



Investing in Small Business Enterprises

*Prepared by the St. Vincent and the Grenadines
Chamber of Industry and Commerce*

Small business enterprises, often characterised by innovations, dynamism, efficiency, and fast decision-making processes, form an integral part of our economic growth and development. Developments in small enterprises are a *sin quo non* for employment generation, solid entrepreneurial base and encouragement for the use of local raw materials and technology. Other noticeable benefits include contribution to our economy in terms of output of goods and services; reduction of income disparities; the development of a pool of skilled and semi-skilled workers; and improved forward and backward linkages between economically, socially and geographically diverse sectors of the economy, among others.

Despite the many benefits, access to capital continues to be quite a Herculean challenge for small business enterprises. Over the years, small business enterprises have not been very attractive prospects for banks: banks, by the very nature of their business want to minimize their risk profile, and are resistant to the high-risk loans which many small businesses represent. Further to this, there is often a lack of business savvy of potential entrepreneurs to articulate their needs and failure to present a well-thought out long-range alternative plan that covers contingencies.

Although there is no magic formula, method, or programme that will automatically secure financing for a new or growing small enterprise, choosing the appropriate methodology for gaining financial backing, utilising the best information, and developing well calculated business and contingency plans can make the process of seeking funding exciting and rewarding.

Regardless of the specific financing techniques, the first consideration in investing in small businesses is a close examination of one's self. Can you really operate this business? This must be coupled with an appreciation of what it takes to be an entrepreneur and the expectation of possible investment rejection.

To minimise the probability of rejection, it is imperative to have a well thought-out business plan. The business plan in a nutshell should clearly explain the what, why, when, who and how of the business with financial planning and financial performance at its core. Likewise emphasis ought to be placed on the importance of comparing one's business or potential business to industry standards. Obtaining competent legal and financial counsel is also quite essential in business planning.

Along with the importance of analysing one's own business is the importance of analyzing one's requests for financing from the point of view of the potential funding source. An entrepreneur should always remember that an investor is basically prepared to lose everything invested when they make the investment and this is no easy feat. As such there are some fundamental considerations that must be addressed in order to improve your chances of attracting investors:

These include

1. **Corporate Structure:** The legal structure of the entity is important to a potential investor. There are tax consequences depending on the type entity. Investors are not usually attracted to sole proprietorship as all funds can be co-mingled with the sole owner's.
2. **Valuation:** There should be a mutual agreement on all pre-money and post money valuation of the company. The percentage of ownership is determined by the valuation and the impact of the dollars invested.
3. **Documentation:** As the old saying goes, if it is not written it does not exist. First, there should ALWAYS be a written agreement specifying all of the expectations of the investor and the company being invested in. Other important documentations include a set of bylaws or operating agreement.

Acquiring seed money and initial capital for start-up is likely to be only the beginning of an on- going process of financing one's business. The need to acquire this second round financing becomes especially critical for the survival of existing and growing companies and a business may go through this process more than once as the company grows.

The aforementioned are just a few of the strategies to facilitate the successful acquisition of funds. While this brief is intended to provide accurate information regarding obtaining financing for small business, it is not intended as a substitute for professional services. Persons interested in investing in small business enterprises are encouraged to contact local agencies such as Centre for Enterprise Development, National Commercial Bank Micro Enterprise Loan Programme, National Development Foundation, InvestSVG and the SVG Chamber of Industry and Commerce.

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