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## Overview

This standard is for entrepreneurs who need to get finance for their business. The business may need to raise money to start up, change direction or to get through a difficult time. Being able to get finance at the right terms when it is required is important for the long-term goals and survival of your business. It is important that you approach this in the right way whether you are borrowing money from family, friends or more formal sources. Getting finance involves reviewing different types of finance, deciding where and on what terms and conditions the finance will be obtained, monitoring the effects on the business of getting and servicing finance.

You might do this if you are:

1. starting a business or a social enterprise;
2. investing in a business or social enterprise to develop and produce new products or services;
3. experiencing a temporary shortfall in cashflow that may stop you from trading.

## Performance criteria

### *You must be able to:*

1. define the aims of getting finance for your business
2. assess the financial state of your business and identify how much extra money it requires
3. assess any developments in the market that may influence your decision to obtain finance for your business
4. assess the costs, benefits and risks of getting and servicing finance on the business and yourself
5. work out when you need the finances for your business and the sources of these
6. identify the different types of finance available
7. analyse the costs and benefits of each type of finance available
8. carry out risk analysis and develop contingency planning
9. identify the targets and limits of financial borrowing that you can accept
10. identify the organisations or individuals that may provide finance
11. select the type of finance and lender that best meets the needs of your business
12. complete a proposal and present the financial needs of the business to the lenders
13. identify the need to get secured loans and how these will be repaid
14. ensure your profits will cover any loan repayments
15. agree repayment timescales that meet the needs of your business
16. confirm the terms and conditions of financial agreements, making sure that you fully understand what they are
17. seek legal or financial advice from the experts when you need it

## Knowledge and understanding

### *You need to know and understand:*

#### Borrowing money

1. the aims of getting finance for your business
2. why it is important to seek finance in advance and identify when you need it
3. the different types of finance available and where to find information about them
4. the benefits of borrowing from family or friends, such as business input, morale and emotional support
5. the drawbacks of borrowing from family or friends, such as influence over the business, pressure on relationships, loss of control, dependence, pressure to employ family or friends
6. the costs of different kinds of finance, such as interest charges, administration charges, fees, commission, equity and capital gain, insurance, penalties for early termination, penalties for failure to meet interest and principal repayments, security requirements and risk, stake in the business
7. the benefits of different kinds of finance, such as availability of funds, cash flow, investment, the effect on business
8. why it is important to take account of tax and capital allowances when assessing the risks of getting finance for the business
9. the likely risks of borrowing money to a business and potential consequences
10. how to assess the risks, such as inability to repay the loan and other debts, possible loss of control or ownership of the business
11. the methods to assess the financial state of the business in terms of profit, cash flow, current assets and liabilities

#### Finance providers

12. how to identify different lenders or funders

13. how to work out whether your profits will cover any loan repayments
14. how costs may vary with changes in interest rates
15. how to present your financial needs to potential lenders
16. the techniques that might persuade lenders to lend to you by promoting yourself and your ideas in a positive way
17. the ways of putting a proposal together
18. the targets and limits for agreeing terms with lenders
19. the amount of finance, schedule of capital and interest repayments, discounts available, additional benefits, interest rates, keeping security to a minimum, interest rate capping, facility fees and charges
20. the security you might need to provide to lenders or funders
21. the differences between secured and unsecured loans and the drawbacks of making a personal guarantee
22. the benefits of recording financial agreements and how these should be recorded

#### Information and advice

23. the sources information about getting finance for your business
24. when you might need legal or financial advice

<b>Developed by</b>	Skills CFA
<b>Version Number</b>	1
<b>Date Approved</b>	14 Jan 2022
<b>Indicative Review Date</b>	01 Mar 2027
<b>Validity</b>	Current
<b>Status</b>	Original
<b>Originating Organisation</b>	Instructus
<b>Original URN</b>	CFAMN7
<b>Relevant Occupations</b>	Business, Administration and Law, Managers and Senior Officials
<b>Suite</b>	Business Enterprise, Land-based Engineering Operations
<b>Keywords</b>	success, business, idea, social, enterprise, customers, products, service, support, creative, idea, skills, needs, suppliers, cash, flow, legislation, marketing, market, trends, competitors, health and safety, VAT, equipment, costs, profit, staff, product