coincide with the business enterprise for which assistance is being sought. The country should be one in which the investor is willing to invest funds, etc. If this is not the case, a great deal of valuable time and effort could be wasted in preparing a proposal for submission to an investor with no chance for success.

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8

Summary and Conclusions

SMEs face several constraints and challenges usually all the way from their start-up stage through expansion and sustainability. Several factors contribute to these issues. Here are some:

- The difficulty to mobilize funding, due partly to the lack of or inadequacy of collateral; limited history of prudent financial management with bankers or other financial institutions; high cost of financial intermediation; poorly developed capital markets in the LDCs; and the general perception that SMEs are high risk endeavours.
- Lack of economies of scale in the production of goods and services
- General inability of small businesses to do bulk purchasing
- General inability among small businesses to recruit and keep highly qualified personnel to manage their operations in this highly competitive and globalized world

This manual has attempted to lay out an approach by which SMEs can mobilize funding and technical assistance, the absence of which can be a major constraint. This approach includes:

- SMEs developing the ability to prepare and communicate vital information on themselves and their operations, so that investors can be more comfortable about committing resources to them. This can be seen as a means of reducing the perception of being very risky.

- Using appropriate ways to convince funding agencies that it is safe to invest in SMEs although they generally have very little collateral to offer as a hedge against risk for loans. One means of achieving this is to ensure that business enterprise proposals are well prepared, and demonstrate the feasibility and viability of the business enterprise that would assure a very high probability of success. The manual therefore devoted several pages to developing the business case/plan with a view towards helping SMEs to prepare better business enterprise proposals.

There are many regional and international agencies, foundations, and other organizations that are committed to promoting the development of SMEs, through grants, loans, equity financing and other forms of financial support. However, many are not known to the SMEs and their intermediary funding and technical assistance support organizations. The manual has provided a fairly comprehensive list and information on these organizations to enable the SMEs to make easier contact when seeking to mobilize funding and technical assistance.

It is the hope that owners and or persons operating SMEs in the OECS countries, along with financial intermediaries, will find the manual useful in their efforts to mobilize resources for SME growth and development.

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ANNEX 1: SME – Case Study

OECS countries are known to have great diversity in SME activities. One company that has shown uniqueness is ***Dahlia's Baby (DB) Softness***. The company was established in 2007 as a single proprietorship and began structured production that same year. It manufactures three main products:

- **Baby Web Carrier** – designed for babies 0–6 months. The carrier replaces baby blankets and offer added security of shielding the baby's sensitive skin from persons carrying them. The carriers are available in multiple colours and designs.
- **Baby Comfortsoft Beds** – made of soft and comfortable materials. The product is urine-proof.
- **Musical Playmats** – a modified comforter which includes image designs on musical modules to provide a playful, educational and entertaining environment.

The growth of this company has been stymied by limited working capital, which leads to the absence of spares for equipment, inadequate operating space and a low level of raw materials inventory.

The company though small has the philosophy of continuous improvement and this helps it to rise above the challenges of an increasingly demanding market place. The products have met global standards and satisfactory quality attainment has been confirmed from feedback at trade shows. (Among these are several local exhibitions including the Taiwanese 2008 Trade Exhibition, and the National Independence Buy Local, the Saint Lucia Jazz Festival and the Caribbean Export Marketing Council Exhibitions in 2009.) The strong growth prospects measured by high local demand, as well as opportunities for exports to other OECS countries, have indicated that ***Dahlia's Baby Softness*** can compete not only in terms of product quality, but also in speed to market. In the local market, products can be delivered within six hours to any customer in the country.

The manufacturing process for most of the items takes approximately three days. This means that DB Softness distribution can be serviced faster than the competition. Competition is very weak and is only through extra-regional imports. Currently, ***Dahlia's Baby Softness*** has a number of unfilled orders which it is unable to deliver due to the inability to purchase a vital part for the computerized printing machine.

The company, undercapitalized from the onset, was started with a low level of financing provided by personal savings, family contribution and a bank loan. The inability to secure funding has been the single most limiting factor on performance. Since 2009 ***Dahlia's Baby Softness*** has had a well-researched Business Plan with clear-cut goals, proposed marketing activities and a management plan. But the company has not managed to secure the funding necessary to move the company forward. With adequate financing the company can increase revenues significantly to an estimated EC\$1.20 million and employment to eight persons within nine months.

Given the level of unfilled orders ***Dahlia's Baby Softness*** has the capacity to expand its output and employment rapidly without sacrificing quality.

Glossary of Terms

Annual costs include the salaries and wages of staff, maintenance costs, operational costs, depreciation costs, taxes, duties, etc.

Business Enterprise – A business enterprise or firm is an organization engaged in the trade of goods, services or both to consumers or in general any endeavour where the primary motive is profit and not mere employment for oneself or others.

Capital costs would be the developmental cost for the establishment of the business enterprise. This would include construction costs and equipment costs.

Financial intermediation is an activity in which an institution (often a bank) assists in making it possible for an enterprise (a borrower) seeking financing to access funds that are available (from a lender). Such an institution would be known as a “financial intermediary”.

Long-term loan – Borrowed funds that will be reimbursed by installments at regular intervals. Each repayment installment will be made up of repayment of the borrowed capital and interest on the amount that is still to be repaid.

Leasing is a formula in which the moneylender buys the capital equipment/facility (machine, vehicle, industrial premises, and warehouse) by itself and then puts it at the disposal of the borrower during a period agreed upon beforehand against the payment of a rent. At the end of the agreed period the borrower may possibly buy the equipment at a price also agreed upon in the contract. The rent will be calculated on the difference between the purchase price of the equipment and its residual value at the end of the contract.

Mezzanine Financing is a hybrid of debt and equity financing that is typically used to finance the expansion of existing companies. Mezzanine finance is basically debt

capital that gives the lender the right to convert to ownership or equity interest in the company if the loan is not paid back in time and in full. It is generally subordinated to debt provided by senior lenders such as banks and venture capital companies.

Non-Traditional financial institutions lines have become somewhat blurred with traditional institutions as regulations change, but they are basically non-deposit financial institutions, such as, microfinance institutions including NGOs, development finance institutions, leasing factoring firms, insurance and pension markets, and securities markets.

Operational costs are the recurring expenses which are related to the operation of a business or the day-to-day expenses incurred in running a business.

Quasi-capital is a form of hybrid financing that is located between a long-term loan and participation in the capital or it may be considered as a combination of loan and equity. Quasi-capital instruments make it possible to find flexible solutions which meet the special requirements of each project. These products include convertible loan instruments, unsecured loans, preference shares and subordinated loans.

Recurrent costs are regular costs incurred repeatedly, or costs that are repetitive and occur when an organization produces similar goods and services on a continuing basis.

Syndicated loans are loans offered by a group of lenders (called a syndicate) who work together to provide funds for a single borrower. The borrower could be a corporation, a large project, or sovereignty (such as a government). The loan may involve fixed amounts, a credit line, or a combination of the two. Traditional financial institutions are basically deposit financing institutions, such as banks, credit unions, finance companies, and a few other less common types.

Venture capital is money provided by investors to start-up firms and small businesses with perceived long-term growth potential. This is a very important source of funding for startups that do not have access to capital markets. It typically entails high risk for the investor, but it has the potential for above-average returns.

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