PODCAST TRANSCRIPT: WHAT DO LENDERS/FINANCIERS CARE ABOUT?

May 2015

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In business, the reality is that at one point, you will most likely need to apply for a loan or seek financing from a 3rd party.

Assuming your idea is viable and you have adequate security (if looking for a loan) then there are a number of things to know about from the lenders' perspective, because like in the *"Art of War"* a book on military strategy, author Sun Tzu says: "Know your enemy."

When we started featuring on our sister website a regular series on alternative sources of finance, we looked at the requirements of some of the following:

Table 2: Some providers of finance in Uganda (August 2013)

Type of financier	*Examples of firms we researched on*
Venture capital firms *P.S This is funding available primarily for startup companies. The venture capitalist usually takes a % of shares (instead of collateral) and expects to exit in say 5-7 years from the company.*	• Fanisi Capital • Acumen Fund • Accion Venture Lab • TBL Mirror Fund • Mara Launch Fund
Private Equity Firm *P.S This is funding available primarily for established business to grow to the next level. The private equity fund also takes a % of shares or might also offer debt or a combination of both.*	• Catalyst Principal Partners • Jacana Partners • Emerging Capital Partners • Pearl Capital Partners
Grant provider	• United States African Development Foundation (USADF) • GEF Small Grants Programme • US Embassy
Lender (e.g development bank)	• Uganda Development Bank • Grofin Uganda

Source: www.inachee.biz

A number of trends emerged and so I believe it is necessary to include these because as long as you have a successful business and are serious about success, more often than not you will need to seek a loan or other form of 3rd party financing beyond your internal means.

The following are the key considerations from the lenders we researched on:

Corporate governance

First things first. What is corporate Governance? Put simply:

"It is the process by which the company's management is being monitored by someone else." It is the process of for example having a board of directors to set the framework and to whom management are accountable.

Why is this stuff important for the lenders/financiers?

In many cases, there is a direct correlation between companies failing (failing to take off, making losses, winding up) and not implementing proper checks and balances.

Besides these lenders themselves are often supported by institutional investors, pension funds, government bodies, international lenders (like IMF) and other backers who need to be sure that the entity they are investing in is running the business properly with proper checks and balances like: board of directors meetings, a board with an independent non-executive, regular accounts and regular internal control checks.

All the largest and most successful companies have strong corporate governance and so likewise these lenders expect that before they part with their hard earned money, you will have this in place.

Audited accounts

It goes without saying that typically for you to get 3rd party funding, they will expect to see your books of accounts, as independently reviewed by an auditor (a special type of accountant).

Why is this stuff important?

The lenders are investing their money (or other people's money) so they need to reasonably satisfy themselves that you are giving them the "real deal". Many of these firms will expect at least 3 years of audited results (hopefully profitable). The more reputable your auditor, the higher the chance that they will take you at your word.

Scalable market

I have spoken about the market before but a lot of these guys, say like the venture capitalist firms are looking to make a profit from their shares in your company, should it turn out to be the next big thing (like say *MTN, Google or Face book*). They want to get say 5 times their investment and to get this kind of return; they need to be sure that your market is big. Say the East African Market.

Scalable basically means that if the concept/idea works say in Uganda, then it can be repeated/rolled out in say Kenya, Tanzania, Southern Sudan and Rwanda. For example like Mobile Money.

Team

Again for firms whether it is the venture capitalists (who invest in start up/early growth companies) to private equity firms (which invest in more established companies), it is critical that the team is experienced, ambitious and has vision to implement its strategy.

It means that if you are to therefore put together your business plans, you need to clearly put together a strong balanced team with sufficient experience. One that will convince lenders that the idea will work successfully and the team knows what it's doing (and where its going).

Ethics and social impact

Financiers are increasingly conscious about whether the company will act responsibly. There is nothing that damages a company's fortunes like bad publicity from unethical practices (such as land grabbing) and in this day and age, information travels very fast via *Twitter, Facebook* and other social media platforms.

It is therefore important that your business plans can clearly show how your plans will first not do harm to the community but will more importantly be impactful – in your local community.

About the Writer

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