

BUSINESS FINANCING OPPORTUNITIES

ALINA NIȚESCU *

ABSTRACT: *The implementation of a business idea in practice depends to a large extent on the financial possibilities, so that the need for financing can appear in various stages of business development. Any economic entity has been or is in a situation of needing capital, either to start the activity or to develop or continue its activity. In this context, it is important for entrepreneurs to know which financing alternatives are suitable for their business as well as which are the main particular aspects of each form of financing.*

KEY WORDS: *sources of financing, business, entrepreneur, capital.*

JEL CLASSIFICATIONS: *M10, M13.*

1. INTRODUCTION

In the current context, when capital is an important factor of production, and the initiation and development of business becomes practically impossible without taking into account the most appropriate sources of financing, it is necessary to have a thorough knowledge of the financing alternatives available to an entrepreneur at a time.

In general, business financing is the mobilization of capital resources from those with surplus resources (investors) to those who need them (economic agents) through specific tools and mechanisms in organized markets.

We must also keep in mind that in a competitive global economy, improving access to finance for SMEs has become a key factor in increasing competitiveness and achieving the European Union's goals of sustainable economic growth and jobs creation.

Depending on the stage of business development, the field of activity, its location, the correspondence with the directions of local, national or regional interest, different types of financing can be considered, coming from several sources.

* Assoc. Prof., Ph.D., University of Petroșani, Romania, al.nitescu@gmail.com

Each of them involves a different approach both in terms of seeking and obtaining capital, subsequent management, and bearing the costs involved. In this context, a very important neo-factor of production intervenes, namely the ability of the entrepreneur, which manifests itself, especially, in finding the most successful financing schemes, thus increasing the advantages of each type of financing and diminishing their negative effects. As a factor of production, the entrepreneur's ability is a decisive element of progress, insofar as the contemporary economy is based on technological innovation and the dynamics of qualitative change.

2. SPECIFIC ASPECTS OF BUSINESS FINANCING

The decision to finance the business is based on a number of aspects that the entrepreneur must know. These issues relate mainly to:

- a) The duration of the financing which can be short, up to one year, medium (1 year - 3 years) and long (3 - 5 years and over); often, the longer the duration, the higher the cost of financing;
- b) Source of financing, which can be public or private and internal (such as equity and that obtained from friends, family) or external (bank credit, issuance of shares and bonds, grants, subsidies and other programs state support, leasing, factoring, loans received from customers and suppliers, etc.). The decision regarding the use of own or external sources is primarily related to the existence of internal sources of funding. If there is the capital needed to start a business or the profitability rate is high, the use of external sources for business development is not justified. In addition, managers need to balance the cost of external financing with the opportunity cost of equity, with benefits for both parties. Usually, financing from own sources is characteristic of small companies, as the business develops, the own funds become insufficient to finance the company's growth process;
- c) The financing risk takes into account the potential losses that could occur as a result of undesirable events (unfavorable evolution of market interest rates, exchange rate or risk of default). The level of risk is directly reflected in the cost of financing;
- d) The cost of financing depends on the duration, the source of financing, the form of financing, the method of reimbursement and the risks involved. The cost summarizes all the elements according to which the financing decision is made.

Perhaps the most important aspect in making the financing decision is the one related to the source of financing the business, which as we have shown, can be internal (self-financing) or external.

In the case of existing companies, with a high rate of profitability, self-financing is the simplest way of financing and involves the development of the business on its own, using a part of the profit.

In the case of starting a new business, own funds and those borrowed from close people, can be a starting point mainly due to the fact that financial institutions are less interested - especially in times of economic instability - in start-ups than those with a solid market activity.

The advantages of using own sources to finance the business are:

- increasing financial autonomy from banks and other creditors;
- lower costs due to the fact that no commissions, interest, etc. are paid;
- favorable tax regime: in many countries the reinvestment of profit is exempt from taxes or taxed less, the substantial reductions applied to the reinvested profit boosting this form of financing.

The main disadvantage of using own sources for financing is their cost measured by the opportunity cost generated by the potential gain that could have been obtained from placing the profit in other investment projects.

The advantages of using external (attracted) sources for business financing are the following:

- can be used by companies in the development phase when the profit is insufficient to finance the business;
- the cost of capital is often lower than in the case of self-financing;
- the repayment term can be extended to long periods of time;
- the financial resources that can be attracted are significantly higher than in the case of self-financing;
- certain areas (with a lower rate of return) can access these funds without being conditioned by a high level of income or turnover.

The disadvantages of using external sources for financing are mainly related to the additional cost of this financing (interest, commissions), dependence on creditors, the existence of a strict amortization plan that imposes on the company a certain conduct related to its profitability and distribution revenues.

However, financing from external sources should be the main mode of development for most companies.

3. THE MAIN EXTERNAL SOURCES OF BUSINESS FINANCING

The sources of financing a business may differ depending on various factors, but in essence they may be:

a) Bank credit

Bank credit is a major source of funding, especially for small and medium-sized enterprises. But access to credit for new or small firms is more difficult than for old firms in the market.

The advantages of bank credit are the following:

- obtaining, relatively easy, funds necessary for starting or developing the business;
- establishing trusting relationships with financial institutions and easier access to other services provided by banks;

- launching positive signals for other potential investors, providing financial support;
- the need to present a business plan or the simple completion of a loan application may "require" the entrepreneur to objectively analyze his business, to obtain a clear picture of his financial situation and a characteristic of weaknesses and strengths, of the opportunities and threats that characterize the company's situation, to re-evaluate the project idea, implementation strategies, etc.

Disadvantages of bank credit include:

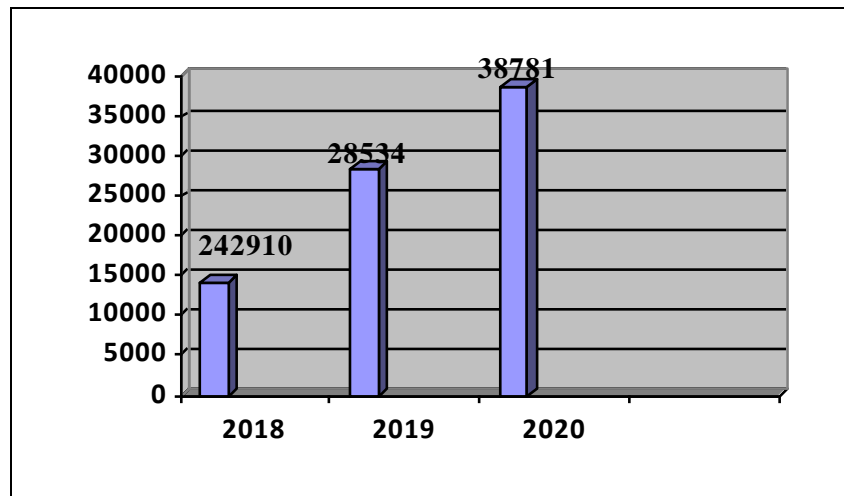
- the skeptical and restrained attitude of the banks regarding the financing of the new companies, the bank needing the certainty that it will receive back the granted money, while the newly established companies do not offer this guarantee for various reasons (no history, no experience, are not stable);
- the risk of losing the guarantees submitted for obtaining the loan or even the risk of bankruptcy in case of non-repayment of the loan;
- exposure of the project to new risks - for example interest rate risk;
- the risk of loan interruption in case of unfavorable events for the company.

If accessing a loan by a company with a long experience in the market can be a common practice and does not involve significant risks, in this sense there is a rich offer from banks, for a new company contracting a bank loan can often be a challenge. Every small business and / or a start-up business is special and specific. Therefore, a classic approach, offered by a universal bank, is not always the most appropriate, so as to include as much of the circle of these small entrepreneurs as possible.

Currently, in the Romanian banking landscape there are a series of banks that have customized their offers to newly established companies or those at the beginning of their activity; such examples of banks are: Banca Transilvania, Patria Bank, ING, BCR etc.

If we refer to Banca Transilvania, it launched its own start-up to finance start-ups and small companies, on more advantageous and flexible terms than standard bank loans. It is a Non-Bank Financial Institution called BT Mic, established in 2017 and which addresses a certain market segment - which can be standardized less - and for which Banca Transilvania considers that it can come up with more and more suitable financing solutions through this dedicated structure.

The success enjoyed by this entity can be measured primarily by the degree of profitability (it can be seen that in 2020, net profit increased by 172% compared to 2018), which reveals the need and importance of these financial structures in the activity of financing businesses at the start-up level. – Figure 1.



Source: <https://www.listafirme.ro/bt-microfinantare-ifn-sa-36380482/>

Figure 1. The evolution of net profit at S.C. BT MICROFINANTARE IFN SA (thousand lei)

b) Business Angels

Business Angel is a person who has large sums of money and invests in the start-ups of some founding entrepreneurs, in exchange for some shares in the business. Usually, the ultimate goal of the investor is to make a profit after the proportional expansion and growth of the business and the sale of the company, and the purpose of the start-up is to obtain financing. The company that obtains the investment obtains the capital necessary for the development of the business, through an interest-free loan. In addition to money, he attracts experience and know-how in the company, given that, as a rule, the business angel is a person with experience in business and management.

As an advantage for the business angel is the fact that the law exempts him from income tax on dividends from the company in which he made the investment, for a period of time.

As such, the role of business angels is to provide financial support to small business projects that cannot easily access another type of financing (bank loans, institutional investors). In general, entrepreneurs who turn to Business Angels investor groups have small capital needs (such as services) or businesses in areas related to IT, communications, tourism.

An example of a network of business angels that successfully finance technology businesses is Tech Angels. It facilitates the development of technology business in South East Europe through investment, expertise and connections.

In Romania, this type of financing is regulated by Law no. 120/2015 on stimulating individual investors - business angels, published in the Official Gazette of Romania, Part I, no. 382 / 2.06.2015. This law entered into force on July 17, 2015

c) Crowdfunding

Crowdfunding is a method of financing projects by using the Internet as a communication channel between project initiators and people who want to invest in those projects; represents sums of money gained through the collective effort of people who believe in a project and support it through certain sums, most often known as „donations". The crowdfunding phenomenon is an alternative source of funding for sustainable projects and creative ideas in fields such as: art, dance, music, film, photography, design, literature, technology, theater, games, fashion and others. Participatory financing addresses all types of projects: cultural, social, environmental, innovative projects, etc., with the sole condition of producing an impact in the community in the medium or long term. At the same time, it is addressed to all Internet users who want to support the start of a new project and to benefit for the first time from the rewards offered by the initiator.

Crowdfunding is currently experiencing a great development due to the digitalization of the economy and its simplicity in the current context in which it is sometimes difficult to find sources of funding for relatively small projects at the start-up level. Among the most important crowdfunding platforms in Romania, I mention: Crestemidei.ro; Multifiantare.ro – *dă un leu proiectului tău!*; PotȘiEu.ro – *Hai, să schimbăm lumea!*; Startarium.ro – crowdfunding; Bursabinelui.ro; Sprijina.ro.

In order to operate, crowdfunding platforms must obtain authorization from the national capital market surveillance authority. In the case of Romania, the competent institution is the Financial Supervisory Authority.

d) Issuance of shares and bonds

It is an important source of funding for large companies, but it is less accessible to start-ups and, moreover, can be a time-consuming procedure. However, in the long term, a bond issue can be a fair financing choice, if the issuer is not over-indebted, as the firm can buy back its bonds at any time, thus lowering the level of debt.

e) Special financing programs

The state or international financial institutions may finance the creation of new companies or the development of existing ones through special financing programs (reimbursable, partially reimbursable or grants).

In order to stimulate the establishment of new small and medium enterprises, in our country the Start-Up Nation Romania program was noted. The main objective is to stimulate the establishment and development of small and medium-sized enterprises and to improve their economic performance, with priority in less economically developed geographical areas, where the density of SMEs is low compared to the European average, job creation, employment on the labor market of disadvantaged people, the unemployed and graduates.

Another example of a financing program, this time from European Union funds, is the Human Capital Operational Program through the Romania Start-Up Plus

financing line, which addresses those who want to start a business in the urban environment; is a program dedicated exclusively to the development of entrepreneurship and the establishment of new businesses. Activities aimed at encouraging entrepreneurship and self-employment by supporting the establishment of non-agricultural enterprises in the urban area are considered eligible.

The specific activities are structured in the form of an entrepreneurship scheme that involves 3 mandatory implementation stages: stage I - Entrepreneurial training; stage II - Implementation of financed business plans; stage III - Monitoring program for the functioning and development of the financed businesses.

This financing mechanism, in installments, is a step towards smarter financing, adapted to economic reality. Support is no longer just a quantitative numerical indicator, it is becoming a tool to boost entrepreneurs who record results in the early stages of their business.

Obtaining financing, through special programs, involves entrepreneurs: permanent information on existing programs; studying the eligibility criteria, the necessary documentation, the deadlines for submitting funding applications, the conditions for funding and evaluation of the project; selecting the appropriate variants with the activity profile of the company; perfecting the necessary documentation and submitting the project.

Before submitting an application for funding, a rigorous assessment of its chances of success is necessary, thus avoiding inefficient consumption of time and money. This can be done effectively through the business plan.

At the level of our country, the use of European funds as a source of financing companies is significantly reduced, about 92% of them having no experience with such financing in the development of the company's activity in the last 12 months. Although the level is lower in the case of corporations compared to SMEs, in this case too, the proportion of large companies that do not access European funds is important (81%). Thus, about 19% of corporations intended to access European funding, compared to small and medium-sized companies that applied only 8%. Of these, 4% of corporations have applied for and received approval for such projects, compared to 1% of SMEs (NBR, 2020).

f) Leasing

Leasing is a special form of medium- and long-term lending operation, which is usually applied for the purchase of industrial equipment. The equipment is purchased by the leasing company and is subsequently rented to the applicant. Often, the applicant himself is mandated on behalf of the leasing company to purchase the equipment he needs.

g) Factoring and discounting

Factoring is a form of short-term lending granted by commercial banks by offsetting the supplier credit. The credit is guaranteed by an invoice issued before the due date provided in the sale-purchase contract concluded between a supplier and a buyer. Discounting is a form of short-term lending granted by banks by paying some

commercial bills before maturity. Basically, the discount represents the operation through which the bank buys from the client a receivable with its net value, charging an interest and a commission for the transfer of the receivable. Following this act, the bank becomes the beneficiary of the payment instrument, and the client receives the nominal value of the debit instrument. Among the advantages of this method of financing can be mentioned: streamlining payments; speed and efficiency; covering the temporary lack of availabilities.

3. CONCLUSIONS

Although the sources of financing that a company can use are multiple, in the current period, characterized by a pronounced economic instability, it seems that the main sources of financing used by companies have remained internal, becoming more important during this period than external resources.

A study conducted by the National Bank of Romania that analyzed the sources of financing of companies affected by the pandemic shows that both the severely affected and moderately affected sectors are not based to a very large extent on bank loans and non-bank financial institutions.

Significant differences remain in the use of funding sources depending on the size of the companies. SMEs are financed mainly by reinvesting profit, selling assets and loans from shareholders or capital increases, and corporations mainly use commercial loans, overdraft bank accounts or lines of credit, respectively financial leasing or factoring. Significantly, both segments, SMEs and corporations, had growing preferences for reinvesting profit to the detriment of trade credit and bank overdrafts, while financial leasing or factoring increased in both cases.

REFERENCES:

- [1]. **Cureteanu, R.** (2009) *Managementul afacerilor*, Editura Mirton, Timișoara
- [2]. **Fleșer, A.** (2014) *Teoria economică a afacerilor*, Editura Universitas, Petroșani
- [3]. **Mariotti, S.; Glackin, C.** (2012) *Antreprenoriat. Lansarea și administrarea unei afaceri*, Editura Bizkit, București
- [4]. **Nițescu, A.** (2016) *Elemente de economia afacerilor*, Editura Universitas, Petroșani
- [5]. **Pigneur, Y.** (2017) *Business Model Generation*, Editura Publica, București
- [6]. **National Bank of Romania** (2020) *Survey on access to finance of non-financial companies from Romania*, [Online], Available at: <https://www.bnr.ro/PublicationDocuments.aspx?icid=15748>
- [7]. <https://www.fonduri-structurale.ro/>
- [8]. <https://www.finantare.ro/>
- [9]. <https://www.fonduri-ue.ro/>
- [10]. https://start-upnation.ro/?gclid=Cj0KCQiAtJeNBhCVARIsANJUJ2EN-O_h9cJagc-rafadHnl_0KCKAlg2FZu92YDPyfmJdqDNwPvVJQaArjIEALw_wcB