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SPECIFIC FEATURES OF SMALL BUSINESS FINANCING AND SMALL BUSINESS DEVELOPMENT

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Abstract:
In this paper, the strategic financing choices of small businesses are examined through the lens of the business life cycle. This article introduces the concept of small business and the approach to small business development. It answers the questions: Why are small businesses important? How to support small business development. This topic includes micro, small and medium-sized enterprises. The article introduces important nuances in our understanding of the role small businesses play in the economy and how small business development requires a clear analysis of the small business sector in any one location

Keywords: Financing decisions, source of finance, capital structure, financial growth cycle, small and medium sized firms.

Introduction

Definitions of small business vary by country and are usually based on the number of employees, the annual turnover or the value of enterprise assets. The term small business is often used to encompass small and medium-sized enterprises (SMEs). In addition, the terms "very small business" and microenterprise or micro-business are also used. In some countries, other definitions are applied. For example, in Vietnam, the term "household business" is often used, while in South Africa the term SMMEs, or small, micro and medium-sized enterprises, is common.

Official national definitions vary, even within national governments. For example, it is not unusual for the national statistics office to have a definition of a small business that differs from the ministry of commerce or from the ministry of agriculture.

However, the global practice of small business development applies some general definitions. Yet, even here there are significant variations.

Typically, microenterprises are defined as enterprises with up to ten employees, small enterprises as those that have ten to 100 employees, and medium-sized enterprises as those with 100 to 250 employees. The World Bank Enterprise Surveys consider firm size based on: 5-19 (small), 20-99 (medium) and 100+ employees (large-sized firms). A recent review found the World Bank group used various definitions for SMEs and applied these inconsistently when supporting small business development. Small businesses or SMEs encompass all types of enterprises, irrespective of their legal form (such as family enterprises, sole proprietorships or cooperatives) or whether they are formal or informal enterprises.

Small business financing, the process of acquiring funds to start or operate a small business, is a critical aspect of entrepreneurial success.It provides the lifeblood that fuels business expansion, enabling entrepreneurs to invest in equipment, inventory, marketing, and other essential elements for growth. Yet, navigating the maze of financing options and securing the right type of funding can be a daunting task for small business owners.This comprehensive guide aims to empower small business owners with the knowledge and tools they need to effectively navigate the financing landscape.

LITERATURE REVIEW

We will delve into the various types of financing options available, explore alternative sources of funding, and provide practical guidance on evaluating financing needs, crafting compelling proposals, and managing finances responsibly.Through this journey, you will gain a deeper understanding of the financing options at your disposal, equipping you with the confidence to make informed financial decisions that drive your business forward. Whether you are a budding entrepreneur or a seasoned business owner seeking to expand your horizons, this guide will serve as your compass, guiding you towards financial success and sustainable growth.Here are some additional tips for choosing the right type of small business financing:

1. Start by assessing your business's financial needs. How much money do you need to start or grow your business?
2. Consider your business's stage of development. Are you a startup, an established business, or a business looking to expand?
3. Evaluate your creditworthiness. Do you have a strong credit score?
4. Determine how much ownership you are willing to give up. Are you comfortable selling a portion of your business to investors?

Once you have considered these factors, you can start to research the different types of financing available. Talk to lenders, investors, and financial advisors to get more information and compare rates and terms.Choosing the right type of financing can be a complex decision, but it is an important step in the success of your small business. By taking the time to carefully evaluate your options and seek professional advice, you can make an informed decision that will help your business grow and thrive.

RESULTS AND DISCUSSION

Navigating the financial landscape as a small business owner can be challenging, especially when seeking traditional bank loans. While banks remain a primary source of funding, alternative financing options have emerged as viable solutions for businesses that may not qualify for or prefer traditional methods. These alternatives offer flexibility, accessibility, and tailored solutions to meet diverse business needs.Invoice factoring involves selling outstanding invoices to a factoring company at a discounted rate. This provides immediate access to cash flow, enabling businesses to meet operational expenses, manage payroll, and invest in growth opportunities. Factoring is particularly beneficial for businesses with lengthy payment cycles or those that rely heavily on credit sales.

1-Fig.Small Businesses Facing Financial Challenges

Types of Small Business Financing:

1. **Traditional Bank Loans:** Bank loans are one of the most common forms of financing for small businesses. These loans typically have fixed or variable interest rates and structured repayment terms. However, securing a bank loan may require a strong credit history, collateral, and a detailed business plan.

2. **Small Business Administration (SBA) Loans:** The U.S. Small Business Administration offers several loan programs to support small businesses, including the popular 7(a) loan program and the CDC/504 loan program. SBA loans often feature competitive interest rates and longer repayment periods, making them attractive options for entrepreneurs who may not qualify for traditional bank loans.

3. **Microloans:** Microloans are small-scale loans provided by nonprofit organizations, community development financial institutions (CDFIs), and online lenders. These loans are typically less stringent regarding eligibility criteria and can be used for various business purposes, such as purchasing equipment, inventory, or working capital.

4. **Business Lines of Credit:** A business line of credit gives entrepreneurs access to a predetermined amount of funds they can draw upon as needed. Unlike traditional loans, borrowers only pay interest on their funds, making it a flexible financing option for managing short-term cash flow needs and unforeseen expenses.

5. **Venture Capital and Angel Investors:** For high-growth startups with significant potential, venture capital firms and angel investors provide equity financing in exchange for ownership stakes in the company. While venture capital can inject substantial capital into a business and provide strategic guidance, it often involves giving up partial control and ownership.

6. **Crowdfunding:** Crowdfunding platforms enable entrepreneurs to raise capital from many individuals who contribute small amounts of money to support a business idea or project. Crowdfunding can effectively validate market demand, generate pre-sales, and build a community around your brand.

7. **Peer-to-Peer Lending (P2P):** Peer-to-peer lending platforms connect borrowers directly with individual investors willing to fund their loan requests. P2P lending offers borrowers competitive interest rates and streamlined application processes, making it an attractive alternative to traditional banking institutions.

Equipment financing provides businesses with the means to acquire essential equipment without upfront capital expenditures. This method allows businesses to spread out equipment costs over time, preserving valuable working capital for other business needs. Equipment financing can be tailored to specific equipment types and business requirements, offering flexible terms and competitive rates.Merchant cash advances provide businesses with immediate access to cash in exchange for a portion of their future credit card sales. These advances are often approved quickly and without stringent credit requirements, making them suitable for businesses with limited credit history or those facing temporary cash flow gaps. However, merchant cash advances typically come with higher interest rates and shorter repayment terms.A business line of credit (LOC) offers a revolving credit line that businesses can draw upon as needed, similar to a personal credit card. LOCs provide flexibility and adaptability to manage fluctuating cash flow demands, such as seasonal fluctuations or unexpected expenses. Interest is charged only on the outstanding balance, allowing businesses to control their financing costs.P2P lending platforms connect businesses with individual investors seeking alternative investment opportunities. Businesses can raise capital through online platforms by presenting their business plans and financial projections to potential investors. P2P lending offers competitive interest rates and can be a viable option for businesses with limited credit history or those seeking non-traditional funding sources.Crowdfunding platforms enable businesses to raise capital from a large pool of individual contributors, often in exchange for rewards or equity in the business. This method is particularly suitable for businesses with strong brand recognition or innovative products or services. However, crowdfunding campaigns require careful planning, effective marketing, and engaging messaging to attract a sufficient number of backers.CDFIs are non-profit financial institutions that provide loans and other financial services to underserved communities and businesses. CDFIs offer flexible terms, lower interest rates, and tailored financial guidance to businesses that may not qualify for traditional financing.

CONCLUSION

Government agencies and non-profit organizations offer various grants and programs to support small businesses in specific industries or with specific goals, such as job creation or innovation. These grants can provide valuable funding without the requirement of repayment.Microloans are small loans, typically under $50,000, provided to microbusinesses and entrepreneurs. Microloan programs often cater to underserved communities and provide mentorship and technical assistance alongside funding.Vendor financing arrangements allow businesses to purchase equipment, inventory, or services from vendors with deferred payment terms or favorable financing options. This method can be particularly beneficial for businesses with strong relationships with their suppliers.The choice of alternative financing depends on various factors, including the business's financial needs, creditworthiness, industry, and growth trajectory. Carefully evaluating the terms, interest rates, repayment structures, and eligibility criteria is crucial to select the most suitable financing option. Consulting with financial advisors or business mentors can provide valuable insights and guidance in navigating the alternative financing landscape. The greater variance in profitability, survival and growth of SMEs compared to larger firms accounts for special problems in financing. SMEs generally tend to be confronted with higher interest rates, as well as credit rationing due to shortage of collateral. The issues that arise in financing differ considerably between existing and new firms, as well as between those which grow slowly and those that grow rapidly. The expansion of private equity markets, including informal markets, has greatly improved the access to venture capital for start-ups and SMEs, but considerable differences remain among countries. Regulatory burdens remain a major obstacle for SMEs as these firms tend to be poorly equipped to deal with the problems arising from regulations. Access to information about regulations should be made available to SMEs at minimum cost. Policy makers must ensure that the compliance procedures associated with, e.g. R&D and new technologies, are not unnecessarily costly, complex or lengthy. Transparency is of particular importance to SMEs, and information technology has great potential to narrow the information gap. It would be of great help to set up a "one-stop-shop system", where all the necessary information which affects firm strategies and decisions is made available in one place, as exists already in some countries. Most OECD countries have programmes which support SMEs. One-quarter of all public support programmes reported to the OECD primarily target SMEs. Germany, Iceland, Japan and New Zealand dedicated more than 50 per cent of their entire public support programmes to SMEs. In 1993, a total of US$3.75 billion of public money was paid to help start-ups, the acquisition of equipment, R&D, training and consultancy services, in the form of direct grants, tax concessions, low interest rate loans or loan guarantees. More than 50 per cent of SME programmes are administered locally, making co-ordination between authorities critical.

There is potential for integrating programmes into fewer schemes but with a wider scope, making it easier for SMEs to understand them, and lowering administrative costs. Almost 70 per cent of SME programmes last for more than five years. Stable and predictable programme management is in the interest of users; however, a constant review process is vital to ensure quality and flexibility. Governments need to intensify their efforts to disseminate information, eliminate unnecessary red tape, and make programmes more responsive to the changing needs of SMEs. Between 30 and 60 per cent of

SMEs can be characterised as innovative, of which some 10 per cent are technology-based. Innovative SMEs tend to be market-driven rather than research-driven, and quicker in responding to new opportunities than large firms. They play a key role in pioneering and developing new markets. Programmes for improving the diffusion of technology have shifted from a supply focus to raising the capacity of SMEs to absorb technology. However, governments need to: reduce uncertainties in the tax, regulatory and macroeconomic environment; make sure that business framework conditions do not impact unfavourably on the risk/reward ratio; and encourage the mobility of human resources and the markets for specialised services. Although these are important for the entire economy, such actions will produce benefits of particular value to SMEs.

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