By Vandana Goel

Raising the funds is an essential aspect to start a business. Any great idea and well written business plan would not work without start up capital. For most entrepreneurs, funding is the key when starting a small business. In reality; it is not easy to get funding. You must need to prove yourself first before anyone can be able to lend you that kind of money.

Businesses would often require an initial startup capital for pre operational expenses like marketing expenses, incorporation expense, business registration etc. Adequate funding would be required to start working on any plan. Inadequate funding is part of the list why business fail. Sometimes it is a matter of doing simple cash flow. Some companies failed because they stop exploring .Always remember there are various options available for funding, but before start exploring, there are several things that you need to remember-

- Are your needs short-term or long-term? How quickly will you be able to pay back the loan or provide return on their investment?
- Is the money for operating expenses or for capital expenditures that will become assets, such as equipment or real estate?
- Do you need all the money now or in smaller pieces over several months?
- Are you willing to assume all the risk if your company doesn't succeed, or do you want someone to share the risk?

The answers to these questions will help you prioritise the many funding options available. Business funding is of two kinds-

Debt funding which allows you to borrow money and pay it back in a time frame or interest rate. You owe money whether or not your business succeeds or not. Bank loans are the common example of debt funding.

Equity funding where you will sell part of your company in exchange for cash. As an investor, you assume all the risk because if the business fails, you will lose all the money. The good thing is the fact that if it succeeds, the return of investment is pretty high.

The fact is investors take a higher risk than lending firms because they are involved in your company. They most likely give advice. There are cases when investors only stay for few years until they get their return of investment. It is better not to give too much control of your company. If you are start up company, there are quite a number of funding options that are available. There are various funding options available, let’s talk about the few sources of startup funding-

Friends and Family

A lot of startups get their first funding from friends and family. If your friends or family happen to be rich, the line blurs between them and angel investors. The advantage of raising money from friends and family is that they're easy to find. You already know them.

There are three main disadvantages:

1. you mix together your business and personal life;
2. They will probably not be as well connected as angels or venture firms
3. They may not be accredited investors, which could complicate your life later

Credit Cards

To have a good cash flow process for the business credit cards works as good tool. The cheapest introduction rate makes it more effective. Take note that if managed poorly, it can be expensive.

Bank Loan

Bank loans are another source of bank funds. This is much easier to obtain especially if you it is backed by assets or guarantor. There are loans where you can actually get a line of credit.

Government of India is attaching great importance to this sector and taking various policy measures to enhance the flow of credit to MSME sector. RBI had constituted a working group under the chairmanship of Dr.K.C.Chakrabarty to suggest measures for Rehabilitation of sick MSME units and for improving the flow of credit to MSME sector. The working Group has given various recommendations and suggested measures to be adopted by banks, Government and other Agencies. RBI has advised all Banks to formulate a loan policy governing the extension of credit to MSE sector in the light of recommendations of the working group and BCSBI's code of commitment to Micro and Small Enterprises. Highlights of New Loan Policy for SME's are as follows-

- Internal Scoring Model to be used for credit limits has increased to Rs.2 Crores and Risk Assessment Model for limits of Rs.2 crores and above vis-à-vis earlier it was Rs. 1 Crores.

- Minimum 15% margin for loans above Rs.50000/- and upto Rs.5 lacs whereas there was no margin specifically stipulated earlier. In exceptional cases, margins lesser than indicated in the policy can be prescribed with the approval of the appropriate authority as per powers delegated in bank's concession policy.

- Extent of collateral securities has reduced to 60% (from 75%) to sanction secured credit facilities to MSE units.

- All Branch Managers can sanction collateral free loans to MSE sector with CGTMSE cover, upto their per borrower limits.

 Setting up of MSE Loan Processing Centers at key locations

 If term loan is sanctioned, working capital limit should also be sanctioned, if the same is not tied up with any other institution.

 The interest payable up to six months after commercial production will be included as part of the project cost for assessment of credit requirements. Sufficient moratorium period say, up to six months, after commencement of commercial production, will be allowed for repayment of principal amount wherever required, to enable the unit establish itself in the market.

 When the sanctioning authority decides to reject a MSE credit application, the same will be conveyed to the applicant only after obtaining approval from the next higher authority.

Angel Investors

An angel investor is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity. A small but increasing number of angel investors organise themselves into angel groups or angel networks to share research and pool their investment capital. Angel Investors are becoming popular nowadays. It is better if you have a financial advisor who can structure the whole deal.

Private Lenders

Private lenders are another option when the banks say no. They specialised in industry and more willing to take risk. Private lenders are looking for the same information and will conduct similar due diligence as the banks do.

There many channels available to raise the funds for start up. First step to approach any of them is to pen down all your plans and proposals and start exploring, you will get the required funds……………..Best of Luck!

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