The state of business finance

PART 2: CASE STUDIES

This report was produced in association with Longitude Research

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 170,000 members and 436,000 students in 180 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of 91 offices and centres and more than 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

This is the second of a series of three reports on the state of business finance worldwide.

It is a compendium of case studies featuring the experiences of ACCA members in industry and practice who were involved in raising finance for their businesses and clients between early 2013 and early 2014.

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The state of business finance

ACCA's review of the state of business finance is an ambitious global investigation into the challenges faced by businesses when trying to raise finance and the ways in which finance professionals in industry, practice and financial services help them along the way.

The outcomes of this review have been presented in three reports.

- *The State of Business Finance, Part One: Facts and Figures*, presents an analysis of two sets of quantitative data taken from the ACCA–IMA Global Economic Conditions Survey.
- *The State of Business Finance, Part Two: Case Studies*, brings together twelve in-depth studies of business financing seen through the eyes of ACCA members around the world.
- *The State of Business Finance, Part Three: Reflections on the Evidence*, summarises ACCA's findings and issues a call to action for governments, the financial services industry and, most of all, finance professionals around the world.

The three reports are available from the ACCA website together with ACCA's other works on access to finance.

www.accaglobal.com/businessfinance

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Introduction

This report brings together twelve in-depth case studies of business financing seen through the eyes of ACCA members around the world. The members featured here were recruited through the Q1 2014 edition of the Access to Finance module of the ACCA–IMA Global Economic Conditions Survey (GECS).

The Access to Finance module invites those participants with recent experience of raising finance for their own organisations or clients to discuss their involvement and share their impressions. All respondents who had been personally involved in efforts to raise finance for businesses (either their own or their clients') in the 12 months prior to taking the survey were then invited to provide further details.

Members still qualified if these efforts had been unsuccessful, and all respondents were invited to comment with all of their recent financing activity in mind – therefore, where individuals have been involved in raising funds for multiple businesses, or multiple rounds of financing for the same business, their responses should reflect their total experience, as opposed to one specific instance.

As of Q1 2014, the GECS Access to Finance module had achieved 359 responses from ACCA members across sectors and regions. Just over a quarter of these (94) volunteered to feature in case studies about raising finance. ACCA, in association with Longitude Research, followed up with a selection of these volunteers during the summer of 2014, and prepared 12 first-hand accounts of fund-raising, all of which are included in this volume.

Each case study was based on an in-depth interview with an ACCA member, focusing on:

- the business objectives driving the need for financing
- the financing options considered and products on offer
- the people involved on each side of the financing arrangement
- internal adjustments or other efforts made to satisfy the finance provider's requirements
- difficulties encountered in the pursuit of finance and other atypical elements
- the participant's personal contribution to the process and key learning points
- what all parties involved in the financing effort could do better in future.

Cases 1 through 8 were prepared for ACCA by Longitude Research, while cases 9 through 12 were prepared by ACCA staff following the same methodology.

All interviews, logos and photographs are published with permission. In some instances, respondents have spoken on condition of anonymity due to the sensitive nature of the information provided.

1. Bridging the challenges of access to finance in Bangladesh

JAKIR HOSSAIN ACCA, CHIEF FINANCIAL OFFICER, AMERICAN & EFIRD (A&E) BANGLADESH

Innovate. Create. Deliver.

Gaining access to finance in straitened financial times is always a challenge, but in environments where bank scams, a limited range of lending options, high interest rates and regulatory challenges are all regular issues, the difficulty is far greater. This is true of many emerging markets today, and is pertinent even to larger multinationals with global operations that they can tap into for support.

Take American & Efird (A&E) Bangladesh, a wholly-owned subsidiary of US-headquartered A&E, one of the world's largest thread manufacturers, as an example. The business currently manufactures in 20 countries, distributes to over 40, and sells its products in almost 100 countries. But within Bangladesh, it finds access to finance difficult, due to the local factors it must grapple with. To deal with this financing challenge, the company has instead been focusing on improving its approach to identifying future procurement needs, monitoring its working capital, and facilitating internal communication.

BANKING ON CHALLENGES

Foremost among the external drivers of tighter access to finance is a litany of scams and financial irregularities at Bangladeshi banks. One bank was caught up in a BDT36 billion (about £281.5m)[1] forgery scam in 2012, while another was reprimanded for distributing loans of more than BDT50 billion (about £391m) without following due process.[2]

At the same time, the country's finance ministry has registered a substantial rise in bribery, corruption and forgery.

Jakir Hossain, chief financial officer at A&E in Bangladesh says that these incidents have seen banks tighten up lending processes. 'A few government banks and some private banks are in difficulty because of these financial irregularities. Banks are now being really cautious about who they lend money to.' One practical issue is that local banks now uniformly insist on borrowers pledging some kind of security against any loans provided, but A&E's US headquarters, explains Hossain, is 'not really comfortable providing this.' While the firm's status as an established and trusted multi-national corporation means that it is still able to access finance, the group's corporate policy makes it difficult for Hossain to negotiate the best possible terms.

High interest rates are another barrier. Lending rates have historically been high, at nearly 15%, and continue to hover around the 12–14% mark. 'Other business subsidiaries are able to access very low interest rates, whereas the cost of finance in Bangladesh is very high,' says Hossain. Not only do high interest rates deter many companies from applying for finance, but banks themselves are now highly risk-averse. As of May 2014, banks in the country were sitting on some BDT1,022 billion (about £8 billion), well up from BDT 840 billion (about £6.6 billion) in January.[3]

1. All currencies have been converted to sterling at the current interbank (Oanda.com) rates of 16 September 2014.

2. S. Khan, 'Coordinated efforts to prevent money laundering', *The Financial Express*, 10 August 2014.

3. C.S. Akbar, 'What to do with excess liquidity in banks?', *The Financial Express*, 13 August 2014.

By tightening liquidity and lending criteria, banks have made things particularly tricky for small and medium-sized enterprises (SMEs); they have distributed just over one third of their lending targets to firms of this size, despite the predominance of such businesses in the national economy.[4]

SMOOTHING OVER THE CRACKS

One option for a company like A&E would be to simply borrow funds from its US parent company directly, but it faces regulatory restrictions in its ability to do so. 'There are some criteria which are incredibly difficult to meet,' says Hossain. For example, companies are not allowed to take loans from overseas parent companies for use as cash flow, or even to purchase land, but largely only to import capital machinery. Even that requires approval from the Board of Investment. 'If these demands weren't in place, or were relaxed, obtaining finance would be much easier,' says Hossain.

Collectively, these difficulties in tapping finance have a fundamental impact on the day-to-day running of the business. With regular gaps of up to 150 days between delivering goods and any payment being received, Hossain has to closely manage working capital for periods of four to five months. This forces him to consider a range of backup options to smooth over any cash flow difficulties. For example, on occasion, the company relies on bill discounting, where a bill of exchange is sold prior to its maturity at a discounted rate, in order to speed up its access to capital.

Furthermore, the finance function works increasingly closely with other business units, to keep up-to-date on their procurement plans. These plans feed into the documentation submitted annually to local banks when A&E is seeking a credit agreement – a regulatory requirement imposed by the Central Bank. Although time consuming, this process speeds up the lending process further down the line. When all the necessary information is available, a loan application will typically take one or two days, and a bill discounting transaction about one week.

But it is when the business needs to exceed an agreed limit that complications arise. First, Hossain must internally justify the additional need for credit. Second, he will need to renegotiate terms with the bank and wait for them to receive head office approval. This can take up to a month, with the length of any delay rising in line with requested increase in funds. In an attempt to minimise these occurrences, a weekly committee now reviews all planned capital expenditure and operational plans. This planning will increasingly extend out across the company's supply chain and operations.

Despite all these challenges, Hossain predicts that access to finance will ease slightly over the year ahead. 'Banks are sitting on a lot of money so they will probably lower the interest rate in the year ahead. And, despite some political and economic issues, the ready-made garments sector is expected to grow around 8–10% in the coming years. So we are optimistic about the future, despite the difficulties.'

4. S. Islam, 'Small businesses pay price in Bangladesh's biggest loan scam', *Reuters*, 2 October 2012.

2. Commodity firms invited to share in Dubai's booming prospects

JIGNESH SANGHVI FCCA, DIRECTOR OF FINANCE, DMCC

The Dubai Multi Commodities Centre (DMCC) is growing at an unprecedented pace; not only is it the UAE largest and fastest growing Free Zone with over 9,500 member companies, it recently also announced that it is due to break ground on a new development in 2015 – the 'Burj 2020 District' – which will be the new global business destination and home to the world's tallest commercial tower, the 'Burj 2020.' Created in 2002, the DMCC Free Zone, based at Jumeirah Lakes Towers, is a government of Dubai authority with a mandate to enhance the flow of commodities trade through Dubai and to create a thriving marketplace for trade and enterprise. DMCC, through its regulation, infrastructure, products and services, enables industry participants to trade with confidence. It has for example enabled the flow of gold, diamonds, tea, pearls and precious metals to increase at an unrivalled pace.

The Free Zone is overseen by the DMCC, which licenses, registers and facilitates trade. As well as encouraging trade and supporting access to finance, Free Zone members receive benefits such as 0% personal and corporate tax, and a one-stop shop facility for processing documentation such as for immigration and licensing needs. The zone is now the largest in the UAE with approximately 200 members joining each month. The Free Zone is also on track to register 10,000 members by 2015.

FOCUS ON GROWTH

Continuing its efforts to support Islamic finance in the commodities space, DMCC Tradeflow, the online exchange for physical commodities in the UAE, handled over 900 Commodity Murabaha transactions within the first six months of 2014. What most are unaware of is that DMCC's 360-metre Almas Tower, the tallest commercial tower in the Middle East, was funded through a US$200m (£123m) Sukuk raised in 2005. This is essentially a type of Islamic bond but with a fixed repayment, in this instance repayable through physical gold, rather than having a rate of interest applied.

Being able to offer trade finance solutions via its DMCC Tradeflow platform is one of many ways the DMCC look to offer solutions for market participants and members to foster further growth. 'While the general business outlook in the region is bright, it can be tricky as with any market at times particularly for a Sharia compliant start-up to expand or develop,' says Jignesh Sanghvi, head of the finance function in the corporate office at DMCC. 'We regularly speak to our members to understand what the bottlenecks are, and often hear that access to finance is very tight for start-ups or SMEs.'

This is due to two converging factors: the need for banks and financiers to put their growing liquidity levels to good use; and the desire of smaller organizations to scale up and service the growth expected in the country in the years ahead.

Sanghvi cites the example of a dentist wanting to set up a clinic and needing AED1m (£168,000) to buy equipment and stock, in order to get up and running. In his view, few local banks are comfortable in financing new businesses, forcing these smaller businesses to turn to private financiers at a significantly higher cost.

DMCC Tradeflow caters to this growing demand. It is one of many DMCC financing platforms – which also include asset management, commodity and currency derivatives exchanges.

Effectively the platform functions as an electronic receipt for assets that are stored in warehouses overseen and monitored by DMCC. In turn, these receipts can be used to secure trade finance. Traders can effectively mortgage their goods, with all parties adhering to a specific set of rules that helps to quicken the process, reduce legal costs and open up access to finance.

While conventional inter-bank money markets are incompatible with Islamic finance principles, DMCC Tradeflow also offers a Sharia-compliant financing route approved by Islamic scholars. The key compliance factor is that trading is tied to physical assets. 'Before calling Tradeflow Sharia-compliant, we needed to independently verify the way we operate and manage the system. In addition to that have a dedicated warehouse inspection programme and team who regularly check whether there are Sharia-compliant assets in the warehouses or not, with random spot checks carried out intermittently.'

TRADEFLOW IN PRACTICE

The first step for companies using Tradeflow is to register ownership of a commodity with a document of title. This comes in the form of a warrant, issued by the warehouse keeper, which is listed on a central registry. Commodities can then be transferred between owners via a secure web-based interface, without being physically moved. Another additional benefit is that the system automatically generates contracts, recognised under UAE law, helping to minimise legal costs and automating elements of the process that could otherwise lengthen the process.

One recent example of Tradeflow in practice can be found in the recent commodity pledge between Safir Neinava, a UAE-based agricultural trader, and Eurofin, an asset manager. Eurofin is providing £1.5m in financing in return for the transfer of ownership of milk powder stored at Integrated National Logistics (INL) in Dubai – a DMCC-approved warehouse.

As this example shows, firms with goods that would otherwise be sitting unproductively in a warehouse – accruing costs in storage and insurance – are therefore able to turn them into assets. Meanwhile, financing companies are able to utilize their liquidity reserves with reduced risk. 'While the region is optimistic about growth, financiers are still often reluctant to provide finance against warehouse-stored assets due to the perceived risks, such as theft or damage,' explains Sanghvi. To cater for this, DMCC has implemented a formal warehouse inspection and ratings program as a means of accurately assessing and treating the risks associated with the storage provider.'

FUTURE OUTLOOK

In January 2014, UAE's minister of economy, His Excellency Sultan Bin Saeed Al Mansoori, presented Ahmed Bin Sulayem, executive chairman of DMCC, with the Outstanding Contribution to Islamic Finance Award at the annual MENA Fund Manager Fund Service ceremony. Bin Sulayem in turn dedicated the award to His Highness Sheikh Mohammed Bin Rashid Al Maktoum, vice president, prime minister of the UAE and ruler of Dubai.

DMCC Tradeflow has certainly paved the way for trade finance in the region. The number of transactions continues to grow and so does the demand for products and services that support Sharia-compliant business requirements such as DMCC Tradeflow's Commodity murâbaḥah.

The DMCC Tradeflow system is increasingly being used for Sharia-compliant inter-bank lending that is written against an asset. 'A huge amount of business is coming from the inter-bank lending platform, says Sanghvi. 'It is growing exponentially. We have billions of dollars' worth of assets listed on our platform, and these are a tool to encourage inter-bank lending.'

Discussions have also taken place about DMCC widening the scheme to allow finance to be issued against commodities that have yet to be stored in warehouses.[5] This could, for example, be used by commodities companies, such as mining firms, who will be able to apply for finance against assets that are still in the ground.

At the same time, DMCC continues to grow. 'The floodgates have not quite yet fully opened. But banks are sitting on a huge amount of liquidity, and are starting to open up finance to the construction and real estate sector,' says Sanghvi. And with the 2020 World Expo looming, the DMCC looks set to continue its expansion as local businesses seek to grow.

5. L. Kolver, 'Banks keener to provide capital as multicommodities centre reduces commodities trade finance risk', *Mining Weekly*, October 2012.

3. Engineers of industrial investment

ALLEN DOWIE, CHIEF FINANCIAL OFFICER, CLYDE BLOWERS CAPITAL

Clyde Blowers Capital (CBC) is no ordinary private equity house. Its heritage lies not in finance but in heavy engineering, being at the centre of the £1bn Glasgow-based industrial group Clyde Blowers. Originally formed in 1924 as a supplier of equipment to the UK shipbuilding and railway industries, the company has undergone a transformation since coming under new ownership in the mid-1990s. It is now a portfolio of seven power and environmental engineering businesses owned by CBC in partnership with other equity investors. Each of its firms is a niche supplier to the power, mining and transport industries, their respective products ranging from wind turbine gear systems and industrial motors to hydraulics and logistics services.

CBC's equity funding activity began in earnest in 2008, when it became clear that small and midsized enterprises (SMEs) in the engineering sector would face tough years ahead in attempting to raise finance, especially from banks. In that year it completed funding of £250m, and in 2012 it closed another fund with £420m worth of equity finance committed by several investors.

Part of CBC's role, according to Allan Dowie, the firm's chief financial officer, is to help its portfolio companies raise capital and manage their financing structure. What also makes CBC different is the direct role it takes in the running of the individual businesses. 'We're not a hands-off private equity house,' says Dowie. 'We work very closely with all of our businesses, not just sitting on the boards, but working alongside them.'

What allows it to do this, said Jim McColl, the company's founder and chairman, in a 2012 interview, is its years of operational experience across the engineering sector of the power industry.[6]

CFO OF CFOS

If CBC's mission is to ensure its companies are properly funded, Allan Dowie is the mission's executor. With the firms having very little gearing (and recent acquisitions funded entirely from equity), he is presently occupied with putting appropriate debt structures and debt packages in place to finance their growth.

He describes his role as 'hands-on' when it comes to any financing issues the firms are dealing with, working closely with their CFO and finance teams. This is reflective of CBC's broader approach to managing its portfolio companies. 'We work very closely with all of the management teams,' says Dowie. 'I have a strong relationship with each CFO and CEO and some of the directors within the portfolio business,' and the same is true of CBC's senior legal, investment and operations partners. 'We talk to each of our businesses on a day-to-day basis,' he says.

Dowie's role becomes particularly hands-on when the portfolio companies need to raise capital. In many cases, Dowie and his team will manage the entire process of arranging financing, representing the business with the lender. 'We have a good understanding of the banks and alternative finance

6. A. Bolger, 'Clyde Blowers Engineers New Funding Model,' *FT.com*, 18 March 2012.

players in the market,' he explains, 'so after identifying the need within the business, we would identify the appropriate solution and then sometimes go directly to market ourselves using our network of banks and other providers. We would present them with a story of the business and our objectives for it. We would then work with both the providers and the business to put the facility in place.'

Alternatively, Dowie's team may play no more than a facilitating role, bringing the business and lender together. In still other instances Dowie and team will take a back seat, overseeing role, although even here it may make representations to lenders on the portfolio firm's behalf.

CHOOSING THE RIGHT OPTION

The financing options CBC considers generally include standard bank debt, asset-based lending, invoice factoring, as well as clone investment. It also has its own central facility that provides short-term working capital to the businesses as needed. Which options it chooses, Dowie relates, depends on the specific circumstances of the individual business. 'If we've recently bought the business, we'll want to put in facilities that will see it grow over the long term. If we're closer to exit, then we'll put in a shorter term facility.' The nature of the firm's product and market also help dictate the type of facility, he says: 'Ventures such as the wind gears manufacturer are more of a long-term business in terms of its contracts, so when we fund its working capital an asset-based structure would be more appropriate than, say, invoice factoring.'

Asset-based lending and invoice factoring have come in for more frequent use by CBC in recent years. (In this way, it has been practicing what the British government and business groups such as the CBI have been preaching.)[7] Dowie ascribes this to the still shaky state of bank lending where SMEs are concerned. The banks are often unable to provide standard lending facilities in the timescales required. 'Decisions can be difficult,' he explains. 'I can quote examples of projects that have taken up to nine or 12 months to get over the line.'

STEADY AS SHE GOES

This is not to say that the financing climate in the UK and Europe is not improving. Dowie cautions, however, that any improvement is more to the benefit of large firms than the types of smaller ones in CBC's portfolio. 'Access to finance has improved in general,' he says, 'but the positives you hear about in the press are probably aimed more at the corporate market. SME financing is improving slowly, but it is still difficult.'

Dowie is encouraged that many banks have cleaned up their balance sheets and are open again for lending to SMEs, even if they are still being selective. He warns, however, that banks are not out of the woods yet. 'Some banks still have issues in their balance sheets that are still not publicly known. As a result, there isn't as much liquidity in the system as may be thought.'

Notwithstanding an improved lending climate, CBC intends to continue developing its unique and highly targeted financing approach.

What would make this job easier, in Dowie's estimation, is greater transparency and predictability on the part of financing partners. 'Transparency is key for us,' says Dowie. When working with a lending partner, last-minute surprises are unwelcome. 'We don't want to spend four months working on financing and get to the credit part and have the credit suddenly pulled [for reasons] we had no idea about.'

7. B. Groom, 'UK Small Businesses Urged to Broaden Financing Options,' *FT.com*, 20 May, 2013.

4. Coping with tight financing in Greece

FINANCIAL CONTROLLER, GAMING COMPANY, GREECE

The financial and economic crisis in Greece over the past few years has made obtaining financing a major struggle for the country's small and medium-sized enterprises (SMEs). Bank lending has plummeted as local banks have confronted spiralling bad loans and European lenders have sought to deleverage from the crisis countries. An OECD report on the state of Europe's banking system in January 2014 showed that Greece, along with Cyprus, Ireland and the Baltic States, has been especially hard-hit by a strong decline in bank lending since 2008.8

Many SMEs in Greece are just struggling to survive. But there are some companies, in dynamic sectors with rising global demand, which are still looking to grow. A medium-sized Greek gaming company that creates and manages virtual gaming content – a booming sector globally – had the opportunity to expand, with new contracts in Asia and Latin America. The biggest project was to provide complete virtual gaming content for a number of lottery channels, along with the associated support. However, raising the capital it needed proved a serious headache.

NOT STRAIGHTFORWARD

'We needed to raise about €5m [£4m],' says the company's financial controller, an ACCA member who asked that he and the company remain anonymous. They decided to split this between several sources: €1m from a capital issue (£0.8m), €2m (£1.6m) from letters of credit and €2m from leasing agreements.

They were reluctant to seek any more than €1m from the capital issue, because giving a strategic investor a larger stake in the company could have constrained their plans to go public, which they hoped to do within two years. Raising money through this route took about three months, and involved a combination of private-equity funding and an individual investor.

The company was advised that banks would be reluctant to provide straightforward loans, so decided to opt for leasing agreements and letters of credit for the rest of the funds. 'It creates less exposure for [the bank] and they also have fewer issues with the supervisory authority about their tier-one capital,' says the financial controller. Banks in Greece have been focused on trying to meet the recapitalisation targets resulting from two rounds of stress tests—one carried out in mid-2013 and another for the four largest lenders at the end of 2013.

The company started with the affiliate of a European bank. They had hoped that their profile would be appealing. 'We thought because of our position in the market, the industry that we are operating in, that we are a global player – 90% of our revenue comes from our global operations – it would be easier to get the money from a big European bank than a local bank,' says the financial controller. But risk aversion among European banks remained high – especially where lending to companies based in Greece is concerned.

8. D. Schoenmaker and T. Peek, 'The State of the Banking Sector in Europe', OECD economics department working paper No 1102, 2014.

Discussions at a local branch level initially appeared promising. 'But when the approvals went to the headquarters in Europe, then there was a problem. They wanted more assurance, more documentation, etc. They were stalling actually, in order not to provide the funding,' says the financial controller.

He continues, 'we don't know why exactly, because we never got a clear answer. They never said, 'No, we have an issue, we are not going to fund you,' all the time it was, 'we are okay, we have everything we need, we are processing your request.' Then always something like, 'we have to have this documentation, we have to go to this committee, your limit has to be approved also by another committee.'

The stalling was posing serious risks to the project. 'We were running out of time…we had to start the implementation,' says the financial controller. Delay would mean falling behind the competition in a new and rapidly developing market, and the failure to deliver the project on time would also seriously hurt their reputation in the industry.

After four months, with time pressing, they went to local Greek banks instead. By this time, the local banks had been recapitalised and so were in a better position to provide funding. Even so, the company had to divide the sum they needed between three banks, and could only obtain 80% of what they initially wanted. All in all, getting bank financing took eight months.

RESTRICTIVE CONDITIONS

In the end things worked out well for the company. They completed the project on schedule and as a result are close to securing more work in China and Africa. Even so, 'it was without question challenging, because until now we have never faced in our experience such difficulty raising capital,' reflects the financial controller. The delays created by the bank they first approached meant that the company was for a time walking a fine line between success and failure.

'Their approach has become, not only from this bank but from the majority of the banks, very, very conservative. They are causing serious issues with funding even for very healthy and promising organisations,' argues the financial controller. This applies not just to local banks, but also to major European banks present in Greece. From a situation of extreme risk-taking before the crisis, banks have swung to extreme risk-aversion – at least where the crisis countries of southern Europe are concerned.

The problem is not just with new financing but also with maintaining existing credit lines. The financial controller recounts, 'I have heard several times about banks cutting credit lines overnight just because they wanted to limit exposure.' Credit lines might be cut to less than what a company was actually using, with the bank demanding repayment of the difference in a short time. This can cause chaos for companies' operations. Tight availability of financing has also led to problems in supply chains, as suppliers have been insisting on cash advances rather than being willing to accept deferred payment.

With funding from banks extremely restricted, companies in Greece have been forced to cut back on new projects. Where they do go ahead with ventures, they are generally either self-funding them, or approaching private investors, including hedge-funds and joint-venture partners. Such investors have seen depressed valuations in Greece as a buying opportunity, so there is some money available. Indeed, the gaming company's experience suggests that private financing may be more easily available for many SMEs in southern Europe than bank funding. Some companies, notably the large shipping firms in Greece, have built up sizeable cash reserves that they are willing to invest in start-ups, essentially acting as venture capital organisations.

The financial controller notes that the situation with the banks is also starting to improve. Local banks have been recapitalised, and as the economy appears to be over the worst the big European players are slowly beginning to unblock lending to Greek firms – at least in cases where they see sectors as especially promising. In turn, this makes it hard to generalise from the company's experience; financing the same project all over again would likely be easier now, or would at least not require splitting any loans into several slices. Moreover, the company is exceptional in many ways; for most SMEs in Greece, obtaining finance is still extremely difficult, and likely to remain so for some time.

5. Supporting rising demand for Sharia-compliant working capital finance

WAQQAS AHSAN ACCA, RELATIONSHIP MANAGER, CORPORATE BANKING, SHARJAH ISLAMIC BANK

Fluctuating oil prices, rising inflation and financial instability all hit the United Arab Emirates (UAE) in the wake of the global financial crisis. But the region is rebounding rapidly, not least with Dubai set to host the World Expo 2020. In turn, bank lending is on the rise: according to the UAE's Central Bank, additional liquidity and improving economic activity saw lending accelerate to US$320.8 billion (£197.5 billion) in just the first nine months of 2013, up from US$185 billion (£113.9 billion) in 2007.[9]

In addition to being a growing source of finance and capital, the UAE is also a rising power in Islamic finance, recently ranked as the third most developed centre for Sharia-compliant funding.[10] In practice, this behoves financial services firms to ensure that their financing products meet Islamic legal requirements – for example, interest cannot be charged, and gambling or other unethical activities cannot be funded.

Sharjah Islamic bank, headquartered in the UAE's Sharjah Emirate, is one bank responding to this challenge. It converted to Islamic banking in 2002, and is now working to bolster its supply of related financial products – such as project finance and syndication – with specific focus on a working capital offering called murâbahah.

MURÂBAHAH IN PRACTICE

The bank's murâbahah offering provides working capital for big and mid-size firms. Used in approximately 80–90% of Islamic finance transactions,[11] it functions as a contract of sale used to finance the acquisition of an asset. The bank purchases the asset in its own name and sells it to the customer for a fixed mark-up that is agreed at the outset, on a deferred payment basis. To ensure compliance, though, the actual title and possession of the asset in question must pass from the supplier to the bank before being subsequently transferred to the customer. This short-term debt can either be repaid in instalments or as a single payment at an agreed point. Nothing is hidden and all of the terms and conditions are clearly laid out in advance.

'Effectively we are acting as a trader,' explains Waqqas Ahsan, a customer relationship manager for corporate banking at Sharjah Islamic Bank. This is not all though: 'If the customer cannot repay the debt, we aren't allowed to charge them any extra, as commercial banks would. In Islamic banking this concept doesn't exist. Any additional charges for the next 30 days have to go to charity, as we're not allowed to retain any additional profit,' he says. In addition, the client is not legally bound to purchase the asset from the bank, even after initially requesting it.

9. Bad Idriss, *UAE Economic Report*, Bank Audi, January 2014.

10. Adil et al., *Mapping Global Islamic Finance Development*, ICD Thomson Reuters, 2013.

11. Institute of Islamic Banking and Insurance 'Murabaha on Sharia'ah Ruling', <http://www.islamic-banking.com/murabaha_sruling.aspx>, 1999.

Related to this are some practical implications. For example, a retailer may wish to buy several thousand units of a specific stock keeping unit (SKU) from a supplier, perhaps a food product with a shelf life of a month. To support this, the bank has to purchase the SKU from the supplier in question, say at a cost of US$10,000, before then reselling it to the retailer for a fixed price of, such as US$12,000. Crucially, though, the bank itself is now responsible for not only ensuring the goods being purchased are what is contractually stated, but also has to ensure they arrive safely to the retailer. If they are damaged en-route, or expire, the bank is on the hook.

Despite these issues, murâbahah is seen as a major product line for Sharjah Islamic Bank, as it seeks to deploy its rapidly growing liquidity reserves. It recently raised some US$500m (£307.8m) through a bond issue, with approval in place for another US$1 billion (£615.6m. As such, the bank's credit division is actively seeking to expand its customer base, especially among mid-size and large corporates, such as manufacturers or distributors.

FUNDING CRITERIA

So what does the bank look for in new customers? Among its criteria, it requires financial records from the past three years and clear evidence that the business is profitable. It also conducts checks on the business through other third parties, including a review of the key families or individuals involved in the business; a family's collective wealth and credit worthiness is hugely important given that family businesses are an integral part of the UAE's business landscape. As part of this, the bank also carries out reputational checks, searches for defaults, and so on, feeding both financial and 'softer' information into the credit scoring process. All this helps define the risk, which is built into the bank's credit spread, and thus determines what relative rate will be charged on any given transaction.

It is particularly important, says Ahsan, that firms do as much as they can to provide clear and detailed financial data, which can be especially challenging for smaller organizations. 'We want to see data from their management information systems and other regular financials,' he says. 'If these are in place then it should make obtaining credit much quicker. We also want to hear about their overall vision, their future plans, and where the cash flow will be coming from over the next five years,' he says.

In practice, once application documents have been received, they are reviewed with an analyst, before being sent upstream for further approvals. This passes along the chain of command, through the credit department, and up to the bank's overall credit committee, where a final decision is made. This process is relatively time-consuming, not least due to the additional 'Know Your Customer Check' that the bank has to conduct to verify both the customer and the supplier that any goods will ultimately be sourced from. Overall, any given application typically takes four to six weeks to complete.

The bank is also reviewing its procedures in the search for efficiency, not least by seeking to digitize and speed up elements of its process. 'We are aware of our limitations, and we are working to improve our processes and make them more efficient,' says Ahsan. 'We are seeking to reduce the number of steps it takes to obtain approval. Anything over a certain dollar threshold would need to be approved by the bank's overall credit committee, but smaller amounts might be able to be approved by someone further down the chain. This saves time, makes us more efficient, and the process easier for everyone. Efficiency is definitely a growth area for us,' he adds.

6. Financing in a frontier market

MR V.B., FINANCE AND ADMINISTRATION MANAGER, ROOT AND BRANCH WASTE MANAGEMENT

This member's initials and company name have been changed to prevent identification.

Frontier markets in Africa are very much in vogue in investment circles. African economies have been among the fastest-growing in the world in recent years, driven by improved governance and communications, as well as by booming external demand for Africa's raw materials. Access to private financing has improved markedly, albeit from low levels.

However, progress varies considerably between countries. While some countries present established African success stories, and are relatively well-managed and stable, Zimbabwe has come close to economic collapse in recent years and remains in a fragile state. Since the July 2013 election, the economy has once again come under severe pressure. Capital is fleeing and the country faces a liquidity crunch.

This is a challenging environment for small businesses seeking financing. Root & Branch Waste Management is a small environmental company that specializes in the hire of skips, portable toilets and refuse removal. Although headquartered in a neighbouring south African country, it also operates in Zimbabwe. The company is growing and needs to raise finance for purchasing new equipment in order to serve its expanding customer base.

CREDIT CRUNCH

Mr V.B., recently appointed as finance and administration manager, says that the company has focused so far on trying to obtain bank loans – mainly because this is the form of financing that its management are most accustomed to working with. 'Normally, when we are buying capital equipment, the bank will actually buy that equipment on our behalf and we will have to repay the loan over a period, normally three years,' he says.

However, at present it is proving hard to obtain loans, in Zimbabwe in particular. 'It is really difficult at the moment because of the liquidity crunch that we experience,' says Mr B. 'In Zimbabwe now, we are talking of raising, for example, US$40,000 [£24,620] to support the business, but it's very difficult to raise even as little as that.'

The main problem, in his opinion, is heightened political risk, which is making banks unwilling to lend. There is also political interference with local lenders that distorts the allocation of funds. Mr B. says that as a result access to financing has, if anything, worsened over the past year. In the company's home country access to financing is better, and is gradually improving, but even there the company has struggled to raise sufficient funds to take full advantage of the opportunities for expansion.

This has forced the company to put some of its expansion plans on hold. 'We wanted to purchase JCB backhoe loaders [widely used in construction and excavation], because we wanted to diversify into that industry,' recounts Mr B. 'They cost to the tune of US$80,000. But we are unable to raise that much in Zimbabwe, and we ended up putting that project on hold until such a time as we are able to get the support we need.'

The process of seeking a bank loan is at least fairly swift, taking about 14 days in Zimbabwe. 'What they require obviously is just to have an assessment of our creditworthiness, and they ask for things like the management account, the financial statement, and you submit everything according to their checklist,' says Mr B. However, he suspects that the process is only so quick because the bank typically already knows the answer it is going to give. 'In the end they expect that they won't give you any money; I think that's why it is really quite quick.'

ALTERNATIVE APPROACHES

With bank lending hard to come by, the company is looking into alternative solutions. One is to bring in investors who would be able to take a stake in the company—or in a particular project. Mr B. thinks that may actually be a cheaper way of raising financing than taking out bank loans.

Ideally they would like to partner with foreign investors, but recent legislative changes and the deteriorating business climate make that difficult. 'The indigenization law is really scaring investors away, so we are holding off on that,' says Mr B. The indigenization law, enacted in 2008, stipulates that foreign businesses must hand over 51% of control to black Zimbabweans. A recent amendment requiring full local ownership for retail outlets has added fresh uncertainty.

The company has approached a couple of cash-rich local investors, but, against the background of a weak legal framework, trust is key – and that is proving a problem. Mr B. explains that 'we are not sure whether they are serious or not. We have this sense that they just want us to give them a business idea that they'll go and do themselves.'

Will financing conditions improve? Although Mr B. is optimistic about the outlook for the company's home country, he is concerned about the short-term prospects for Zimbabwe. 'Honestly, I think things will get worse because the economy is not even improving, and we are seeing companies closing down.'

The company hopes that financial institutions, particularly foreign banks, might eventually loosen their lending requirements and be more willing to finance promising business plans without being so strict about collateral requirements. Mr B. adds: 'We would like changes to the approach that they are taking, and their requirements. Every time you have a project, you need to have some kind of security. And we might have this intellectual property [in terms of the business idea], but it is not actually considered an asset. So it is really difficult for us to get finance, if you don't have any collateral security. Maybe they can relax on that, and actually be able to look at the project itself.'

7. Starting up The Well Water

ANNE KEOGH, FCCA, CHIEF FINANCIAL OFFICER, THE WELL WATER

Securing early stage funding for any business start-up is tough, no matter how strong the idea or the business plan. For The Well Water, an Irish company launching an alternative to traditional water coolers, it proved not only tortuous for the proprietors, but initially unsuccessful too – forcing them to regroup for a wholly new approach.

The Well Water was started two years ago by Kieran McKenna and Anne Keogh. McKenna, with over 20 years' experience in the water cooler industry, took the Managing Director role, while Keogh, who at the time of writing was president of ACCA Ireland, became the company's CFO. Their product was effectively water-in-a-box. Water is sealed at local sources in a hygienic pouch, which is then put into a recyclable cardboard box. The boxes form cartridges for a new type of water dispenser, designed to replace the 19 litre bottles in conventional dispensers.

The problem with those 19 litre bottles is that chemicals in the plastic can contaminate the water. They are also unhygienic; the tops of the bottles are not cleaned and the air that displaces the water can be contaminated with germs. The Well Water system solved these problems and added a key benefit: the boxes were much easier to transport than the bottles, which require vans with specially-equipped racks. 'Everything that was wrong about that 19 litre bottle was good about this new concept,' says Keogh. 'In five years' time that big dirty plastic bottle will be seen a lot less.'

So The Well Water had a compelling product. What's more, their business model would deliver higher margins than a traditional water dispenser business. With this in their favour, McKenna and Keogh started out confident of securing the funds they needed. Unfortunately, their timing could not have been worse. The Irish economy had collapsed. Banks were not lending and some of the local investors they knew had lost millions. Fundraising, particularly for a high-risk, fledgling start-up like theirs, was near impossible.

HOPE SPRINGS

So The Well Water decided on a different tack. First, with the recession in mind they paid back the friends and family who had taken them to this point, where they turned over just £50,000 per annum. They began road shows to demonstrate their products and pitch the company to all types of investors. Many were happy to supply half the required funds if another party was secured for the other half. But McKenna and Keogh could never find two investors that fit well enough with each other enough to enter such a deal.

Then they had a stroke of luck. They were introduced to PSource Capital, a venture capital business in the UK. PSource loved the idea. 'They got very excited,' explains Keogh. 'They said they could raise any amount of money we wished.' The two partners decided to ask for over £20m. They had originally been looking for £3m but the prospect of being able to secure more funds was appealing. They reasoned it would get them deeper into the market before competition emerged.

The Well Water went on a few road shows with PSource Capital and the concept was universally popular. However, the issue they kept coming back to was that the company was too early stage, and more of a concept than a business. In its current form PSource decided they could not invest £20m. It was a tremendous blow for McKenna and Keogh. The business had spent nine months chasing funds and had ended up with nothing. In hindsight, Keogh believes they should have asked for less. As she explains: 'Once you start on the £20m path you really can't double back, but maybe if we had gone in looking for £3m it would have been different.'

THE GOLDEN MILLION

At this point, The Well Water looked doomed to failure or mothball. But at that moment they were introduced to a well-known angel investor in Ireland. He offered them £100,000 for 10% of the business and promised to raise the additional £3m required to set the business in motion, tapping into his networking of investor contacts. He also demanded preferential protection for his shares to reduce his overall risk, plus a board seat and a further 7% of the business once the additional funds were raised. With no other options available, McKenna and Keogh accepted the terms.

After five months their new investor had raised £1m and The Well Water could finally pay for tooling in China to manufacture their products faster. For the remaining funds, the angel put McKenna and Keogh in touch with a firm called PFP. They helped to raise a second million, which was used to pay creditors and start buying stock. The third million was, as Keogh puts it, 'the golden million' – intended to put a sales team in place and ramp up turnover.

These funds were set to come from an Enterprise Investment Scheme (EIS), something McKenna and Keogh had not used before. But a series of delays and mistakes in the application process followed, and then PFP wanted the contract with the angel investor to be 'clarified', which led to more in-depth disputes over the precise role of the additional investors and what specific protections and stake they would hold.

Concerned over the direction of these negotiations, McKenna and Keogh decided to independently seek more funds back in Ireland. Again they were told they were too early stage. They also found they were not in fashion; investor houses in Ireland were focusing on distressed property and IT start-ups. The pair even wrote directly to high net worth individuals on the Sunday Times Rich List, but to no avail. The golden million would not come. Ultimately, after appealing for more investments from existing shareholders, and fighting further pressure from the angel investor and his associates, The Well Water opted for liquidation.

Rather than concede defeat, though, McKenna and Keogh are seeking to rebuild in a new guise, working more closely with some of the individual backers they've gotten to know and trust from the overall process, but back on their own terms.

DON'T BE AFRAID

Despite the agony of process she's been through, Keogh says she will likely be involved in another start-up in the future, only this time with valuable experience to take forward. One of the key lessons she cites is to start small. 'It doesn't matter how big a story you can tell,' she says. 'People who are going to invest need to see proof of concept . . . and proof of concept is half a million worth of sales. They don't worry about profit; they just want to see sales.'

Another key lesson was to do more due diligence on investors and to question the experts, rather than simply trusting their authority. The Well Water was in severe trouble when they accepted the offer from their angel investor, but they ended up in even more trouble because of it.

Like so many start-ups, success for The Well Water depended on a significant cash injection. With few staff, chasing that injection can mean the rest of the business stagnates. Says Keogh: 'Fundraising took away from absolutely everything else. We didn't have time to put sales plans in. We didn't have the money to take on staff. All we were doing was talking to investors and producing budgets in their format.'

Keogh believes they had too many fundraising options running concurrently, so her advice is to stick with one type. 'Find out what the best funding option is for your business,' she explains, 'make sure you thoroughly research it, and put everything into that route. After that, don't be afraid to question the experts.'

8. Filling a banking void: invoice financing for SMEs

THOMAS FRAYNE ACCA, CO-FOUNDER, THE WORKING CAPITAL COMPANY

Despite the recent economic recovery, banks in the UK and Ireland remain highly risk averse and find it difficult to lend to businesses. Unlike before the crisis, bank managers no longer have much discretion in judgements on loan applications. Instead, full security or personal guarantees are mandatory and interest rates for business loans are high. This makes it difficult - often impossible - for many small and midsize companies (SMEs) to secure the finance they need to grow. In essence, as banks look to repair their battered balance sheets, the SMEs of today are paying for the bad lending of the past.

Enter The Working Capital Company, a soon-to-be launched Irish online alternative finance venture that targets a niche created by these conditions. The business was incorporated in Dublin last year. The founders, including Thomas Frayne, formally of Bank of Ireland and IBRC, had the idea of providing fast, flexible working capital services to the SME sector via invoice financing—offering short-term secured lending in line with the value of a firm's outstanding invoices. This type of financing has grown steadily in the UK since 2010, with providers collectively providing well over £18bn in financing, according to the Asset Based Finance Association (ABFA), a UK and Ireland trade body.

The Working Capital Company aims to launch in Ireland and the UK in 2015. At this stage things are coming together at pace. The business has built its online technology platform and is completing its market research and feasibility studies. Simultaneously it is seeking to secure lenders to advance finance through its platform. 'We can empathise with the SMEs we will work with since we are very much a start-up business ourselves,' says Frayne. The team has already made a strong start, securing the backing of Enterprise Ireland (an Irish Government agency that supports new business) through a High Potential Start-Up (HPSU) Feasibility Study Grant which assisted in investigating the viability of its proposition.

In order to qualify for this support The Working Capital Company had to meet the eligibility criteria of a HPSU Enterprise. Eligibility was based on having an innovative technology and service offering. Enterprise Ireland assessed that there was a likelihood of achieving significant growth within three to four years and that The Working Capital Company met the requirement to be led by an experienced team, with a mixture of technical and commercial competencies.

This has especially helped by providing added credibility in its discussions with possible partners and resulted in Bank of Ireland providing a short term loan during the start-up phase to aid in the development of the business.

AN ALTERNATIVE MODEL

The Working Capital Company model is to act as a middleman between lenders and SMEs, where all parties stand to benefit. 'It really is a win-win situation,' says Frayne, 'SMEs get access to fast, flexible finance, lenders get a decent secured return and we have a viable business.' Frayne also sees alternative financing approaches like this as a possible new asset class, allowing investors to access a secured investment in a business for a better return than debt investments with similar risk profiles. With investors looking at close to zero return from bank deposits, The Working Capital Company proposition should attract plenty of attention.

SMEs on the other hand are effectively selling their invoices to raise the working capital that they need to either grow or simply keep the business going. This is especially so when their customers take 45 or 60 days to pay, whereas suppliers demand 30-day terms. One of the advantages of invoice financing over an overdraft is flexibility. By using invoice finance, businesses can more easily match their working capital to their growth rate and commitments, something Frayne sees as a big advantage. This also provides scale: as a firm's outstanding invoice book expands, so can its invoice financing capability. From a lender's perspective, the financing is directly secured against the value of the invoiced goods that await payment, providing a less risky alternative to unsecured lending.

The Working Capital Company's key differentiator is in the speed and flexibility it allows its borrowers in accessing finance. 'While there is a risk pricing element that is the same for all finance providers,' explains Frayne, 'we will aim to be competitive and transparent on price and set ourselves apart on ease of use. A key aspect of this is The Working Capital Company's plan to use cloud services and smart online capabilities to provide quick and easy ways to apply for funding online, automating and simplifying as much of the process as possible.

So what does The Working Capital Company need to see in an SME before approving them for this kind of finance? Frayne cites a typical example of a food hall wholesaler trading with shops and supermarkets on 30 days credit. First of all, like with any loan, the wholesaler would need to demonstrate the viability of their business model, while also ensuring that appropriate invoices and contracts are in place. The Working Capital Company will target firms generating revenues of about £1-3m, that offer goods on credit terms to its customers, have s 10-20 staff and a financial controller on board.

Second, the SME will have to have a robust accounting system in place which will bolster the SME's ability to enhance the required security for financing and also make it simpler to supply related information on demand. 'We are aiming to use technology to simplify that as much as possible, while also speeding up decisions,' says Frayne. Rather than a lengthy, paper-based process that demands significant management time, The Working Capital Company aims to provide an online service to customers—much as peer-to-peer lenders such as Zopa have done in the consumer finance space: 'We want to take away a lot of the friction of having to phone or fax the bank, sending multiple letters back and forth, and so on,' says Frayne.

From its side, The Working Capital Company will be able to offer the food hall wholesaler a flexible, easy to use platform that provides reliable, scalable liquidity to finance the business on an ongoing basis. Of course, as with any financing option, The Working Capital Company's customers need to be fully aware of their contractual obligations. As flexible as it is, they are nevertheless signing up for a finance product that will need full approval and ongoing commitments. However, in keeping with their emphasis on simplicity, the Working Capital Company is focused on keeping this uncomplicated too. Frayne says their contracts will be set out in plain language, making it as easy to understand as possible - something beneficial to smaller businesses that are often short of professional advice.

Lending rates available on the The Working Capital Company's platform will be in proportion to risk, but companies will be able to influence their borrowing rates by demonstrating a case for reduction. After all, the additional working capital provided through The Working Capital Company offers businesses the opportunity to grow their revenue, customer base, assets, brand and other attributes that may serve to lower lending risk. As Frayne puts it: 'if our customers feel they are no longer getting a fair price on our platform, and they can provide additional information for borrowing purposes that will comfort lenders, then they have an opportunity to do just that.'

There is, of course, nothing stopping large banks entering The Working Capital Company space. 'The alternative finance market has a huge role to play in the future financing of small and medium enterprises. It will also be a significant contributor to economic recovery. There will be enough demand for credit to satisfy the traditional bank model and alternative online finance models for years to come and The Working Capital Company is gearing up to prove it.

9. Change is in the air in rural England

MATTHEW MELKSHAM, PARTNER, HAINES WATTS NORTH DEVON LLP, UNITED KINGDOM

Haines Watts
Local Matters, National Strength.

With 115 partners and £60.8m in fees in 2013, Haines Watts LLP (HW) has seen a lot of growth over the last few years, becoming the 13th largest accountancy practice in the UK. In the words of Matthew Melksham, a partner at its North Devon branch, it has 'done well picking up start-up businesses during the recession and lots of people becoming self-employed.'

HW specialises in owner-managed businesses, and the North Devon practice has a particular focus on rural businesses, whether in pure farming, leisure, tourism or other related commercial areas. Roughly 60% of fee income comes from agriculture. Typical services include help raising loans, grants and corporate financing, or restructuring services. HW even has its own asset finance sister company which it will often refer clients to, but the priority is finding the best fit for the client.

Often this involves working with public business support initiatives. For example, Matthew is involved with the Plymouth Peninsular City Deal – a deal with government to deliver economic growth in the south west as more powers and funding are devolved to local authorities. He supports the City Deal's growth hub with advice, mentoring and grant funding and sits on a panel advising City Deal applicants on funding options.

THE ACCOUNTANT AS SANITY-CHECK

Clients will take Matthew and his fellow HW partners along to meetings with banks and other finance providers, as an 'independent third party to give them a bit of security.' The majority also require support with their paper work and general investor-readiness, and some need help from time to time to adapt their business plans, usually in the run-up to an application for external finance.

Matthew explains: 'businesses have always relied on their finance directors and accountants to check things over ….all our clients are owner-managed businesses; their decisions will impact on their families, so it's important they make the right decisions.'

The banks are back, but they're not the only game in town

Matthew explains that, as late as the spring and summer of 2013, the practice really had to go looking for finance offers from alternative providers: 'At one stage we were in real difficulties using high street lenders for commercial lending because they either could not help or they wanted more security than the business could sensibly offer.'

But it has since become easier to raise finance because 'high street lenders are coming back to a sensible place…with reasonable offers, sensible levels of interest and requirement for security.'

Matthew believes that the driver for this change was a clear message from the UK government that they need to 'sort their business out and get the economy moving.' All the bank managers that Matthew has spoken to seem to have taken this on board, and he notes that there has been some 'serious internal nudging' going on.

Agricultural clients, Matthew explains, are by far the easiest to raise money for at low rates, as they often have ample security. 'Massive' land banks are on hand to finance them and land values in the South West have shot up in the past few years. The practice has also successfully used non-traditional finance routes to fund investment in renewables, which is growing in their region.

There continue to be more challenging lending propositions though, such as businesses in the leisure and tourism sectors or newcomers to the building trade – for example, financing caravan parks and other leisure business is still difficult due to their dependence on good seasons.

In the practice's experience, it has been very easy to raise money from the newly-popular peer-to-peer lenders. HW has used a platform called Folk2Folk based in Launceston, and all the capital is secured on land so the process is relatively simple and straightforward. The platform does require that the loans are secured on property (excluding the client's main home), and interest rates can be higher than with conventional lending but, on the other hand, it is very quick and relatively simple.

Crowdfunding has also become more popular with clients. Exeter-based Crowdcube is a local business that everyone in North Devon knows about. Despite disintermediating investors and investees, crowdfunding still creates demand for advice – if only for the sake of 'peace of mind.'

BUILDING BRIDGES AND MANAGING EXPECTATIONS

The biggest challenges stem from the expectations of both lenders and clients. Unassisted, clients may set unrealistic cash flow projections and try to 'talk the business up,' resulting in loss of confidence and trust from the lender; investment readiness is a major challenge. Conversely; clients convinced that lenders are trying to rip them off end up turning good deals down.

Language is another challenge. Even when the client's proposal is sound, they are often unable to articulate this in a way which meets the providers' expectations, or do not understand what information is required of them. Then there's the matter of commitment to their business – has the client put some of their own money at risk?

On the finance providers' side, there are also unrealistic expectations, especially with regards to smaller applications (£50,000 or less). Even for a relatively small amount, the providers will require the clients to provide 'three years' worth of accounts, cash flow projections for the next five years, security on their house – no one is going to sign up to that.' There needs to be a 'proper sliding scale for what the credit team needs, as it seems like they require the same things for a £1m deal as they do for the £50,000 ones.'

Matthew believes that this is an issue that has roots in how decision-making is structured in the finance providers. Local managers understand their clients really well – the problem is that it is not they that make the decisions: 'they need to pass the decision up to the credit teams above them, who are removed from the clients and will often come back with questions which make you think they have not understood what the business is about.'

On the whole though, access to finance has improved and continues to as other providers have come into the market. At least in the South West, 'businesses are far more buoyant…everyone seems a bit brighter' and focusing on growth again.

10. No need to get personal!

SUREN PANDAY, CHIEF EXECUTIVE OFFICER, SADL CONSULTING SERVICES, SOUTH AFRICA

After 25 years of working in the corporate sector, including as financial director and CFO for various multinational companies, Suren Panday set up SADL Consulting Services in 2008. Modelling itself after firms such as PwC and EY, SADL evolved so that it is 'not just an accounting and audit firm,' but offers a diverse repertoire of other services. Alongside a core advisory function specialising in supply chain management (SCM) and Logistics, SADL also has a telecoms division, and helps clients raise finance by diagnosing their finance needs, suggesting options and developing their business propositions.

ALL GROWN UP AND READY TO SETTLE DOWN

With 55 full-time employees, the SADL Group has been on what Suren describes as a 'massive growth curve' over the past four years; it confidently forecasts at least 50% growth in 2014. This rapid growth drove SADL to seek additional finance; Suren believed it was the right time to purchase an office premises for their new corporate headquarters. The business had grown to a point where it could be more economical to buy than to rent and, with six months left on their rental lease, planned to find a suitable space, renovate it and move in. They approached their bank for a commercial mortgage.

After discussing SADL's business requirements and three-year forecast – linking their future earnings to long-term contracts that the Group had secured – the bank had no objections, in principle. Commercial loans in South Africa can be repaid in five to ten year periods - based on their risk profile, SADL qualified for a seven year repayment term; repayments would be no greater than their rental payments to date.

All the skills and expertise required to get the paperwork in order were available in-house – this was SADL's day job. Still, the bank's processes and requirements proved extremely frustrating.

PERSONAL SURETIES

In loan processes, asking for proof of earnings is standard procedure. However, the bank wanted proof of earnings not only of the business but of the individual requesting the loan; they were after personal sureties. Although 25 years of working at a high level professionally had left Suren with what he describes as 'a healthy personal track record and balance sheet,' he was not happy about the need to provide personal sureties. He could at least provide these; many SADL clients who have very healthy and successful businesses are unable to raise bank finance for lack of a strong personal balance sheet.

Suren is adamant that if a business has a proven track record, strong cash flow and impeccably maintained accounts, personal sureties should not be required. Further, SADL made the decision to have their accounts audited by a third party – a multinational auditing firm – for the explicit purpose of ensuring credibility in their accounts. However, this did not seem to make the difference they had hoped for.

Suren also took issue with the 'punitive' rates the bank applied. The cheapest rate available to businesses in South Africa is the prime rate, with additional charges applied on top depending on its risk profile. Despite excellent performance, full compliance and an audit, SADL were still charged the prime rate plus 2% – effectively an 11% interest rate, against the 9% common for larger companies. Suren is not impressed: 'The banks are just being greedy…despite the recession, profits and director bonuses in the last five or six years have been on a steady increase.' He added that he doesn't see evidence of the local banks having gone through a global recession; instead they 'just increased their margins with clients in various sectors.'

TOO SLOW, TOO DEAR AND TOO CLOSE TO HOME

To cap it all off, the entire process from approaching the bank to getting approval for the loan took in excess of three months. This was much longer than SADL had anticipated and caused a great deal of frustration as the business took great care to ensure that everything required from their end was delivered to efficiently and on time.

An underlying frustration with the whole experience of raising finance, through what is a relatively simple and common debt product, is the sheer lack of choice available to SMEs such as the SADL Group. Even though South Africa has independent banks, they all charge very similar rates across the board; there is an obvious lack of competition for SME clients. Private lending companies and informal lenders – including the well-known Stokvels (which operate like community cooperatives) – often charge 'ridiculous' rates.

Suren would not approach a bank for this funding again. Instead, he would strongly consider getting a loan from the company's private shareholders; the bank loan was granted against their finances anyway, and they could draw down the money from the business over the following years. Shareholder loans and funds from family and friends are popular sources of capital in South Africa, particularly among start-ups with no business or personal track record. Suren explains that SADL would have gone for a shareholder loan had they known the bank loan would take so long to be processed.

FIXING BUSINESS LENDING

Although they were ultimately successfully, the process prompted Suren to comment on the difficult climate for SMEs in general in accessing finance. He sees a distinct lack of management skills, in particular financial management, among the small and start-up business population. Many cannot fill out a loan application or understand the compliance issues that go along with it. In fact, many businesses are completely unregulated, registered with neither the Companies and Intellectual Property Commission (CIPC) nor the tax authorities.

As for the banks, Suren suggested that they should work more closely with government, perhaps under a Public-Private Partnership (PPP) model, to provide support such as seed, working and loan capital. They need to streamline the application processes that an SME needs to go through, from registration and compliance through to business planning and accessing finance.

Suren notes that access to finance has not improved for SMEs in the last year, as a result of an increasingly difficult trading environment. However, he notes, if banks really believe that SMEs can contribute to curing unemployment in South Africa and growing the economy, then it's high time they started to engage them with a better financing proposition.

11. Fundraising in a broken market

DR PETROS ALEXANDROU, LECTURER, EUROPEAN UNIVERSITY OF CYPRUS

European University Cyprus

Petros teaches accountancy at the European University of Cyprus and is also a freelance business consultant. For 15 years, he has been advising SMEs on accessing finance, business planning, feasibility studies and budgeting.

Demand, he explains, is usually greatest for budget work or help putting together the business plans required for bank loan applications or access to government or European Union (EU) funds. The majority of clients are trying to raise sums in the range of €100,000 to €1 million (£79,700 to £797,000), primarily for the purpose of starting up new businesses; occasionally, funding is also required for expansion and business growth purposes.

Subsidies, especially for women and young people looking to start their own business, are currently a major source of finance in Cyprus, and one heavily promoted by the government. With unemployment high among both groups, entrepreneurship is as much about active labour market policy as it is about enterprise policy.

AFTER THE BAIL-IN

The access to finance landscape in Cyprus has deteriorated severely since March 2013, when the island's major banks were resolved through a bail-in, turning unsecured creditors' claims into equity.[12]

Since then, Petros explains, a lack of bank liquidity has made it much more difficult to raise finance, and conditions are likely to remain tight for the next two to three years before improving again. With bank lending out of the picture, SMEs are left with no options but to apply for EU grants or subsidies or seek out investors. However, Petros adds, equity investment has also become a difficult option in the current economic climate, with investors adopting a wait-and-see attitude. In fact, Petros can name only a few successful attempts at raising finance from private investors in the past year.

This is in marked contrast to the situation five years ago, when SMEs could easily count on bank loans; 'the bank would be calling you,' Petros recalls. Provided you had a decent proposal, it was also (relatively) easy to raise finance from investors; 'Cyprus is a small place, so it is easy to find people and inform them about an investment opportunity,' he explains.

Since March last year, however the requirements attached to raising finance from a bank have got much more stringent. Having the necessary security is now an issue for previously straightforward commercial mortgages, as land and property prices have fallen, and the banks increasingly seek personal guarantees. That said, they are also making greater use of financial information. The lending process itself

12. For more details on the situation in Cyprus and proposed solutions, see also *Financing SMEs in Cyprus: No Stone Left Unturned?* <http://www.accaglobal.com/content/dam/acca/global/PDF-technical/small-business/pol-afb-fsic.pdf>, ACCA 2014.

has not changed significantly, but the emphasis on evaluating affordability is much stronger; previously banks were reassured enough to lend as long as security was provided.

THE NEW SELF-EMPLOYED

Interestingly, the current economic climate has not severely affected Petros' own advisory business. While he has lost clients, with companies showing less interest in starting new projects or expanding, or unable to seek loans due to liquidity problems, there has been an increase in clients who want to start their own businesses – women and young people who are being encouraged to do so.

These aspiring entrepreneurs are not finished products. Many of the younger clients are recent graduates. They, along with Petros' constituency of female entrepreneurs of all ages, come with their own ideas for a business, but require support to understand the process of setting up a business, approaching banks and preparing business plans and budgets. Part of this advice, including part of the cost of feasibility studies, business plans and training seminars, is subsidised.

A SLOW RECOVERY

While Petros does believe that the psychology of the economy needs to improve – encouraging investors to take risk and invest money – he sees this as a long-term aspiration. In the more immediate future, he says, the banks need to help the economy recover by building up their liquidity and reducing interest rates. An increase in the country's money supply, he believes, would achieve an increase in aggregate demand and particularly investment, delivering much-needed growth.

For the next two years, however, Petros will be advising his clients to continue looking for grants and subsidies first, where available. He believes that, armed with a good proposal, it should not be very difficult for businesses to secure some level of subsidy. In fact, he believes it should be possible for Cyprus to secure more funding for grants from abroad, especially the EU.

And while market psychology will not change in the short term, the government can accelerate this process, as well as the return of liquidity to the economy, by cutting taxes, reducing government expenditure and increasing incentives for new investments which will create new jobs and help achieve growth.

12. Get your house in order first: a tale of governance and access to finance

JAVAN NDONGA, CHIEF ACCOUNTANT, MAKAO MASHINANI LTD, KENYA

MAKAO MASHINANI

Nairobi-based Makao Mashinani Ltd is a microfinance organisation working in the housing sector; it assists local people in accessing loans for purchasing land and then build homes. The loans are provided on a group basis, 'group best loans', which means that the group collectively acts as security against the loan.

Now structured as a private company limited by shares, Makao Mashinani was originally spun out from an NGO, the Kenya Rural Enterprise Programme (K-Rep), which remains one of the company's two shareholder groups. While the spin-out in 2010 is fairly recent, taking into account its time as a K-Rep project, it has been operational for seven years.

IN SEARCH OF SUSTAINABLE GROWTH

Makao Mashinani's Chief Accountant, Javan Ndonga, is pleased with the progress in the three years since the spin-out. The organisation, he explains 'started off quite well,' growing to 20 employees with an annual turnover of approximately $70,000 (£43,000). However, it has faced a growing financing challenge; with shareholders unable to inject any new share capital into the company, it is very hard-up on capital. In fact, the growth experienced by the company so far has been primarily supported by debt finance and not equity.

Javan explains that high interest rates have hampered the growth of the company but he is confident that its growth trajectory can change in the future; the key, however, is finding a reliable source of equity finance.

In the year to mid-2014, Javan has attempted to raise both debt and equity, ideally hoping for a balance between new share capital and bank loans. At the outset of this process, the additional funds were meant to finance growth. However, Javan soon came across a stumbling block. Makao Mashinani's board effectively shut down the equity route, citing concerns about losing control of the mission-driven company. Javan was left with no choice but to raise more debt in the form of a commercial bank loan. This, he explains, was a high risk strategy, increasing the burden on the company's balance sheet.

RELATIONSHIPS MATTER

Despite this, the company managed to secure debt finance against their fixed deposits with their bank, with whom they had other outstanding loans; the new loan was effectively guaranteed by the deposited cash. This ensured a fast approval process with few requirements. Thinking back on the recent loan application, Javan notes that it was relatively straightforward as the company is well known to the bank, and he had known how and what to prepare.

However, Javan commented that this would not be the case for new enterprises. As a minimum, 'to approach a bank for a loan the first and foremost thing is to have your books right…your management accounts, your audited accounts etc'. The most current set of accounts also needs to be verified by the board, to ensure that the organisation can sustain the loan.

The bank will then conduct its due diligence: investigating how the organisation operates; getting the opinion of third parties to check the business' clientele; making sure that the information provided is legitimate, including whether it has been externally audited. The profile of the management team will also be scrutinised, with an emphasis on the level of professional education held by the staff.

A board resolution will also be required to approve the organisation taking the loan - to demonstrate a formal commitment from the board that they will repay the loan. Javan emphasises that 'no bank can advance a loan without a board resolution.'

Depending on the complexity of the organisation the whole approval process for a business in Kenya should take from one to two months; for a new client, however, it can take around three months.

Javan's top tip for start-ups looking for a bank loan is to build a relationship with the bank: 'let the bank see every transaction and let them know your account well…. It is all about your relationship with the bank.' With a good relationship, Javan points out that you can even get a loan approved without security – 'your name is key.'

A CHANGE OF CIRCUMSTANCES

A smooth approval process isn't always the end of the story. By the time Makao Mashinani's loan had been approved, the businesses' financing needs had changed. As Javan explains, 'the money is [now] needed for survival.' The income flowing into the business was only enough to cover salaries and daily operating costs, and the company had built up a backlog of pending loans for clients. Javan explains that the company will not make see a positive return on the borrowed money, as they need it to keep their name in the market: 'it will not turn around the company in any way but at least it will save us face with the clients, which is vital for continued business.' Without the loan the company's loan portfolio would start shrinking, signally the demise of the business.

Javan is aware of just how much the board's opposition to a share issue had limited his, and the company's, options. Given a chance to raise finance again, he claims he would be more strategic about his approach to the board, taking more time to make the business case for equity finance. He would devote more of his attention to generating longer-term forecasts and projections of the business' finances. These precautions, he believes, are necessary because the board 'do not do the accounts' and therefore are less aware of the implications of their funding model.

Javan plans to raise more finance in the next 12 months, and this time he is hoping that the board will let go of some control and issue new shares; if not, he fears for the future of the business: 'You will never be able to turn around a company using debt.'

THE BIGGER PICTURE

Javan may have been able to leverage a good bank relationship to get finance, but it is clear all is not well with business banking in Kenya. The cost of finance is very high – bank interest rates of about 18% are typical, and interest makes up half of Makao Mashinani's administration costs. It's not a sustainable situation in the long run, says Javan: 'you cannot make a profit on top [and] government would then not be able to raise tax from small business. Banks need to work something out for SMEs if they want [them] to continue to contribute to boosting the economy.' However, for now there is no choice for most businesses; the cost of finance is 'a killer for SMEs,' he adds.

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