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Introduction to Module 3

Financing your business

The title of this module is Financing Your Business. It is divided into two topics, and these are: Topic 1; What Type of Finances are Available? and Topic 2; How Much Money Do I Need to Start the Business? As you will notice each of the two topics is presented in question form, so as to stimulate you to think how best to manage your small business as far as sources of finance and the amount to require are concerned.

Topic 1 explains the idea of capital. Without capital you might as well forget about running or starting a business. The topic takes through possible sources from which you can borrow money. The interest charged varies from one source to another. This section of the topic thus seeks to provide useful knowledge regarding how best to finance your business. When you have resolved the issue of how much capital you require, it becomes essential to prepare a Business Plan.

Topic 2 explains what a business plan is, and teaches you how to prepare your own plan. A business plan has been likened to a map with different directions to follow on a given journey. Therefore, this topic is necessary for every serious-minded entrepreneur.

Topic 1

What Type of Finances are Available

Introduction

This topic is meant to equip you with the knowledge of different sources of finance for the business as well as procedures to be followed when sourcing finance. It also leads you to consider the advantages and disadvantages of each of the sources of finance from which you can borrow. As a starting point, what sources of finance are available to you?



Learning Objectives

After working through this part 1, you should be able to:

- identify different sources of finance for the business
- discuss procedures followed when sourcing finance
- fill in loan or credit application forms.

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1.1 Your Own Capital

To do any business, you need some money to start with. Money used to start a business is called capital. It is usually brought in at the start of the business by the owner, however, the owner can bring in more capital if necessary when the business is already running to expand the business.

The advantage of using own capital is that the owner does not need to pay back the money. The main disadvantage with own capital is that the amount is usually very little, not enough to finance the business.

Read the following situation and do the activity that follows:

Tumelo has been working as a cashier at one supermarket in the city. Every month she has been saving P100 with Great Five Bank. After five years, Tumelo resigned from work and started a business of selling food at a busy industrial site. She had only P6 000 from the savings plus P1 000 bank interest earned from savings. At first this money seemed to be too small, but she managed to supply a few plates at the beginning, and later on increased the food she was selling.

Activity 1A

1. Tumelo started a business from personal savings
(True/false)_____
2. Tumelo used her own capital.
(True/False) _____
3. Your own capital is money that you saved to start business.
(True/False)_____
4. Tumelo did not have money to start a business.
(True/False)_____
5. Tumelo had only P7000.00 for her business.
(True/False)_____

Now compare your answers with the suggested solutions at the end of the topic.

You have seen that your own capital can be raised from personal savings over a period of time.

State some ways of raising own capital apart from personal savings.

1. _____
2. _____

Some of the possible ways are:

- (a) Selling cattle
- (b) Selling goats etc.

1.2 Borrowed Capital

As said earlier, capital is money used to start a business. This can be your own money that you have saved over a period of time or the money you get after selling some assets.

Borrowed capital on the other hand, is money that does not belong to you, but which you are given by someone, or by the bank for the purpose of starting a business.

Let us work on the following activity before we discuss borrowed capital

Activity 1B

1. List any three sources from which you can borrow money to start a business.
 - (a) _____
 - (b) _____
 - (c) _____
2. List any two functions of those sources.
 - (a) _____
 - (b) _____
3. Do you like borrowing from any of these sources?
Yes/No _____
4. Suggest reasons for your answer and discuss with your friends.
 - (a) _____
 - (b) _____

Now go at the end of the topic for suggested solutions.

Borrowed capital can be looked at in several ways. Let us look at the following ways discussed below

(a) Money borrowed from commercial banks

(i) Loan

This is money borrowed and payable in installments over a specific period of time. This is usually a large amount of money. The lender usually charges the borrower interest on money borrowed; the borrower will therefore pay loan money plus interest. The borrower may be required to pay a certain amount every month. These are called monthly installments. The borrower and lender can make arrangements that suit both of them.

(ii) Overdraft

This is a situation where the bank allows an accountholder to withdraw more money than he/she actually has in the account. This is usually a small amount of money which the accountholder will repay within a short period of time.

Now do the activity below.

Activity 1C

Below is a Loan application form from a bank. Complete the blank form and discuss with your partner.

Now go to page end of the topic to view a filled in form.

BANK LOAN APPLICATION FORM

1. MY CREDIT DETAILS

Yes, I would like to apply for a:

No Mathata loan Other Loan Overdraft

Amount required; Pula Period (months)

Purpose of loan/ overdraft

Full name: Mr/ Mrs/ Miss.
(as per I.D card/Omang) First name Last name/Surname Other name

Nationality I.D(Omang)/Passport Date of Birth
(see attached copy)

Marital status No. of dependants

2. Present residential address-plot no.

Street name, ward, village etc)

Phone no.
Home Mobile Work

Length of stay at present address Type

Previous residence address
(if less than 3 years at current residence)

Permanent address

(if different from present address

foreign nationals, please provide
address in home country)

Name and Addresses of Relatives/ Family Members

1. Full Name Telephone No.

Address

Occupation Employers

2.	Full Name <input style="width: 95%;" type="text"/>	Telephone No. <input style="width: 95%;" type="text"/>	
	Address <input style="width: 99%;" type="text"/>		
	Occupation <input style="width: 95%;" type="text"/>	Employers <input style="width: 95%;" type="text"/>	
3. MY SPOUSE'S DETAILS			
	Full name: Mr./Mrs./ Miss <input style="width: 30%;" type="text"/>	<input style="width: 30%;" type="text"/>	<input style="width: 30%;" type="text"/>
	(as per I.D/ Omang)	First name	Last name/Surname
	Nationality <input style="width: 30%;" type="text"/>	ID (Omang)/Passport <input style="width: 30%;" type="text"/>	Date of Birth <input style="width: 30%;" type="text"/>
	Phone no.	<input style="width: 30%;" type="text"/>	<input style="width: 30%;" type="text"/>
	Home	Mobile	Work
	Employer name <input style="width: 95%;" type="text"/>	No. of years with employer <input style="width: 30%;" type="text"/>	
	Work address <input style="width: 95%;" type="text"/>		
4. MY SECURITY			
Please list details of all the security offered (e.g value of security, details, identification, etc)			
Remember to enclose documentation that evidences the security Value <input style="width: 30%;" type="text"/>			
<input style="width: 99%;" type="text"/>			
<input style="width: 99%;" type="text"/>			
Signature of applicant			

Refer to the end of the topic for suggested answers. Information given will vary according to different individuals.

(b) Money borrowed from other financial institutions

These are other lending institutions besides commercial banks;

(i) Government owned lending institutions

They mainly assist people to start business. Government charges lower interest rates compared to other lending institutions. This is mainly to encourage people to start businesses. Examples of these are Citizen Entrepreneurial Development Agency (CEDA), National Development Bank (NDB), etc.

(ii) Non- governmental lending institutions

This includes women clubs, youth clubs, Women Finance House etc.

Before we proceed, try Activity 1D

