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Better Business Finance

Alternative sources of finance

There are a wide range of financial products now available to help businesses access the investment needed to grow and thrive.

This factsheet explains the benefits of some of the most popular sources of finance including

1. Asset finance
2. European Investment Bank (EIB) funding
3. Enterprise Finance Guarantee (EFG) funding
4. Export Enterprise Finance Guarantee Scheme (ExEFG)
5. Supplier payments
6. Trade finance
7. Invoice finance
8. Business angels
9. The Prince's Charities
10. Community Development Finance Association (CDFA)

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ASSET FINANCE

What is it?

Asset finance is an alternative funding solution to support the acquisition of new or additional assets. Outright purchases can be a significant drain on working capital and not always the most efficient way to manage capital expenditure.

There are a range of asset finance options open to customers and these can be summarised as follows:

- Hire Purchase – the payment of a fixed amount across a specific period to cover the cost of the asset.
- Operating Lease – Allows you to lease your asset from a provider over an agreed period. Typically, there is a built in residual value for the asset, which reduces the monthly payments, thereby bringing further cash flow benefits to the customer.
- Finance Lease – Allows you to lease the asset from a provider over an agreed period. Repayments are spread over the economic life of the asset and can typically be tailored to customer requirements.
- Contract Hire – covers vehicle fleet management, repair, maintenance and productivity.

What are the benefits?

- Can often expedite access to modern technology and the resulting financial benefits that can bring.
- Improved cashflow for the customer
- Can often be a tax efficient depending on the tax allowances available

Where can I find out more?

Further details can be provided by your local corporate bank or through the Finance & Leasing Association:

Telephone: 020 7836 6511

Email: info@fla.org.uk

Website: www.fla.org.uk

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EUROPEAN INVESTMENT BANK (EIB) FUNDING

What is it?

The EIB is strengthening its support for Europe's small and medium-sized enterprises by providing this sector with access to finance through new and lower cost lines of credit.

This finance is typically available through the Banking sector and is aimed specifically at UK businesses across a range of sectors. The loan term is for a minimum of 2 years and is subject to a maximum single loan value of £12.5m.

In terms of other qualifying criteria, the loans are targeted at businesses with less than 250 employees. The loan must also be investment related and cannot be used for working capital or debt refinancing purposes.

What are the benefits?

- Eligibility is very simple to establish
- Financing rates are typically discounted under the EIB scheme, leading to reducing costs.

Where can I find out more?

Further details can found on the EIB website (www.eib.org) or by contacting your corporate bank.

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ENTERPRISE FINANCE GUARANTEE (EFG)

What is it?

A government led initiative to support small and medium sized businesses that have viable business plans, but lack the level of security normally required for a standard credit facility.

An EFG loan provides a 75% Government-backed guarantee on any individual loan. The loan terms range from 3 months up to 10 years and have a maximum value of £1m.

An EFG loan is available to most types of business with a turnover below £25m per year. It does not support export transactions, which are covered by the ExEFG scheme (see next page). The scheme can be used to obtain a new loan or to refinance existing loans.

The EFG scheme can be used to cover some trade facilities such as letters of credit, but precludes direct support for export contracts.

What are the benefits?

- Eligibility is very simple to establish.
- Provides an alternative source of funding for businesses without the necessary security for a commercial loan.
- Secured and unsecured loans are available.

Where can I find out more?

Details about the scheme and the application progress can be found on the Department for Business' website (http://www.bis.gov.uk/policies/enterprise-and-business-support/access-to-finance/enterprise-finance-guarantee/efg-application-process) or by contacting your local corporate bank.

Further details on the ExEFG scheme can be found on the next page.

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EXPORT ENTERPRISE FINANCE GUARANTEE SCHEME (ExEFG)

What is it?

ExEFG is a new government guarantee scheme, which supports export transactions that are not covered by the existing EFG scheme. It is aimed specifically at small and medium sized exporters who are viable and require an export finance facility, but have insufficient security available to secure the borrowing facility (under the Lender's normal credit criteria).

This is a new variant of the Enterprise Finance Guarantee (EFG) scheme and will provide a government guarantee to lenders to facilitate the provision of short-term export finance lines to exporting small and medium sized companies.

ExEFG provides a 60% government-backed guarantee on any supported facility.

ExEFG covers traditional trade instruments and facilities such as:

- trade loans, including pre- and post-export finance (not overdrafts)
- bonds and guarantees
- invoice financing

These are offered by the Department for Business to assist exporters obtain working capital finance, in order to win or perform specific export contracts.

What are the benefits?

- Eligibility will be very simple to establish (criteria being agreed currently)
- Provides an alternative source of funding for businesses without the necessary security for a commercial loan.

Where can I find out more?

Further details on the EFG scheme and the application progress can be found on the Department for Business' website (http://www.bis.gov.uk/policies/enterprise-and-business-support/access-to-finance/enterprise-finance-guarantee/efg-application-process) or by contacting your local corporate bank.

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SUPPLIER PAYMENTS

What is it?

Supplier Payments can enable buying organisations to make early payments and ease the cost of supplier finance, thereby supporting their supply chains.

Effectively, in the supply chain, suppliers finance the period between an order being placed by a customer and the subsequent payment being received. Historically, this has been funded though other sources such as loans, overdrafts or factoring. However, many of these options have become less readily available or more costly, thereby impacting suppliers' working capital and their ultimate ability to fulfil future orders.

Supplier Payments is a service which uses a company's financial strength to provide lower cost finance to suppliers. The buying organisation simply notifies the supplier payments provider of invoices that have been approved for payment. The supplier payments provider immediately offers early payment to the supplier ahead of the agreed trade terms. A small deduction is made from the invoice value paid to the supplier, however, this is considerably less than the traditional forms of supply chain finance.

What are the benefits?

- Buying companies benefit from an improved working capital position and enhanced working relationship with supplier companies.
- Suppliers receive early payment, improving their working capital position and a reduced cost of funding.

Where can I find out more?

Further details can be provided by your local corporate bank.

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TRADE FINANCE

What is it?

Trade Finance covers a range of solutions to help mitigate financial risks such as non-payment or delayed payment. Trade Finance can work for your business at 3 levels:

- It is a source of working capital that helps balance sums owed to suppliers, whilst funding credit terms to buyers
- It is a potential tool to reduce some of the risks associated with trade; and
- It is closely linked to ultimate payment.

Trade Finance: Types and sources

What are the benefits?

- Reduced risk through a secure and reliable process
- Improved working capital and accelerated cash flow

Where can I find out more?

Further details can be provided by your local corporate bank.

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INVOICE FINANCE

What is it?

Invoice Finance is a source of short-term funding and has the capacity to increase in line with the expansion of a business. Invoice financing can give businesses a timely cash injection by releasing money tied up in outstanding invoices, effectively providing an ongoing supply of capital that is linked to company sales.

As an invoice is raised, it is sent to the Invoice Finance provider and typically, 85% of the value of that invoice is released within a very short time period e.g. 24 hours.

The remaining value, less a small service fee is paid once the customer settles the invoice.

What are the benefits?

- Immediate injection of cash against outstanding invoices
- Release a significant portion of the invoice value in UK and also overseas markets, improving cash flow.
- Flexible financing as Invoice Finance provides an ongoing supply of cash against invoices as they are raised

Where can I find out more?

Further details can be provided by your local corporate bank or through the Asset Based Finance Association (ABSA):

http://www.abfa.org.uk/

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BUSINESS ANGELS

What is it?

Business Angels are high net worth individuals who invest on their own, or as part of a syndicate, in high growth businesses. In addition to money, Business Angels often make their own skills, experience and contacts available to the company.

The UK Business Angels Association (UKBAA) represents around100 organisations including the vast majority of business angel networks across the UK, over 20 early stage venture capital funds, as well as professional service providers and advisers, including accountancy and law firms, corporate finance, banks, regional development agencies, universities and public policy-makers.

The UKBAA exists to represent UK early stage investment and performs a number of roles which include:

- Promoting angel and venture capital as smart money and the primary mechanism for new and high growth potential businesses to fund their capital requirements;
- Facilitating contact and the exchange of best practice and experience between angel groups, venture capitalists and other sources of early stage funding through networking events and regular communication with its membership;
- Engaging in regular dialogue with Government, opinion formers and leaders at a national level to help shape policy for the benefit of the industry;
- Creating links with other like-minded UK and international associations and organisations;
- Having an agreed code of conduct for all Members to promote best practice and transparency across the industry.

What are the benefits?

- Access to funding from individuals outside of normal Bank funding channels.
- Access to a related network of business contacts for business advice and expertise.

Where can I find out more?

For further details please contact the UKBAA:

Email: info@ukbusinessangelsassociation.org.uk

Website: http://www.ukbusinessangelsassociation.org.uk

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THE PRINCE'S CHARITIES

What is it?

The Prince's Charities is a group of not-for-profit organisations of which The Prince of Wales is Patron or President; 18 of the 20 Charities were founded personally by The Prince.

The group is the largest multi-cause charitable enterprise in the United Kingdom, raising over £100million annually. The organisations are active across a broad range of areas including opportunity and enterprise, education, health, the built environment and responsible business.

The charities reflect The Prince of Wales' long-term and innovative perspective and seek to address areas of previously unmet need. Under the opportunity and enterprise area, are the following charities:

- The Prince's Trust
- The Prince's Scottish Youth Business Trust
- PRIME
- PRIME Cymru
- The Prince's Youth Business International
- The British Asian trust

What are the benefits?

There are a number of benefits provided through these charities for individuals and groups covering:

- Advice on employment options
- Business skills training
- Business planning support
- Access to and advice in relation to business start-up funding

Where can I find out more?

For further details please contact The Prince's Trust:

Telephone: 020 7543 1234
Email: webinfops@princes-trust.org.uk

Website: http://www.princes-trust.org.uk

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COMMUNITY DEVELOPMENT FINANCE ASSOCIATION (CDFA)

What is it?

The CDFA represents the Community Development Finance Institutions (CDFI) who provide loans and support to people who find it difficult to access finance from the commercial banks.

The CDFI's lend money to businesses, social enterprises and individuals. They help deprived communities by offering loans and support at an affordable rate to people who cannot access credit elsewhere.

Most CDFI's are based within the UK's most disadvantaged communities, providing loans and support to Microenterprises (businesses with less than 10 employees), Small businesses (with 10-49 employees), Medium businesses (with 50-249 employees), Social Enterprises, community organisations or charities.

CDFI's are currently working with the taskforce banks to set up a national referral network which will ensure that customers whose bank applications are rejected are referred to an appropriate CDFI should they so wish.

What are the benefits?

- Provides an alternative source of funding for businesses.
- Aimed specifically at small and medium businesses and Social enterprises.

Where can I find out more?

For further details please contact the CDFA:

Email: info@cdfa.org.uk

Website: http://www.cdfa.org.uk/contact-us/

About Better Business Finance

Better Business Finance provides impartial information and support to business customers looking to raise finance. It is supported by the British Bankers' Association and the banks involved are Barclays, HSBC, RBS, Lloyds and Santander. More information can be found at www.betterbusinessfinance.co.uk