

FINANCING WORKING CAPITAL FOR SMEs



Scaling up the SME ecosystem in Africa

WHAT IS WORKING CAPITAL



Generally, it is the difference between current assets and current liabilities. Practically speaking, it is the daily, weekly and monthly cash requirement for the operations of a business.

COMPONENTS OF WORKING CAPITAL

Working Capital	
Inventory	<ul style="list-style-type: none"> • Raw materials • Work In Progress • Finished Products
Receivables	<ul style="list-style-type: none"> • Amounts owed by Customers • Prepayments to Suppliers
Other Current Assets	<ul style="list-style-type: none"> • Prepaid expenses • Operating cash
Payables	<ul style="list-style-type: none"> • Amounts owed to suppliers • Prepayments by customers
Other Current Liabilities	<ul style="list-style-type: none"> • Short-term debt • Accrued expenses
Working Capital = Inventory + Account Receivables + Other Current Assets – Account Payables – Other Current Liabilities	

Determinants of Working Capital *	
Internal	External
<ul style="list-style-type: none"> ▪ Nature and size of the business ▪ Operating efficiency ▪ Firm's production policy ▪ Firm's credit policy ▪ Availability of credit ▪ Growth of the business ▪ Profit margins ▪ Dividend policy 	<ul style="list-style-type: none"> ▪ Business cycles ▪ Changes in technology ▪ Seasonal variation ▪ Taxation policy ▪ Price level changes

* *Working Capital Management, Manika Garg, Educreation Publishing, 2015*

WORKING CAPITAL CYCLE



- The amount of time that passes between using your cash to purchase stock/raw materials and ultimately receiving money for the sale is called the Working Capital Cycle
- Understanding how it works can help small business owners like you manage their company's cash flow, improve efficiency, and make money faster.

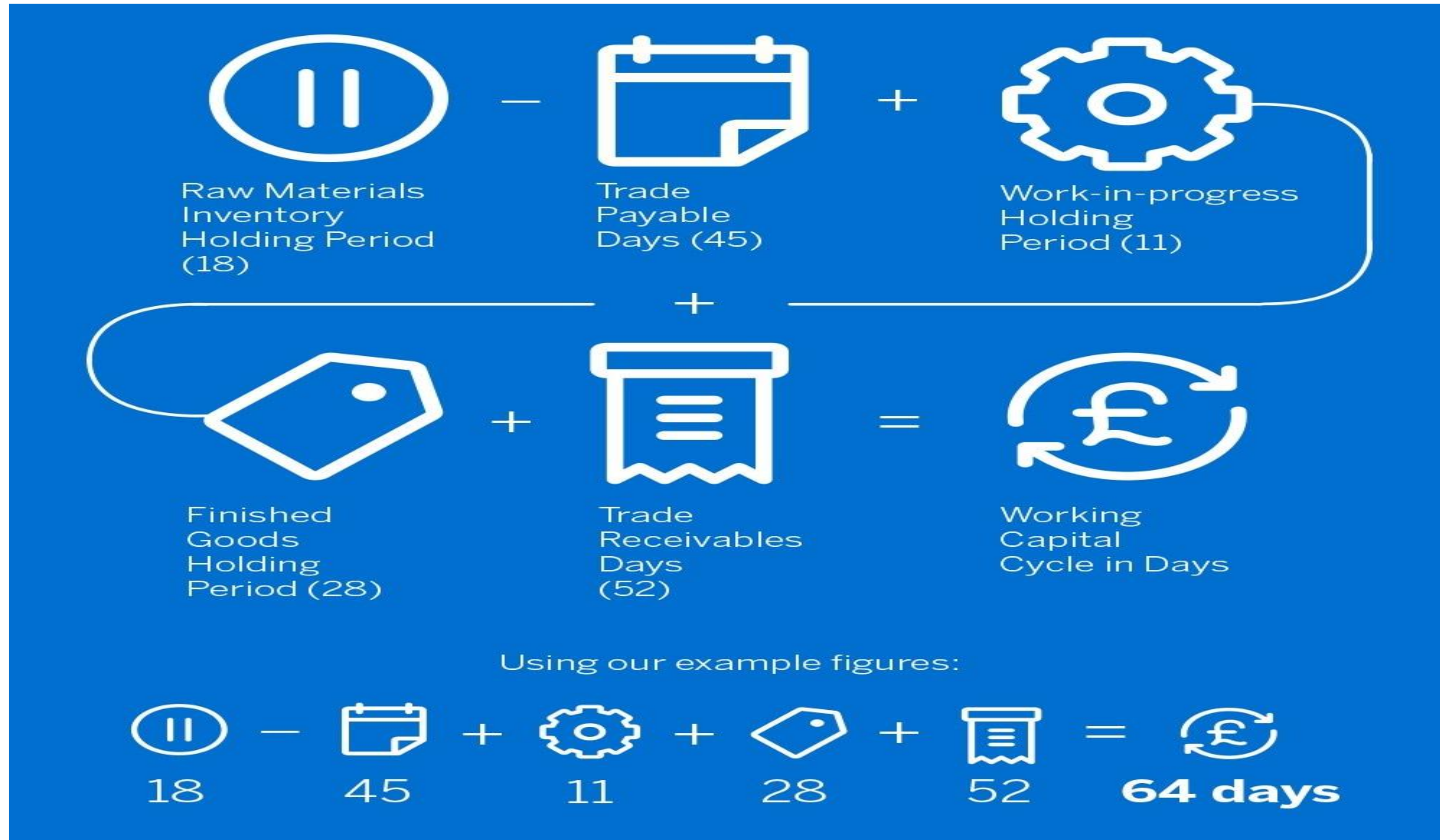
HOW TO CALCULATE YOUR WORKING CAPITAL CYCLE

Let's calculate the working capital cycle for a fictitious manufacturing company.



HOW TO CALCULATE YOUR WORKING CAPITAL CYCLE

The formula for calculating the working capital cycle for the company is:



HOW TO CALCULATE YOUR WORKING CAPITAL CYCLE

Using the same example, how would the working capital cycle look for a retailer:

The formula is simpler because a retailer doesn't need to hold raw materials in stock and turn them into a product.

Supplies Ltd buys furniture from Maker Ltd which they expect to sell in six weeks' time (Inventory Days). They have 60 days to pay their supplier Maker Ltd (Payable Days), and when a sale is made, payment arrives into their account in three days (Receivable Days).

The working capital formula is:

Inventory Days + Receivable Days - Payable Days = Working Capital Cycle in Days

In our example:

Inventory Days (42) + Receivable Days (3) - Payable Days (60) = A Working Capital Cycle of -15 days

The number of days that comprise the Working Capital Cycle is how long the business is out of pocket before receiving payment in full for its inventory. If the number is above zero, it's a positive cycle. If it's less than zero, it's negative.

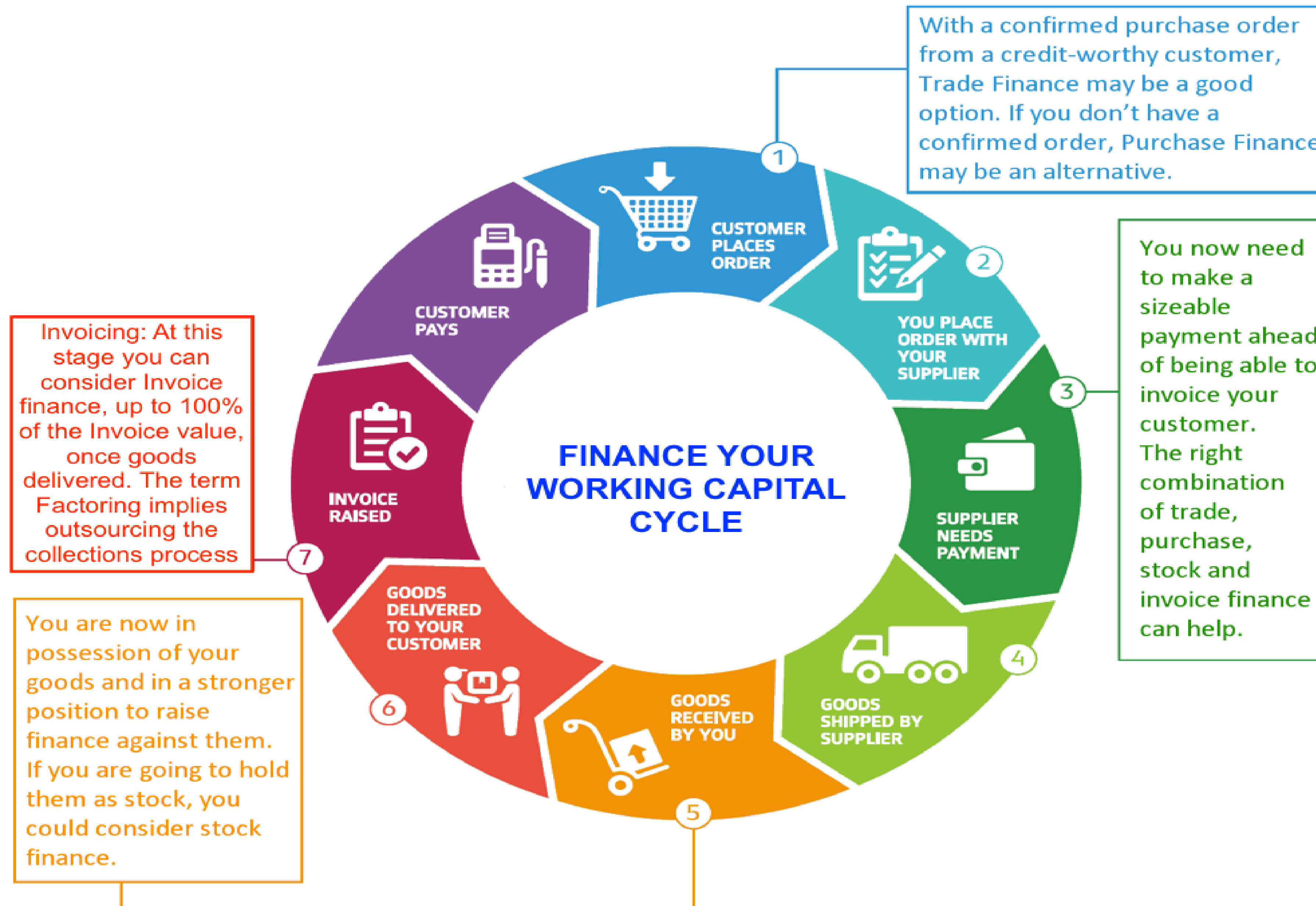
TRADE FINANCE OPTIONS AVAILABLE

Letters of Credit(LC)	LC to your supplier guaranteeing that payment for goods and services will be honored upon shipment and delivery. This product is specially tailored for those in export and import trade.
Guarantees, Bonds and Indemnities	<p>These are binding commitments given by the bank or private providers to support your trading activities and are payable on demand</p> <ul style="list-style-type: none">• Bid bonds to aid in the bidding for a contract/supplies.• Performance guarantees• Custom bonds• Advance payments guarantees• Retention & money guarantees• Shipping guarantees
Standby Letters of Credit	A commitment of payment to a third party in the event that the client defaults on an agreement.
Bills Avalisation	Provides exporters with a third party(usually a bank) to guarantee payment of a bill of exchange drawn on an importer under a trade contract. This financing offers credit enhancement and improved relationships with your suppliers, and can even offer you the leeway to request a discount. It also offers your business additional time to settle your payments.
Invoice Discounting	Release funds from your unpaid invoices to ensure business flow, while maintaining control over the collection of payments. his discounted finance solution is ideal for suppliers to businesses and other reputable institutions. Upto 180 days.

TRADE FINANCE OPTIONS AVAILABLE

Reverse Factoring	Reverse factoring allows sellers to sell their receivables relating to a particular buyer to the bank at a discount as soon as they are approved by the buyer
Distributor Finance	This solution is suited for companies in a distributor agreement with large manufacturers. It covers your business during the holding of goods for resale and bridges the liquidity gap until you receive funds from the sale of goods.
LPO Financing	Specially designed for contractors and vendors of reputable organisations to obtain the capital required to execute work orders and local purchase orders from these respective companies.
Collateral Finance Arrangement	Oil Marketing Companies (OMCs) financing as they await payment through the liquidation of a flow of petroleum products
Contract Financing	Contract Financing offers financing of up to 70% of the contract value to contractors to facilitate implementation of contracts until full completion.
Value Chain Finance	Funding structured to suit your company's trading cycle that improves your credit standing. This value chain approach supports transactions with loans covering, but not limited to, Invoice Discounting, Distributor Finance, Reverse Factoring and LPO financing.

FINANCE OPTIONS & YOUR WORKING CAPITAL CYCLE



FINANCING LANDSCAPE VERSUS BUSINESS TYPE

#	Type	Age of Business	Type of Buyer	Key Features	Key Finance Needs	Financing Landscape
A	Local retailers	0-20 years	Retail customers	<ul style="list-style-type: none"> -Typically informal/subsistence micro traders -Sell household or subsistence items -Buys and sells in small quantities - Keeps stock depending on traffic 	Small finances to meet day to day needs	<ul style="list-style-type: none"> -Fintechs -Micro-finance
B	Local importer or local supplier	<3 years	Retail customers	<ul style="list-style-type: none"> -Formal traders -Limited physical assets or no collateral -Sells goods over a period of 60-90 days to retail clients for cash - Pays in cash to supplier before delivery or manufacture of goods -Each consignment averages (USD 2,000) to USD 50,000) -No 3 year financial statements 	<ul style="list-style-type: none"> -Initial working capital to service order without collateral - Working capital facility if in manufacturing 	<ul style="list-style-type: none"> - Family & friends -Logbook financiers and expensive shylocks(interest up to 10% per month) as they grow - Distributors - Private Cashflow/sales financiers as they grow after 12 months e.g Fundrr & Merchant Capital in South Africa

Analysis by SME Support Centre Limited

FINANCING LANDSCAPE VERSUS BUSINESS TYPE

#	Type	Age of Business	Type of Buyer	Key Features	Key Finance Needs	Financing Landscape
C	Local importer or supplier	<3 years	Corporate or Government	<ul style="list-style-type: none"> -Limited physical assets or no collateral -Corporate tender to supply goods and services -Limited trading history with the corporate or new trader -Buyer pays after 30 -60 days -Each contract averages(USD 2,000) to USD 50,000) 	<ul style="list-style-type: none"> -Initial capital to service the order using purchase order financing - Working capital facility if in manufacturing 	<ul style="list-style-type: none"> - Shylocks and logbook financiers(10% p.m.) - Working capital solutions from corporate buyer/seller - Private profit sharing providers e.g Profit Share Partners in South Africa, BPI in Kenya
D	Local importer or Supplier	Experienced >3 years	Retail, Corporate or Government	<ul style="list-style-type: none"> -Some physical personal assets from retained earnings -Has 3 year financial statements -A trading history with either their corporate or retail buyers 	<ul style="list-style-type: none"> - Purchase order financing - Invoice discounting - Factoring & reverse factoring - Working capital facilities 	<ul style="list-style-type: none"> - Local bank financing - Private lenders e.g. BPI, Facts Africa .These have interest charges up to 3% per month - Private innovative cashflow/sales financiers e.g Fundrr or merchant capital financing models -Working capital solutions from corporate buyer
Analysis by SME Support Centre Limited						



+ THANK YOU. +
CONTACT US FOR
OUR SERVICES
+

For more support contact me on:

linda@sme-supportcentre.com

Tel: +254-792-964567

www.sme-supportcentre.com

1.FUND ADVISORY SERVICES



2. FUNDING FAIRS



3.SME BUSINESS ADVISORY



4.SME INVESTMENT ADVISORY



5. OFFICE REPRESENTATION SERVICES



6. DEVELOPMENT PROGRAMS CONSULTING



ACCESSING SERVICES AT THE CENTRE

REGISTER THROUGH WEBSITE
(Registration allows access to our FREE services)

YOU WILL RECEIVE ACCESS TO OUR PRICING/SERVICE PACKAGES
(BONUS, BASIC & PREMIUM)

DECIDE ON THE SPECIFIC PRICING PACKAGE
(Registration entitles you automatically to our **BONUS Package**)

ENGAGE US FOR MORE SERVICES



01
STEP



02
STEP



03
STEP



04
STEP