



## WHAT IS THE BEST LOAN FOR YOUR SME?

### UNDERSTANDING YOUR FINANCING NEEDS AND OPTIONS

SMEs often go to their bank for a loan when it's too late. Banks reported that many SMEs wait until they face a severe cash constraint before they come to the bank to request a loan. The company's cash is nearly depleted, and their pockets are empty. This is too late, since banks cannot lend to companies that are nearly bankrupt.

Being able to plan ahead and identify financing needs before your company faces cashflow problems is an essential business skill. It also important to

understand the financial solutions that are available from finance providers such as banks, and to be able to make informed choices.

This brochure is meant to help SMEs better understand their financing needs and the options available to you. For more information, you can seek help from a financial advisor or accountant. Some banks can also be a source of help and financial advice.

# WHY ARE YOU SHORT ON CASH?

## BE WARY OF USING CASH FOR EVERYTHING

Often SMEs are cash-depleted because they are using their own cash (or the owner's) to pay for all their expenses, even large investments and working capital. If an important client leaves or fails to pay, or the business faces an unexpected large expense, you could find yourself cash-stranded, and may not be able to operate anymore.

## IS A LOAN THE SOLUTION?

Banks said that SMEs are often requesting a cash loan without understanding why they are short on cash. And sometimes, what they really need is not a loan at all. Instead they need help to better manage their cash flow regarding their receivables and payables.

For example, some companies have problems on the collections side. Clients are given too much time to pay, or they may forget to pay and the company is not reminding them. On the other hand, companies might have issues with payables. In this case they can try to negotiate with suppliers and other creditors a longer timeframe for paying their bills. Several banks, especially those focused on the SME sector, can help SMEs with both loan and non-loan solutions for their financial management problems. A good financial advisor or accountant can also help SMEs find solutions to address their cash flow issues. Sometimes, there is not one solution but a combination of them.

SMEs ought to review their finances and business operations regularly to identify needs for finance solutions. If your company is looking to expand its production capacity—for example, if you are planning to build a new storage facility, purchase new equipment, or you have acquired several new clients—you should take this opportunity to ask if bank financing or through other types of financing could help.

# YOUR FINANCING NEEDS AND OPTIONS

## YOUR FINANCING OPTIONS

	SITUATION			
	Liquidity issue	Negative working capital	Investment projects (plant, production line, storage facility)	
NON-LOAN SOLUTION	Factoring, improving collections, negotiating with suppliers	Equity	Leasing	
LOAN SOLUTION	Overdraft, revolving credit line, trade credits	Working capital	Investment loans	
MATURITY	Short term. Up to 3 months	6 months to 2 years	5-10 years	
CONSIDERATIONS	Type of interest rate (fixed/variable/indexed)	Schedule of repayment of loan	Currency	Collateral

## BANKS OFFER DIFFERENT TYPES OF LOANS TO ADDRESS DIFFERENT TYPES OF SITUATIONS

### LIQUIDITY

If a company faces a liquidity issue, meaning it is short on cash, several short-term loan options can be considered, such as an overdraft or other short-term loan. Another option if your company faces seasonality in its operations, and knows that at certain times of the year its revenues and expenses do not match, a revolving facility might be a good solution as you can draw on it when you need it. Another option is to seek out factoring in which the bank or factoring company gives you money up front for payments (invoices) you are going to receive in the near future (keep in mind that this comes with a fee).

### NEGATIVE WORKING CAPITAL

If faced with negative working capital, companies should seek a working capital loan, of several months to a couple of years, depending on its need. Or it can also try to find a partner or investor to increase a company's equity.

### INVESTMENTS

Long-term loans should be used to finance industrial equipment and other investments. Investments take some time to generate increased revenues and using short-term loans to finance them might mean you will be making very large payments that might not be able to afford. Another option to finance investments such as equipment and vehicles is to lease them, rather than buy them.

## LOANS COME IN MANY FORMS AND VARY IN TERMS OF THEIR CREDIT CONDITIONS

When discussing a loan with a bank and comparing what banks have to offer, make sure you ask about and understand the credit terms and conditions. There are many conditions that will determine the price and the risk that you will face when contracting a loan. Sometimes it can be very difficult to understand credit conditions. They might not be expressed clearly and have complicated terms. Don't be afraid to ask questions. Having a trusted financial advisor, such as your accountant, can also help.

### MATURITY

The duration of the loan. Loans may be issued for a few months or several years. Short term loans are easier to obtain, but are not appropriate for certain types of situations (such as financing investments).

### INTEREST RATE

Expressed in percentages, it is basically what the bank charges you for the loan. A fixed or variable interest rate is an important consideration. For fixed rate loans, the interest rate you are charged and therefore the payments you make will be constant over time. For variable rate loans, the interest rate can go up or down. Variable rate loans are usually indexed or tied to something, such as inflation or a

base interest rate (set by the Central Bank). So, when there are fluctuations in the index, your interest rate will automatically change, too. The good thing about the fixed rates is that you will not face any surprises when it comes to repaying your loan. On the other hand, variable rate loans allow you to take advantage of periods when interest rates are low.

### LOAN CURRENCY

The currency in which the loan is issued and will be repaid. Loans can be in local currency or in foreign currency. If you take out a loan in Euro, you will face a risk that the Euro could raise against the dinar, making your loan more expensive to repay. This is particularly important if your revenues are in dinar. A Euro loan is cheaper than a dinar loan because it is you (and not the bank) who is taking on the risk if the dinar loses value.

### OTHER CREDIT CONDITIONS

These include a number of things, such as fees a bank may charge, when you need to start repaying the loan, and what kinds of collateral and other guarantees you might need to provide.