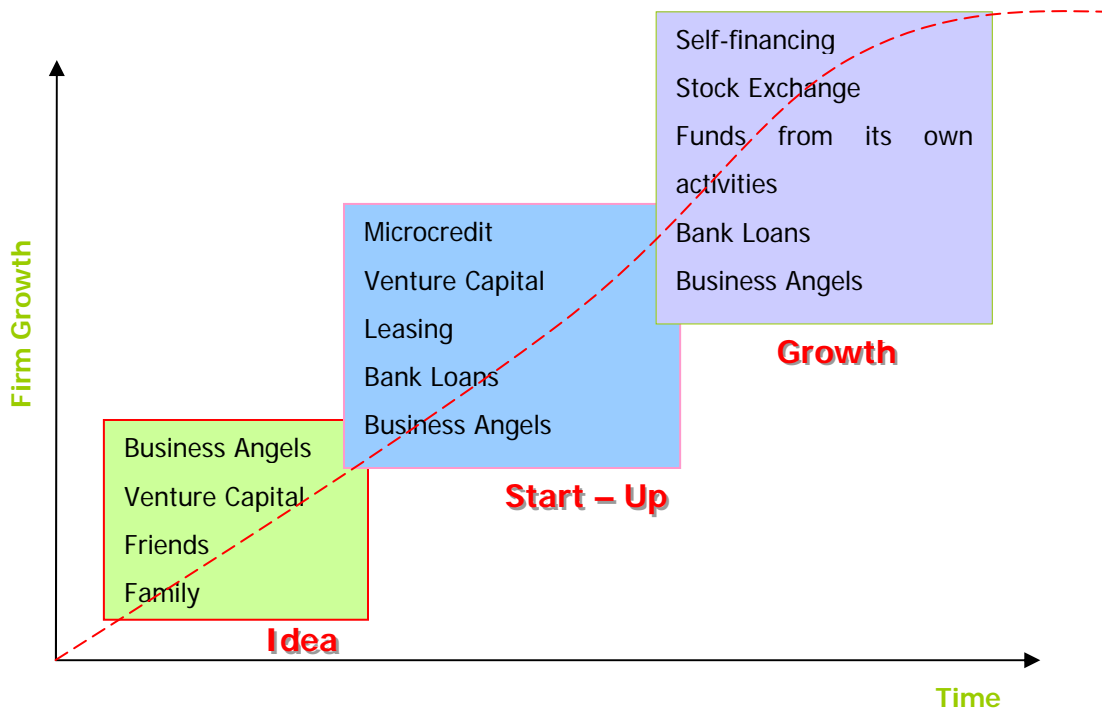


## IV – How to finance your business

### 1. Financing means and sources

The funds available are usually scarce in relation to the ends for which they are meant (the aim of Economics is actually to resolve this dilemma in the best way possible).

Depending on what stage the firm is at, there are various financing means and sources.



#### Sources of Capital

*Adapted from Inovar (2000)*

- Own Resources / Funds:
  - From personal savings and mortgages;
  - There may be no associated costs;
  - They can stay in the company for a long time;
  - They are essential for obtaining external financing.
- Funds from family and friends:
  - Frequent source of financing;
  - There may be no associated costs;

- They can stay in the company for a long time;
- They should be considered as as any other loan, setting down in writing the sum loaned, the terms and conditions, the rights and liabilities of the investor.
- Loan Capital:
  - Banks:

Medium and Long Term Loans - bound to investments, with an amortisation schedule suited to the project's cash flows, these loans may therefore admit a period of insolvency, counter-guarantees (personal guarantees) may also be requested. Average period of these loans: 15 years.

Short Term Loans – for example:

- Secured current account – to meet cash needs; the most used financing form among Portuguese companies; very high interest rates;
- Promissory Note – financing for occasional cash needs;
- Authorised Overdraft – allows an overdrawn balance up to a specified sum, for a specified period;
- Trade Discount – advance on fixed term payments from customers.

- Banks and other credit institutions

Leasing –is a contract between two parties, the lessor (leasing company) and lessee (leasing client), by which the lessor grants the lessee the temporary use of a good for a fixed period of time, movable or immovable. A sum (rent) is paid periodically, at the end of the payment period, the lessee has an option to buy the good, by paying the sum of money previously determined (residual amount).

Microcredit – destined to micro and small businesses; the beneficiaries are unemployed who don't find a job through the usual labour market channels, because of their lack of qualifications required by employers, their age or because they live in areas of low economic activity; these people have know-how and productive skills to create their own employment or a micro-company.

Venture Capital – an investment company geared to professional management by the financiers through their investment in start-ups, demanding very high return rates,(rates increase according to the risk level of the project);. The Venture Capital companies search for projects in which the founders have invested their own money and there is proven technological viability, shown by the product's advanced state of development (prototype, tests and assessment done by experts).

- Funds from informal investors

*Business Angels* – informal investors with capital willing to fund a business; they are usually people who have their own funds to invest and who have experience in setting up companies, having the knowledge to recognise new ideas with potential. They may or may not be involved in the company's management; the start-up investment comes from equity assets and determines a shareholding participation.

- Company fundings

*Self-financing* – funds generated by the company's own business activity: retained profits, provisions and amortizations.